Heterogeneous Political Connections and Corporate Social Responsiveness in China

Summary

The purpose of this work is to investigate the relationship between corporate political ties and the variations in corporate donations in China. Using data from earthquake donations information of all Chinese publicly listed firms, I examine firm-level variations in corporate donation amount. After correcting sample selection problems using Heckman method, I find that different types of political ties have a bearing on corporate donations. Specifically, firms with stronger symbolic ties (i.e. congressman type) donate more than firms with stronger bureaucratic ties (i.e. government official type). This positive relationship is strengthened by whether firms are in consumer-related industries, yet this relationship is weaken for firms in better institutional regions.

This work contributes to the literature on corporate philanthropy in general and corporate social responsiveness in particular. The study uncovers the underlying mechanisms that drive the variations in corporate donation, which is an important facet of CSR with Chinese characteristics that emphasizes discretionary CSR such as donation. Moreover, I move beyond the stakeholder perspective on corporate philanthropy by incorporating the role of political ties in the institutional context of China. Moreover, I contribute to the stakeholder theory by identifying a specific stakeholder group (i.e. the government) and explicating how different levels of power imbalance between the firm and the government could have a bearing on the variations in firms' responses to stakeholder requests. I also consider the interdependencies between two groups of stakeholder. Specifically, building ties with the government may indirectly elicit pressure from another stakeholder group, that is, the consumer. Finally, the literature on resource dependency theory mainly draws on how firms build relationship with critical social actors who control critical resources, but we know little about what firm will do after building this relationship. From my study, I find that in the hope of expected future benefits firms will more actively manage the firm-state relationship if they only build a relatively weak tie (i.e. symbolic tie in my study) with the government.

My contributions to research on political ties are threefold. First, I theoretically develop and empirically test the heterogeneity of political ties. Prior studies in this line of research have primarily treated political ties as monolithic. By separating and juxtaposing symbolic versus bureaucratic political ties, my research helps to capture an aspect of tie heterogeneity and accordingly provide a better picture of the power structure in the political and corporation hierarchies. Second, considering the role of

government, previous studies have a fierce debate on whether the role of the government as *grabbing* hand or a *helping* hand in emerging economies (Cheung, Rau, & Stouraitis, 2010). These works state that firms create linkages with the government in an attempt to reduce environmental uncertainty, while *how* firms will benefit from the government is still less explored. By differentiating political ties, I propose that these ties function differently. The empirical findings support that symbolic ties help firms *prevent* government intervention while bureaucratic ties help firms *get* government resources. These *preventing* or *getting* hand arguments is further verified by the uneven development of institutional environments in China. This finding gives a more nuanced insight into to the role of political ties in corporate strategies and may help reconcile the conflicting view of whether political ties will be beneficial or harmful for firm performance. For instance, political ties help firms get IPO approval in Chinese stock market while post IPO performance are worse for firms with political ties than firms without such ties (Fan, Wong, & Zhang, 2007; Liu, Tang, & Tian, 2013).This may imply that the benefits of political ties may have temporal variations and hence firms need to balance their portfolio of political ties. For instance, when applying for IPOs, firms should build ties with bureaucratic politicians to speed up this process, as these politicians actually know more about the application process. After going public in the stock market, firms may consider building more ties with symbolic politicians since firms with these ties would be less likely to shoulder government policy burdens. This point of view also corresponds to some recent studies about building ties with competing political parties in a divided/united government[1]. Using the perspective of portfolios of political ties, Zhu and Chung (2014) argue that firms should build ties with a single party during united government while diversify their political ties during divided government. Third, this paper is consistent with recent empirical findings that political ties, symbolic ties in my study, actually more significantly help firms avert the risk of government expropriation in China while bureaucratic ties seems to limited in this sense. Previous studies have demonstrated that how the change of political power from one party to another will diminish the value of political ties (Lester et al., 2008), while the understanding of political ties in a non-democratic party is still limited. Finally, I also advance research on political ties in the Chinese context. While most scholars pay attention to how the central vs. local government political ties may affect firm performance, I propose that the classification of bureaucratic vs. symbolic political ties is also a valuable venue for exploring the strategic implications of heterogeneous political ties.

[1]A united government refers to the fact that one political party controls both the executive branch and the congress.