

# CSR AS HEDGING AGAINST THE RISK OF INSTITUTIONAL TRANSITION: CORPORATE PHILANTHROPY AFTER THE SUNFLOWER MOVEMENT IN TAIWAN

*Administrative Science Quarterly (Forthcoming)*

Yishu CAI

Chinese University of Hong Kong

[yishu.cai@link.cuhk.edu.hk](mailto:yishu.cai@link.cuhk.edu.hk)

Lori Qingyuan Yue

Columbia University

[qy2103@columbia.edu](mailto:qy2103@columbia.edu)

Fangwen Lin

National University of Singapore

[fangwen.lin@u.nus.edu](mailto:fangwen.lin@u.nus.edu)

Shipeng Yan

University of Hong Kong

[shpyan@hku.hk](mailto:shpyan@hku.hk)

Haibin Yang

Chinese University of Hong Kong

[haibinyang@cuhk.edu.hk](mailto:haibinyang@cuhk.edu.hk)

## ABSTRACT

Political connections to a regime with an authoritarian history present a dilemma for firms during a democratic transition. Such connections provide an essential competitive advantage when the regime is in power but become a liability when a democratic transition results in regime change. This study theorizes that when mass protests expose the regime's policy distortion and signal a high probability of regime turnover, firms may hedge against the risks associated with their political connections by engaging in philanthropy. We further contend that this effect is stronger for firms located in regions characterized by the rise of an opposing political party or a strong civil society. We find support for our theory from Taiwan's 2014 Sunflower Movement. Our paper reveals a strategy that firms adopt to survive democratic transitions and thus contributes to research on how firms use nonmarket strategies to adapt to institutional changes. Our paper also shows that strategic corporate social responsibility (CSR) can substitute for corporate political activity (CPA) or compensate for its limitations, and expands research on the signaling function of social movements.

October, 2024

**Keywords:** corporate political action, corporate social responsibility, political connection, philanthropic donation, mass protest, democratic transition, Taiwan

## INTRODUCTION

The shift from elite politics to mass politics characterizes the modern world. From 1950 to 2021, the number of countries classified as closed autocracies decreased from 104 to 28, while the number of democratic countries increased from 25 to 89 (Herre et al., 2022). As democratization has swept the world, hundreds of millions of people who once lived under authoritarian regimes have obtained greater freedom and shared opportunities. In almost all these transitions, anti-government mass protests have played a critical role in facilitating change—tens of thousands of people have been mobilized into peaceful marches and violent confrontations, expressing their dissatisfaction with incumbent regimes and their distorted policies. Even if such protests do not directly lead to the collapse of a regime, protesters speaking out about political corruption, economic inequality, and social injustice can expose the lack of reckoning of its dark reign and signal that it may not be in power for long.

In this study, we argue that anti-government mass protests in transitional democracies expose the incumbent regime's collusive past, signal regime instability, and prompt firms connected to the incumbent regime to hedge against the associated transitional risks. Political economy researchers have observed that democratic transitions pose a dilemma to politically connected firms. Transitional democracies often retain some authoritarian features, such as deeply intertwined political-business relationships, and therefore adopting a relational posture toward the government is an essential strategy for firms seeking competitive advantages (Peng and Luo, 2000; Leuz and Oberholzergee, 2006; Sun, Mellahi, and Wright, 2012; Jia, 2014). However, the benefits of such political embeddedness can become a liability once democratization has eroded the power and authority of the old government. After a regime change, politically connected firms can suffer rapid drops in their stock returns (Fisman, 2001; Acemoglu, Hassan, and Tahoun, 2018), a decline in their long-term performance (Leuz and Oberholzergee, 2006), a reduction in market opportunities (Siegel, 2007), and even looting

(Darendeli and Hill, 2016). Faced with these high stakes, firms may monitor the signals of transitional risk and hedge against it *before* the government to which they are tied loses power. Doing so is important because the process of democratic transition does not always go smoothly and may experience setbacks. This in turn can present an intricate challenge to firms: on the one hand, the former authoritarian regime may retain some influence and could potentially regain dominance; on the other hand, the rising opposition party may consolidate power amid the incomplete transition by prosecuting firms connected to the former regime. Recent studies have found that politically connected firms do not fare equally well during democratic transitions, with some suffering severe losses while others survive relatively unscathed (Darendeli and Hill, 2016). Thus, it is important to investigate the strategies that firms adopt *before* regime turnover to hedge against the risk of political connections.

Studies have examined two main strategies used by firms to manage the risk of political connections: cutting ties with contaminated government officials (e.g., Jiang et al., 2021) and developing a diversified set of ties with both incumbent officials and their political rivals (e.g., Zhu and Chung, 2014). However, implementing these strategies before regime turnover may not be feasible, as cutting ties with the incumbent regime while it is still in power can result in severe retaliation against firms (Moran, 2005; Nalick et al., 2020), and these firms cannot easily gain acceptance by the incoming politicians to build new ties. Firms embedded within the old regime's networks often carry the stigma of being authoritarian relics, and therefore may be shunned by politicians concerned about their future careers (Shain, 2010; Jiang et al., 2021). Making changes to political networks also takes time, so firms may miss the opportunity to hedge against the imminent risk posed by democratic transition.

We argue that corporate philanthropy is a feasible strategy for hedging against the risk associated with political connections to the incumbent regime during democratic transitions.

The hallmark of democratic transition is the transfer of power away from a small number of elite politicians and the emergence of a more pluralistic system in which the public has a stronger voice in politics and policy-making. Anti-government mass protests can expose the incumbent regime's past collusion and predict its future collapse, so they can signal transitional risks to politically connected firms. These connected firms are prone to have colluded and illegitimately profited from the political and economic circle and thus more likely to be penalized when the incumbent regime's rivals come to power (Jeong and Siegel, 2018). Therefore, they may use corporate philanthropy to increase their social legitimacy (Godfrey, 2005) and gain public support as "insurance" against transitional risks. As the influence of the public will be greater in a more democratic system, the new regime is likely to treat connected firms with greater social legitimacy more leniently. In addition, incumbent rulers are less likely to object to corporate philanthropy and they may even appreciate its role in mitigating public dissatisfaction. Corporate philanthropy is also directly under a firm's control and can be adopted promptly. Therefore, we posit that firms connected with an incumbent regime are likely to respond to anti-government mass protests that signal transitional risks by increasing their philanthropic activities, such as donating to public welfare causes. We then examine regional variations in democratic transition. We expect corporate philanthropy to be more likely for firms located in regions where an opposing political party is emerging or where civil society is stronger, as they indicate a higher democratization level and consequently greater transitional risks to firms.

To test our proposition, we examine the 2014 Sunflower Movement against the Kuomintang (KMT) government in Taiwan. It offers an ideal context to study how politically connected firms adapt to a democratic transition. The Sunflower Movement was a mass protest against the KMT government, Taiwan's long-serving authoritarian regime that survived democratic reform in the late 1980s. Taiwan experienced a relatively peaceful

transition, with the first Democratic Progressive Party (DPP) president coming to office in 2000 and holding power for eight years before the return of the KMT. However, at the time of the Sunflower Movement, Taiwan's democratic transition was incomplete. The KMT elite, who engineered the transition, retained substantial power and controlled the Legislature until 2016. The crimes committed under the authoritarian KMT government and its collusive practices have not been morally or legally accounted for, and many of the connections between the KMT and businesses have been retained (Hioe, 2016). Taiwan was listed eighth in the *Economist's* 2014 "crony capitalism" index, out of the 23 countries and regions for which it had reliable data. The Sunflower Movement erupted at this time, as students protested against the KMT's undemocratic implementation of the controversial Cross-Strait Service Trade Agreement (CSSTA), which was regarded as benefiting large firms at the expense of workers and small businesses. The movement was referred to as "the biggest pro-democracy protest in the island's history," which "exposed the worst of the KMT" (Rowen, 2015: 5). It precipitated the KMT's overwhelming defeat in both the presidential and legislative elections two years later.

Our analysis revealed that KMT-connected firms increased their donations to social causes in the time between the Sunflower Movement and the subsequent regime turnover. We further affirm that these donations were made to support public welfare causes, rather than to support the movement's opponents or to organizations linked to the KMT or its political rival, the DPP. Consistent with our assumptions, we find that after the Sunflower Movement, KMT-connected firms did not significantly cut their ties with the KMT government or build new ties with the DPP, and those that made more donations suffered fewer losses through government procurement after the 2016 regime turnover and had higher cumulative abnormal returns.

## **THEORY**

### **Risk of Political Connection in Democratic Transition**

In 1979, Imelda Marcos, wife of the former Filipino dictator Ferdinand Marcos, was asked why companies founded by their relatives and friends had been so successful. She famously replied that “some are smarter than others” (Branigin, 1984). However, subsequent events proved that the benefits of developing close ties with the autocratic government were short-lived. The People Power Revolution, which consisted of a series of democracy-restoring mass protests, ousted the Marcos in 1986 and most of these companies failed immediately. Many were taken over by the state because they were unable to repay loans that had been guaranteed by the government (Seagrave, 2017). The dramatic rise and fall of Marcos’s cronies epitomize the dilemma of firms with close political connections to a deposed authoritarian regime in a transitional context: such ties can enable firms to reap handsome profits but can also be a curse once the regime to which they are connected falls from power.

Democratic transition is the process of moving away from an authoritarian system in which power is concentrated in the hands of a leader or a small elite group (Huntington, 1993). This is usually a lengthy process, as it takes time to mobilize citizens, remove the residuals of authoritarian power, and develop a fully democratic system. Even after a country implements elections to select political leaders, authoritarian relics can retain a disproportionate amount of influence (see Huntington, 1993; Acemoglu and Robinson, 2008; Acemoglu, Ticchi, and Vindigni, 2011).

The path to democracy can be particularly prolonged in countries and regions that have experienced peaceful transitions, resulting from negotiations and compromises between authoritarian governments and democratic forces, if not outrightly designed by authoritarian elites themselves (Stradiotto and Guo, 2010). Authoritarian and democratic features may be combined in the resulting governments (Diamond, 1994; Zinecker, 2009; Carothers, 2018). Although an electoral system that helps ensure a more inclusive process may have been established, grassroots actors may find it difficult to make their voices heard or their rights

protected (Dudouet and Pinckney, 2021). Money, therefore still plays a major role in the politics of newly democratized regions, such as in South Korea, Indonesia, or Taiwan, albeit to a lesser degree than under previous authoritarian regimes (Siegel, 2007; Mahmood, Chung, and Mitchell, 2017; Martinez-Bravo, Mukherjee, and Stegmann, 2017).

In the process of democratic transition, social groups that do not receive the expected benefits from institutions can be incentivized to initiate social movements that challenge the status quo (Tilly, 1978; Acemoglu and Robinson, 2006). By taking to the streets and chanting anti-regime slogans, protestors can publicly reveal a regime's distorted policies potentially favoring connected elites and mobilize citizens to disrupt the regime collectively. Even if mass protests do not immediately depose political rulers, they reveal the "precarious economic and political situation" and the "hidden information about the viability of the regime" (Lohmann, 1994: 94). Exposing the problematic aspects of the incumbent government reminds the population that the project of democratization is unfinished and rekindles their grievances regarding the unaddressed crimes and collusion that occurred during the previous authoritarian era. By drawing attention to the legitimacy deficits of the incumbent government and its affiliates, mass protests can encourage the public to press for further actions, such as the setting up of truth tribunals and reparation payments.

Mass protests also signal that the foundation of the incumbent regime is shaky. Firms connected to a regime cannot benefit from it if it loses power. These connections can also become liabilities if firms are perceived to have obtained assets or profits illegitimately, and they may then be penalized by the new government (Leuz and Oberholzergee, 2006; Bucheli and Salvaj, 2013; Darendeli and Hill, 2016). For example, firms in Indonesia that were connected to the Suharto regime found that their market value plummeted when the autocrat's health deteriorated (Fisman, 2001), and they suffered a long-term decline in performance after his regime collapsed (Leuz and Oberholzergee, 2006). Similarly, in South Korea's democratic

transition process, firms connected to the old government lost market opportunities once the new government came to power (Siegel, 2007). Mass protests signal such transitional risks to politically connected firms. Firms that have colluded with the old government will typically be penalized when their protectors lose power, as a new political regime is more likely to challenge such firms and thus cultivate popularity at the grassroots level. Accordingly, we argue that firms will heed closely to anti-regime mass protests and prepare to hedge against the transitional risk.

### **Hedging the Risk of Political Connections through Philanthropy**

As previously mentioned, cutting ties with the threatened regime or building new ties with its political rivals represent the two main strategies for managing the risk of political connections. Scholars have reported that if the reputation of an organization (such as a firm) is compromised, other organizations connected to it will respond by exiting the interconnected circle (e.g., McDonnell, Odziemkowska, and Pontikes, 2021). However, this finding is based on studies of protests that target corporations. Disconnecting from these relatively distant corporations is far easier than untangling a political relationship with an incumbent government. Jiang et al. (2021) reported that firms cut ties with government officials who have been convicted of corruption. However, their research focused on an authoritarian regime's self-promoting campaign, which is a relatively stable institutional context; in this context, cutting ties with such officials is in line with the incumbent government's policy and therefore will not lead to retaliation.

Building new ties with the incumbent government's political rivals can also be problematic if the government still holds power (Zhu and Chung, 2014), as it runs the risk of retaliation or "detachment" (Moran, 2005; Nalick et al., 2020). Switching sides leads to not only the loss of trust of the incumbent elites but also further damage if the regime survives its current crisis. Building new ties may also be beyond a firm's control, as it requires the



approval of the targeted party. Firms derive their political identities from their social networks, and those that are deeply embedded within the network of one political clique can find it difficult to establish other relationships outside of the clique (Siegel, 2007; Shih, Adolph, and Liu, 2012; Sun et al., 2015). Even if firms can eventually change their political networks, doing so takes time and thus may not be useful if they need to hedge against the imminent risk posed by democratic transition.

We argue that the prosocial pathway of philanthropic donations to public welfare causes is a more feasible strategy for politically connected firms to hedge against the risk of regime turnover in democratic transition. CSR research has shown that donations to charitable causes help firms build a positive corporate image and consolidate stakeholders' approval (Ingram, Yue, and Rao, 2010; Koehn and Udeng, 2010; Luo, Kaul, and Seo, 2018; Jia, Gao, and Julian, 2020), which in turn increases employee commitment (Bode, Singh, and Rogan, 2015; Carnahan, Kryscynski, and Olson, 2017; Flammer and Kacperczyk, 2019), consumer loyalty (Brown and Dacin, 1997; Sen and Bhattacharya, 2001), and participation in public policy-making (Werner, 2015; Flammer, 2018). CSR has, therefore, been regarded as a form of "insurance" against potential risks (Godfrey, Merrill, and Hansen, 2009). Philanthropic donations to public welfare causes can be particularly useful for managing the political risk associated with democratic transitions because the democratic transition process is characterized by a shift of power toward a political system in which elected representatives govern. Firms can generate goodwill by directly contributing to social causes that benefit the public. This can mitigate punitive sanctions from a new government, which is likely to be responsive to public opinion (Godfrey, 2005; Godfrey, Merrill, and Hansen, 2009). Unlike political actors bound by ideological beliefs, the public can be more easily swayed. In addition to moderating the actions of the government, the public can directly support firms by

providing resources, talent, patronage, and even protection<sup>1</sup>. In their study of eight Turkish construction companies in Libya, Darendeli and Hill (2016) found that, unlike the firms that worked on elite private projects, those working on public projects before the Qadhafi regime collapsed were protected by the public from being looted during the turmoil of the Arab Spring. Similarly, Gatignon, Gama, and DeMello (2023) found that the social strategy of donating to the public was more valuable than the political strategy of maintaining direct connections with the government during Brazil's police raids signaling the transition from legal capture to legal compliance.

As a concrete and visible demonstration of a firm's commitment to society, corporate philanthropy has two main advantages as a risk-hedging strategy for politically-connected firms. First, charitable donations are directly under a firm's control and can be made at any time, unlike strategic adjustments to socio-political ties (Mellahi et al., 2016; Dorobantu, Kaul, and Zelner, 2017). Second, charitable donations do not alienate the incumbent regime. Corporate philanthropy can be interpreted as a form of social redistribution from higher to lower economic groups. It thus helps mitigate the dissatisfaction of the underprivileged, who may not benefit from the incumbent regime's institutional arrangements. Therefore, we posit that in response to anti-regime mass protests that signal the risk of associating with the incumbent regime, politically-connected firms are likely to increase their philanthropic donations to public causes more than non-politically-connected firms.

**Hypothesis 1 (H1)** *During democratic transitions, firms connected to an incumbent regime with an authoritarian history will increase their philanthropic donations in response to anti-regime mass protests more than similar firms without such connections.*

---

<sup>1</sup> It is crucial to recognize that in transitional democracies, corporate philanthropy's risk-hedging function differs from the constituency-building function typical of Western firms (e.g., Baysinger, Keim, and Zeithaml, 1985; Keim and Zeithaml, 1986; Hillman and Hitt, 1999; Maxwell, Lyon, and Hackett, 2000; Oliver and Holzinger, 2008; Baron, 2014; Bertrand et al., 2020). While both strategies involve grassroots influences, constituency-building aims to use the public as an intermediary to sway incumbent politicians, particularly legislators, to secure favorable regulations. Conversely, the risk-hedging function focuses on appeasing the public to reduce risks during democratic transitions, particularly under the threat of regime change.

## **Regional Variation in Democratic Transition**

Democratic transition often unfolds unevenly across regions, resulting in subnational variations. Dahl (1971: 12) stated that “opportunities available for participation and contestation within a country surely require one to say something about the opportunities available within subnational units.” Subnational variations in democratization have been observed in India (Harbers, Bartman, and van Wingerden, 2019), Latin America (O’Donnell, 2007; Gervasoni, 2010; Giraudy, 2015), and post-Soviet countries (Lankina and Getachew, 2006; Libman, 2017; Ross and Panov, 2019). These can result from either regional “holdouts” of the old elite or sub-regime changes during the transition. Political contestation by opposition parties in local elections and public participation through a strong civil society are the main forces that shape regional democratic transition (Dahl, 1971).

In terms of political contestation, we propose that firms tied to the incumbent regime increase their philanthropic donations in regions where regime-affiliated candidates lose elections. Extensive political economy research has shown that subnational governments shape key political decisions and affect the political environment in which firms operate (e.g., Tiebout, 1956; Riker, 1964). Local politicians often interfere with or defy policies made by the central government, and sometimes even leverage local forces to maneuver against such policies. A favorable local government can also effectively shield firms from the central government’s political influence (Kozhikode and Li, 2012; Choi, Jia, and Lu, 2015). Therefore, if a local region is a stronghold of the regime, politically-connected firms will be less motivated to make philanthropic donations because the favorable local environment will mitigate the perceived transitional risks. Conversely, if those affiliated with the incumbent party lose local control, connected firms face an especially adverse environment as the opposition may eventually control both local and central governments. Therefore, when affiliated local politicians lose control of a subnational government after an anti-regime mass

protest, firms located in the region will increase their donations to hedge against the risk of having political connections.

**Hypothesis 2 (H2)** *The relationship hypothesized in H1 is stronger for firms located in regions where the incumbent political elites lose control over the local government than for those in regions without such changes.*

In terms of public participation, civic groups such as students, women, and environmental organizations, or other types of non-governmental organizations (NGOs), play important roles in promoting democratic values and institutionalizing participatory and transparent governance models. These groups can be viewed as organic components of effective democracies (Putnam, 2000; Tocqueville, 2002). NGOs call out the abuse of state power by encouraging broad citizen participation and pressing the state to act according to the interests of the public. NGOs also monitor firms by, for example, naming and shaming campaigns that highlight their previous unfair or harmful practices and can therefore damage their reputations (Minefee and Bucheli, 2021). Therefore, NGOs both encourage the government to address past injustices and directly determine firms' social legitimacy. Gatignon and colleagues (2023) reported that NGOs had a greater effect on firms' abnormal returns than political actors in Brazil's recent institutional transition toward greater legal compliance. A prevalence of NGOs in a region thus indicates an increasing degree of social monitoring and a heightened risk for firms connected with the past-authoritarian regime. Accordingly, we predict that politically-connected firms located in regions with more NGOs will increase their philanthropic donations in response to anti-government mass protests that expose transitional risks.

**Hypothesis 3 (H3)** *The relationship hypothesized in H1 is stronger for firms located in regions populated with more NGOs than those in regions with fewer NGOs.*

## CONTEXT

## **Democratic Transition and the Sunflower Movement in Taiwan**

Sunflowers symbolize sunshine and hope, and the 2014 Sunflower Movement was the largest anti-regime mass protest in Taiwan's democratic transition. The protest targeted the KMT government's undemocratic attempts to pass the Cross-Strait Service Trade Agreement (CSSTA), a controversial free-trade agreement with mainland China. While its advocates argued that it would bring the benefits of free trade, its opponents contended that the treaty would benefit only large companies rather than small and medium-sized companies. They were also concerned that economic integration with mainland China would take away job opportunities and strengthen Beijing's political influence over Taiwan. The protest broke out on March 18, 2014, after the KMT government attempted to unilaterally force the passing of the CSSTA in the Legislature without following the pre-agreed procedure of a clause-by-clause review. Activists chanted slogans such as "defend democracy (捍衛民主)," "protect people's civil rights (守護公民權)," and "wo bu fu (我不服)," which means "civil disobedience," to protest against the KMT's "black-box" operation. They climbed over the fence of the parliament building, smashed its windows, and occupied the building. This was the first time in Taiwan's history that the Legislature had been occupied. On March 30, hundreds of thousands of people marched in Taipei to support the protestors. The occupation lasted for 24 days and ended after the KMT government agreed to postpone the review of the CSSTA.

**[Insert Figure 1 about here]**

The KMT was Taiwan's authoritarian ruling party before the recent democratic reform. Taiwan's democratic transition started in 1987, when Chiang Ching-kuo, the son of the long-term KMT autocrat Chiang Kai-shek, lifted the martial law that had given the government immense power to quash any perceived forms of dissent over nearly four decades. In the 1990s, under the pressure of mass protests such as the Wild Lily student movement, Chiang

Ching-kuo's KMT successor, Lee Teng-hui, further expanded the democratic reforms. The first direct presidential election took place in 1996, and the first DPP president, Chen Shui-bian, came to office in 2000. He stayed in power for eight years, before Ma Ying-jeou won back the presidency for the KMT.

Although Taiwan has experienced a relatively peaceful democratic transition, it has not yet entered a "post-authoritarian" era. Many academics and journalists have argued that in Taiwan's peaceful reform, as engineered by the KMT elites, judicial transition remained incomplete, and those responsible for injustices under the authoritarian regime had not been morally or legally prosecuted by the time of the Sunflower Movement (Wu, 2005; Shattuck, 2019; Chang-Liao and Chen, 2019). The KMT retained substantial power after the democratic transition, and it did not lose its majority control of the Legislature until 2016. As Hioe (2016) noted, "the plethora of KMT politicians culpable of past misdeeds... are still running around, it remains that few of the culprits of past crimes committed in Taiwan have... been held to account and many remain politically active." The lingering influence of authoritarianism contributed to the crisis of democratic governance and the many associated social and economic problems in Taiwan.

Under the KMT's long-term authoritarian rule, connected businesses enjoyed the privilege of entering lucrative industries that were regulated by the government (Wade, 2003) and obtained various regulatory favors and investment resources (Mahmood, Chung, and Mitchell, 2017). Despite Taiwan's rapid economic growth from the 1960s to the 1990s, the economy in the 2010s faced the problems of low and stagnating wages, increasing income inequality, and the hollowing out of domestic industries (Hsiao, 2016). These problems have been attributed to the liberal economic policies that allowed manufacturing firms to shift their factories to mainland China and other low-cost regions. The Taiwanese economy was also increasingly controlled by large corporations around the 2010s. The 10 largest firms employed

only 4 percent of the population, but their share of total revenue in Taiwan increased from 25 percent in 1990 to over 40 percent in 2010 (Min News, 2021). Economic concentration limited the market space for small and medium-sized firms, making it difficult for them to survive, and further worsened labor conditions by lowering wages, reducing benefits, and demanding longer working hours. Taiwan's democratic transition has not completely alleviated these problems. Even after political liberalization, political ties continued to be an important channel through which businesses could exert influence on politics (Mahmood, Chung, and Mitchell, 2017). The public's frustration with the KMT government's economic policy and its authoritarian past is clearly illustrated in the following public statement issued by the Sunflower Movement protestors<sup>2</sup> (Yan, 2015: 343-344):

“The opposition of CSSTA is by no means opposing anything related to China...The biggest problem of the CSSTA is that under conditions of free trade, big corporations reap the most benefits and expand unrestrictedly across the straits, which will hurt small local business owners in Taiwan... The debate on CSSTA is far beyond the contestation between pro-independence/pro-unification or pan-Blue/pan-Green. It is about a class struggle issue in which many political and capital elites swallow farmers, workers, and small businesses, and a severe survival issue that every Taiwanese young person may encounter in the future... We strongly oppose the small number of rulers, led by Ma Ying-Jeou, manipulating the Legislature, forcefully passing the CSSTA, and selling out Taiwan's future... Financial tycoons, large corporations, and political leaders have formed a cross-Strait group of power elites. They could, at any time, abandon Taiwan, and switch to somewhere offering cheaper labor... To stop this unjust trade agreement, to stop this authoritarian political party that has oppressed us

---

<sup>2</sup> To save space, we report only an excerpt here; we include the original full statement and its English translation in Appendix Note A1.

and trampled our rights, please stand together with us, and let's step forward to protect our Taiwan!"

The Sunflower Movement was "the largest protest-based mobilization in Taiwan's history" (Ho, 2018: 1), and its scale, duration, and intensity were an indication that the KMT's hold on the Taiwanese public had weakened. The movement signaled the potential regime change as it popularized the slogan, "KMT must fall for Taiwan to stand tall (國民黨不倒, 台灣不會好)" in the post-movement Taiwan (Yeh, 2015). Although the DPP, Taiwan's opposition party at the time, did not directly lead the Sunflower Movement (Chiou, 2017), it benefited from the weakened KMT and won both the presidential and legislative elections in 2016. The change of government in 2016 was not just another peaceful transfer of power but "a historical moment in Taiwan, marking the DPP in full control for the first time" (BBC, 2016).

Corporate elites in Taiwan shrewdly sensed the signal of the Sunflower Movement. Li Yun-chieh, a director connected with the KMT and affiliated with TTL Corporation, reflected on the broader implications of the movement in his comment from June 2014 (Li, 2014: 24): "Although the Sunflower Movement has ended, the fear of the people has not subsided...Parties will rotate, and the roles of government and opposition will switch...Taiwan should escape the vicious cycle of blue-green mutual obstruction." KMT-connected firms expanded their charitable efforts after the Sunflower Movement. For example, Shih Chong-tang, chairman of ASUSTek Computers, said that the Sunflower Movement was a "wake-up call" that demonstrated the public's dissatisfaction with the status quo, and he vowed to make changes that would benefit the public (Central News Agency, 2014). Similarly, a board member of a KMT-connected listed firm in Taichung told us that his company now devoted more resources to building relationships with clients, to offset any collusive perceptions stemming from its association with the KMT. The prospect that KMT might go out of power



and that the incoming government could prosecute firms for past collusion, clearly motivated such firms to take action. Chen Charng-ven, chairman of Taiwan's prominent law firm Lee and Li, publicly voiced his concerns that the incoming political regime might exploit the concept of "transitional justice" as a means of suppression and could launch political attacks on firms connected to the KMT (Chen, 2015). As large-scale public projects typically take years and span different governments, business groups engaging in these construction projects also anticipated the future investigation of their "backroom dealings" once the regime changed (The Storm Media, 2018).

The KMT affiliates' concern that the DPP would retaliate when they came to power had a solid basis. Taiwan's first DPP president Chen Shui-bian was sentenced to 19 years in prison shortly after the re-elected KMT president Ma Ying-jeou was sworn into office. As Hioe (2016) wrote, "the DPP would be no different from the KMT in seeking revenge upon the KMT once in office." Shortly after the DPP president Tsai Ing-wen assumed office in 2016, the then-DPP-controlled Legislature passed two major laws: the Act Governing the Handling of Ill-Gotten Properties by Political Parties and their Affiliated Organizations; and the Act on Promoting Transitional Justice. The Committee of the Ill-Gotten Party Assets Settlement (CIPAS) was formed to investigate the assets of KMT and its connected organizations. It froze all KMT assets in 2016, resulting in the party laying off 40 percent of its staff, as it could not afford to pay the monthly salaries of its 300 employees (Shattuck, 2019). CIPAS also investigated KMT-connected firms, and classified some (e.g., Palasia Hotel Palau, the Central Motion Picture Company, China Youth Corps, the Central Investment Company, and the Hsinyutai Company) as "KMT affiliates," subsequently withholding their operational permits, freezing their assets, or confiscating those that were deemed "ill-gotten" (Chen, Hsu, and Chin, 2018; Shattuck, 2019). Many of the deals made by KMT-connected

firms such as Farglory Group, Radium Group, Fubon Group, Foxconn, and Clevo and Epoque Corporation were also investigated (Hioe, 2017).

Developing a better relationship with the public buffered some firms against transitional risks. For example, although the DPP government conducted investigations into the government contracts procured by many KMT-connected construction companies during the Ma Ying-jeou administration, Kingdom Construction was exempted from fines. This was attributed to its involvement in the Library Donation Project, which benefited local communities (Liberty Times, 2016). In an address to parliament, Tsai Ing-wen stated that CIPAS would be lenient toward KMT-allied firms that had substantially contributed to social welfare, and would not press them to give back every penny of the rent they had extracted from society (DPP Press, 2016). In contrast, labor unions, newly elected legislative members, and community organizations exposed the collusive behaviors of many KMT-connected firms that had not engaged in such prosocial endeavors (Huang, 2016). Thus, corporate philanthropy protected some KMT-connected firms in the investigations conducted by the incoming DPP regime.

## **METHOD**

### **Data and Sample**

We constructed a quarterly sample from the *Taiwan Economic Journal* (TEJ) database (Zhu and Chung, 2014) consisting of Taiwan-listed firms from the first quarter of 2012 to the last quarter of 2015. We used a difference-in-differences-styled (DID-styled) design. We distinguished KMT-connected from non-KMT-connected firms for comparison and regarded the Sunflower Movement as the event shock to identify the different effects of the democratic transition on these two groups of firms (Teodoridis, Bikard, and Vakili, 2019).

Following studies in similar settings (e.g., McDonnell and Werner, 2016; McDonnell, Odziemkowska, and Pontikes, 2021; Espinosa, 2021), we employed quarterly data to create a

fine-grained event window that captures firms' immediate responses to the Sunflower Movement and isolates potential confounding events within the same year. Specifically, the Sunflower Movement took place in the first quarter of 2014 and the subsequent local election happened in the last quarter of 2014. Thus, the quarterly data allows us to assess the instant firm reactions to the movement and avoids confounding the impact of the movement and the subsequent election. In comparison, annual data lack this level of granularity and cannot distinguish the impacts of multiple events within the same year. Nevertheless, our main results and additional analyses are robust with the annual data, and we report these findings in Appendices A1 and A5. To address potential standard error deflation and seasonality, we double-clustered standard errors at the city-year and firm levels to account for correlations and included time-fixed effects (Guest, 2021). Our time window design balanced observations before and after the Sunflower Movement and excluded the influence of the DPP after 2016<sup>3</sup>. We excluded financial firms, because they have incomparable disclosure items such as financial leverage (Koh, Reeb, and Zhao, 2018), and state-owned enterprises (SOEs), as these firms often have political agendas (Zhang, Marquis, and Qiao, 2016) and change chairpersons with the regime<sup>4</sup>. We obtained a pre-matching sample of 1,267 firms and 19,012 firm-quarter observations.

### **Dependent Variable**

*Philanthropic Donation.* We collected the dates, amounts, targets, and purposes of corporate philanthropic donations from the TEJ and aggregated the amounts for each quarter as the measure of *philanthropic donation*. We applied a log transformation to correct for skewed values, adding 1 to the raw values to handle zeros (Ji, Huang, and Li, 2021). To confirm the

---

<sup>3</sup> Covering observations after 2016 did not change the findings.

<sup>4</sup> Including SOEs in our analysis did not change the findings.

robustness of our results, we also used the ratio of donations to total sales and a dummy variable indicating if the firm made any donations as two alternative measures<sup>5</sup>.

### **Independent Variable**

*Political Connection.* Our focal independent variable, *KMT connection*, was a dummy variable indicating whether there were personal connections between a firm and the KMT in the pre-movement period (Lim, Kim, and Agarwal, 2023). Following Johnson and Mitton (2003) and Zhu and Chung (2014), we considered the formal ties developed through politicians serving in firms, and the informal ties of (1) blood and marital relations, (2) friendships, classmates, and hometown relationships, and (3) membership of the same social clubs. These forms of political connections are the most prevalent in East Asia and have been shown to have similar functions in mobilizing government resources in Taiwan (Zhu and Chung, 2014).

Following Zhu and Chung (2014) and Faccio and Hsu (2017), we identified our treatment sample of KMT-connected firms by matching the names of corporate and political leaders. Details of our procedure are given in Appendix Note A2. We defined political leaders as members of Central Committees, legislators-at-large, representatives of the National Assembly, and high-level government officials (deputy ministerial level or above). Corporate leaders, as defined by the Securities Exchange Act of Taiwan and Zhu and Chung (2014), include directors, supervisors, senior executives, and shareholders with more than 10 percent of a firm's shares.

We used the same approach to code corporate connections to the DPP. We assigned a value of one to the variable *KMT connection* if the firm had ties to the KMT and zero otherwise. Similarly, we assigned a value of one for the DPP connection if the firm had ties to the DPP and zero otherwise. In our sample, 30.01 percent (5,705 of 19,012) of the

---

<sup>5</sup> A small number of donations made in the names of individuals rather than firms are not documented in the database, so we additionally identified 54 donations through a comprehensive search in Factiva. We found that including these donations of named individuals did not change the results. To be consistent with the prevailing accounting standards for donation disclosure in Taiwan, we did not include these donations in our main analyses.

observations had KMT connections, and 10.68 percent (2,031 of 19,012) had DPP connections. These were comparable to the percentages reported by Jang and Chang (2011) of 25.78 percent for the KMT and 11.96 percent for the DPP.

### **Moderating Variables**

*Political Contestation.* We constructed a moderator of *political contestation* using a dummy variable indicating whether political figures of the old regime had lost their positions. This indicated whether a focal firm was headquartered in a city that had a KMT mayor between 2012 and the fourth quarter of 2014 but elected a non-KMT mayor in the 2014 local election. The KMT administered 15 cities before this election and lost 9 of them. As an alternative measure of political contestation, we used data from the Taiwan Social Change Survey (TSCS) (Fu et al., 2014) and the Survey on Citizen Satisfaction with Government Services (SCSGS) (National Development Council, 2014), which were conducted immediately after the Sunflower Movement. We then aggregated data on city-level public support for the KMT and DPP from the two surveys to capture the level of *political contestation*. We found that increased public disapproval of the KMT at the city level significantly increased the donations of KMT-connected firms in the post-movement period ( $p\text{-value} < 0.001$ ).

*NGO Density.* We computed the city-level per capita number of NGOs to measure local engagement in citizens' groups. We retrieved NGO registration information from the Taiwan NGO Information Platform (TNIP)<sup>6</sup> and demographic statistics from Data.Gov<sup>7</sup>. We collected data on 7,072 NGOs and aggregated the city-level NGO counts based on their operation locations, and then scaled the variable by dividing it by 10,000. We used the mean value of *NGO density* in the pre-movement period to reduce measurement errors (Lim, Kim, and Agarwal, 2023). Using quarterly varying NGO density values led to similar results.

---

<sup>6</sup> Retrieved from <https://www.npo.org.tw> on February 28, 2022.

<sup>7</sup> Retrieved from <https://data.gov.tw> on February 28, 2022.

## Control Variables

We controlled for four sets of variables that can affect a firm's philanthropic donations. First, we controlled for firm-level characteristics known to affect corporate philanthropy (McWilliams and Siegel, 2000; Marquis and Qian, 2014): *firm size*, *cash flow*, *ROA*, *financial leverage*, and *R&D intensity*. Luo and Chung (2013) found that ownership and control structures are critical factors affecting corporate strategies in Taiwan, so we classified firms into those governed by a single family, those governed by professional managers, and those with other common governance, and included the *governance-type* dummy variable to control for differences in ownership structure.

Second, we controlled for corporate dependence on specific markets and stakeholders, as research has shown that these factors affect a firm's CSR strategy (Tilcsik and Marquis, 2013). We controlled for *mainland investment*, i.e., quarterly investments in mainland China, and *foreign ownership*. We also manually collected data on *government procurement* in the past year from the Taiwan Buying Network<sup>8</sup>, which documents government bids and provides data on bidders' purchases. We included *DPP connection* and connections to the city mayor (*KMT mayor*) to control for the influence of rival party connections and local governments.

Third, we controlled for social reputation by including the variables *admirable firm* and *CSR scandal* in our estimations to eliminate the concern that an increase in philanthropic donations may be driven by pre-existing conditions. We collected data on firms' reputations from *CommonWealth*<sup>9</sup>, a magazine that collates high-profile corporate reputation evaluations and prizes in Taiwan. We coded the *admirable firm* as one if the firm had received a *CommonWealth* Corporate Citizenship Award in the previous year, and zero otherwise. *CSR scandal* was the aggregate quarterly number of socially irresponsible incidents reported by the TEJ, such as polluting the environment and harming labor or consumer rights. We winsorized

---

<sup>8</sup> Retrieved from <https://taiwanbuying.com.tw/> on June 06, 2020.

<sup>9</sup> Retrieved from <https://topic.cw.com.tw/csr> on January 28, 2022.

all of the continuous variables at the 1st and 99th percentiles to mitigate the bias led by outliers.

Finally, we controlled for *firm-fixed effects* to examine within-firm variations over the sample period in the DID-styled setting (Acemoglu et al., 2019). As 7.09 percent of the firms changed their industry classification between 2012 and 2016<sup>10</sup>, the *firm-fixed effects* did not fully capture industry characteristics, so we also controlled for *industry-fixed effects*. We included *quarter-fixed effects* to control for time trends and other events that could have simultaneously influenced the treatment and control groups.

### **Matched Sample Construction**

A potential concern is the non-random likelihood of a firm being connected to the KMT. To mitigate this concern and ensure that firms in the treatment and control groups are comparable, we employed propensity score matching (PSM) as outlined by Shipman, Swanquist, and Whited (2017). We used a logit model based on firm characteristics before the movement to estimate the likelihood of a firm having KMT connections before the Sunflower Movement.

[Insert Figure 2a about here]

We matched firms on variables related to the likelihood of having KMT connections. First, to control for the influence of financial characteristics, we matched firms on the *firm size*, *ROA*, *firm age*, *financial leverage*, and *export ratio* (Haveman et al., 2017). Second, to exclude the effects of reputation and motivation to donate, we matched firms according to the variable of *admirable firm* (Ji, Huang, and Li, 2021). Third, to isolate any firm-level factors that could affect the motivation to build political connections, we matched firms on *insider size*, *tax rate*, *bank loan*, *KMT investment*, and the exposed KMT-involved *corruption activity* to control for the confounding factors affecting both the KMT connection formation and

---

<sup>10</sup> One database of the TEJ documents the industry codes of the initial public offerings and the following changes including dates of changes and updated industry codes. We inferred the time-varying industry codes from these two items of information.

donation making<sup>11</sup>. The *insider size* represents the total number of directors, supervisors, and executives (Li and Liang, 2015). The *KMT investment* was quantified using the shareholding amounts from several entities, including seven major investment enterprises established by the KMT<sup>12</sup> and enterprises where the KMT holds over 95 percent of shares, as disclosed by the Ill-gotten Party Assets Settlement Committee (CIPAS) and the KMT Assets Exposure Website<sup>13</sup>. The KMT-involved *corruption activity* is a dummy variable indicating whether firms were involved in corruption cases with KMT officials aiming to misappropriate public benefits. We consolidated illegal ruling records from the Taiwan Financial Supervisory Commission (FSC) and the Stock Exchange Corporation (SEC), as provided by the TEJ database, along with Factiva's related corporate corruption news. Finally, the match also factored in the two moderating variables.

We performed one-to-one nearest neighbor matching without replacement based on a greedy algorithm. To control for the difference between a treatment observation and its nearest counterparts, we set a caliper distance of 0.25 standard deviations in reference to the log-odds (Haveman et al., 2017). Our matched sample consisted of 318 KMT-connected firms and 318 non-KMT-connected firms. We dropped 105 KMT-connected firms for which there were no counterfactuals within the caliper restriction range.

We conducted several tests to ensure that the treated and the matched control samples were balanced. First, we found that the medium bias between the two samples decreased from 17.90 to 3.40 after matching, and the overall difference became insignificant ( $p$ -value = 0.99). The results of the univariate test between the matched groups across all dimensions are shown in Table 1, which indicates that all of the differences were nonsignificant. Second, as shown in

---

<sup>11</sup> We would like to thank the anonymous reviewer for the suggestion to add these three variables to the matching process.

<sup>12</sup> These enterprises include Central Investment, Kwang Hua Investment, Chi Sheng Industry, Asia Pacific Holdings, Ching Te Investment, Chien Hua Investment, and China Investment.

<sup>13</sup> Retrieved from <https://kmt.exposed/> on January 28, 2022.



Figure 2b, we ran a probit regression estimating the marginal effects of each matched dimension on the likelihood of being connected to the KMT. The minimal effect sizes and low significance levels suggested a balance between the treatment and control groups. Finally, in Figure 3 we plotted the kernel density distributions. The overlap between the two groups suggests a good balance. The descriptive statistics of the after-matching sample are provided in Table 2. The mean variance inflation factor (VIF) value was 1.20, indicating no significant collinearity among the variables.

[Insert Tables 1 and 2 and Figures 2b and 3 about here]

## RESULTS

### Parallel Trend

We used a two-way fixed effect model to plot the trends in philanthropic donations and to validate the parallel trends between the KMT-connected and non-connected firms before the movement. We allowed  $\beta^*$  in Equation (1) for the treatment and control groups to vary and controlled for firm and quarter characteristics by incorporating firm and quarter fixed effects.

$$\begin{aligned}
 \text{Philanthropic donation}_{ct} &= \alpha + \beta^* \text{Treatment dummy}_c \times \text{Quarter dummy}_t + \gamma \text{Controls}_{ct} + \text{Firm FE} \\
 &+ \text{Quarter FE} + \varepsilon_{ct}
 \end{aligned}
 \tag{1}$$

Figure 4 plots the coefficients estimated from Equation (1). The insignificant  $\beta^*$  pre-movement suggested that there were no differences between the control and treatment groups pre-movement (i.e., from Q1 2012 to Q1 2014), confirming that the observed treatment effects were not driven by pre-existing differences. However, after the Sunflower Movement, the KMT-connected group increased its donations to a greater extent than the control group, as reflected by the positive and significant  $\beta^*$ .

[Insert Figure 4 about here]

### Hypothesis Testing

*Estimation Model.* Our primary analyses were as below:

$$\begin{aligned}
& \text{Philanthropic donation}_{ct} \\
& = \alpha + \beta^* \text{KMT connection}_c \times \text{Post movement}_t + \beta M_c \times \text{Post movement}_t \\
& + \beta^{**} M_c \times \text{KMT connection}_c \times \text{Post movement}_t + \gamma \text{Controls}_{ct} + \text{Firm FE} \\
& + \text{Quarter FE} + \varepsilon_{ct}
\end{aligned}
\tag{2}$$

where *KMT connection* is a vector of treatment that equals 1 when a firm is connected to the KMT, and 0 otherwise; the variable *post movement* captures the occurrence of the Sunflower Movement and equals 1 for quarters after Q1 2014, and 0 otherwise;  $M_c$  represents the specific moderator for each test; and *Firm FE* and *Quarter FE* indicate the firm- and quarter-fixed effects, controlling for unobserved individual firm and time characteristics and omitting certain coefficients. The variables of interest were the coefficients of the interaction terms  $\beta^*$  and  $\beta^{**}$ , where  $\beta^*$  captures the change in *philanthropic donation* of KMT-connected firms after the Sunflower Movement, and  $\beta^{**}$  captures the moderating effects. The main analyses were based on the matched sample.

*Model Evaluation.* Table 3 reports the regression results. Model 1 is the baseline model with only control variables included. We first estimated the influence of potential omitted variables by computing the robustness of the inference to replacement (RIR) for our main analysis. The RIR value was 0.63, which means that to invalidate the inference, more than 60 percent of cases would have been replaced with cases for which there is an effect of 0. This scenario is highly unlikely, mitigating the concern of omitted variable bias (Busenbark et al., 2022).

[Insert Table 3 about here]

*Estimation Results.* We examined H1 using Model 2, as given in Table 3. The DID estimator produced a positive and statistically significant result (coefficient = 0.28, *p-value* = 0.001), thus supporting H1. Our finding also has economic significance. The post-movement increase in the average donation amount for KMT-connected firms is higher than that of the matched firms by approximately 28 percent of the sample average, roughly an increase of 94,652 NTD (3,313 USD) per quarter. Additional marginal analyses show that, compared to

the period before the movement, donations from matched non-KMT-connected firms changed by only -0.23 percent ( $p\text{-value} = 0.870$ ) over the sample average after the movement, while donations from KMT-connected firms increased by 27.42 percent ( $p\text{-value} = 0.001$ ) to approximately 430,734 NTD (15,076 USD) per quarter after the movement.

We used Model 3 in Table 3, to test H2, i.e., the moderating role of *political contestation*. Our findings support H2, indicating that KMT-connected firms operating in cities where a KMT mayor had been replaced by a non-KMT mayor increased their philanthropic donations after the Sunflower Movement event (coefficient = 0.35,  $p\text{-value} = 0.001$ ). Recent studies have indicated the potential bias of a fixed effect interaction estimator, as it may confound within-firm and between-firm variations. Subgroup comparison has been identified as a more accurate method of assessing how contingencies moderate main effects (Shaver, 2019; Giesselmann and Schmidt-Catran, 2022)<sup>14</sup>. Following the subgroup approach, we further split the sample according to whether the locations of the firms had a KMT mayor who was replaced by a non-KMT mayor (high contestation) or if no such changes occurred (low contestation). The results, shown in Figure 5a, indicate that after the movement KMT-connected firms in cities where a KMT mayor was replaced by a non-KMT mayor increased their philanthropic donations by 42.70 percent ( $p\text{-value} < 0.001$ ; approximately 144,344 NTD or 5,052 USD per quarter) more than non-connected firms. In contrast, KMT-connected firms in other cities increased their donations by only 4.69 percent ( $p\text{-value} = 0.679$ ) compared to non-connected firms. This difference between the two increases is statistically significant according to a permutation test ( $p\text{-value} < 0.001$ ).

[Insert Figure 5a about here]

Model 4, reported in Table 3, was designed to assess the moderating influence of *NGO density*, and the results supported H3. The outcome of the triple-difference estimator was

---

<sup>14</sup> We would like to thank the anonymous reviewer for pointing out the necessity of using a subgroup analysis to test the moderating effects within the fixed-effects model.

positive and highly significant (coefficient = 0.18,  $p$ -value = 0.004), indicating that KMT-connected firms increased their donations after the Sunflower Movement to a greater extent if civil society was stronger. Similarly, in the subgroup analysis, KMT-connected firms in cities with *NGO density* above the average showed a substantial 51.95 percent increase in philanthropic donations ( $p$ -value = 0.001; approximately 175,613 NTD or 6,146 USD per quarter) compared to non-KMT-connected firms, as illustrated in Figure 5b. In comparison, KMT-connected firms located in cities with a lower *NGO density* value showed an 11.18 percent increase in their philanthropic donations ( $p$ -value = 0.226) compared to non-KMT-connected firms. The difference in these increases in donation levels was statistically significant according to a permutation test ( $p$ -value = 0.001). The results of both the interaction and the subgroup analyses strongly supported H3. Finally, Model 5, reported in Table 3, was the comprehensive model with outcomes consistent with those reported earlier.

[Insert Figure 5b about here]

## ADDITIONAL TESTS

### Degree of Political Embeddedness

This section examines the extent of the embeddedness of politically-connected firms within the old regime, moving beyond a simple binary measure of KMT connections. Firms deeply embedded in the incumbent regime encounter significant risks during democratic transitions due to their entrenched political identities. These firms struggle to adapt due to multiple connections and face intense scrutiny from the public and rival parties. As a result, they are more likely to increase donations to public causes compared to less-embedded firms.

To measure embeddedness, we used four indicators: *entrenchment* (evaluating the robustness and cohesion of connections with other KMT-connected firms, detailed in Note A3 of Appendix 2), the *number* of connections, *multiplicity* (the diversity of political department

types where senior KMT officials are involved), and political *power* (the average count of high-level political roles held by senior KMT officials in the firm).

Table 4 shows that compared to KMT-connected firms with low embeddedness, those with high embeddedness significantly increased their donations after the Sunflower Movement (Models 1-4). Additionally, when including non-connected firms in analyses, firms with high embeddedness also significantly raised their donations more after the movement than both non-connected firms and KMT-connected firms with low embeddedness (Models 5-8).

### **Mechanism Tests**

We argue that strengthening public legitimacy through philanthropic donations is a strategic approach that KMT-connected firms use to hedge against the transitional risk, as the opposition party is likely to treat firms with public legitimacy more leniently. To validate this “transitional risk hedging” mechanism, we evaluate several underlying assumptions and the subsequent effectiveness of this strategy.

*Assumption 1: Stability of Political Ties.* We argue that it is difficult to alter political connections in the short term. Therefore, between the Sunflower Movement and the 2016 government change, KMT-connected firms were unlikely to sever ties with the KMT or forge new ones with the DPP. To examine these dynamics, we conducted a complementary log-log failure analysis to estimate the hazard ratios for two events: (1) KMT-connected firms reducing their KMT ties, and (2) these firms increasing their DPP ties, with the results presented in Table 5. First, using Model 1, we assessed the impact of the Sunflower Movement on the KMT ties of these firms. The analysis shows no significant likelihood of these firms severing KMT ties post-movement compared to pre-movement, with a one-sided test rejecting the null hypothesis that KMT-connected firms would become more likely to cut their connections ( $p$ -value = 0.019). In Model 2, we evaluated the movement’s effect on DPP

ties. Results show that KMT-connected firms were 71.84 percent less likely to form new DPP connections in the post-movement period ( $p\text{-value} = 0.037$ ).

[Insert Table 5 about here]

*Assumption 2: Donations Targeting the Public.* If the increase in corporate philanthropy is to garner public approval, firms will donate to public welfare-related rather than party-affiliated causes (the KMT or DPP). Our findings indicated that increased donations were primarily made to public welfare-related causes. Table 6 shows that KMT-connected firms' donations to grassroots causes increased substantially, such as to organizations involved in education and youth development, minority welfare, community welfare, and employee and industry development, but not to cultural activities, environmental protection, or other projects associated with the government.

[Insert Table 6 about here]

Second, KMT-connected firms may re-channel their political activities to a concealed approach by donating to politically-connected charities, thus avoiding scrutiny from the public and rivals (Jeong and Siegel, 2024). However, our analysis showed that donations were directed to recipients not linked to either the KMT or DPP (Figure 6), indicating that the donations were not intended to support either party. We assessed recipient connections to political parties based on the board memberships of the recipient organizations. Even after accounting for political motivations, such as public opinions, reactions to the Sunflower movement, and tax rates, our findings remained consistently robust (change in treatment effects  $< 0.001$ ).

[Insert Figure 6 about here]

*Assumption 3: Transitional Risk Stemming from Revealed Collusive Practices.* We posited that the responses of KMT-connected firms were driven by the transitional risks stemming from the KMT's dark reign and collusive practices. Our findings supported this

assumption. In Figure 7, we identified collusive KMT-connected firms that had been convicted by the DPP. These firms are particularly attuned to potential political risks due to their susceptibility to penalties from rival parties. We found that the donation increases from KMT-connected firms with a collusive history that had been convicted by the DPP were more pronounced than those from other KMT-connected firms in the period following the Sunflower Movement and before the 2014 local election. This pattern persists after the movement, underscoring the importance of “social insurance” for these firms.

[Insert Figure 7 about here]

*Potential Function of Donations.* We suggested that KMT-connected firms might increase donations to potentially reduce political risks following regime changes and to possibly enhance market sentiments. Our analysis indicates that donations could serve these purposes. We first assessed whether donations correlated with a reduction in the loss of government procurement contracts after the DPP assumed power. As Figure 8a demonstrates, KMT-connected firms that made donations between the first quarter of 2014 and the last quarter of 2015 did not experience decreases in government procurement contracts under the DPP regime. Conversely, firms that did not make donations during this period received fewer government procurement contracts, suggesting a possible risk-hedging function of corporate donations. Additionally, we explored whether increased donations are linked with a mitigated loss in social legitimacy and subsequent impacts on sales. Figure 8b shows that donations are positively associated with the sales of KMT-connected firms. Finally, we tested whether donations are associated with positive market reactions. As shown in Table 7, donations are positively related to market returns for KMT-connected firms in the post-movement period.

[Insert Figure 8 and Table 7 about here]

## **Robustness Checks**

We ran several additional analyses to rule out alternative explanations and strengthen the validity of our results. To save space, we only provide summaries here and report the detailed estimation results in Appendix Note A4. We report the results of the subgroup testing of H2-3 in Table A4-1. We excluded the alternative explanations of political sensitivity (Models 1-2 of Table A4-A2), anti-mainland-China sentiment (Models 3-4 of Table A4-2), and direct pressure from the movement (Figure A4-1) and then removed observations after the 2014 Taiwanese local election to capture the immediate impact of the protest (Table A4-3). We used alternative measures of KMT connections, including separate assessments of formal and informal connections (Table A4-4), along with alternative measures of *philanthropic donation*, including donations to different causes and recipients (Table A4-5). We found that the increase in donations from KMT-connected firms following the Sunflower Movement became even more pronounced after the 2014 elections in cities where the KMT lost its hold (Figure A4-2). Our theoretical framework was tested by evaluating the impacts of the 2014 local and 2016 general elections (Figures A4-3 and A4-4), revealing that the latter posed substantial transitional risks for KMT-connected firms, whereas the former acted as a harbinger of the transitional risk. We also mitigated the potential influence of confounding influence from the 2014 local elections (Figure A4-5) and tackled potential alternative explanations and endogeneity through random sampling (Figure A4-6). We used alternative matching methods (Models 1-5 in Table A4-6) and applied instrumental variables (Models 6-10 in Table A4-6). Beyond the two-way fixed-effect estimator, we utilized an alternative estimator to gauge the potential impact of heterogeneous treatment effects (Figure A4-7). Collectively, these supplementary analyses affirm the robustness of our results.

## **DISCUSSION AND CONCLUSION**

In this paper, we argue that firms politically connected to a previous authoritarian regime can use corporate philanthropy to hedge against the risk of democratic transition, which presents



them with a dilemma. The political connections through which they obtained competitive advantages become liabilities once the regime they were connected to loses power. Anti-government mass protests can expose the regime's collusive practices and signal that the regime may not retain power for long. Thus, such protests can prompt connected firms to engage in corporate philanthropy to shore up their social-political legitimacy, hoping to be treated more leniently after power shifts to the opposition. This strategy is desirable as it is directly under the firms' control, can be deployed promptly, and will not irritate the incumbent government. Our investigation into Taiwanese firms' philanthropic donations before and after the Sunflower Movement supported our theory. Firms connected to the KMT government increased their donations in the period after the Sunflower Movement to a greater extent than non-KMT-connected firms. The donations were higher for KMT-connected firms in cities where KMT politicians were replaced and where there were more NGOs.

Consistent with our argument that firms cannot easily change their political affiliations, our supplementary analyses showed that after the Sunflower Movement, KMT-connected firms did not cut their ties with the KMT or build new ties with the DPP. We found that building new ties with the DPP became more difficult. After further investigating the types of donations, we found that most went to public welfare causes rather than to political causes related to the regime. After the regime fell, KMT-connected firms that had made extensive philanthropic donations experienced less of a reduction in government procurements and received more positive market returns than firms that made fewer donations. These findings contribute to political economy research into democratic transition, suggest a new link between strategic CSR and CPA, and extend signaling theory to social movement research. Below, we elaborate on these contributions, discuss our limitations, and consider future research directions.

## **Contributions**

First, our study contributes to the political economy literature. We reveal a strategy that politically-connected firms adopt to survive democratic transitions, along with the general pattern that firms change their non-market strategies in response to institutional changes. The establishment of modern, well-governed states is a major challenge globally, particularly in the face of the recent democratic backsliding and authoritarian resurgence. Democratic transition is a lengthy process and even in regions that have established electoral systems and experienced peaceful power transitions, the change to full democracy can still be incomplete. Despite the importance of democratic transitions, the strategies firms apply to survive and adapt to the process remain under-explored (Naidu, Robinson, and Young, 2021; Gatignon, Gama, and DeMello, 2023). Studies of firms and democratic transition have focused on either the unfair competitive advantages gained through political connections (Peng and Luo, 2000; Leuz and Oberholzergee, 2006; Sun, Mellahi, and Wright, 2012; Jia, 2014) or how these advantages can quickly turn into liabilities once the regime the firms are connected to lose power (Fisman, 2001; Leuz and Oberholzergee, 2006; Bucheli and Salvaj, 2013; Acemoglu, Hassan, and Tahoun, 2018).

Scholars have only recently considered the nonmarket strategies that firms adopt in times of institutional change. Gatignon and colleagues (2023) studied anti-corruption measures within a democratic society (i.e., the 2014 police raids in Brazil) and found that investors' evaluations of non-market strategies depended on the institutional environment. When the institutional context shifts from legal capture to legal compliance, donations to NGOs can bring firms higher abnormal returns than political donations can, while the abnormal returns gained from a board's political connections were found to be zero or marginally negative. Gatignon et al. (2023: 930) treated firms' political and social strategies as *pre-given* due to their relatively short event windows and suggested that "firms should seek to adjust their behavior accordingly." Similarly, Darendeli and Hill (2016) analyzed eight Turkish

construction companies doing business in Libya around the time of the overthrow of the Qadhafi regime and found that those who had worked on public-benefit projects were protected by the public whereas those working on elite-serving projects were not. While their study demonstrates serving the public interest can protect firms during the democratic transition, it is unlikely that these firms' participation into different production markets was driven primarily by the goal of risk hedging in a case of abrupt regime overthrow. Building on these studies, our study reveals a coping strategy against the specific challenges associated with democratic transition and also answers the general call in the literature to investigate how firms adjust their nonmarket strategies to better align with institutional changes.

In particular, we highlight the usefulness of corporate philanthropy as a strategy to build public support without irritating an incumbent regime and bypass the challenges involved in cutting old ties or building new ones. The pathway to philanthropy that we identify in this study can be applied to other democratic transitional contexts. For example, there is anecdotal evidence that companies in the Middle East increased their CSR activities after the mass protests of the Arab Spring (Avina, 2013) and that more wealth redistribution projects were established in the Niger Delta after anti-government mass protests occurred in the region (Frynas, 2001). Besides the democratic transitional context, our paper, together with Gatignon et al. (2023), demonstrates the generalizability of the finding that social strategies can substitute political strategies or compensate for their limitations in a climate of institutional uncertainty. Future research can explore other market and nonmarket strategies that firms may adopt when adapting to the uncertainties of institutional change, using qualitative and quantitative data.

Second, our paper links research on CSR and CPA by identifying the role of CSR in how firms adapt to democratic transition. CSR has long been regarded as an insurance strategy (Godfrey, 2005) that can help firms mitigate the negative effects of corporate misconduct

(Luo, Kaul, and Seo, 2018), regulatory actions (Godfrey, Merrill, and Hansen, 2009), parent firm reputational threats (Zhou and Wang, 2020), and financial crises (Jia, Gao, and Julian, 2020; Flammer and Ioannou, 2021). Our paper adds to this line of research by demonstrating that corporate philanthropy is a hedge against the risk of having political connections and hence helps firms adapt to democratic transition. The risk brought by regime change is fundamentally different from the risks associated with stock price volatility or firm misconduct. The magnitude of the risk can be very large, and its link to CSR is more indirect and obscure. In addition, our findings suggest that philanthropy can be an actionable strategy for organizations, as it can ensure their legitimacy when they cannot control the reputations of those to whom they are connected.

Our study also contributes to the CPA literature by assessing how firms can deal with the liabilities of political connections with a falling regime before it is replaced. The risks of political ties in transitional environments have been studied (Siegel, 2007; Sun, Mellahi, and Wright, 2012; Zhu and Chung, 2014), but generally in isolation from research into how firms manage the risk associated with their networks. Organizations have been found to mitigate the risk of network connections by cutting old ties or building new ties, but this has primarily been investigated in non-political or non-transitional contexts. In this paper, we emphasize the political dilemmas faced by firms when the regime has not been entirely ousted. We argue that the strategies previously suggested do not apply to political ties before regime change occurs, and we offer the alternative strategy that firms can use donations to prosocial causes to strengthen their legitimacy.

Admittedly, our study is not the first to investigate the intricate relationship between firms, the public, and the government, but our findings suggest a new combined approach to studying CPA and CSR. Firms' attempts to co-opt grassroots activists and community stakeholders have been examined in many CPA studies (Hillman and Hitt, 1999; Maxwell,

Lyon, and Hackett, 2000; Baron, 2014). Corporate charitable giving has also been identified as a means of political influence and corporate philanthropic foundations often invest in charities that are of interest to politicians (e.g., Bertrand et al., 2020). Our theoretical perspective was developed for the context of transition, and it extends previous studies that have primarily explored corporate giving in mature democracies. First, while the public is typically treated as an intermediary between firms and politicians, we argue that the public can provide direct protection and benefits to firms, in addition to influencing politicians in a transitional context (Darendeli and Hill, 2016). Thus, pleasing the public is not only an indirect pathway for influencing politicians but can be an end in itself for firms in transitional contexts. Second, studies conducted in mature democracies have not typically considered the risks of near-term regime change. We argue that in a transitional context, the incumbent government's imminent loss of power motivates firms to build public support. Finally, most studies have assumed that firms co-opt grassroots actors to either achieve or maintain favourable regulations, while in a transitional context, they may seek grassroots support as a hedge against the change to a less favourable regime. Thus, our study adds to the literature by suggesting that hedging the democratic transitional risk is a new mechanism between CSR and CPA in this context.

Third, our paper contributes to the social movement literature by extending the signaling function of social movements from public to private politics. While public politics researchers have long noted the information function of anti-regime mass protests, they have viewed politicians (e.g., Lohmann, 1993) or other participants merely as the receivers of such information, who calculate the benefits and costs of joining collective action (e.g., Granovetter, 1978; Lohmann, 1994). Private politics researchers have also noted that firms are attentive to information conveyed by social movements, but they have focused on how anti-corporate movements signal the potential profitability of a market (e.g., Ingram, Yue, and Rao, 2010) or how the concessions made by firms signal the general acceptability of a practice

(Briscoe and Safford, 2008). The few studies that link public and private politics (e.g., Olzak and Soule, 2009; Hiatt, Grandy, and Lee, 2015) have treated corporations as the ultimate target of activists and the government as a relatively neutral intermediary. However, such a pluralistic view may not hold in a transitional context, where political-business relationships are deeply intertwined. By examining politically-connected firms, we show that public politics targeting the government can signal transitional risks and hence affect firms' behavior. Our paper thus answers the call of social movement scholars to integrate research on public and private politics (Soule, 2012; Leitzinger, King, and Briscoe, 2018). Anti-government protests occur much more frequently and are often on a much larger scale than anti-corporate protests, so we also suggest that studying firms' political connections can be a promising research direction that achieves such integration.

### **Limitations and opportunities for future research**

The study has a few limitations that point to future research opportunities. First, right after the Sunflower Movement, firms' prosocial efforts might have been motivated by the goal to compensate for their legitimacy loss besides to hedge against the risk of regime turnover. Fortunately, the divergent donation behaviours by KMT firms after the local elections demonstrate firms' risk-hedging motivation as these firms received additional shocks in political risks but not those in legitimacy loss. Nevertheless, future research should further unpack the complexities surrounding democratic transitions and tease these two mechanisms apart. Second, while our post hoc analyses suggested that both formal and informal political connections affect firms' responses to anti-government protests, future work is necessary to understand how the specific characteristics of political connections and connected politicians, such as connection depth and breadth of the elected versus the appointed status of politicians, influence corporate responses. Third, due to data limitations, we considered only philanthropic donations; we did not consider other forms of CSR activities. Future research could study the

roles of various practices, in which firms blend business practices with social responsibilities when contributing to the public good. Fourth, data limitations also meant that we examined only connections with the political party, not those with other social agencies, such as NGOs. Although we examined the moderating effect of region-level *NGO density*, future work could use more fine-grained data to examine the direct interaction between firms and civil society.

In conclusion, although democratic forces have become dominant on every continent, people are increasingly recognizing that the route of democratization can be long and circuitous. With the rising global concern about backsliding in the development of democracy, there is an urgent need to understand the interactions between governments, firms, and activists in the process of democratization. Our paper focuses on the consequences of anti-regime mass protests and shows that they play a significant role in prompting the wealthy affiliates of a regime to engage in social redistribution.

## REFERENCES

- Acemoglu, D., and J. A. Robinson**  
2008 “Persistence of power, elites, and institutions.” *American Economic Review*, 98: 267–293.
- Acemoglu, D., D. Ticchi, and A. Vindigni**  
2011 “Emergence and persistence of inefficient states.” *Journal of the European Economic Association*, 9: 177–208.
- Acemoglu, D., T. A. Hassan, and A. Tahoun**  
2018 “The power of the street: Evidence from Egypt’s Arab Spring.” *The Review of Financial Studies*, 31: 1–42.
- Acemoglu, D., S. Naidu, P. Restrepo, and J. A. Robinson**  
2019 “Democracy does cause growth.” *Journal of Political Economy*, 127: 47–100.
- Acemoglu, D., and J. A. Robinson**  
2006 “De facto political power and institutional persistence.” *American Economic Review*, 96: 325–330.
- Avina, J.**  
2013 “The evolution of corporate social responsibility (CSR) in the arab spring.” *The Middle East Journal*, 67: 76–91.
- Baron, D. P.**  
2014 “Self-regulation in private and public politics.” *Quarterly Journal of Political Science*, 9: 231–267.
- Baysinger, B. D., G. D. Keim, and C. P. Zeithaml**  
1985 “An empirical evaluation of the potential for including shareholders in corporate constituency programs.” *Academy of Management Journal*, 28: 180–200.
- BBC**  
2016 “Taiwan media: Tsai Ing-wen makes history with DPP in full power.” *BBC News*. Retrieved September 9, 2023, from [https://www.bbc.com/zhongwen/simp/china/2016/01/160117\\_taiwan\\_election\\_press](https://www.bbc.com/zhongwen/simp/china/2016/01/160117_taiwan_election_press)
- Bertrand, M., M. Bombardini, R. Fisman, and F. Trebbi**  
2020 “Tax-exempt lobbying: Corporate philanthropy as a tool for political influence.” *American Economic Review*, 110: 2065–2102.
- Bode, C., J. Singh, and M. Rogan**  
2015 “Corporate social initiatives and employee retention.” *Organization Science*, 26: 1702–1720.
- Branigin, W.**  
1984 “‘Crony capitalism’ blamed for economic crisis.” *The Washington Post*. Retrieved August 16, 2022, from <https://www.washingtonpost.com/archive/politics/1984/08/16/crony-capitalism-blamed-for-economic-crisis/>
- Briscoe, F., and S. Safford**  
2008 “The Nixon-in-China effect: Activism, imitation, and the institutionalization of contentious practices.” *Administrative Science Quarterly*, 53: 460–491.
- Brown, T. J., and P. A. Dacin**  
1997 “The company and the product: Corporate associations and consumer product responses.” *Journal of Marketing*, 61: 68–84.
- Bucheli, M., and E. Salvaj**  
2013 “Reputation and political legitimacy: ITT in Chile, 1927–1972.” *Business History Review*, 87: 729–756.
- Busenbark, J. R., H. (Elle) Yoon, D. L. Gamache, and M. C. Withers**  
2022 “Omitted variable bias: Examining management research with the impact threshold of a confounding variable (ITCV).” *Journal of Management*, 48: 17–48.
- Carnahan, S., D. Kryscynski, and D. Olson**  
2017 “When does corporate social responsibility reduce employee turnover? Evidence from attorneys before and after 9/11.” *Academy of Management Journal*, 60: 1932–1962.
- Carothers, C.**  
2018 “The surprising instability of competitive authoritarianism.” *Journal of Democracy*, 29: 129.
- Central News Agency**  
2014 “Talking about the student movement, Jonney Shih: Looking forward to a reconciliation.” *China Times*. Retrieved July 22, 2021, from <https://www.chinatimes.com/realtimenews/20140408005678-260410?chdtv>
- Chang-Liao, N. C., and Y. J. Chen**  
2019 “Transitional justice in Taiwan: Changes and challenges.” *Washington International Law Journal*, 28: 619–643.
- Chen C. V.**  
2015 “Chairman Guo’s arrogant rage: Wen political turnover becomes a settling of accounts.” *CVChen*. Retrieved September 1, 2023, from <https://cvchen.com/2015/01/21/>
- Chen, Y. F., Y. P. Hsu, and J. Chin**  
2018 “Taipei asked to bar project over likely connection to KMT.” *Taipei Times*. Retrieved September 1, 2023, from <https://www.taipeitimes.com/News/front/archives/2018/06/11/2003694689>
- Chiou, S. Y.**  
2017 The background, causes and influences of the Sunflower Movement (MPhil Thesis). National Taiwan Normal University.
- Choi, S.-J., N. Jia, and J. Lu**  
2015 “The structure of political institutions and effectiveness of corporate political lobbying.” *Organization Science*, 26: 158–179.
- Dahl, R. A.**  
1971 *Polyarchy: Participation and Opposition*. New Haven: Yale University Press.
- Darendeli, I. S., and T. L. Hill**  
2016 “Uncovering the complex relationships between political risk and MNE firm legitimacy: Insights from Libya.” *Journal of International Business Studies*, 47: 68–92.
- Diamond, L.**  
1994 “Rethinking civil society: Toward democratic consolidation.” *Journal of Democracy*, 5: 4–17.



- Dorobantu, S., A. Kaul, and B. Zelter**  
2017 “Nonmarket strategy research through the lens of new institutional economics: An integrative review and future directions.” *Strategic Management Journal*, 38: 114–140.
- DPP Press**  
2016 “Press release of the 56th regular meeting of the 16th democratic progressive party.” Retrieved November 2, 2022, from <https://www.dpp.org.tw/media/contents/7222>
- Dudouet, V., and J. Pinckney**  
2021 *Nonviolent Action and Transitions to Democracy*. Washington, D.C.: United States Institute of Peace.
- Espinosa, M.**  
2021 “Labor boundaries and skills: The case of lobbyists.” *Management Science*, 67: 1586–1607.
- Faccio, M., and H. Hsu**  
2017 “Politically connected private equity and employment.” *The Journal of Finance*, 72: 539–574.
- Fisman, R.**  
2001 “Estimating the value of political connections.” *American Economic Review*, 91: 1095–1102.
- Flammer, C.**  
2018 “Competing for government procurement contracts: The role of corporate social responsibility.” *Strategic Management Journal*, 39: 1299–1324.
- Flammer, C., and I. Ioannou**  
2021 “Strategic management during the financial crisis: How firms adjust their strategic investments in response to credit market disruptions.” *Strategic Management Journal*, 42: 1275–1298.
- Flammer, C., and A. Kacperczyk**  
2019 “Corporate social responsibility as a defense against knowledge spillovers: Evidence from the inevitable disclosure doctrine.” *Strategic Management Journal*, 40: 1243–1267.
- Frynas, J. G.**  
2001 “Corporate and state responses to anti-oil protests in the Niger Delta.” *African Affairs*, 100: 27–54.
- Fu, Y. C., Y. H. Chang, S. H. Tu, and P. S. Liao**  
2014 *Taiwan social change survey*. Taipei: Academia Sinica.
- Gatignon, A., M. A. B. Gama, and R. B. DeMello**  
2023 “The returns to nonmarket strategies during institutional transitions: Investor reactions to actor and tie characteristics.” *Organization Science*, 34: 916–934.
- Gervasoni, C.**  
2010 “A rentier theory of subnational regimes: Fiscal federalism, democracy, and authoritarianism in the Argentine provinces.” *World Politics*, 62: 302–340.
- Giesselmann, M., and A. W. Schmidt-Catran**  
2022 “Interactions in fixed effects regression models.” *Sociological Methods & Research*, 51: 1100–1127.
- Giraudy, A.**  
2015 *Democrats and Autocrats: Pathways of Subnational Undemocratic Regime Continuity within Democratic Countries*. New York: Oxford University Press.
- Godfrey, P. C.**  
2005 “The relationship between corporate philanthropy and shareholder wealth: A risk management perspective.” *Academy of Management Review*, 30: 777–798.
- Godfrey, P. C., C. B. Merrill, and J. M. Hansen**  
2009 “The relationship between corporate social responsibility and shareholder value: An empirical test of the risk management hypothesis.” *Strategic Management Journal*, 30: 425–445.
- Granovetter, M.**  
1978 “Threshold models of collective behavior.” *American Journal of Sociology*, 83: 1420–1443.
- Guest, P. M.**  
2021 “Risk management in financial institutions: A replication.” *The Journal of Finance*, 76: 2689–2707. .
- Harbers, I., J. Bartman, and E. van Wingerden**  
2019 “Conceptualizing and measuring subnational democracy across Indian states.” *Democratization*, 26: 1154–1175.
- Haveman, H. A., N. Jia, J. Shi, and Y. Wang**  
2017 “The dynamics of political embeddedness in China.” *Administrative Science Quarterly*, 62: 67–104.
- Herre, B., L. Rodés-Guirao, E. Ortiz-Ospina, and M. Roser**  
2022 “Democracy.” *Our World in Data*. Retrieved from <https://ourworldindata.org/democracy>
- Hiatt, S. R., J. B. Grandy, and B. H. Lee**  
2015 “Organizational responses to public and private politics: An analysis of climate change activists and U.S. Oil and gas firms.” *Organization Science*, 26: 1769–1786.
- Hillman, A. J., and M. A. Hitt**  
1999 “Corporate political strategy formulation: A model of approach, participation, and strategy decisions.” *The Academy of Management Review*, 24: 825.
- Hioe, B.**  
2016 “What would transitional justice in Taiwan mean?” *New Bloom Magazine*. Retrieved September 1, 2023, from <https://newbloommag.net/2016/02/29/transitional-justice-tw/>
- Hioe, B.**  
2017 “The Taipei dome controversy and issues of entrenched political corruption in taiwan?” *New Bloom Magazine*. Retrieved September 29, 2022, from <https://newbloommag.net/2017/08/26/taipei-dome-controversy/>
- Ho, M. S.**  
2018 “The activist legacy of Taiwan’s Sunflower Movement.” *Carnegie Endowment for International Peace*. Retrieved January 31, 2023, from <https://carnegieendowment.org/2018/08/02/activist-legacy-of-taiwan-s-sunflower-movement-pub-76966>

- Hsiao, F. S. T.**  
2016 “How bad is Taiwan’s economy?” Retrieved July 22, 2021, from <https://thediplomat.com/2016/07/how-bad-is-taiwans-economy/>
- Huang C.**  
2016 “Government, business group, and labor union: Party turnover cannot shake the triad.” NPO Public Service Exchange. Retrieved November 5, 2022, from <https://npost.tw/archives/22463>
- Huntington, S. P.**  
1993 *The Third Wave: Democratization in the Late Twentieth Century* Vol. 4. University of Oklahoma Press.
- Ingram, P., L. Q. Yue, and H. Rao**  
2010 “Trouble in store: Probes, protests, and store openings by Wal-Mart, 1998–2007.” *American Journal of Sociology*, 116: 53–92.
- Jeong, Y., and J. I. Siegel**  
2018 “Threat of falling high status and corporate bribery: Evidence from the revealed accounting records of two South Korean presidents.” *Strategic Management Journal*, 39: 1083–1111.
- Jeong, Y., and J. I. Siegel**  
2024 “Political competition and the rechanneling of corporate bribery into politically-connected charity donations: Evidence from South Korea.” *Strategic Management Journal*.
- Ji, J., Z. Huang, and Q. Li**  
2021 “Guilt and corporate philanthropy: The case of the privatization in China.” *Academy of Management Journal*, 64: 1969–1995.
- Jia, N.**  
2014 “Are collective political actions and private political actions substitutes or complements? Empirical evidence from China’s private sector.” *Strategic Management Journal*, 35: 292–315.
- Jia, Y., X. Gao, and S. Julian**  
2020 “Do firms use corporate social responsibility to insure against stock price risk? Evidence from a natural experiment.” *Strategic Management Journal*, 41: 290–307.
- Jiang, H., N. Jia, T. Bai, and G. D. Bruton**  
2021 “Cleaning house before hosting new guests: A political path dependence model of political connection adaptation in the aftermath of anticorruption shocks.” *Strategic Management Journal*, 42: 1793–1821.
- Johnson, S., and T. Mitton**  
2003 “Cronyism and capital controls: Evidence from Malaysia.” *Journal of Financial Economics*, 67: 351–382.
- Keim, G. D., and C. P. Zeithaml**  
1986 “Corporate political strategy and legislative decision making: A review and contingency approach.” *The Academy of Management Review*, 11: 828.
- Koehn, D., and J. Ueng**  
2010 “Is philanthropy being used by corporate wrongdoers to buy good will?” *Journal of Management & Governance*, 14: 1–16.
- Koh, P.-S., D. M. Reeb, and W. Zhao**  
2018 “CEO confidence and unreported R&D.” *Management Science*, 64: 5725–5747.
- Kozhikode, R. K., and J. Li**  
2012 “Political pluralism, public policies, and organizational choices: Banking branch expansion in India, 1948–2003.” *Academy of Management Journal*, 55: 339–359.
- Lankina, T. V., and L. Getachew**  
2006 “A geographic incremental theory of democratization: Territory, aid, and democracy in postcommunist regions.” *World Politics*, 58: 536–582.
- Leitzinger, J., B. G. King, and F. Briscoe**  
2018 “Introduction: Integrating research perspectives on business and society.” *Social Movements, Stakeholders and Non-Market Strategy*. Bingley: Emerald Publishing Limited.
- Leuz, C., and F. Oberholzergee**  
2006 “Political relationships, global financing, and corporate transparency: Evidence from indonesia.” *Journal of Financial Economics*, 81: 411–439.
- Li, X., and X. Liang**  
2015 “A Confucian social model of political appointments among Chinese private-firm entrepreneurs.” *Academy of Management Journal*, 58: 592–617.
- Li, Y. C.**  
2014 “Reflections on the Sunflower Student Movement.” *Exchange*.
- Liberty Times**  
2016 “Taipei government and business groups making profits from public land.” *Liberty Times*. Retrieved October 28, 2022, from <https://news.ltn.com.tw/news/life/breakingnews/105266>
- Libman, A.**  
2017 “Subnational political regimes and formal economic regulation: Evidence from Russian regions.” *Regional & Federal Studies*, 27: 127–151.
- Lim, N., S. Kim, and R. Agarwal**  
2023 “Weathering a demand shock: The impact of prior vertical scope on post-shock firm response.” *Strategic Management Journal*, 44: 1965–2004.
- Lohmann, S.**  
1993 “A signaling model of informative and manipulative political action.” *American Political Science Review*, 87: 319–333.
- Lohmann, S.**  
1994 “The dynamics of informational cascades: The Monday demonstrations in Leipzig, East Germany, 1989–91.” *World Politics*, 47: 42–101.

- Luo, J., A. Kaul, and H. Seo**  
2018 “Winning us with trifles: Adverse selection in the use of philanthropy as insurance.” *Strategic Management Journal*, 39: 2591–2617.
- Luo, X. R., and C. N. Chung**  
2013 “Filling or abusing the institutional void? Ownership and management control of public family businesses in an emerging market.” *Organization Science*, 24: 591–613.
- Mahmood, I., C. N. Chung, and W. Mitchell**  
2017 “Political connections and business strategy in dynamic environments: How types and destinations of political ties affect business diversification in closed and open political economic contexts.” *Global Strategy Journal*, 7: 375–399.
- Marquis, C., and C. Qian**  
2014 “Corporate social responsibility reporting in China: Symbol or substance?” *Organization Science*, 25: 127–148.
- Martinez-Bravo, M., P. Mukherjee, and A. Stegmann**  
2017 “The non-democratic roots of elite capture: Evidence from Soeharto mayors in Indonesia.” *Econometrica*, 85: 1991–2010.
- Maxwell, J. W., T. P. Lyon, and S. C. Hackett**  
2000 “Self-regulation and social welfare: The political economy of corporate environmentalism.” *The Journal of Law and Economics*, 43: 583–618.
- McDonnell, M.-H., K. Odziemkowska, and E. Pontikes**  
2021 “Bad company: Shifts in social activists’ tactics and resources after industry crises.” *Organization Science*, 32: 1033–1055.
- McDonnell, M.-H., and T. Werner**  
2016 “Blacklisted businesses: Social activists’ challenges and the disruption of corporate political activity.” *Administrative Science Quarterly*, 61: 584–620.
- McWilliams, A., and D. Siegel**  
2000 “Corporate social responsibility and financial performance: Correlation or misspecification?” *Strategic Management Journal*, 21: 603–609.
- Mellahi, K., J. G. Frynas, P. Sun, and D. Siegel**  
2016 “A review of the nonmarket strategy literature.” *Journal of Management*, 42: 143–173.
- Min News**  
2021 “Taiwanese economy in decline.” Retrieved July 22, 2021, from <https://min.news/taiwan/36c90e90ee88045700793584df01affe.html>
- Minefee, I., and M. Bucheli**  
2021 “MNC responses to international NGO activist campaigns: Evidence from Royal Dutch/Shell in apartheid South Africa.” *Journal of International Business Studies*, 52: 971–998.
- Moran, P.**  
2005 “Structural vs. relational embeddedness: Social capital and managerial performance.” *Strategic Management Journal*, 26: 1129–1151.
- Naidu, S., J. A. Robinson, and L. E. Young**  
2021 “Social origins of dictatorships: Elite networks and political transitions in Haiti.” *American Political Science Review*, 115: 900–916.
- Nalick, M., S. Kuban, A. D. Hill, and J. W. Ridge**  
2020 “Too hot to handle and too valuable to drop: An expanded conceptualization of firms’ reactions to exchange partner misconduct.” *Academy of Management Journal*, 63: 1976–2003.
- National Development Council**  
2014 Survey on citizen satisfaction with government services. Taipei: Academia Sinica.
- O’Donnell, G.**  
2007 *Dissonances: Democratic Critiques of Democracy*. Chapel Hill: University of Notre Dame Press.
- Oliver, C., and I. Holzinger**  
2008 “The effectiveness of strategic political management: A dynamic capabilities framework.” *Academy of Management Review*, 33: 496–520.
- Olzak, S., and S. A. Soule**  
2009 “Cross-cutting influences of environmental protest and legislation.” *Social Forces*, 88: 201–225.
- Peng, M. W., and Y. Luo**  
2000 “Managerial ties and firm performance in a transition economy: The nature of a micro-macro link.” *Academy of Management Journal*, 43: 486–501.
- Putnam, R. D.**  
2000 *Bowling Alone: The Collapse and Revival of American Community*. New York: Simon & Schuster.
- Riker, W. H.**  
1964 “Some ambiguities in the notion of power.” *American Political Science Review*, 58: 341–349.
- Ross, C., and P. Panov**  
2019 “The range and limitation of sub-national regime variations under electoral authoritarianism: The case of Russia.” *Regional & Federal Studies*, 29: 355–380.
- Rowen, I.**  
2015 “Inside Taiwan’s Sunflower Movement: Twenty-four days in a student-occupied parliament, and the future of the region.” *The Journal of Asian Studies*, 74: 5–21.
- Seagrave, S.**  
2017 *The Marcos Dynasty*. London: Lume Books.
- Sen, S., and C. B. Bhattacharya**  
2001 “Does doing good always lead to doing better? Consumer reactions to corporate social responsibility.” *Journal of Marketing Research*, 38: 225–243.
- Shain, Y.**  
2010 *The Frontier of Loyalty: Political Exiles in the Age of the Nation-State*. Michigan: University of Michigan Press.

- Shattuck, T. J.**  
2019 *Transitional justice in Taiwan: A belated reckoning with the white terror*. Philadelphia: Foreign Policy Research Institute.
- Shaver, J. M.**  
2019 "Interpreting interactions in linear fixed-effect regression models: When fixed-effect estimates are no longer within-effects." *Strategy Science*, 4: 25–40.
- Shih, V., C. Adolph, and M. Liu**  
2012 "Getting ahead in the communist party: Explaining the advancement of central committee members in China." *American Political Science Review*, 106: 166–187.
- Siegel, J.**  
2007 "Contingent political capital and international alliances: Evidence from South Korea." *Administrative Science Quarterly*, 52: 621–666.
- Soule, S. A.**  
2012 "Targeting organizations: Private and contentious politics." *Rethinking Power in Organizations, Institutions, and Markets*. Bingley: Emerald Group Publishing Limited.
- Stradiotto, G. A., and S. Guo**  
2010 "Transitional modes of democratization and democratic outcomes." *International Journal On World Peace*, 5–40.
- Sun, P., K. Mellahi, and M. Wright**  
2012 "The contingent value of corporate political ties." *Academy of Management Perspectives*, 26: 68–82.
- Sun, P., K. Mellahi, M. Wright, and H. Xu**  
2015 "Political tie heterogeneity and the impact of adverse shocks on firm value." *Journal of Management Studies*, 52: 1036–1063.
- Teodoridis, F., M. Bikard, and K. Vakili**  
2019 "Creativity at the knowledge frontier: The impact of specialization in fast- and slow-paced domains." *Administrative Science Quarterly*, 64: 894–927.
- The Storm Media**  
2018 "Observing the twin stars from the taipei dome: Ko, don't leave a mess and give others leverage." *Yahoo News*. Retrieved September 1, 2023, from <https://tw.news.yahoo.com/000001091.html>
- Tiebout, C. M.**  
1956 "A pure theory of local expenditures." *Journal of Political Economy*, 64: 416–424.
- Tilcsik, A., and C. Marquis**  
2013 "Punctuated generosity." *Administrative Science Quarterly*, 58: 111–148.
- Tilly, C.**  
1978 *From Mobilization to Revolution*. Boston: Addison-Wesley.
- Tocqueville, A. de**  
2002 *Democracy in America*. (H. C. Mansfield and D. Winthrop, trans.). Chicago: University of Chicago Press.
- Wade, R.**  
2003 *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton: Princeton University Press.
- Werner, T.**  
2015 "Gaining access by doing good: The effect of sociopolitical reputation on firm participation in public policy making." *Management Science*, 61: 1989–2011.
- Wu, N.**  
2005 "Transition without justice, or justice without history: Transitional justice in Taiwan." *Taiwan Journal of Democracy*, 1: 77–102.
- Yan, S.**  
2015 *This Is Not Sunflower Student Movement: 318 Movement Full Recording*. Taipei: Yunchen Culture.
- Yeh, P. H.**  
2015 *Fight! KMT Must Fall for Taiwan to Stand Tall*. Taipei: Fabian Society Culture Corporation.
- Zhang, J., C. Marquis, and K. Qiao**  
2016 "Do political connections buffer firms from or bind firms to the government? A study of corporate charitable donations of Chinese firms." *Organization Science*, 27: 1307–1324.
- Zhou, N., and H. Wang**  
2020 "Foreign subsidiary CSR as a buffer against parent firm reputation risk." *Journal of International Business Studies*, 51: 1256–1282.
- Zhu, H., and C. N. Chung**  
2014 "Portfolios of political ties and business group strategy in emerging economies." *Administrative Science Quarterly*, 59: 599–638.
- Zinecker, H.**  
2009 "Regime-hybridity in developing countries: Achievements and limitations of new research on transitions." *International Studies Review*, 11: 302–331.

## TABLES

**TABLE 1.** Univariate Test Comparing KMT-Connected Firms and Matched Firms

	Mean		T-Test	
	KMT-connected Sample	Matched Sample	t-value	p-value
	N = 318	N = 318		
Firm size	6.510	6.495	0.124	0.549
ROA	1.849	1.736	0.477	0.683
Firm age	28.116	28.664	0.556	0.289
Financial leverage	0.396	0.406	0.674	0.250
Export ratio	0.515	0.489	0.853	0.803
Admirable firm	0.013	0.016	0.335	0.369
Insider number	3.084	3.083	0.054	0.522
Tax rate	0.119	0.121	0.241	0.405
Bank loan	7.304	6.873	0.842	0.800
KMT investment	9.270	9.441	0.065	0.474
Corruption activity	0.116	0.126	0.364	0.358
Political contestation	0.604	0.604	0.000	0.500
NGO density	3.448	3.550	0.630	0.265

**NOTE.** This table illustrates the balance between the treatment and control groups. The median imbalance bias decreased from 17.90 to 3.40 ( $p$ -value = 0.99) after matching. Non-significant differences confirmed the effectiveness of the matching. We used one-to-one without replacement propensity score matching, with a 0.25 standard deviation caliper distance to align treatment observations with their nearest counterfactual.

**TABLE 2.** Summary Statistics and Correlation Matrix

	Obs.	Mean	S. D.	1	2	3	4	5	6	7
1 Philanthropic donation	9,718	0.24	1.84							
2 KMT connection	9,718	0.50	0.50	0.06						
3 DPP connection	9,718	0.13	0.34	0.01	-0.01					
4 Post movement	9,718	0.45	0.50	0.05	0.00	0.00				
5 Political contestation	9,718	0.60	0.49	0.02	0.00	-0.02	0.00			
6 NGO density	9,718	3.49	2.02	0.03	-0.02	-0.01	0.00	0.16		
7 Firm size	9,718	6.52	1.49	0.06	-0.01	0.03	-0.01	-0.06	-0.12	
8 Cash flow	9,718	6.23	5.61	0.00	0.02	0.00	0.02	0.00	-0.02	0.11
9 ROA	9,718	1.83	2.59	0.01	0.03	-0.04	0.01	-0.11	-0.12	0.21
10 Financial leverage	9,718	0.41	0.17	0.03	-0.03	0.07	0.01	0.04	-0.03	0.24
11 R&D intensity	9,718	0.04	0.09	-0.01	0.01	0.05	0.00	0.04	0.03	-0.16
12 Mainland investment	9,718	1.25	3.68	0.02	0.02	0.01	0.00	-0.04	-0.05	0.22
13 Foreign ownership	9,718	0.08	0.12	0.05	0.03	-0.05	0.04	0.01	0.03	0.35
14 Government procurement	9,718	1.96	5.36	0.00	-0.05	0.02	0.14	0.05	0.13	-0.03
15 Most admirable firm	9,718	0.02	0.12	0.02	-0.01	-0.04	0.00	-0.02	-0.01	0.15
16 CSR Scandal	9,718	0.06	0.22	0.04	0.02	0.01	0.03	0.03	-0.02	0.09
17 KMT regime	9,718	0.68	0.47	-0.02	-0.04	0.00	-0.36	0.15	0.06	0.02
	8	9	10	11	12	13	14	15	16	17
9 ROA	0.09									
10 Financial leverage	0.05	-0.06								
11 R&D intensity	-0.06	-0.24	-0.34							
12 Mainland investment	0.02	0.02	0.09	-0.03						
13 Foreign ownership	0.10	0.25	0.03	-0.07	0.14					
14 Government procurement	0.00	-0.01	-0.01	-0.03	0.03	0.00				
15 Admirable firm	0.02	0.07	0.02	0.01	0.03	0.14	0.00			
16 CSR Scandal	0.01	0.00	0.07	-0.08	0.04	0.05	0.00	0.03		
17 KMT regime	-0.04	0.00	-0.03	0.05	0.05	0.00	-0.03	0.00	-0.02	

**NOTE.** The post-matched sample comprised 636 firms, of which 318 were KMT-connected. Correlations with an absolute value greater than 0.02 were considered statistically significant. The correlation coefficient was calculated with within-level variability. The mean VIF value was 1.190, indicating no significant collinearity concerns among the variables. The RIR value for our main analysis was 0.630, suggesting that more than 63 percent cases would have to be biased by omitted variables to invalidate the inference. This scenario is highly unlikely, thereby mitigating the concern of omitted variable bias (Busenbark et al., 2022).

**TABLE 3.** Estimates of Corporate Philanthropy on the Matched Sample

	Baseline	Hypothesis Test			Full
		H1	H2	H3	
	Model 1	Model 2	Model 3	Model 4	Model 5
Firm size	0.14 (0.11)	0.14 (0.10)	0.14 (0.10)	0.15 (0.10)	0.14 (0.10)
Cash flow	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
ROA	0.00 (0.00)	0.00 (0.00)	0.01 (0.00)	0.01 (0.01)	0.01 (0.01)
Financial leverage	-0.02 (0.23)	0.01 (0.23)	0.00 (0.22)	0.00 (0.22)	0.00 (0.20)
R&D intensity	0.35 <sup>†</sup> (0.20)	0.35 <sup>†</sup> (0.20)	0.40* (0.20)	0.35 <sup>†</sup> (0.20)	0.39* (0.18)
Mainland investment	-0.00 (0.01)	-0.00 (0.01)	-0.00 (0.01)	-0.00 (0.01)	-0.00 (0.01)
Foreign ownership	0.90 (0.74)	0.97 (0.74)	0.95 (0.75)	0.99 (0.75)	0.96 (0.65)
Government procurement	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.01*** (0.00)
Admirable firm	-0.05 (0.45)	-0.06 (0.45)	-0.07 (0.45)	-0.06 (0.46)	-0.06 (0.45)
CSR Scandal	0.01 (0.16)	0.00 (0.16)	0.00 (0.16)	-0.00 (0.16)	0.00 (0.17)
KMT regime	0.08 (0.06)	0.08 (0.06)	0.06 (0.08)	0.12 <sup>†</sup> (0.06)	0.06 (0.07)
DPP connection × Post movement	-0.03 (0.11)	-0.02 (0.11)	-0.03 (0.11)	-0.01 (0.11)	-0.02 (0.14)
KMT connection × Post movement		0.28** (0.08)	0.07 (0.11)	0.28*** (0.07)	0.15 (0.11)
Post movement × Political contestation			-0.20 <sup>†</sup> (0.11)		-0.21 <sup>†</sup> (0.11)
KMT connection × Post movement × Political contestation			0.35** (0.13)		0.22 <sup>†</sup> (0.11)
Post movement × NGO density				-0.04 (0.03)	0.01 (0.03)
KMT connection × Post movement × NGO density				0.18** (0.06)	0.11*** (0.02)
Constant	-0.81 (0.68)	-0.86 (0.69)	-0.80 (0.71)	-0.93 (0.69)	-0.80 (0.72)
Two-way-fixed	YES	YES	YES	YES	YES
Industry-fixed	YES	YES	YES	YES	YES
Governance-fixed	YES	YES	YES	YES	YES
Observations	9,718	9,718	9,718	9,718	9,718
Firm counts	636	636	636	636	636
Adjusted R-squared	0.15	0.16	0.16	0.16	0.16

**NOTE.** Robust standard errors are in parentheses and are doubly adjusted for clustering within firms and cities; <sup>†</sup>  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$ . The dependent variable was *philanthropic donation*. Unreported independent variables and interaction terms were absorbed by fixed effects. We standardized the continuous variables in the interaction terms. Moderating hypotheses also received support in the subgroup analysis (Shaver, 2019; Giesselmann and Schmidt-Catran, 2022).

**TABLE 4.** Degree of Political Embeddedness

Indicators of <i>Embeddedness</i> :	DV: <i>Philanthropic Donation</i>							
	Panel A: KMT-connected Firms				Panel B: Matched Sample			
	Entrenchment Model 1	Number Model 2	Multiplicity Model 3	Power Model 4	Entrenchment Model 5	Number Model 6	Multiplicity Model 7	Power Model 8
Firm size	0.32* (0.12)	0.33* (0.13)	0.32* (0.13)	0.30* (0.11)	0.15 (0.10)	0.15 (0.10)	0.14 (0.10)	0.13 (0.10)
Cash flow	0.01† (0.00)	0.01 (0.00)	0.01 (0.00)	0.01† (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
ROA	0.00 (0.01)	-0.00 (0.01)	0.00 (0.01)	0.00 (0.01)	0.01 (0.00)	0.01 (0.00)	0.01 (0.00)	0.01 (0.00)
Financial leverage	-0.36 (0.31)	-0.30 (0.27)	-0.28 (0.25)	-0.34 (0.29)	0.01 (0.22)	0.01 (0.22)	0.00 (0.22)	0.03 (0.22)
R&D intensity	-0.00 (0.25)	0.02 (0.23)	0.03 (0.22)	0.01 (0.25)	0.32 (0.19)	0.33† (0.20)	0.33† (0.19)	0.34† (0.19)
Mainland investment	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	-0.00 (0.01)	-0.00 (0.01)	-0.00 (0.01)	-0.00 (0.01)
Foreign ownership	1.51 (0.97)	1.62 (0.95)	1.71† (0.89)	1.66† (0.92)	0.87 (0.75)	0.98 (0.75)	0.98 (0.74)	1.05 (0.74)
Government procurement	-0.01 (0.00)	-0.01† (0.00)	-0.01* (0.00)	-0.01 (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)	-0.01** (0.00)
Admirable firm	0.18 (0.46)	0.20 (0.45)	0.20 (0.45)	0.18 (0.44)	-0.05 (0.45)	-0.04 (0.45)	-0.04 (0.45)	-0.04 (0.44)
CSR Scandal	0.03 (0.17)	0.06 (0.15)	0.06 (0.15)	0.03 (0.16)	0.01 (0.16)	0.02 (0.16)	0.02 (0.16)	0.01 (0.16)
KMT regime	-0.16† (0.09)	-0.16† (0.08)	-0.13 (0.08)	-0.15† (0.08)	0.09 (0.06)	0.08 (0.06)	0.08 (0.06)	0.09 (0.06)
DPP connection × Post movement	0.02 (0.18)	-0.02 (0.21)	-0.05 (0.21)	0.00 (0.17)	-0.03 (0.10)	-0.03 (0.11)	-0.03 (0.11)	-0.03 (0.11)
KMT embeddedness × Post movement	0.09† (0.04)	0.23* (0.10)	0.28* (0.11)	0.17** (0.05)	0.16** (0.05)	0.17* (0.06)	0.14* (0.06)	0.16** (0.05)
Constant	-1.62† (0.86)	-1.72† (0.96)	-1.70† (0.91)	-1.51† (0.83)	-0.89 (0.68)	-0.85 (0.68)	-0.78 (0.68)	-0.77 (0.66)
Two-way-fixed	YES	YES	YES	YES	YES	YES	YES	YES
Industry-fixed	YES	YES	YES	YES	YES	YES	YES	YES
Governance-fixed	YES	YES	YES	YES	YES	YES	YES	YES
Doubly clustered	YES	YES	YES	YES	YES	YES	YES	YES
Observations	6,323	6,323	6,323	6,323	9,718	9,718	9,718	9,718
Firm counts	423	423	423	423	636	636	636	636
Adj R-squared	0.19	0.19	0.20	0.19	0.16	0.16	0.16	0.16

**NOTE.** Robust standard errors are in parentheses and are doubly adjusted for clustering within firms and cities; †  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$ . The dependent variable was *philanthropic donation*. We employed different measures of *KMT connection* and received robust result. Panel A includes only the KMT-connected firms; Panel B includes both the KMT-connected firms that are matched with non-KMT-connected firms and these matched firms. We standardized the continuous variables in the interaction terms.

**TABLE 5.** Failure Analyses of Connection Portfolios

	Failure Event: Cutting off KMT Ties	Failure Event: Increasing DPP Ties
	Model 1	Model 2
Controls	Included	Included
Post movement	-0.80* (0.38) hazard ratio = 0.45* <i>p</i> -value for cutting KMT ties = 0.019	-0.14 (0.97)
KMT connection		-0.13 (0.40)
KMT connection × Post movement		-1.27† (0.71) hazard ratio = 0.28* <i>p</i> -value for forming DPP ties = 0.037
<b>Constant</b>		
Year-fixed	YES	YES
Quarter-of-year fixed	YES	YES
Industry-fixed	YES	YES
Governance-fixed	YES	YES
Observations	6,323	9,718
Firm counts	423	636
Wald chi-squared	172.42	196.36

**NOTE.** Robust standard errors are in parentheses; †  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$ . Model 1 used the KMT-connected sample; Model 2 used one-to-one without replacement propensity score matching. The dependent variables were connection portfolio changes. Complementary log-log estimators were used to analyze the hazard ratios of failures. Model 1 shows that KMT-connected firms did not cut KMT ties in the post-movement period, and Model 2 shows that KMT-connected firms became less likely to increase their DPP connections in the post-movement period.

**TABLE 6.** Treatment Effects on Different Donation Causes and Recipients

Causes/Total	Education and Youth	Minorities	Community	Employee and Industry
Effect	0.64	0.49	0.77	0.31
<i>p</i> -value	0.04	0.00	0.00	0.06
Causes/Total	Cultural Activity	Environment Protection	Government Project	All Grassroots Related
Effect	0.10	0.10	0.04	2.21
<i>p</i> -value	0.56	0.30	0.55	0.00

**NOTE.** This table shows treatment effects on the proportions of specific types of donations. The *p*-values are estimated using Bootstrap, and the standard errors are doubly clustered. The dependent variables are the proportions of specific types of donations relative to the total donations. Donations related to the Sunflower Movement and grassroots (“education and youth,” “minorities,” “community,” and “employee and industry”) and recipients with neither KMT nor DPP connections displayed significance. The board member lists of recipients were collected from org.twincn.com.

**TABLE 7.** Donation Efficacies in Boosting Positive Market Reactions

Event	Donation Announcement	
	Before the Sunflower Movement	After the Sunflower Movement
CAR	0.24	0.32
<i>p</i> -value	0.26	0.00

**NOTE.** This table presents the market response to donations made by KMT-connected firms. Cumulative abnormal returns (CAR) were calculated using a two-day window [-1, 1]. The market model was estimated from a 250-trading-day period ending 20 trading days before the event date. Alternative event windows, such as [-1, 0], produced consistent results. Donations positively influence KMT-connected firms’ market returns post-movement. Additionally, a post-hoc analysis indicated that a 1 percent increase in donation amounts resulted in an 11.66 percent revenue increase for KMT-connected firms, compared with only 4.90 percent for non-connected firms.



## FIGURES

**FIGURE 1. Legislature Occupation and Mass Rally in Taipei**



a. Legislature Occupation

b. Mass Rally in Taipei on March 30, 2014

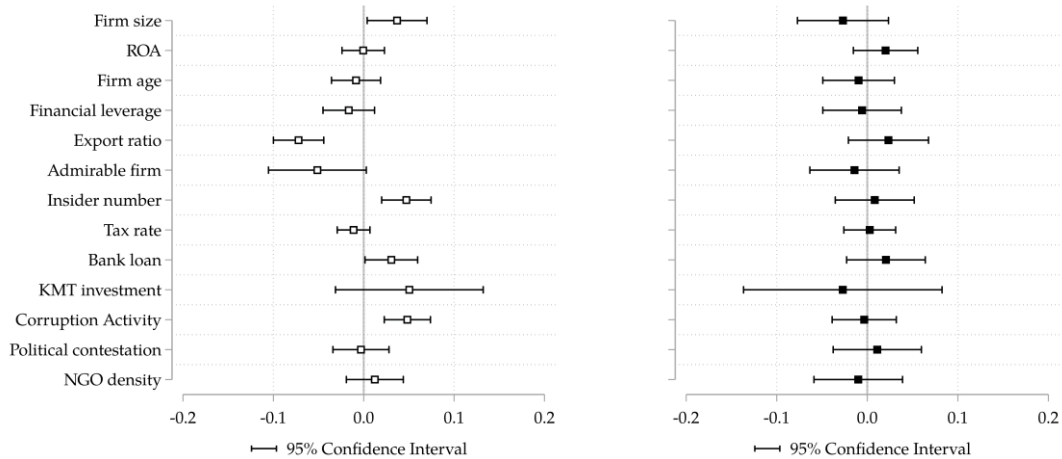
**NOTE.** Thousands of students occupied the Legislature between March 18 and April 10, 2014, and more than 500,000 people rallied on Ketagalan Boulevard in Taipei on March 30, 2014.

Source of Figure a: <https://www.scmp.com/comment/insight-opinion/article/1469942/taiwan-needs-think-long-term-regions-economic-focus-shifts>

Source of Figure b: <https://www.flickr.com/photos/48144725@N02/13764307135>

Source of statistics: <https://www.reuters.com/article/us-taiwan-protests-idUSBREA2T07H20140330>

**FIGURE 2. Balance Before and After Matching**



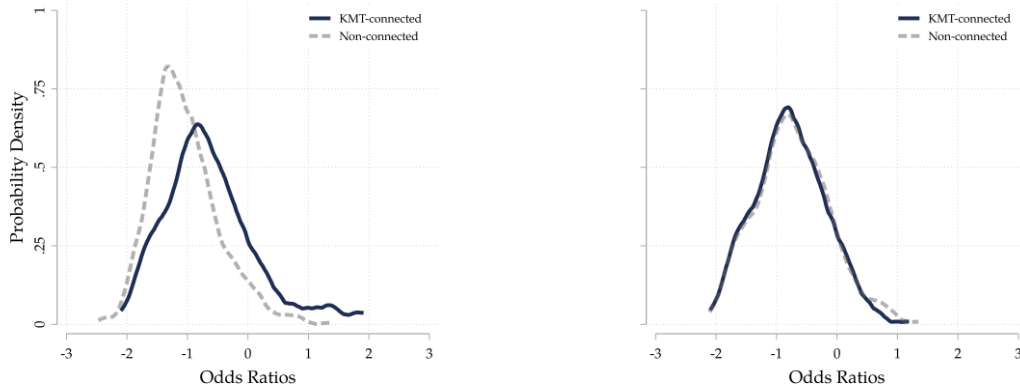
a. Full Sample

b. Matched Sample

**NOTE.** These figures demonstrate the performance of propensity score matching by plotting the standardized marginal effects of each covariate on the probability of being KMT-connected. Probit regressions used *KMT connection* as the dependent variable and standardized covariates as independent variables. After matching, both marginal effects and significance levels decreased, indicating an improved balance between the treatment and control groups.

*N* of firms before matching = 1,267; *N* of firms after matching = 636.

**FIGURE 3.** Kernel Density Estimations before and after Matching

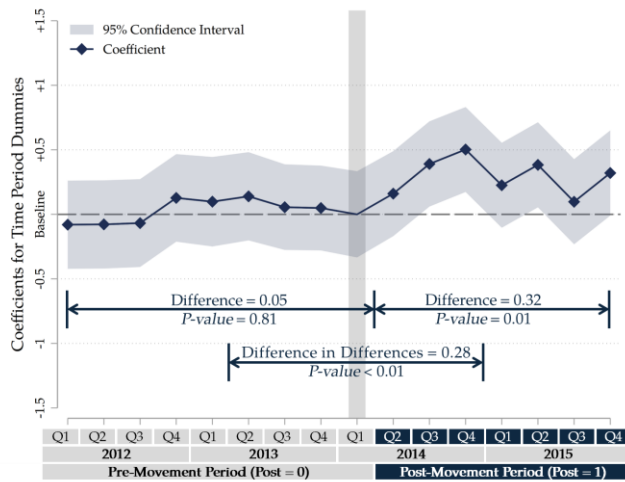


a. Full Sample

b. Matched Sample

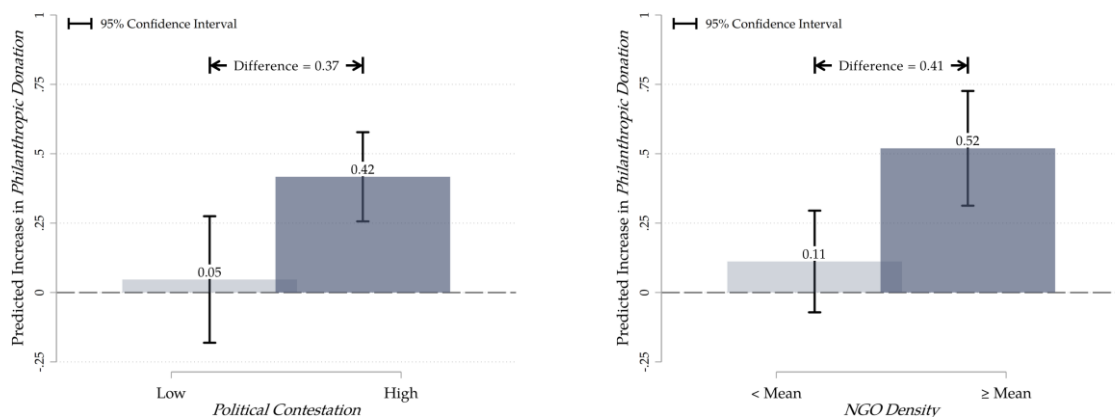
**NOTE.** These figures show the performance of propensity score matching by plotting the kernel density of the probability of being treated. The overlap between the treatment and control groups in the matched sample indicates the high quality of our matching.  $N$  of firms before matching = 1,267;  $N$  of firms after matching = 616.

**FIGURE 4.** Time Trend of Treatment Effects



**NOTE.** This figure illustrates the trend of treatment effects. The dependent variable is *philanthropic donation*. The focal independent variable is the interaction of *KMT connection* and *quarterly dummies*. Before the movement, there were no disparities in donations between KMT-connected and non-KMT-connected firms. However, following the Sunflower Movement, the KMT-connected group's donations surpassed those of the control group, and this increase was statistically significant.

**FIGURE 5.** Moderating Effect Plots

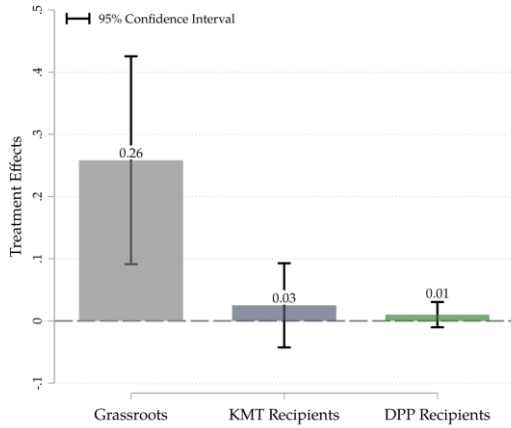


a. Hypothesis 2

b. Hypothesis 3

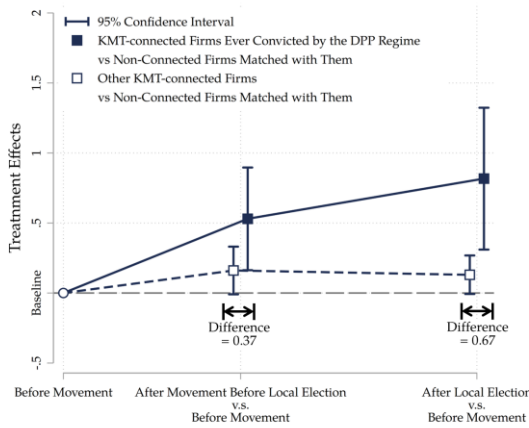
**NOTE.** The figures display the moderating effects. We split the sample into subgroups. The dependent variable is *philanthropic donation*. The focal independent variable is the interaction of *KMT connection* and *post movement*. Both moderation hypotheses were supported in the subgroup analyses.

**FIGURE 6. Donation Recipients**



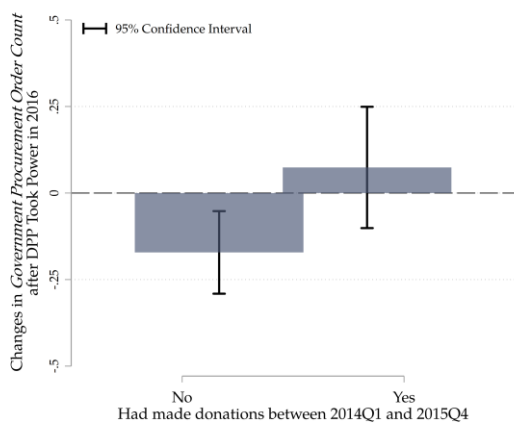
**NOTE.** This figure examines the recipients of donations. The key independent variable is the interaction of *KMT connection* and *post movement*. KMT-connected firms donated more to grassroots recipients than those linked to the KMT or DPP. We classified the donations based on whether the recipient organizations have an interlock with the KMT or DPP. The data on board members of recipients were collected from org.twincn.com.

**FIGURE 7. Collusive Cases and Donation Increase**

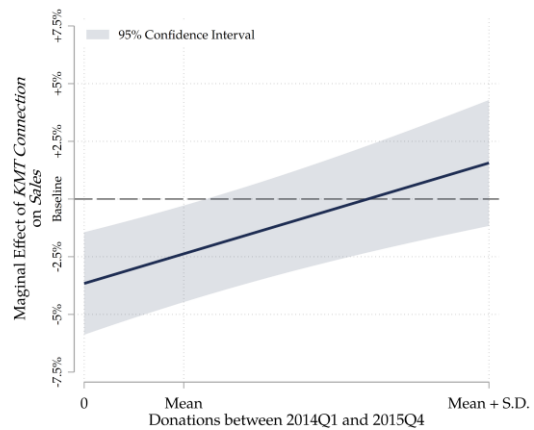


**NOTE.** This figure illustrates that KMT-connected firms that had been convicted for collusion donated more than other KMT-connected firms after the movement. This disparity is further enlarged by the local election, which strengthened the signal of regime turnover. As collusive KMT-connected firms faced higher transitional risk, the enlarged donation disparity supports risk hedging as the mechanism behind KMT-connected firms' philanthropic donations. The dependent variable is *philanthropic donation*, while the primary independent variables are the interactions between dummies indicating specific types of firms and dummies indicating specific periods.

**FIGURE 8. Donation Efficacies**



a. Effect on Government Procurements



b. Effect on Sales

**NOTE.** These figures illustrate how donations mitigate transitional risks and bolster social legitimacy. In Figure A, the dependent variable is the number of *government procurements*; in Figure B, it is *sales*. Figure A splits the sample into two groups: those that made donations between 2014Q1 and 2015Q4, and those that did not. The independent variable is a dummy representing the period after the 2016 election. The independent variable in Figure B is the interaction between the amount of donations made between 2014Q1 and 2015Q1 and the period post-movement. Donations made between 2014Q1 and 2015Q4 helped mitigate losses in political rents for KMT-connected firms and maintained their strong social legitimacy. Including non-connected firms to produce a DID-styled estimator, we found these donations benefited KMT-connected firms more in terms of the government procurements and sales.