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Integrating corporate social and corporate political strategies: Performance implications and institutional contingencies in China

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ABSTRACT

This study proposes an integrative approach to corporate nonmarket strategy by examining how corporate social responsibility (CSR) and corporate political activities (CPAs) interactively affect firms' financial performance in China. Drawing on the social exchange theory and CPA and CSR literature, we propose CSR and CPA have a positive joint effect on firms' financial performance and explore how institutional heterogeneities alter the strength of this effect. Based on a panel dataset of Chinese listed firms from 2009 to 2015, we found a positive interaction between CSR and central-level political connections on firms' financial performance, and the positive interaction is stronger when the government involvement is high but weaker when *guanxi* is prevalent. However, we did not find similar results with local-level political connections. Our study contributes to the nonmarket strategy literature by integrating two normally separate lines of research, and emphasizing the value of managing nonmarket environments in an integrative manner.

1. Introduction

Beyond the market environment, firms are embedded in the nonmarket environment consisting of social and institutional arrangements that structure their interactions with different stakeholders (Baron, 1995). Effective management of the nonmarket environment not only shapes the market environment that firms compete in, but also enhances and sustains their competitive advantages (Baron, 1995; Bonardi, Holburn, & Bergh, 2006; Porter & Kramer, 2002). Corporate social responsibility (CSR) and corporate political activities (CPAs) are two instrumental approaches that firms use to manage their nonmarket environment strategically. Although under the unitary notion of nonmarket strategy, the CSR and CPA literature have developed largely in isolation with limited integration, which has been highlighted as an important knowledge gap in the nonmarket strategy literature (Frynas & Stephens, 2015; Mellahi, Frynas, Sun, & Siegel, 2016).

Prior studies have discussed possible interactions between CPA and CSR, although in a fragmented manner. One argument focuses on the buffering effect of CPA (Meznar & Nigh, 1995). It suggests that companies can mobilize CPA (e.g., by lobbying) to shield them from CSR pressures. For example, Hadani, Doh, and Schneider (2018) observed that S&P 500 firms that are actively involved in CPA are less responsive to social-oriented investor activism. Others have suggested that CSR and CPA are distinct in nature and are in conflict sometimes (Barnett, 2007). While CSR is perceived as positive, CPA is often perceived as negative; thus, engaging in both may send conflicting signals to external stakeholders. While these arguments tend to assume a negative interaction between CSR and CPA, they have largely been developed and tested in developed economies with mature political markets and high awareness of CSR among different stakeholders.

However, in an emerging economy context, such as China, where governments have strong powers and market-based institutional environments are far from developed, firms' CSR is largely motivated by, and oriented to, governments (Marquis & Qian, 2014; Zhao, 2011). "Whereas a British company might focus on its customers and investors as its most vital constituencies, the government sits at the top of the CSR pyramid in China" (*ChinaCSR.com*, 2009). In this sense, the main audiences of both CPA and CSR converge to the government. Both types of activities are far from independent but are much more interrelated in this context. Since the political system in China precludes companies from engaging in traditional CPAs (e.g., lobbying and campaign contributions) that are prominent in Western countries, business–government interactions in China are more informal, nontransparent, and uncertain. CSR, in this context, has become an important means of political networking that enables firms to establish and strengthen their political connections with government officials (Zhang, Marquis, &

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Qiao, 2016; Zhao, 2011). Thus, we propose that in such an institutional context, CSR and CPA have a positive joint effect on firms' financial performance and we examine the ways in which the positive interaction varies across heterogeneous subnational institutional environments in China.

To identify specific mechanisms underlying the interactions between CSR and CPA, we draw on social exchange theory (Blau, 1964; Emerson, 1976) to theorize business –government relationships in China as ongoing social exchanges. As one basic tenet of the social exchange theory is that a resource will continue to flow only if there is a valued return contingent upon it (Blau, 1964; Emerson, 1976), to cultivate effective relationships with governments and secure sustainable resource flows, politically connected firms will have to provide resources back to governments. CSR, as "the private provision of public goods" (McWilliams & Siegel, 2011, p. 1480), serves as an efficient way for firms to reciprocate government support by alleviating their administrative burden of pressing social issues. Thus, the performance implication of political connections can be strengthened when firms conduct CSR simultaneously. Conversely, the effectiveness of firms' CSR engagements can also be improved if firms have political connections. CSR activities improve firm performance via the underlying mechanism of gaining sociopolitical legitimacy (Suchman, 1995), which enables firms to elicit positive stakeholder responses. Firms with political connections are more likely to achieve higher effectiveness from their CSR engagements because these firms are in better positions to identify salient social issues and to understand the expectations of political actors, both of which help enhance their sociopolitical legitimacy, than firms lacking such connections.

We test our theoretical framework in the context of China, which is a particularly appropriate setting as the market-supporting institutions in China are less developed such that firms are more engaged in nonmarket activities (Li & Zhang, 2007). As the government has regulatory discretion and controls critical resources and information (Park, Li, & Tse, 2006; Xin & Pearce, 1996), political strategy is of particular importance for firms operating in China. At the same time, the importance of CSR has largely increased in recent decades for Chinese firms, with the initiatives and advocacies of the central government to build a "harmonious society" (See, 2009). It is increasingly important for Chinese firms to conduct CSR activities to build a responsible image. Moreover, China serves as an ideal setting to test the moderating effects of institutional factors because of its substantial within-country institutional heterogeneity (Chan, Makino, & Isobe, 2010; Ma, Tong, & Fitza, 2013).

Based on a panel dataset of all publicly listed Chinese firms from 2009 to 2015, we find a positive joint effect of CSR and central-level political connections on firms' financial performance. The results are highly consistent across different performance measures and after controlling for selection bias. Interestingly, we did not find a similar result with local-level political connections, which corroborates recent discussions that the state is not a monolithic entity and different levels of governments may have divergent priorities (Luo, Wang, & Zhang, 2017; Wang, Wijen, & Heugens, 2018). As a key premise of our model is the dominant power of governments in the economy, we further examined how the interaction between CSR and CPA may change across different levels of government involvement. Consistent with our proposition, the positive joint effect between CSR and central-level political connection is further strengthened when government involvement is high.

Our study contributes to the nonmarket strategy literature on several fronts. First, we respond to the continuous calls for more integration between CSR and CPA studies. Drawing on the social exchange theory, we elucidate specific mechanisms underlying the interactions between firms' social and political activities. While some pioneering works have conceptually discussed potential integration between CSR and CPA (den Hond, Rehbein, Bakker, & Lankveld, 2014; Frynas & Stephens, 2015; Liedong, Ghobadian, Rajwani, & O'Regan, 2015), empirical investigations are surprisingly scarce (Mellahi et al., 2016). Based on a panel dataset of publicly listed firms in China, our study provides empirical evidence on the performance implications of the interactions between CSR and CPA. Second, the integrative approach proposed in this study contributes to the nonmarket strategy literature in general by providing a new perspective that diverse social and political strategies can be utilized as a portfolio of strategic options (Dorobantu, Kaul, & Zelner, 2017), and the combinations of different strategies provide opportunities for firms to gain synergistic effects beyond their individual effects per se. Third, we examine how institutional heterogeneities shape the interactive effects between CSR and CPA. This contingency approach contributes to research on nonmarket strategy by identifying the boundary conditions of different nonmarket strategies.

2. Theory and hypotheses development

Nonmarket strategy is generally defined as firms' efforts to manage the institutional or societal context of economic competition to improve their performance (Baron, 1995; Lux, Crook, & Woehr, 2011). CPA and CSR have been identified as two important ways to achieve this goal. CPA are broadly defined as firms' efforts to influence political actors and/or manage political institutions in ways favorable to them (Hadani et al., 2018; Hillman, Keim, & Schuler, 2004; Lux et al., 2011). CPA can be either *transactional* or *relational* (Hillman & Hitt, 1999). Transactional CPA refers to political activities that aim to influence specific policy issues. Firms adopting transactional CPA engage in *short-term* interactions with governments on an *issue-by-issue basis* (Hillman & Hitt, 1999). By contrast, relational CPA refers to a *long-term exchange relationship* between businesses and governments. Firms adopting relational CPA cultivate relationships with governments across issues and over time; thus, when relevant issues arise, the contacts and resources needed are already in place (Hillman & Hitt, 1999).

CSR generally refers to "context-specific organizational actions and polices that take into account stakeholders' expectations and the triple bottom line of economic, social and environmental performance" (Aguinis, 2011, p. 855). Firms conducting socially responsible activities can raise their reputation, increase their moral capital, and build good relationships with their stakeholders (Godfrey, 2005; Porter & Kramer, 2002). Such favorable images help firms gain social legitimacy and political approval, which endows them with competitive advantages (Kim, Kim, & Qian, 2018; Wang & Qian, 2011).

2.1. Integration between CPA and CSR

Although the literature is fragmented, previous studies have discussed possible interactions between corporate social and corporate political activities. Meznar and Nigh (1995) observed that firms sometimes buffer sociopolitical pressures via lobbying or contributing to political committees in an attempt to influence or change external expectations, and the larger the organizational power (e.g., larger size and higher resource importance), the more likely firms are to choose buffering strategies instead of bridging strategies for managing with the social and political environment. This line of argument implies a tendency of firms to utilize CPA as a way to reduce social pressures (Alakent & Ozer, 2014). For example, David, Bloom, and Hillman (2007) found that shareholder proposal activism reduces corporate social performance instead of improving it because these social pressures may push firms to divert resources from CSR activities into political activities as a way to resist external pressures and retain discretion. In the same vein, Hadani et al. (2018), based on their observations of S &P 500 firms, found that firms actively involved in political activities are less likely to respond to socially-oriented investor activism.

In addition, some scholars expect a negative interaction between CPA and CSR because they perceive these two types of nonmarket approaches to have inconsistent or even conflicting orientations. For

instance, Barnett (2007) suggested that, CPA, as "direct influence tactics" (e.g., lobbying and campaign donations), "are focused on improving relationships with important stakeholders, but they are not necessarily focused on improving social welfare" (p. 799). Moreover, CPA may sometimes be instrumental in reducing a firm's contributions to social welfare. Owing to the divergent goals, some may argue that firms engaging in both CPA and CSR may send conflicting signals to their stakeholders.[1]

While we well recognize the potential negative interactions between CPA and CSR, these arguments are mainly based on developed economies with mature political markets (Bonardi, Hillman, & Keim, 2005) and prevalent awareness of CSR issues. The traditional CPA literature based on advanced democracies envisions the process of business–government interactions as political market exchanges, such as formal information lobbying and campaign contributions, similar to transactions in the economic market, in which business firms as policy demanders "purchase" information and policy favors from the government as policy suppliers (Bonardi et al., 2005; Hillman & Keim, 1995). Drawing on this political marketplace view, business firms can also "purchase" *protection* from governments to reduce social-related pressures, which explains the buffering effect. In addition, from the perspective of customers, because of the relatively transparent political market, they tend to perceive CSR of firms with active political activities as not genuine, but opportunistic (Frooman, 1999).

However, while business–government interactions in developed economies focus on transactions in political markets, those interactions are substantially different in the Chinese context where governments have strong controlling power and firms cannot simply "purchase" benefits from governments via formal political transactions, but more often have to "nurture" social relationships with governments informally. Given that nonmarket strategies as market strategies are largely contingent on the institutional context (Doh, Lawton, & Rajwani, 2012), we discuss in detail in the next section the manner in which the institutional environment in China shapes the interactions between CPA and CSR and the performance implications of these interactions.

2.2. CPA and CSR in China

Although China started the marketization process of its economy in 1978, the government still plays a prominent role in the Chinese market. The government not only controls critical resources, such as land and financial capital, but also shapes the structure of markets through their power to change policies and regulations, such as by issuing permits and licenses and levying fees, fines, and taxes (Haveman, Jia, Shi, & Wang, 2017; Marquis & Qian, 2014; Nee, 1992). While firms everywhere take political actions to strategically manage their political institutions (Faccio, 2006; Hillman et al., 2004; Lux et al., 2011), political strategies are particularly important for Chinese firms, not only because governments are critical sources of resources and legitimacy in China (Zhang et al., 2016), but also because the lack of checks and balances in the political system, nontransparent government decision-marking, and poor legal infrastructure make government influence on business operations pervasive (Boisot & Child, 1996; Hoskisson, Eden, Lau, & Wright, 2000).

The relational type of CPAs (i.e., political connections) is much more important in the Chinese context since transactional CPAs that are predominant in Western countries are not allowed or not adopted in China due to its unique political system. For example, formal information lobbying, which is a very important type of CPA for North American firms (Mathur, Singh, Thompson, & Nejadmalayeri, 2013), is not yet deemed an important political strategy, because there is no structured lobbying system in China (Kennedy, 2005). Campaign contributions are also prohibited by Chinese laws (Li, Meng, & Zhang, 2006). Thus, forming political connections in the form of boundary spanning connections between top managers and relevant political authorities is a prevalent approach of Chinese firms to manage the political environment (Peng & Luo, 2000; Sun, Mellahi, & Wright, 2012). One important way for firms to build political connections in China is to appoint previous government officials as top executives or to join the board (Fan, Wong, & Zhang, 2007; Hillman, 2005). The prior working experience of these government officials serves as a channel of communication and access to existing government officials (Zhang et al., 2016) and endows firms with inside information about government operations and bureaucracy (Hillman, 2005). As governments define the "rules of the game" and control substantial resources, firms with political connections are more likely to gain political benefits, such as valuable information, bank loans, and favorable policies (Faccio, 2006; Hillman & Hitt, 1999; Khwaja & Mian, 2005).

Business and government attention to CSR in China has increased in recent years. Since 2006, when China's 11th Five-Year Plan[2] included the statement that China should pursue a more "harmonious society", the government and society at large started paying attention to firms' social behaviors. This stance marks "a departure from an economic growth at all cost model to one in which economic growth is balanced against the urgent need to tackle pressing societal and environmental problems existing in China" (See, 2009, p. 1). Later, the Shenzhen Stock Exchange (in September 2006) and Shanghai Stock Exchange (in September 2008), both published several CSR guidelines that encourage listed firms to actively engage in social responsibility activities and issue CSR reports. Thus, it has become increasingly important for Chinese firms to conduct CSR activities in recent years. Malpractices reported by public media (e.g., the 2008 infant milk formula scandal) have sounded warnings for Chinese firms to behave responsibly as unethical behaviors could lead to negative effects on their sales, operations and financial returns (Leung, 2014). Building a responsible image has become a strategically important issue for firms, especially for publicly listed firms that are under close public scrutiny.

While companies in Western countries may focus on their customers and investors as the most vital constituencies, "the government sits at the top of the CSR pyramid in China as the important stakeholder in a business" (ChinaCSR.com, 2009). CSR of Chinese firms speaks to their needs of gaining political recognition and mobilizing state support (Zhao, 2011). This means that such CSR has a unique *political orientation*, and the key or most important audience of Chinese firms' CSR activities is the government (Zhao, 2011, 2012). Therefore, CSR is an important influential factor in business–government relationships in China. Moreover, from the government perspective, the social contribution of firms is well appreciated by governments because sometimes governments do not have the financial means to handle social problems (Wang & Qian, 2011). Given that government officials are evaluated on both economic development and social welfare (e.g., illiteracy reduction and population control), especially after 2006, when governments are unable to fund public services adequately, they often reach out to firms for additional funding (Lin, Tan, Zhao, & Karim, 2015; Wang & Qian, 2011). Thus, in China, CSR has become a means of political networking that enables firms to establish or strengthen their political connections with government officials.

The above descriptions of the Chinese context indicate that CSR activities and CPAs are largely *interdependent* rather than independent in China, and the institutional context of China challenges some of the premises in the conventional nonmarket literature that originated from developed economies and democracies. First, unlike the traditional CSR literature that regards customers and citizens as important stakeholders, governments are the most important audience of Chinese firms'

[1] We thank one of the reviewers of this paper for pointing out this perspective.

[2] Since the founding of the People's Republic of China, the central government has been issuing five-year plans for stating national economic development goals and establishing objectives for the following five years (Naughton, 2007).

CSR engagements (Zhao, 2011). Drawing on the stakeholder theory, Barnett (2007) proposed that firms generate financial returns from CSR engagements through building stakeholder relationships, and the higher the ability of firms to identify and act on opportunities to improve stakeholder relationships, the more likely they are to benefit financially from CSR efforts. Thus, in the context of China, the ability of firms to identify and act on the priority concerns of governments promotes the performance implications of their CSR engagements. Therefore, political connections would strengthen, rather than weaken, the CSR–performance relationship.

Second, unlike the dominant political marketplace view of CPA in democracies that emphasizes *transactions* between business firms and governments that are on a relatively *short-term*, issue-by-issue basis (Bonardi et al., 2005; Hillman & Hitt, 1999; Hillman & Keim, 1995), the business–government interactions in China are normally based on informal *long-term-oriented* relationships and maintaining these interactions requires continual efforts. Given these discrepancies, the social exchange view, rather than the market exchange view, is arguably more applicable in this context.

A basic tenet of social exchange theory suggests that resources from one party will continue to flow only if there are valued returns contingent upon the social exchange (Blau, 1964; Emerson, 1976). For politically connected firms, to guarantee the continuous flow of political resources from governments, they have to pay back in certain ways to sustain the political relationship. In this sense, CSR activities serve as complements to political connections because social welfare (e.g., related to public health, education and social security) resulting from CSR is regarded favorably by governments in China and thus help firms sustain the political relationship and the accompanied political benefits.

Moreover, as political connections are normally based on personal ties between prior government officials with current authorities, these ties are vulnerable to the turnover of related officials (e.g., owing to retirement, change to other positions, or rival politicians taking office) (Siegel, 2007; Sun, Mellahi, Wright, & Xu, 2015). CSR, in this case, generates moral capital that endows firms with a reservoir of goodwill shielding them from political upheavals (Sun et al., 2012). Based on the institutional context in China, combined with insights from the social exchange theory and the CSR and CPA literature, we propose a complementary relationship between CSR and CPA in influencing firm performance. In the following sections, we discuss in detail the ways in which the interaction between CSR and CPA promote firm financial performance, and the manner in which the heterogeneous institutional contexts across regions of China moderate this interaction.

2.3. Performance implication of CPA and CSR integration in China

While a few recent studies have started to explore the interrelationships between CSR and CPA (e.g., Hadani et al., 2018; Liedong et al., 2015; Lin et al., 2015; Zhang et al., 2016), they tend to focus on the effects of CSR and CPA per se instead of examining systematically the performance implications of their interactions. Drawing on the social exchange theory and the CSR and CPA literature, we suggest a complementary relationship between CSR and CPA in facilitating firm performance.

Complementarity, by definition, means that doing more of one thing (e.g., CSR) increases the benefits of doing more of the other (e.g., CPA). Huber, Fischer, Dibbern, and Hirschheim (2013) identified two primary mechanisms underlying a complementary relationship: *compensating* and *enabling*. Compensating refers to the mechanism when two types of strategies have their own unique advantages that compensate for each other's weaknesses. In our context, the simultaneous use of CSR and CPA generates synergistic effects on firm performance, because both of them have unique advantages that can compensate for the drawbacks of each other. Political connections strengthen the benefits from CSR because information advantages from the relationships with politicians provide firms greater knowledge and increase their sensitivity to salient social issues (Post, Murray, Dickie, & Mahon, 1983), thereby increasing the effectiveness of their social-related investments (Peterson & Pfitzer, 2009). The CSR literature proposes that firms gain performance benefits from CSR through the underlying mechanisms of increasing social and political legitimacy (Godfrey, 2005; Wang & Qian, 2011), the latter being especially important in the China context. Legitimacy is defined as a generalized perception that the actions of an entity are desirable and proper within some socially constructed systems of beliefs, norms, and values (Suchman, 1995). To obtain legitimacy, it is crucial for firms to correctly understand and interpret the requirements of their legitimating environment (Kostova & Zaheer, 1999). In the context of CSR activities, the capability to identify salient concerns of key stakeholders, such as the pressing issues confronting politicians, is of great importance for firms in obtaining sociopolitical legitimacy, and thereby realizing positive performance outcomes from their CSR efforts. However, as business actors, firms often lack this capability as they are not task specialized to address social needs (Friedman, 1970) and business managers are not sufficiently trained to appraise social issues (Clarkson, 1995). Political connections, under this condition, can compensate for this weakness by enhancing the “political intelligence” (Post et al., 1983) of firms, which helps them identify CSR priorities among multiple options, and thereby, the resources generated through CPA strengthen the effectiveness of their CSR investments.

In turn, CSR compensates for the drawbacks of political connections, because CSR may protect firms from the risk of political connections under political upheavals, and thus mitigate the negative effects on firm financial performance. As CPA scholars have emphasized, political connections are vulnerable in that the value of these connections can turn from assets to liabilities under exogenous political changes (Siegel, 2007; Sun, Mellahi, & Thun, 2010). CSR, under these conditions, can provide a form of reputation and legitimacy insurance that buffers firms from political hazards (Godfrey, 2005; Godfrey, Merrill, & Hansen, 2009; Sun et al., 2012). Therefore, we suggest that the respective advantages of CSR and CPA compensate for the drawbacks of each other to generate positive synergistic effects on firm performance.

Enabling, the other mechanism of complementarity, refers to the conditions under which one strategy creates favorable conditions that facilitate the other. In this case, we argue that CSR generates favorable conditions for both the establishment and sustainability of firms' political connections. Because of the ambiguous nature of the political marketplace and competition from other firms (Hart, 2004), achieving political access is often highly uncertain for firms (Hadani & Coombes, 2015). We suggest that engaging in CSR lowers the barriers to political entry and helps firms establish contacts with politicians (Wang & Qian, 2011; Werner, 2015), because a good reputation as a responsible company bolsters the CPA standing of the firms compared with that of its competitors who are also actively pursuing CPA (Hadani & Coombes, 2015). As Hillman et al. (2004) noted, “a firm with a history of sponsoring community projects most likely realizes easier access to and a better hearing from local politicians” (p. 852).

More importantly, CSR also provides relational foundations to *maintain* political connections. Although firms seek to establish political connections, as an important relational type of CPA, aiming to influence politicians and political institutions in favorable ways (Hillman et al., 2004), business–government interactions often involve many more complexities. Drawing on the social exchange theory, we regard the interaction between businesses and politicians as social exchanges, which Blau (1964) defined as voluntary exchange actions motivated by the returns they are expected to bring from others. Social exchange is a continuous process in which one party's actions are contingent on the other's behavior (Cropanzano & Mitchell, 2005). Following this logic, to maintain their relationships with governments, firms with political connections should make continuous efforts by reciprocating any benefits they receive from political parties. CSR provides an alternative way for politically connected firms to pay back benefits to governments,

except for votes, information, and money (Hillman & Hitt, 1999). To a certain extent, CSR serves as a preferred way to achieve this end because CSR helps firms establish their visibility and further improve awareness in political constituency (Rehbein & Schuler, 2015). Meanwhile, CSR activities are less likely to make firms liable to charges of illegal practices compared with other alternatives, such as monetary exchanges.

In turn, CPA could also help build up favorable conditions for firms to implement CSR activities. For example, firms interacting extensively with governments are more likely to influence changes of regulations on social and environmental issues (Liedong et al., 2015; McWilliams, Van Fleet, & Cory, 2002), through which they can increase the competitive advantages of their CSR activities (Dean & Brown, 1995; Zhao, 2011). Shell, for example, has been promoting their guidelines for reporting greenhouse gas emissions and persuading host country governments to improve their current carbon dioxide emission policies. As a result, Shell has become a leading company in this area and it enjoys first-mover advantages (Zhao, 2011). Thus, political connections, as in this case, can help firms achieve favorable regulatory environments that enhance the economic viability of their CSR engagements (den Hond et al., 2014), while, at the same time, the effectiveness of firms' CSR engagement is strengthened with the resources gained through pursuing CPA.

Moreover, from the resource-based view, the integration of CPA and CSR activities not only provides resources from one to facilitate the effectiveness of the other, but also provides the firm with unique strategic resources that other firms lack and thus provides a way to achieve competitive advantages. For example, den Hond et al. (2014) suggested that alignment between CSR and CPA increases firms' trustworthiness and reliability, which helps them achieve an advantageous position. The idiosyncratic combination of corporate political and social activities generates specific advantages that are difficult for rivals to match, or at least raises rivals' costs to imitate, and thus helps firms achieve competitive advantages. Based on these arguments, we expect the following:

H1. CSR and CPA *complement* each other to influence firms' financial performance (i.e., there is a *positive* interaction between CSR and CPA) in China.

2.4. Moderating effects of institutional contexts

The institutional environments in emerging economies (including China) are often characterized as “inefficient markets, active government involvement, extensive business networking, and high uncertainty” (Xu & Meyer, 2013, p. 1322). Although ongoing pro-market reforms in China have resulted in the institutional environments being more market-oriented, the process of these institutional transitions is far from uniform and there is substantial heterogeneity among regional institutions (Chan et al., 2010; Xu, 2011). These within-country institutional variations allow us to examine changes in the interactions between CSR and CPA across different institutional contexts. In particular, we consider the moderating effects of the extent of government involvement and the importance of *guanxi*, which reflect key political and social institutions in China.

2.4.1. Government involvement

Since 1978, China has undergone a series of pro-market reforms that aim to liberalize markets, decentralize state control, and eliminate government interventions (Child & Tsai, 2005; Park et al., 2006). However, the progress of these reforms shows large variations across different regions and thus the extent of government involvement varies considerably within the country.

In regions with high government involvement, resources are often controlled and allocated by governments and their affiliated institutions (Meyer & Nguyen, 2005). We argue that, in this context, the complementary effects of CSR and CPA will be strengthened for the following reasons: First, in regions with high government involvement, resources are largely controlled by political agencies (e.g., state-owned enterprises) and firms often have very limited alternative ways to gain resources (since markets are often not well established in these regions). As resource dependence theory suggests, the power of *A* (i.e., government) on *B* (firms) would be strengthened when *B* has a large dependence on resources from *A* and the availability of alternative resources is low (Casciaro & Piskorski, 2005). Therefore, when the extent of government involvement is high, governments have the predominant role in the business–government exchange relationship. According to the social exchange theory, the power inequality between two exchange parties often makes the continuity of the exchange relationship more challenging (Emerson, 1976). Under this condition, the enabling effects of CSR engagements would be stronger because the need for CSR is greater as a way to show efforts from the firm side to neutralize this unbalanced power and sustain the political connections firms have built.

Moreover, when government involvement is high, political resources become more valuable resources that firms often compete for, which results in stronger competition for limited political access. In this context, it is more important for firms to conduct CSR activities to attract the limited attention of policy makers (Gray & Lowery, 1997), as CSR actions provide high visibility and good reputation for firms, which increases their opportunities to interact with governments (Rehbein & Schuler, 2015). When government involvement is high, competitors may raise the costs or block the use of political access through interventions in the political market (Capron & Chatain, 2008); for example, through donating to government projects or collaborating with government on local community development, firms can win support from governments (Zhao, 2011).

Meanwhile, when government involvement is high, the enabling role of political connections in improving firms' CSR engagements is also strengthened because, in this context, governments strongly influence priorities and forms of CSR (Zhao, 2011). In China, governments often use nonregulatory approaches to influence firms' social behaviors, such as administrative requests, business resources control, and normative influences, instead of through regulations as in the West (Zhao, 2012). This scenario makes it even more important and necessary for firms to obtain “political intelligence” (Post et al., 1983) through political connections to correctly understand and interpret the requirements of their legitimating environment (Kostova & Zaheer, 1999). Based on these arguments, we suggest:

H2. The complementarity between CSR and CPA on firms' financial performance becomes *stronger* when government involvement is *higher*.

2.4.2. Guanxi importance

Rooted in Confucian philosophy, *guanxi* (which literally means a relationship) is regarded as an important institutional factor in China (Nee, 1992; Xin & Pearce, 1996). Although *guanxi* exists ubiquitously in Chinese society and has been considered an important factor of influence in China's social cohesion (Horak & Restel, 2016), the extent of its importance varies significantly across different regions because of their heterogeneous cultural and historical backgrounds as well as different developmental stages of the market-based mechanisms (Peng, 2003). *Guanxi* implies a system of favors (*renqing;* Horak & Restel, 2016) through which reciprocity and mutual obligation is formed (Gold, Guthrie, & Wank, 2002). The importance of *guanxi* is defined as the time and resources that entrepreneurs spend on cultivating and maintaining relationships. This notion reflects the prevalence of using *guanxi* to “get things done” in a society (Child, Chung, & Davies, 2003). Ye, Li, Zhu, and Liu (2016) observed that the importance of *guanxi* is higher in the central area of China, which is the birthplace of Confucian culture, and lower in eastern areas, where market-based institutions are more developed.

When the importance of *guanxi* is high, information is predominately exchanged within social networks rather than through markets (Park & Luo, 2001; Peng & Luo, 2000) and firms are more likely to invest in relationship-based transactions and to form bonds with the government (Morck, Wolfenzon, & Yeung, 2005). As the supply of political resources is inelastic, politicians allocate resources to some firms and exclude others (Jia & Zhang, 2016) and in subnational regions with high *guanxi* importance, this results in a large number of firms competing for limited political access (Lin et al., 2015). In this context, CSR activities become more important to help firms stand out from other firms in gaining access to scarce political capital. Moreover, the signaling effect of CSR showing the legitimacy of a firm to politicians is strengthened in this context, because politicians lack other channels to evaluate the appropriateness of a firm.

Under these conditions, governments are more likely to cultivate long-term relationships with firms that exhibit socially responsible behavior because when there is asymmetric information, CSR activities become *observable* signals to key stakeholders (Bear, Rahman, & Post, 2010). The contributions of firms to social issues send positive signals to government bodies about firms' sincerity in dealing with their stakeholders (Wang & Qian, 2011). Firms may also express their support to the government by actively responding to the social initiatives of public policies (Marquis & Qian, 2014). Hence, we argue that when the importance of *guanxi* is high, CSR serves as a more important and effective channel to show the legitimacy and trustworthiness of firms to governments and thereby is more likely to enhance the effectiveness of firms' political activities.

Further, when *guanxi* is prevalent in a region, the compensating effect of CPA on CSR is also strengthened, because in this context, information mostly flows within networks of social relationships. Firms without political connections would encounter greater difficulties in gaining information on social and political expectations. As firms often lack the sensitivity and knowledge to identify CSR priorities (Clarkson, 1995; Friedman, 1970), the facilitating role of political connections is stronger in this context to guide firms' CSR activities more effectively.

In addition, when information flows mostly within social networks instead of market-based channels, it is more difficult for stakeholders to know about firms' CSR activities promptly and accurately (Wang & Qian, 2011). Political connections serve as important channels to improve firms' visibility for governments, who are the most important stakeholders in China, and thus improve the effectiveness of firms' CSR engagements. Therefore, we suggest:

H3. The complementarity between CSR and CPA on firms' financial performance becomes *stronger* when the importance of social relationships is *higher*.

3. Method

3.1. Data and sample

We compiled our sample by merging three main data sources. We started with all Chinese firms listed on either the Shanghai or Shenzhen Stock Exchange from 2009 to 2015.[3] We derived demographic and financial information from the China Stock Market and Accounting Research (CSMAR) database, the primary source of information on Chinese stock markets and listed firms (Wang & Qian, 2011). The CSMAR database has been widely used as a credible data source in studies on Chinese listed firms (Zhang et al., 2016). Second, we derived information on CPA (i.e., political connections) from corporate annual reports downloaded from the Shanghai and Shenzhen stock exchange websites. Listed firms in China are required to disclose biographical sketches (e.g., education, career history, and current position) of their top management teams (TMTs) and board members. To collect information on political connections of each firm, we manually coded the political experience of TMTs and board members of all listed firms from their biographical sketches. Following prior studies (Haveman et al., 2017; Sun, Hu, & Hillman, 2016), we identified a TMT or board member as having political experience if he/she had worked as a government official.

Third, to measure a firm's CSR engagement, we obtained information from Rankins CSR Rating (RKS), an independent third-party CSR rating agency. Since the Chinese government issued the statements and guidelines about CSR and CSR reporting, a growing number of Chinese public firms have started to issue CSR reports to illustrate their CSR engagement. RKS evaluates the extent of CSR engagement of publicly listed firms based on their CSR reports. Following practices of international CSR rating agencies (such as KLD), RKS has developed a systematic rating system (i.e., the MCT rating system) that evaluates the extent of CSR engagement along three main dimensions (Macrocosm, Content, Technique) with 63 sub-items.[4] The RKS dataset has been widely used by several management and strategy studies (Lau, Lu, & Liang, 2014; Luo et al., 2017; Marquis & Qian, 2014), which shows the validity of this dataset.

3.2. Estimation method

To test our hypotheses on the interactive relationships between CSR and CPA, we sampled firms for which CSR data are available and excluded firms that do not disclose social-related activities. This approach may suffer from nonrandom sampling bias because firms engaged in CSR may differ substantially from those that do not. It is possible that some factors that determine whether a firm engages in CSR also influence firm financial performance. To correct for such sampling bias, we followed prior studies in using a Heckman two-stage model to test our hypotheses (Sun et al., 2016; Wang & Qian, 2011; Zhang et al., 2016).

In the first stage, we used a variety of firm and industrial variables to predict the likelihood of a firm engaging in CSR. We ran a probit model with the entire sample (shown in Table 2), including both firms engaging in CSR and those not engaging in CSR. As the Heckman model requires including at least one variable, known as an “exclusion restriction” variable, in the first stage that does not appear in the second stage (Kennedy, 2006; Sartori, 2003), we chose the *industry-level CSR*, calculated as the mean of the CSR score of the industry that a firm belongs to, as this exclusion variable. We chose this factor because it influences the probability of a firm's engagement in CSR, but it does not directly influence the ultimate dependent variable of interest (i.e., financial performance).

Based on the results of the probit model, we calculated an adjustment term, the Inverse Mill's Ratio (IMR), which we included as a control variable in the main second-stage model to control for the selection bias. In the second stage, we examined the interactive effects of CSR engagement and political connection on firm performance for the sample of firms that have engaged in CSR. All explanatory variables were lagged by one year in the stage-one and stage-two models.

[3] The sample starts from 2009 because since 2008, the Shanghai and Shenzhen Stock Exchanges—both under the control of the central government—started requiring firms to report on their CSR performance in the annual reports, based on which CSR information was obtained.

[4] Indicators used by RKS cover multiple aspects of a firm's CSR engagement, including sustainable environmental issues, climate change, social services, business ethics, employee rights protection, customer rights protection, and anti-corruption issues. (Detailed descriptions of all dimensions are available upon request.)

3.3. Measures

3.3.1. Dependent variables

We used return on assets (ROA), returns on equity (ROE), and return on sales (ROS) to measure firms' financial performance. ROA, defined as the ratio of net income to total assets, and ROE, calculated as the ratio of net income to shareholder's equity, both reflect the efficiency of management in using firms' assets to generate earnings. Given that ROA sometimes can be inflated by a company's high debt, the combination of ROA and ROE provides a better indication of a firm's financial performance. ROS, calculated as the ratio of net income to total sales, reflects a company's operating efficiency. Accounting-based measures (e.g., ROA, ROE, and ROS) have been considered much more reliable measures than the stock market-based alternatives (e.g., Tobin's Q) when the stock market is in an early stage of development with unreasonable fluctuations, exactly the case in China (Carney, Shapiro, & Tang, 2009). Accounting-based performance measures have also been commonly used in prior nonmarket strategy research (Lin et al., 2015; Tang, Hull, & Rothenberg, 2012; Wang & Qian, 2011), and thus, their use in the present study makes the results comparable with those of previous studies. To avoid undue influences from outliers, we winsorized ROA, ROE, and ROS at the 1% level (Lin et al., 2015; Zhang et al., 2016).

3.3.2. Explanatory variables

We measured *CSR engagement* based on the overall score reported in the RKS database for each firm each year. As CSR is a multidimensional construct, the overall assessment of RKS provides a broader, more encompassing measure of social activities conducted by listed firms. Although far from perfect, the RKS data provide a multidimensional assessment of CSR activities conducted by Chinese listed firms based on a variety of sources of information and using consistent and systematic criteria from year to year. The same measure has been used in prior CSR research in China (e.g., Marquis & Qian, 2014) as a measure of firms' substantive engagement in social activities.

To measure political connection, we first examined the resumes of all TMT and board members to identify whether they have government working experience. In China, there are six levels in the government official hierarchy: ministry (*bu*), department (*ju*), division (*chu*), section (*ke*), staff member (*keyuan*), and clerk (*banshiyuan*). These levels of hierarchies range from local governments levels to the central government level. Following prior studies, we distinguished between firms' political connections with the central and local governments (e.g., Li, Meyer, Zhang, & Ding, 2018; Ma, Ding, & Yuan, 2016) due to the differences in their motivations, objectives, and priorities (Bai, Lu, & Tao, 2006; Cai & Treisman, 2006). We measured the *central political connection* as the number of TMT and board members that have worked in national-level government agencies. We measured *local political connection* as the number of TMT and board members who have served as local government officials at division level or above. We chose the threshold at division level because lower-level government officials are not funded through the central fiscal system and thus are often not counted as members of the political elite in China (Haveman et al., 2017).

3.3.3. Moderating variables

We measured the *importance of guanxi* using the Guanxi Index developed by Ye et al. (2016). They constructed this guanxi Index for all 31 provinces and municipalities in China, based on original data from six large-scale nationwide surveys[5] of private enterprises. The *importance of guanxi* is reflected by the time and resources spent by entrepreneurs on establishing and maintaining social relationships. To measure the *government involvement*, we defined a dummy variable that equals 1 when the proportion of fixed asset investments of state-owned enterprises is larger than that of non-state-owned enterprises within a province. This measure captures the influence of governments in allocating resources and capital within the local economy of each province, and prior studies (e.g., Haveman et al., 2017) have used a similar approach. We derived this information from the Statistical Yearbook of each province published by the National Bureau of Statistics each year.

3.3.4. Control variables

In the second stage, we controlled for several variables identified by prior literature as important factors affecting firms' financial performance. First, we included firm size, measured by the log of the total number of employees, and firm tenure, measured by the number of years since a firm was listed. Studies suggest that larger and established firms not only enjoy more resources and economies of scale but also have higher public visibility that attracts more attention to their social and political activities (Barnett & Salomon, 2006). We included the two variables to control for both of the effects. Second, we included *long-term debt*, calculated as total long-term debt divided by total assets, to control for the influence of firms' capital structure. Prior research suggests that the ratio of debt reflects the financial constraints of a firm that may influence their decisions to engage in social and political activities (Seifert, Morris, & Bartkus, 2004; Sun et al., 2016).

After that, according to the resource-based view, resources are key predictors of firms' financial performance. Therefore, we included *intangible assets ratio*, *advertising intensity*, and *slack resources* to control for the influence of firms' resources. The *intangible assets ratio*, measured as the amount of intangible assets of a firm divided by its total assets, serves as a proxy for firms' intangible knowledge and innovation, which are considered as the building blocks of firms' inimitable competitive advantages (Balakrishnan & Fox, 1993). Second, we controlled for the *advertising intensity*, calculated as the percentage of advertising expenses compared to total sales. Investments on advertising may influence firms' reputation and image and, in turn, influence their financial performance. We also included *slack resources*, calculated as the total cash flow of a firm's operations, financing, and investing activities, scaled by its total assets (Kim & Bettis, 2014; Seifert et al., 2004), as a reflection of the adequacy of firms' current resources. In addition, we included two ownership variables that reflect the identity of the ultimate owner of a firm. *State ownership* is a dummy variable that equals 1 if a firm's ultimate owner is the Chinese government or its affiliated agencies and 0 otherwise. Similarly, *foreign ownership* is coded 1 if the ultimate owner is a foreign firm and 0 if not.

All the aforementioned control variables were also included in the first-stage probit model to predict the propensity of a firm to engage in CSR activities. For example, firms with more *slack resources* may be more likely to engage in CSR (Seifert et al., 2004). Foreign firms may have higher incentives to engage in CSR as they suffer from the liability of foreignness that induces them to behave responsibly as a signal to enhance their appropriateness (Campbell, Eden, & Miller, 2012; Gardberg & Fombrun, 2006). Firms with higher *advertising intensity* may also engage more in CSR because, on the one hand, their high visibility may attract more scrutiny from the public; and on the other hand, CSR can serve as a way of advertising that promotes their reputation and image (Seifert et al., 2004).

[5] This nationwide survey of private firms was jointly conducted by the *Chinese Academy of Social Science*, *All China Industry,* and *Commerce Federation*, in 2000, 2002, 2004, 2006, 2008, and 2010. This survey covered 19,017 private enterprises dispersed in all 31 provinces and municipalities in China. Several management studies have used this database (e.g., Wei, Zheng, Liu, & Lu, 2014; Wu, Si, & Wu, 2016; Zhao & Lu, 2016). Further information on the Guanxi Index can be found in the Ye et al., 2016.

Table 1
Descriptive statistics and correlations.

Panel A: First-stage		Mean	Std. Dev	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1)	CSR dummy	0.23	0.42	1									
(2)	Industry-level CSR	36.62	3.02	0.11*	1								
(3)	Prior performance	0.05	0.18	0.02*	0.01	1							
(4)	Slack resources	0.03	0.19	−0.04*	−0.02	0.06*	1						
(5)	Advertising intensity	0.06	0.08	−0.01	0.00	−0.02*	−0.02	1					
(6)	Tenure	8.52	6.20	0.12*	0.03*	−0.05*	−0.13*	−0.01	1				
(7)	Long-term debt	0.05	0.09	0.15*	0.02	−0.03*	−0.04*	−0.03*	0.23*	1			
(8)	Intangible assets ratio	0.05	0.07	0.00	0.05*	−0.01	−0.05*	−0.01	0.06*	0.03*	1		
(9)	Foreign ownership	0.03	0.17	−0.01	−0.03*	0.00	−0.01	0.01	0.00	0.02	0.01	1	
(10)	State ownership	0.40	0.49	0.24*	0.08*	−0.01	−0.06*	−0.06*	0.39*	0.23*	0.04*	−0.14*	1
(11)	Size	7.47	1.43	0.35*	0.15*	0.03*	−0.03*	−0.04*	0.07*	0.09*	0.03*	−0.03*	0.27*

		Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1)	**ROA**	0.05	0.05	1														
(2)	**ROE**	0.09	0.11	0.68*	1													
(3)	**ROS**	0.10	0.14	0.72*	0.50*	1												
(4)	CSR engagement	3.53	0.32	−0.03	0.06*	0.05*	1											
(5)	Central political connection	0.02	0.14	−0.01	0.01	0.02*	0.05*	1										
(6)	Local political connection	2.74	2.86	0.01	0.05*	0.08*	0.26*	0.13*	1									
(7)	Slack resources	0.03	0.19	0.12*	0.08*	0.11*	−0.01	0.00	−0.00	1								
(8)	Advertising intensity	0.06	0.08	0.07*	0.02*	0.05*	−0.02	0.02*	−0.05*	0.02*	1							
(9)	Size	7.44	1.44	0.06*	0.08*	−0.06*	0.44*	0.05*	0.24*	−0.03*	−0.02*	1						
(10)	Tenure	8.52	6.20	−0.17*	−0.09*	−0.12*	−0.04*	−0.02*	0.02*	−0.13*	−0.10*	0.07*	1					
(11)	Long-term debt	0.05	0.09	−0.07*	−0.02*	−0.09*	0.07*	0.03*	0.11*	−0.04*	−0.18*	0.32*	0.27*	1				
(12)	Intangible assets ratio	0.05	0.07	−0.02*	−0.04*	−0.01	0.02	−0.00	0.02*	−0.05*	−0.02*	0.03*	0.06*	0.04*	1			
(13)	Foreign ownership	0.03	0.16	0.02*	0.01	0.01	−0.04*	0.01	−0.02*	−0.01	0.03*	−0.03*	0.00	−0.01	0.01	1		
(14)	State ownership	0.62	0.49	−0.08*	−0.04*	−0.06*	0.07*	0.02*	0.15*	−0.06*	−0.19*	0.27*	0.38*	0.27*	0.04*	−0.14*	1	
(15)	Government involvement	0.42	0.49	−0.04*	−0.04*	−0.03*	−0.11*	−0.02*	0.02*	0.03*	0.03*	−0.04*	0.15*	0.06*	0.03*	0.02*	0.16*	1
(16)	Social relationship	6.91	1.97	−0.01	−0.01	−0.01	−0.02	0.00	0.07*	0.00	0.00	0.08*	−0.04*	−0.00	0.06*	−0.02*	0.07*	0.11*

* Significant at $p < 0.05$.

3.4. Results

Table 1 shows the descriptive statistics and correlations. As we used different samples in stage one and stage two, we present the descriptive and correlation information separately. Panel A refers to the whole sample used in stage one to predict the likelihood of firms to engage in CSR, whereas Panel B refers to the sample of firms that have engaged in CSR. A review of the correlation matrix suggests that multicollinearity is not a concern in our case, as confirmed by the average variance inflation factor (VIF) score of 2.62, well below the critical value of 10 (Neter, Wasserman, & Kutner, 1985).

Table 2 presents the results of the first-stage probit model. As predicted, firms from an industry that engage more proactively in CSR are more likely to engage in CSR (i.e., the *industry-level CSR* has a positive and significant effect in all models). As predicted, in Model 3, the prior performance shows a positive and significant effect ($\beta = 0.428$, $p < 0.01$), indicating that firms with good financial performance are more likely and more capable to conduct CSR. Firm size also shows positive effects, which confirms previous arguments that larger firms often attract more public scrutiny, which may induce them to increase their engagement in CSR activities. Interestingly, we found that foreign-owned firms are more likely to engage in CSR, which confirms prior arguments that, facing liability of foreignness in host countries, foreign firms utilize CSR activities as a way to increase social legitimacy (Gardberg & Fombrun, 2006). The inverse Mill's ratio (IMR) was calculated based on the results of the full model (Model 3) and was included as a control variable in the following second-stage regressions.

Table 3, Table 4, and Table 5 show the results of the Heckman second-stage models that evaluate the interactive effects of CSR engagement and political connections on ROA, ROE, and ROS. For each of the three dependent variables, we ran five models: In Model 1 and Model 2, we included CSR engagement and political connections, respectively, while we added the interaction between CSR and CPA in Model 3; then, we added the moderating effects of government involvement and *guanxi* importance in Model 4 and Model 5.

Hypothesis 1 proposed that CSR and political connections complement each other to promote firms' financial performance. We found *positive and significant* interactions between CSR engagements and central-level political connections across all three dependent variables (Table 3. Model 3: $\beta = 0.048$, $p = 0.005$; Table 4. Model 3: $\beta = 0.074$, $p = 0.003$; Table 5. Model 3: $\beta = 0.228$, $p < 0.001$). Although the interactions between CSR engagements and local-level political connections are also positively associated with ROE and ROS, they are not statistically significant ($p > 0.05$). Therefore, Hypothesis 1 is supported with central-level political connections but not supported with local-level political connections.

In Hypothesis 2, we predicted that the positive interaction between CSR engagement and political connections would be stronger in regions with higher government involvement. As expected, we found government involvement *positively and significantly* moderates the interaction between CSR engagement and central political connections across all three measures of firms' financial performance (Table 3. Model 4: $\beta = 0.057$, $p = 0.024$; Table 4. Model 4: $\beta = 0.091$, $p = 0.046$; Table 5. Model 4: $\beta = 0.231$, $p = 0.005$), but we did not find a similar pattern with local-level political connections.

In Hypothesis 3, we expected that the positive interaction between

Table 2
Probit estimates for Heckman first-stage model.

	Model 1	Model 2	Model 3
Industry-level CSR		0.017***	0.016**
		(3.518)	(3.419)
Prior performance			0.428**
Size	0.334***	0.329***	(2.817)
	(28.506)	(27.777)	0.331***
			(27.862)
Slack resources	−0.239*	−0.236*	−0.272*
	(−2.245)	(−2.221)	0.057
Advertising intensity	0.058	0.054	(1.389)
	(1.327)	(1.325)	(27.544)
Tenure	0.008**	0.008**	0.008**
Long-term debt	(3.131)	(3.132)	(3.162)
	1.284***	1.288***	1.319***
	(8.773)	(8.780)	(8.965)
Intangible assets ratio	−0.532*	−0.572*	−0.574*
	(−2.162)	(−2.313)	(−2.319)
Foreign ownership	0.203*	0.210*	0.208*
	(2.384)	(2.485)	(2.453)
State ownership	0.362***	0.359***	0.360***
	(11.392)	(11.283)	(11.298)
Year dummies	Included	Included	Included
Constant	−3.521***	−4.091***	−4.110***
	(−35.822)	(−21.790)	(−21.797)
Observations	10,971	10,971	10,971
Pseudo R-square	0.142	0.144	0.145

Note: Dependent variable is CSR dummy, reflecting whether a firm is involved in CSR activities; all independent variables are lagged by one year; robust z-statistics in parentheses.

*** $p < 0.001$.

** $p < 0.01$.

* $p < 0.05$.

CSR engagement and political connections would be strengthened when the importance of *guanxi* is higher. Contrary to our prediction, we found a *negative* three-way interaction between *guanxi* importance, CSR, and political connections (both central and local); the results are consistent across three dependent variables. Hence, Hypothesis 3 is not supported. We discuss the implications of these results further in the Discussion section.

To ease the interpretation of interaction effects between CSR and CPA, and the moderating effects of institutional variables, we drew interaction plots and also calculated marginal effects. Fig. 1 presents the interactive effects between CSR engagement and central political connection on ROA. The graph on the left shows how political connections strengthen the positive effect between CSR and firms' financial performance. We can observe from the graph that the positive effect of CSR on ROA is stronger for firms with central political connections. We also calculated the marginal effects of CSR engagement on ROA for firms with or without central political connections, holding other variables at the mean. The results showed that for firms that *do not have* central political connections, a one standard deviation increase of their CSR engagement leads to *5.8%* increase of ROA, while for firms *with* central political connections, a one standard deviation increase of their CSR engagement leads to *56.4%* increase of ROA, providing additional evidence that central political connections strengthen the financial benefits firms can obtain from their CSR efforts. The graph on the right illustrates how CSR engagement moderates the relationship between central political connections and ROA. We can observe from the graph that when CSR engagement is low (which we defined as one and a half standard deviations below the mean CSR engagement), central political connection is negatively associated with ROA, whereas when CSR engagement is high, the relationship between central political connection and ROA turns to be positive. The calculation of the marginal effects corroborates these observations. Holding other variables at the mean, for firms with *low* CSR engagement, politically connected firms perform *worse* than nonpolitically connected firms by *88.4%* in terms of ROA, while for firms with *high* CSR engagement, politically connected firms *outperform* nonpolitically connected firms by *17.1%* in terms of ROA.

Since the moderating effect of institutional variables involves three-way interactions, we also drew interaction plots and calculated marginal effects to ease the interpretation. Fig. 2 shows the moderating effect of government involvement on the interaction between CSR and CPA. The comparison between (a) and (b) shows how the strengthening effect of CPA on performance implications of CSR differs across high versus low government involvement. We can observe from the graph that the *differences in* the slopes of the two lines are apparently larger in (b) than (a). The calculation of the marginal effects also supports these observations. In conditions with *low* government involvement (a), the *difference in* the marginal effects of CSR engagement between politically connected versus nonpolitically connected firms is *9.3%* (with CPA: 13.5%; without CPA: 4.2%),[6] while the number increases to *78%* (with CPA: 85%; without CPA: 7.4%) when government involvement is *high* (b). A similar pattern is observed on comparing (c) and (d). The two lines in (c) are more *parallel* than those in (d), showing a *weaker* interaction between CPA and CSR under *low* government involvement. The calculation of the marginal effects shows that the *difference in* the marginal effects of CPA between firms with low versus high CSR engagement is *23.85%* with low government involvement (low CSR: −28%; high CSR: −4.2%), the number increases to *162%* with high government involvement (low CSR: −122%; high CSR: 40.2%).

3.5. Robustness checks

We ran several additional analyses to check the robustness of our findings. First, we used a market-based performance measure (Tobin's Q). The results in Table I (Appendix) still show a positive and significant interaction between CSR engagement and central political connections, consistent with our main results. Second, we used industry-adjusted dependent variables and ran the analyses again. The results shown in Table II (Appendix) are largely consistent with our main results. Third, we dropped the ownership identity variables to test the robustness of the choices of control variables and found the same results (Table III in the Appendix). In general, these additional tests support the robustness of our findings.

4. Discussion

Our study responds to the continuous call for integrating corporate social and corporate political strategies (Frynas & Stephens, 2015; Mellahi et al., 2016) and sheds light on the mechanisms through which CSR and CPA jointly shape firms' financial performance. Drawing on the social exchange theory (Blau, 1964; Emerson, 1976) and the CPA and CSR literature, we propose a complementary relationship between corporate social and political strategies in an emerging economy context where resources created by one strategy can compensate for the weaknesses and facilitate the effectiveness of the other. Empirical analyses based on Chinese listed firms across seven years support our propositions by showing a positive joint effect of CSR engagements and central-level political connections on firms' financial performance; the positive joint effect is stronger when government involvement is higher.

However, we did not find a similar result with local-level political connections. Such discrepancy of results may be attributed to the unique Chinese political structure. In China, the central government and local governments have divergent mindsets and goals (Bai et al., 2006; Cai & Treisman, 2006). Owing to the fiscal decentralization scheme in which the central government empowered local governments to manage their own expenditures and revenues (Lin & Liu, 2000), local

[6] The calculations of the marginal effects here and later in the paper are all based on results with ROA as the dependent variable. The results are consistent when we use ROE or ROS.

Table 3
Effects of CSR and political connection on ROA (Heckman second-stage model).

	Model 1	Model 2	Model 3	Model 4	Model 5
CSR engagement	0.010**	0.010**	0.010**	0.006	0.027*
	(0.002)	(0.003)	(0.003)	(0.103)	(0.023)
Central political connection		−0.011	−0.016*	−0.008	−0.061*
		(0.190)	(0.034)	(0.393)	(0.011)
CSR engagement * Central political connection (H1)			**0.048****	0.012	0.118**
			(0.005)	(0.553)	(0.002)
Government involvement				−0.010***	
				(0.000)	
Government involvement * CSR				0.005	
				(0.372)	
Government involvement * Central political connection				−0.006	
				(0.653)	
Government involvement * CSR * Central connection (H2)				**0.057***	
				(0.024)	
Local political connection		0.001*	0.001*	0.000	−0.000
		(0.012)	(0.015)	(0.832)	(0.804)
CSR engagement * Local political connection (H1)			**−0.001**	0.000	0.001
			(0.549)	(0.600)	(0.788)
Government involvement * Local political connection				0.002**	
				(0.003)	
Government involvement * CSR * Local connection (H2)				**−0.002**	
				(0.182)	
Guanxi importance					−0.000
					(0.440)
Guanxi importance * CSR					−0.003
					(0.115)
Guanxi importance * Central political connection					0.008*
					(0.012)
Guanxi importance * CSR * Central connection (H3)					**−0.014***
					(0.011)
Guanxi importance * Local political connection					0.000
					(0.399)
Guanxi importance * CSR * Local connection (H3)					**−0.000**
					(0.685)
Inverse Mill's ratio	0.034**	0.027*	0.027*	0.028*	0.027*
	(0.001)	(0.013)	(0.014)	(0.011)	(0.014)
Slack resources	0.041*	0.041**	0.045**	0.046**	0.047**
	(0.012)	(0.010)	(0.002)	(0.001)	(0.001)
Advertising intensity	−0.003	−0.002	0.004	0.007	0.005
	(0.892)	(0.943)	(0.841)	(0.736)	(0.813)
Size	0.002	0.001	0.001	0.001	0.001
	(0.057)	(0.113)	(0.150)	(0.236)	(0.113)
Tenure	0.000	0.000	0.000	0.000	0.000
	(0.441)	(0.442)	(0.500)	(0.269)	(0.614)
Long-term debt	−0.061***	−0.065***	−0.065***	−0.066***	−0.065***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Intangible assets ratio	0.011	0.013	0.012	0.010	0.012
	(0.226)	(0.171)	(0.194)	(0.263)	(0.222)
Foreign ownership	0.016*	0.015	0.014	0.017*	0.015
	(0.040)	(0.063)	(0.068)	(0.027)	(0.062)
State ownership	0.006	0.003	0.003	0.004	0.003
	(0.272)	(0.615)	(0.616)	(0.443)	(0.599)
Constant	0.015	0.026	0.027	0.034	0.030
	(0.374)	(0.135)	(0.116)	(0.050)	(0.097)
Observations	2748	2748	2748	2748	2748
R-squared	0.155	0.158	0.161	0.172	0.165

Note: Dependent variable is ROA; all independent variables are lagged by one year; Industry dummies (4-digit code) and Year dummies are included; robust standard errors are used.

*** ***p-Value*** in parentheses $p < 0.001$.

** ***p-Value*** in parentheses $p < 0.01$.

* ***p-Value*** in parentheses $p < 0.05$.

governments have very high incentives to promote local economic development. The economic motivation of local governments is strengthened further by the political promotion system in which GDP growth has been considered as *the* most important criterion for evaluating and promoting local government officials (Li & Zhou, 2005). While local governments regard economic growth as their primary (even the only) goal, the central government is much more concerned about social and environmental outcomes (Luo et al., 2017), especially since 2006, when the central government initiated a new goal of developing the "harmonious society." As we discussed in the Theory and hypotheses development section, the synergistic effect between CSR and political connections is based on one important condition that governments should value firms' CSR efforts. However, our results suggest that this condition only holds for the central government, but not for local governments in China. As they give high priority to economic growth, local governments may even consider firms' CSR efforts negatively so that CSR engagements of firms connected with local governments may harm, instead of improve, their bonding with local

Table 4
Effects of CSR and political connection on ROE (Heckman second-stage model).

	Model 1	Model 2	Model 3	Model 4	Model 5
CSR engagement	0.026**	0.025**	0.021**	0.023*	0.018*
	(0.001)	(0.002)	(0.009)	(0.013)	(0.033)
Central political connection		−0.006	−0.014	−0.009	−0.000
		(0.687)	(0.316)	(0.638)	(0.989)
CSR engagement * Central political connection (H1)			**0.074****	0.020	0.025
			(0.003)	(0.586)	(0.261)
Government involvement				−0.021***	
				(0.000)	
Government involvement * CSR				−0.007	
				(0.626)	
Government involvement * Central political connection				0.005	
				(0.844)	
Government involvement * CSR * Central connection (H2)				**0.091***	
				(0.046)	
Local political connection		0.002*	0.001	0.001	0.002
		(0.034)	(0.079)	(0.339)	(0.071)
CSR engagement * Local political connection (H1)			**0.003**	0.003	0.004
			(0.183)	(0.147)	(0.106)
Government involvement * Local political connection				0.002	
				(0.204)	
Government involvement * CSR * Local connection (H2)				**0.002**	
				(0.681)	
Guanxi importance					−0.002
					(0.177)
Guanxi importance * CSR					−0.009*
					(0.036)
Guanxi importance * Central political connection					0.015*
					(0.025)
Guanxi importance * CSR * Central connection (H3)					**−0.021***
					(0.022)
Guanxi importance * Local political connection					0.001
					(0.210)
Guanxi importance * CSR * Local connection (H3)					**−0.001**
					(0.403)
Inverse Mill's ratio	0.056*	0.052	0.051	0.050	0.050
	(0.041)	(0.089)	(0.093)	(0.102)	(0.100)
Slack resources	0.110***	0.110***	0.116***	0.115***	0.118***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Advertising intensity	−0.026	−0.024	−0.015	−0.009	−0.017
	(0.552)	(0.582)	(0.731)	(0.833)	(0.701)
Size	0.009***	0.008***	0.008***	0.007***	0.008***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Tenure	0.000	0.000	0.000	0.000	0.000
	(0.851)	(0.727)	(0.693)	(0.454)	(0.951)
Long-term debt	−0.120***	−0.123***	−0.123***	−0.124***	−0.124***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Intangible assets ratio	0.002	0.003	0.001	−0.003	0.001
	(0.935)	(0.905)	(0.956)	(0.908)	(0.961)
Foreign ownership	−0.004	−0.005	−0.006	−0.001	−0.005
	(0.832)	(0.799)	(0.785)	(0.975)	(0.815)
State ownership	0.007	0.005	0.005	0.007	0.005
	(0.573)	(0.722)	(0.730)	(0.644)	(0.721)
Constant	−0.050	−0.039	−0.036	−0.015	−0.035
	(0.259)	(0.405)	(0.439)	(0.755)	(0.447)
Observations	2745	2745	2745	2745	2745
R-squared	0.122	0.123	0.125	0.131	0.129

Note: Dependent variable is ROE; all independent variables are lagged by one year; Industry dummies (4-digit code) and Year dummies are included; robust standard errors are used.

*** ***p-Value*** in parentheses $p < 0.001$.

** ***p-Value*** in parentheses $p < 0.01$.

* ***p-Value*** in parentheses $p < 0.05$.

governments.

Moreover, while we hypothesize a strengthening effect of *guanxi importance* on the positive interaction effect of CSR and CPA, our results show a weakening effect. One possible explanation for this unexpected result is that, in China, companies not only establish *political ties* with government officials, but also actively engage in *business ties* with other business organizations, such as suppliers and competitors (Peng & Luo, 2000; Sheng, Zhou, & Li, 2011). When *guanxi* is prevalent is a region, social networks between business partners can be highly developed, conveying a great deal of information and resources, and thus may weaken the dependence of firms on governments and also the political orientation of firms' CSR engagement as they have other important stakeholders (i.e., business partners) to respond in this context. As a result, the facilitating role of political connections on the financial returns of firms' CSR efforts could be attenuated. Future studies with information on firms' business ties may test these propositions to ascertain how companies' business networks interact with their CSR engagements. In general, this study makes the following theoretical

Table 5
Effects of CSR and political connection on ROS (Heckman second-stage model).

	Model 1	Model 2	Model 3	Model 4	Model 5
CSR engagement	0.028**	0.027**	0.022*	0.016	0.021*
	(0.004)	(0.006)	(0.020)	(0.110)	(0.028)
Central political connection		0.008	−0.014	0.029	0.019
		(0.802)	(0.567)	(0.231)	(0.405)
CSR engagement * Central political connection (H1)			**0.228*** **	0.067	0.100
			(0.000)	(0.275)	(0.067)
Government involvement				−0.026***	
				(0.000)	
Government involvement * CSR				0.009	
				(0.657)	
Government involvement * Central political connection				−0.060	
				(0.137)	
Government involvement * CSR * Central connection (H2)				**0.231** **	
				(0.005)	
Local political connection		0.004**	0.003**	0.001	0.003*
		(0.001)	(0.005)	(0.206)	(0.010)
CSR engagement * Local political connection (H1)			**0.002**	0.003	0.002
			(0.592)	(0.201)	(0.568)
Government involvement * Local political connection				0.005*	
				(0.048)	
Government involvement * CSR * Local connection (H2)				**−0.002**	
				(0.693)	
Guanxi importance					−0.000
					(0.784)
Guanxi importance * CSR					−0.002
					(0.721)
Guanxi importance * Central political connection					0.038**
					(0.002)
Guanxi importance * CSR * Central connection (H3)					**−0.057** **
					(0.008)
Guanxi importance * Local political connection					0.001
					(0.132)
Guanxi importance * CSR * Local connection (H3)					**−0.001**
					(0.548)
Inverse Mill's ratio	0.112**	0.114**	0.112**	0.115**	0.116**
	(0.002)	(0.003)	(0.003)	(0.002)	(0.002)
Slack resources	0.049	0.048	0.066	0.070	0.072
	(0.419)	(0.424)	(0.227)	(0.193)	(0.185)
Advertising intensity	−0.053	−0.051	−0.023	−0.014	−0.016
	(0.433)	(0.455)	(0.728)	(0.834)	(0.804)
Size	−0.008***	−0.010***	−0.011***	−0.011***	−0.011***
	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)
Tenure	0.000	0.001	0.001	0.001	0.001
	(0.533)	(0.298)	(0.326)	(0.179)	(0.353)
Long-term debt	−0.152***	−0.154***	−0.154***	−0.155***	−0.147***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Intangible assets ratio	0.089*	0.088*	0.085	0.081	0.077
	(0.042)	(0.044)	(0.054)	(0.066)	(0.094)
Foreign ownership	0.036	0.036	0.035	0.043	0.036
	(0.208)	(0.210)	(0.222)	(0.138)	(0.211)
State ownership	0.033*	0.033	0.033	0.036*	0.034
	(0.046)	(0.059)	(0.061)	(0.039)	(0.052)
Constant	0.027	0.035	0.042	0.060	0.041
	(0.640)	(0.549)	(0.475)	(0.317)	(0.488)
Observations	2748	2748	2748	2748	2748
R-squared	0.272	0.275	0.283	0.291	0.288

Note: Dependent variable is ROS; all independent variables are lagged by one year; Industry dummies (4-digit code) and Year dummies are included; robust standard errors are used.

*** ***p-Value*** in parentheses $p < 0.001$.

** ***p-Value*** in parentheses $p < 0.01$.

* ***p-Value*** in parentheses $p < 0.05$.

contributions.

4.1. Theoretical contributions

4.1.1. Contributions to nonmarket strategy literature

This study contributes to nonmarket strategy research on several fronts. One important premise of nonmarket strategy is that firms can manage the relationship with nonmarket actors strategically as traditional "core business" activities within markets (Bach & Allen, 2010). Built on this premise, we further emphasize that firms should take a proactive role in pursuing *integrated* nonmarket strategies, which may yield unique competitive advantages. The examination of interactions between CSR and CPA not only integrates two normally separated lines of research (Mellahi et al., 2016), but more importantly, provides a portfolio view of corporate nonmarket strategy (Dorobantu et al., 2017), emphasizing that firms may configure different nonmarket approaches to manage their nonmarket environment more efficiently. Although of great importance to firms' operations, the nonmarket

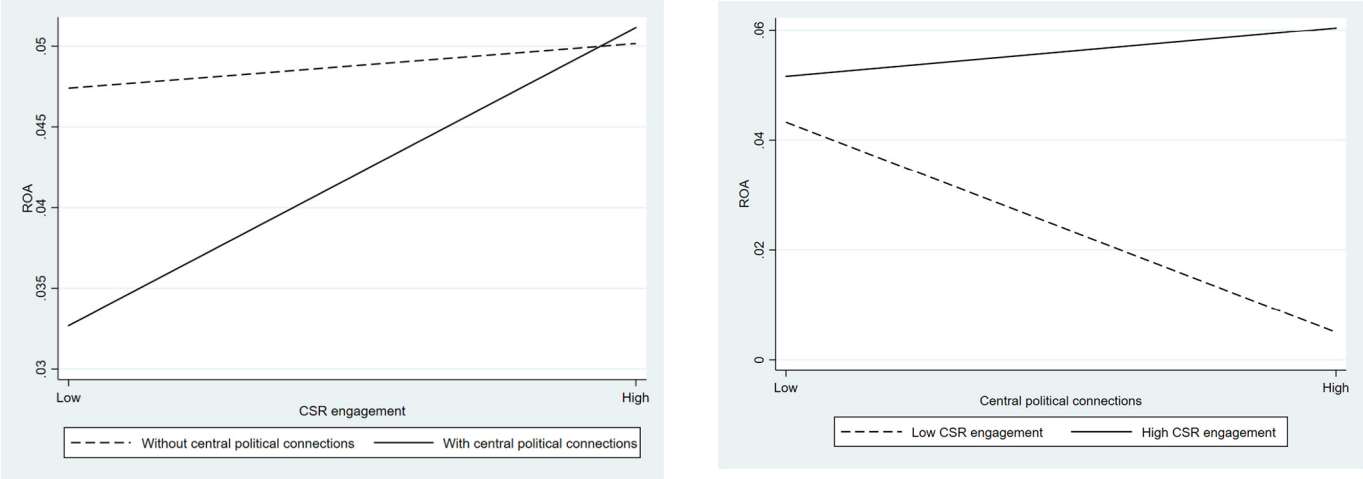

Fig. 1. Interaction plots: interaction between CSR and central political connections on ROA.

environment is often difficult to manage as the "cause and effect are extremely difficult to predict in the nonmarket environment" (Liedong et al., 2015, p. 407). Reviews of empirical studies of both CSR and CPA (e.g., Aguinis & Glavas, 2012; Lux et al., 2011) imply that firms often cannot gain expected financial benefits from their investments in nonmarket activities.

The portfolio view we suggest in this paper provides a possible solution through which firms may strategically select several nonmarket approaches and conduct them configurationally. Different social and political strategies may generate synergistic effects that not only mitigate the negative effect of a specific approach but also amplify its positive effect. Our empirical results provide an illustration of this point. We found a negative, but not significant, effect of central political connections but a significant positive interaction effect between CSR engagement and central political connections. The negative effect of political connections is consistent with previous China-based studies (Fan et al., 2007; Sun et al., 2015), which emphasize the risk and uncertainty of political connections in China. However, our results further show that the simultaneous engagement in CSR may mitigate these negative effects of CPA, because CSR enables the maintenance of reciprocal relationships with governments and provides moral capital to protect firms from political hazards.

4.1.2. Contributions to the CPA literature

Previous studies based on developed economies normally theorize CPA as market exchanges between policy demanders (firms) and policy suppliers (governments) (Bonardi et al., 2005; Hillman & Hitt, 1999; Hillman & Keim, 1995). However, the present study proposes a social exchange perspective of business–government interactions that emphasizes the informal, long-term-oriented relational dynamics that require continual efforts to cultivate and maintain. Beyond providing information, money, and votes, common tactics in Western countries, CSR can be an effective means to bond with governments in emerging economies.

Moreover, unlike previous CPA research that tends to regard the state as a monolithic entity, our study reveals that the divergent priorities of the central and local governments can significantly influence how firms should manage their political connections. While CSR engagements can be a good complement for firms connected with the central government, they are not helpful for firms connected with local governments. Moving one step further, it would be intriguing for future research to specially investigate firms that are embedded simultaneously in multiple levels of the state and to examine how these firms reconcile the divergent, or even conflicting, goals and expectations.

4.1.3. Contribution to the CSR literature

The relationship between CSR and firms' financial performance has been a long-discussed issue with inconsistent findings. As Barnett (2007) suggested, CSR research should be diverted from "the long-fought battle for replicable empirical findings of the financial returns to CSR in general", but "toward a quest for deeper understanding of the underlying drivers of whether and when particular firms may earn positive financial returns from CSR" (p. 795). While Barnett (2007) and other scholars (e.g., Maon, Lindgreen, & Swaen, 2009; Mitchell, Agle, & Wood, 1997) have suggested the importance of identifying concerns of stakeholders in determining the financial returns of CSR, they seldom discuss specific means that firms can use to achieve this goal. Our study adds to the literature by suggesting that political connections can be a good way for firms to understand the priorities of key stakeholders and thus promote financial benefits from their CSR engagements. The effect is especially apparent when governments play dominant roles in the economy.

4.2. Limitations

We recognize three limitations of this study. First, our empirical analyses are based on the Chinese context, where market institutions are less developed and governments remain in strong control of the economy. As nonmarket strategies have been conceived as alternative strategies for firms to deal with weak institutional contexts (Dorobantu et al., 2017) and manage regulatory uncertainty (Doh et al., 2012), the effect of nonmarket strategies may vary in other countries with different institutional environments. Future research may continue to explore whether the complementarity between firms' CSR activities and political connections we found in this specific context still holds in other contexts, such as developed economies with more transparent policies and more efficient markets.

Second, in this study, we only examined the interaction between the overall CSR engagement and political connections as one type of CPA. We did not examine in detail different types of CSR activities (e.g., sustainable environmental issues, social services, employee rights protection, and customer rights protection) and other political strategies (e.g., lobbying, political action committees, advocacy advertising, and grassroots mobilization). The interactive perspective opens up avenues for future research to re-consider different *configurations* of corporate nonmarket strategy and ways for firms to optimize their nonmarket investments.

Third, this study focuses on domestic firms in China. Considering the significant role of CPA and CSR for foreign firms, future research may explore how the integration between different nonmarket

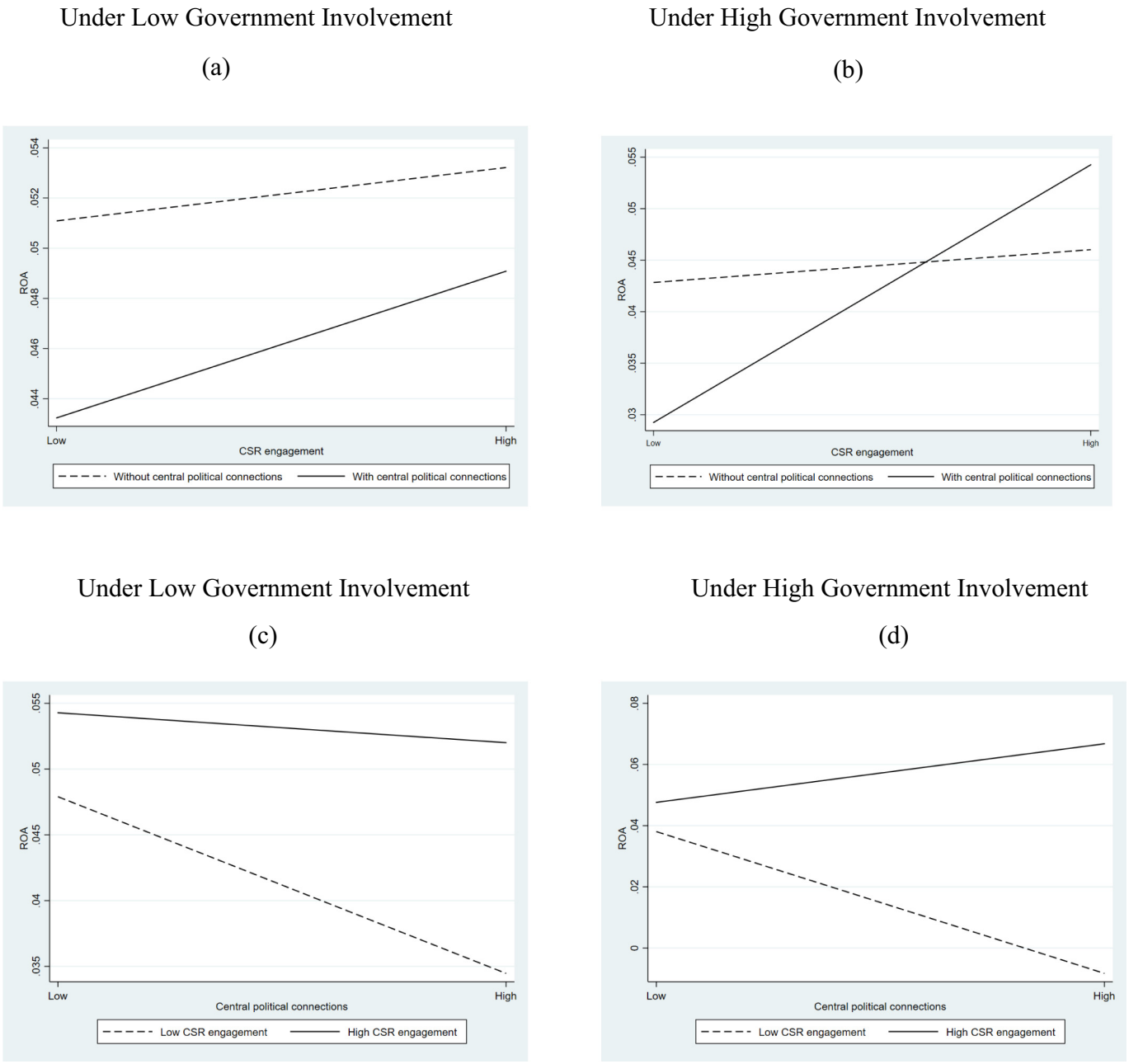

Fig. 2. Interaction plots: moderating effect of government involvement.

strategies benefits foreign firms operating in diverse institutional contexts (Frynas & Stephens, 2015). Because of the liabilities of foreignness, foreign firms often lack legitimacy and face more political constraints; therefore, an *integrative* and *portfolio* approach of nonmarket strategy may be more important for them to better manage the institutional environments to which they are exposed.

5. Conclusions

This study is one of the first to examine empirically the performance implications of integrating corporate social and corporate political activities. Drawing on the social exchange theory and the CPA and CSR literature, we propose a positive joint effect of CSR and CPA on firms' financial performance in China and elucidate specific mechanisms underlying the positive interaction. Empirical analyses based on a panel dataset of Chinese listed firms from 2009 to 2015 support our propositions. The results show a positive interaction between CSR and central-level political connections on firms' financial performance, and the positive interaction is stronger when the government involvement is higher. We believe the *integrative* approach of nonmarket strategy we suggested in this study provides a new perspective and opens up avenues for future nonmarket strategy research.

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Appendix A

Table I
Robustness checks with market-based performance measure.

	M1	M2	M3	M4
CSR engagement	0.136	0.127	0.110	0.102
	(0.068)	(0.088)	(0.158)	(0.189)
Central political connection		0.018		0.009
		(0.910)		(0.955)
CSR engagement * Central political connection		**0.679****		**0.673****
		(0.006)		**(0.007)**
Local political connection			0.001	0.000
			(0.897)	(0.968)
CSR engagement * Local political connection			**0.028**	**0.027**
			(0.200)	**(0.215)**
Inverse Mill's ratio	0.647*	0.688*	0.648*	0.684*
	(0.018)	(0.017)	(0.019)	(0.019)
Slack resources	−0.556	−0.502	−0.559	−0.506
	(0.198)	(0.241)	(0.195)	(0.238)
Advertising intensity	1.655**	1.736**	1.658**	1.738**
	(0.004)	(0.002)	(0.004)	(0.002)
Size	−0.288***	−0.291***	−0.291***	−0.294***
	(0.000)	(0.000)	(0.000)	(0.000)
Tenure	−0.009	−0.009	−0.008	−0.008
	(0.062)	(0.072)	(0.084)	(0.091)
Long-term debt	−3.164***	−3.145***	−3.160***	−3.144***
	(0.000)	(0.000)	(0.000)	(0.000)
Intangible assets ratio	0.268	0.248	0.265	0.246
	(0.201)	(0.240)	(0.208)	(0.245)
Foreign ownership	0.534*	0.540*	0.534*	0.539*
	(0.031)	(0.030)	(0.031)	(0.030)
State ownership	0.191	0.209	0.190	0.206
	(0.134)	(0.114)	(0.139)	(0.122)
Constant	3.442***	3.408***	3.453***	3.423***
	(0.000)	(0.000)	(0.000)	(0.000)
Observations	2685	2685	2685	2685
R-squared	0.474	0.475	0.475	0.476

Note: Dependent variable is Tobin's Q; all independent variables are lagged by one year; Industry dummies (4-digit code) and Year dummies are included; robust standard errors are used; ***p-value*** in parentheses ***p < 0.001, **p < 0.01, *p < 0.05.

Table II
Robustness checks with industry-adjusted performance.

	Industry-adjusted ROA			Industry-adjusted ROE			Industry-adjusted ROS		
	M1	M2	M3	M4	M5	M6	M7	M8	M9
CSR engagement	0.010***	0.010***	0.006	0.025***	0.021***	0.023**	0.027***	0.022**	0.016
	(0.003)	(0.003)	(0.103)	(0.002)	(0.009)	(0.013)	(0.006)	(0.020)	(0.110)
Central political connection	−0.011	−0.016**	−0.008	−0.006	−0.014	−0.009	0.008	−0.014	0.029
	(0.190)	(0.034)	(0.393)	(0.687)	(0.316)	(0.638)	(0.802)	(0.567)	(0.231)
CSR engagement * Central political connection		**0.048*****	0.012		**0.074*****	0.020		**0.228*****	0.067
		(0.005)	(0.553)		**(0.003)**	(0.586)		**(0.000)**	(0.275)
Government involvement			−0.010***			−0.021***			−0.026***
			(0.000)			(0.000)			(0.000)
Government involvement * CSR			0.005			−0.007			0.009
			(0.372)			(0.626)			(0.657)
Government involvement * Central political connection			−0.006			0.005			−0.060
			(0.653)			(0.844)			(0.137)
Government involvement * CSR * Central connection			**0.057****			**0.091****			**0.231*****
			(0.024)			**(0.046)**			**(0.005)**
Local political connection	0.001**	0.001**	0.000	0.002**	0.001*	0.001	0.004***	0.003***	0.001
	(0.012)	(0.015)	(0.832)	(0.034)	(0.079)	(0.339)	(0.001)	(0.005)	(0.206)
CSR engagement * Local political connection		−0.001	0.000		0.003	0.003		0.002	0.003
		(0.549)	(0.600)		(0.183)	(0.147)		(0.592)	(0.201)
Government involvement * Local political connection			0.002***			0.002			0.005**
			(0.003)			(0.204)			(0.048)
Government involvement * CSR * Local connection			−0.002			0.002			−0.002
			(0.182)			(0.681)			(0.693)
Inverse Mill's ratio	0.027**	0.027**	0.028**	0.052*	0.051*	0.050	0.114***	0.112***	0.115***
	(0.013)	(0.014)	(0.011)	(0.089)	(0.093)	(0.102)	(0.003)	(0.003)	(0.002)
Slack resources	0.041***	0.045***	0.046***	0.110***	0.116***	0.115***	0.048	0.066	0.070
	(0.010)	(0.002)	(0.001)	(0.000)	(0.000)	(0.000)	(0.424)	(0.227)	(0.193)
Advertising intensity	−0.002	0.004	0.007	−0.024	−0.015	−0.009	−0.051	−0.023	−0.014

(*continued on next page*)

Table II (*continued*)

	Industry-adjusted ROA			Industry-adjusted ROE			Industry-adjusted ROS		
	M1	M2	M3	M4	M5	M6	M7	M8	M9
	(0.943)	(0.841)	(0.736)	(0.582)	(0.731)	(0.833)	(0.455)	(0.728)	(0.834)
Size	0.001	0.001	0.001	0.008***	0.008***	0.007***	−0.010***	−0.011***	−0.011***
	(0.113)	(0.150)	(0.236)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Tenure	0.000	0.000	0.000	0.000	0.000	0.000	0.001	0.001	0.001
	(0.442)	(0.500)	(0.269)	(0.727)	(0.693)	(0.454)	(0.298)	(0.326)	(0.179)
Long-term debt	−0.065***	−0.065***	−0.066***	−0.123***	−0.123***	−0.124***	−0.154***	−0.154***	−0.155***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Intangible assets ratio	0.013	0.012	0.010	0.003	0.001	−0.003	0.088**	0.085*	0.081*
	(0.171)	(0.194)	(0.263)	(0.905)	(0.956)	(0.908)	(0.044)	(0.054)	(0.066)
Foreign ownership	0.015*	0.014*	0.017**	−0.005	−0.006	−0.001	0.036	0.035	0.043
	(0.063)	(0.068)	(0.027)	(0.799)	(0.785)	(0.975)	(0.210)	(0.222)	(0.138)
State ownership	0.003	0.003	0.004	0.005	0.005	0.007	0.033*	0.033*	0.036**
	(0.615)	(0.616)	(0.443)	(0.722)	(0.730)	(0.644)	(0.059)	(0.061)	(0.039)
Constant	−0.020	−0.019	−0.012	−0.101**	−0.098**	−0.076	−0.028	−0.021	−0.004
	(0.243)	(0.273)	(0.476)	(0.032)	(0.036)	(0.106)	(0.637)	(0.723)	(0.950)
Observations	2748	2748	2748	2745	2745	2745	2748	2748	2748
R-squared	0.086	0.090	0.101	0.077	0.079	0.085	0.105	0.115	0.126

Note: All independent variables are lagged by one year; Industry dummies (4-digit code) and Year dummies are included; robust standard errors are used; ***p-value*** in parentheses ***p < 0.001, **p < 0.01, *p < 0.05.

Table III
Robustness checks (excluding ownership controls).

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	ROA		ROE		ROS	
CSR engagement	0.010**	0.010**	0.025**	0.021**	0.028**	0.023*
	(0.003)	(0.003)	(0.001)	(0.008)	(0.005)	(0.016)
Central political connection	−0.012	−0.017*	−0.008	−0.016	−0.005	−0.027
	(0.134)	(0.017)	(0.557)	(0.209)	(0.876)	(0.230)
CSR engagement * Central political connection		**0.049****		**0.073****		**0.229*****
		(0.005)		**(0.003)**		**(0.000)**
Local political connection	0.001*	0.001*	0.002*	0.002	0.004***	0.004**
	(0.011)	(0.014)	(0.030)	(0.072)	(0.001)	(0.004)
CSR engagement * Local political connection		−0.001		0.003		0.002
		(0.551)		(0.183)		(0.583)
Inverse Mill's ratio	0.022***	0.022***	0.042***	0.041***	0.052***	0.050***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Slack resources	0.042**	0.046**	0.109***	0.115***	0.046	0.064
	(0.009)	(0.002)	(0.000)	(0.000)	(0.450)	(0.249)
Advertising intensity	−0.001	0.005	−0.026	−0.017	−0.053	−0.025
	(0.975)	(0.806)	(0.563)	(0.709)	(0.431)	(0.700)
Size	0.001	0.001	0.009***	0.008***	−0.009***	−0.010***
	(0.139)	(0.182)	(0.000)	(0.000)	(0.000)	(0.000)
Tenure	0.000	0.000	0.000	0.000	0.000	0.000
	(0.478)	(0.539)	(0.771)	(0.734)	(0.445)	(0.480)
Long-term debt	−0.067***	−0.067***	−0.129***	−0.128***	−0.185***	−0.185***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Intangible assets ratio	0.014	0.013	0.005	0.003	0.104*	0.101*
	(0.107)	(0.124)	(0.819)	(0.875)	(0.014)	(0.019)
Constant	0.034**	0.035**	−0.026	−0.024	0.123***	0.129***
	(0.002)	(0.001)	(0.330)	(0.376)	(0.000)	(0.000)
Observations	2748	2748	2745	2745	2748	2748
R-squared	0.156	0.159	0.123	0.124	0.273	0.281

Note: All independent variables are lagged by one year; Industry dummies (4-digit code) and Year dummies are included; robust standard errors are used; ***p-value*** in parentheses ***$p < 0.001$, **$p < 0.01$, *$p < 0.05$.

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