

# Production Efficiency of Philanthropic Corporations with In-Kind Donations

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## Abstracts

There is a fundamental tension between a philanthropic corporation's economic goal and social mission. Although there is a general belief that philanthropic corporations benefit the society, the reality is that these corporation's good deeds may distort their production thus causing inefficiencies for the society. There is little literature on how the firm's in-kind donation impact its production efficiency, so we setup a model to study how these philanthropic behaviors affect the corporations' profit and production. In the model, we found the philanthropist's in-kind donations are more likely to distort the firm's production planning, causing the firm to produce more than the profit-maximizing quantity, and in turn prevents the firm from the economic goal. Furthermore, even when a firm engages in in-kind donation to strategically reduce production cost, the philanthropist's preference on donations is also likely to distort the production decisions. However, there will be no production distortion if the donation is made in cash as a percentage of the firm's profit. In this case, the philanthropic corporation can achieve both economic and social goals.

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