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Political Connection, Ownership Structure, and Corporate Philanthropy in China: A Strategic-Political Perspective

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Abstract This paper investigates whether philanthropic giving decisions and amount of charitable giving are related to firms' political connections and ownership type. To this end, Chinese firms listed on either the Shenzhen or Shanghai stock exchange between 2004 and 2011 are examined, where government interference in the business sector is prevalent, state ownership structure is dominant, and corporate political connections prevail. Our analyses show (1) a significant and positive relationship between political connections and the likelihood and extent of firm contributions; (2) a significant and negative relationship between state ownership and extent of firm contributions; and (3) a stronger relationship between political connections and corporate philanthropy in non-state-owned firms. These findings with regard to the relationship between corporate giving, political connections, and ownership type have important implications for understanding corporate giving behavior in China and in emerging markets in general.

Keywords Corporate social responsibility · Corporate philanthropy · Political interference · Political connection · Ownership type

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Introduction

Corporate philanthropy, as an important component of corporate social responsibility, has received increasing attention from researchers. Prior conceptual and empirical work concerning corporate philanthropy has largely focused on examining the association between philanthropy and various outcomes, such as economic benefits, firm reputation, and customer response (Brammer and Millington 2008; Godfrey 2005; Wang and Qian 2011; Williams and Barrett 2000). However, compared with the large number of studies on the outcomes of philanthropic activities, the determinants of corporate philanthropy have received relatively limited attention (Dennis et al. 2009). Furthermore, previous studies have documented that corporate giving is influenced by the amount of slack resources available to the firm (Seifert et al. 2004), personal values and attitudes (Buchholtz et al. 1999; Campbell et al. 1999), board composition (Coffey and Wang 1998; Wang and Coffey 1992), firm size (Amato and Amato 2007), and ownership type, including individual, family, and institutional ownership (Atkinson and Galaskiewicz 1988; Bartkus et al. 2002). Although these studies have advanced our understanding of the determinants of corporate philanthropy in advanced economies, little attention has been paid to this area in developing and emerging markets. More importantly, determinants such as firm political connections and state ownership, which are regarded as key factors that shape philanthropic activities in emerging economies where political interference and state ownership are still prevalent, have been under-examined.

This study examines how a firm's political connections, state ownership interest, and the interaction between the two, affect corporate philanthropic giving decisions in

China, the largest emerging economy in the world. Using Chinese firms listed on either the Shenzhen or Shanghai stock exchange between 2004 and 2011, we find that compared with non-politically connected firms, politically connected firms are more likely to contribute and to a greater extent. Furthermore, state ownership negatively correlates with firm donation amount, but does not significantly correlate with the decision to engage in corporate philanthropy. We also note a stronger relationship between political connections and corporate philanthropy in non-state-owned firms than in state-owned firms. Together, these results suggest that Chinese managers have strategically deployed philanthropy as a means of managing a firm's position of power and legitimacy in the eyes of the influential player; namely, the government. This study provides empirical evidences in an emerging economy that are consistent with the political school of corporate philanthropy (Dennis et al. 2009; Neiheisel 1994; Sánchez 2000; Young and Burlingame 1996).

This study contributes to the literature in several ways. First, prior studies have mostly examined corporate philanthropy in Western cultural contexts such as the United States, Canada, and the United Kingdom. China, the largest transition economy, provides a useful and different socio-political context in which to extend this line of research. Thus, this study enriches our knowledge of corporate philanthropy by demonstrating that corporate philanthropy is shaped by a varied range of contextual factors. Corporate giving behaviors in emerging economies such as China are differently motivated due to fundamentally different aspects of institutional settings. Second, our paper responds to a call for examining what drives and determines corporate charitable giving by a number of researchers (Dennis et al. 2009; Young and Burlingame 1996). Here, we extend the growing body of research, which contends that corporate philanthropic activities are an increasingly strategic component of corporate social performance (Fry et al. 1982; Wang and Qian 2011). Particularly, this study enriches the literature by revealing that corporate charitable giving is associated with political connections and state ownership, a concept that has been under-examined in prior research. Moreover, whereas previous studies have largely focused on examining the individual determinants of corporate giving, this study examines the interaction effect between political connections and ownership on corporate giving, thereby advancing our knowledge of how individual determinants combine to affect corporate philanthropy (Buchholtz et al. 1999). Third, by conducting a longitudinal study, we address the lack of longitudinal perspective in previous empirical studies in this area (Campbell et al. 2002). For example, Zhang et al. (2010) used the data of Chinese firms' responses to the 2008 Sichuan earthquake to examine the link between firm ownership and charitable giving in the event of a catastrophe. Our study extends this research on firm donations in China and provides deeper insight into the developments in this field during the past decade. Finally, our findings on the association between corporate philanthropy with ownership type and political connections have implications for other countries where state ownership still plays an important role, such as Singapore, Malaysia, Austria, and Finland (Claessens et al. 2000; Faccio and Lang 2002), and where political connections are still prevalent, such as Indonesia and Malaysia (Faccio 2010).

The remainder of this study is organized as follows. The next section provides the institutional background of China and the development of multiple hypotheses. The third section discusses data gathering and methodology. The fourth section presents the results. The fifth section discusses the conclusions and implications of this study. Limitations and avenues for future research are outlined in the final section.

Background and Hypotheses Development

Institutional Background

The Chinese government, compared with its counterparts in other countries, is more directly involved in the corporate sector. China was formed as a socialist country with sole party leadership in 1949. Prior to the economic reforms initiated in the 1980s, a centrally planned economy was adopted, in which the government ran all enterprises that were considered production units and implemented its economic plan (Doupnik and Perera 2011). Following economic reforms, the government has attempted to reduce its control over the business sector. The new policies have gradually separated the function of the government from enterprises and service institutions. State-owned enterprises (SOEs) were converted into shareholding companies, and a small proportion of restructured SOEs were listed in two domestic exchanges established in the early 1990s (Jiang et al. 2009). Nevertheless, although progress has been made in withdrawing from the corporate sector, the Chinese government still has considerable influence on corporations, largely due to its multiple roles including that of a shareholder and regulator (Liu 2006). Specifically, the government has remained in control of key resources as a regulatory agency (Li et al. 2008), and persistently intervenes in corporate operations as a controlling shareholder (Liu 2006).

Chinese-listed firms differ from Western firms in that there is a relatively large stake of government ownership within a highly concentrated shareholding structure (Liu and Sun 2005; Su et al. 2008), as well as more prevailing political

Table 1 Percentage of Chinese firms with political connections and with the state as the ultimate controller compared with other countries

	China	France	Germany	HK	Japan	Singapore	UK
Political connection (%)[a]	27	3.66	1.97	1.84	1.29	7.44	8.40
State ownership (%)[b]	60.43	5.11	6.30	1.40	0.80	23.50	0.08

[a] Data for China are from Fan et al. (2007), and data for other countries were calculated based on Faccio (2010). Fan et al. (2007) define political connection as CEO serving as a current or former government bureaucrat. According to Faccio's (2010) definition, a firm can be politically connected through its owner and senior managers, including the CEO

[b] Data for China are from Zhang et al. (2010); data for United Kingdom, Germany, and France are from Faccio and Lang (2002); and data for other countries are from Claessens et al. (2000)

connections of firm management (Fan et al. 2007). As shown in Table 1, the percentages of both political connections and state ownership are more pronounced in Chinese firms compared to firms in other countries. Zhang et al. (2010) document that 60.43 % of Chinese-listed companies are ultimately controlled by the state, which is significantly higher than that of Western countries, such as Germany (6.30 %), France (5.11 %), and the United Kingdom (0.08 %) (Faccio and Lang 2002). Fan et al. (2007) find that almost 27 % of the chief executive officers (CEOs) in Chinese firms are former or current government bureaucrats, whereas a significantly lower percentage of political connections are reported in Western countries; for example, 1.97 % in Germany, 3.66 % in France, and 8.4 % in the United Kingdom (Faccio 2010). The table also shows that political connections and state ownership in Chinese firms are prominent even compared with other economies in the same region, such as Singapore, which has the highest percentage of political connections (7.44 %) and state ownership (23.50 %) after China, and Japan, which has the lowest (1.29 % for political connections and 0.80 % for state ownership). China's unique institutions, including state control of resources, prevalent political connections of senior managers, and high degree of retained government ownership, suggest that business decisions can be largely shaped by political interference, which offers us a great opportunity to investigate corporate philanthropic giving in China.

The Chinese government is also more heavily involved in the charity sector compared to counterparts in other countries. For example, the government retains tight control over the registration of charitable organizations through a dual management system by which the Ministry of Civil Affairs (MCA), China's national charity regulator, registers an organization as a charity only if a government agency agrees to supervise its operation. As a result, the majority of registered charities are closely monitored by various government departments and administrated by the MCA. Furthermore, government departments and state-controlled charitable organizations such as the Red Cross of China and the China Charity Federation are the major recipients of philanthropic giving. For instance, they received 49 % (or RMB 41.4 billion) and 61 % (or RMB 50.5 billion) of total donations in 2011 and 2012, respectively.[1] In addition, compared to counterparts in Western countries, Chinese companies seem to play a more important role in charitable contributions, as measured by their share of total donations. For example, in 2012, 58 % of the total giving was contributed by the corporate sector in China, compared with 6 % in the United States and 30 % in Australia.[2] Given the key role of corporate giving in China and the Chinese government's heavy involvement in the charity sector, it is important to examine how corporate giving behaviors are shaped by political influences.

Hypotheses Development

The motivations for corporate philanthropy have been the subject of extensive research. Previous studies have attempted to understand the rationale behind philanthropy from strategic or altruistic perspectives. Recent research has suggested that corporate philanthropic decisions have become increasingly strategically driven as firms get involved in corporate giving with the intent of meeting the expectations of key stakeholders and consequently maximizing economic returns (Dennis et al. 2009; Neiheisel 1994; Sánchez 2000). Saiia et al. (2003, p. 170) defines strategic philanthropy as the "giving of corporate resources to address non-business community issues that also benefit the firm's strategic position, and ultimately, its bottom line." Organizations operate within a wider social system, and their activities are shaped by salient stakeholders in their environment, including governmental and non-governmental institutions, employees, customers, and investors (Donaldson and Preston 1995; Freeman 2010). An organization's relationship with those stakeholders largely determines its success (Donaldson and Preston 1995; Jones 1995). In light of the political philosophy regarding corporate philanthropy, firms are under political and

[1] Data are available on the website: http://www.charity.gov.cn.

[2] Data for China are from the website: http://www.charity.gov.cn; data for the United States are from the website: http://www.charitynavigator.org; and data for Australia are from the website: http://www.dss.gov.au.

institutional pressures, exerted by key environmental actors, to engage in charitable giving (Neiheisel 1994). Managers use corporate philanthropy as a means of managing the firm's position of power and legitimacy in the eyes of key stakeholders (Dennis et al. 2009; Neiheisel 1994; Sánchez 2000; Young and Burlingame 1996).

Obtaining political legitimacy is important for the survival and success of Chinese firms, because Chinese enterprises face severe political interference that arises from China's unique institutional setting (Li and Zhang 2010; Park and Luo 2001). Corporate philanthropy plays an important role in cultivating a good relationship with the government and achieving political legitimacy (Wang and Qian 2011). While recognizing that political legitimacy is generally critical for Chinese firms, we suspect that the extent of need for political legitimacy varies within firms with different characteristics, which in turn influences corporate philanthropic activities. Thus, the purpose of this study is to investigate how firm characteristics, specifically political connections and ownership type, affect corporate contributions from a strategic-political perspective.

Our first objective is to examine the relationship between firms' political connections and the likelihood and amount of corporate giving. We conjecture that firms' political connections positively impact corporate philanthropy for two main reasons; namely, the reciprocity principle within the firm–government relationship and government interference. Social exchange observes norms of reciprocity and fairness (Aronson et al. 2005). There is a growing body of economic literature on the benefits derived by firms from political connections. Political connections help firms secure favorable regulatory conditions (Agrawal and Knoeber 2001), gain access to resources such as bank loans (Faccio 2006), and ultimately, improve their performance and value (Fisman 2001; Johnson and Mitton 2003). In the context of China's transition economy, political connection has become a strategic resource that allows firms to achieve a competitive advantage. In the absence of efficient market mechanisms and a mature legal system, political allies are critical for Chinese firms in the negotiation and enforcement of contracts (Nee 1992). Furthermore, Chinese firms can use political access to deal with political uncertainty. Although China has achieved remarkable and consistent progress in economic reforms, political reforms have undergone several ups and downs, and have persistently created political uncertainty in Chinese firms (Peng and Heath 1996). Firms often mobilize political alliances within the government to gain government support and favorable treatment that may effectively mitigate such political uncertainty (Wang and Qian 2011). On the other hand, while businesses are able to capitalize on political connections to obtain political legitimacy and resources controlled by the government, the reciprocity principle in social relationships suggests that the government also has expectations of businesses (Aronson et al. 2005). Corporate philanthropy is an ideal way for firms to reciprocate government support. Indeed, corporate giving is especially appreciated by Chinese authorities because the government does not have sufficient resources to engage in community and social welfare projects, and thus, largely relies on corporate contributions to alleviate such resource shortage (Dickson 2003). Since politically connected firms typically benefit more from government support, such firms are more strategically motivated to become involved in philanthropic activities to pay back and to gain continuous political benefits in the future.

Aside from reciprocity, we also argue that politically connected firms are more likely to respond to the government's call for philanthropy due to political interference. The government may intervene in business operations with the goal of making firms assume more social responsibilities, such as employee welfare, local economy, social stability, and donations for charitable causes. In China, the government is heavily and directly involved in philanthropy. The largest philanthropic institution, the Red Cross Society of China, is essentially a government organization. Following the Sichuan earthquake, the Chinese government explicitly called firms to engage in disaster relief (Jia and Zhang 2011). Anecdotal evidence suggests that firms often receive a donation task from the government in charitable events. Since political intervention in business activities is more severe when firm managers are politically connected (Fan et al. 2007), politically connected firms are more likely to participate in government-proposed social and charitable activities, and endeavor to accomplish the allocated donation task. Overall, the above discussion suggests that compared with their non-politically connected counterparts, politically connected firms are more obliged and motivated to assist governments in attaining their political and social goals through contributions. Therefore, our first hypothesis is as follows:

H1 Politically connected firms are more likely to donate and donate a greater amount than non-politically connected firms.

Our second objective is to examine the relationship between state ownership and likelihood and amount of corporate donation. We predict that state ownership may negatively impact corporate philanthropy. In contrast to non-state-owned firms, state-owned firms have a weaker incentive to engage in corporate philanthropy or respond to the government's call for philanthropy. Due to the inherent connection with the state owner, state-owned firms are not under pressure to build links with the government and bureaucrats. State-owned firms can obtain preferential treatment from the government, such as access to bank loans, import tariffs, and government bailouts given the fact that the state is the controlling shareholder in these firms (Brandt and Li 2003; Wang et al. 2008). In contrast, non-state-owned firms lack legitimacy and political backing to secure access to capital (Nee 1992), and are thus faced with a great deal of political uncertainty (Park and Luo 2001). In order to overcome competitive and resource disadvantages, non-state-owned firms need to develop a long-term-based reciprocal relationship with the government as a strategic mechanism. This can be accomplished by cooperating and exchanging favors with government authorities; for example, by responding to the government's call for philanthropic contributions. Therefore, non-state-owned firms are more strategically motivated to engage in philanthropic activities.

Furthermore, in contrast to non-state-owned firms, state-owned firms have less managerial discretion in charitable decisions. Corporate giving of state-owned firms is subject to strict regulation by various government agencies. For example, the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council issued Strengthening Management of Donation by Central State-Owned Enterprises to govern charitable activities of firms controlled by the central government.[3] This regulation requires SASAC approval for donations that exceed certain limits; for example, RMB 1 million given by firms with a net asset less than RMB 10 billion, RMB 5 million given by firms with a net asset between RMB 10 to 50 billion, and RMB 10 million given by firms with a net asset over RMB 50 billion. Contributions by firms owned by local governments are also strictly controlled. For instance, the SASAC of Tianjin Municipal People's Government requires that donations over RMB 500,000 be filed at the local SASAC, donations over RMB 1 million be approved by the local SASAC, and donations over RMB 5 million be approved by both the local SASAC and local government.[4] Thus, based on the stronger demand of non-state-owned firms for political legitimacy and more stringent regulation over the philanthropy of state-owned firms, our second hypothesis is as follows.

H2 Non-state-owned firms are more likely to donate and donate more than state-owned firms.

If Hypotheses 1 and 2 are supported, our third objective is to determine if the relationship between political connections and corporate philanthropy can be affected by ownership type. We predict that the positive relationship between firms' political connections and corporate philanthropy is more significant for non-state-owned firms than state-owned firms. Wang and Qian (2011) point out that non-state-owned firms are more dependent on political connections with the government for critical resources than state-owned firms. Xin and Pearce (1996) also document that non-state-owned firm executives are more dependent on government connections, and consider such connections to be more important than state-owned firm counterparts. A nationwide survey shows that private entrepreneurs believe that political connections have a positive effect on the performance of their firms, help firms obtain loans from banks or other state institutions, and afford them more confidence in the legal system (Li et al. 2008). These findings suggest that given the same level of political connections, non-state-owned firms are more willing to make contributions to maintain such connections. Based on the aforementioned discussion on how the interaction between political connections and ownership type may affect corporate giving, our third hypothesis is as follows:

H3 The positive relationship between firms' political connections and corporate philanthropy is stronger for non-state-owned firms than state-owned firms.

Research Methods

Sample

Our initial study sample consisted of all listed firms in the Shenzhen Stock Exchange and Shanghai Stock Exchange between 2004 and 2011. The sum of capitalization of the two exchanges was approximately RMB 16.5 trillion in 2011.[5] Our data sources included the CNINF website, RESSET database, and CSMAR database. Among these, the CNINF website is the official information-disclosure website for publically listed firms appointed by the China Securities Regulatory Commission (CSRC).[6] The RESSET and CSMAR databases are widely used by researchers for Chinese-listed firms (e.g., Fonseka et al. 2012; Wang and Qian 2011; Zhou and Zhu 2011).

The biographical information of CEOs and chairpersons was derived from the corporate governance database and corporate annual reports in the CSMAR database. Data related to other corporate characteristics were from financial reports in the CSMAR database. In accordance with prior studies, we measured corporate contributions as (1) donation amount (Zhang et al. 2010); (2) donation-revenue ratio (Williams and Barrett 2000); and (3) donation-total assets ratio (Brown et al. 2006). We deleted observations in

[3] The document is available on the SASAC website: http://www.sasac.gov.cn.

[4] The document is available on the website of the SASAC of Tianjin Municipal People's Government: http://www.tjsa.gov.cn/.

[5] China Securities Regulatory Commission: http://www.csrc.gov.cn.

[6] The official listed firm information-disclosure website appointed by CSRC is cninfo.com.cn.

an initial public offering (IPO) year, or reports that had missing data regarding philanthropy disclosure or biographical sketches of the firm's management. The final study sample consisted of 6,845 observations.

Multivariate Analysis

We used the following regression to test how corporate donation is associated with political connections (Hypothesis 1) and ownership type (Hypothesis 2), after controlling for other factors that have been documented to affect corporate donation.

$$\begin{aligned}\text{Donation} = \alpha + \beta_1 \text{Political connection} + \beta_2 \text{State ownership} \\ + \beta_3 X + \beta_4 \text{Industry} + \beta_5 \text{Year} + \varepsilon\end{aligned} \quad (1)$$

Definitions for the variables in Eq. (1) are given below:
Dependent Variable

Donation Reflects a firm's philanthropic contributions. We used multiple measures for corporate donation. More specifically, it was measured by Donation_0 (donation likelihood), Donation_1 (amount of donation), Donation_2 (percentage of revenue as philanthropic contributions), and Donation_3 (percentage of total assets as philanthropic contributions).

Independent Variables

Political connection A dummy variable that takes the value of 1 if the CEO or chairperson is politically connected and 0 otherwise. Previous studies have used a variety of ways to define political connection; for instance, a director's participation in an election in Pakistan (Khwaja and Mian 2005), having officers or major shareholders with close relationships with key government officials in Malaysia (Johnson and Mitton 2003), or a firm's affiliation with the President's children and his longtime allies in Indonesia (Fisman 2001). In an attempt to examine corporate political connections around the globe, Faccio (2006) defines a company as politically connected if one of the company's large shareholder or top officer is a member of parliament, is a minister or head of state, or is closely related to a top official. In this study, we took into account China's institutional features and defined a politically connected firm as one whose board chairperson or CEO is currently holding, or previously held a position in either the central government, local government, National People's Congress, local people's congress, Chinese People's Political Consultative Conference, or local people's political consultative conference (see also Li and Zhang 2010).
State ownership A dummy variable that takes the value of 1 if the state is the ultimate controller and 0 otherwise.
X A set of control variables expected to influence corporate philanthropy. In this study, we controlled such factors as after-tax cost of donation, corporate governance, ownership structure, firm size, profitability, and leverage, which have been documented in prior studies (Amato and Amato 2007; Auten et al. 2002; Brammer and Millington 2006; Brown et al. 2006; Greene and McClelland 2001; Seifert et al. 2003).[7]
Industry Equals 1 if the firm falls within that industry and 0 otherwise.
Year Equals 1 if the firm falls within that year and 0 otherwise.

In addition, we estimated the following regression to test whether the relationship between political connection and corporate philanthropy varies by type of ownership (Hypothesis 3).

$$\begin{aligned}\text{Donation} = \alpha + \beta_1 \text{Political connection} + \beta_2 \text{State ownership} \\ + \beta_3 \text{Political connection} \times \text{State ownership} \\ + \beta_4 X + \beta_5 \text{Industry} + \beta_6 \text{Year} + \varepsilon\end{aligned} \quad (2)$$

All variables are defined as in Eq. (1).

Empirical Results

Descriptive Statistics

Table 2 provides the descriptive statistics of donation and characteristics for all sample firms, as well as a comparison of those characteristics between politically connected and non-politically connected firms, and between state-owned and non-state-owned firms. The average donation amount for our sample firms is RMB 860,000, with an average donation–revenue ratio of 0.038 %, and an average donation-total assets ratio of 0.02 %. Table 2 also shows that 36 % of board members are independent directors, which closely meet the CSRC requirement that at least one-third of the board of directors be independent. A 54 % leverage ratio indicates a relatively high financial risk faced by Chinese-listed companies. The high average shareholding of the largest shareholders (35.74 %) is consistent with prior literature, which has documented the concentrated ownership structure and dominant position of controlling shareholders in Chinese firms (Liu and Sun 2005; Su et al. 2008).

The comparison results show that there are significant differences between politically connected and non-

[7] In the 2008 tax reform, the corporate tax rate was reduced from 33 to 25 % and the limit of charitable deductions was lifted from 3 to 12 % of a firm's taxable income.

Table 2 Descriptive statistics

	Mean	Standard deviation	Politically connected	Non-politically connected	*T* test	Private ownership	State ownership	*T* test
$Donation_0$	0.643	0.479	0.712	0.600	9.55***	0.609	0.684	−6.49***
$Donation_1$	0.086	0.257	0.129	0.059	11.03***	0.069	0.107	−6.26***
$Donation_2$	0.375	0.873	0.469	0.316	7.09***	0.440	0.300	6.83***
$Donation_3$	0.198	0.442	0.251	0.166	7.79***	0.230	0.160	6.57***
Age	16.408	4.824	16.131	16.580	−3.77***	16.078	16.812	−6.33***
Size	21.464	1.258	21.749	21.287	15.14***	21.067	21.949	−30.96***
ROE	0.042	0.334	0.079	0.018	7.42***	0.057	0.023	4.16***
Leverage	0.542	0.385	0.511	0.562	−5.39***	0.537	0.549	−1.29
Net cash flow	21.971	113.14	31.924	15.852	5.77***	16.770	28.320	−4.23***
Independent directors	0.363	0.055	0.364	0.362	1.39	0.365	0.361	2.99***
CEO/chairperson	1.791	0.426	1.806	1.782	2.23**	1.729	1.866	−13.51***
Ownership concentration 1	35.740	15.344	36.824	35.068	4.64***	32.797	39.333	−18.05***
Ownership concentration 2	14.953	28.769	14.414	15.294	−1.24	9.314	21.836	−18.47***

$Donation_0$ dummy variable that equals 1 if firm has a donation, and equals 0 if otherwise; *$Donation_1$* amount of donation (RMB 10 million); *$Donation_2$* donation amount/revenue × 1,000; *$Donation_3$* donation amount/total assets × 1,000; *Age* number of years of the firm's existence since its formation; *Size* log form of total assets; *ROE* net profit/equity; *Leverage* total liabilities/total assets; *Net cash flow* net cash flow from operating, investing, and financing (RMB 10 million); *Independent directors* number of independent directors/total number of board members; *CEO/chairperson* dummy variable that equals 1 if the roles of the chairperson and CEO are exercised by the same individual, and equals 0 if otherwise; *Ownership concentration 1* shareholding of the largest shareholder; *Ownership concentration 2* shareholding of the largest shareholder/shareholding of the second largest shareholder

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

politically connected firms, and between state-owned and non-state-owned firms in terms of their philanthropic behaviors and firm characteristics. Compared with non-politically connected firms, politically connected firms are more involved in philanthropy and contribute a greater amount ($p < 0.01$ for all donation measures). This is consistent with Hypothesis 1. Meanwhile, politically connected firms are significantly larger, have a higher profitability, more cash resources available, and a shorter history. Compared with state-owned firms, non-state-owned firms have a shorter history, smaller size, better profitability, and a less concentrated ownership structure. They also have a higher level of contribution, as measured by the percentages of revenue and total assets as philanthropic contributions ($p < 0.01$). This is largely consistent with Hypothesis 2. However, the absolute donation level measured by donation amount is significantly lower for non-state-owned firms than state-owned firms ($T = -6.26$) without controlling for other variables such as size. This is likely due to the fact that state-owned firms are typically larger than non-state-owned firms (Zhang et al. 2010). As such, multivariate regression needs to be performed to gain more reliable results. Furthermore, the significant differences in firm characteristics such as size, return on equity (ROE), and leverage, as shown in Table 2, suggest that it is important to control for such variables when investigating how corporate donation is affected by political connections, state ownership, and the interaction between the two.

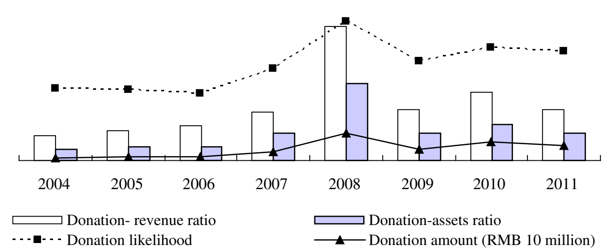

Fig. 1 Corporate donation between 2004 and 2011

Figure 1 depicts the trend of corporate donation for our sample firms between 2004 and 2011. Overall, corporate contributions steadily increase over time, with a peak in 2008 due to an earthquake of immense magnitude (8.0 on the Richter scale) that struck the Sichuan province of China that year (Zhang et al. 2010). It can be seen that in 2008, both donation participation and donation level are significantly higher than in the other years examined, suggesting heightened awareness of corporate social responsibilities in 2008 due to the disaster.

Table 3 Regression analyses of Hypotheses 1 and 2 (see Eq. 1)

	$Donation_0$ (LOGIT model)	$Donation_1$ (TOBIT model 1)	$Donation_2$ (TOBIT model 2)	$Donation_3$ (TOBIT model 3)
Intercept	−10.437***	−2.513***	−2.090**	−1.043***
	(−14.41)	(−27.40)	(−2.46)	(−5.87)
Political connection	0.288***	0.054***	0.214***	0.115***
	(4.83)	(6.91)	(7.01)	(7.59)
State ownership	−0.007	−0.040***	−0.203***	−0.090***
	(−0.10)	(−4.69)	(−6.01)	(−5.35)
Age	−0.046***	−0.003***	−0.014***	−0.008***
	(−6.75)	(−3.45)	(−4.02)	(−4.69)
Size	0.547***	0.127***	0.128***	0.067***
	(18.04)	(33.48)	(8.71)	(9.14)
ROE	0.036	0.047***	0.144**	0.085***
	(0.36)	(2.98)	(2.39)	(2.80)
Leverage	−0.417***	−0.049***	−0.366***	−0.201***
	(−4.55)	(−3.50)	(−7.06)	(−7.86)
Net cash flow	−0.000	0.000***	−0.000	−0.000
	(−0.57)	(7.31)	(−1.06)	(−0.36)
Independent directors	−0.048	0.049	0.261	−0.016
	(−0.09)	(0.72)	(0.97)	(−0.12)
CEO/chairperson	0.024	−0.022**	−0.054	−0.028
	(0.36)	(−2.40)	(−1.52)	(−1.62)
Ownership concentration 1	−0.008***	−0.000	−0.004***	−0.001**
	(−3.34)	(−1.63)	(−3.78)	(−2.55)
Ownership concentration 2	−0.003**	−0.000***	−0.000	−0.001**
	(−2.44)	(−2.98)	(−0.35)	(−2.30)
After-tax cost of donation	0.763**	−0.052	0.072	0.128
	(2.23)	(−1.02)	(0.37)	(1.31)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Observations	6,845	6,845	6,845	6,845
Pseudo R^2	0.1448	0.3935	0.0503	0.0987
Likelihood ratio	1,289.67***	2,490.11***	867.96***	1,125.65***

Political connection a dummy variable that equals 1 if the CEO or chairperson is politically connected, and equals 0 if otherwise; *State ownership* a dummy variable that equals 1 if the state is the ultimate controller, and equals 0 if otherwise; After-tax cost of donation: 1–corporate tax rate × (1–non-deductible donation/total donation); *Year* a dummy variable that equals 1 if the firm falls within that year, and equals 0 if otherwise; *Industry* a dummy variable that equals 1 if the firm falls within that industry, and equals 0 if otherwise. Please refer to Table 2 for all other variable definitions

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Regression Analyses of Hypotheses 1 and 2

We used the Logit model to run a regression test when the dependent variable is $Donation_0$ (donation likelihood), and used the Tobit model when the dependent variable is $Donation_1$ (donation amount), $Donation_2$ (percentage of total assets as philanthropic contributions), or $Donation_3$ (percentage of revenue as philanthropic contributions).

Table 3 presents the multiple regression analyses conducted on sample firms. After controlling for such factors as firm size, profitability, leverage, net cash flow, and firm age, there is a significantly positive relationship between political connections and corporate donation ($p < 0.01$ for all models). That is, politically connected companies are more likely to engage in philanthropic activities, and to contribute a greater amount than companies without political connections. These data support Hypothesis 1, which states that political connections positively correlate with the likelihood and amount of donation. Furthermore, as noted in Table 3, the variable of ownership type negatively and significantly correlate with donation amount ($p < 0.01$ for all Tobit models), suggesting that firm ownership type influences the amount of contribution by the sample firms. Consistent with Zhang et al. (2010), our results show that non-state-owned firms donate more than state-owned firms. Although the relationship between donation likelihood and ownership type is not significant, as expected, it is negative. This largely supports Hypothesis 2, which states that non-state-owned firms are more likely to donate, and donate more than state-owned firms.

With regard to control variables, our results show that firm size and profitability positively affect the decision and

Table 4 Regression analysis of hypothesis 3 (see Eq. 2)

	Donation$_0$ (LOGIT model)	Donation$_1$ (TOBIT model 1)	Donation$_2$ (TOBIT model 2)	Donation$_3$ (TOBIT model 3)
Intercept	−10.486***	−2.513***	−2.114**	−1.067***
	(−14.48)	(−27.36)	(−2.49)	(−6.00)
Political connection	0.375***	0.053***	0.274***	0.147***
	(4.84)	(5.16)	(6.77)	(7.28)
State ownership	0.065	−0.040***	−0.150***	−0.062***
	(0.85)	(−3.85)	(−3.65)	(−3.03)
State ownership * Political connection	−0.208*	−0.000	−0.135**	−0.071**
	(−1.76)	(−0.01)	(−2.26)	(−2.39)
Age	−0.046***	−0.003***	−0.014***	−0.008***
	(−6.72)	(−3.45)	(−3.98)	(−4.65)
Size	0.548***	0.127***	0.129***	0.067***
	(18.08)	(33.47)	(8.77)	(9.21)
ROE	0.031	0.047***	0.140**	0.083***
	(0.30)	(2.98)	(2.32)	(2.73)
Leverage	−0.413***	−0.049***	−0.362***	−0.199***
	(−4.50)	(−3.49)	(−6.98)	(−7.77)
Net cash flow	−0.000	0.000***	−0.000	−0.000
	(−0.57)	(7.31)	(−1.05)	(−0.35)
Independent directors	−0.045	0.049	0.266	−0.013
	(−0.08)	(0.72)	(0.99)	(−0.09)
CEO/chairperson	0.024	−0.022**	−0.055	−0.029*
	(0.37)	(−2.39)	(−1.54)	(−1.65)
Ownership concentration 1	−0.008***	−0.000	−0.004***	−0.001***
	(−3.37)	(−1.63)	(−3.81)	(−2.58)
Ownership concentration 2	−0.003**	−0.000***	−0.000	−0.001**
	(−2.45)	(−2.98)	(−0.36)	(−2.31)
After-tax cost of donation	0.788**	−0.052	0.093	0.139
	(2.31)	(−1.02)	(0.48)	(1.42)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Observations	6,845	6,845	6,845	6,845
Pseudo R^2	0.1451	0.3935	0.0506	0.0992
Likelihood ratio	1,292.746***	2,490.107***	873.087***	1,131.353***

Please refer to Tables 2 and 3 for variable definitions

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

amount of donation, suggesting that larger and more profitable companies are likely to contribute more money to charitable causes (Brammer and Millington 2006; Zhang et al. 2010). The debt-asset ratio negatively correlates with level of contribution, suggesting that companies with a high leverage level are likely to have high financial risk, which leads them to reduce their philanthropic contributions (Brown et al. 2006). In our study, both donation likelihood and extent of donation negatively correlate with shareholding of the largest shareholder. These results reinforce the importance of controlling for those variables when trying to determine how corporate donation is associated with firms' political connections and ownership type.

Regression Analysis of Hypothesis 3

Previous results have demonstrated that political connections have a significant effect on both the donation decision and the extent of corporate giving. By testing Eq. 2, we attempt to investigate whether the positive relationship between corporate donation and political connections varies by ownership type. The results are presented in Table 4. The coefficient on the interaction term was significant ($p < 0.1$ for Logit model, $p < 0.05$ for Tobit models 2 and 3), which is consistent with our expectation that ownership type can influence the relationship between political connections and donation. The positive correlation between political connections and corporate philanthropy is stronger

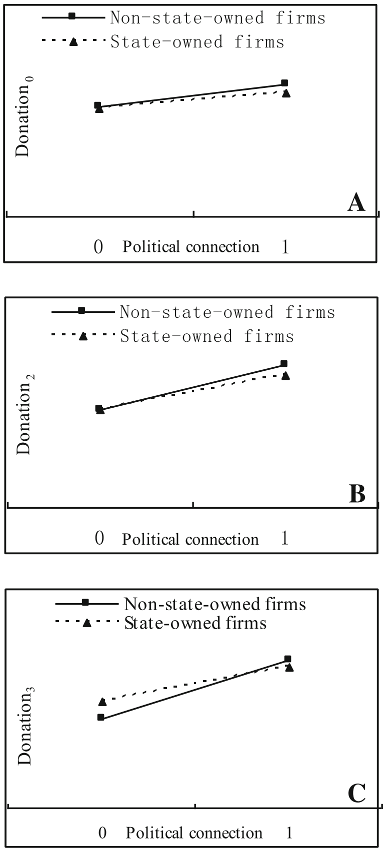

Fig. 2 **a** Interactive effect between political connections and ownership type on donation, as measured by donation likelihood. **b** Interactive effect between political connections and ownership type on donation, as measured by donation-revenue ratio. **c** Interactive effect between political connections and ownership type on donation, as measured by donation-total assets ratio

for non-state-owned firms. This finding is consistent with Wang and Qian's (2011) assertion that non-state-owned firms are more dependent on political resources, and thus have a greater need for political legitimacy. Compared with state-owned firms, non-state-owned firms are more willing to invest in political connections by contributing to social causes.

To visually interpret these results, we followed Aiken and West's (1991) approach for plotting significant interaction effects (Fig. 2a–c). These figures show a more positive slope for privately owned firms than for state-owned firms, suggesting a more positive relationship between political connection and corporate philanthropy in non-state-owned firms.

Robustness Tests

We conducted several robustness tests on our findings. First, we used different proxies for political connections. In prior analyses, we used CEO or chairperson connections to measure political connections. In considering the definitions used in prior studies, such as those by Johnson and Mitton (2003) and Faccio (2006), we expanded our definition to include the political connections of other board members. As such, we developed two additional measures for gauging the extent of political connections; namely, the proportion of directors on the board with political connections (number of politically connected directors/total number of board members), and the strength of political connections of the board members (dummy variable equals 1 if the board chairman and more than two board members are politically connected, and equals 0 if otherwise). We obtained similar results for the relationship between donation and political connections. Second, we used increments to measure the dependent variable for donation and the variables for firm characteristics. Consistent with our expectation, the increment in donation is positively related to political connections and negatively related to state ownership. Finally, in accordance with Eckel and Grossman (2003), we used the Random Effects Model to analyze our data, and again obtained similar results.[8]

Discussion and Implications

The purpose of this study is to examine the relationship between corporate philanthropy, political connections, and ownership type in China. Prevalent political interference in the business sector, dual ownership structure, and prevailing corporate political connections in the context of China's transition economy provide us with a unique setting to determine whether political connections, state ownership, and the interaction between the two influence philanthropic giving decisions and the amount of charitable giving. This study contributes to the body of literature on the driving forces of corporate contributions, by providing evidence that political connections and ownership type, through the mechanism of political interference, are important determinants in emerging economies such as China. Furthermore, this is the first study to investigate the determinants of philanthropy in an emerging economy using a longitudinal study as advocated by Campbell et al. (2002), which thus provides a more comprehensive view of corporate donations in China compared to previous studies.

Using a sample of listed firms in China's stock market between 2004 and 2011, we provide several important findings. After controlling for firm characteristics that are likely to influence donation documented in previous studies, we find that a firm's political connections positively correlate with both the likelihood to donate and the amount of a firm's contributions, which proves the reciprocity

[8] The results are not presented, but are available upon request.

assumption that politically connected firms are more willing to donate due to the benefits associated with political connections. Furthermore, our results reveal a significant and negative relationship between state ownership and donation level. Moreover, we note a stronger relationship between political connections and philanthropy for non-state-owned firms. These results prove our assumptions that political connections affect corporate philanthropic behaviors, and that compared to state-owned firms, non-state-owned firms are in greater need of political legitimacy and benefit more from political connections.

Our findings with regard to the relationship between corporate giving, political connections, and ownership type have important implications for corporate donation determinants in China and in emerging markets in general. First, this study has implications for Chinese policy makers. Our results show that political interference, political connections, and government retention of ownership have prevented Chinese firms from competing on a level playing field, which has largely shaped their corporate operation, including philanthropic behaviors. Second, our results show that Chinese firms' responses to corporate philanthropy are strategically and politically driven, as firms in greater need of political legitimacy are more willing to contribute, and contribute to a greater extent. Thus, in order to create a fair and competitive environment, and to encourage contributions from all types of corporations, the Chinese government needs to further reduce its control over firms and the business sector as a whole, and cultivate market-based mechanisms that influence philanthropic activities. Third, our findings on corporate giving in China may be useful to other emerging economies, which have political, economic, legal, and ethical institutions that differ from developed countries. When making corporate philanthropy-related policies, regulators in emerging economies should take into account their countries' situation in order to identify the important determinants of corporate giving. Finally, our results have practical implications for firm managers in China. This study shows managers the strategic role that corporate philanthropy can play in cultivating political goodwill, and demonstrates the importance of considering unique determinants, such as political connection and ownership type, when making donation decisions, in addition to traditional factors such as firm size, profitability, and leverage ratios.

Limitations and Directions for Future Research

Although this study provides important insights into charitable giving, its findings should be interpreted in light of several limitations. First, our results may not be applicable to countries where markets, instead of the government, play a fundamental role in allocating resources, where political connections do not prevail, or where governments do not have significant ownership of firms. Future studies are needed to examine whether political connections and state ownership are also important determinants for corporate giving in economies where markets can more effectively influence resource flows, and in economies with less prevalent political connections and state ownership.

Second, our study focuses solely on cash and in-kind donations. This narrow focus may not capture all aspects of corporate philanthropy. Chinese firms are increasingly expanding the scope of corporate philanthropy to community service and cause-related marketing activities like their counterparts elsewhere (Amato and Amato 2007). Hess et al. (2002) find that volunteer programs for corporate employees are more valued by the community than donations of large sums of money. Future studies may present a more comprehensive picture of corporate giving by incorporating these philanthropy components into the models developed in this study with data disaggregated into narrower corporate philanthropy categories.

Third, while our study documents that political connections have a significant impact on corporate giving, we have not thoroughly examined where the donations are going. Prior research has shown that philanthropic giving has become a significant substitute for state social welfare programs and has considerably mitigated the resource shortage faced by Chinese government (Dickson 2003). An examination of where companies' specific contributions go may provide deeper insights into how donation flows are influenced by political connections. Thus, whether and how political connections extend to state direction on where the donations should be going is an important question for future research to address.

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