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How Does the Turnover of Local Officials Make Firms More Charitable? A Comprehensive Analysis of Corporate Philanthropy in China

Abstract

Building on institutional theory, this study investigates the impact of local officials' turnover on corporate philanthropy in China. Using data from Chinese listed firms from 2000–2015, we find that when city-level officials are replaced, firms increase the amount of money they donate. We also note that such positive relationship is stronger when the turnover of a local secretary is unexpected or when the firm experiences stronger performance than in the prior year. Further in-depth analysis shows that the positive impact of the turnover of local officials becomes more salient when firms have high levels of state ownership.

Keywords: corporate philanthropy, corporate social responsibility, political turnover, political risk, institutional theory, China

JEL classification: G38, L30, M14

1. Introduction

Corporate philanthropy (CP), defined as the voluntary and unconditional transfer of cash or other forms of assets by firms for public purposes, is one of the more dominant and widely used ways for firms to respond to social needs, establish a positive image, and generate strategic value (Gao and Hafsi, 2015; Zhang et al., 2016). Extant studies have explored the driving forces of CP (see review in Gautier and Pache, 2015) at the firm level (e.g., firm size, net income, advertising expenditures, board memberships, networks), industry level (e.g., industry structure), and country level (e.g., institutions). Regardless of the findings on CP, the role of institutions has not yet been adequately addressed in the literature. Scholars have focused primarily on the role of either political connections (Cumming et al., 2016; Gao and Hafsi, 2017; Zhang et al., 2016) or state ownership (Li et al., 2015; Li and Zhang, 2010) to explain CP behavior. The overall assumption is that firms make CP decisions in a constant and stable institutional environment within their countries of operation. However, because of the recent global increase in institutional instability, with emerging economies taking leading positions in the global economy, firms have been forced to make decisions under conditions of greater uncertainty and instability. This becomes even more relevant when studying CP in a country such as China, which is characterized by great political instability and an uneven distribution of institutional development across different regions (Chan et al., 2010; He et al., 2008; Wang and Luo, 2018; Zhong et al., 2019). Therefore, the existing knowledge regarding CP is limited and certainly not fully applicable to emerging economies if we continue to neglect the role of institutional instability (Chan and Feng, 2019; Lin et al., 2015).

To address this gap, in this study, we investigate the influence of the turnover of local officials, who are party and government officials at the local level, on firms' donation behaviors in China (Wang and Luo, 2018). Official leaders in China are key decision makers regarding issues of local economic development and social stability. Thus, their turnover will cause high levels of unpredictability in firms' business operations (Julio and Yook, 2016; Wang and Luo, 2018). This is why the turnover of local officials is considered a major source of institutional instability in China (Chan and Feng, 2019; Lin et al., 2015; Zhong et al., 2019). Despite this, the severity of such a phenomenon is evident in

Figure 1, which shows that, from 2001–2015, the average annual rate of the turnover of local officials in China is 46%. According to institutional theory, institutions are conceptualized as “rules of the game,” and firms’ behaviors therefore constantly change (North, 1990; Scott, 2001; Suchman, 1995). In this context, China’s government, as an important component of the institutions, controls the resources needed by firms and exerts substantial pressure on business operations (Liu et al., 2018; Wang and Luo, 2018). More specifically, in terms of social responsibility activities such as CP, many studies have already demonstrated how the Chinese government, unlike governments in other developed countries, plays a unique role as initiator, stakeholder, and audience simultaneously (Wang and Qian, 2011; Zhang et al., 2016). This privileged role has been emphasized by the lack of a transparent government decision-making process in an unbalanced political system and with an inadequate legal infrastructure (Hoskisson et al., 2000). Such a powerful and controlling position gives the government the ability to either deny or grant resources to firms, depending on their level of conformity (Correia, 2014; Mellahi et al., 2016). This phenomenon has been defined as either a “grabbing” or “helping” hand by the Chinese government (Shleifer and Vishny, 1994). Because, since 2004, the Chinese government has advocated for a “harmonious society” and urged companies to be socially responsible (Guo et al., 2018; Wang and Luo, 2018), making donations in the name of the public good has recently become one of the main paths for firms to show their conformity to the government and receive in return its helping hand. Evidence of CP’s being used as a “buffering” mechanism includes the fact that 90% of all donations from 2007–2014 went to charitable institutions with a government background, as reported by the China Charity Information Centre (Zhang et al., 2016). As a result, forced donation has become a well-known and established phenomenon in China (21st Century Business Herald, 2011). To access sufficient resources and obtain favorable policies or treatment from the local government, firms tend to meet government expectations to secure their own political legitimacy (DiMaggio and Powell, 1983; Scott, 2001; Suchman, 1995). However, the turnover of local officials brings great unpredictability to future policies and access to resources (Julio and Yook, 2016). We expect that, to secure ongoing benefits from incoming officials, firms will increase their CP donation amounts in response to the turnover of local officials.

Furthermore, we argue that the impact of the turnover of local officials on CP varies with the type of turnover and the firm's internal condition. In terms of turnover type, we divided the turnover of local officials into expected turnover and unexpected turnover. Local officials are required to rotate in every 5 years and companies expect that, but unexpected turnover occurs when officials leave before completing 5 years of service because of a sudden promotion, death, or misconduct (Xu et al., 2016; Zhong et al., 2019). We expect the positive relationship between turnover of local officials and CP to be stronger when the turnover is unexpected. Internally, firms are goal-setting systems and often make decisions based on comparisons with prior performance (Cyert and March, 1963). Because charitable donation consumes substantial resources (Buchholtz et al., 1999; McGuire et al., 1988), firms are more motivated to designate large amounts of money for donations when their performance is better than the previous year's. Thus, we introduce firms' relative performance (compared to prior-year performance) as a moderator and expect a stronger positive relationship between the turnover of local officials and CP when a firm's relative performance is high.

To test our hypotheses, we use Chinese firms listed on the Shanghai and Shenzhen Stock Exchange from 2000–2015. Utilizing Chinese-listed firms is ideal for this study for several reasons: First, China, a relation-based economy with strong government intervention, is an appropriate context for researchers seeking to understand the real motivation for CP in situations of institutional uncertainty (Du, 2015; Liang et al., 2015). Second, listed Chinese firms have been the main contributors of CP in recent years (Yang, 2018), which makes our findings more representative. Finally, China has frequent turnovers because of a policy of appointing new political officials in a region to prevent local officials from building too much power in a specific area (Xu et al., 2016). Given that China is still undergoing an economic transition, uncertainties arise when government officials are replaced, forcing firms to wait and learn the new rules for local operations (An et al., 2016).

We find strong evidence that the turnover of city-level officials has a significant impact on firms' donation behaviors: First, the turnover of city-level officials including mayors and secretaries, increases the amount of money invested in CP. We also find that the effect of official turnover on CP lasts for a maximum of 3 years. Second, we observe that the positive relationship between the turnover

of city-level officials and donation amount is stronger when the turnover is unexpected and involves a secretary. Third, the positive relationship between the turnover of city-level officials and donation amount is also stronger when firms have high levels of relative performance. Finally, from the additional analyses, we note that firms with high levels of state ownership are more sensitive to the turnover effect than private firms or those with low levels of state ownership, which strengthens the positive relationship between the turnover of officials and donation amount.

This research makes three major contributions: First, we contribute to the CP literature, which assumes a stable institutional environment for firms' donations. Building on institutional theory, our findings regarding the significant role of the turnover of city-level officials show that institutional instability is a salient factor driving firms' CP decisions. Second, we explore the divergent effects of official turnover on CP after comparing the turnovers of mayors and secretaries, both expected and unexpected. Our in-depth analysis indicates that unexpected turnovers have a stronger influence on the relationship between the turnover of local officials and CP than expected turnovers. In addition, the positive relationship between the turnover of officials and CP is stronger for firms with high levels of state ownership, but it is only true when the secretary is replaced rather than the mayor. This implies that firms with high levels of state ownership are more sensitive to the turnover of local officials because higher levels of government involvement expose them more to the incoming officials, and they are expected by the government to take the initiative in supporting the government's social mission and political objectives (Boubakri et al., 2019; Ge and Zhao, 2017). The fact that the effect is salient only for secretaries further confirms that the role of secretaries differs from that of mayors in China; the former focus more on social stability and supervision of corporate social responsibility than the latter. These important findings disclose the complexity of the Chinese political hierarchy, which has distinctive functional roles up and down the political ladder. Finally, the significant contingent role of a firm's relative performance highlights the role of internal performance comparisons in firms' CP behaviors, expanding the knowledge gleaned from the current CP literature.

The remainder of this paper is organized as follows: in section 2, we provide the hypotheses. In section 3, we discuss the empirical method for testing our hypotheses. In section 4, we report our

main results and additional in-depth results. Finally, in section 5, we outline our conclusions and provide a discussion.

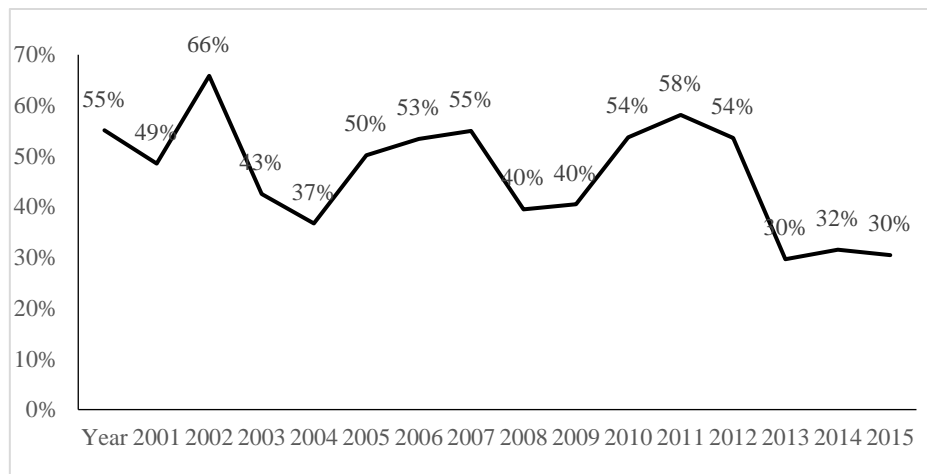


Fig. 1. The ratio of local officials' turnover from 2000–2015 in all Chinese cities (Source: *Government official websites.*)

2. Institutional background, literature review, and development of hypothesis

2.1. Institutional theory and the Chinese political system

Institutional theory has amply acknowledged the role of government in shaping corporate strategy and behavior. According to institutional theory, organizations are passive agents acting within frames of reference provided by institutions (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; North, 1990). In light of this, organizations need to follow the rules of the game in a given institution to obtain legitimacy and secure their operations (North, 1990; Suchman, 1995). Suchman (1995) defines *legitimacy* as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (p. 574). In emerging countries such as China, the government plays a dominant role in conferring legitimacy and determining the degree to which an organization's behavior is proper and socially desirable (Gao and Hafsi, 2015; Guo et al., 2017; Zhang et al., 2016). The Chinese government can create a favorable business climate for local firms' development and protect firms from high taxes or industry restrictions (Gautier and Pache, 2015). However, the Chinese government controls critical resources by permitting access to critical infrastructure (e.g., land, energy, water,

electricity), issuing licenses and permits, creating bank credit, or granting subsidies (Shi et al., 2014; Zhang et al., 2016). These resources are essential to firms' financial performance and long-term competitive advantage.

To obtain legitimacy and access to favorable treatment from the government or reduce potential arbitrary government intervention in business operations, firms must meet the government's expectations (Gao and Hafsi, 2015). Notably, firms need to maintain good will with the government, which includes making charitable donations to society (Ma and Parish, 2006; Zhang et al., 2016). This has been clear since 2004 when Chinese President Hu Jintao advocated for the socioeconomic ideology of building a "harmonious society." The entire nation came to view social stability as a strategically important goal comparable to economic growth. This philosophy supports any government intervention to pressure firms for donations (Chan, 2010). Furthermore, considering that China has decentralized the state bureaucracy, promoting local economic growth has historically been the primary goal of the central government. This has resulted in more resources being allocated to local economic development than to social services (Marquis et al., 2011; West and Wong, 1995). Because of insufficient funding for social services, local governments (i.e., provinces, cities, counties, and townships) encourage firms to shoulder the responsibility for social development to satisfy the increasing call for social improvement made by the central government (Friedman et al., 2000; Lin et al., 2015; Zhang et al., 2016).

In China, a local governor and a party secretary in each region represent the dual presence of the government and the Communist Party in China's political hierarchy (Li and Zhou, 2005). The appointment of local government personnel is controlled and decided by the central government. Since the Chinese economic transformation of 1978, the central government has endeavored to empower local officials with the ultimate authority to allocate resources within their jurisdiction to manage local economies (Chen et al., 2005; Li and Zhou, 2005). Using such economic resources as leverage to motivate companies to make social contributions, local officials can achieve both fiscal and social targets for their own career development (Chen et al., 2005; Li and Zhou, 2005; Marquis et al., 2011).

2.2. Hypothesis development

The turnover of local official leaders leads to discontinuity or even a disruption of current policies, which results in great uncertainty for business operations (An et al., 2016; Goodell and Vähämaa, 2013; Henisz, 2000; Julio and Yook, 2016; Lin et al., 2015). Julio and Yook (2012) and Xu et al. (2016) note that political elections reduce firms' expenditures and cash holdings. In such circumstances, firms sustain substantial costs by searching for relevant policy information, familiarizing themselves with the initiatives introduced by new local officials, and forecasting possible future turbulence for business operations (Williamson, 1981). This is always the case when an official assumes a new position. The general mind-set is that substantial change is needed for the transition, like "a new broom sweeps clean" (*Xin Guan Shang Ren San Ba Huo*). Thus, expected but unpredictable changes in policies or rules are inevitable for local firms every time a local official changes (An et al., 2016).

In addition, a new official leader makes firms' prior political connections less useful and triggers new political competition among firms to establish new connections (Lin et al., 2015). Researchers have noted that firms with political connections enjoy preferential government treatment, which is critical for firms' survival and performance (Arnoldi and Villadsen, 2015; Sun et al., 2015; Zhang et al., 2016; Zheng et al., 2015). Supporting this statement, Liu et al. (2013) note a positive relationship exists between politically connected executives and the probability of IPO approval for entrepreneurial firms. Zheng et al. (2015) also find that firms with political ties have a greater likelihood of long-term survival and demonstrate stronger financial performance than firms without political ties, and this is most significant at the local level. Given the necessity of firms' receiving help from the government, the arrival of a new local official renders firms' political connections with prior local officials obsolete and places the firms in a vulnerable position as they attempt to obtain legitimacy from a new local government. This motivates companies to invest significant resources in establishing new connections instead (Lin et al., 2015). Therefore, firms are more likely to conduct CP to demonstrate their efforts to align themselves with government goals and meet government expectations. Thus, we propose the following hypothesis:

Hypothesis 1. *There is a positive relationship between the turnover of local officials and the amount*

of money invested in CP.

Although the turnover of local officials may drive firms to donate more, we argue that the impact of official turnover on CP is contingent upon whether such turnover is expected or unexpected. A standard practice in China is that government officials are required to rotate their positions across different departments and geographic locations every 5 years (Xu et al., 2016; Zhong et al., 2019). Nevertheless, some officials may leave their positions earlier than expected because of unforeseen events such as corruption charges, promotion, or death (Xu et al., 2016; Zhong et al., 2019). This scenario is also supported by data collected from 2000–2015, indicating that more than half of politicians appointed were unable to complete their full terms. Compared with expected turnover, unexpected turnover creates significant uncertainties for local businesses because firms then do not have enough time or information to effectively strategize their CP behavior. Firms must ensure that they donate more than the expected amount to curry favor with newly appointed leaders and preclude adverse actions being taken by new government officials against the firms in the future (Julio and Yook, 2012). In contrast, when turnover is expected, firms are more capable of collecting adequate information to understand the preferences of the new leadership and evaluate the most efficient timing and proper amounts of donations. Thus, we further posit the following:

Hypothesis 2. *The positive relationship between the turnover of local officials and CP is stronger when the turnover is unexpected.*

A positive relationship between turnover of officials and CP is also contingent on whether firms have sufficient resources available for CP (McGuire et al., 1988; Seifert et al., 2003). As noted in the corporate social responsibility (CSR) literature, CSR activities consume substantial resources, and their outcomes are long term and unpredictable (Amato and Amato, 2007; Buchholtz et al., 1999; Seifert et al., 2003). In addition, some scholars have argued that the large cost of CSR activities puts firms at an economic disadvantage compared to other less socially responsible companies (McGuire et al., 1988). Therefore, a firm's tendency to donate is influenced by its internal comparison with its own past performance (Cyert and March, 1963). Firms with stronger performance than in the prior year (i.e., a high level of relative performance) will be more comfortable investing in CP to counter any political

uncertainty arising from local officials' turnover; higher performance normally presupposes sufficient resources to support such charity initiatives (Zheng et al., 2015). In contrast, if firms perform worse than in the prior year, executives experience mounting pressure to increase their short-term performance (Jenter and Kanaan, 2015) and therefore feel keener about allocating their resources directly to business operations rather than to long-term, expensive donations. Based on the above discussion, we develop our third hypothesis:

Hypothesis 3. *The positive relationship between the turnover of local officials and CP is stronger when a firm experiences stronger performance compared with the prior year.*

3. Data, sample, and research design

3.1. Sample and data sources

To investigate how CP is influenced by the turnover of local officials, we include all Chinese firms listed on the Shanghai and Shenzhen Stock Exchange from 2000–2015. Chinese firms, particularly publicly listed firms, are the major sources of social charitable donations in China, contributing 70.7% of the total Chinese donations in 2015 (Yang, 2018). We establish our starting date in 2000 because of the availability of philanthropic data, which were manually sourced from companies' annual reports (Lin et al., 2015; Wang and Qian, 2011). Regarding the turnover of local officials, we focus on both mayors and secretaries by manually collecting the relevant information from official websites at the city and province level. We source all firms' financial data, including financial structure, operational performance, and corporate governance, from the China Stock Market and Accounting Research (CSMAR) database, one of the largest data sources for Chinese listed firms (Guo et al., 2018; Liu et al., 2017). We also take gross domestic product (GDP) data for cities and provinces from the annual China Statistical Yearbook.

After extracting data from the above sources, we assemble a preliminary dataset of all Chinese listed firms, including 30,344 initial observations. We select our sample using the following criteria: (a) excluding observations with foreign capital shares (listed on the Shanghai and Shenzhen B-shares markets); (b) excluding observations belonging to the banking, insurance, and other financial

industries; and (c) excluding observations with missing values for variables (Du, 2013; Lin et al., 2015). Table 1 presents the sample selection process. Finally, we obtain an unbalanced panel dataset consisting of 26,353 firm-year observations from 2,808 unique firms during the 2000–2015 period for the analysis. The detailed distribution of state-owned enterprises (SOEs) and nonstate-owned enterprises (non-SOEs) is also reported in panel B of Table 1. As shown in Table 1, a huge increase in non-SOEs from 37.93–61.7% occurred from 2008 to 2009. One possible reason for this is that the government relaxed the transfer restrictions in the stock market, and the financial crisis in 2008 accelerated SOE privatization, addressing the government’s concerns regarding boosting performance and improving the market environment (Cao et al., 1999; Wang et al., 2004).

Table 1
Sample selection and description.

Panel A: Sample selection				
Initial observations				30,344 obs.
Observations with foreign capital shares (B-shares markets)				1,733 obs.
Observations belong to the banking, insurance and other financing industries				516 obs.
Observations with missing values of variables				1,742 obs.
Available firm-year observations				26,353 obs.
Panel B: Sample distribution by year and ownership structure				
Year	No. of obs.	% of obs.	No. of non-SOEs	% of non-SOEs
2000	1011	3.83	233	23.05
2001	1081	4.10	244	22.57
2002	1134	4.30	255	22.49
2003	1195	4.53	245	20.50
2004	1277	4.85	280	21.93
2005	1276	4.84	294	23.04
2006	1305	4.95	320	24.52
2007	1348	5.12	410	30.42
2008	1458	5.53	553	37.93
2009	1585	6.01	978	61.70
2010	1894	7.19	1315	69.43
2011	2179	8.27	1658	76.09

2012	2352	8.92	1917	81.51
2013	2333	8.85	1920	82.30
2014	2376	9.02	1933	81.36
2015	2549	9.67	2075	81.40
Total	26,353	100	14,630	55.52

3.2. Measures of dependent variable

In this study, we use the amount of CP as the dependent variable (Gao and Hafsi, 2015; Li et al., 2015). We measure *DONATION_A* as the amount of a firm's philanthropic contribution, in RMB, in a given year. Because this variable is highly skewed, we take a natural logarithm transformation of it (Wang and Qian, 2011; Zhang et al., 2010). In our sample, 58.6% of cases engage in corporate philanthropy. Among firms that donated, the average donation is approximately ¥2,143,217 (US\$311,098, based on the 2019 exchange rate), accounting for about 0.46% of the firms' profit. Moreover, for a robustness check, we also apply three alternative measures of corporate philanthropy. *DONATION_D* is a dummy variable, coded as 1 if the firm donated in a specific year and 0 otherwise. We measure *DONATION_SALES* and *DONATION_ASSETS* as the amount of corporate philanthropy scaled separately by total sales and total assets in a given year (Liu et al., 2017).

3.3. Measures of independent variables

In China's bureaucratic system, the mayor and the party secretary of the Chinese Communist Party are the top two leaders in the political hierarchy and share dual administrative powers (Li and Zhou, 2005; Piotroski and Zhang, 2014). Among all the local administrative levels with ultimate authority, provincial and city governments play key roles in affecting the operations of local listed firms (Cheung et al., 2009; Wang et al., 2008; Xu et al., 2016). We construct several dummy variables to capture the impact of the turnover of these two top leaders at the city and provincial level. *TURNOVER_CM* is equal to 1 if the mayor of the city is replaced in a given year and 0 otherwise; *TURNOVER_CS* is equal to 1 if the Communist Party secretary of the city is replaced in a given year and 0 otherwise; *TURNOVER_C* is equal to 1 if one of the city officials (the mayor or Communist Party secretary) or both are replaced in a given year and 0 otherwise. Similarly, at the provincial level,

TURNOVER_PG is equal to 1 if the governor of the province is replaced in a given year and 0 otherwise; *TURNOVER_PS* is equal to 1 if the Communist Party secretary of the province is replaced in a given year and 0 otherwise; *TURNOVER_P* is equal to 1 if one of the provincial officials (the governor or Communist Party secretary) or both are replaced in a given year and 0 otherwise.

Consistent with previous studies (An et al., 2016; Lin et al., 2015), we use the cutoffs of event dates to define the year of turnover. If an official change occurred in the first half of the year (before July 1), we treat it as official turnover in the same year; otherwise, it falls in the next year.

Based on the above measures of the turnover of local officials, we determine whether such turnovers are unexpected or expected. In China, the basic political cycle of local officials is 5 years, following the convening of the People's Congresses (Wang and Luo, 2018). According to our data, approximately 24% of city-level officials from 2000–2015 were replaced before the expected successions because of unexpected situations such as sudden death or sudden removal from office for misconduct (e.g., corruption). We identify the unexpected turnovers using the government's official websites. Overall, unexpected turnover accounts for 65% of total turnover incidents in our sample. To test hypothesis 2, we then construct several dummy variables to measure the types of officials' turnovers. *UNEXPECTED_CM* is equal to 1 if the mayor of the city is replaced unexpectedly in a given year and 0 otherwise. *UNEXPECTED_CS* is equal to 1 if the Communist Party secretary of the city is replaced unexpectedly in a given year and 0 otherwise. *UNEXPECTED_C* is equal to 1 if one of the city officials (the mayor or Communist Party secretary) or both are replaced unexpectedly in a given year and 0 otherwise.

To test hypothesis 3, we analyze the firm's relative performance using the firm's own historical performance. A few empirical studies have defined the relative performance as the direct difference between a local firm's current performance and its past performance (Jung and Bansal, 2009; Miller and Chen, 2004). Considering the instability of China's institutional environment and the miracle of its economic development since the reform and opening-up, the variability of financial performance is often high (Khanna and Palepu, 1997; Peng and Luo, 2000). Thus, in this study, we model the relative performance by focusing on the change ratio instead of the quantity. Specifically,

we use Tobin's Q to measure a corporation's financial performance. We compare a firm's relative performance in year t with the previous year's (*RELATIVE_TOBINQ*) and calculate it as follows:

$$\text{RELATIVE_TOBINQ}_t = \frac{\text{TOBINQ}_t - \text{TOBINQ}_{t-1}}{\text{TOBINQ}_{t-1}} \quad (1)$$

3.4. Measures of control variables

We select control variables at the top management team (TMT) level, firm level and regional level to control for the potential influence on CP. With regard to the TMT level, we control for the size and ownership of the TMT. Consistent with previous studies (Brammer et al., 2006), our results indicate that the TMT plays a significant role in shaping corporate philanthropic activities and that the size and ownership reflect the managers' discretion (Nielsen and Nielsen, 2013). We measure *TMTSIZE* as the number of TMT members in a given firm and *TMTOWNERSHIP* as the total percentage of firm shares owned by TMT members.

We also control for a set of firms' characteristics that may influence CP. We measure *FIRMSIZE* as the natural logarithm of total assets and *FIRMAGE* as the number of years since a firm's foundation. Larger and older firms may accumulate more resources and attract more scrutiny from the public to support their philanthropic efforts (Gao and Hafsi, 2015; Wang et al., 2008). We measure *LEVERAGE* as the ratio of total debt to total assets. Firms with a high level of leverage are less likely to donate to avoid greater financial risk (Adams and Hardwick, 1998). We measure *TOBINQ* as the sum of the market value of equity and the book value of liability divided by total assets. Firms exhibiting better financial performance are more likely to donate (Waddock and Graves, 1997). We measure *CASH* as the natural logarithm of cash and cash equivalents. The cash flow of a firm reflects the resources available for CP (Zhang et al., 2010).

Factors from the external environment may also affect a firm's CP. Previous studies have shown that market competition may stimulate firms to donate to enlarge their market share (Deng et al., 2013). We use the Herfindahl-Hirschman Index (HHI) as a measure of market competition. We calculate the HHI in region k in year t as follows:

$$\text{HHI}_{kt} = \sum_{i=1}^n \left(\frac{\text{Sales}_{ikt}}{\text{Sales}_{kt}} \right)^2 \quad (2)$$

where $Sales_{ikt}$ is the sales revenue of firm i in region k in year t ; $Sales_{kt}$ is the total sales revenue of all firms in region k in year t . A high HHI represents low competition in region k . Thus, we measure HHI_CITY as the firm's HHI in one city and $HHI_PROVINCE$ as the firm's HHI in a given province. To capture the effect of local economic development, we control for local GDP (Gao and Hafsi, 2017). We measure GDP_CITY as the natural logarithm of a city's GDP and $GDP_PROVINCE$ as the natural logarithm of the GDP of the province. Finally, we control for year and industry effects to capture time period and industry variations (Qian et al., 2015).

3.5. Estimation model

In this study, we estimated the following regression to test the relationship between the turnover of local officials and CP:

$$DONATION_{i,t+1} = \beta_0 + \beta_1 TURNOVER_{i,t} + \beta_2 Controls_{i,t} + \varepsilon_{i,t} \quad (3)$$

where $DONATION$ is the dependent variable, $TURNOVER$ includes a total of three measures as independent variables, $Controls$ is a set of control variables, and ε is an error term. Because our dependent variable, $DONATION_A$, is a continuous random variable, the panel ordinary least squares (OLS) model is appropriate. We conduct a Hausman test to select between fixed- and random-effects estimations, and the results show that fixed effects are preferred (Hausman, 1978). Thus, we conduct a panel regression with a firm-level fixed-effects estimation. In addition, we include year and industry dummies in the regression.

To test the moderating effects, we estimate the following regression, including moderating variables and their interaction terms:

$$\begin{aligned} DONATION_{i,t+1} &= \beta_0 + \beta_1 TURNOVER_{i,t} + \beta_2 UNEXPECTED_{i,t} + \beta_3 TURNOVER_{i,t} \\ &\times UNEXPECTED_{i,t} + \beta_4 RELATIVE_TOBINQ_{i,t} + \beta_5 TURNOVER_{i,t} \\ &\times RELATIVE_TOBINQ_{i,t} + \beta_2 Controls_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (4)$$

where $UNEXPECTED$ includes $UNEXPECTED_C$, $UNEXPECTED_CM$ and $UNEXPECTED_CS$.

Considering the potential endogeneities of reverse causality, we lag 1 year between the dependent variable ($t + 1$) and the independent variables (t) for all estimations (Ntim and Soobaroyen,

2013). Meanwhile, we winsorize all variables at the top and bottom 1%. To achieve more robust results, we use bootstrap standard errors with 500 repetitions (Kaplan and Vakili, 2015; Kiss and Barr, 2015).

4. Results

4.1. Descriptive statistics and correlation matrix

Table 2 summarizes the descriptive statistics for all the explanatory variables used in this study (variable definitions are presented in Appendix A). The mean value of *DONATION_A*, the dependent variable, is 7.31, which is similar to the results of other relevant studies on the CP of Chinese listed firms (Zhang et al., 2016). The mean values of *TURNOVER_C* and *UNEXPECTED_C* are 0.368 and 0.266, respectively, indicating that the turnover rate of city-level officials is high.

Table 2

Descriptive statistics.

Variable	Number	Mean	SD	Min	Median	Max
<i>DONATION_A</i> ^a	26,353	7.230	6.283	0.000	10.163	16.689
<i>TURNOVER_C</i> ^b	26,353	0.368	0.482	0.000	0.000	1.000
<i>TURNOVER_CM</i> ^b	26,353	0.270	0.444	0.000	0.000	1.000
<i>TURNOVER_CS</i> ^b	26,353	0.266	0.442	0.000	0.000	1.000
<i>UNEXPECTED_C</i> ^b	26,353	0.239	0.426	0.000	0.000	1.000
<i>UNEXPECTED_CM</i> ^b	26,353	0.157	0.364	0.000	0.000	1.000
<i>UNEXPECTED_CS</i> ^b	26,353	0.151	0.358	0.000	0.000	1.000
<i>RELATIVE_TOBINQ</i>	24,078	0.166	0.714	-0.763	-0.036	2.994
<i>TMTSIZE</i>	26,353	6.299	2.390	1.000	6.000	45.000
<i>TMTOWNERSHIP</i>	26,353	0.039	0.109	0.000	0.000	0.576
<i>FIRMSIZE</i> ^a	26,353	21.609	1.244	18.900	21.500	26.400
<i>FIRMAGE</i>	26,353	12.350	5.576	0.000	12.000	48.000
<i>LEVERAGE</i>	26,353	0.386	0.208	0.027	0.367	1.273
<i>TOBINQ</i>	26,353	2.162	1.988	0.185	1.563	11.948
<i>CASH</i> ^a	26,353	19.592	1.510	13.374	19.644	23.769
<i>HHI_CITY</i>	26,353	0.256	0.244	0.037	0.154	1.000

<i>GDP_CITY</i> ^a	26,353	17.194	1.272	14.165	17.284	19.342
<i>Additional information:</i>						
<i>DONATION_A (RMB)</i> (original value) ^c	26,353	1,255,367	12,778,970	0.000	25,919.90	930,000,000
<i>AGE_CM</i> ^d	26,353	53.014	4.913	31.000	53.000	70.000
<i>GENDER_CM</i> ^d	26,353	0.982	0.134	0.000	1.000	1.000
<i>EDUCATION_CM</i> ^d	26,353	2.961	0.768	1.000	3.000	4.000
<i>AGE_CS</i> ^d	26,353	55.171	5.860	39.000	54.000	72.000
<i>GENDER_CS</i> ^d	26,353	0.971	0.167	0.000	1.000	1.000
<i>EDUCATION_CS</i> ^d	26,353	2.847	0.813	1.000	3.000	4.000

Notes: All continuous variables were winsorized at the top and bottom 1% to exclude the effect of outliers. ^a took the natural logarithm transformation. ^b measured as the dummy variable. ^c captured the original value of donation amount. ^d captured the characteristics of city-level officials. Specifically, *AGE_CM* captured the age of the city mayor; *GENDER_CM* captured the gender of the city mayor (1 equals to Male, 0 equals to Female); *EDUCATION_CM* captured the education background of the city mayor (1 equal to under than Bachelor degree, 2 equals to Bachelor degree, 3 equals to Master degree, 4 equals to Doctor degree). Similarly, *AGE_CS*, *GENDER_CS* and *EDUCATION_CS* capture the same information for the city-level secretary.

The results of the Pearson correlation among the variables are reported in Table 3. As expected, the variable *DONATION_A* is positively correlated with the turnover of local officials. The correlations between the dependent variable and all other explanatory variables remain at a relatively low level. We further calculate the variance inflation factors (VIFs) and find that the maximum VIF is 3.71, substantially below the general cutoff of 10 (Ryan, 1997; Wang and Qian, 2011). Thus, multicollinearity is not a serious issue in our study.

Table 3

Pearson correlation matrix.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(1) <i>DONATION_A</i>	1															
(2) <i>TURNOVER_C</i>	0.03	1														
(3) <i>TURNOVER_CM</i>	0.02	0.80	1													
(4) <i>TURNOVER_CS</i>	0.02	0.79	0.49	1												
(5) <i>UNEXPECTED_C</i>	-0.01	0.73	0.54	0.55	1											
(6) <i>UNEXPECTED_CM</i>	-0.02	0.56	0.71	0.27	0.77	1										
(7) <i>UNEXPECTED_CS</i>	-0.02	0.55	0.24	0.70	0.75	0.35	1									
(8) <i>RELATIVE_TOBINQ</i>	0.06	-0.06	-0.07	-0.03	-0.08	-0.07	-0.06	1								
(9) <i>TMTSIZE</i>	0.16	-0.01	-0.01	-0.01	-0.02	-0.02	-0.01	-0.05	1							
(10) <i>TMTOWNERSHIP</i>	0.08	0.06	0.08	0.09	-0.03	-0.03	-0.03	0.01	0.02	1						
(11) <i>FIRMSIZE</i>	0.31	-0.07	-0.07	-0.07	-0.07	-0.06	-0.05	-0.07	0.31	-0.14	1					
(12) <i>FIRMAGE</i>	0.13	-0.08	-0.10	-0.07	-0.09	-0.09	-0.07	0.12	-0.00	-0.09	0.20	1				
(13) <i>LEVERAGE</i>	-0.02	-0.04	-0.06	-0.06	0.02	0.02	0.02	0.05	0.04	-0.23	0.06	0.12	1			
(14) <i>TOBINQ</i>	-0.10	-0.02	0.00	0.02	-0.06	-0.05	-0.05	0.40	-0.14	0.19	-0.43	0.00	-0.20	1		
(15) <i>CASH</i>	0.32	-0.02	-0.00	0.00	-0.08	-0.07	-0.06	-0.09	0.29	0.03	0.79	0.10	-0.16	-0.28	1	
(16) <i>HHI_CITY</i>	-0.03	0.04	0.04	0.01	0.09	0.08	0.05	-0.01	0.01	-0.11	-0.03	-0.11	0.01	-0.03	-0.10	1
(17) <i>GDP_CITY</i>	0.14	-0.08	-0.06	-0.01	-0.18	-0.16	-0.10	0.06	0.05	0.20	0.23	0.32	-0.06	0.07	0.30	-0.63

Notes: $N = 26,353$; correlations greater than $|0.01|$ are significant at 0.05.

4.2. Multivariate regression tests

Hypothesis 1 predicts that the turnover of local officials is positively associated with CP. Table 4 reports the regression results. As shown in models A1–A3, the coefficients of *TURNOVER_C*, *TURNOVER_CM*, and *TURNOVER_CS* are all positive and significant at the 0.1% level ($\beta = 0.59$ with $\rho < 0.001$; $\beta = 0.47$ with $\rho < 0.001$; and $\beta = 0.44$ with $\rho < 0.001$, respectively), suggesting that the turnover of city-level officials, including mayors and secretaries, increases the amounts of donations. Holding other things constant, we calculate the economic significance of the predicted impact of local official turnover on the amounts of donations using the results shown in Table 4. Firms donate approximately ¥7,429 (US\$1080) more when one or both city officials are replaced, approximately ¥5,914 (US\$860) more when the local mayor is replaced, and approximately ¥5,536 (US\$805) more when the local secretary is replaced. These results support the argument of Hypothesis 1: to mitigate the political uncertainty resulting from the turnover of local officials, firms donate more when local officials are replaced.

Hypothesis 2 predicts a positive moderating role for unexpected turnover. In model A4, the coefficient of the interaction item *TURNOVER_C* \times *UNEXPECTED_C* is positive at only the 10% significance level ($\beta = 1.43$ with $\rho < 0.1$), suggesting that the positive moderating effect is marginally supported when one or both city officials are replaced. However, when considering the turnover effects of mayors and secretaries separately, we obtain a negative but nonsignificant coefficient of the interaction item *TURNOVER_CM* \times *UNEXPECTED_CM* ($\beta = -0.59$ with $\rho > 0.1$) in model A5 and a positive and significant coefficient on the interaction item *TURNOVER_CS* \times *UNEXPECTED_CS* ($\beta = 1.92$ with $\rho < 0.05$) in model A6. The above results, taken together, suggest that Hypothesis 2 is supported only when the unexpected turnover is that of a secretary.

These results add value to the existing CSR literature by providing a deeper understanding of CP behaviors than occurred in previous studies. Chan and Feng (2019) and Lin et al. (2015) also research the relationship between political turnover and CP and observe that the turnover of local officials improves firms' tendencies to be charitable. Our results not only share similar findings but more importantly, also offer additional evidence of the functional distinction between mayors and

party secretaries within the local Chinese administrative system (Guo, 2012; Wang and Luo, 2018). The mayors are the leaders of the government and are responsible for implementing policies and wielding administrative power to achieve both economic and social goals. Party secretaries are the leaders of the Chinese Communist Party (CCP), and their primary responsibility is to ensure social stability, including social welfare and environmental protection, to prevent any potential threat to the party's legitimacy (Dickson, 2003; Yao and Zhang, 2015). In this context, the secretary has become the most important impetus for firms to fulfill their social responsibility whereas the mayor is more concerned about whether local businesses can reach local economic targets. Our results show that Chinese firms are more worried about the policy shocks caused by unexpected turnover of the secretary than the mayor and thus donate more to prevent criticism for not being socially responsible. Therefore, the positive relationship between the turnover of local officials and CP is stronger only when the turnover of secretary is unexpected.

Hypothesis 3 predicts a positive moderating effect on a firm's relative performance. As shown in models A7–A9, in which a firm's relative performance is adopted as the moderator, the coefficients of the interaction items $TURNOVER_C \times RELATIVE_TOBINQ$, $TURNOVER_CM \times RELATIVE_TOBINQ$, and $TURNOVER_CS \times RELATIVE_TOBINQ$ are all positive and significant at the 0.1% level ($\beta = 0.43$ with $\rho < 0.001$; $\beta = 0.27$ with $\rho < 0.001$; and $\beta = 0.43$ with $\rho < 0.001$, respectively), suggesting that the positive relationship caused by the turnover of local officials is stronger when firms have high levels of relative performance. These findings support Hypothesis 3.

We then calculate the economic significance of both moderating effects. Compared with expected turnover, firms donate approximately ¥1,036 (US\$151) more when one or both city officials are replaced unexpectedly whereas firms donate approximately only ¥122 (US\$18) more when the turnover of the secretary is unexpected. Moreover, a standard deviation increase in a firm's relative performance will increase the amounts of donations by approximately ¥9,154 (US\$1,331) for firms experiencing the turnover of one or both city officials by approximately ¥8,977 (US\$1,305) for firms experiencing the turnover of the local mayor, and by approximately ¥9,694 (US\$1,409) for firms experiencing the turnover of the local secretary.

Table 4

Regression results about the impact of the turnover of city-level officials on CP.

Variable	Model A1	Model A2	Model A3	Model A4	Model A5	Model A6	Model A7	Model A8	Model A9
<i>TURNOVER_C</i>	0.59*** (0.06)			0.68*** (0.10)			0.54*** (0.06)		
<i>TURNOVER_CM</i>		0.47*** (0.07)			0.55*** (0.10)			0.40*** (0.07)	
<i>TURNOVER_CS</i>			0.44*** (0.06)			0.51*** (0.10)			0.35*** (0.07)
<i>TURNOVER_C</i> × <i>UNEXPECTED_C</i>				1.43 [†] (0.85)					
<i>TURNOVER_CM</i> × <i>UNEXPECTED_CM</i>					-0.59 (2.15)				
<i>TURNOVER_CS</i> × <i>UNEXPECTED_CS</i>						1.92* (0.82)			
<i>TURNOVER_C</i> × <i>RELATIVE_TOBINQ</i>							0.43*** (0.07)		
<i>TURNOVER_CM</i> × <i>RELATIVE_TOBINQ</i>								0.27*** (0.08)	
<i>TURNOVER_CS</i> × <i>RELATIVE_TOBINQ</i>									0.43*** (0.08)
<i>UNEXPECTED_C</i>				-1.56 [†] (0.84)					
<i>UNEXPECTED_CM</i>					0.45 (2.13)				
<i>UNEXPECTED_CS</i>						-2.06* (0.81)			

<i>RELATIVE_TOBINQ</i>							0.59***	0.73***	0.65***
							(0.07)	(0.06)	(0.06)
<i>TMTSIZE</i>	0.09***	0.09***	0.09***	0.09***	0.09***	0.09***	0.08**	0.08**	0.08**
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
<i>TMTOWNERSHIP</i>	2.77***	2.84***	2.82***	2.75***	2.81***	2.79***	3.66***	3.72***	3.66***
	(0.82)	(0.82)	(0.82)	(0.82)	(0.82)	(0.82)	(1.01)	(1.01)	(1.01)
<i>FIRMSIZE</i>	1.25***	1.23***	1.23***	1.25***	1.24***	1.23***	1.20***	1.18***	1.18***
	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)
<i>FIRMAGE</i>	0.08*	0.08*	0.08*	0.08*	0.08*	0.08*	0.05	0.05	0.05
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
<i>LEVERAGE</i>	1.68***	1.68***	1.69***	1.68***	1.69***	1.69***	1.29***	1.29***	1.31***
	(0.31)	(0.31)	(0.31)	(0.31)	(0.32)	(0.31)	(0.34)	(0.34)	(0.34)
<i>TOBINQ</i>	0.07**	0.06*	0.06*	0.07**	0.06*	0.06*	-0.10**	-0.12***	-0.12***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.03)	(0.04)	(0.03)
<i>CASH</i>	0.12*	0.12*	0.13*	0.12 [†]	0.12 [†]	0.13*	0.18**	0.18**	0.18**
	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
<i>HHI_CITY</i>	1.45**	1.45**	1.44**	1.45**	1.44**	1.43**	1.37*	1.41**	1.36*
	(0.55)	(0.55)	(0.55)	(0.55)	(0.55)	(0.55)	(0.54)	(0.54)	(0.54)
<i>GDP_CITY</i>	1.14***	1.13***	1.13***	1.13***	1.12***	1.13***	1.10***	1.10***	1.08***
	(0.24)	(0.24)	(0.24)	(0.24)	(0.24)	(0.24)	(0.25)	(0.25)	(0.25)
Constant	-43.31***	-42.72***	-42.70***	-43.18***	-42.60***	-42.62***	-41.81***	-41.40***	-41.07***
	(4.56)	(4.55)	(4.55)	(4.56)	(4.54)	(4.55)	(4.80)	(4.79)	(4.82)
Year effects	Control	Control	Control	Control	Control	Control	Control	Control	Control
Industry effects	Control	Control	Control	Control	Control	Control	Control	Control	Control
Within R ²	0.132	0.130	0.130	0.132	0.130	0.130	0.140	0.138	0.138
No. of obs.	26,353	26,353	26,353	26,353	26,353	26,353	24,078	24,078	24,078

Notes: [†] p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001. Bootstrap standard errors are in parenthesis.

4.3. Further tests of firms with different levels of state ownership

Several previous studies have determined the significant role of state ownership in CP (Li et al., 2015; Su and He, 2010). To address the concerns about whether different levels of state ownership may affect the relationship between the turnover of local officials and CP, we add another moderating variable, *STATE*, measured as the percentage of shares held by a government, for regression. Table 5 reports the results showing for the moderating role of state ownership. As illustrated in model B1, the coefficient of the interaction item $TURNOVER_C \times STATE$ is positive and significant at the 1% level ($\beta = 0.19$ with $\rho < 0.1$), suggesting that the positive relationship between the turnover of local officials and the amount of money invested in CP is stronger for firms with high levels of state ownership. This finding is consistent with previous literature showing that higher levels of government involvement may force firms to make decisions that seek to maximize political support for the government (Boubakri et al., 2019; Ge and Zhao, 2017), especially when incoming officials demand support from local state-owned firms. For this reason, state-owned firms are expected to take the initiative to donate, and they will be targeted and blamed if they fail to do so (Meyer et al., 2014). Therefore, compared with private firms, state-owned firms are more sensitive to the turnover of the local officials and are more likely to increase donations to cater to the government's social mission and political objectives. In addition, we test the moderating role of state ownership, considering the effects of mayor and secretary turnover separately. The results for model B2–B3 show that the coefficient of the interaction item $TURNOVER_CS \times STATE$ is positive and significant at the 5% level ($\beta = 0.16$ with $\rho < 0.05$), but the coefficient of the interaction item $TURNOVER_CM \times STATE$ is positive but not significant ($\beta = 0.02$ with $\rho > 0.1$). The above results, taken together, suggest that the moderating role of state ownership takes effect only when local secretaries are replaced, corroborating the idea that mayors and party secretaries play distinct roles within the local Chinese administrative system in shaping corporate strategy. As we discussed above, because of differences in their administrative duties, party secretaries pay more attention to corporate social responsibility than mayors. Under these circumstances, firms with high levels of state ownership become the first monitoring targets of newly appointed secretaries, and are more clearly exposed to

their supervision which ultimately contribute more investments through donation.

Table 5

Regression results about the impact of state ownership.

Variable	Model B1	Model B2	Model B3
<i>TURNOVER_C</i>	0.58*** (0.06)		
<i>TURNOVER_CM</i>		0.47*** (0.07)	
<i>TURNOVER_CS</i>			0.43*** (0.06)
<i>TURNOVER_C</i> × <i>STATE</i>	0.19** (0.06)		
<i>TURNOVER_CM</i> × <i>STATE</i>		0.02 (0.07)	
<i>TURNOVER_CS</i> × <i>STATE</i>			0.16* (0.06)
<i>STATE</i>	1.10*** (0.33)	1.41*** (0.32)	1.23*** (0.32)
<i>TMTSIZE</i>	0.09*** (0.03)	0.09*** (0.03)	0.09*** (0.03)
<i>TMTOWNERSHIP</i>	3.11*** (0.83)	3.11*** (0.83)	3.15*** (0.83)
<i>FIRMSIZE</i>	1.22*** (0.12)	1.20*** (0.12)	1.20*** (0.12)
<i>FIRMAGE</i>	0.11** (0.04)	0.11** (0.04)	0.11** (0.04)
<i>LEVERAGE</i>	1.72*** (0.32)	1.74*** (0.32)	1.74*** (0.32)
<i>TOBINQ</i>	0.06** (0.02)	0.06* (0.02)	0.06* (0.02)
<i>CASH</i>	0.13* (0.06)	0.13* (0.06)	0.13* (0.06)
<i>HHI_CITY</i>	1.39* (0.55)	1.39* (0.55)	1.37* (0.55)
<i>GDP_CITY</i>	1.20*** (0.24)	1.18*** (0.24)	1.18*** (0.24)
Constant	-44.35*** (4.60)	-43.61*** (4.58)	-43.69*** (4.59)
Year effects	Control	Control	Control
Industry effects	Control	Control	Control

Within R ²	0.134	0.132	0.132
No. of obs.	26,353	26,353	26,353

Notes: †p < 0.10; *p < 0.05; **p < 0.01; ***p < 0.001. Bootstrap standard errors are in parenthesis.

4.4. Further tests of city-level vs. province-level turnover

Consistent with previous studies (Du, 2013; Wang and Luo, 2018), we use province-level data, including the turnover of provincial officials and several province-level explanatory variables, to test whether province-level data can provide additional evidence for our hypotheses. Table 6 presents the results of the primary effects of the turnover of province-level officials. As shown in models C1–C3, the coefficients of *TURNOVER_P*, *TURNOVER_PG*, and *TURNOVER_PS* are all positive and significant at the 10% level ($\beta = 0.36$ with $\rho < 0.001$; $\beta = 0.12$ with $\rho < 0.1$; and $\beta = 0.28$ with $\rho < 0.001$, respectively), which is similar to the regression results obtained using city-level data. All the above results suggest that our Hypothesis 1 holds whether such official turnovers occur at the city level or the province level.

Table 6

Regression results about the impact of the turnover of provincial-level officials on CP.

Variable	Model C1	Model C2	Model C3
<i>TURNOVER_P</i>	0.36*** (0.06)		
<i>TURNOVER_PG</i>		0.12† (0.07)	
<i>TURNOVER_PS</i>			0.28*** (0.06)
<i>TMTSIZE</i>	0.09*** (0.03)	0.09*** (0.03)	0.09*** (0.03)
<i>TMTOWNERSHIP</i>	2.46** (0.87)	2.45** (0.87)	2.46** (0.87)
<i>FIRMSIZE</i>	1.33*** (0.13)	1.32*** (0.13)	1.32*** (0.13)
<i>FIRMAGE</i>	-0.39*** (0.09)	-0.40*** (0.09)	-0.39*** (0.09)
<i>LEVERAGE</i>	1.59*** (0.34)	1.60*** (0.34)	1.60*** (0.34)
<i>TOBINQ</i>	0.10***	0.09***	0.09***

	(0.03)	(0.03)	(0.03)
<i>CASH</i>	0.14*	0.14*	0.14*
	(0.06)	(0.06)	(0.06)
<i>HHI_PROVINCE</i>	4.68***	4.73***	4.67***
	(1.08)	(1.08)	(1.08)
<i>GDP_PROVINCE</i>	5.75***	5.86***	5.75***
	(0.81)	(0.82)	(0.81)
Constant	-66.58***	-67.00***	-66.28***
	(6.52)	(6.54)	(6.53)
Year effects	Control	Control	Control
Industry effects	Control	Control	Control
Within R ²	0.139	0.138	0.139
No. of obs.	26,863	26,863	26,863

Notes: † p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001. Bootstrap standard errors are in parenthesis.

4.5. Robustness check

We conduct several additional analyses to test whether the results of our primary analyses are robust. First, we adopt alternative measures for our dependent variable. We follow previous studies (Adams and Hardwick, 1998; Gao and Hafsi, 2017) and utilize *DONATION_D*, *DONATION_SALES*, and *DONATION_ASSETS* to conduct robustness checks. All the results are reported in Table 7. For *DONATION_D*, models D1–D3 show that the coefficients of *TURNOVER_C*, *TURNOVER_CM*, and *TURNOVER_CS* are all positive and significant at the 0.1% level ($\beta = 0.17$ with $\rho < 0.001$; $\beta = 0.13$ with $\rho < 0.001$; and $\beta = 0.13$ with $\rho < 0.001$, respectively), strongly and additionally supporting Hypothesis 1. Moreover, using the scaled measures (i.e., *DONATION_SALES* and *DONATION_ASSETS*), all the relevant coefficients in models D4–D9 remain consistent with those of our prior analyses, as shown in Table 4. These results further confirm that our findings are robust.

Table 7

Results of alternative measures of CP for robustness check.

Variable	<i>DONATION_D</i>			<i>DONATION_ASSETS</i>			<i>DONATION_ASSETS</i>		
	Model D1	Model D2	Model D3	Model D4	Model D5	Model D6	Model D7	Model D8	Model D9
<i>TURNOVER_C</i>	0.17*** (0.02)			0.06*** (0.01)			0.04*** (0.01)		
<i>TURNOVER_CM</i>		0.13*** (0.02)			0.05*** (0.01)			0.04*** (0.01)	
<i>TURNOVER_CS</i>			0.13*** (0.02)			0.05** (0.02)			0.02* (0.01)
<i>TMTSIZE</i>	0.03*** (0.01)	0.03*** (0.01)	0.03*** (0.01)	0.00 (0.01)	0.00 (0.01)	0.00 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)
<i>TMTOWNERSHIP</i>	1.31*** (0.16)	1.32*** (0.16)	1.32*** (0.16)	0.03* (0.02)	0.03* (0.02)	0.03* (0.02)	0.04* (0.01)	0.04** (0.01)	0.04** (0.01)
<i>FIRMSIZE</i>	0.27*** (0.02)	0.27*** (0.02)	0.26*** (0.02)	0.04 (0.03)	0.03 (0.03)	0.03 (0.03)	-0.02 (0.03)	-0.02 (0.03)	-0.02 (0.03)
<i>FIRMAGE</i>	0.03*** (0.01)	0.03*** (0.01)	0.03*** (0.01)	-0.05 (0.05)	-0.05 (0.05)	-0.05 (0.05)	-0.09** (0.03)	-0.09** (0.03)	-0.09** (0.03)
<i>LEVERAGE</i>	0.24*** (0.07)	0.24*** (0.07)	0.24*** (0.07)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	0.04** (0.01)	0.04** (0.01)	0.04** (0.01)
<i>TOBINQ</i>	-0.02* (0.01)	-0.02* (0.01)	-0.02** (0.01)	0.07*** (0.01)	0.07*** (0.01)	0.07*** (0.01)	0.09*** (0.01)	0.09*** (0.01)	0.09*** (0.01)
<i>CASH</i>	0.05*** (0.01)	0.05*** (0.01)	0.05*** (0.01)	-0.01 (0.02)	-0.01 (0.02)	-0.01 (0.02)	0.04* (0.01)	0.04* (0.01)	0.04** (0.01)
<i>HHI_CITY</i>	0.38*** (0.09)	0.38*** (0.09)	0.37*** (0.09)	0.04 (0.03)	0.04 (0.03)	0.04 (0.03)	0.06** (0.02)	0.06** (0.02)	0.06** (0.02)

<i>GDP_CITY</i>	0.18*** (0.02)	0.18*** (0.02)	0.18*** (0.02)	0.13† (0.07)	0.13† (0.07)	0.13† (0.07)	0.18*** (0.05)	0.18*** (0.05)	0.18*** (0.05)
Constant	-10.12*** (0.49)	-9.98*** (0.49)	-9.95*** (0.49)	0.05 (0.06)	0.06 (0.06)	0.06 (0.06)	0.09† (0.05)	0.09* (0.05)	0.09* (0.05)
Year effects	Control	Control	Control	Control	Control	Control	Control	Control	Control
Industry effects	Control	Control	Control	Control	Control	Control	Control	Control	Control
Log likelihood	-13941.75	-13961.35	-13961.61						
Wald χ^2	2357.80***	2328.65***	2327.21***						
Within R ²				0.009	0.009	0.008	0.011	0.010	0.010
No. of obs.	26,349	26,349	26,349	26,320	26,320	26,320	26,351	26,351	26,351

Notes: †p < 0.10; *p < 0.05; **p < 0.01; ***p < 0.001. Bootstrap standard errors are in parenthesis.

Table 8

Results of CP with different year lags for robustness check.

Variable	<i>DONATION_A</i> (year <i>t</i>)			<i>DONATION_A</i> (year <i>t</i> +1)			<i>DONATION_A</i> (year <i>t</i> +2)			<i>DONATION_A</i> (year <i>t</i> +3)		
	Model E1	Model E2	Model E3	Model E4	Model E5	Model E6	Model E7	Model E8	Model E9	Model E10	Model E11	Model E12
<i>TURNOVER_C</i>	0.47*** (0.05)			0.59*** (0.06)			0.27*** (0.06)			-0.07 (0.06)		
<i>TURNOVER_CM</i>		0.38*** (0.06)			0.47*** (0.07)			0.25*** (0.06)			-0.14* (0.06)	
<i>TURNOVER_CS</i>			0.53*** (0.06)			0.44*** (0.06)			0.19** (0.06)			-0.02 (0.07)
<i>TMTSIZE</i>	0.10*** (0.03)	0.10*** (0.03)	0.10*** (0.03)	0.09*** (0.03)	0.09*** (0.03)	0.09*** (0.03)	0.06† (0.03)	0.06† (0.03)	0.06† (0.03)	0.03 (0.03)	0.03 (0.03)	0.03 (0.03)

<i>TMTOWNERSHIP</i>	3.45*** (0.75)	3.47*** (0.75)	3.39*** (0.75)	2.77*** (0.82)	2.84*** (0.82)	2.82*** (0.82)	1.24 (0.87)	1.24 (0.87)	1.26 (0.87)	1.38 (1.09)	1.42 (1.09)	1.36 (1.09)
<i>FIRMSIZE</i>	1.14*** (0.11)	1.13*** (0.11)	1.14*** (0.11)	1.25*** (0.12)	1.23*** (0.12)	1.23*** (0.12)	0.66*** (0.14)	0.66*** (0.14)	0.65*** (0.14)	0.68*** (0.14)	0.68*** (0.14)	0.68*** (0.14)
<i>FIRMAGE</i>	0.01 (0.04)	0.01 (0.04)	0.01 (0.04)	0.08* (0.04)	0.08* (0.04)	0.08* (0.04)	0.16*** (0.04)	0.17*** (0.04)	0.17*** (0.04)	0.11* (0.05)	0.11* (0.05)	0.11* (0.05)
<i>LEVERAGE</i>	1.19*** (0.33)	1.19*** (0.33)	1.21*** (0.33)	1.68*** (0.31)	1.68*** (0.31)	1.69*** (0.31)	1.50*** (0.40)	1.50*** (0.40)	1.51*** (0.40)	0.84* (0.37)	0.84* (0.37)	0.85* (0.37)
<i>TOBINQ</i>	-0.20*** (0.02)	-0.20*** (0.02)	-0.20*** (0.02)	0.07** (0.02)	0.06* (0.02)	0.06* (0.02)	-0.12*** (0.03)	-0.12*** (0.03)	-0.12*** (0.03)	0.04 (0.04)	0.04 (0.04)	0.04 (0.04)
<i>CASH</i>	0.03 (0.06)	0.02 (0.06)	0.02 (0.06)	0.12* (0.06)	0.12* (0.06)	0.13* (0.06)	0.13† (0.07)	0.12† (0.07)	0.13† (0.07)	-0.03 (0.07)	-0.02 (0.07)	-0.03 (0.07)
<i>HHI_CITY</i>	2.14*** (0.50)	2.14*** (0.50)	2.11*** (0.50)	1.45** (0.55)	1.45** (0.55)	1.44** (0.55)	1.07* (0.54)	1.06* (0.54)	1.05† (0.54)	0.93 (0.64)	0.92 (0.64)	0.93 (0.64)
<i>GDP_CITY</i>	2.25*** (0.26)	2.24*** (0.26)	2.24*** (0.26)	1.14*** (0.24)	1.13*** (0.24)	1.13*** (0.24)	0.34 (0.25)	0.33 (0.25)	0.33 (0.25)	0.05 (0.29)	0.04 (0.29)	0.06 (0.29)
Constant	-57.16*** (4.62)	-56.77*** (4.63)	-56.94*** (4.62)	-43.31*** (4.56)	-42.72*** (4.55)	-42.70*** (4.55)	-15.95*** (5.00)	-15.70** (5.00)	-15.61** (4.98)	-7.57 (5.02)	-7.44 (5.03)	-7.73 (5.00)
Year effects	Control	Control	Control	Control	Control	Control	Control	Control	Control	Control	Control	Control
Industry effects	Control	Control	Control	Control	Control	Control	Control	Control	Control	Control	Control	Control
Within R ²	0.179	0.179	0.180	0.132	0.130	0.130	0.077	0.077	0.077	0.030	0.030	0.030
No. of obs.	29,219	29,219	29,219	26,353	26,353	26,353	23,718	23,718	23,718	21,267	21,267	21,267

Notes: †p < 0.10; *p < 0.05; **p < 0.01; ***p < 0.001. Bootstrap standard errors are in parenthesis.

Second, to determine whether the official turnover–CP relationship persists over time, we adopt CP in *year t*, *year t+1*, *year t+2*, and *year t+3* separately and rerun our main model as a robustness check. Table 8 reports all the results. For CP in *year t* and *year t+2*, the coefficients of the *TURNOVER* variables are all positive and significant, consistent with the results estimated for CP in *year t+1* (our main result). However, for CP in *year t+3*, the *TURNOVER* coefficients are negative or not significant. These results suggest that firms increase their CP in years when local officials are replaced, and firms continue to pay more CP up to 2 years after the turnover of local officials.

Another concern is that some omitted variables in the regression may cause an endogeneity problem that affects the robustness of the results. To address such potential endogeneity issues, we adopt the two-stage least squares (2SLS) estimation. The instrument variables we use are *MAYOR_AGE* and *SECRETARY_AGE*, measured as the ages of mayors and secretaries. Age is highly correlated with the turnover of officials in China but not correlated with CP (Li and Zhou, 2005).

Table 9 reports the results using a 2SLS estimation. For completeness, we report the analyses at both stages. As shown by the first-stage results in models F1, F3, and F5, the two instrumental variables are all significantly associated with the turnover of local officials. In the second-stage results, all the coefficients, *TURNOVER_C* ($\beta = 2.33$ with $\rho < 0.001$) in model F2, *TURNOVER_CM* ($\beta = 2.01$ with $\rho < 0.001$) in model F4, and *TURNOVER_CS* ($\beta = 1.79$ with $\rho < 0.001$) in model F6, are positive and significant at the 0.1% level, which is consistent with our main results. Therefore, the positive relationship between the turnover of local officials and CP remains robust after correcting for potential endogeneity issues.

Table 9

Results of 2SLS estimation for robustness check.

Variable	Model F1 (Stage 1)	Model F2 (Stage 2)	Model F3 (Stage 1)	Model F4 (Stage 2)	Model F5 (Stage 1)	Model F6 (Stage 2)
<i>TURNOVER_C</i>		2.33*** (0.29)				
<i>TURNOVER_CM</i>				2.01*** (0.32)		
<i>TURNOVER_CS</i>						1.79***

						(0.31)
<i>MAYOR_AGE</i>	-0.02*** (0.00)		-0.03*** (0.00)			
<i>SECRETARY_AGE</i>	-0.02*** (0.00)				-0.03*** (0.00)	
<i>TMTSIZE</i>	0.00 (0.00)	0.09*** (0.02)	0.00 (0.00)	0.09*** (0.02)	0.00 (0.00)	0.09*** (0.02)
<i>TMTOWNERSHIP</i>	0.49*** (0.08)	1.86* (0.80)	0.48*** (0.07)	2.02* (0.80)	0.62*** (0.07)	1.99* (0.80)
<i>FIRMSIZE</i>	-0.10*** (0.01)	1.45*** (0.09)	-0.10*** (0.01)	1.41*** (0.09)	-0.10*** (0.01)	1.38*** (0.09)
<i>FIRMAGE</i>	0 ^a	0.08*** (0.02)	0 ^a	0.09*** (0.02)	0 ^a	0.08*** (0.02)
<i>LEVERAGE</i>	-0.04 [†] (0.03)	1.70*** (0.25)	-0.05* (0.02)	1.73*** (0.25)	-0.06** (0.02)	1.75*** (0.25)
<i>TOBINQ</i>	-0.02*** (0.00)	0.12*** (0.02)	-0.02*** (0.00)	0.10*** (0.02)	-0.02*** (0.00)	0.09*** (0.02)
<i>CASH</i>	0.05*** (0.00)	0.04 (0.05)	0.06*** (0.00)	0.03 (0.05)	0.05*** (0.00)	0.06 (0.05)
<i>HHI_CITY</i>	-0.04 (0.03)	1.39*** (0.35)	-0.02 (0.03)	1.38*** (0.35)	0.05 (0.03)	1.32*** (0.35)
<i>GDP_CITY</i>	0.06*** (0.02)	1.14*** (0.15)	0.04** (0.02)	1.10*** (0.15)	0.11*** (0.01)	1.09*** (0.15)
Constant	2.97*** (0.29)	-46.74*** (2.90)	2.27*** (0.27)	-44.67*** (2.86)	1.46*** (0.27)	-44.49*** (2.85)
Year effects	Control	Control	Control	Control	Control	Control
Industry effects	Control	Control	Control	Control	Control	Control
Within R ²	0.075	0.104	0.077	0.111	0.073	0.115
No. of obs.	26,353	26,353	26,353	26,353	26,353	26,353

Notes: [†]p < 0.10; *p < 0.05; **p < 0.01; ***p < 0.001. Standard errors are in parenthesis. ^a results were omitted.

5. Conclusion

This study investigates how the turnover of local officials influences firms' decisions regarding donations and further examines the moderating role of the type of turnover and a firm's relative performance. Using a sample of Chinese firms with 26,353 firm-year observations from 2000–2015, this study provides strong and robust evidence that the turnover of local officials has significant and positive influences on the amounts of donations. Our results indicate that when the local mayor or

the secretary changes, firms are more likely to engage in CP to mitigate the political uncertainty arising from the turnover of local officials. The results show that CP is a widely used approach to address the adverse effects of changes in local government. Furthermore, we find that the positive relationship between the turnover of local officials and CP is stronger only when the secretary turnover is unexpected or when the firm's relative performance is high compared with the prior year.

Although our primary results lead to findings similar to those of Lin et al. (2015) and Chan and Feng (2019), we move beyond their conclusions to deeply explore possible differences in results regarding mayor turnover and secretary turnover between expected and unexpected turnovers and between firms with different levels of state ownership. Our findings show that unexpected turnover creates greater uncertainty than expected turnover and results in larger donation amounts from firms in response to such turnovers. In addition, at the city level, the turnover of secretaries significantly affects firms with high levels of state ownership. Such nascent findings lend strong support for understanding the complexity of the Chinese political system.

This study has some limitations. First, we conduct it within the context of China with the assumption that its findings could be generalizable to other countries. Future studies can apply our model to other emerging countries to compare potential differences across countries and test our assumptions. Second, we consider only city-level and province-level turnovers; future studies could consider turnovers at the county level to expand our research. With these caveats, our paper uses a large-sample study to contribute to the CP literature by comprehensively explaining how institutional instability influences firms' corporate philanthropy, especially in emerging economies. Third, because we only have yearly data, we cannot precisely test whether firms spend more on CP immediately prior to political turnover as a way to bet on the incumbent politician. This would require monthly data for firms. Future studies could test the assumption using data with a detailed time sequence to determine whether our hypotheses still hold.

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Appendix A. Variable definitions

Variable	Definition	Data source
<i>DONATION_A</i>	The natural logarithm of the amount of one firm's philanthropic contribution	Corporate annual reports
<i>TURNOVER_C</i>	A dummy variable equals 1 if city officials, either the mayor or Communist Party secretary, was replaced in a specific year and 0 otherwise.	Official government websites
<i>TURNOVER_CM</i>	A dummy variable equals 1 if the mayor of the city was replaced in a specific year and 0 otherwise.	Official government websites
<i>TURNOVER_CS</i>	A dummy variable equals 1 if the Communist Party secretary of the city was replaced in a specific year and 0 otherwise.	Official government websites
<i>UNEXPECTED_C</i>	A dummy variable equals 1 if city officials, either the mayor or Communist Party secretary, were replaced unexpectedly in a given year and 0 otherwise.	Official government websites
<i>UNEXPECTED_CM</i>	A dummy variable equals 1 if the mayor of the city was replaced unexpectedly in a given year and 0 otherwise.	Official government websites
<i>UNEXPECTED_CS</i>	A dummy variable equals 1 if the Communist Party secretary of the city was replaced unexpectedly in a given year and 0 otherwise.	Official government websites
<i>RELATIVE_TOBINQ</i>	The change rate in one firm's Tobin's Q compared to last year (Eq. 1)	CSMAR database
<i>TMTSIZE</i>	The count number of TMT members in one firm	CSMAR database
<i>TMTOWNERSHIP</i>	The total percentage of firm shares owned by TMT members	CSMAR database
<i>FIRMSIZE</i>	The natural logarithm of total assets	CSMAR database
<i>FIRMAGE</i>	The number of years since one firm's foundation	CSMAR database
<i>LEVERAGE</i>	The ratio of total debt to total assets	CSMAR database
<i>TOBINQ</i>	The sum of the market value of equity and book value of liability divided by total assets	CSMAR database
<i>CASH</i>	The natural logarithm of cash and cash equivalents	CSMAR database
<i>HHI_CITY</i>	The Herfindahl-Hirschman index of market competition calculated by the sales revenue (Eq. 2).	CSMAR database
<i>GDP_CITY</i>	The natural logarithm of one city's GDP	China Statistical Yearbook

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