Research Article

Does Political Connection Improve the Corporate Donation: Evidence from China

Li Qian
Shanghai International Studies University, No. 550, West Dalian Road, Shanghai 200083, China,
Tel.: 86-021-35272500; 86-021-35372940

Abstract: This study examines how corporate donation is influenced by political connection in China, the biggest transition economy. Building on the resource dependence theory and agency theory, we develop the hypotheses between political connection and corporate donation. The analysis of 876 listed companies in China suggests that political connection improves corporate donation, including both donation enthusiasm and donation amount. Due to the raising power of local governments in China’s economic transition, the local political connection also provides motivations for corporate donation. These two relationships are even stronger when the company faces bigger risk of losing their political connections. Finally, the findings show that corporate donation has the positive impact on firm performance.

Keywords: China, corporate social responsibility, donation, political connection, top management team, transition economy

INTRODUCTION

In recent years, several severe disasters occurred around the world. Generally, governments, Non-Governmental Organizations (NGOs) and Intergovernmental Organizations (IGOs) are assumed to be in response to disasters. However, corporations are increasingly involved in this responsibility by making donations to assist the government to conquer the crisis (Muller and Whiteman, 2008). For example, Fortune Global 500 firms pledged nearly $1.2 billion for disaster relief and reconstruction in response to the South Asian tsunami, Hurricane Katrina and the Kashmiri earthquake combined (Muller and Whiteman, 2008). Previous researches focused on the motivations of corporate donations, including improving the relationship between stakeholders (Mohr et al., 2001; Turban and Greening, 1997; Saiia et al., 2003; Smith, 1994), to increase firm value, reputation (Godfrey, 2005; Gardberg and Fombrun, 2006; Muller and Kräussl, 2011), to upgrade corporate income and market characteristics (Brown et al., 2006). As the biggest transition economy, Chinese government now is still considering to strongly intervene in economy and political connections are valuable and rare intangible assets for the companies (Fisman, 2001; Bertrand et al., 2004; Faccio et al., 2006; Faccio and Parsley, 2006). Thus, can political connection motivate the corporate donation in China?

This study tries to empirically answer this question based on the resource dependence theory and agency theory. From the perspective of resource dependence theory, resources that support the continual development of a company are often not owned by the company (Pfeffer and Salancik, 1978). Company needs to improve the ability of controlling these resources and eliminating external restraints. Political connection can provide a wealth of benefits for the company, such as financing protection (Johnson and Mitton, 2003; Faccio et al., 2006; Faccio and Parsley, 2006; Claessens et al., 2008), lower tax rate, (Faccio and Parsley, 2006; Adhikari et al., 2006) and feasibility in business operation (Agrawal and Knoeber, 2001; Mobarak and Purbasari, 2006; Faccio and Parsley, 2006). Therefore, political connection is a key resource which needs to be taken measures to maintain. In order to optimize the relationship with the government, the company may promote the donation to please the government and the public. But, different from the resource dependence theory, the agency theory suggests that managers may promote corporate donation in order to obtain private benefits and corporate donation may damage the interest of corporate investors. Because corporate political connection is carried out through manager’s personal relation, manager may improve this personal relation on the cost of corporate investors. From this perspective, corporate donation may not necessarily bring benefits to the company, but even become a kind of duty consumption, which may harm the interests of investors.

Based on the above two theories, in this study, we study the relationship between political connection and
corporate donation. Specifically, we propose that if managers have political connections, the company will have more motivations to donate and the amount of donation will be larger. When the risk of losing political connection is higher, such as the company has longer Initial Public Offerings (IPO) age, the relationship between political connection and donation will be stronger. We also propose that corporate philanthropic activities will improve the corporate performance. Empirically, our analysis of 876 listed companies in China generally supports these propositions.

THEORETICAL DEVELOPMENT

Theoretical background:
The motivation of corporate donation: Corporate donation is an important part of Corporate Social Responsibility (CSR), which is defined as “the responsibility of enterprises for their impacts on society” (European Commission, 2011). But different from other areas of CSR, charitable contribution policy is often both decided and implemented at senior levels in the organization (Brammer and Millington, 2004). Other areas of CSR, such as employee relations and environmental policy, where policy commitments may be determined and authorized through organizational documentary, but implementation is carried out, at different organization levels (Bowen, 1953). Therefore, corporate donation provides an outstanding mechanism through analyzing the relationship among top management background, firm strategy and CSR.

Existing literature suggests several motivations of donation. Charitable donation may influence the perceptions of the firm in the eyes of both external and internal stakeholders, like investors, customers (Mohr et al., 2001), suppliers, actual or potential employees (Turban and Greening, 1997) and the voluntary sector (Saia et al., 2003; Smith, 1994). Specifically, Gardberg and Fombrun (2006), consistent with the viewpoint of Godfrey (2005), argued that charitable donation might be expected to increase the corporate value by increasing their reputational capital. Donation may, therefore, have significant implications for corporate performance (Navarro, 1988; Russo and Fouts, 1997; Waddock and Graves, 1997; Campbell et al., 2002). Among these alternative motivations, a central path paints donation as a strategic tool to improve their own bottom lines by demonstrating their social responsiveness to various stakeholders. This strategic tool can provide insurance-like protection for the intangible asset values arising from companies’ relations with various stakeholders (Godfrey, 2005). According to resource dependence theory, valuable and rare resources that firms rely on are often not controlled by themselves, but are dominated by related stakeholders (Pfeffer and Salancik, 1978; Frooman, 1999). This brings uncertainties for the firms in the possession of these resources. The most crucial goal for a firm is to find ways to reduce uncertainties and to maintain stable supplements of critical resources (Pfeffer and Salancik, 1978; Frooman, 1999). Donation can improve the company’s public image and companies often use this strategic tool to maintain stable relationships with stakeholders (Frooman, 1999; Dutton et al., 1994; Backhaus et al., 2002). For example, several studies have found that the company will increase philanthropic investment when it is going to raise brand awareness (Boatsman and Gupta, 1996; Petrovits, 2006). Also, Navarro (1988) found that company will make philanthropic donations in order to improve the production efficiency.

Company may make donation not only in order to maintain the possession of important resources, but also to reduce the risk of losing the control of these resources (Brammer and Millington, 2004, 2005). The company is often difficult to avoid a negative impact on stakeholders’ relationship in an unexpected accident (Griffin, 2004). For example, when products are reported to be poisonous to consumers, ‘moral capital’ built up by donation will protect the relationship among stakeholders to reduce the risk of losing key resources (Fombrun et al., 2000). A typical example is that in 2008, both Yili and Mengniu-two leading milk powder producers in China-were reported to find melamine in milk powder, which could cause infant kidney stone. Due to its positive social image and good relationship with the government, Mengniu quickly recovered in the milk powder market, but Yili suffered severely in that accident. Making donation is an active way to avoid key resource losing in accidents. Government is an important stakeholder and it controls regulatory resources which is important for companies. It holds power of business resources allocation, shaping the marketing rules, restraining the anti-competitive activities and restricting socially and environmentally damaging behavior. Therefore, firms’ may invest in charitable donations in order to reduce the risk of regulatory activity that may limit management discretion (Haley, 1991; Berman et al., 1999). For example, providing assistant donations in need of the government will improve the perceptions of the company and this reciprocal behavior is benefit to company’s continuing development (Ma and Parish, 2006).

Another reason for corporate donation is that managers and directors have personal motivations on companies’ charitable activities (Boatsman and Gupta, 1996; Galaskiewicz, 1997). For example, Jensen and Meckling (1976) pointed out that charitable donation can provide managers with non-monetary private benefits. In order to meet a particular need or personal preferences, like higher social status, managers or directors may make donation at the expense of sacrificing the interests of shareholders. Besides,
Political connection: Many researchers have found that the political connection still plays an important role in modern economies (Granovetter, 1985; Fisman, 2001). Particularly in transition economies, companies incline to establish political connection due to the strong government intervention and institutions failure (Fan et al., 2007; Boubakri et al., 2008). Political connection could bring companies with much feasibility in corporate financing (Johnson and Mitton, 2003; Faccio et al., 2006; Faccio and Parsley, 2006; Claessens et al., 2008), tax (Faccio and Parsley, 2006; Adhikari et al., 2006) and business operation (Agrawal and Knoeber, 2001; Mobarak and Purbasari, 2006; Faccio and Parsley, 2006; Goldman et al., 2010). Strong political connection can provide indirect guarantee from the government, lower the probability of corporate default (Faccio et al., 2006) and reduce the financial risks (Jiang, 2009). For example, Faccio et al. (2006) analyzed 450 politically connected firms from 35 countries during 1997-2002 and concluded that, when political connected firms confront with financial distress, both frequency and amount of government bailouts were significantly more than unconnected firms. This provides a good reason for why banks are more willing to relax the rules to political connected firms. This phenomenon is more considerable when the marketing mechanism is underdeveloped (Khwaja and Mian, 2005; Leuz and Oberholzer-Gee, 2006). Infante and Piazza (2010) also pointed out that this financing feasibility in political connected firms will be more significant along with the increasing degree of bank officers’ autonomy. Besides financial aids, some researchers confirmed that political connected firms can enjoy lower tax rate in the relationship-based economy (Faccio and Parsley, 2006; Adhikari et al., 2006). In business operation, evidences showed that political connected firms can acquire more profit through government purchase (Agrawal and Knoeber, 2001; Goldman et al., 2010; Faccio and Parsley, 2006) and trade license (Mobarak and Purbasari, 2006; Agrawal and Knoeber, 2001). Faccio and Parsley (2006) also found that political connection could help companies to gain steady monopolization position which could bring monopoly profit.

In addition to the above benefits from the corporate operation level, companies are interested in building political connection because it is also considered to be valuable for investors (Granovetter, 1985). Empirical researches showed that political connection could significantly enhance the corporate value and performance, in developed countries like U.S. (Jayachandran, 2006; Knight, 2007; Jiang, 2008), Germany (Niessen and Ruenzi, 2010), UK (Bruggio and Moore, 2010) and in developing economies like Indonesia (Leuz and Oberholzer-Gee, 2006) and Hongkong (Wong, 2010). But on the other hand, if the politicians only pursue their own political interests, such as over-employment, paying wages beyond average levels in order to win electoral support, the marginal cost of political connection may exceed its marginal benefits. Then, political connection will be detrimental to shareholders’ interest (Shleifer and Vishny, 1994). Empirical evidences support this argument in some developed countries, like France (Bertrand et al., 2004) and Italy (Menozzi et al., 2010). For China’s listed companies, Fan et al. (2007) found that the appointment of a political connected CEO did not increase corporate value, but actually helped politicians to achieve their political goals. Being consistent with the “grabbing hand” argument (Shleifer and Vishny, 1994), their results showed that the political connected companies had poorer performance than unconnected ones.

Political connection has two types in China, one is connecting with central government and the other is connecting with local government. China has begun to conduct a fiscal reform since the 20 century 80s. The core point of this reform was to decentralize the fiscal power to the local governments and to promote the local economic development. During this process, in 1994, the tax-sharing system was brought into practice, which transferred some tax payment from the central government to the local. This reform gives local governments a greater incentive to play an active role in China’s economic transition and promotes economic development (Jefferson and Rawski, 1994; Qian and Roland, 1998; Lin and Liu, 2000). But, this specific decentralization pattern also provides China’s local governments with strong power on some public functions, forming a so-called “economic federalism” (Montinola et al., 1995; Qian and Roland, 1998). The central government no longer has sufficient administrative and economic resources to control local governments (Feinerman, 1998). For firms, as micro-actors in the local economy, effects from local political connection may be stronger than those from the central government. In our paper, we differentiate these two types of political connections due to the above reasons.

Although lots of researches have been conducted, there is not a unified definition for political connection. Scholars gave different concepts and measurements for their own study objectives. Roberts (1990) considered political connection as the relationship with Senator. Faccio et al. (2006) took into account of both direct and indirect political connection. If the major shareholders or executives were parliamentarians, ministers, heads of
government or officials who are closed to government, the company was the political connected. Fan et al. (2007) specifically studied the Chinese companies and they believed that if the CEO has served on or worked for central and local government or the military, then the company was political connected. In this study, we follow the measurement of Fan et al. (2007), but we add the background of chairman of the board (COB). Because the corporate governance institution is not well developed, the role of COB in China is more like the role of CEO in developed countries. COB in China is often involved in corporate routine decisions as well as CEO. So, we consider a company as political connected if the COB or CEO is or was a central and local government officer, a member of congress, or a military officer. Figure 1 shows a unified model of political connection and corporate donation, whose elements are detailed above.

**Political connection and corporate donation:** As the largest transition economy, China so far has not established an effective separation of business and government (Detomasi, 2008). Under this economic system, business contracts are often based on social relations (Spencer et al., 2005). Social relation is more popular and important in China in which the government exerts extreme influence on business. A good relationship with the government or public officials can bring a company preferential treatment, like easily getting into limited resources and controlled information (Fan et al., 2007). It also provides greater possibility of avoiding fines or taxes, the guarantee of financial credit and protection from external competitors (Luo and Chen, 1997; Xin and Pearce, 1996). As a result, political connection is a valuable and rare resource for firms (Bertrand et al., 2004; Faccio and Parsley, 2006). According to resource dependence theory, companies have to exert themselves to acquire or maintain key resources in order to keep the competitive advantages and maximize their firm value (Pfeffer and Salancik, 1978; Frooman, 1999). Therefore, company managers must make their efforts to keep good connections, as one of the key resources for the company, with the government.

The institution environment determines how the company to acquire the resources controlled by the government (Detomasi, 2008). In Chinese environment, politicians do not have means which are commonly applied in western political world, such as campaign and lobbying, which may need the financial support from big enterprises. Meanwhile, with China’s improvement of institution and legal conditions, companies’ managers will face greater risks to keep this relationship through bribery. Charitable donations, which have legitimacy and public expectation, are often adopted to help the company establish the social responsible image (Ma and Parish, 2006). Hence, there is a close link between political connection and corporate philanthropic donation. On the one hand, political connected firms are pulled to make donation because it can provide extra value for them; on the other hand, political connection sometimes involves unspecified obligations and firms are pushed to donate under their stakeholders’ pressures. In some cases, the obligations become more coercive even than voluntary (Warren et al., 2004). Stakeholders will form the expectation level of social contribution to the company, according to firm size, reputation, image and etc. Historically, Chinese firms play both social and economic roles due to the inseparable relationship between the government and business in planned economy. After the economic reform, government and public are still in the expectation of corporations to take social responsibility, especially of those political connected firms. When the government encounters difficulties and requires the assistant from companies, it will hope the political connected firms could do more donations, because these companies have gained lots of extra benefits from the closed relationship with the government. At this time, helping the government to conquer difficulties is a great way to optimize this reciprocal relationship. The political connected firms are pushed to do greater charitable behavior in response to the government’s expectation.

Agency theory is another perspective to explain the linkage between political connection and donation. Political connection, as a kind of social capital (Kim and Cannella Jr., 2008), not only create extra value for the company, but also lead to private benefits for managers themselves (Fan et al., 2007). For managers, the more perceived personal benefits that political connection will bring, the more investments will be
taken to maintain this relationship (Godfrey, 2005). These investments include donations, attendance of charity parties and other voluntary behaviors. Charitable donation can clearly please the public and the government and sometimes may help managers to win and maintain their seats in the government (Ma and Parish, 2006). In this way, corporate donation is determined by the private returns of managers. Meanwhile, political connected managers, who are partially representative for the image of the government, have upper social status (Ma and Parish, 2006). Stakeholders thus expect higher social and ethical standards from these managers and hope their companies to be more active in donation. In China, one of the evaluation indexes for political connected managers from the government and the public is their moral behaviors. If they are passively involved in charitable activities, they will be criticized by the public. For example, Wang Shi-the COB of Vanke, the largest real estate company, declared that Vanke would donate CNY 2 million for 2008 Wenchuan earthquake in China. As soon as the declaration was reported, he received criticizes from the nearly all the medias and finally he was pressed to add the donation up to CNY 100 million. As a result, in order to please the government and the public and to maintain the social status, managers will make donations as a kind of political strategy (Ma and Parish, 2006).

At the same time, the corporate governance mechanism in China is not able to effectively constraint the behavior of top managers (Fan et al., 2007). Compared with western companies, Chinese enterprises face more severe agency problems (Jiang et al., 2010; Johnson et al., 2000). COB or CEO in Chinese enterprises has considerable influences on company’s decisions and is able to maximize their personal interests at the expense of other shareholders. Unless moral hazard can be effectively constrained, otherwise managers will easily damage the interests of other corporate investors (Eisenhardt, 1989; Jones, 1995). This indicates that, despite the benefits for the company, managers are also likely to participate in charitable donation, in order to enhance their reputations, build personal relationships and expand their social network. Based on the reasons discussed above, we posit:

**Hypothesis 1:** In China, firms give more donations in response to their political connection, ceteris paribus.

The economy transition process of China is also a process of the central governments changing their roles. In the market-oriented reform process, the central government gradually lessened its administrative power and passed the control of economy to local governments. The local governments’ autonomy expanded due to three reasons. First, with the decentralization of fiscal system in the reform process, local governments have an independent power to the local financial resources allocation and become the most important business investors. They not only access the income of local state-owned enterprises, but also control the actually social resources. Second, the principal-agent relationship exists between central and local governments. Local governments have a significant information advantage. Different from “shock therapy” in Russia, the reform in China is a “gradualist reform” (Buck et al., 2000). The central government often gains knowledge and experiences through test points in some cities. The dependence of local information makes the great expansion of local governments’ autonomy. The last reason is the reform of human resources institution for government officials. It gives the power for all levels of communist party leaders to appoint their subordinates, contrasting that all the officials are appointed by the central government before the reform. This greatly enhances the local governments’ control over subordinates and carries out their goals more effectively. For these reasons, the local governments gained more power in controlling the local resources and have a great power on intervening local economic development. This enables the local governments’ power to be relatively larger and more flexible and they even selectively implement the policy from the central government (O’Brien and Li, 1999). For example, local governments in China have retained a strong tendency to levy extra fees on firms in the name of ‘local community development’, despite discouragement from the central government that aims to free firms from social burdens. From above analysis we can find that there is a changing from the central government to local governments who play a dominant role. Local governments are acting as one of the main interveners in China's economic life.

For companies, as previously discussed, based on the resource dependence theory, donation is useful to maintain the relationship with the government; and based on the agency theory, donation may be made due to managers’ personal benefits. Compared with the central government, companies deal with local governments more directly in their businesses. They may have more motivations to make donations for the above two reasons. As a result, political connections with local governments may have positive effective on corporate donations. State formally:

**Hypothesis 2:** In China, firms give more donations in response to their local political connection, ceteris paribus.

The risk of losing political connection as a moderator: The risk of losing political connection may influence the linkage between political connection and corporate donation. Political connection is an important relationship resource for companies and the risk of
losing this resource will determine the level of corporate donation (Godfrey, 2005). Firstly, political connection is a kind of rare resource. If the risk of losing this resource is high, manager’s control ability of this resource will be at a low level. Based on resource dependence theory, the high risk will increase the corporate dependence on resource. As a result, manager will have more motives to maintain this relationship and more actively involved in charitable donation. Secondly, for political connected managers, losing this relationship with the government will damage their personal social status and reputation. If the risk of losing political connection is high, they will be careful in building this relation and thus impel the companies to do more donations. For the above two reasons, the risk of losing political connection may strength the positive relationship between political connections and donation and vice versa. Godfrey (2005) has argued that this risk is influenced by two factors: the company characteristics and industry related factors. In this study, we mainly focus on the former factors that related to company characteristics, that is IPO age and controllers of the company.

Companies with a long IPO age have an upper corporate image and act as a positive example. Stakeholders have high expectations and demands on these companies than on other unobtrusive companies. In the case of Vanke, it is one of the oldest public companies. It came into the public in 1991, a month after the foundation of Shenzhen Stock Exchange. The government and the public have higher donation expectation of it in 2008 Wenchuan earthquake. Therefore, the longer IPO age the company has the more possibility of the company’s failure to meet the government needs. Due to the higher risk of losing political connection, effects including corporate donation, must be made to safeguard this relationship. Hence, we propose:

**Hypothesis 3:** In China, when firm has longer IPO age, the positive relationship between political connection and corporate donation will be stronger.

Company’s ownership or controlling shareholder is another factor to affect the risk of losing political connection. In our research sample, 61% companies are state-owned. Compared to these companies, private controlled companies face a greater risk. In China, managers in state-owned companies are often appointed by the government. Only when the companies are fully privatized, they will face the risk of losing political connections. But for private controlled companies, instead of equity control, their linkage with the government totally depends on their managers’ political connections. This kind of social connection is considered to be much weaker than equity connection. As the result, private controlled companies face greater risk of losing political connection than state-owned companies and they have to actively engage in social affairs to keep the connections, including charitable donation. We thus expect:

**Hypothesis 4:** In China, when firm is equity controlled by private instead of by the state, the positive relationship between political connection and corporate donation will be stronger.

**Performance implications of corporate donations:**

The effect of donation on performance can be analyzed under the framework of Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP). A wealth of researches has done for this issue, e.g., Navarro (1988), Russo and Fouts (1997), Waddock and Graves (1997), Campbell et al. (2002) and Hillman and Keim (2001). Margolis and Walsh (2003) reviewed fifty nine researches between 1990 and 1999 of the CSR-CFP relationship and their analysis presented a mixed picture. A complex theoretical analysis of Godfrey (2005) explained the behavior of “good deeds earn chits”. He argued that corporate charitable activities could well create a positive moral capital in stakeholders and communities for companies. This capital could provide a kind of protection for the relationship-based intangible assets, therefore, enhanced shareholders’ value.

From the perspective of strategic philanthropy (Porter and Kramer, 2002), companies can improve their competitive environment through strategic charitable activities and win both social recognition and business performance. Strategic philanthropy argues that, donation is a kind of corporate strategy. Although the company does not receive any direct, clear and specific returns, charitable donation is able to create intangible strategic assets, such as reputation capital (Turban and Greening, 1997), trust, positive image for regulators and the improvement of company’s competitive environment (Porter and Kramer, 2002). Thus, in this view, corporate donation can increase the sales, enhance corporate reputation, improve the competitive advantage and ultimately achieve corporate financial goals. To sum up, charitable donation will eventually be an invisible way to improve the business performance. As in a fast transition and developing business environment, China’s enterprises have the strong incentives to enhance the corporate image which helps them gain more market awareness. The use of strategic donation does not only help to increase social welfare, but also help build up positive social image and increase company benefits in return. We therefore predict:

**Hypothesis 5:** In China, corporate donation enhances the firm performance.
**RESEARCH METHODS**

**Data and sample**: We used Chinese Listed A-share companies on the Shanghai and Shenzhen Stock Exchange in 2009 as the research sample to test the above hypotheses. We use data from the listed companies, because the information of company characteristics and financial data can be exactly acquired from databases. The data for non-listed companies is not accurate and reliable due to the difficulties of survey in China (Luo, 2007). We obtained the annual financial statements in 2009 of China’s listed A-share companies from the database CSMAR (China Stock Market and Accounting Research Database), developed by the Shenzhen GTA Information Technology Ltd.

We manually collected COB and CEO political background from the annual statements. For each company, we obtained a profile of the COB and CEO from the “resumes of top managers” section. This section typically contains information on their professional background, employment history and previous honors. From this section, we calculated the COB and CEO political connections by examining whether he or she is or was a government officer, a member of congress, or a military officer in the central government or a local government. Information of corporate donation was also collected manually in the section of “non-operating revenue or expenditure” in the notes to financial statements. We included the expenditures of “donation”, “charitable donation”, “public donation”, “philanthropic alms” and “philanthropic patronage”. Except for information of political connection and donation, other data were all obtained from the annual statements. We excluded companies that were received special treatment in the past three years, because these companies might conduct unusual behaviors to cover up their bad financial performance. We also deleted samples with missing data and finally obtained data for 876 firms during the year 2009, representing 51% of the total number of listed companies.

**Variable and measurement**: In our study, we took references from Faccio et al. (2006) and Fan et al. (2007) to measure political connection. Political connection is a dummy variable. If COB or CEO is or was a government officer, a member of congress, or a military officer in the central government or a local government, it equals to 1, otherwise equals to 0. We also introduced two dummy variables: central political connection and local political connection. Central political connection equals to 1 if the company is connected with the central government and otherwise equals to 0. Similarly, local political connection equals to 1 if the company is connected with the local government and equals to 0 if there is not any connection. Corporate donation is measured by two independent variables, Donation and Log (donation ratio), referring to Brown et al. (2006) study. Donation is a dummy variable, presenting the corporate enthusiasm of donation, which is measured by whether the listed company is involved in donations in 2009. When the company has made donation, then Donation is equal to 1, otherwise is equal to 0. Log (donation ratio) is adopted to measure the level of donate contributions of listed companies. It is equal to the logarithm value of (donation expenditure/total assets×100+1). Corporate performance is measured by two variables: Return Of Assets (ROA) and Tobin’s Q. For the moderator variables, IPO age is calculated by subtracting the company’s IPO year from 2009. Ownership is a dummy variable, which equals to 1 if it is equity controlled by the state and equals to 0 if it is controlled by the private.

We control for several variables in testing the hypotheses. Corporate donation will depend on some company characteristics factors such as the size of the enterprise (European Commission, 2011). Referring to the study of Helwege et al. (2007), we control the debt asset ratio and the firm size. The debt asset ratio of listed company is a measurement of company’s capital structure. We use logarithm value of total asset to measure the impact of firm size. Since companies with large cash flow may make more donations, the influence of cash holdings is controlled in our study. This variable is calculated by percentage of cash holdings in total asset. Firm location is included to control the institution and culture differences in China. Because of the imbalance in regional development, some provinces in China lags behind in the transition and local governments intervene stronger in economic development. Another reason is the culture differences, that some provinces may have tradition to give more donations than other provinces. Location is a dummy variable, categorized by province in which the firm found. We also controlled the influences of industry and firm age.

**RESULTS**

Table 1 provides segmentations of political connection and donation by industry and ownership. In our research sample, 28.08% companies in the total sample have political connection, which include 7.88% companies have political connection with the central government and 23.06% with the local government. This suggests that the government still maintains direct influence on a significant portion of firms through its COB or CEO. There is no particular pattern on the percentage of political connected COBs or CEOs on an ownership basis, but there is a cross-industry variation of political connection. The highest percentage of political connected CEOs occurs in the financing and
Table 1: Political connections donations segmentations by industry and ownership (N = 876)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Total sample</th>
<th>Political connection</th>
<th>Donation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Political connected No.</td>
<td>% of political connection</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>19</td>
<td>8</td>
<td>42.11</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>18</td>
<td>7</td>
<td>38.89</td>
</tr>
<tr>
<td>Manufacture</td>
<td>496</td>
<td>112</td>
<td>22.58</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>47</td>
<td>23</td>
<td>48.94</td>
</tr>
<tr>
<td>Construction</td>
<td>27</td>
<td>6</td>
<td>22.22</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>40</td>
<td>16</td>
<td>40.00</td>
</tr>
<tr>
<td>Information technology</td>
<td>49</td>
<td>12</td>
<td>24.49</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>54</td>
<td>19</td>
<td>35.19</td>
</tr>
<tr>
<td>Financing, insurance</td>
<td>3</td>
<td>2</td>
<td>66.67</td>
</tr>
<tr>
<td>Real estate</td>
<td>47</td>
<td>17</td>
<td>36.17</td>
</tr>
<tr>
<td>Social services</td>
<td>25</td>
<td>8</td>
<td>32.00</td>
</tr>
<tr>
<td>Communication and cultural industry</td>
<td>5</td>
<td>3</td>
<td>60.00</td>
</tr>
<tr>
<td>Activities not adequately defined</td>
<td>46</td>
<td>13</td>
<td>28.26</td>
</tr>
<tr>
<td>Ownership</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private owned</td>
<td>341</td>
<td>95</td>
<td>27.86</td>
</tr>
<tr>
<td>State owned</td>
<td>535</td>
<td>151</td>
<td>28.22</td>
</tr>
<tr>
<td>Total</td>
<td>876</td>
<td>246</td>
<td>28.08</td>
</tr>
</tbody>
</table>

Table 2: Descriptive statistics and correlations (N = 876)\(^{a}\)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Donation</td>
<td>0.79</td>
<td>0.40</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Log (donation ratio)</td>
<td>0.26</td>
<td>0.34</td>
<td>0.40</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Political connection(^{b})</td>
<td>0.28</td>
<td>0.45</td>
<td>0.10</td>
<td>0.11</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Central political connection(^{b})</td>
<td>0.08</td>
<td>0.27</td>
<td>0.02</td>
<td>0.06</td>
<td>0.47</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Local political connection(^{b})</td>
<td>0.23</td>
<td>0.42</td>
<td>0.11</td>
<td>0.12</td>
<td>0.88</td>
<td>0.09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. IPO age</td>
<td>10.20</td>
<td>3.96</td>
<td>-0.07</td>
<td>-0.15</td>
<td>-0.02</td>
<td>-0.02</td>
<td>-0.03</td>
<td></td>
</tr>
<tr>
<td>7. Ownership(^{b})</td>
<td>0.61</td>
<td>0.49</td>
<td>0.01</td>
<td>-0.07</td>
<td>0.00</td>
<td>-0.04</td>
<td>0.03</td>
<td>0.21</td>
</tr>
<tr>
<td>8. ROA</td>
<td>0.06</td>
<td>0.11</td>
<td>0.16</td>
<td>0.17</td>
<td>0.06</td>
<td>0.07</td>
<td>0.04</td>
<td>-0.06</td>
</tr>
<tr>
<td>9. Tobin’Q</td>
<td>2.25</td>
<td>1.27</td>
<td>-0.07</td>
<td>0.09</td>
<td>0.02</td>
<td>0.00</td>
<td>0.04</td>
<td>-0.09</td>
</tr>
<tr>
<td>10. Industry(^{b})</td>
<td>4.92</td>
<td>3.12</td>
<td>0.00</td>
<td>-0.02</td>
<td>0.07</td>
<td>0.00</td>
<td>0.08</td>
<td>0.29</td>
</tr>
<tr>
<td>11. Firm size</td>
<td>9.53</td>
<td>0.51</td>
<td>0.19</td>
<td>-0.02</td>
<td>0.12</td>
<td>0.10</td>
<td>0.06</td>
<td>0.09</td>
</tr>
<tr>
<td>12. Cash holding(^{c})</td>
<td>17.03</td>
<td>11.46</td>
<td>0.06</td>
<td>0.05</td>
<td>0.02</td>
<td>0.08</td>
<td>-0.01</td>
<td>-0.05</td>
</tr>
<tr>
<td>13. Firm age</td>
<td>13.20</td>
<td>3.69</td>
<td>-0.06</td>
<td>-0.07</td>
<td>0.03</td>
<td>-0.02</td>
<td>0.03</td>
<td>0.75</td>
</tr>
<tr>
<td>14. Location(^{b})</td>
<td>15.41</td>
<td>9.59</td>
<td>0.02</td>
<td>0.11</td>
<td>0.01</td>
<td>-0.03</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td>15. Debt asset ratio</td>
<td>0.51</td>
<td>0.18</td>
<td>0.13</td>
<td>-0.06</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.10</td>
</tr>
</tbody>
</table>

\(^{a}\) Pearson correlation coefficients are reported; Absolute value of correlation coefficients greater than 0.07 are significant at 0.05 level. Greater than 0.09 at 0.01 level; two-tailed test; \(^{b}\) Dummy variable; \(^{c}\) Percentage; S.D.: standard deviation

 insurance industry (67%), followed by the communication and cultural industry (60%), the electricity, gas and water industry (49%), the agriculture industry (42%), mining and quarrying industry (39%) and the real estate industry (36%). 79.45% companies have ever made donation in 2009, which implies that most of companies in China are active in philanthropic affairs. There is still no particular pattern on the percentage of donation on an ownership basis. In different industries, the industries of financing, insurance, communications and cultural, all the companies in these two industries have made donation in 2009. Then, the next industry is mining and quarrying (94%), followed by the industry of construction (89%), wholesale and retail trade (87%) and electricity, gas and water (85%).

Table 2 provides some descriptive statistics and a Pearson correlation matrix for all variables in this
Hierarchical F
Adjusted R
Model F
Location
Cash holding
Industry
M2*X2
M1*X2
M1*X1
Local political connection (X3)
M1*X1
M1*X2
M1*X3
M2*X1
M2*X2
M2*X3
Constant
Industry
Firm size
Cash holding
Firm age
Location
Debt asset ratio
Model F
Adjusted R²
Change in adjusted R²
Hierarchical F

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Model 8</th>
<th>Model 9</th>
<th>Model 10</th>
<th>Model 11</th>
<th>Model 12</th>
<th>Model 13</th>
<th>Model 14</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPO age (M1)</td>
<td>-0.02</td>
<td>0.00</td>
<td>0.00</td>
<td>-0.02</td>
<td>0.00</td>
<td>-0.02</td>
<td>0.00</td>
</tr>
<tr>
<td>Ownership (M2)</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Political connection</td>
<td>0.08</td>
<td>0.12</td>
<td>0.13</td>
<td>0.13</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Central political connection (X1)</td>
<td>0.06</td>
<td>0.09</td>
<td>0.09</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local political connection (X3)</td>
<td>0.08</td>
<td>0.15</td>
<td>0.16</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M1*X1</td>
<td>-0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>-0.01</td>
<td>-0.01</td>
</tr>
<tr>
<td>M1*X2</td>
<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>M1*X3</td>
<td>-0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>M2*X1</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
</tr>
<tr>
<td>M2*X2</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>M2*X3</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
</tr>
<tr>
<td>Constant</td>
<td>0.26</td>
<td>0.23</td>
<td>0.21</td>
<td>0.21</td>
<td>0.22</td>
<td>0.20</td>
<td>0.19</td>
</tr>
<tr>
<td>Industry</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.00</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
</tr>
<tr>
<td>Cash holding</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Firm age</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
</tr>
<tr>
<td>Location</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Debt asset ratio</td>
<td>-0.09</td>
<td>-0.08</td>
<td>-0.08</td>
<td>-0.08</td>
<td>-0.08</td>
<td>-0.08</td>
<td>-0.08</td>
</tr>
<tr>
<td>Model F</td>
<td>2.66</td>
<td>4.58</td>
<td>4.24</td>
<td>3.92</td>
<td>4.49</td>
<td>3.93</td>
<td>3.46</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.01</td>
<td>0.04</td>
<td>0.04</td>
<td>0.04</td>
<td>0.05</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td>Change in adjusted R²</td>
<td>0.03</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.03</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Hierarchical F</td>
<td>9.50</td>
<td>5.58</td>
<td>5.58</td>
<td>5.58</td>
<td>7.99</td>
<td>5.56</td>
<td>5.26</td>
</tr>
</tbody>
</table>

Note: The entries in this table are unstandardized beta coefficients; two-tailed test; n = 876; p<0.10; * p<0.05; ** p<0.01; *** p<0.001

The correlation coefficients in columns 1 and 2 suggest that donation and the donation ratio are positively correlated with political connection and local political connection. To test our hypotheses on the effects of political connection on corporate donation, we performed a hierarchical regression (Table 3 and 4).
VIF (variance inflation factor) values of all independent and control variables in Table 3 and 4 range 1.023 from 2.504, suggesting no multicollinearity to cloud results. We also checked the univariate normality assumption by performing a modified Kolmogorov-Smirnov test. Except for debt asset ratio, all other variables demonstrated normal distribution. After taking its logarithm, debt asset ratio showed normal distribution.

Table 3 and 4 present the results of hierarchical regression analyses testing the hypotheses. In Table 3, the dependent variable is the dummy variable: donation, which measures whether company has done donations. In Table 4, the dependent variable is the scale variable: log (donation ratio), which measures the relative amount of corporate donation. These two dependent variables are two aspects of corporate donation—one for corporate donation enthusiasm and the other is for donation level. Model 1 and Model 8 are baseline models with all control variables included for the two dependent variables. Model 2 and Model 9 present our findings on the effect of the political connection on corporate donation. We find strong support for Hypothesis 1 regarding the positive effect of political connection, in Model 2 the significance is at p<0.05 level and in Model 9 at p=0.01 level. Compared with the baseline models, Model 2 and Model 9 explain a significantly greater amount of variances (in Model 2, Δ R² = 0.01, Hierarchical F = 3.14, p<0.05; in Model 9, Δ R² = 0.03, Hierarchical F = 9.50, p<0.001). These results suggest that political connected companies increase the corporate donation, not only for their donation enthusiasm but also for the donation amount. Corroborating Hypothesis 2, the effect of local political connection on donation is found significant and positive in Model 5 (p<0.01) and Model 12 (p<0.01). Compared with the baseline models, Model 5 and Model 12 explain a significantly greater amount of variances (in Model 5, Δ R² = 0.01, Hierarchical F = 3.18, p<0.05; in Model 12, Δ R² = 0.03, Hierarchical F = 7.99, p<0.001). These results imply that local political connection have positive effect on corporate donation.

Model 3 and Model 6 add the first moderate-IPO age-to the regression model for the dependent variable donation, while Model 10 and Model 13 for the dependent variable log (donation ratio). In Model 3, the result show significant positive effect on the political connection to corporate donation (p<0.05) and in Model 6, the positive moderate effect of IPO age is also significant on local political connection to corporate donation (p<0.05). Compared with the baseline models, Model 3 and Model 6 explain a significantly greater amount of variances (in Model 3, Δ R² = 0.01, Hierarchical F = 3.88, p<0.05; in Model 6, Δ R² = 0.01, Hierarchical F = 2.81, p<0.01). But in Model 10 and Model 13, when considering the dependent variable log (donation ratio), these two independent variables do not show significance. These results partial support the Hypothesis 3, that when firms have longer IPO age, the positive relationship between political connection and corporate donation will be stronger. In Model 4 and Model 7, we add the second moderate-ownership-to the regression model for donation and in Model 11 and Model 14, for log (donation ratio). Ownership is found to have a negative and not significant effect on the political connection to corporate donation (p>0.1). This result could not support Hypothesis 4, that ownership has a positive moderate effect on the relationship between political connection and donation.

We performed a hierarchical regression analysis to test Hypothesis 5 (Table 5). Results in Table 5 present the relationship between corporate donation and performance. By comparing Model 2 with Model 1, it is evident that, the independent variables donation and log (donation ratio) have significant positive impact on ROA (Δ R² = 0.03, Hierarchical F = 13.21, p<0.001). In Model 3 and Model 4, donation has significant positive relationship with Tobin’s Q (p<0.01), while but log (donation ratio) does not show significant impact
(p>0.1). The above results can partial prove Hypothesis 5 that corporate donation has positive effect on performance.

Finally, it is worth noting the effect of control variables on corporate donation, as shown in Table 3 and 4. Firm size is positively linked to corporate donation. It follows that the government and the public have more expectations for large firms’ charitable activities. It is also because large firms have more capacities to make strategic donation, as the implementation of strategy must be supported by firm resources and capacities. Meanwhile, in Table 4, firm location shows a strong relationship with log (donation ratio). It seems that firms are more generous in some provinces.

DISCUSSION AND CONCLUSION

Focusing on China, the largest transition economy, company’s political connection is a kind of relationship resource, which has notable impacts on corporate operation and decision. Meanwhile, this resource is carried out through the political background of COB or CEO. And it is characterized as interweaving the corporate interests with the personal interests. This research has shown that political connection is a valuable resource for the company (Faccio and Parsley, 2006; Adhikari et al., 2006; Mobarak and Purbasari, 2006; Goldman et al., 2010) and due to the resource dependence theory, managers will promote the charitable donation in order to improve the control of this resource. However, behind this strategic philanthropy, there may be private benefits for the managers. Regarding to agency theory, in order to obtain private benefits from political connection, managers also have motivations to donate. Agency cost will be created due to the difficulties for the investors to monitor and restrain the manager’s behavior of donation.

Our research extends the notion in the resource dependency theory and agency theory that corporate donation increases with their political connection. Previous theories that tend to explain the corporate philanthropic donation include stakeholder theory, institutional theory and corporate social responsibility theory. But each theory has limitations to understand this phenomenon (Seifert et al., 2004). Our result shows that the combination of resource dependence theory and agency theory is a reasonable explanation for Chinese corporations, that political connection has positive influences on corporate donation, including both of donation enthusiasm and donated amount. In China’s economic reform, the central government decentralized its power to the local and local governments have more authority in the allocations of local resources. Companies have to make donation to keep good relation with local governments and our research proves that local political connections have positive impact on corporate donations. The combination of the two theories is also acceptable for local political connection.

Our analysis adds a detailed supplement to the understanding of mechanisms that influences the corporate donation, as existing research does not give a satisfactory answer (Margolis and Walsh, 2003; Logsdon and Wood, 2002). Besides the positive relationship between political connection and corporate donation, we also analyze the risk of losing political connection which has some moderate influences on this relationship. This helps to describe the relationship between political connection and donation more clearly. We adopt two firm level characteristics-IPO age and ownership-to measure this risk. Findings show that if firm has longer IPO age, the positive relationship between political connection and donation will be stronger. This implies that if the risk of losing political connection is higher, political connected company is more willing to make donation to optimize this relation. But firm’s ownership does not show the expected moderate effect. On the one hand, as discussed previously, state-owned companies may have equity control with the government instead of political connection and they do not need to pay much attention on corporate donation. But, on the other hand, state-owned companies may have more incentives to do donation because of two reasons. First, besides economic objectives, state-owned companies are more obliged to divert corporate wealth to obtain social stability (Bai et al., 2006; See, 2009) according to their political goals. Second, they are more visible in front of the state, the media and the public. State-owned companies are often expected to become “leading examples”. Due to the high expectation, they have to gain a good social performance.

There are lots of previous researches of CSR-CFP relationship, but little has been done in China. As the largest transition and emerging market, China has a specific institutional and cultural environment. The motivation and behavior of corporate donation are quite different from developed countries. For example, during the 2008 Wenchuan earthquake in China, some state-owned companies are imposed by the government to donate through some informal official documents. Chinese government still shows its intervention on corporate donation because of two reasons. First, besides economic objectives, state-owned companies are more obliged to divert corporate wealth to obtain social stability (Bai et al., 2006; See, 2009) according to their political goals. Second, they are more visible in front of the state, the media and the public. State-owned companies are often expected to become “leading examples”. Due to the high expectation, they have to gain a good social performance.

This study may have some practical implications. As to the companies, political connection in China is still a key resource for the survival and development of a company. Managers should master the abilities of controlling this resource through reasonable and
legitimate ways. Meanwhile, companies should adjust their philanthropic method and level, when considering the risk of losing political connection, especially when the government has called on companies to participate in charitable activities, such as providing rescues in a disaster, supporting to education in poor areas. Companies should be actively involved in those activities to avoid a negative evaluation from the public and the government. But for those company investors, when in a decision of charitable activities, a trade-off should be made between benefits from the political connection and agency costs of manager’s private interests. Relationship resources, like the political connections, will be transferred with managers’ career changing. Shareholders could not always get returns from the investment on this personal-based relationship. Therefore, the investors should keep a vigilant attention on the large amount of charitable expenditures.

The above results should be interpreted with some caution. First, our dataset is only focusing on listed companies in China. Although listed companies have a large sample size, there may have some differences for other non-listed companies. Second, our empirical setting is a single country. We do not know to what extent the empirical analysis of political connection and corporate donation unless we have multi-country data with which to compare it. Multi-country data will enable us to better examine how institutional conditions affect this relationship. For example, tight institutional condition may constrain manager’s private motivation to do donation. Third, the risk of losing political connection is measured by firm level characteristics—IPO age and ownership. Industry level characteristics are another sort of influential factors (Godfrey, 2005). Future research may explore measurements from both firm level and industry level and provide combined understanding of this risk. Finally, in this study, we only examine the influences on short-term firm performance. Panel data may be introduced to learn impacts on both short-term and long-term performances.

ACKNOWLEDGMENT

I would like to sincerely thank the National Natural Science Foundation of China (71502109); Science Foundation of The Chinese Education Commission (14YJ630065); the University Project of Shanghai International Studies University (2013114YB031).

REFERENCES


