

Study on Corporate Donations and Problems of Agency Costs

*Cheng-Fong Chou**

Abstract

As a corporation in nature is a legal entity for profit-seeking, management shall maximize the profits for corporation and its shareholders. Theoretically and legally speaking, corporations are allowed to donate their resources for particular charitable or political purposes. However, such donations usually raise the agency cost problem that is normally seen in the scenario of separation between ownership and management. Charitable donations could be used as a way to promote a corporation's reputation and to perform corporate social responsibility; however, under current legal system, shareholders who like to challenge an illegal or fake donation made by management and board of directors will confront many procedural difficulties. Thus, there may be no effective methods to prevent fake donations as used for management's utility. What makes political donations worse is that they have other concerns such as bribery or vote-buying, which could seriously harm politics integrity. Unfortunately, there are almost no rules existed to regulate corporate donations, charitable or political, which have above concerns. This Article will analyze relevant legal issues on corporate donations, particularly focusing on the agency cost problem. Based on the analysis, this Article concludes that the shareholder derivative suit provides little hope as used to be the only method to prevent fake or illegal donations. Other complementary devises, such as internal procedures and disclosure, shall be introduced and integrated to help alleviate the agency cost problem that we are currently facing.

* Assistant Professor of Law, Department of Law, National Chung-Cheng University
E-mail: lawcfc@ccu.edu.tw

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