Political Connections and Corporate Social Responsibility: Evidence from Chinese Listed Firms

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***Abstract*—This paper studies the impact of political connection on corporate social responsibility performance within the context of listed firms in emerging markets like China. We find that Politically connected companies will participate in more CSR activities. We also find that Politically connected companies participating in CSR activities receive more debt financing. Our empirical evidence further confirms that this impact is more obvious in private enterprises. The results show that: 1) political connection has a positive impact on corporate social responsibility; 2) political connection has a positive impact on debt financing returns obtained by enterprises participating in CSR activities; 3) private enterprises' political connection has a greater positive influence on corporate social responsibility than state-owned enterprise, which indicates politically connected companies engage in more CSR activities for rewards. Our research enriches the literature on the impact of political affiliation on CSR.**

***Index Terms*—Political connection, corporate social responsibility, debt financing, listed firms**

I. Introduction

Corporate social responsibility is not only an inevitable requirement to build a harmonious society and improve social welfare, but also an inevitable choice to enhance the competitiveness and value of enterprises. In June 2015, the State Administration of Quality Supervision and Inspection and the State Administration of Standardization jointly issued a series of national standards for social responsibility, which had an important impact on improving the level of social responsibility in China. However, in emerging market countries like China, corporate development may now be more focused on maximizing short-term value than sustainable development goals, which causes companies to vary widely in CSR performance. The academia has discussed the factors affecting the social responsibility of enterprises. Much existing literature has found that debt financing (Jia, 2009) motivates companies to fulfill their social responsibilities, while other studies have shown that lower financing constraints (Cheng *et al.*, 2014) are also important factors affecting corporate social responsibility. At present, there is no article to study how the relationship between enterprises and the government affects social responsibility from the perspective of the social network. We will try to study this mechanism in this article.

Fan *et al.*, 2007 showed that if the CEO is connected with the government, the company will perform better after the initial public offering. Jian and Wong, 2010 indicate that if an enterprise apply to the government for a rescue plan when it is in an economic development dilemma, politically connected enterprises will receive timely approval and will be able to obtain more government support funds during the economic recovery period. At the same time, the government's influence in China's economic and business environment is widespread (Allen *et al.*, 2005; Lee *et al.*, 2014), which specifically provides an interesting and appropriate research environment to study whether political connections affect CSRs in Chinese companies. This paper studies the mechanism of influence of political connection on corporate social responsibility by quantitative analysis, and explores whether these factors will have different influences on the participation of CSR activities due to different political connections. We pin down the mechanism for such a positive impact. The essay suggests that political connections influence the performance of CSR by increasing the incentives they receive for their participation in CSR activities. Second, the impact of political connections on CSR varies from company to company. As an important part of China's economy, private companies have become an important force in promoting China's economic development, expanding employment, and improving the well-being of its people. Therefore, we investigate whether the CSR impact of political connections on Chinese companies varies from a state-owned enterprise to a non-state-owned enterprise. At the same time, we also look at whether the CSR impact of political connections on Chinese companies varies by size and type.

We use all A-share companies listed on the Shenzhen or Shanghai stock exchanges between 2008 and 2017. Our research finds that politically connected companies engage in more CSR activities. At the same time, these companies will receive more debt financing. Our grouping of samples further confirms that this evidence is more pronounced in private firms. This result suggests that politically connected companies engage in more CSR activities for rewards, and this motivation may vary according to the company's own political aspirations. Our research enriches the literature on the impact of political affiliation on CSR. In addition, we find that financing constraints and long-term debt financing can serve as a government incentive for firms to participate in CSR activities.

Our study makes several contributions to the literature. First, we examine how the relationship between business and government affects social responsibility from a social network perspective. We find that political connection is a benefit-transmission relationship between the business and the government, which gives the government a more realistic and effective understanding of the company's involvement in CSR activities. In the meantime, this paper provides new evidence to the ever-growing literature on the influencing factors of CSR.

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The paper proceeds as follows. In Section II we review the literature and develop hypotheses, with the methodology presented in Section III. Section IV includes a discussion of the main findings, robustness checks, and endogeneity tests, and Section V concludes.

II. Hypothesis Development

A. Hypothesis Development

Companies that accept government help should help the government solve its dilemma based on the principles of reciprocity and fairness of social communication. In the area of corporate social responsibility, governments try to maintain social stability and development, and officials strive to increase their achievements. Therefore, they expect companies to assume relevant social responsibilities by re-signing the political connection (Li *et al*., 2010). In order to maintain this kind of implicit contract, the company needs to participate in CSR activities to meet the government's needs and assume the social responsibility that originally belonged to the government (Zhang and Liang, 2012). Huang and Zhao, 2016 show the prominence of government for companies with political connections. From a power perspective, connected companies become more dependent on key resources controlled by the government, and then more dependent on power. From an urgency perspective, governments influence companies to make their requirements and problems easy to see, and governments can use critical resources to threaten companies with increased power. For the government, it requires not only companies to pay their taxes on time, but also to help solve problems that the government cannot fully solve, including socially-oriented issues (Xin, 2008). At the same time, it is difficult for a government to know that enterprises participate in CSR activities, so as to obtain incentives from the government. However, politically connected companies participating in CSR activities will be more likely to be informed by the government, so as to obtain corresponding rewards from the government, so these companies are more willing to participate in CSR activities.

Based on the previous discussion, we develop our first set of hypotheses as follow:

H1: Companies' political connection has a positive influence on corporate social responsibility.

In the current political context, the government still controls a lot of resources, and if companies want to obtain political resources from government departments, they need to increase political costs and invest in people, such as solving employment, assuming responsibility for environmental protection and other social activities. Fulfilling social responsibility has become a way for enterprises to serve society. The more the enterprise undertakes the social goals of the government, the more government returns the enterprise will receive. Because participating in corporate social responsibility activities will affect the government's performance evaluation indicators and the realization of social goals to a certain extent, it helps to get a better public evaluation. And this kind of public opinion orientation will make the government provide more subsidies to enterprises that actively undertake social responsibilities. While enterprises are fulfilling their social responsibilities, social responsibility behaviors, such as charity and environmental protection, can strengthen the connection between government and enterprises, and then get the attention of the government and more subsidies. Faccio, 2006 shows that politically connected firms can be rewarded by the government through long-term debt financing. In the process of business operation, long-term debt financing is really significant. Long-term debt financing can not only ensure the owner's control over the business, but also obtain the benefits of financial leverage through financial leverage, at the same time, its cost of capital is usually lower. Enterprises are participating in activities to meet the needs of the government. In order to motivate enterprises, the corresponding government will repay enterprises through long-term debt financing. Businesses linked to the government will be more likely to receive government rewards for this connection. Therefore, politically connected companies can get more debt financing by participating in CSR activities. So, we propose our hypothesis as follow:

H2: Companies participating in more CSR activities can obtain more returns on debt financing, which will be more significant in politically connected companies.

If the above assumptions H1 and H2 are established, it means that enterprises participate in CSR activities for political demands. They put money into CSR to get the government's return, and politically connected companies are more likely to receive a return because it's easier for the government to know what they're doing. Therefore, companies with different political demands should perform differently in H1. Specifically, The stronger the demand for government resources, the greater the impact of political connections on CSR. The government is more likely to finance SOEs by providing direct subsidies to them, especially when they are in financial distress (Chen *et al.*, 2007). Private enterprises, on the other hand, receive less government support. Therefore, private enterprises have higher demands for government resources and a greater desire for political connections. Private enterprises are more likely to invest in CSR through political connections in order to expect government returns. Therefore, private enterprises have higher demands for government resources and a greater desire for political connections. We predict that the mechanism of H1 will be more obvious in private enterprises. We develop the next hypothesis as follow:

H3: The positive impact of political connections on corporate social responsibility is more significant in private enterprises.

III. Data and Methods

A. Data and Sample

Our sample consists of all firms with listed A-shares on either the Shenzhen or Shanghai stock exchange between 2008 and 2017. In order to measure which companies are associated with the government, we obtained the introduction of some CEO and other directors from the "Introduction to Directors and Senior Management" in the Executive Characteristics database. In addition to the name of the CEO and other directors, the profile usually includes information

about age, gender, education, professional background, and employment history.

The proxies variable for environmental and social performance are obtained from the RKS rating system, which details the list of corporate social responsibility activities and comprehensively covers Chinese listed firms that issue CSR or sustainability reports (Elmagrhi *et al*., 2019; McGuinness *et al.*, 2017). The CSR performance score from the rating system ranges from 0 to 100, with higher values corresponding to a higher sense of participation in corporate social responsibility activities. In addition, ratings summarize the orientation, strategy and ability of entity firms to fill environmental concerns, as well as its concentrate on philanthropic and charitable activities. In recent years, academic investigations highlight the prominence of Rankings CSR Ratings (RKS) in China in guiding investors' awareness of the quality and content of listed firms' overall social reporting activities (Marquis and Qian, 2014; Hung *et al.*, 2015; and Luo *et al.*, 2017).

The accounting data are obtained from the China Stock Market and Accounting Research (CSMAR) Database. We removed samples with missing data in size, leverage, growth and political connection. After the exclusion, we are left with a sample of 18250 firm-years. Finally, all variables are winsorized at the 1% and 99% levels.

B. Variables Definition

We use Dummy CSR to measure corporate social responsibility. Based on the CSR score obtained from RKS, Dummy CSR is a dummy variable that equals one when the company score is greater than the 90th percentile of the total sample, otherwise 0. This is because, the enterprises involved in CSR activities are heavily differentiated in the full sample, and ninety percentiles are appropriate to measure CSR investments that significantly exceed those of other companies after summarizing the CSR variable.

In this article, the political connection refers to the general manager of the company, a former or current government official, military officer, deputies to the National People's Congress, a member of the CPPCC, etc. The dummy variable POL is used to define the political connection of the company which equals to 1, indicating that the CEO of the company was or is a government official at or above the deputy division level, Military officials, NPC deputies, CPPCC members, etc. And otherwise equal to 0 (Fan *et al.*, 2007).

Following prior studies, we also add some controls variables in our regression progress. First, we control for SOE. SOE equals 1 if the company is a state-owned enterprise, and zero otherwise. Second, we control for firms' historical performance. Return on assets (ROA) measures a firm's accounting performance (Crampton and Patten, 2008; Zhang *et al*., 2010). Cash indicates the pool of resources available for corporate donations (Seifert *et al.*, 2003; Zhang *et al.*, 2010), and Size is defined as the natural logarithm of total market value. Growth is generally known to affect corporate profitability. Tobin's Q measures firm performance (Francis *et al.*, 2009) and is obtained from CSMAR. Third, we control for the level of corporate governance. Leverage suggests the monitoring role of the creditor (Brammer and Millington, 2005) and is defined as a firm's liabilities over assets. Assets are included to capture the visibility of the firm and the political costs that firms face (Muller and Whiteman, 2009) and are defined as the natural logarithm of total assets. Firm Age captures a firm's reputation and public visibility (Brammer and Millington, 2005). It is defined as the data year minus the year that a firm was listed. We use the lagged values of these variables to ensure that they are observable before the CSR spending decision is made. Finally, we include year and industry dummies to control for reputation and other variations across industries (Amato and Amato, 2007; Seifert *et al.*, 2003). All definitions of variables are summarized in Table I.

TABLE I: VARIABLES DEFINITIONS

CSR	=1 if the company score is greater than the 90 percentile of the total sample(Based on the CSR score obtained from RKS),and otherwise equal to 0.
Pol	=1 if the CEO of the enterprise was or current government officials at or above the deputy department level, military officials, NPC deputies, CPPCC members, otherwise equal to 0.
loan_long	[(Total non current liabilities-Total non current liabilities at the end of previous period) / Total assets of previous year end]
Contril Variables(T-1)	
SOE	=1 if firms with government or government controlled banks as its ultimate owners,otherwise equal to 0.
ROA	Return on assets, = Net income/average total assets.
Size	Natural logarithm of total market value.
Leverage	=Total liabilities/Total assets.
Cash	Natural logarithm of cash and cash equivalents.
Assets	Natural logarithm of total assets.
Growth	Growth rate of the main operating revenue
Tobinq	(Total number of shares-domestic listed foreign shares B-shares) * A-shares B-shares of + * current value of + liabilities of exchange rate at the end of the current period)
Firm age	Age of the firm, = fiscal year minus IPO year.
Sub-sample Categories	
POL vs. NPOL	The CEO of the enterprise was or current government officials at or above the deputy department level, military officials, NPC deputies, CPPCC members are categorized as POL,otherwise are categorized as NPOL.
SOE vs. NSOE	Firms with government or government-controlled banks as its ultimate owners are categorized as SOEs; firms controlled by nongovernmental institutions/individuals are categorized as NSOEs.
Large Firm vs. Small Firm	Firms with total assets above the 75 percentile of the sample are categorized as Large Firm, under the 25 percentile as Small Firm.
High Pollution vs. Low Pollution	A dummy variable equal to 1 if the company is in the most polluting industries as of 2008, and 0 otherwise.

C. Descriptive Statistics

Table II reports the summary statistics. The average value of Dummy CSR is 0.14. When the company's CSR rating is greater than the 90th percentile of the total sample, it can be seen that the company's participation in CSR activities has a large gap. The average value of POL is 0.16, which means Among all the companies listed in China, few companies have political ties to the government. We can see that the overall long-term debt financing performance varies considerably, ranging from −1.14 to 27.50, with a median value of 0.04.

TABLE II: DESCRIPTIVE STATISTICS

	Variables	N	Mean	STD	Min	P25	P50	P75	Max
(1)	CSR	18250	0.141	0.348	0	0	0	0	1
(2)	Pol	18250	0.161	0.367	0	0	0	0	1
(3)	loan_long	18250	0.037	0.416	−1.144	−0.005	0	0.029	27.497
(4)	SOE	18250	0.457	0.498	0	0	0	1	1
(5)	Roa	18250	0.049	0.080	−0.328	0.013	0.038	0.076	0.696
(6)	Size	18250	22.821	1.182	20.102	22.012	22.663	23.439	27.325
(7)	Leverage	18250	0.472	0.246	0.027	0.294	0.465	0.634	3.061
(8)	Assets	18250	22.041	1.499	11.348	21.055	21.823	22.772	30.815
(9)	Growth	18250	9.070	1002.793	−1.000	−0.038	0.109	0.282	134607
(10)	Tobinq	18250	2.680	2.162	0.859	1.409	2.007	3.113	21.040
(11)	Firm age	18250	16.059	5.317	2	12	16	20	32

D. Correlations of Variables

Table III presents correlations of the main variables. It is obvious that the correlation coefficient between POL and Dummy CSR is positive and significant. This lends support to the initial finding of the positive influence of political connection on CSR performance, since the correlations among non-dependent variables are less than 0.7, multicollinearity should not be a concern in this study (Lind *et al.*, 2018).

TABLE III: CORRELATIONS OF VARIABLES

	Variables	(CSR)	(Pol)	(loan_long)	(SOE)	(Roa)	(Size)	(Leverage)	(Cash)	(Assets)	(Growth)	(Tobinq)	(Firm age)
(1)	CSR	1											
(2)	Pol	0.021***	1										
(3)	loan_long	0.001	−0.006	1									
(4)	SOE	0.179***	−0.123***	-0.007	1								
(5)	Roa	0.030***	0.038***	−0.019***	−0.130***	1							
(6)	Size	0.483***	0.001	−0.01	0.228***	0.127***	1						
(7)	Leverage	0.128***	−0.059***	0.026***	0.252***	−0.303***	0.282***	1					
(8)	Cash	0.374***	0.011	−0.005	0.162***	0.032***	0.594***	0.182***	1				
(9)	Assets	0.477***	0.006	−0.033***	0.308***	0.012*	0.905***	0.341***	0.573***	1			
(10)	Growth	−0.003	−0.004	0	0.007	0.052***	−0.004	0.006	−0.001	−0.002	1		
(11)	Tobinq	−0.127***	−0.022***	0.057***	−0.240***	0.177***	−0.098***	−0.170***	−0.164***	−0.454***	−0.004	1	
(12)	Firm age	0.078***	−0.042***	0.028***	0.144***	−0.085***	0.168***	0.203***	0.040***	0.150***	0.009	0.016**	1

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

IV. MULTIPLE REGRESSION RESULTS

A. The Influence of Political Connection on CSR

We first explore whether political connections have an impact on corporate social responsibility by regressing dummy CSR on a dummy variable indicating whether the company has a political connection. We estimate Eq. (1) and report the results in Table IV. In our regression analysis, we include industry fixed effects, year fixed effects and other control variables: ROA, size, leverage, cash, assets, growth, soe, q, firm age. Specifically, our regression model is as follow:

$$\text{Dummy CSR} = \beta_0 + \beta_1 (\text{pol}) + \beta_j (\text{controls}) + \varepsilon \quad (1)$$

In model (1) we only regress dummy CSR on pol; we put control variables in model (2); model (3) includes Industry fixed effects, year fixed effects and control variables. Compared with the above four logistic regressions, We use ordinary least squares (OLS) regressions to estimate the model (4) and (5). From the regression results of Table IV,

we can see that the coefficients of pol are all significantly positive. This result is consistent with Hypothesis 1 that political connections have a positive effect on CSR.

TABLE IV: THE IMPACT OF POLITICAL CONNECTION ON CSR PERFORMANCE

	(1)	(2)	(3)	(4)	(5)
VARIABLES	DummyCSR	DummyCSR	DummyCSR	DummyCSR	DummyCSR
Pol	0.155***	0.235***	0.252***	0.022***	0.019***
	(0.056)	(0.067)	(0.069)	(0.006)	(0.006)
ROA		0.092	0.378	−0.062**	−0.089***
		(0.375)	(0.408)	(0.029)	(0.029)
Size		1.033***	1.278***	0.059***	0.096***
		(0.122)	(0.143)	(0.008)	(0.009)
Leverage		−1.527***	−1.254***	−0.064***	−0.047***
		(0.151)	(0.165)	(0.009)	(0.009)
Cash		−0.000	−0.000*	0.000***	0.000***
		(0.000)	(0.000)	(0.000)	(0.000)
Assets		0.181*	0.005	0.055***	0.026***
		(0.107)	(0.125)	(0.007)	(0.007)
Growth		−0.005	−0.005	−0.000	−0.000**
		(0.004)	(0.004)	(0.000)	(0.000)
SOE		0.497***	0.655***	0.042***	0.046***
		(0.054)	(0.060)	(0.005)	(0.005)
Tobinq		−0.129***	−0.184***	0.005***	0.000
		(0.037)	(0.042)	(0.002)	(0.002)
Firm age		0.012**	−0.001	0.000	0.000
		(0.005)	(0.006)	(0.000)	(0.000)
Industry fixed effects	No	No	Yes	No	Yes
Year fixed effects	No	No	Yes	No	Yes
Constant	−1.832***	−29.416***	−31.633***	−2.429***	−2.515***
	(0.023)	(0.749)	(0.940)	(0.063)	(0.083)
N	18,250	18,250	18,210	18,250	18,250
r2_a/ Pseudo R2	0.001	0.285	0.305	0.256	0.268

B. Motivation of Politically Affiliated Companies to Participate in CSR Activities

We propose that companies with political connections will receive greater financing returns when participating in CSR activities than companies without political connections. Therefore, conditional on whether the company has a political connection, we examine whether the political connection is related to the financing return obtained by the company. We estimate Eq. (2) and report the results in Table V. Moreover, we estimate model (2) to test whether firms with political connections are rewarded more in doing CSR activities.

We begin this analysis by regressing long-term debt financing (loan_long) on a dummy variable indicating whether the company has a greater CSR performance (CSR score is greater than 90 percent). In our regression, we controlled variables consistent with the last regression, and added industry and year fixed effects. Our regression model is as follow:

$$\text{Loan\_long}=\beta_0+\beta_1\text{dummycsr}+\beta_j\,(\text{controls})+\varepsilon \qquad (2)$$

In Table V, model 1 is the regression analysis of the full sample size, model 2 and model 3 are the samples of companies with political connections and the samples of companies without political connections, respectively. The statistically significant β_1 is consistent with the hypothesis that the ability of long-term debt financing will be increased if firms engage in more CSR activities. Furthermore, in the politically-related sample model 2, the coefficient of β_1 is larger, which indicates that the firms with political connections can acquire more rewards for participating in CSR activities.

TABLE V: THE POSITIVE INFLUENCE ON DEBT FINANCING OF POLITICAL CONNECTION ON CSR PERFORMANCE

	(1)	(2)	(3)
	Full sample	POL	NPOL
VARIABLES	loan_long	loan_long	loan_long
DummyCSR	0.019**	0.037*	0.017*
	(0.009)	(0.022)	(0.009)
ROA	−0.155*	−0.006	−0.176*
	(0.092)	(0.051)	(0.102)
Size	0.057	0.001	0.065
	(0.044)	(0.012)	(0.050)
Leverage	0.027	0.014	0.026
	(0.034)	(0.045)	(0.036)
Cash	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)
Assets	−0.062	−0.016	−0.068
	(0.042)	(0.015)	(0.048)
Growth	0.000*	−0.000	0.000*
	(0.000)	(0.000)	(0.000)
SOE	−0.005	−0.004	−0.006
	(0.008)	(0.007)	(0.009)
Tobinq	0.002	0.004	0.001
	(0.007)	(0.004)	(0.008)
Firm age	0.001*	−0.000	0.001*
	(0.001)	(0.001)	(0.001)
Industry fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Constant	0.077	0.287	0.032
	(0.097)	(0.197)	(0.107)
N	18,250	2,756	15,494
R-squared	0.016	0.021	0.017
r2_a	0.0140	0.00744	0.0145

C. The Impact of Political Demand on the Effect of Political Connection on CSR

1) NSOEs' political connection has a greater positive influence on corporate social responsibility than SOEs

In emerging market countries like China, the survival and development of enterprises are highly dependent on government resources, and enterprises rely on the government to survive. State-owned enterprises and private enterprises have two types of different ownership systems. Government resources tend to be invested in state-owned enterprises, while private enterprises receive fewer resources. Private enterprises are more willing to exchange resources with the government than state-owned enterprises. Through the analysis of previous studies, market competition does not have a serious impact on state-owned enterprises, and state-owned enterprise managers have no urgent reasons for efficient or socially beneficial investments (Jiang *et al*., 2014; Talukdar and Meisner, 2001). Non-state-owned enterprises (NSOEs) are perceived to have a higher demand for political connections and will be more likely to increase CSR activities after politician turnover occurs (Lin *et al.*, 2015). We defined firms with government or government-controlled banks as their ultimate owners as SOEs. No the contrary, firms controlled by nongovernmental institutions or individuals are categorized as NSOEs.

In order to test whether our results are different between state-owned enterprises and non-state-owned enterprises, we divide the sample according to whether a company is a state-owned enterprise, and then re-analyze regression 1). We define a state-owned enterprise as a company whose ultimate controlling owner is the government. The results, displayed in Table VI, The coefficient of β_1 is significantly positive in the four models. According to the size of the coefficient, we can see that political connections in non-state-owned enterprises have a greater impact on corporate social responsibility.

TABLE VI: NSOEs' Political Connection Has a Greater Positive Influence on Corporate Social Responsibility Than SOEs

	(1)	(2)	(3)	(4)
	NSOE	SOE	NSOE	SOE
VARIABLES	DummyCSR	DummyCSR	DummyCSR	DummyCSR
Pol	0.433***	0.421***	0.335***	0.221**
	(0.085)	(0.086)	(0.098)	(0.101)
ROA			1.163*	0.076
			(0.609)	(0.636)
Size			1.121***	1.392***
			(0.249)	(0.159)
Leverage			−1.103***	−1.442***
			(0.259)	(0.227)
Cash			0.000**	−0.000***
			(0.000)	(0.000)
Assets			0.123	−0.064
			(0.224)	(0.134)
Growth			−0.006	−0.054
			(0.004)	(0.079)
Tobinq			−0.138**	−0.226***
			(0.062)	(0.056)
Firm age			0.006	−0.013
			(0.008)	(0.008)
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Constant	−1.944***	−3.902***	−30.727***	−32.986***
	(0.371)	(1.021)	(1.564)	(1.538)
N	9,868	8,283	9,868	8,283
Pseudo R2	0.073	0.093	0.247	0.311

2) High-polluting industry political connection has a greater positive influence on corporate social responsibility than low-polluting industry

As business ethics scandals and environmental pollution have received more attention in recent years, the Chinese public has also become interested in whether the government pays attention to corporate social responsibility issues. Companies in highly polluting industries are under intense scrutiny by regulators. Therefore, they have a greater demand for CSR activities (Young and Marais, 2012). Persistent and well-known air pollution in major Chinese cities has generated ongoing CSR awareness and demand in China (Li *et al.*, 2017).

Chen *et al.*, 2018 defined high-polluting industries as a dummy variable equal to 1 if the company is in the most polluting industries as of 2008, and 0 otherwise. The most polluting industries, classified by the Environmental Protection Administration in China, include the following: 1) metallurgical, 2) chemical, 3) petrochemical, 4) coal, 5) thermal power, 6) building materials, 7) paper, 8) brewing, 9) pharmaceutical, 10) fermentation, 11) textiles, 12) leather, and 13) mining industries. Companies in high-pollution industries are subject to strict scrutiny by regulatory agencies. So they have greater demand for CSR activities (Young and Marais, 2012). The regression formula is the same as 1), divided into four different samples.

Table VII presents the results of our regressions. The results of Model (1) and (2) show that among non-state-owned industries, high-polluting industries have greater demands for establishing political connections and fulfilling social responsibilities. Models (3) and (4) are high-pollution companies and low-pollution companies in

state-owned enterprises. It can be seen that whether the company is in a high-pollution industry in state-owned enterprises has no effect on whether it performs CSR or not.

TABLE VII: NSOEs' POLITICAL CONNECTION HAS A GREATER POSITIVE INFLUENCE ON CORPORATE SOCIAL RESPONSIBILITY THAN SOEs

	(1)	(2)	(3)	(4)
	HighPollution&NSOE	LowPollution&NSOE	HighPollution&SOE	LowPollution&SOE
VARIABLES	DummyCSR	DummyCSR	DummyCSR	DummyCSR
Pol	0.474**	0.275**	−0.078	0.333***
	(0.194)	(0.116)	(0.250)	(0.113)
ROA	5.029***	0.916	−1.260	1.093
	(1.573)	(0.665)	(1.171)	(0.826)
Size	1.420*	1.540***	1.466***	1.711***
	(0.786)	(0.347)	(0.375)	(0.341)
Leverage	−1.192**	−0.931***	−2.076***	−1.172***
	(0.556)	(0.303)	(0.466)	(0.279)
Cash	0.000	0.000**	−0.000***	−0.000***
	(0.000)	(0.000)	(0.000)	(0.000)
Assets	−0.514	−0.102	−0.122	−0.305
	(0.729)	(0.338)	(0.349)	(0.329)
Growth	−0.188	−0.004**	−0.104	−0.056
	(0.183)	(0.002)	(0.078)	(0.099)
Tobinq	−0.795***	−0.172**	−0.546***	−0.249**
	(0.278)	(0.082)	(0.156)	(0.109)
Firm age	−0.006	0.013	−0.083***	0.003
	(0.017)	(0.010)	(0.021)	(0.009)
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Constant	−21.995***	−35.860***	−28.785***	−35.577***
	(3.947)	(1.970)	(2.127)	(1.835)
N	2,241	7,878	2,312	6,076
Pseudo R2	0.1809	0.3156	0.3286	0.3284

3) Small firms' political connection has a greater positive influence on corporate social responsibility than large firms

Cull and Xu, 2005 stated that compared with large companies, small companies are more susceptible to government intervention, and therefore have more urgent connections with the government. This section checks whether our results differ under different company sizes. We propose that small companies with political connections have greater demands for political connections. Therefore, conditional on whether the company is a small company, we examine whether the company size is related to the company's demands for political connections. Firms with total assets above the 75 percentile of the sample are categorized as Large Firm, under the 25 percentile as Small Firm.

We expect that the impact of political connections on CSR is more pronounced in companies with stronger political appeals. According to the Table VI, we conclude that this correlation is more significant in private enterprises, so we group private enterprises by enterprise size. Two significantly positive β_1 indicate that under the two different samples, the company has a demand for political connections. At the same time, compared with large companies, small companies have greater demands.

In the meantime, we explore whether the financing constraints of companies with political connections are different from the financing constraints of companies without political connections under a sample of small private companies. The dependent variable is the KZ index. We begin this analysis by regressing the KZ indicator on a dummy CSR. The calculation method of the KZ index is borrowed from the construct a four-variable version of the Kaplan-Zingales measure (Baker *et al*., 2003). A higher value of KZ_index suggests that the firm has more capital constrain. Specifically, our regression model is as follows:

$$KZ=\beta_0+\beta_1 dummycsr+ \beta_j (controls) +\varepsilon \quad (3)$$

Table VIII presents the results of our regressions, among small private companies, compared with companies that are not politically connected, companies with political connections can obtain greater financial constraint returns from participating in CSR activities, that is, their financing constraints are smaller.

TABLE VIII: SMALL FIRMS' POLITICAL CONNECTION HAS A GREATER POSITIVE INFLUENCE ON CORPORATE SOCIAL RESPONSIBILITY THAN LARGE FIRMS

	(1)	(2)	(3)	(4)
	SmallFirm&NSOE	LargeFirm&NSOE	SmallFirm&POL&NSOE	SmallFirm&NPOL&NSOE
VARIABLES	DummyCSR	DummyCSR	kz	kz
Pol	0.827***	0.210		
	(0.278)	(0.152)		
DummyCSR			−0.382**	−0.341**
			(0.156)	(0.155)
ROA	7.822***	1.488*	−8.091***	−5.128***

	(1.915)	(0.849)	(1.463)	(0.469)
Leverage	−0.396	−2.061***	3.793***	4.057***
	(0.648)	(0.450)	(0.287)	(0.093)
Cash	−0.000*	0.000**	−0.000***	−0.000***
	(0.000)	(0.000)	(0.000)	(0.000)
Assets	1.976***	1.164***	0.281***	0.199***
	(0.436)	(0.107)	(0.085)	(0.044)
Growth	−0.110	−0.005*	0.009	−0.001
	(0.106)	(0.003)	(0.088)	(0.001)
Tobinq	0.011	0.069*	−0.006	0.003
	(0.152)	(0.036)	(0.018)	(0.011)
Firm age	0.051**	−0.025**	0.014**	0.016***
	(0.022)	(0.012)	(0.006)	(0.003)
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Constant	−46.588***	−27.051***	−6.109***	−4.806***
	(9.897)	(2.450)	(1.652)	(0.907)
N	2,297	1,997	636	2,491
Pseudo R2	0.154	0.251	0.771	0.812

4) Robustness test

In this section, we perform several robustness tests to examine the validity of our main finding by using different two measurement methods to measure CSR performance on firms. Table IX shows the results of robustness checks. In both model (1) and model (2), the dependent variable is the natural logarithm of CSR plus 1 (ln (CSR + 1)) (Lin *et al*. 2015). In both model (3) and model (4), the dependent variable is a dummy (dumcsr), dumcsr = 1 indicates CSR disclosure; dumcsr = 0 indicates non-disclosure (Chen, 2018)). The results show that β_1 in the four models is significantly positive, indicating that political connections do have a positive effect on CSR.

TABLE IX: ROBUSTNESS TEST

	(1)	(2)	(3)	(4)
VARIABLES	LnCSR	LnCSR	DumCSR	DumCSR
Pol	0.253***	0.239***	0.155***	0.198***
	(0.071)	(0.062)	(0.044)	(0.052)
ROA		−0.088		0.627**
		(0.304)		(0.308)
Size		1.721***		1.081***
		(0.081)		(0.112)
Leverage		−0.858***		−1.246***
		(0.097)		(0.123)
Cash		0.000***		−0.000
		(0.000)		(0.000)
Assets		−0.124**		0.173*
		(0.063)		(0.104)
Growth		−0.000**		−0.005*
		(0.000)		(0.003)
SOE		0.724***		0.574***
		(0.053)		(0.045)
Tobinq		−0.113***		−0.095***
		(0.017)		(0.030)
Firm age		0.014***		0.008**
		(0.005)		(0.004)
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Constant	2.510***	−31.496***	−1.491***	−30.211***
	(0.427)	(0.709)	(0.210)	(0.773)
N	18,250	18,250	18,210	18,210
r2_a/Pseudo R2	0.0520	0.299	0.036	0.247

V. CONCLUSION

In this study, we looked at the role of political associations in corporate CSR performance. Using a sample of all companies disclosing CSR in China between 2008 and 2017, we provide evidence of politically relevant incentives for companies to participate in CSR activities. In addition, our results show that non-state-owned enterprises showed this positive effect more clearly than state-owned enterprises.

We found that several other methods were robust, firm fixed effect models and weighted least squares. Importantly, we found that endogenous problems are carefully addressed based on alternative research designs. We further studied whether financing constraints are also the reason for encouraging enterprises to participate in CSR activities, and the results show that in small private enterprises, the participation of companies in CSR activities will reduce financing constraints and the effect of political association is

more obvious.

Inevitably, there are some limitations in this paper, reflected in the following points. First of all, the Pol index of this paper is to measure the political association mainly refers to the general manager of the enterprise has been or is currently a government official, military officials, deputies to the National People's Congress, Chinese People's Political Consultative Conference (CPPCC) members, etc., defining the virtual variable of enterprise political association Pol equals 1 to indicate that the CEO of the enterprise has been or is currently at or above the deputy level of government officials, military officials, deputies to the National People's Congress, CPPCC members, etc., otherwise 0 ignores the hidden political ties. There are other ways to calculate such as scale. This ratio is the sum of the political association supervisor in charge, the national association supervisor in charge and the local association supervisor in charge (Boubakri *et al*., 2008; Deng and Zeng, 2009; Qiu and Xu, 2015).

Overall, this study provides valuable insights for policymakers in emerging markets where corporate social behavior practices are relatively low. Specifically, our findings suggest that political connections have an impact on corporate social responsibility, and that government returns on corporate involvement in CSR activities vary depending on the political connection. At the same time, the impact of political associations on CSR will vary from company to company, with private companies being more affected than co-owned enterprises.

On the basis of the above-mentioned research, this paper gets the following policy inspiration:

The government has a lot of scarce resources and preferential subsidy policies, enterprises and the government to establish political ties, enhance the government's recognition of enterprises can get more government support. Enterprises have political connections, the greater the pressure of public opinion orientation, so as to promote the precise poverty alleviation, environmental protection, charitable donations and other social responsibilities. The higher the level of corporate social responsibility, the more can establish a good corporate image to increase transparency, the more public and government recognition, and then get more government support. Government subsidies to enterprises with high levels of social responsibility can promote the accumulation of funds, enhance production efficiency, encourage the production of public goods, improve employment rate, so as to enhance the ability of enterprises to actively fulfill social responsibility.

We also suggest the following avenues for future research.

1) Distinguish between different types of political connections and discuss the impact of different types of political connections on corporate CSR performance.

2) Establish more comprehensive and objective indicators to measure the performance of corporate social responsibility.

3) Add more metrics to measure the returns that companies receive from participating in CSR activities from the government.

CONFLICT OF INTEREST

The author declares no conflict of interest.

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