



# CSR as Hedging Against Institutional Transition Risk: Corporate Philanthropy After the Sunflower Movement in Taiwan

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## Abstract

Firms with political connections to a regime with an authoritarian history face a dilemma when the regime undergoes a democratic transition. Such connections provide an essential competitive advantage when the regime is in power but become a liability when an institutional transition brings democratic change. This study theorizes that when mass protests expose a regime's distorted policies favoring elites over others 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 in Taiwan's 2014 Sunflower Movement. Our article reveals a strategy that firms adopt to survive democratic transitions and thus contributes to research on how firms use non-market strategies to adapt to institutional changes. Our research also shows that strategic corporate social responsibility (CSR) can substitute for corporate political activity or compensate for its limitations, and it expands research on the signaling function of social movements from public to private politics.

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

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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 changes—tens of thousands of people have been mobilized into peaceful marches and violent confrontations, expressing their dissatisfaction with incumbent regimes and their policies. Even if such protests do not directly lead to the collapse of a regime, protestors speaking out against political corruption, economic inequality, and social injustice can uncover the regime's previously unaccounted-for 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; 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). 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, which 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, as some suffer 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 that firms use 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 incoming politicians in order to build

new ties. Firms embedded within the old regime's networks often carry the stigma of being authoritarian relics and 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 a 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 a democratic transition. 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 policymaking. 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 with and illegitimately profited from their political and economic circle and thus are at risk of being penalized when the incumbent regime's rivals come to power (Jeong and Siegel, 2024). Therefore, connected firms may use corporate philanthropy to increase their social legitimacy (Godfrey, 2005; Luo, Kaul, and Seo, 2018) 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 a 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 these factors 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 had survived democratic reform for several decades. Starting in the late 1980s, Taiwan experienced a relatively peaceful transition away from a single-party system. In 2000, the KMT temporarily lost its status as the ruling party, as Taiwan elected a president from the Democratic Progressive Party (DPP), who held power for eight years. The KMT returned to power after that, and at the time of the Sunflower Movement, Taiwan's democratic transition was still incomplete. In the 1990s, under sustained protests from local pro-democracy activists and mounting international pressure, KMT elites engineered a democratic transition. While they relinquished certain aspects of their authoritarian rule, they retained significant influence through elite networks and legislative dominance, consistently holding the majority in the legislature until 2016. Prior collusive practices under the KMT government had not been morally or legally accounted for, and many connections between the KMT and businesses remained (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 because students and others were protesting 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 to the DPP 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 learned 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. We found 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, which is consistent with our assumptions.

## THEORY

### Risk of Political Connections in Democratic Transitions

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 infamously replied that "some are smarter than others" (Branigin, 1984). However, subsequent events proved that the smartness of having developed close ties with the autocratic government was short-lived. When the People Power Revolution, which consisted of a series of democracy-restoring mass protests, ousted Marcos in 1986, 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 epitomizes 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 (e.g., Huntington, 1993; Acemoglu and Robinson, 2008).

The path to democracy can be particularly prolonged in countries and regions that have experienced peaceful transitions. Such transitions are often deliberately engineered by authoritarian elites as compromises or result from elites' negotiations with democratic forces, allowing regimes to avoid complete overthrow (Stradiotto and Guo, 2010). The resulting governments may reflect a combination of authoritarian and democratic features (Diamond, 1994). Although an electoral system that helps to 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 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 a democratic transition, social groups that do not receive 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 that may favor connected elites, and protestors can 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 "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 such exposure rekindles their grievances regarding unaddressed crimes and collusion that occurred during the 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 setting up truth tribunals and making 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 connected firms 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 likely to challenge such firms. By doing so, the new regime seeks to cultivate popularity at the grassroots level. Accordingly, we argue that firms will closely heed anti-regime mass protests and prepare to hedge against the transitional risk.

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

Cutting ties with a threatened regime and building new ties with its political rivals represent the two main strategies for organizations such as firms to manage the risk of political connections. Scholars have reported that if an organization's reputation 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 targeted corporations. Disconnecting from 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 a regime's own (self-promoting) anti-corruption campaign, a relatively stable institutional context in which cutting ties with corrupt officials aligns with the incumbent government's policy and therefore does not lead to retaliation. In contrast, during a democratic transition, cutting ties with the incumbent regime while it is still in power can provoke severe retaliation and lead to the forfeiture of accrued political rents (Moran, 2005; Nalick et al., 2020).

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 doing so runs the risk of retaliation or "detachment" (Moran, 2005; Nalick et al., 2020: 1977). A firm's decision to switch sides leads not only to incumbent elites' loss of trust in that firm but also to 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 it (Siegel, 2007; 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 a democratic transition.

We argue that the prosocial pathway of making philanthropic donations to public-welfare causes is a feasible strategy for politically connected firms to hedge against the risk of regime turnover in democratic transitions. 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; Luo, Kaul, and Seo, 2018), which, in turn, increases employee commitment (Burbano, 2016; Flammer and Luo, 2017), 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; Luo, Kaul, and Seo, 2018). 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 power shift toward a political system in which elected representatives govern. Firms can generate goodwill by directly contributing to social causes that benefit the public. Taking this action can mitigate punitive sanctions from a new government, which is likely to be responsive to public opinion. Unlike political actors bound by ideological beliefs, the public can be more easily swayed. In addition to moderating the government's actions, 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 firms that worked on elite private projects, firms working on public projects before the Qadhafi regime collapsed were protected by

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<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., Hillman and Hitt, 1999; Yue, 2015; Wen, Walker, and Yue, 2024). 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.

the public from being looted during the turmoil of the Arab Spring. Similarly, Gatignon, Gama, and DeMello (2023) found that when multiple police raids in Brazil in 2014 signaled a transition from legal capture (corruption) to legal compliance, the social strategy of donating to the public was more valuable than was the political strategy of maintaining direct connections with the government.

As a concrete, 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 sociopolitical ties. 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 underprivileged people, 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 will similar firms without such connections.

### Regional Variation in Democratic Transition

Democratic transition often unfolds unevenly across regions, resulting in local 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." Regional variations in democratization have been observed in India, Latin America, and post-Soviet countries (e.g., Lankina and Getachew, 2006; Giraudy, 2015; Harbers, Bartman, and van Wingerden, 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 transitions (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 local 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 they 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). Therefore, if a 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 politicians 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 local 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 those led by 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 public interests. NGOs also monitor firms, for example, by conducting naming-and-shaming campaigns that highlight firms' previous unfair or harmful practices, which can 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 compared to political actors, NGOs had a greater effect on firms' abnormal returns in Brazil's recent institutional transition toward greater legal compliance. The prevalence of NGOs in a region thus indicates an increasing degree of social monitoring and a heightened risk for firms connected to 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 for 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 attempts to pass the Cross-Strait Service Trade Agreement (CSSTA), a controversial free-trade agreement with Mainland China. While CSSTA's advocates argued that it would bring the benefits of free trade, its opponents contended that the government's abbreviated legislative review of the agreement was undemocratic and that the treaty would benefit only large companies, not small and medium-sized companies. Its opponents 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 a pre-agreed procedure of a clause-by-clause review.



Protesting against the KMT's black-box operation, activists 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 CSSTA review.

Although Taiwan had experienced a relatively peaceful democratic transition until that time, it had not yet entered a post-authoritarian era as of 2014. The KMT was Taiwan's authoritarian ruling party before its democratic transition, which began in 1987 when Chiang Ching-kuo lifted martial law after nearly four decades of repression. Democratic reforms expanded under Lee Teng-hui in the 1990s, leading to the first direct presidential election in 1996. Taiwan's first president from the rival DPP, Chen Shui-bian, was elected in 2000, after which the KMT's Ma Ying-jeou won the election in 2008. Despite these signs of progress toward democratization, many academics and journalists argue that the transition, which was shaped by KMT elites (so they could maintain control over the pace of change and the party's reputation), was incomplete; the people responsible for past injustices had not been prosecuted by the time of the Sunflower Movement (Wu, 2005; Shattuck, 2019), and the KMT retained significant power, including 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 Taiwan's governance crisis and related social and economic issues.

Under the KMT's decades-long authoritarian rule, connected businesses enjoyed the privilege of entering lucrative industries that were regulated by the government (Wade, 2003), and such businesses 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 low and stagnating wages, increasing income inequality, and the hollowing out of domestic industries (Hsiao, 2016)—problems attributed to 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: The ten 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 had not completely alleviated these problems, and political ties continued to be an important channel through which businesses could influence politics (Mahmood, Chung, and Mitchell, 2017). The following public statement issued by Sunflower Movement protestors clearly illustrates the public's frustration with the KMT government's economic policy and its authoritarian past (Yan, 2015: 343):<sup>2</sup>

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<sup>2</sup> To save space, we report only an excerpt here; we include the original full statement and its English translation in Online Appendix 3.

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.

The Sunflower Movement was “the largest protest-based mobilization in Taiwan’s history” (Ho, 2018: 1), and its scale, duration, and intensity signaled a weakening of the KMT’s hold on the public. It also popularized the slogan “KMT must fall for Taiwan to stand tall (國民黨不倒, 台灣不會好)” (Yeh, 2015: 1). After the Sunflower Movement, the KMT suffered a significant defeat to the DPP opposition party in the 2016 presidential and legislative elections. This change in government was more than just a peaceful transfer of power; it was “a historical moment in Taiwan, marking the DPP in full control for the first time” (BBC, 2016).

### Corporate Elites’ Response to the Sunflower Movement

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 this comment in June 2014: “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” (Li, 2014). 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 stated in an interview on July 9, 2020, that after the Sunflower Movement, his company devoted more resources to building relationships with clients in order to offset any perceptions of collusion stemming from its association with the KMT. The prospect that the 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 in 2008. 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. CIPAS 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 Hsin-yutai 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: 1). 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 the firm's 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

Using the *Taiwan Economic Journal* (TEJ) database (Zhu and Chung, 2014), we constructed a quarterly sample 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.

Following studies in similar settings (e.g., McDonnell and Werner, 2016; Espinosa, 2021; McDonnell, Odziemkowska, and Pontikes, 2021), we employed quarterly data to create a fine-grained event window that captured firms' immediate responses to the Sunflower Movement and isolated 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 allowed us to assess firms' immediate reactions to the movement and to avoid confounding the movement's impact with the subsequent local elections. 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 Online 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 we 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 (Koh, Reeb, and Zhao, 2018), and we excluded state-owned enterprises as these firms often have political agendas (Jia, 2014; Zhang, Marquis, and Qiao, 2016; Jia, Huang, and Zhang, 2019) 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

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 one to the raw values to handle zeros. We also used count and dummy variables as alternative measures of philanthropic donations (see Table A4-3).

### Independent Variable

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 both 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 in 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 helping firms obtain 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. Online Appendix Note A2-1 provides details of our procedure. 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),

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<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.

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 *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 observations had KMT connections, and 10.68 percent (2,031 of 19,012) had DPP connections.

### Moderating Variables

We constructed the *Political contestation* moderator by 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.

We computed *NGO density*, 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<sup>5</sup> and demographic statistics from the Department of Household Registration.<sup>6</sup> We collected data on 7,072 NGOs, 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.

### 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*. These indices were retrieved from TEJ's quarterly updated database. Luo and Chung (2013) found that ownership and control structures are critical factors affecting corporate strategies in Taiwan. Therefore, we classified firms into those governed by a single family, those governed by professional managers, and those with other common governance structures, and we included governance-fixed effects 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, which documents government bids and provides data on bidders' purchases.<sup>7</sup> We included *DPP connection*  $\times$  *Post movement* to control for the influence of rival party connections and local governments.

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<sup>5</sup> <https://www.npo.org.tw>

<sup>6</sup> <https://www.ris.gov.tw/>

<sup>7</sup> <https://taiwanbuying.com.tw/>

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*, a magazine that collates high-profile corporate reputation evaluations and prizes in Taiwan.<sup>8</sup> We coded *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 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, the firm-fixed effects did not fully capture industry characteristics, so we also controlled for industry-fixed effects.<sup>9</sup> 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 as outlined by Shipman, Swanquist, and Whited (2017). 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 *Firm size*, *ROA*, *Firm age*, *Financial leverage*, and *Export ratio*. Second, to exclude the effects of reputation and motivation to donate, we matched firms according to the *Admirable firm* variable. 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 confounding factors affecting both the KMT connection formation and donation making.<sup>10</sup> *Insider size* represents the total number of directors, supervisors, and executives (Li and Liang, 2015). *KMT investment* was quantified using the shareholding amounts from several entities, including seven major investment enterprises established by the KMT<sup>11</sup> and enterprises in which the KMT held over 95 percent of shares, as disclosed by the CIPAS and the KMT Assets Exposure website.<sup>12</sup> The KMT-involved *Corruption activity* is a dummy variable indicating whether firms were

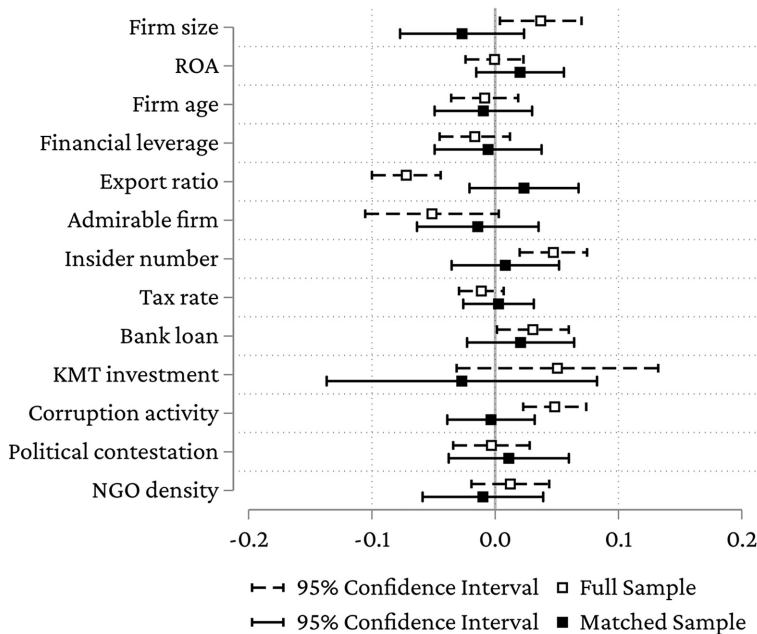
<sup>8</sup> <https://topic.cw.com.tw/csr>

<sup>9</sup> One database of the TEJ documents the industry codes of the initial public offerings and the subsequent changes, including dates of changes and updated industry codes. We inferred the time-varying industry codes from these two items of information.

<sup>10</sup> We thank an anonymous reviewer for the suggestion to add the variables *Bank loan*, *KMT investment*, and *Corruption activity* to the matching process.

<sup>11</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>12</sup> <https://kmt.exposed/>

**Figure 1. Balance Before and After Matching\***

\* This figure demonstrates the performance of propensity score matching by plotting the standardized marginal effects of each covariate on the probability of being KMT-connected.

involved in corruption cases with KMT officials aiming to misappropriate public benefits. We consolidated illegal ruling records from the Taiwan Financial Supervisory Commission and the Stock Exchange Corporation, 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, which makes locally optimal choices at each matching step. 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 ( $p = 0.99$ ). Second, as shown in Figure 1, we estimated the marginal effects of each matched dimension on the likelihood of being connected to the KMT.<sup>13</sup> The minimal effect sizes and low significance

<sup>13</sup> The *CommonWealth* Corporate Citizenship Award evaluates enterprises of different sizes separately. Therefore, the interaction between *Admirable firm* and firm size categories was included when we estimated the marginal effects of being an admirable firm.

**Table 1. Summary Statistics and Correlation Matrix\***

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

\* N = 9,718. The post-matched sample comprised 636 firms, of which 318 were KMT-connected. Correlations with an absolute value greater than 0.02 were statistically significant. The correlation coefficients correspond to the levels of variability from which they were derived.

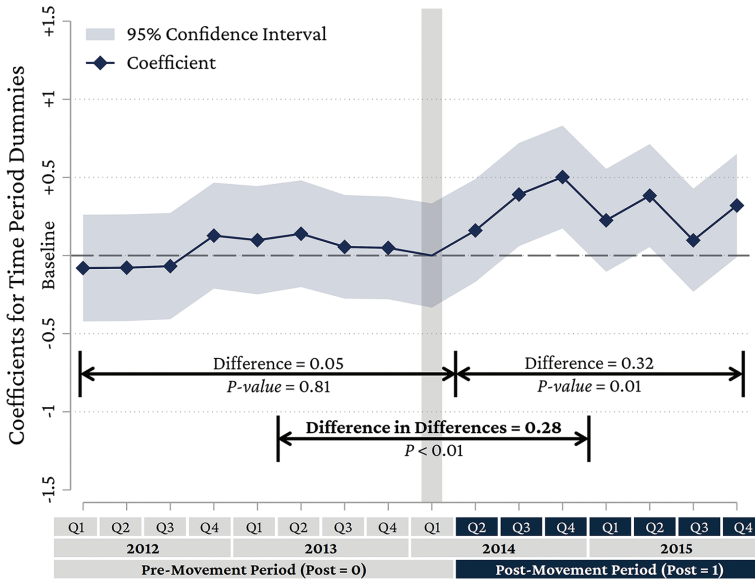
levels after matching suggested a balance between the treatment and control groups. Finally, as shown in Online Appendix Figure A4-1, we plotted the kernel density distributions after matching. The overlap between the two groups after matching suggests a good balance. The descriptive statistics of the after-matching sample are provided in Table 1. The average variance inflation factor value was 1.20, indicating no significant collinearity among the variables.

## 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.



**Figure 2. Time Trend of Treatment Effects\***

\* 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*.

$$Philanthropic\ donation_{ct} = \alpha + \beta * Treatment\ dummy_c \times Quarter\ dummy_t + \gamma Controls_{ct} + Firm\ FE + Quarter\ FE + \varepsilon_{ct} \quad (1)$$

Figure 2 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 Q4 2013), 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 did, as reflected by the positive and significant  $\beta^*$ .

## Hypothesis Testing

**Estimation model.** Our primary analyses were as follows:

$$Philanthropic\ donation_{ct} = \alpha + \beta * KMT\ connection_c \times Post\ movement_t + \beta M_c \times Post\ movement_t + \beta^{**} M_c \times KMT\ connection_c \times Post\ movement_t + \gamma Controls_{ct} + Firm\ FE + Quarter\ FE + \varepsilon_{ct} \quad (2)$$

where *KMT connection* is a vector of treatment that equals one when a firm is connected to the KMT and zero otherwise; the variable *Post movement* captures the occurrence of the Sunflower Movement and equals one for quarters

after Q1 2014 and zero 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.

**Estimation results.** Table 2 reports the regression results. Model 1 is the baseline model with only control variables included. We examined H1 using Model 2, as shown in Table 2. The DID estimator produced a positive and statistically significant result (coefficient = 0.28,  $p = 0.001$ ), thus supporting H1. 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. A survey by the Association of Philanthropic Accountability (2022) in Taiwan, analyzing 275 listed firms that made donations, found their median annual donation value to range between 10,000 and 50,000 NTD. Therefore, the amount of 94,652 NTD per quarter is significant. Additionally, compared to the period before the movement, donations from matched non-KMT-connected firms changed by only  $-0.23$  percent ( $p = 0.870$ ) over the sample average after the movement, while donations from KMT-connected firms increased by 27.42 percent ( $p = 0.001$ ) to approximately 430,734 NTD (15,076 USD) per quarter after the movement.

We used Model 3 in Table 2 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,  $p = 0.001$ ). 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 whether no such changes occurred (low contestation). The results, shown in Figure 3a, 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 ( $p < 0.001$ ; approximately 144,344 NTD, or 5,052 USD per quarter) more than non-connected firms did. In contrast, KMT-connected firms in other cities increased their donations by only 4.69 percent ( $p = 0.679$ ) compared to non-connected firms. This difference between the two increases is statistically significant according to a permutation test ( $p < 0.001$ ).

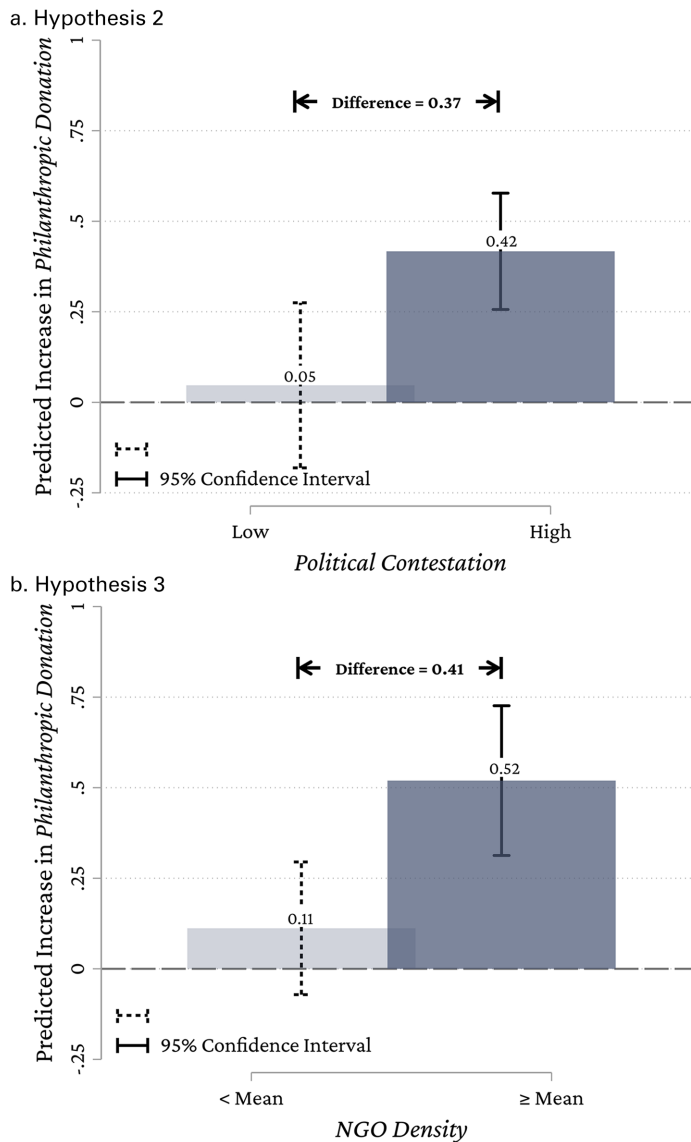
<sup>14</sup> We thank an anonymous reviewer for pointing out the necessity of using a subgroup analysis to test the moderating effects in the fixed-effects model.

**Table 2. Estimates of Corporate Philanthropy on the Matched Sample\***

	Hypothesis Test						
	Baseline	H1			H2	H3	Full
	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 <sup>*</sup> (0.20)	0.35 <sup>+</sup> (0.20)	0.39 <sup>*</sup> (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 <sup>**</sup> (0.00)	-0.01 <sup>**</sup> (0.00)	-0.01 <sup>**</sup> (0.00)	-0.01 <sup>**</sup> (0.00)	-0.01 <sup>***</sup> (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 <sup>**</sup> (0.08)	0.07 (0.11)	0.28 <sup>***</sup> (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 <sup>**</sup> (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 <sup>**</sup> (0.06)	0.11 <sup>***</sup> (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		

<sup>+</sup>  $p < .10$ ; <sup>\*</sup>  $p < .05$ ; <sup>\*\*</sup>  $p < .01$ ; <sup>\*\*\*</sup>  $p < .001$

\* Robust standard errors are in parentheses and are adjusted for clustering at both the city-year and firm levels. Unreported independent variables and interaction terms were absorbed by fixed effects. We standardized the continuous variables in the interaction terms.

**Figure 3. Moderating Effect Plots\***

\* The figures display the moderating effects. 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.

Model 4, reported in Table 2, was designed to assess the moderating influence of *NGO density*, and the results support H3. The outcome of the triple-difference estimator is positive and highly significant (coefficient = 0.18,  $p = 0.004$ ), indicating that KMT-connected firms increased their donations after the Sunflower Movement to a greater extent when 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 ( $p = 0.001$ ; approximately 175,613 NTD, or 6,146 USD per quarter) compared to non-KMT-connected firms, as illustrated in Figure 3b. In comparison, KMT-connected firms located in cities with a lower *NGO density* value showed an 11.18 percent increase in their philanthropic donations ( $p = 0.226$ ) compared to non-KMT-connected firms. The difference in these increases in donation levels was statistically significant according to a permutation test ( $p = 0.001$ ). The results of both the interaction and the subgroup analyses strongly support H3. Finally, Model 5, reported in Table 2, is the full model and shows outcomes consistent with those reported earlier.

## ADDITIONAL TESTS

### Degree of Political Embeddedness

We further examined the extent of the embeddedness of politically connected firms within the old regime, beyond a simple binary measure of KMT connections. Due to their entrenched political identities, firms deeply embedded in the incumbent regime encounter significant risks during democratic transitions. 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 Online Appendix Note A2-2), the *Number* of connections, *Multiplicity* (the diversity of political department types in which 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 3 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 we included non-connected firms in the analyses, we found that KMT-connected firms with high embeddedness also significantly raised their donations more after the movement than did 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 used to hedge against transitional risk, as the opposition party was likely to treat firms with public legitimacy more leniently. To validate this transitional risk-hedging mechanism, we tested three underlying assumptions 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 2014 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—KMT-connected firms reducing their KMT ties and these firms increasing their DPP ties—and present the results in Online Appendix Table A4-1. We assessed the impact of the Sunflower

**Table 3. Degree of Political Embeddedness\***

Indicators of embeddedness	DV: Philanthropic Donation							
	Panel A: KMT-Connected Firms				Panel B: Matched Sample			
	Entrenchment	Number	Multiplicity	Power	Entrenchment	Number	Multiplicity	Power
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Controls	Included	Included	Included	Included	Included	Included	Included	Included
Embeddedness × Post movement	0.09 <sup>+</sup> (0.04)	0.23 <sup>*</sup> (0.10)	0.28 <sup>*</sup> (0.11)	0.17 <sup>**</sup> (0.05)	0.16 <sup>**</sup> (0.05)	0.17 <sup>*</sup> (0.06)	0.14 <sup>*</sup> (0.06)	0.16 <sup>**</sup> (0.05)
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
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

<sup>+</sup>  $p < .10$ ; <sup>\*</sup>  $p < .05$ ; <sup>\*\*</sup>  $p < .01$ ; <sup>\*\*\*</sup>  $p < .001$

\* Robust standard errors are in parentheses and are adjusted for clustering at both the city-year and firm levels.

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 their matched non-connected firms. We standardized the continuous variables in the interaction terms.

Movement on the KMT ties of these firms and found no significant likelihood of the firms severing KMT ties post-movement compared to pre-movement. The one-sided test rejected the null hypothesis that KMT-connected firms would become more likely to cut their connections post-movement than pre-movement ( $p = 0.019$ ). We also evaluated the movement's effect on DPP ties and found that KMT-connected firms were 71.84 percent less likely than other firms to form new DPP connections in the post-movement period ( $p = 0.037$ ).

**Assumption 2: Donations targeting the public.** If the increase in corporate philanthropy is intended to garner public approval, firms will donate to public welfare-related rather than to KMT or DPP party-affiliated causes. We tested this assumption and found that increased donations were primarily made to public welfare-related causes (Online Appendix Figure A4-2). KMT-connected firms increased their donations to grassroots causes, 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. In addition, KMT-connected firms may redirect their political activities to take a concealed approach by donating to politically connected charities, thus avoiding scrutiny from the public and rivals (Jeong and Siegel, 2024). However, our analysis in Online Appendix Figure A4-2 shows that donations were directed to recipients not linked to either the KMT or DPP, 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 we accounted for political motivations, such as public opinions, reactions to the Sunflower Movement, and tax rates, our findings remained consistently robust.

**Assumption 3: Transitional risk stemming from revealed collusive practices.** We posited that the responses of KMT-connected firms were driven by transitional risks stemming from the KMT's authoritarian reign and collusive practices. We tested this assumption, as shown in Online Appendix Figure A4-3, by identifying 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 KMT-connected firms with convictions for collusion under the DPP government showed more significant increases in donations after the Sunflower Movement than other KMT-connected firms, a trend that became even more pronounced following the 2014 local election. This pattern persists after the movement, underscoring the importance of social insurance for these firms.

### Robustness Checks and Post Hoc Analyses

We ran several sets of additional analyses to strengthen the validity of our results and rule out alternative explanations. To save space, we provide only summaries here and report the details in Online Appendix A3 and the estimation results in Online Appendix A4.

**Subgroup testing.** We conducted the subgroup testing of H2 and H3 and reported the results in Table A4-2.

**Alternative measurements.** We used count and dummy variables to measure philanthropic donations (Table A4-3). For the count measure, we employed a fixed-effects Poisson estimator to avoid potential bias from log transformation and sparsity of donation data (Cohn, Liu, and Wardlaw, 2022; Chen and Roth, 2024). For the dummy measure, we used a linear probability model, which allows for incorporating firm-fixed effects.

**Alternative matching method and estimator.** We used an alternative matching method, coarsened exact matching (Table A4-4). Then, besides the two-way fixed-effect estimator, we used a modern DID estimator, the fixed effects counterfactual estimator (Liu, Wang, and Xu, 2024), to gauge the potential impact of heterogeneous treatment effects (Figure A4-4).

**Alternative explanations.** We excluded the alternative explanations of political sensitivity (Models 1–2 of Table A4-5) and anti-Mainland-China sentiment (Models 3–4 of Table A4-5). In addition, the donation increase might appear to be a direct response to the movement, such as to mitigate legitimacy loss, rather than a response to the transitional risks it introduced. However, Figure A4-5 shows that even when we isolated various possible direct impacts of the movement on corporate operations, our findings held, ruling out this explanation. Finally, we ruled out the 2014 local elections as the primary driver of the donation increase. The movement posed significant transitional risks with lasting impacts on the political landscape and corporate behavior (Figure A4-6), with the 2014 elections signaling these risks. It was the 2016 regime change, not the local elections, that fulfilled these risks by altering the political privileges of KMT-connected firms (Figure A4-7).

**Placebo test.** To address potential alternative explanations and test the robustness of our estimations, we conducted a placebo test using random sampling to determine whether other factors interfered with the results (Figure A4-8). The results suggest that our findings are unlikely to have been driven by other unobserved factors.

## DISCUSSION AND CONCLUSION

We have argued that firms politically connected to a previous authoritarian regime can use corporate philanthropy to hedge against the risk of democratic transition. Political connections present a dilemma, as the ties through which firms obtain competitive advantages can 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 sociopolitical legitimacy, as they hope 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 did non-KMT-connected firms. The donations were higher for KMT-connected firms in cities where KMT politicians faced stronger contestation 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, most 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 investigating the types of donations, we found that most went to public-welfare causes rather than to political causes related to the old or new regime. We also found that KMT-connected firms that were deeply embedded in the KMT networks or had been convicted by the DPP donated even more after the mass protest. These findings contribute to political economy research into democratic transition, suggest a new link between strategic CSR and corporate political activity, and extend signaling theory to social movement research. Below, we elaborate on these contributions, discuss our study's 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 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



that firms apply to survive and adapt to the process remain underexplored (Naidu, Robinson, and Young, 2021; Gatignon, Gama, and DeMello, 2023). Studies of firms and democratic transitions 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) or how these advantages can quickly turn into liabilities once the regime the firms are connected to loses power (Fisman, 2001; Leuz and Oberholzergee, 2006; Bucheli and Salvaj, 2013; Acemoglu, Hassan, and Tahoun, 2018).

Scholars have only recently considered the non-market strategies that firms adopt in times of institutional change. Gatignon and colleagues (2023) studied anti-corruption measures within a democratic society (i.e., police raids in Brazil in 2014) and found that investors' evaluations of non-market strategies depended on the institutional environment. When the institutional context shifts from legal capture (corruption) 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, Gama, and DeMello (2023: 930) examined how *pre-given* political and social ties influence market performance following a social movement; while they suggested that "firms should seek to adjust their behavior accordingly" after the movement, their relatively short event windows did not allow for the identification of specific strategies implemented in response. 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 that had worked on public-benefit projects were protected by the public, whereas those working on elite-serving projects were not. While their study demonstrates that serving the public interest can protect firms during a democratic transition, it is unlikely that these firms' participation in 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 for the specific challenges associated with democratic transitions and answers the general call in the literature to investigate how firms adjust their non-market 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 to 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). Our study, together with Gatignon, Gama, and DeMello's (2023) research, also demonstrates the generalizability of the finding that social strategies can substitute for political strategies or compensate for their limitations in a climate of institutional uncertainty. Using qualitative and quantitative data, future research can explore other market and non-market strategies that firms may adopt when adapting to the uncertainties of institutional change.

Second, our article links research on CSR and corporate political activity by identifying the role of CSR in helping firms adapt to democratic transitions. 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), parent firm reputational threats (Zhou and Wang, 2020), and financial crises (Flammer and Ioannou, 2021). Our study 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 transitions. 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 corporate political activity 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 on how firms manage the risk associated with their networks (Jia, Markus, and Werner, 2023). Organizations have been found to mitigate the risk of network connections by cutting old ties or building new ones, but these strategies have primarily been investigated in non-political or non-transitional contexts. We emphasize the political dilemmas faced by connected firms when a 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 reveal that firms can use donations to prosocial causes as an alternative strategy to strengthen their legitimacy.

Our study is not the first to investigate the intricate relationship among firms, the public, and the government, but our findings suggest a new combined approach to studying corporate political activity and CSR. Firms' attempts to co-opt grassroots activists and community stakeholders have been examined in many studies of corporate political activity (Hillman and Hitt, 1999; Yue, 2015; Wen, Walker, and Yue, 2024). 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 in three ways from the 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 favorable regulations, while in a transitional context they may seek grassroots support as a hedge against the change to a less favorable regime. Thus, we add to the literature by suggesting that hedging the

democratic transitional risk is a new mechanism between CSR and corporate political activity.

Third, our article 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 focused on politicians or other participants (e.g., Lohmann, 1993) as the receivers of such information. 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; Rao, Yue, and Ingram, 2011; Yue, Rao, and Ingram, 2013) 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, in which political and 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 study thus answers social movement scholars' call 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 to integrate public and private politics research.

### 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, in addition to hedging against the risk of regime turnover. Fortunately, the divergent donation behaviors by KMT firms after the local elections demonstrate firms' risk-hedging motivation as these firms received additional shocks in political risks but not in legitimacy loss (see Online Appendix Figure A4-5). Nevertheless, future research should further unpack the complexities surrounding democratic transitions and tease apart these two mechanisms. Second, while our post hoc analyses suggested that both formal and informal political connections affect firms' responses to anti-government protests, future research 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 research could use more fine-grained data to examine the direct interaction between firms and civil society. Finally,






future research should assess the consequences of corporations using CSR as a risk-hedging strategy and compare its effectiveness with other types of hedging strategies.

Although the waves of democracy have washed every continent, people are increasingly recognizing that the route to democratization can be long and circuitous. With 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 democratization process. Our research focuses on the consequences of anti-regime mass protests and shows that such protests play a significant role in prompting the wealthy affiliates of a regime to engage in social redistribution.

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### Supplementary Material

Find the Online Appendix at <https://journals.sagepub.com/doi/10.1177/00018392241307852#supplementary-materials>

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