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**Non-Profit Organizations as a Nexus between Government and Business in an Emerging Market: Evidence from Chinese Charities**

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## ABSTRACT

### **Research summary**

Non-profit organizations in emerging markets frequently have to manage relations with governments and for-profit firms. We advance a multi-stakeholder perspective and develop propositions about how the political ties of charities influence their success in raising funds from corporate donors. Evidence from 2,054 Chinese charities during 2005-2012 shows that organizational political ties, established through formal affiliation with the government, aid fundraising from corporate donors, whereas personal political ties, formed through personal political services of senior leaders of charities, have no such effect. The positive effect of government affiliation is relevant for both foreign and domestic donors, but stronger for domestic ones. These results highlight the differential impact and contingent value of political embeddedness for charities' ability to acquire resources from for-profit business, contributing to both stakeholder theory and the political embeddedness perspective.

### **Managerial summary**

Non-profit organizations have to maintain productive relations with multiple stakeholders, including government and business. We focus on Chinese charities that seek to raise funds to fulfill their mission. We identify how their political relations influence the behavior of corporate donors. Evidence from 2,054 charities from 2005-2012 shows that political ties formed through organizational affiliation with a political body help charities attract corporate donors that seek legitimacy. In contrast, ties formed through personal connections with politicians have less influence on donors who perceive a high risk of connected insiders engaging in activities of dubious legality. The value of political ties is more pronounced for domestic corporate donors.

**Key words:** charities, stakeholders, political ties, corporate donations, emerging markets

## INTRODUCTION

*“At the beginning, we were very naive and never thought about the misappropriation problem of our donations to non-profits. However, we started to be aware of that and became skeptical... We hope they (non-profits) can be more professional and transparent.”*

Interviewed representative of a major Chinese corporate donor

The non-profit sector plays a crucial role in advancing economic and social development in emerging markets. As the United Nations Development Programme (2015) notes, philanthropy requires collaboration between non-profit organizations, business, and government. Non-profit organizations—such as charities—rely on governments to regulate, and to provide legitimacy. Meanwhile, charities depend on funding from for-profit firms to deliver civic services. How to manage their relationships with multiple stakeholders is complicated for non-profit organizations because they lack the focus on profit maximization that can aid in prioritizing stakeholders’ claims for corporations (DiMaggio and Anheier, 1990; Sundaram and Inkpen, 2004).

The challenge is to understand how charities maintain productive relations simultaneously with the government and for-profit donors. Close ties to governments in emerging markets help organizations navigate uncertainty and access resources (Haveman *et al.*, 2017). Nevertheless, political ties are not unambiguously beneficial, because politicians may extract much of the value that they help generate (Shleifer and Vishny, 1994) in markets lacking adequate governance (Sun, Hu, and Hillman, 2016). Further, organizations’ relationships with one group of stakeholders can influence their relations with other groups (Rowley, 1997). Thus, politically connected charities might attract corporate donors who seek political legitimacy but could also risk losing donations from for-profit firms who worry about politicians misappropriating funds. Non-profits must tread carefully to address the expectations of both government and business.

We take up the above challenge in examining the nexus of non-profit organizations, for-

profit business, and government. We ask: under what conditions are political ties beneficial for non-profits' resource acquisition from business? We engage and extend two streams of literature: stakeholder theory and theories of embeddedness. Stakeholder theory acknowledges that relations with one stakeholder group can influence relations with others (Donaldson and Preston, 1995). Theories of embeddedness highlight the opportunities and constraints provided by boundary-spanning relationships (Granovetter, 1985; Uzzi, 1997). Political embeddedness, defined as "bureaucratic, instrumental, or affective ties to the state and its actors" (Michelson, 2007: 352), is especially pertinent in emerging markets due to the frequent intervention of political actors and weak monitoring in these markets. Our contingency perspective recognizes that not all political ties are equally effective in facilitating charities' relations with business and that not all corporate donors are alike. Specifically, we distinguish political ties formed through government affiliation (organizational embeddedness) from those arising out of senior leaders' personal political service (personal embeddedness). Similarly, we delineate how different donors evaluate charities' political ties based on their own needs for political legitimacy.

We examine these relationships using panel data on 2,054 Chinese charities over the period from 2005 to 2012. Our findings highlight the differential impacts of organizational and personal embeddedness for charities' ability to acquire resources from for-profit business. The former, established through formal government affiliation, has a positive effect on corporate donations, whereas the latter, established through the position interlocks between charity leaders and politicians, has no such effect. The positive effect of government affiliation is relevant for both foreign and domestic donors, but stronger for domestic ones who expect to gain more. In illustrating our arguments, we also provide representative qualitative evidence from field data collected with the aim of shedding light on why firms donate to some charities rather than others

(see Appendix A).

We forge a link between stakeholder research and the management of non-profit organizations by integrating stakeholder theory and the political embeddedness perspective. We draw attention to the consequences of political ties for a focal organization by influencing the willingness of other stakeholders to provide resources. Therefore, our multi-stakeholder perspective adds to the under-researched area of the *indirect* consequences of political embeddedness. We also extend the political embeddedness perspective by highlighting that ties with the government (one essential stakeholder group) create both benefits and risks for charities in gaining resources from corporate donors (another essential stakeholder group), depending on the nature of the embeddedness as well as the needs of the resource providers.

## **THEORY AND HYPOTHESES**

Charities, like other organizations, must balance the interests and expectations of competing stakeholders (see Freeman, 2010; Mahoney and McGahan, 2007). Among these, corporate donors and the government are two critically important stakeholder groups. Charities in emerging markets depend heavily on business for funding (Ni and Zhan, 2017). At the same time, they depend on the government to regulate their activity and provide legitimacy (Ma, 2006). Balancing these competing interests may be more challenging for charities than for for-profit firms given that the latter usually have a single most important stakeholder group—shareholders—whose interests take priority (DiMaggio and Anheier, 1990; Sundaram and Inkpen, 2004). In the following section, we will develop theory on how relationships with the government create benefits and risks for charities' potential donors.

### **Political Embeddedness and Corporate Donations**

Political embeddedness refers to an organization's ongoing structural relations to the state and its actors (Michelson, 2007). These relations are simultaneously instrumental and affective as trust develops and favors are exchanged (Michelson, 2007). We provide an overview of research on political embeddedness in Table 1, distinguishing research on the for-profit and the non-profit space in developed and emerging markets.

\*\*\* Table 1 about here\*\*\*

A body of work examines the consequences of political ties for for-profit firms' success (Faccio, 2006). Benefits include obtaining market access (Agrawal and Knoeber, 2001), influence over regulation (Bonardi, Holburn, and Vanden Bergh, 2006), enhanced legitimacy (Hillman, Zardkoohi, and Bierman, 1999), and privileged access to state-controlled resources (Bertrand *et al.*, 2004; Goldman, Rocholl, and So, 2009) and to information (Lester *et al.*, 2008). Ties between organizations and political actors are found to have similar, yet greater, benefits in emerging markets (Puffer, McCarthy, and Peng, 2013) because political ties help fill the institutional void arising from the lack of market intermediaries (Luo and Chung, 2005; Okhmatovskiy, 2010; Peng and Luo, 2000). But, there are also costs of being politically connected. Political connections can subject firms to pressure to bestow favors on politicians (Bertrand *et al.*, 2004), to the misappropriation of value by blockholders (Sun *et al.*, 2016), and to government monitoring (Marquis and Qian, 2014).

Similarly, benefits and costs associated with political embeddedness also exist in non-profit organizations. As shown in Table 1, research indicates some benefits specific to the non-profit context, such as learning effects (Selsky and Parker, 2005) and policy advocacy as well as broadened service scope (Zhan and Tang, 2016). Moreover, the dynamics between non-profits and the state in emerging markets differ from those in developed markets. Supportive policies

(e.g., tax-exempt status, fiscal subsidies) to nurture the non-profit sector are usually lacking in emerging markets (Kim and Kim, 2015). The absence of policy support makes political connections particularly useful. However, the weak legal system and monitoring in these economies render disproportionately strong power to the state and political insiders, exposing politically connected non-profits to the risk of losing their independence (Selsky and Parker, 2005). Thus, the influence—both positive and negative—of the government may be stronger in emerging markets.

We seek to disentangle the potential positive and negative consequences of political embeddedness for non-profits' success in raising funds from business. We develop a theoretical framework and propose that ties with the government can help charities to raise funds from business. They do so by conferring political legitimacy to corporations that donate to approved causes. However, drawing on theories of embeddedness, we argue that political ties are not equally effective and that some potentially jeopardize charities' relationships with business. Further, drawing on stakeholder theory, we also argue that not all corporations will care equally about charities' political ties. Figure 1 summarizes our framework, which we detail below.

\*\*\* Figure 1 about here\*\*\*

#### *Political embeddedness signaling access to legitimacy*

Corporations are motivated to make charitable donations in pursuit of political legitimacy (Wang and Qian, 2011; Zhang, Marquis, and Qiao, 2016). Political legitimacy is conferred by state endorsement, which recognizes an organization's objectives as desirable and consistent with political values. It is a process whereby "government officials accept a venture as appropriate and right, given existing norms and laws" (Aldrich and Fiol, 1994: 648). Governments look favorably on charitable donations by corporations because they alleviate governmental resource



constraints and benefit society. For corporations, in turn, “legitimate status is a *sine qua non* for easy access to resources, unrestricted access to markets, and long term survival” (Brown, 1998: 35).

Relatively little is known, however, about whether corporations donate more to politically connected charities and to what extent political connections attract corporate funds. Plausibly, charities with political ties provide corporate donors with channels for building political legitimacy. Whilst political ties directly confer legitimacy to charities and to the causes they champion, this legitimacy can extend to donors who support the same charities. Donating in return for political legitimacy might be particularly prevalent in emerging markets where other means available for building political ties are limited (Peng and Luo, 2000). Thus, corporations sometimes advance their own interests by supporting legitimate organizations and legitimate causes. One senior executive we interviewed at a Chinese charity explained how political ties helped his charity attract corporate donations:

“(The reason why they make donations to us) is related to our government background. With the associated credibility, we have attracted many companies and individuals. It is (our charity’s) comparative advantage.”

#### *Political embeddedness as a liability*

At the same time, embeddedness may constrain the new relationships that an organization can form (Jiang *et al.*, 2017). A charity’s political ties can give rise to concerns and risks for donors. Concerns arise from politically connected insiders’ use of charitable giving for private gain. Political ties increase the chance of rent appropriation by dominant insiders. They may, for example, install unqualified cronies in the organization to reinforce their interests (Fan, Wong, and Zhang, 2007) or transfer away assets through self-dealing transactions (Sun *et al.*, 2016). Such risks from political connections may be particularly salient in emerging markets due to

weak governance and monitoring. Politicians in diverse emerging markets sometimes misuse philanthropic funds (HRW, 2007; Luo, 2006), leading to scandals (He and Liu, 2011).

Corporate donors can see their businesses harmed by negative spillovers from malfeasance even if they are uninvolved in the wrongdoing (Jonsson, Greve and Fujiwara-Greve, 2009). Stigma is contagious, so that the partners of organizations accused of wrongdoing are liable to suffer from social disapproval (Yu, Sengul, and Lester, 2008). Incidents of malfeasance may cause a charity's donors to lose legitimacy as well. Awareness of this risk may discourage donors and hurt well-connected charities. Firms reduce philanthropic giving when they fear that donations may be embezzled by corrupt politicians (Luo, 2006). Our field interviews with corporate donors confirmed this concern (as shown in the epigraph); their skepticism towards politically connected charities was marked.

Non-profits' political embeddedness can thus attract or hurt corporate donations. On balance, we contend that the potential benefits outweigh the risks. After all, emerging market governments enjoy wide discretion in allocating and regulating the use of state-controlled resources including government funding, legal protection, license approval, and preferential access to infrastructure and information. Seeking approval from the government and maintaining its goodwill are often of paramount importance for businesses (Li and Zhang, 2007; Peng and Luo, 2000). Corporate donors, through making donations to politically connected charities, may gain political legitimacy and therefore better access to resources. This legitimacy is valuable for firms operating in the face of heavy government intervention (Zhan and Tang, 2016), as in many emerging markets. In such contexts, political ties can minimize legal and social sanctions even if misconduct is revealed (Sun *et al.*, 2016). The benefits provided by political ties thus tend to outweigh the costs. We thus start with the baseline hypothesis that the fundraising benefits of

political ties will exceed the associated costs.

**Hypothesis 1 [H1].** Politically embedded charities will receive a higher volume of corporate donations than will charities without political ties.

Beyond the baseline prediction, we identify two contingencies that shape the effect of embeddedness on charities' fundraising performance, following our two overarching theories (political embeddedness perspective and stakeholder theory): the form of embeddedness and the identity of corporate donors, with which the benefits and liabilities of being embedded vary.

### **The Form of Embeddedness: Organizational vs. Personal Political Ties**

Not all forms of political embeddedness are equally appealing for donors, because ties created through different channels entail different costs and benefits (Zhang *et al.*, 2016; Zheng, Singh, and Mitchell, 2015). We distinguish organizational political embeddedness from personal political embeddedness. Organizational embeddedness exists when the ties between an organization and the state involve a formal government affiliation. Examples of such ties include government contracts and partnerships between the state and non-profits (Selsky and Parker, 2005). The state can even be directly involved in non-profits in emerging markets; non-profit organizations such as charities may be founded or co-founded by the government (Ni and Zhan, 2017; Zhang *et al.*, 2016).

In contrast, personal embeddedness is created by individuals taking positions in both organizational and political spheres (Hillman, 2005; Hite, 2003; Sun *et al.*, 2015). Thus, this form of political embeddedness is fundamentally personal in nature. Charitable organizations in emerging markets can be politically connected on a personal level by having current or retired politicians serving on their boards or management teams (Zhan and Tang, 2016). The distinction between organizational and personal political embeddedness is important because political ties

function differently when they are formalized at the organizational level versus when they are personal and dependent on individual actors (Sun *et al.*, 2015).

Organizational ties created by government affiliation provide greater benefits than personal ties. First, a formal and direct link to the government constitutes an official source of legitimacy and embeds the charity directly within political institutions (Okhmatovskiy, 2010). Next, organizational political ties have broader reach than personal ties in generating a wider network across various political agencies rather than the limited number of agencies to which any individual politician is linked. In addition, formal affiliation with the government implies continued support during crises and changes to the fate of individual politicians (Okhmatovskiy, 2010). In this way, organizational political ties are more resilient than personal ties during external shocks (Sun *et al.*, 2015). In contrast, political ties formed through individuals are narrower in their scope of influence and thus less likely to provide benefits. They are also less robust in the face of political change (Siegel, 2007). For example, a senior leader in a charity stressed in an interview with us that the mobility of politicians rendered personal political ties less valuable:

“The directors on our board with political backgrounds are mostly from XXX Committee (name hidden as requested). Their presence on the board represents their positions in this political committee. What matters to us (i.e. charities) is actually the political position rather than the individuals... The mobility of officials in XXX Committee (name hidden as requested) is high. If the person changes his/her work, his/her position in our charity will also be changed.”

Political insiders who misappropriate organizational assets at the cost of other stakeholders represent a high risk for donors. Political ties created by individuals pose greater risk than formal government affiliation. Personal political ties often involve a reciprocal exchange of favors (Park and Luo, 2001), which itself is inherently risky if community standards disapprove of bribery. Intensive interpersonal exchanges may lead to connected insiders seeking private gains.

Evidence from for-profit firms shows a negative effect of directors' political connections on financial performance (Hadani and Schuler, 2013). The pursuit of private gains weakens governance and dilutes firms' accountability. For example, politically connected CEOs appoint political allies to their boards rather than directors with business experience or professional backgrounds (Fan *et al.*, 2007). Connected insiders, particularly in weakly-regulated markets, such as Indonesia and China, engage in undisclosed related-party transactions benefiting themselves and their political cronies (Leuz and Oberholzer-Gee, 2006). Charities are unlikely to be immune to such goings-on. Misappropriation may be even more prevalent in the non-profit sector in emerging markets due to weaker governance and a lack of sophisticated watchdog organizations (Ma, 2006).

The risk of misappropriation through personal ties is heightened by the short tenure of politically connected individuals on charities' boards (Sheng, Zhou, and Li, 2011). Connected individuals may be more motivated to appropriate organizational assets for personal gain during a limited tenure (Shleifer and Vishny, 1994). Conversely, charities risk having "the wrong friends at the wrong time" if an individual politician falls out of favor (Siegel, 2007: 621). In contrast, organizational political ties that are less dependent on interpersonal attachment and exchanges (Sun *et al.*, 2015) are usually more stable over time. In sum, organizational political ties create greater benefits and lower risks for potential donors. Therefore, the net benefits for organizational ties are greater than that for personal ties. We propose:

**Hypothesis 2 [H2].** The relationship between political embeddedness and corporate donations received is stronger for charities with organizational political ties (organizational embeddedness) than for those with personal political ties (personal embeddedness).

### **The Identity of Donors: Foreign vs. Domestic Donors**

The stakeholder perspective highlights that any single stakeholder group consists of actors with different motivations and priorities (Bridoux and Stoelhorst, 2014). Therefore, it is important to take a more fine-tuned perspective by distinguishing different types of corporate donors, who differ in their perceptions of benefits and risks from engaging in philanthropy.

Both domestic and foreign firms seek legitimacy (Stevens, Xie, and Peng, 2016), but domestic donors usually perceive greater potential in politically connected charities because they depend more on domestic political entities. In contrast, multinational enterprises depend less on host country governments. Being multinational provides benefits such as the ability to access resources in different locations, to obtain information from multiple environments, and to spread risk (Dunning, 1993), all of which reduce dependence on any single host country government. Foreign firms thus have less incentive to donate to politically connected charities in search of endorsement. In any case, multinational firms typically enter overseas markets on the basis of proprietary advantages over domestic firms to compensate for the additional costs associated with doing business abroad (Caves, 1996; Hymer, 1960). They make primarily market-based, impersonal, transactions in a host economy, whereas domestic firms in emerging markets are accustomed to coordinating exchanges through their connections (Boisot and Child, 1996; Li, Poppo and Zhou, 2008; Peng, 2003). This makes foreign firms less likely to discern advantages in co-opting host country politicians through philanthropy. Research confirms that political ties are less valuable for foreign firms operating in countries such as China than for domestic players (Li *et al.*, 2008).

On the other hand, the perceived risks in a charity's political connectedness are higher for foreign donors. The non-profit sector in an emerging market offers little transparency, insufficient professionalism, and a lack of third party oversight (Zhan and Tang, 2016). The weak

governance regime creates greater information asymmetry for foreign donors, while domestic donors have superior access to information through their embedded social relations, including information related to misappropriation behavior. Added to this, multinational firms' reliance on market-based, rather than relationship-based, strategies (Peng, 2003) renders them less adept at preventing or dealing with reputational crises arising from misconduct by connected insiders. They may also worry about the consequences for their reputation at home by being seen to collaborate with organizations affiliated with a government that may itself lack legitimacy in the eyes of, for example, U.S. consumers (Stevens *et al.*, 2016). They thus perceive greater risk in dealing with politically connected charities and may be more circumspect in donating to them.

In sum, domestic firms will perceive greater benefits and less risk in politically connected charities than their foreign counterparts. Any positive relationship between political embeddedness and fundraising should thus be more pronounced when donors are domestic.

**Hypothesis 3a [H3a].** The relationship between political embeddedness and corporate donations received is stronger for domestic than for foreign corporate donors.

Moreover, in addition to making more donations, domestic corporations may be more discriminating than their foreign peers when it comes to assessing which politically connected charities are the most promising for them to donate to. By virtue of their local knowledge—especially of the local political context that may be less comprehensible to outsiders (Taussig and Delios, 2015)—they have a more informed understanding of which political ties are the most beneficial and the most durable. For one, domestic firms will have witnessed how policies fluctuate and politicians rise and fall. Being connected to a political institution provides shelter. If organizational political ties are perceived to provide greater influence and stability than personal political ties, charities with organizational ties may be prioritized when domestic firms

make donations. In contrast, foreign firms may be less discriminating and, thus, more likely to view different forms of political ties as equivalent. Therefore, we propose:

**Hypothesis 3b [H3b].** The positive moderating effect for attracting donations from domestic corporations (vis-à-vis foreign corporations) is stronger for charities with organizational political ties than for those with personal political ties.

Taken together then, our hypotheses imply that different forms of political embeddedness have differential effects on charities' success in raising funds from corporate donors. These effects are moderated by the identity of the donors (domestic or foreign).

## **METHODS**

### **Sample and Data**

China offers a suitable empirical context to examine different types of political embeddedness and stakeholder relationship management in non-profits. China is a leading emerging market, characterized by the absence, insufficiency, or poor enforcement of rules related to economic, political, or social institutions (Khanna and Palepu, 1997). Despite economic reform, state control over key resources such as land, bank loans, and permits continues. Politicians have long intervened in business and non-profits.

Our study focuses on philanthropic foundations in China, which are established with an endowment and are managed by their own trustees and directors. Each devotes philanthropic resources to a set of social issues. In China, the first philanthropic foundation was established in 1981, and foundations have since grown rapidly. There were over 6,000 philanthropic foundations in China at the end of 2017. Regulations support their development, including the *Regulation for the Management of Foundations (1988)* and the *Regulation on Foundation Administration (2014)* by the State Council, and a series of policies on registration, information



disclosure, and annual assessment of foundations by the Ministry of Civil Affairs<sup>1</sup>.

Generous corporate giving also explains the growth of these philanthropic foundations. Donations typically come from different sources in emerging markets than in economies with mature non-profit sectors. Corporate donations account for around two-thirds of charitable giving in China versus around 5% in the U.S. (Lin *et al.*, 2015). In recent years, in pursuit of legitimacy and social capital, Chinese corporations have been engaged in philanthropy in the context of national corporate social responsibility programs (Ni, Qian, and Crilly, 2014; Wang and Qian, 2011). Table 2 outlines the rapid growth in the number of foundations and volume of total donations during our study period<sup>2</sup>.

\*\*\* Table 2 about here\*\*\*

The independence of the non-profit sector is nonetheless constrained in many emerging markets (Selsky and Parker, 2005). In China, politically connected charities have been involved in numerous misappropriation scandals, and the most prominent scandals jeopardize the reputations of even well-governed politically connected charities (see Grant and Potoski, 2015, for a similar idea on how reputation can be contagious)<sup>3</sup>. Government-connected charities may be perceived skeptically as a result of concerns surrounding their lack of professionalism and effective governance (Zhan and Tang, 2016). Furthermore, external monitoring is weak (Ni and Zhan, 2017). Philanthropic foundations in China thus provide an intriguing research setting for exploring the complex relationships between non-profits, the state, and the private sector.

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<sup>1</sup> These regulations are intended to ensure the adequate governance of philanthropic foundations rather than directly to influence donation behavior. Our data extend to 2012, i.e. before the enactment of the *Regulation on Foundation Administration*.

<sup>2</sup> The fall in foreign donations from 2011 to 2012 was a result of the Guo Meimei scandal (Ni and Zhan, 2017).

<sup>3</sup> Infamous scandals include the Guo Meimei scandal involving alleged misappropriation of funds at the Chinese Red Cross in 2011 ([http://www.chinadaily.com.cn/opinion/2011-07/15/content\\_12912148.htm](http://www.chinadaily.com.cn/opinion/2011-07/15/content_12912148.htm)) and accusations of money laundering levied at the China Charities Aid Foundation for Children in the same year. (<http://www.ebeijing.gov.cn/BeijingInformation/BeijingNewsUpdate/t1291202.htm>).

Our data are compiled from the annual reports of Chinese philanthropic foundations from 2005 to 2012<sup>4</sup>. Table 2 shows that the sample represents about 83% of the population, rising to more than 90% in recent years as a result of increasing disclosure. Since 2004, the government has required philanthropic foundations to provide audited annual reports to the public. These reports include data on the founders, the backgrounds of key members as well as financial figures. Annual reports are often available from these foundations' websites. Otherwise, we accessed reports from government-affiliated websites such as those of China's Ministry of Civil Affairs and major provincial civil affairs bureaus. Information from the China Foundation Center (CFC), the most influential, independent non-profit which discloses information about philanthropic foundations in China, was also considered in order to maximize the number of useable annual reports. (For more details about the CFC, see Nie *et al.*, 2016.)

During our analysis period, some foundations were established and some may have left the sample, creating an unbalanced panel (Sayrs, 1989). A potential source of bias lies in the exit of foundations from our sample. If foundations exit because of poor fundraising performance, and politically embedded foundations are more (or less) likely to exit, an analysis based on the remaining foundations might be misleading. We therefore checked our sample for all cases of exit but identified only several. We assessed whether foundations with higher level of political embeddedness were more likely to exit. Neither organizational nor personal political embeddedness predicted the likelihood of exit. This confirms that potential survivor bias is less of concern for our study. The final sample covered an unbalanced panel of 2,054 charities during the 2005 to 2012 period. All independent variables were lagged by one year in the analyses.

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<sup>4</sup> According to the Overseas NGO Law, foreign charities cannot accept donations in China. This makes our empirical context neater as we do not have to consider the choice that firms might otherwise face to donate to Chinese charities or to foreign charities operating in China.

## Measures

**Corporate donations received.** Our dependent variable is *total donations*, the sum of corporate donations received annually by a charity. The data were extracted from the philanthropic foundations' annual reports from 2005 to 2012<sup>5</sup>. To distinguish between foreign and domestic corporate donors, *total donations* was disaggregated into *donations from domestic firms* and *donations from foreign firms*. We took the logarithmic form of all three variables to reduce skewness. We also identified the ratio of corporate donations to total donations received, and we used this variable in our robustness analyses.

**Political embeddedness.** We assessed the background of each charity and its senior leadership team to identify political embeddedness. *Organizational political embeddedness* was coded "1" if the charity's founding members involved a political or quasi-political entity such as a Political Consultative Conference, a labor union, a women's federation, a federation of returned overseas Chinese, or any entity under the direct leadership of the Communist Party (Ni and Zhan, 2017). If no such entity was involved, *organizational political embeddedness* was coded "0". Following previous research in the corporate setting (Hillman *et al.*, 1999), a charity's *personal political embeddedness* was quantified as a count of positional interlocking ties between the charity and the political entities involving charity's senior leaders (e.g. Chairman, Vice-chairman, General-secretary) each year<sup>6</sup>. A tie was recorded if a charity's senior leader held or had previously held a senior position in a key unit of the government, the Communist Party, or one of China's two legislative bodies. Definitions of senior political positions are provided in Table 2 (Note c). Table

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<sup>5</sup> The reports distinguish donations from individual citizens from those from institutional donors and separately list the subsidy from the government (if any). The institutional donors are overwhelmingly corporate donors. This is in line with Zhang *et al.*'s (2016) assertion that corporations are dominant in institutional philanthropy in China.

<sup>6</sup> Government regulations started to forbid current or retired officials taking up leadership roles in non-profits in more recent years, for example, as shown in *The Notice of Regulating the Re-employment of Retired Officials to Part-time Positions in Social Groups* (article #11 by the Organization Department, CCCPC, 2014/06/25). This law was ratified after the end of our observation period in 2012.

2 also provides information on the charities' government affiliation and personal political ties for each of our sample years. The variable *political embeddedness* was created based on a charity's organizational and personal political embeddedness, taking the value of "1" if a charity is embedded in organizational or personal political relations, and "0" otherwise.

### **Control Variables**

We controlled for variables that potentially influence fundraising performance. We measured a foundation's *size* as the logarithm of its total assets at the end of the fiscal year (Ni and Zhan, 2017). *Age* was the number of years since establishment (Suárez, 2011). The variable *public qualification* indicated a charity had the right to conduct public fundraising. It was coded "1" for a foundation with such a right and "0" if it could only raise funds privately. Whether the charity served citizens nationwide or only locally was another control that influences fundraising (Suárez, 2011). A variable, *national*, was coded "1" if the charity served citizens nationwide, or "0" if local. Superior charity governance may attract donations (Harris, Petrovits, and Yetman 2015). Hence, we controlled for the *audit quality* based on whether a charity's auditor was from China's top 100 national accounting firms in that calendar year (Kitching, 2009). An annual ranking of China's top 100 reputable national accounting firms is published by the Chinese Institute of Certified Public Accountants. A variable *audit quality* was coded "1" if a charity's auditor was on the list, or "0" otherwise. Demonstrating professionalism could influence a charity's fundraising, so we created a *professionalization* index (ranging from 0 to 1) based on whether the charity had its own newsletter and website and the percentage of its personnel working full-time (Hwang and Powell, 2009). *Number of service domains* controlled for charities' scope of operation and was a count of the service domains a charity operated in<sup>7</sup>. In

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<sup>7</sup> Chinese charities operate in seven domains: (1) the arts, culture, and humanities, (2) education, (3) environment and animals, (4) health, (5) human services, (6) foreign affairs, and (7) public, societal benefits.

addition, *service domain dummies* were included to indicate the primary service domain.

*Fundraising expenses* was the logarithm of each charity's total fundraising expenses (Fischer, Wilsker, and Young, 2011). We also controlled for two alternative sources of funding for charities: funding from the government and from the general public. *Government subsidy* was the logarithm of subsidy provided by the government. Government subsidies may either attract or crowd out donations from firms (Brooks, 2000). *Public donations* recorded the sum (logged) of donations received from the general public. *Prior fundraising performance* was the sum of corporate donations received in the previous year.

Controls for economic and institutional influences included the value of *province GDP per capita* as well as provincial *institutional development*. The GDP data were collected from *China Statistical Yearbooks*. Provinces' institutional development was measured using the index of marketization in Chinese provinces published annually by the National Economic Research Institute, which has been widely used by management scholars (Fan, Wang, and Zhu, 2011; Wang and Qian, 2011). The index is available only to 2009, so following the approach of prior research (Sun *et al.*, 2016), we allowed for a longer lag in this variable to predict its effect on donations. For instance, donations received in 2012 are regressed on the corresponding marketization index in 2009<sup>8</sup>. Finally, a set of *year dummies* was created to control for trends.

### **Estimation Method**

Random-effects models for panel data are employed for estimation. One of our key independent variables – *organizational political embeddedness* – was time invariant, so fixed-effects estimations would have been inappropriate. Random effects models are also appropriate as our theoretical interest is in between-charity variance.

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<sup>8</sup> As an alternative, the values were extrapolated to fill in the missing two years. Results remained.

As political ties formed through charity leaders (*personal political embeddedness*) may not be randomly distributed among charities and since the factors leading to the formation of such ties may also be related to fundraising success, we adopted two-stage Heckman models (Heckman, 1979) to control for the establishment of personal political embeddedness. As a first step, we estimated a charity's propensity to establish political ties through its senior leaders using a probit regression including all the observable exogenous (control) variables and two additional unobservable variables. The two additional variables are (1) *Male ratio*, measured as the ratio of male leaders on board for each charity annually, and (2) *Leader age*, measured as the average age of board members for each charity annually. The gender of the senior leaders may influence the political participation of these individuals (Paxton and Hughes, 2015) and, in turn, the interlocking personal political ties of the charities. The age of firm leaders influences firm-level political strategy (Li, Meng, and Zhang, 2006; Jia, 2014).

The results (presented in Appendix B) show that charities with older leaders and fewer males on their boards are more likely to establish personal political ties. Neither variable had a significant relationship with the dependent variable. In addition, larger and more professional charities, charities that served their local communities, operated in more service domains, and received more government subsidies and lower amounts of public donations were more likely to establish political ties through their senior leaders. As a second step, we included the inverse Mill's ratio obtained from the first stage regression in the main models.

## **RESULTS**

We report in Table 3 descriptive statistics of our sample firms and the pair-wise correlations between the variables in our models. The independent variables were only moderately correlated with an average VIF (variance inflation factor) score of 1.76 for the final model. No item scored

higher than 5 (the highest score was 4.76), well below the generally accepted threshold of 10.

\*\*\* Table 3 about here \*\*\*

Table 4 presents the results of the random-effects GLS regressions. The dependent variable in models 1–3 is the total volume of corporate donations (logged). In models 4–6, it is the volume of donations from foreign firms (logged), and in models 7–9 it is the volume of donations from domestic firms (logged). Model 1 predicting total corporate donations is the baseline model, containing all control variables. Large and younger charities, charities with national scope, high levels of professionalization and spending on fundraising attracted more corporate donations. Models 4 and 7 are baseline models predicting donations from foreign firms and domestic firms, respectively. Results for these two dependent variables are largely consistent with those in Model 1. Charities with higher audit quality attracted more donations from foreign firms but not from domestic firms, suggesting that foreign corporations pay attention to formal signals of governance (rather than discriminate between the forms of charities' political ties).

\*\*\* Table 4 about here \*\*\*

Model 2 adds *political embeddedness* to test Hypothesis 1. As predicted, political embeddedness is positively associated with total corporate donations ( $b = 1.13, p = 0.000$ ). A change in *political embeddedness* from 0 to 1 is associated with 1.13 unit of change in total corporate donations (logged), holding other variables constant. This means that charities with political ties received US\$3.09 million more in corporate donations than their unconnected peers<sup>9</sup>. The plotted marginal effect (Figure (a) in Appendix C) confirms this result. Hypothesis 1 is supported.

Model 3 tests Hypothesis 2 that distinguishes between *organizational political*

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<sup>9</sup>  $\text{Exp}(1.13) = 3.09$

*embeddedness* and *personal political embeddedness*. While *organizational political embeddedness* has a positive effect ( $b = 1.16, p = 0.000$ ), *personal political embeddedness* has no discernible effect on corporate donations received and the sign is negative ( $b = -0.02, p = 0.713$ ). A change from 0 to 1 in *organizational political embeddedness* is associated with 1.16 unit of change in total corporate donations (logged), holding other variables constant. This means that charities embedded in organizational political ties received US\$3.19 million more in corporate donations than peers without such embeddedness<sup>10</sup>. A test shows that the two coefficients are statistically different ( $p < 0.001$ ), supporting Hypothesis 2 that political ties at the organizational level have a stronger positive impact on fundraising performance than do ties at the individual level. The overall positive effect of political embeddedness is driven by ties at the organizational level rather than personal level, confirming the value in disaggregating political ties.

Hypotheses 3a and 3b distinguish between foreign (models 5 and 6) and domestic (models 8 and 9) corporate donors. Hypothesis 3a predicts that the positive effect of political embeddedness will be stronger for domestic donors due to their greater dependence on the government. The coefficients for *political embeddedness* in Model 5 ( $b = 0.44, p = 0.002$ ) and Model 8 ( $b = 1.21, p = 0.000$ ) show a positive impact of *political embeddedness* for both donor types. Specifically, charities with political ties received US\$1.55 million more from foreign corporate donors and US\$3.35 million more from domestic corporate donors, relative to peers without political ties, holding all other variables constant<sup>11</sup>. A test reveals that these two coefficients are significantly different, providing support for Hypothesis 3a<sup>12</sup>. Our plots of marginal effects (Figures (b) and (c) in Appendix C) also confirm this result, further supporting Hypothesis 3a.

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<sup>10</sup>  $\text{Exp}(1.16) = 3.19$

<sup>11</sup>  $\text{Exp}(0.44) = 1.55; \text{Exp}(1.21) = 3.35$

<sup>12</sup> A seemingly unrelated regression (-SUEST-) was performed to compare the coefficients in the two different models, relying on pooled OLS regression clustering for foundations.



Models 6 and 9 distinguish the effects of both forms of embeddedness on donations from different donors. The positive effect of *organizational political embeddedness* is weaker for foreign corporate donors (Model 6:  $b = 0.53$ ,  $p = 0.001$ ) than for domestic donors (Model 9:  $b = 1.22$ ,  $p = 0.000$ ). Specifically, charities with organizational political ties received US\$1.70 million more from foreign corporate donors and US\$3.39 million more from domestic corporate donors, relative to peers without such ties, holding other variables constant<sup>13</sup>. Test statistics show a significant difference between the two coefficients, in support of Hypothesis 3b. *Personal political embeddedness* shows no significant relationship with either type of corporate donations. So, Hypothesis 3b was supported—political ties at the organizational level (but not the personal level) are more effective for attracting domestic donors than for foreign ones.

### **ROBUSTNESS ANALYSES**

We applied alternate modeling approaches and alternate measures of key variables to test the robustness of our findings. We estimated fixed-effects models without time-constant variables. The results for personal political embeddedness remained the same in models for all three dependent variables. Second, as an alternative to our Heckman's (1979) selection models, we employed an instrumental variable approach, estimating random-effects models using *male ratio* and *leader age* as instruments. The results were substantially the same. In addition, we replaced the absolute volume of corporate donations with the ratio of corporate donations to total donations as the dependent variable. Results were consistent with what we report above, providing even stronger support for our prediction that domestic donors are especially attracted to politically connected charities. Fourth, we repeated our analyses with the logarithmic transformation of the count of personal political ties, and the results remained. Finally, to check

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<sup>13</sup>  $\text{Exp}(0.53) = 1.70$ ;  $\text{Exp}(1.22) = 3.39$

for potential reverse causality, we regressed donations received in year  $t$  on the charities' two types of political ties in year  $t+1$ . No significant relationship was found.

## **DISCUSSION AND CONCLUSIONS**

Our research was motivated by the question of how charitable organizations manage one constituency (the government) to influence another constituency (corporate donors). Our study forges a link between scholarship on non-profit organizations and stakeholder management by studying the political embeddedness of these organizations. We make two central contributions. First, our study advances a multi-stakeholder view of organizations by viewing non-profits as a nexus between business and government, shifting the focus to conflicts and synergy among multiple stakeholders. Second, we contribute to the political embeddedness perspective by developing a contingency theory of political influence on non-profit organizations.

### **A Multi-stakeholder Perspective of Non-profit Organizations**

First, while few studies examine the mechanisms that aggravate or mitigate conflict between stakeholders (for exception, see Ni *et al.*, 2014; Tantalo and Priem, 2016), we make a unique contribution to stakeholder theory by advancing a multi-stakeholder perspective of non-profit organizations and conceiving of them as a nexus between business and government. Our study demonstrates that governments are important stakeholders for non-profit organizations, not only insofar as they directly enable and constrain organizational activity and performance. They also indirectly shape organizational success by influencing relations with other stakeholders such as corporate donors. In other words, it is insufficient to consider the relationship between non-profit organizations and the government in isolation. In advancing this perspective, we suggest that organizational success depends on the ability of the focal organization to create synergy across its diverse stakeholders, such as government and business.

The problem of having to manage conflicting stakeholder expectations is particularly salient for non-profits that typically have “more complex and varied constituencies” than for-profit firms (DiMaggio and Anheier, 1990: 150). Our results provide empirical support for synergy between two stakeholder groups in non-profits, but also highlight boundary conditions under which such synergy is hard to achieve. In a nutshell, ties to the government at the personal level expose non-profits to greater risk of value expropriation in the eyes of corporate donors. In addition, our multi-stakeholder perspective recognizes that not all donors are alike; how they evaluate charities’ political ties is shaped by their own needs for political legitimacy. While organizational success is more systematically linked to organizational embeddedness than personal embeddedness, the effect is stronger for domestic firms who stand to gain more from supporting legitimate causes. In contrast, foreign firms seem less able to discriminate between the forms of charities’ political ties.

Furthermore, the study’s focus on the dual mechanisms of political legitimacy and misappropriation risks helps clarify the major channels through which organizations create value—but potentially do not capture all that value—when trying to address the interests of multiple stakeholder groups. These findings allow us to engage and extend a conversation in exploring potential channels in creating synergy across different stakeholder groups (Ni *et al.*, 2014; Tantaló and Priem, 2016).

### **A Contingency Theory of Political Embeddedness and Non-profits**

Second, we develop a contingency theory of political influence on non-profits, distinguishing two forms of political embeddedness that have differential effects on organizational success. By delineating organizational political embeddedness and personal political embeddedness, we explain why not all political ties are equally valuable to non-profit organizations. Organizational

embeddedness, which arises through formal affiliation with the government, helps charities build relations with business because it offers corporate donors the opportunity to gain legitimacy. In contrast, we find no evidence that personal embeddedness, which arises through personal involvement of politicians in a charity, is of value to charities. Donors appear sensitive to the risk of political insiders appropriating donations for private gain. Furthermore, we highlight that the effect of political embeddedness on a charity's success depends on the identity of its corporate donors.

The distinction between organizational political embeddedness and personal political embeddedness matters because it helps to reconcile divergent scholarly findings on the benefits and liabilities of political ties in emerging markets (Peng and Luo, 2000). Organizational embeddedness accounts for many of the benefits that arise when corporate donors seek their own political legitimacy by donating to approved causes (Zhan and Tang, 2016). Personal embeddedness accounts for the risks that arise when politically connected insiders engage in value appropriation (Sun *et al.*, 2016). By combining both constructs, scholars are better able to predict when organizations will benefit from their political ties.

These findings for organizational and personal political embeddedness are not unique to China. Just as we discern potential negative effects from political ties in the Chinese context, Siegel (2007: 621) uncovers the “dark side of embeddedness” in South Korea following regime changes which alter the value of CEOs' personal connections. This recalls our finding that personal political embeddedness is not systematically related to fundraising success and that the lack of stability of personal relations may be a contributing factor. Reciprocal favors are relevant in China where *guanxi*—personalized networks of influence—involve two-way obligations. Yet, as Puffer and colleagues (2010) point out, similar personalized networks of influence exist in

countries as diverse as Brazil and Russia.

The distinction has particular importance for the strategy of non-profit organizations. When conducting their missions, non-profit organizations routinely have contact with governments, are subject to government-designed regulation and incentives, and rely on various forms of government support. It can be tempting to view political ties as a panacea in helping non-profits advance their goals. By responding to recent calls for a more fine-tuned delineation of organization-state relationships (Lester *et al.*, 2008; Zheng, Singh, and Chung., 2017), we suggest that caution is warranted. Some political connections offer a generally limited benefit. Ties created through government affiliation and through organization leaders differ in their strength, scope of influence and stability. As a result, they differ in their capacity to build legitimacy and possibly to access resources.

### **Practical and Policy Implications**

Our research findings have implications for practice. Non-profit managers should understand that although it often pays for charities to build political ties, other important stakeholders may not appreciate all forms of political ties. As different political ties are associated with distinct benefits and risks, charities must cultivate political ties strategically in order to attract donors and enhance their fundraising performance. They need to carefully evaluate potential donors' need for legitimacy and resource access, their fear of possible state intervention, and their intended social impact through making donations. Likewise, corporate managers need to evaluate the risks and gains associated with making donations to politically connected charities as part of their social responsibility and political strategies.

This study also has important implications for policymakers in emerging markets. Governments in these markets must tread a fine path between maintaining heavy control of non-

profits and actively harnessing the non-profits and businesses to solve social problems. How to balance the relations between non-profits and the government is an issue which policymakers in emerging markets will need to address as the non-profit sector continues to grow.

### **Future Research Directions and Limitations**

Though we studied non-profit organizations, our findings have potential implications for corporate political strategy and stakeholder management. The strategic use of philanthropy is valuable for cementing relationships with governments (Wang and Qian, 2011; Zhang *et al.*, 2016). Studies have tended to focus on support for specific causes or philanthropy following major disasters (Luo, Zhang, and Marquis, 2016; Muller and Kräussl, 2011; Tilcsik and Marquis, 2013). Here, the recipients are treated as uniform. Yet, charitable organizations differ enormously, and their heterogeneity influences corporate donors in selecting whom to support in pursuit of political legitimacy. We thus encourage explicit consideration of how heterogeneity in donation recipients (i.e. charities) influences the effectiveness of corporate political strategy.

Future studies could advance the insights of the present research through access to fine-grained data about corporate donors, their ownership, their industry affiliations, or their own political connections. For example, how do state-owned companies differ from privately-held companies in their donation behavior? Whilst our study theorizes about the benefits and risks associated with political ties and demonstrates consistent associations, it cannot conclusively demonstrate the exact mechanisms through which they operate. Doing so is a promising avenue for research. Future research may study aspects relating to *how* politically connected insiders expropriate value from a charitable organization. Demonstrating causality in this context is challenging while field experiments are becoming one approach to assess donation behavior.

While we take advantage of some unique contextual factors related to China, our research

responds to calls to deepen our understanding of contexts that shape organizational behavior across the globe. We encourage efforts to replicate this study in other contexts, including developed markets. Findings from emerging markets can shed light, under certain conditions, on happenings in developed markets. In mature economies, public trust in governments declined in recent decades (Prakash and Potoski, 2016). This decline in trust raises the interesting idea that studies about political relationships in emerging markets might even foreshadow some future trends in North America and Europe.

Finally, though our research context concerns non-profit organizations, the lessons have potential implications for for-profit business too. Political connections prove a dual-edged sword for corporations from a multi-stakeholder perspective. For example, evidence from Indonesia (Leuz and Oberholzer-Gee, 2006) suggests that political connections hindered politically connected firms from obtaining foreign financing as they were regarded with suspicion by lenders in more developed markets. Also, Chinese chipmaker Tsinghua Unigroup benefits from government loans to fund research, but its relationship to the national government caused consternation in the U.S. when it was reported to be making a bid for Intel (Carsten and Lee, 2015). There is scope to employ the multi-stakeholder perspective to analyze such cases.

## **Conclusion**

Non-profit organizations face the challenge of maintaining productive relations with multiple stakeholders, including government (which provides legitimacy and regulates conduct) and business (which provides financial resources). We advance a multi-stakeholder perspective that identifies how charities' political relations indirectly influence the behavior of corporate donors. Political ties formed through organizational affiliation with a political body (organizational political embeddedness) help charities attract corporate donors that seek legitimacy. In contrast,

ties formed through personal positional interlocks (individual political embeddedness) have less influence on donors who perceive a high risk of connected insiders engaging in activities of dubious legality. Our study represents a step in the direction of investigating stakeholder management in the nexus of non-profit organizations, for-profit business, and government.



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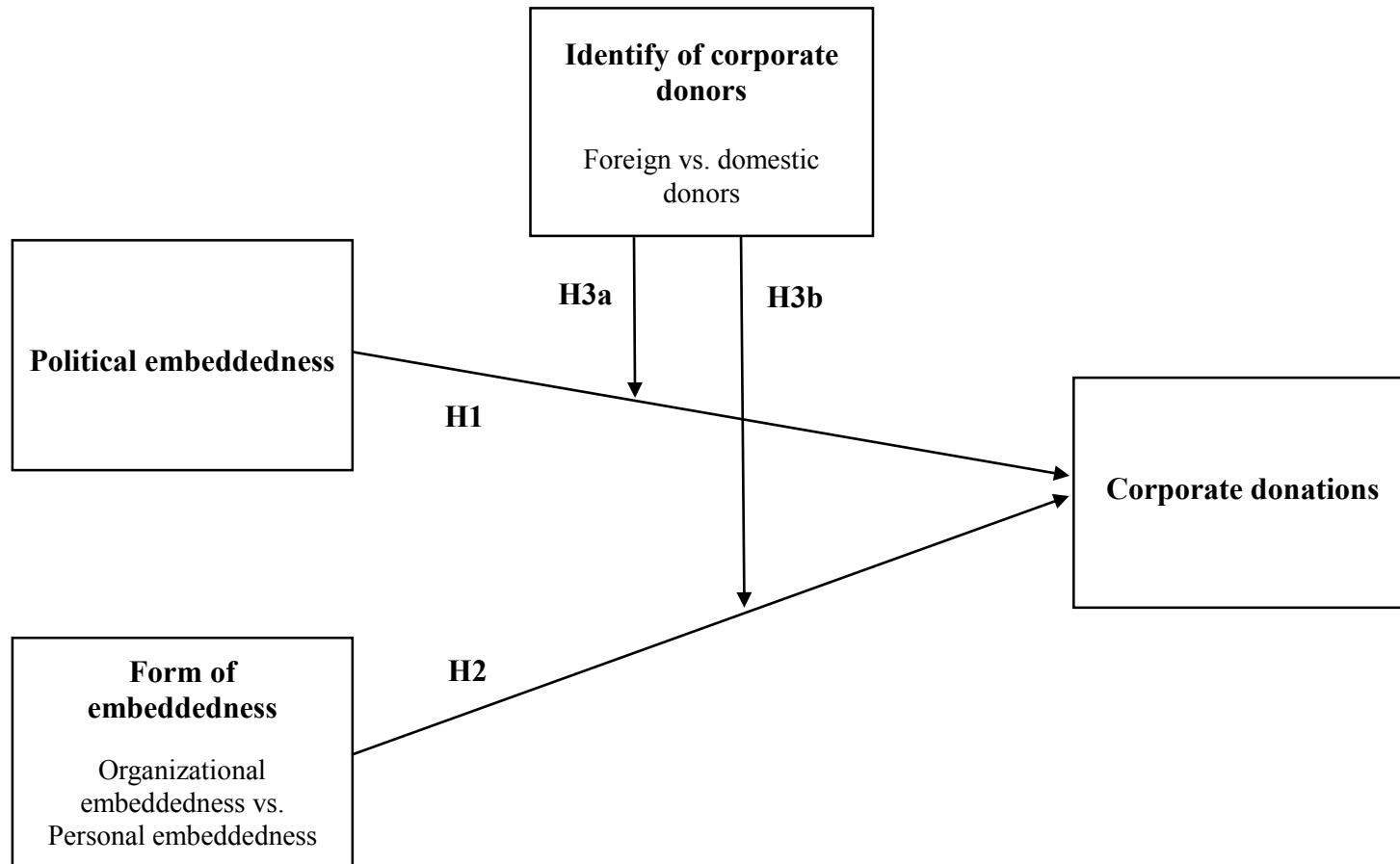
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**Figure 1. Framework of Political Embeddedness and Corporate Donations**



**Table 1. Organizational Consequences of Political Ties \***

	<b>For-profit firms</b>	<b>Non-profit organizations</b>
<b>Developed markets</b>	<ul style="list-style-type: none"> <li>▪ <b><u>Benefits:</u></b></li> <li>- <b>Market access</b> (Agrawal and Knoeber, 2001; Roy, 1981)</li> <li>- <b>Influence on regulations</b> (Bonardi <i>et al.</i>, 2006)</li> <li>- <b>Legitimacy</b> (Hillman <i>et al.</i>, 1999)</li> <li>- <b>Privileged access to resources</b> e.g. Subsidies (Bertrand <i>et al.</i>, 2004); Government contracts (Goldman <i>et al.</i>, 2009); Information (Lester <i>et al.</i>, 2008)</li> <li>▪ <b><u>Costs/ Risks:</u></b></li> <li>- <b>Alter business decisions to bestow favors on politicians</b> (Bertrand <i>et al.</i>, 2004)</li> <li>- <b>Increased information asymmetry between managers and shareholders</b> (Hadani and Schuler, 2013)</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b><u>Benefits:</u></b></li> <li>- <b>Privileged access to resources</b> (Lipsky and Smith, 1989)</li> <li>- <b>Learning effects</b> (Selsky and Parker, 2005)</li> <li>▪ <b><u>Costs/ Risks:</u></b></li> <li>- <b>Government intervention</b> (Beyers and Kerreman, 2012; Selsky and Parker, 2005)</li> <li>- <b>Used by government to affect society</b> (Rathgeb and Lipsky, 1993)</li> <li>- <b>Democracy and equality concerns</b> (Huxham and Vangen, 1996)</li> </ul>
<b>Emerging markets</b>	<ul style="list-style-type: none"> <li>▪ <b><u>Benefits:</u></b></li> <li>- <b>Market access</b> (Frynas, Mellahi, and Pigman, 2006; Malik and Kotabe, 2009; Zhu and Chung, 2014)</li> <li>- <b>Influence on regulations</b> (Gomez and Jomo, 1997; Zheng <i>et al.</i>, 2017)</li> <li>- <b>Legitimacy</b> (Marquis and Qian, 2014)</li> <li>- <b>Privileged access to resources</b> e.g. Access to credit (Haveman <i>et al.</i>, 2017; Khwaja &amp; Mian, 2005; Leuz and Oberholzer-Gee, 2006); Government contract (Johnson and Mitton, 2003)</li> <li>- <b>Filling institutional void as intermediaries</b> (Luo and Chung, 2005; Okhmatovskiy, 2010; Peng and Luo, 2000)</li> <li>▪ <b><u>Costs/ Risks:</u></b></li> <li>- <b>Government intervention</b> (Okhmatovskiy, 2010)</li> <li>- <b>Appropriation of firm wealth by blockholders</b> (Sun <i>et al.</i>, 2016)</li> <li>- <b>Closer monitoring by governments</b> (Marquis and Qian, 2014)</li> <li>- <b>Hinders growth during political change</b> (Siegel, 2007)</li> <li>- <b>Limits knowledge exchange with market actors</b> (Li, Xia, and Zajac, 2017)</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b><u>Benefits:</u></b></li> <li>- <b>Privileged access to resources</b> (Johnson and Ni, 2015; Ni and Zhan, 2017; Zhan and Tang, 2016)</li> <li>- <b>Policy advocacy and broadened service scope</b> (Zhan and Tang, 2016)</li> <li>▪ <b><u>Costs/ Risks:</u></b></li> <li>- <b>Legitimacy concerns</b> (Tortajada, 2016)</li> <li>- <b>Independence concerns</b> (Brinkerhoff, 1999)</li> </ul>

\* Cross-country studies (e.g., Faccio, 2006) are not included in this table.

**Table 2. Charitable Organizations in China, 2005-2012**

Year	Population of Charities <sup>a</sup>	# of Charities in the database (percentage of population)	Total corporate donations received <sup>b</sup> (percentage of total donation)	Donations from foreign firms <sup>b</sup>	Donations from domestic firms <sup>b</sup>	Government subsidy <sup>b</sup>	Charities affiliated with government	Charities with personal political ties <sup>c</sup>
2005	890	427 (48%)	204.34 (67.6%)	45.26	159.08	39.47	102	0
2006	1055	563 (53%)	357.78 (57.4%)	52.45	305.33	68.77	130	2
2007	1274	922 (72%)	634.2 (49.0%)	76.11	558.09	157.27	202	91
2008	1521	1218 (80%)	1203.68 (50.4%)	134.56	1069.12	237.02	253	124
2009	1815	1456 (80%)	1251.56 (54.9%)	163.12	1088.44	249.98	281	127
2010	2196	1762 (80%)	2285.02 (63.5%)	253.80	2031.22	277.02	335	191
2011	2592	2592 (100%)	2790.14 (65.7%)	303.80	2486.34	403.42	484	135
2012	3045	2989 (98%)	3315.09 (75.3%)	190.92	3124.17	524.17	541	233

Notes:

<sup>a</sup> Information source: the statistics are from *China Foundation Center*, as of 09/02/2017.

<sup>b</sup> In US\$ millions, converted from Renminbi using year-end exchange rates.

<sup>c</sup> Personal ties (i.e. personal political embeddedness) are created by senior leaders of the charities that took or had previously taken senior positions in:

(1) The government. Senior positions in the State Council of China consist of the premier, vice-premiers, councilors, ministers, the auditor-general, and the secretary-general. For ministries, commissions, and bureaus under the leadership of the State Council, senior positions include heads, deputy heads, and teams of principal officials.

(2) The Communist Party. Senior positions are limited to members in the Central Committee of the party or the equivalent committee at the provincial level.

(3) The National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC), the two legislative bodies in China. Senior positions include elected members in these two bodies or their equivalents at the provincial level.



**Table 3. Summary Statistics and Correlations**

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1 Total corporate donations (US\$ mil.)	1.000																			
2 Foreign corporate donations (US\$ mil.)	0.591	1.000																		
3 Domestic corporate donations (US\$ mil.)	0.954	0.322	1.000																	
4 Political embeddedness (dummy)	0.063	0.032	0.062	1.000																
5 Organizational political embeddedness (dummy)	0.010	-0.007	0.014	0.874	1.000															
6 Personal political embeddedness (#)	0.067	0.043	0.063	0.173	0.110	1.000														
7 Size (logged total assets)	0.322	0.150	0.322	0.098	0.092	0.130	1.000													
8 Age	0.103	0.068	0.096	0.117	0.120	0.103	0.278	1.000												
9 Public qualification (dummy)	0.045	0.002	0.052	0.158	0.173	0.087	0.266	0.399	1.000											
10 National	0.282	0.151	0.275	0.202	0.120	0.263	0.338	0.169	0.075	1.000										
11 Number of service domains	0.159	0.069	0.160	0.041	0.056	0.062	0.111	0.053	-0.131	0.229	1.000									
12 Audit quality (dummy)	0.119	0.064	0.116	0.050	0.023	0.084	0.148	0.084	-0.045	0.260	0.108	1.000								
13 Professionalization	0.167	0.091	0.162	0.115	0.142	0.137	0.240	0.208	0.113	0.280	0.220	0.097	1.000							
14 Fundraising expenditure (logged)	0.210	0.109	0.205	0.127	0.116	0.086	0.295	0.122	0.132	0.188	0.145	0.067	0.197	1.000						
15 Government subsidy (logged)	0.059	0.039	0.055	0.160	0.160	0.090	0.161	0.160	0.303	0.021	-0.062	-0.002	0.069	0.127	1.000					
16 Public donations (logged)	0.257	0.198	0.228	-0.012	-0.026	0.014	0.260	0.045	0.044	0.069	0.061	0.020	0.119	0.089	0.023	1.000				
17 Provincial GDP per capita	0.104	0.045	0.105	0.030	0.014	0.039	0.179	0.013	-0.173	0.267	0.074	0.171	-0.038	0.014	-0.044	0.010	1.000			
18 Institutional development	0.005	0.000	0.006	-0.090	-0.080	-0.028	0.142	-0.051	-0.111	-0.003	0.003	0.049	-0.040	-0.086	-0.045	0.048	0.651	1.000		
19 Male ratio	-0.016	-0.011	-0.015	0.015	0.020	0.015	0.066	-0.018	0.083	0.030	-0.164	0.006	-0.003	-0.017	0.065	-0.002	-0.068	-0.325	1.000	
20 Leader age	0.064	0.046	0.057	0.196	0.154	0.144	0.213	0.373	0.177	0.180	0.000	0.133	0.035	0.038	0.119	0.017	0.140	-0.285	0.218	1.000
Mean	1.59	0.18	1.41	0.41	0.19	0.11	16.02	7.98	0.49	0.08	1.49	0.11	0.35	1.89	1.85	6.25	4.91	8.92	0.79	52.30
S.D.	8.62	2.72	7.34	0.49	0.40	0.74	1.41	7.34	0.50	0.28	0.96	0.31	0.29	3.53	4.30	6.06	2.10	1.78	0.18	6.35
Min.	0	0	0	0	0	0	5.89	1	0	0	0	0	0	0	0	0	0.54	0.29	0	29
Max.	255.64	177.15	195.40	1	1	36	21.90	33	1	1	6	1	1	15.44	18.76	18.86	9.81	11.8	1	83

**Table 4. Random-Effects GLS Models with Heckman Selection: Political Embeddedness and Fundraising Performance of Chinese Charities, 2005-2012**

	DV: Total corporate donations (logged)			DV: Donations from foreign firm (logged)			DV: Donations from domestic firms (logged)		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		H1	H2		H3a	H3b		H3a	H3b
Political embeddedness		1.13 (0.000)			0.44 (0.002)			1.21 (0.000)	
Organizational political embeddedness			1.16 (0.000)			0.53 (0.001)			1.22 (0.000)
Personal political embeddedness			-0.02 (0.713)			0.07 (0.118)			-0.01 (0.914)
Size	0.16 (0.014)	0.11 (0.135)	0.11 (0.143)	0.26 (0.000)	0.22 (0.000)	0.22 (0.000)	0.15 (0.023)	0.11 (0.157)	0.10 (0.164)
Age	-0.02 (0.096)	-0.02 (0.064)	-0.02 (0.059)	0.02 (0.013)	0.02 (0.081)	0.02 (0.081)	-0.02 (0.035)	-0.03 (0.029)	-0.03 (0.026)
Public qualification	0.54 (0.003)	0.06 (0.787)	0.00 (0.985)	-0.17 (0.207)	-0.36 (0.024)	-0.42 (0.010)	0.55 (0.003)	0.03 (0.897)	-0.02 (0.916)
National	1.58 (0.000)	1.57 (0.000)	1.61 (0.000)	1.45 (0.000)	1.55 (0.000)	1.50 (0.000)	1.49 (0.000)	1.44 (0.000)	1.47 (0.000)
Service domains number	0.20 (0.214)	0.20 (0.241)	0.19 (0.257)	0.63 (0.000)	0.60 (0.000)	0.60 (0.000)	0.11 (0.518)	0.11 (0.516)	0.10 (0.543)
Audit quality	-0.25 (0.191)	-0.22 (0.257)	-0.22 (0.252)	0.26 (0.097)	0.28 (0.074)	0.28 (0.080)	-0.31 (0.110)	-0.27 (0.154)	-0.28 (0.149)
Professionalization	1.81 (0.000)	1.81 (0.000)	1.80 (0.000)	0.98 (0.000)	0.85 (0.002)	0.85 (0.002)	1.90 (0.000)	1.95 (0.000)	1.93 (0.000)
Fundraising expenditures	0.07 (0.000)	0.07 (0.000)	0.07 (0.000)	0.05 (0.009)	0.04 (0.016)	0.04 (0.016)	0.07 (0.001)	0.07 (0.001)	0.07 (0.001)
Government subsidy	-0.01 (0.408)	-0.02 (0.270)	-0.02 (0.246)	0.01 (0.577)	0.00 (0.840)	0.00 (0.897)	-0.01 (0.497)	-0.02 (0.360)	-0.02 (0.326)
Public donations	0.10 (0.000)	0.09 (0.000)	0.09 (0.000)	0.04 (0.000)	0.04 (0.000)	0.04 (0.000)	0.09 (0.000)	0.09 (0.000)	0.09 (0.000)
Prior fundraising performance	0.39 (0.000)	0.39 (0.000)	0.39 (0.000)	0.04 (0.000)	0.04 (0.000)	0.04 (0.000)	0.39 (0.000)	0.39 (0.000)	0.39 (0.000)
Provincial GDP per capita	0.15 (0.022)	0.14 (0.255)	0.11 (0.338)	0.02 (0.675)	-0.06 (0.563)	-0.06 (0.575)	0.17 (0.011)	0.18 (0.132)	0.16 (0.185)
Institutional development	-0.11 (0.027)	-0.09 (0.254)	-0.08 (0.307)	-0.12 (0.001)	-0.06 (0.367)	-0.06 (0.372)	-0.10 (0.042)	-0.10 (0.219)	-0.09 (0.269)
Inverse Mill's ratio		-0.08 (0.803)	-0.13 (0.674)		-0.28 (0.313)	-0.26 (0.342)		0.01 (0.983)	-0.05 (0.882)
Service domain dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.22 (0.846)	0.37 (0.759)	0.42 (0.733)	-3.90 (0.000)	-3.51 (0.000)	-3.51 (0.000)	0.02 (0.984)	0.05 (0.968)	0.10 (0.936)
Observations	6,607	6,607	6,607	6,607	6,607	6,607	6,607	6,607	6,607
Number of foundations	2,054	2,054	2,054	2,054	2,054	2,054	2,054	2,054	2,054
Wald chi2	3199***	3318***	3325***	232.5***	238.4***	241.5***	3002***	3144***	3146***

p-values in parentheses. \*\*\* p<0.001

## Appendix A. Field Data Collection Overview

In mid-2017, we collected field data to supplement our quantitative analysis. Our investigation involved 13 interviews as well as the collection of archival data. Specifically, we interviewed senior representatives from seven philanthropic foundations. In addition, we interviewed the representatives of one publicly listed company as a major corporate donor, three government officials and two industry experts. Interviews took place in either Beijing or Shenzhen, two important cities in China for politics, business, and the development of civil society.

The aim of the interviews was to gain deeper insight into our quantitative analysis and to ascertain how experts in the field would explain our theorizing and our findings (e.g. Kapiszewski, MacLean, and Read, 2015). Interviews were open-ended but centered on why foundations were able, or unable, to attract donations and why corporations would donate to a particular foundation rather than another. In Table Appendix A-1, we provide details of the foundations that were interviewed, outlining the variance in terms of their foundation and their political affiliation (if any).

**Table Appendix A-1. Foundation interviewees**

	Interview Hours	Interviewee Number	Founding Time	Initial Endowment	Org. Type	Registration Level	Founders' Backgrounds	Interviewees' Positions
<b>Foundation #1</b>	2	2	1988/06	9.95 million RMB	Public	Provincial	Government	General secretary & Vice General secretary
<b>Foundation #2</b>	1	1	2008/07	100 million RMB	Non-public	ministry of civil affairs	Community	Former Senior project manager
<b>Foundation #3</b>	1.5	1	2012/07	4 million RMB	Public	Municipal	Individuals	Vice General secretary
<b>Foundation #4</b>	1	1	2012/10	50 million RMB	Non-public	ministry of civil affairs	Corporation	Former General secretary
<b>Foundation #5</b>	1	1	2012/11	10 million RMB	Public	Municipal	Government	General secretary
<b>Foundation #6</b>	1.5	1	2014/12	10 million RMB	Non-public	Municipal	Government	General secretary
<b>Foundation #7</b>	1.5	2	2015/11	2 million RMB	Non-public	Municipal	Corporation	General secretary & Senior project manager

## REFERENCE

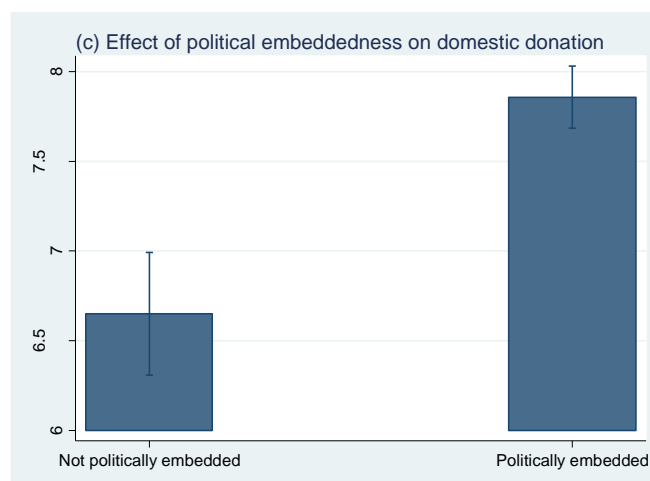
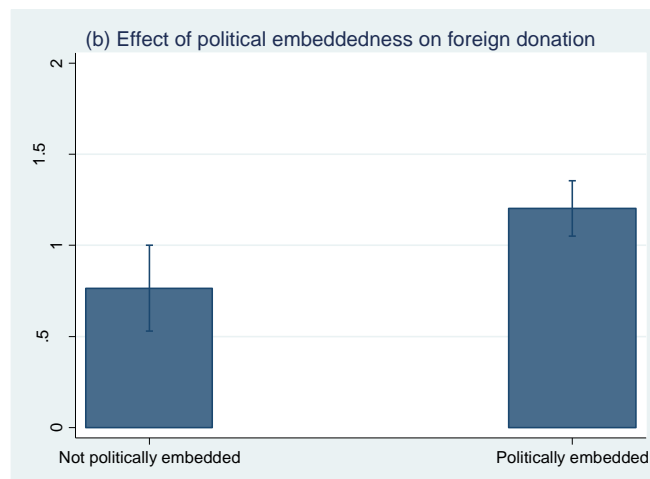
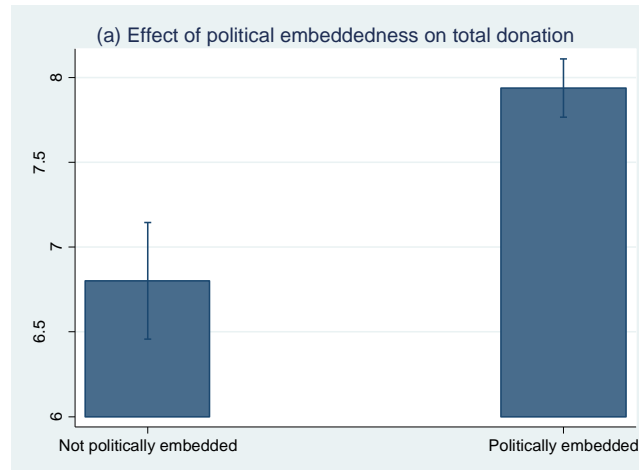
Kapiszewski D, MacLean LM, Read BL. 2015. *Field research in political science: Practices and principles*. Cambridge University Press: Cambridge, UK.

**Appendix B. First Stage Probit Regressions on the Establishment of Personal Political Embeddedness**

<b>DV: Personal political embeddedness (0/1)</b>	<b>Coefficient</b>	<b>p-value</b>
Male ratio	-0.73	(0.000)
Leader age	0.05	(0.000)
Size	0.11	(0.000)
Age	0.00	(0.290)
Public qualification	-0.06	(0.172)
National	-0.51	(0.000)
Number of service domains	0.10	(0.013)
Audit quality	-0.09	(0.083)
Professionalization	0.82	(0.000)
Fundraising expenditures	0.01	(0.000)
Government subsidy	0.01	(0.000)
Public donations	-0.01	(0.001)
Prior fundraising performance	0.00	(0.213)
Provincial GDP per capita	0.41	(0.000)
Institutional development	-0.26	(0.000)
Constant	-1.64	(0.000)
Service domain dummies	Yes	Yes
Year dummies	Yes	Yes
Observations	6,154	6,154
LR chi2	3192***	3192***
Log-likelihood	-2895	-2895

p-values in parentheses. \*\*\* p<0.001

**Appendix C. Effects of Political Embeddedness on Total Donations, Foreign Donations, and Domestic Donations Received by Chinese Charities**



Note: The error bars depict a 95% confidence interval.