HEDGING AGAINST THE RISK OF DEMOCRATIC TRANSITION: CORPORATE PHILANTHROPY AFTER THE SUNFLOWER MOVEMENT IN TAIWAN

Yishu CAI
Ph.D. Candidate
CUHK Business School, The Chinese University of Hong Kong, 12 Chak Cheung Street, Hong Kong
E-mail: yishu.cai@link.cuhk.edu.hk

Fangwen LIN
Ph.D. Candidate
NUS Business School, National University of Singapore, 15 Kent Ridge Drive, Singapore
E-mail: fangwen.lin@u.nus.edu

Qingyuan (Lori) YUE
Associate Professor
Columbia Business School, Columbia University, 3022 Broadway, New York
E-mail: qy2103@columbia.edu

Shipeng YAN
Assistant Professor
HKU Business School, University of Hong Kong, Pok Fu Lam, Hong Kong
E-mail: shpyan@hku.hk

Haibin YANG
Professor
CUHK Business School, The Chinese University of Hong Kong, 12 Chak Cheung Street, Hong Kong
E-mail: haibinyang@cuhk.edu.hk

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The authors contributed equally to this article.

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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 that are more entrenched within the incumbent regime's networks and 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 may adopt to survive democratic transitions and thus contributes to research on how firms adjust nonmarket strategies to adapt to institutional changes. Our paper also shows how 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.

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 (Hazell 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 Oberholzer-Gee, 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 Oberholzer-Gee, 2006), a reduction in market opportunities (Siegel, 2007), and even looting (Darendeli and Hill, 2016). Faced with these high stakes, firms monitor the signals of transitional risk and hedge against it *before* the government to which they are tied loses power. 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 a transitional democracy replaces a regime 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. 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 expect this tendency to be stronger for firms entrenched within the incumbent regime's networks, as their position in the inner circle reduces their legitimacy and makes it harder for them to sever their political connections. We also 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 regard the 2014 Sunflower Movement against the Kuomintang (KMT) government in Taiwan as a natural experiment. It offers an ideal context to study how politically connected firms adapt to a democratic transition. The Sunflower Movement was a typical 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 emerged 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.

These donations were to 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 and remove the residuals of authoritarian power. The final aim is the development of 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 ensure that their rights are 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. This skewed policy-making process, as exemplified by the KMT's "Black Gold" and South Africa's "State Capture,"[1] is based on close political–business connections that control social welfare and turn political power into economic benefits (Warburton, 2013). 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

[1] "Black Gold" in Taiwan refers to KMT's reign by obtaining money (the "gold") through a dark, secretive, and corrupt method ("black", an adjective in Chinese that also means illegal or illicit). "State Capture" in South Africa refers to a type of political corruption in which private interests significantly influence a state's decision-making processes to their own advantage, primarily under the presidency of Jacob Zuma.

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 action, 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 Oberholzer-Gee, 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 Oberholzer-Gee, 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 by revealing the past collusion that political and economic circles are deeply connected for their benefits and the future perspective of regime change. Firms that lack legitimacy 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 (Zhu and Chung, 2014) can be problematic if the government still holds power, as it runs the risk of retaliation or "detachment" (Moran, 2005; Nalick et al., 2020). The trust of the incumbent elites will be lost after switching sides and may lead 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 the clique as the firms may be stigmatized (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 Ueng, 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 against 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[2]. 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 and were not targeted

[2] It is important to note that the risk-hedging function of corporate philanthropy in transitional democracies differs from its constituency-building function, which is a common strategy 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 functions leverage grassroots influences, constituency-building reflects firms' efforts to use the public as an intermediary to influence incumbent politicians, especially legislators, with the hope of obtaining favorable regulations. In contrast, the risk-hedging function reflects firms' efforts to please the public and thus mitigate the risk associated with democratic transitions, especially if there is a high probability of regime turnover.

by looters during the turmoil of the Arab Spring. Similarly, Gatignon, Gama, and DeMello (2022) investigated Brazil's police raids and the value of nonmarket strategies during the institutional transition. They found that when a society's institutional logic changes from legal capture to legal compliance, the social strategy of donating to the public can be more valuable than the political strategy of maintaining direct connections with the government.

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) *In a democratic transitional context, firms connected to an incumbent regime with a history of authoritarian rule increase their philanthropic donations after an anti-regime mass protest to a greater extent than similar unconnected firms.*

Higher Risks from Political Entrenchment

The more deeply firms are entrenched in an incumbent regime, the greater the risks they face from a democratic transition. Thus, they are likely to increase their donations to public causes to a greater extent than less-entrenched firms. In authoritarian regimes, political networks can

encompass the inner circle or be more peripheral, depending on the social distance to the power center and the associated norms of exchange (Karhunen et al., 2018). Inner circle members are deeply entrenched in these networks and are usually connected to the power holders via multiple ties. In the example of the Marcos regime in the Philippines, the most entrenched firms were those founded by the rulers' families, friends, and trusted allies. These firms faced more transition risks because they were best placed to benefit from the government's unjust policies at the expense of other social groups. Generalized reciprocity is the norm in this inner circle, even if some of the firms are not rent-seeking (Useem, 1984). As part of the ruling elite, inner circle members cooperate intensively with each other and anticipate repeated favors in exchange. Thus, firms that are deeply entrenched in the inner circle are unable to shed their political identity, and their multiple connections with the regime make change difficult. In contrast, firms on the periphery have a greater social distance from the power center and only connect with the regime through sparse networks. A peripheral member of a political network can, for example, engage in bribery as a form of exchange but will not be regarded as a permanent member of the ruling elite because these exchanges with the power holders are usually transactional and bring only immediate benefits (Graeber, 2001; Warburton, 2013). Peripheral members of political networks may only seek political ties to avoid extortion (Casciaro and Piskorski, 2005). If authoritarian power holders threaten to harm the business operations of peripheral firms, they can use their political ties as a "protective umbrella" to shield themselves from extortion to some extent. The legitimacy deficits of peripheral firms may then be lower, and they may find it easier to break out of political networks. Their incentive to resort to philanthropy when hedging against transitional risks will then also be lower. We posit that the more entrenched a firm is in the incumbent

political network, the stronger its motivation to build public support by increasing its philanthropic donations after an anti-government protest.

Hypothesis 2 (H2) *The relationship hypothesized in H1 is stronger for politically connected firms that are more entrenched in the incumbent regime's network than those that are peripheral in the incumbent regime's network.*

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 (Dahl, 1971) are the main forces that shape regional democratic transition.

In terms of political contestation, we propose that firms tied to the incumbent regime will 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 3 (H3) *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; de 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, through 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 (2022) 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 4 (H4) *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. Protestors chanted slogans such as "defend democracy," "protect people's civil rights," and "*wo bu fu*," which means "civil disobedience," as a 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, 2022; 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% of the population, but their share of total revenue in Taiwan increased from 25% in 1990 to over 40% 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[3] (Yan, 2015: 343–344):

[3] To save space, we report only an excerpt here; we include the original full statement and its English translation in Appendix Note A1.

> 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 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. 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 DDP in full control for the first time" (BBC, 2016).

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 "wakeup 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 Taizhong 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, 2016).

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% 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 (such as 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

We constructed a quarterly sample from the *Taiwan Economic Journal* (TEJ) database (Zhu and Chung, 2014) consisting of Taiwan-listed firms from 2012 to 2015. We used a difference-in-

differences-style (DID-style) 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 McDonnell and King (2013), DeFond et al. (2014), and Hazell et al. (2022), we used quarterly data and highlighted two of its advantages. First, quarterly data create a short event window that captures firms' instant responses. Second, such data are relatively fine-grained, which helps alleviate the possibility of confounding events affecting the results. We also addressed concerns such as standard error deflation and seasonality. Our time window design balanced observations before and after the Sunflower Movement and excluded the influence of the DPP after 2016[4]. We used yearly or two-period (i.e., before vs. after) samples as a robustness check, and the main results did not substantially change. 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 in Taiwan their appointed chairpersons change with the regime[5]. 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 the *philanthropic donation* variable. We log-transformed this to correct for skewed values (Ji, Huang, and Li, 2021). To confirm the robustness of our results, we then used the ratio

[4] Covering observations after 2016 did not change the findings.

[5] Including SOEs in our analysis did not change the findings.

of donations to total sales and a dummy variable indicating if the firm made any donations as two alternative measures. 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 the donations of named individuals did not change the results, but to be consistent with the prevailing accounting standards for donation disclosure in Taiwan, we did not include them in our main analyses.

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 (Zhu and Chung, 2014) 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 political figures 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% 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% (5,705 of 19,012) of the observations had KMT connections, and 10.68% (2,031 of 19,012) had DPP connections. These were comparable to the percentages reported by Jang and Chang (2011) of 25.78% for the KMT and 11.96% for the DPP.

Moderating Variables

Entrenchment. Firm-level *entrenchment* was measured using the method applied in the social network studies of Moody and White (2003), Benton (2017), and Benton and Cobb (2019). We constructed our KMT network of KMT-connected firms based on board and executive connections, which are commonly used to capture the associations between firms (see Mizruchi, 1992; Burris, 2005; Domhoff, 2009; also see Lee and Velema, 2014, in the Taiwanese context). This firm-to-firm network consists of nodes universally connected to the KMT, so a firm linked to other firms through a single pathway is less entrenched than those connected through multiple pathways, as the positions of the latter are more embedded and thus, they are more robust to network dissolution. Unlike other network metrics, such as centrality (the correlation between *entrenchment* and *eigenvector centrality* = 0.77; p-value = 0.000), which captures the power and autonomy of an individual node, the *entrenchment* measure better reflects the extent of being locked in an existing network and engaging into repeated interactions and exchanges with network members (see Benton and Cobb, 2019: 1648 for a comparison of entrenchment and centrality). As a focal firm can be hierarchically nested in multiple network components, we used the maximum number of redundant pathways among all components pre-movement to measure entrenchment (Moody and White, 2003; Benton, 2017; Benton and Cobb, 2019). The details of

the calculations using the Python package NetworkX are given in Appendix Note A3 and Figures A1-A2.

We performed validation tests to ascertain that our measure captured the extent to which a firm was intricately entrenched within the KMT-centered network. For firms connected to the KMT, a one-standard-deviation increase in *entrenchment* corresponded to an 8.27% increase in the probability of engaging in collusive cases that are associated with KMT politicians (p-value = 0.000). This increase also led to a 156.16% increase in bank loans (p-value = 0.000) and a 40.53% increase in investments from the KMT (p-value = 0.003). A higher level of entrenchment also posed greater challenges for KMT-connected firms seeking to disentangle themselves from the KMT network (p-value = 0.048) and to establish new ties with the DPP post-event (p-value = 0.089). The validity of our measure was confirmed by a strong correlation (coefficient = 0.59; p-value = 0.000) between *entrenchment* and connection *multiplicity*, signifying the connections that a firm maintains (e.g., links with the central government, local government, KMT party Central Committee, Legislative Council).

Our calculation of KMT-connected firms' entrenchment excluded all non-KMT-connected firms and treated their values as missing. However, as reported in the results section, treating their entrenchment values as zero led to similar results. Expanding the scope of the KMT network to encompass firms indirectly connected to the KMT (Sorenson and Stuart, 2008; Scott, 2017) likewise produced similar results. To confirm that our approach was rigorous, we treated the values of the entrenchment of non-connected firms as missing and limited the KMT network to firms with direct connections to the KMT.

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-value = 0.000).

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)[6] and demographic statistics from Data.Gov[7]. 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 (Lim, Kim, and Agarwal, 2023) to reduce measurement errors. Using quarterly varying NGO density values led to similar outcomes.

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*

[6] Retrieved from https://www.npo.org.tw on February 28, 2022.

[7] Retrieved from https://data.gov.tw on February 28, 2022.

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. We controlled for corporate ethnic backgrounds and historical ties with mainland China using the variable of *Wai-sheng-jen origins*. *Wai-sheng-jen* (WSJ) refers to post-World War II migrants to Taiwan, including those who arrived during the KMT's retreat in 1948–1950 from mainland China. We collected corporate ethnic data from online interviews, *Factiva*, *Global Views Monthly*, and official websites. We also obtained 525 entrepreneur biographies and 486 company descriptions from Wikipedia and cross-referenced with Google and published books to ensure data accuracy.

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* from the Taiwan Buying Network, which electronically 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*[8], a magazine that collates high-profile corporate reputation evaluations and

[8] Retrieved from https://topic.cw.com.tw/csr on January 28, 2022.

prizes in Taiwan. 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 setting (Acemoglu et al., 2019). As 7.09% of the firms changed their industry classification between 2012 and 2016[9], 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

We assumed that without the effect of the Sunflower Movement, the KMT-connected firms would demonstrate the same pattern of philanthropic donations as that of the control group. However, a firm's likelihood of being connected to the KMT is not random. As Figure 2a shows, larger and older firms with lower returns on their assets were more likely to be KMT-connected, which is consistent with our assumption that the KMT represents the interests of large, entrenched corporations. To ensure that the firms in the treatment and control groups had similar characteristics, we applied the propensity score matching (PSM) method to identify a group of appropriate counterfactuals for our treatment group (Shipman, Swanquist, and Whited, 2017).

[9] 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.

We used a logit model based on firm characteristics in the quarter 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 four sets of variables related to the likelihood of having KMT connections. First, to isolate any firm-level factors that could affect the motivation to build political connections, we matched firms on *compensation*, measured by the ratio of board compensation to profits, and *insider size*, representing the total number of directors, supervisors, and executives (Li and Liang, 2015). Second, to control for the influence of financial characteristics, we matched firms on the *tax rate*, *firm size*, *ROA*, *firm age*, *financial leverage*, and *market-to-book ratio* (Haveman et al., 2017). Third, to account for variations in ability, we matched firms on *export ratio*, *government ownership*, and *foreign ownership* (McDonnell and Werner, 2016). Finally, 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).

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 counterfactual, we set a caliper distance of 0.01 standard deviations in reference to the log-odds (Lunt, 2014). Our matched sample consisted of 289 KMT-connected firms and 289 non-KMT-connected firms. We dropped 145 treatment 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 mean bias between the two samples decreased from 14.30 to 4.30, and the overall difference became highly non-significant (p-value = 0.98). 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 Figure 2b, we ran a probit regression estimating the influence 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 1.16, indicating no significant collinearity among the variables.

[Insert Tables 1 and 2 and Figure 2b and Figure 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. We allowed β^* 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.

$$\begin{aligned} Philanthropic\ donation_{ct} &= \alpha_0 + \beta^* Treatment\ dummy_{ct} \cdot Quarter\ dummy_t + Firm\ FE + Quarter\ FE \\ &+ \gamma Controls_{ct} + \beta C_{ct} + \varepsilon_{ct}, \end{aligned} \quad (1)$$

Figure 4 plots the coefficients estimated from Equation (1). The nonsignificant β^* *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 β^*.

[Insert Figure 4 about here]

Hypothesis Testing

Estimation Model. Our primary analyses were as below:

$$\begin{aligned} Philanthropic\ donation_{ct} &= \alpha_0 + \beta^{*} KMT\ connection_c \cdot Post\ movement_t + \beta M_c \cdot Post\ movement_t \\ &+ \beta^{**} KMT\ connection_c \cdot Post\ movement_t \cdot M_c + Firm\ FE + Quarter\ FE \\ &+ \gamma Controls_{ct} + \beta C_{ct} + \varepsilon_{ct}, \end{aligned} \quad (2)$$

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 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 β^{*} and β^{**}, where β^{*} captures the change in *philanthropic donation* of KMT-connected firms after the Sunflower Movement, and β^{**} 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 0.48, which means that to invalidate the inference, 4,235 of the 8,823 cases would have to be 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 gave a positive and statistically significant result (coefficient = 0.24, *p-value* = 0.028), thus supporting H1. Our finding also had economic significance. While the donations of the non-

KMT-connected firms increased marginally, by 6.63% (*p*-value = 0.312), those of the KMT-connected firms showed a substantial 30.55% increase (*p*-value = 0.001; approximately 151,740 NTD per quarter).

To test H2, Models 3 and 4, given in Table 3, were used to estimate the effects of *entrenchment*, and the results both confirmed H2. The difference between Models 3 and 4 lay in the estimation sample—Model 3 only included KMT-connected firms and regarded non-connected firms that are entrenched as missing, whereas Model 4 included non-KMT-connected firms and treated their *entrenchment* value as zero. In Model 3, the coefficient of the interaction between *entrenchment* and *post movement* was significant (0.16 with *p-value* = 0.005). 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). Following this approach, we divided our samples into two subgroups based on the 50th percentile of *entrenchment*. We report the results in Table A1 of the Appendix and illustrate the effects in Figure 5a. Unlike non-KMT-connected firms, KMT-connected firms with *entrenchment* above the 50th percentile showed a 39.53% donation increase (*p*-value = 0.000; approximately 196,348 NTD per quarter), whereas low-entrenchment KMT-connected firms showed an 11.27% increase (*p*-value = 0.160). The permutation test applied in the subgroup comparison further confirmed that the difference in the level of donation increase was significant (*p*-value = 0.000).

[Insert Figure 5a about here]

We used Model 5, as shown in Table 3, to test H3, i.e., the moderating role of *political contestation*. Our findings indicate 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 = 0.17), but the effect was nonsignificant (*p*-value = 0.280). However, 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 are reported in Table A1 of the Appendix and also illustrated in Figure 5b. KMT-connected firms in cities where a KMT mayor had been replaced by a non-KMT mayor increased their philanthropic donations by 31.01% (*p*-value = 0.004; approximately 154,028 NTD per quarter), while the increase for KMT-connected firms in other cities was 4.019% (*p*-value = 0.737). The difference between these two increases was statistically significant according to a permutation test (*p*-value = 0.030). Thus, H3 was supported in the subgroup analysis but not in the interaction analysis. As a fixed effect interaction analysis has been found to have limitations (Shaver, 2019; Giesselmann and Schmidt-Catran, 2022), the results of the subgroup analysis are more convincing[10].

[Insert Figure 5b about here]

Model 6, reported in Table 3, was designed to assess the moderating influence of *NGO density,* and the results supported H4. The outcome of the triple-difference estimator was positive and highly significant (coefficient = 0.12, *p*-value = 0.016), 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

[10] 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.

with *NGO density* above the 50th percentile showed a substantial 35.12% increase in philanthropic donations (*p*-value = 0.001; approximately 174,476 NTD per quarter) compared with non-KMT-connected firms, as illustrated in Table A1 of the Appendix and in Figure 5c. In comparison, low-entrenchment KMT-connected firms located in cities with a lower *NGO density* value showed an 11.26% increase in their philanthropic donations (*p-value* = 0.286) compared with non-KMT-connected firms. The difference in these increases in donation level was statistically significant according to a permutation test (*p-value* = 0.040). The results of both the interaction and the subgroup analyses strongly supported H4. Finally, Model 7, reported in Table 3, was the comprehensive model with outcomes consistent with those reported earlier.

[Insert Figure 5c about here]

ADDITIONAL TESTS

Mechanism Tests

We argue that reinforcing 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 changing political connections in the short term is difficult, so in the period between the Sunflower Movement and the 2016 change in government, KMT-connected firms could not cut their ties with the KMT or build new DPP ties. To establish whether these firms cut their connections with the KMT or built connections with the DPP after the Sunflower Movement, we used a complementary log-log failure analysis to estimate the hazard ratios of two events: (1) KMT-connected firms decreased

the net stock of KMT connections and (2) KMT-connected firms increased the net stock of DPP connections. The dependent variables were dummies denoting the occurrence of a specific event. The results are reported in Table 4. First, we used Model 1 to test the sample of KMT-connected firms and examined the impact of the Sunflower Movement on their KMT connection stock. We found that these firms were not more likely to cut ties with the KMT in the post-movement period than in the pre-movement period. The one-sided test also rejected the null hypothesis that KMT-connected firms would be more likely to cut their connections (*p*-value for cutting KMT ties = 0.083). In Model 2, we combined the DID estimators and failure analyses to examine how the movement influenced firms' DPP ties. We used a binary dependent variable to indicate increasing DPP connections. We found that KMT-connected firms were 73.50% less likely to increase their DPP connections (*p*-value for forming new DPP ties = 0.047) in the post-movement period than in the pre-movement period.

[Insert Table 4 about here]

Assumption 2: Donations Targeting the Public. If their increasing in corporate philanthropy is to garner public approval, firms will donate to public-focused rather than party-affiliated causes (KMT or DPP). Our findings indicated that increased donations were primarily made to public welfare-related causes. Table 5 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 Tables 5 about here]

Second, we found that the recipients of the increased donations were organizations unconnected with the KMT or DPP. We tested whether the recipients were organizations connected with KMT or DPP based on the links of a firm's board. We defined a recipient organization as being KMT- or DPP-connected if it had a KMT or DPP politician on its board between 2012 and 2016. As shown in Figure 6, we found that KMT-connected firms did not increase their donations to either KMT- or DPP-connected recipients, suggesting that the increased corporate donations were not directly aimed at either party. Finally, after controlling for political motivations, including perceptions of the KMT and the DPP reported in quarterly public opinion surveys, market reactions to the Sunflower movement, and tax rates, our results remained robust (change in treatment effects < 0.0005).

[Insert Figure 6 about here]

Assumption 3: Transitional Risk Stemming from Revealed Collusive Practices. We posited that the responses of KMT-connected firms are driven by the transitional risk stemming from the KMT's dark reign and collusive practices. Our findings supported this assumption, as KMT-connected firms implicated in revealed collusive cases increased their donations to a greater extent after the movement. Such firms are likely to be particularly attuned to the potential political risks resulting from social movements, given their susceptibility to penalties by rival parties. We collected cases publicly revealing firms colluding with high-level KMT politicians, aiming to misappropriate benefits from the public. These cases encompass activities like asset stripping, insider trading, and the manipulation of political-business interests. By analyzing data from TEJ, we categorized firms based on their involvement in such cases before the Sunflower Movement. As illustrated in Figure 7, the results supported our argument, revealing a more pronounced response to the Sunflower Movement from firms implicated in these cases. Although

our data collection was extensive, we could only identify 38 KMT-connected firms reported to be involved in KMT-related collusion. Due to this limited sample size, we did not apply this variable in our main analysis.

[Insert Figure 7 about here]

Donation Efficacies. We hypothesized that KMT-connected firms with a greater donation increase encountered fewer political penalties after the regime change and received more favorable market responses. To test this, we first assessed whether donations mitigated the loss of government procurement contracts after the DPP took power. As shown in Figure 8a, 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 and revenue under the DPP government. However, if such firms did not make donations during that period, they received fewer government procurement contracts and less government revenue, confirming the risk-hedging function of corporate donations. Second, we tested whether donations mitigated the loss in social legitimacy and consequently affected sales. As shown in Figure 8b, increasing donations positively affected the sales of KMT-connected firms. Finally, we tested whether donations led to positive market reactions. As shown in Table 6, donations positively affected market returns for KMT-connected firms in the post-movement period. Our additional analysis also revealed that a 1% increase in donation amounts led to an 11.66% increase in revenue for KMT-connected firms but only a 4.90% increase for non-connected firms.

[Insert Figure 8 and Table 6 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 H2-4 in Table A1). We excluded the alternative explanations of political sensitivity (Models 1–2 of Table A2), anti-mainland-China sentiment (Models 3–4 of Table A2), and direct pressure from the movement (Figure A3) and then removed observations after the November 2014 Taiwanese local election to capture the immediate impact of the protest (Figure A4). Our findings remained consistent with our main results. We then assessed yearly and before-vs.-after data as alternative observation window settings (Table A3). We used alternative measures of KMT connections, including separate assessments of formal and informal connections (Table A4) and connection number, connection ratio, and connection multiplicity (Figure A5), along with alternative measures of *philanthropic donation*, including donations to different causes and recipients (Table A5). We then tested our theory by excluding the influence of confounding events such as local elections (Figures A6–A8) and firms indirectly connected with the KMT (Table A6), and addressed potential alternative explanations and endogeneity issues through random sampling (Figure A9). We also used alternative matching methods (Models 1–5 of Table A7) and reran the estimation using instrumental variables (Models 6–10 of Table A7). Finally, in addition to the two-way fixed-effect estimator, we used an alternative estimator to assess the potential impacts of various treatment effects on our findings (Figure A10). These additional analyses together supported the robustness of our findings.

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 of highly entrenched KMT firms and those in cities where KMT politicians were replaced and that had more NGOs were also higher.

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 and suggest a new link between strategic CSR and CPA while extending 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, 2022). Studies of firms and democratic transition have focused on either the unfair competitive advantages gained through political connections (Peng and Luo, 2000; Leuz and Oberholzer-Gee, 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 Oberholzer-Gee, 2006; Bucheli and Kim, 2012; Acemoglu, Hassan, and Tahoun, 2018). Scholars have only recently considered the nonmarket strategies that firms adopt in times of institutional change. Gatignon and colleagues (2022) 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. (2022: 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." Therefore,

our study not only reveals a strategy that firms adopt to survive the specific challenges associated with democratic transition but 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. Through philanthropy, firms can 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. (2022), 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. 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 (e.g., den Hond et al., 2014; Werner, 2015; Jia, Shi, and Wang, 2018; Rehbein, den Hond, and Bakker, 2018; Gatignon, Gama, and DeMello, 2022), 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 favorable regulations, while in a transitional context they may seek grassroots support as a hedge against the change to a less favorable 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, 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. Second, 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. Third, data limitations also meant that we examined only connections with the government, 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. Finally, more research is

warranted into whether the risk-hedging role of CSR applies to contexts other than democratic transitions.

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.

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TABLES

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

	Mean		T-Test	
	Treatment Sample N = 289	Control Sample N = 289	*t-value*	*p-value*
Compensation	0.99	0.96	0.33	0.74
Insider Number	3.07	3.08	-0.37	0.71
Tax rate	0.12	0.12	0.23	0.82
Firm size	6.48	6.53	-0.40	0.69
ROA	1.82	1.66	0.57	0.57
Firm age	28.06	28.13	-0.07	0.95
Financial leverage	0.40	0.42	-1.17	0.24
Market-to-book ratio	1.70	1.65	0.39	0.70
Export ratio	0.54	0.56	-0.61	0.54
Government ownership	0.21	0.28	-0.85	0.40
Foreign ownership	0.08	0.09	-1.04	0.30
Admirable firm	0.01	0.01	-0.45	0.65
CSR scandal	0.01	0.01	0.00	0.83

NOTE. This table illustrates the balance between the treatment and control groups. The median bias was 4.3 (p-value = 0.981). Nonsignificant differences confirmed the effectiveness of the matching. We used one-to-one without replacement propensity score matching, with a 0.01 standard deviation caliper distance to align treatment observations with their nearest counterfactual.
Data sources: TEJ, official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

TABLE 2. Summary Statistics and Correlation Matrix

		Obs.	Mean	S. D.	1	2	3	4	5	6	7	8
1	*Philanthropic donation*	8,823	0.22	1.76								
2	*KMT connection*	8,823	0.50	0.50	0.04							
3	*DPP connection*	8,823	0.11	0.32	0.01	0.04						
4	*Post movement*	8,823	0.45	0.50	0.04	0.00	0.00					
5	*Entrenchment*	4,427	16.00	17.73	0.04	N/A	0.10	0.00				
6	*Political contestation*	8,823	0.59	0.49	0.01	0.04	-0.01	0.00	0.05			
7	*NGO density*	8,823	3.37	1.98	0.02	0.05	-0.01	0.00	-0.01	0.31		
8	*Firm size*	8,823	6.51	1.53	0.04	-0.02	0.05	-0.01	0.47	-0.09	-0.14	
9	*Cash flow*	8,823	6.16	5.61	0.01	0.02	-0.01	0.02	0.11	0.00	-0.03	0.11
10	*ROA*	8,823	1.77	2.69	0.03	0.03	-0.05	0.03	0.07	-0.15	-0.15	0.20
11	*Financial leverage*	8,823	0.41	0.17	0.02	-0.04	0.15	0.00	0.02	0.04	-0.03	0.22
12	*R&D intensity*	8,823	0.05	0.10	-0.03	-0.02	0.01	-0.01	0.01	0.05	0.02	-0.17
13	*WSJ origin*	8,823	0.12	0.33	0.04	0.17	0.03	0.00	0.24	0.06	0.07	0.12
14	*Mainland investment*	8,823	1.29	3.70	0.00	-0.02	-0.02	0.00	0.14	-0.04	-0.07	0.21
15	*Foreign ownership*	8,823	0.09	0.12	0.04	-0.06	-0.01	0.04	0.29	0.01	0.04	0.30
16	*Government procurement*	8,823	1.84	5.21	-0.01	-0.06	0.02	0.12	-0.05	0.01	0.09	-0.08
17	*Admirable firm*	8,823	0.01	0.10	0.01	0.01	-0.02	0.01	0.09	-0.05	-0.01	0.08
18	*CSR Scandal*	8,823	0.05	0.21	0.03	0.02	-0.01	0.00	0.06	0.05	0.01	0.06
19	*KMT regime*	8,823	0.69	0.46	-0.02	-0.04	-0.02	-0.36	0.05	0.12	0.04	0.02

		9	10	11	12	13	14	15	16	17	18	19
10	*ROA*	0.11										
11	*Financial leverage*	0.04	-0.09									
12	*R&D intensity*	-0.06	-0.28	-0.29								
13	*WSJ origin*	0.04	0.01	0.02	0.00							
14	*Mainland investment*	0.00	0.03	0.07	-0.04	0.06						
15	*Foreign ownership*	0.10	0.22	0.01	-0.07	0.02	0.12					
16	*Government procurement*	0.00	0.00	-0.06	-0.03	-0.05	0.03	-0.07				
17	*Admirable firm*	0.02	0.03	0.00	0.01	-0.01	-0.02	0.08	-0.04			
18	*CSR Scandal*	0.00	-0.01	0.07	-0.08	0.04	0.02	0.03	-0.02	-0.02		
19	*KMT regime*	-0.03	-0.01	-0.04	0.06	-0.02	0.05	-0.02	-0.01	-0.01	-0.02	

NOTE. The post-matched sample comprised 578 firms, of which 289 were KMT-connected. Correlations with an absolute value greater than 0.022 were statistically significant. The correlation coefficient is calculated with within-level variability. The mean VIF value was 1.19, indicating no significant collinearity concern among the variables. The *entrenchment* of firms not connected with the KMT was missing values.
Data sources: TEJ, official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

TABLE 3. Estimates of Corporate Philanthropy on the Matched Sample

	Baseline	Hypothesis Test					Full
		H1	H2		H3	H4	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Firm size	0.06	0.06	0.35**	0.07	0.06	0.07	0.07
	(0.09)	(0.10)	(0.10)	(0.09)	(0.10)	(0.10)	(0.10)
Cash flow	0.00	0.00	0.01	0.00	0.00	0.00	0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
ROA	0.00	0.00	-0.00	0.00	0.00	0.00	0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Financial leverage	-0.18	-0.16	-0.36	-0.16	-0.17	-0.16	-0.14
	(0.26)	(0.26)	(0.32)	(0.26)	(0.26)	(0.26)	(0.26)
R&D intensity	0.20	0.18	0.05	0.17	0.17	0.17	0.14
	(0.18)	(0.18)	(0.25)	(0.18)	(0.18)	(0.16)	(0.17)
WSJ origin	-0.00	-0.08	-0.29	0.03	-0.09	-0.06	-0.04
	(0.24)	(0.23)	(0.17)	(0.21)	(0.23)	(0.23)	(0.20)
Mainland investment	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00
	(0.01)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)
Foreign ownership	0.74	0.83	1.26	0.68	0.83	0.85	0.79
	(0.46)	(0.47)	(1.12)	(0.47)	(0.47)	(0.49)	(0.50)
Government procurement	-0.01**	-0.01**	-0.01	-0.01**	-0.01**	-0.01**	-0.01**
	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)
Admirable firm	-0.10	-0.12	-0.62	-0.10	-0.11	-0.11	-0.11
	(0.70)	(0.69)	(1.24)	(0.70)	(0.70)	(0.70)	(0.69)
CSR Scandal	-0.03	-0.04	-0.22	-0.02	-0.05	-0.05	-0.05
	(0.12)	(0.12)	(0.21)	(0.12)	(0.12)	(0.12)	(0.12)
KMT regime	0.04	0.05	0.01	0.05	0.03	0.08	0.03
	(0.05)	(0.04)	(0.10)	(0.05)	(0.09)	(0.06)	(0.08)
DPP connection	0.01	-0.01	0.06	-0.01	-0.01	0.00	-0.03
× Post movement	(0.17)	(0.17)	(0.21)	(0.17)	(0.17)	(0.17)	(0.16)
KMT connection		0.24*			0.14	0.24**	0.25†
× Post movement		(0.10)			(0.14)	(0.06)	(0.14)
Post movement			0.16**	0.15**			0.17**
× Entrenchment			(0.05)	(0.05)			(0.05)
Political contestation ×Post movement					-0.11		-0.11
					(0.13)		(0.13)
KMT connection × Post movement					0.17		0.01
× Political contestation					(0.15)		(0.15)
NGO density × Post movement						-0.02	-0.00
						(0.04)	(0.03)
KMT connection × Post movement						0.12*	0.12**
× NGO density						(0.04)	(0.04)
Constant	-0.20	-0.25	-1.87*	-0.25	-0.20	-0.31	-0.28
	(0.65)	(0.68)	(0.67)	(0.63)	(0.73)	(0.70)	(0.70)
Two-way-fixed	YES	YES	YES	YES	YES	YES	YES
Industry-fixed	YES	YES	YES	YES	YES	YES	YES
Governance-fixed	YES	YES	YES	YES	YES	YES	YES
Firm-level clustered	YES	YES	YES	YES	YES	YES	YES
City-level clustered	YES	YES	YES	YES	YES	YES	YES
Observations	8,823	8,823	4,427	8,823	8,823	8,823	8,823
Firm counts	578	578	289	578	578	578	578
Adj R-squared	0.13	0.13	0.12	0.13	0.13	0.13	0.13

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*. Unreported independent variables and interaction terms were absorbed by fixed effects. In Model 3, the *entrenchment* of non-KMT-connected firms was treated as missing values, while it was treated as zero in Models 4 and 7. Hypothesis 3 received support in the subgroup analysis (Shaver, 2019; Giesselmann and Schmidt-Catran, 2022). *Entrenchment* and *NGO density* were standardized.
Data sources: TEJ, official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

TABLE 4. Failure Analyses of Connection Portfolios

	Failure Event: Cutting off KMT Ties	**Failure Event: Increasing DPP Ties**
Variable	Model 1	Model 2
Cash flow	0.02†	0.04
	(1.86)	(0.94)
ROA	-0.10**	0.07
	(-2.84)	(1.56)
Financial leverage	-0.99*	2.78*
	(-2.47)	(2.33)
R&D intensity	-0.61	1.21
	(-0.97)	(0.46)
Investment on Mainland China	-0.04	0.05
	(-1.20)	(1.33)
Foreign ownership	-0.75	-1.48
	(-0.92)	(-0.61)
Government procurement	-0.01	-0.11
	(-0.41)	(-1.33)
WSJ origin	-0.14	0.20
	(-1.12)	(0.41)
Admirable firm	-0.03	1.48**
	(-0.04)	(2.63)
CSR scandal	-0.65*	0.00
	(-2.34)	(0.00)
KMT mayor	-0.30**	0.61
	(-2.79)	(1.64)
DPP connection$_{t-1}$	0.04	-0.32
	(0.14)	(-0.47)
Post movement	-0.75	0.24
	(-1.38)	(0.16)
	hazard ratio = 0.47†	
	p-value (hazard ratio > 1) = 0.083	
KMT connection$_{t-1}$		-0.14
		(-0.18)
KMT connection$_{t-1}$		-1.33†
× *Post movement*		(-1.68)
		hazard ratio = 0.27*
		p-value (hazard ratio > 1) = 0.047
Constant	-1.99***	-9.03***
	(-5.33)	(-11.67)
Year FE	YES	YES
Quarter-of-year FE	YES	YES
Industry FE	YES	YES
Governance FE	YES	YES
Firm-level clustered	YES	YES
City-level clustered	YES	YES
Firm counts	302	578
Log-likelihood	-542.43	-180.22

NOTE. Robust standard errors are in parentheses and are doubly adjusted for clustering within firms and cities; † $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$. Estimations 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. In Model 1, the movement did not increase KMT-connected firms' likelihood of cutting KMT ties (p-value = 0.083). In Model 2, post-movement, KMT-connected firms were 73.50% less likely to increase their DPP connections (p-value = 0.047). Data sources: TEJ, official websites of political parties and governments, biographies, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

TABLE 5. Treatment Effects on Different Donation Causes and Recipients

Causes	Education and Youth	Minorities	Community	Employee and Industry
Treatment Effect	0.63	0.48	0.77	0.08
p-value	0.07	0.00	0.00	0.03
Causes	Cultural Activity	Environment Protection	Government Project	Related/Total
Treatment Effect	0.10	0.09	0.04	2.00
p-value	0.40	0.29	0.20	0.00

NOTE. This table shows treatment effects on the proportions of specific types of donations. Donations related to the Sunflower Movement ("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.
N = 19,012. Data sources: TEJ, official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, TNIP, and org.twincn.com.

TABLE 6. Donation Efficacies in Boosting Positive Market Reactions

Event	Donation Announcement	
	Before the Sunflower Movement	
CAR	0.24	CAR
p-value	0.260	*p-value*

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% increase in donation amounts resulted in an 11.66% revenue increase for KMT-connected firms, compared with only 4.90% for non-connected firms.
N = 7,307. Data sources: TEJ, the official websites of political parties and governments, and biographies.

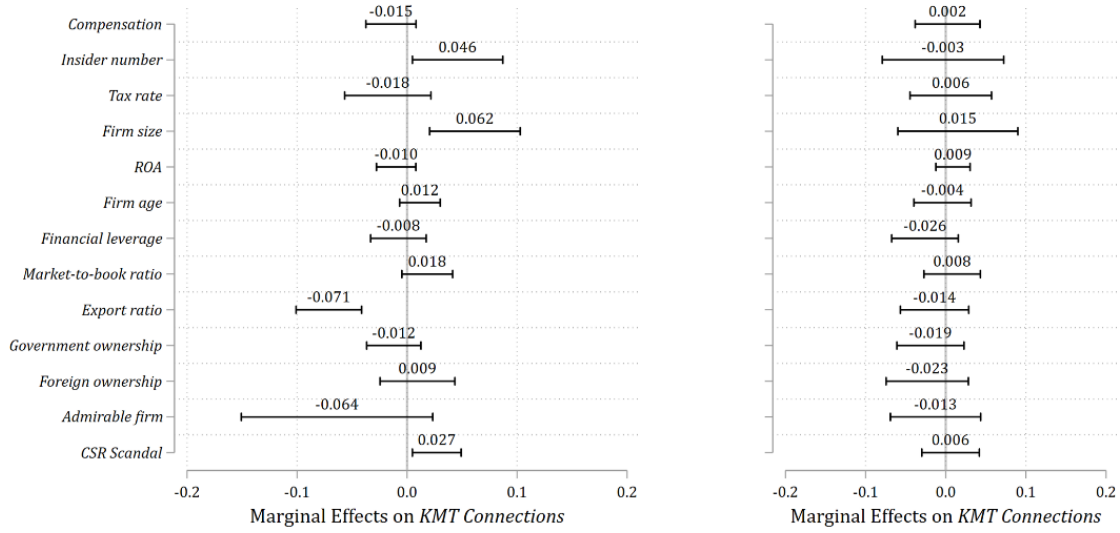
FIGURES

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: picture retrieved from https://www.scmp.com/comment/insight-opinion/article/1469942/taiwan-needs-think-long-term-regions-economic-focus-shifts on July 15th, 2021.
Source of Figure b: picture retrieved from https://www.flickr.com/photos/48144725@N02/13764307135 on July 15th, 2021. Statistics retrieved from https://www.reuters.com/article/us-taiwan-protests-idUSBREA2T07H20140330).

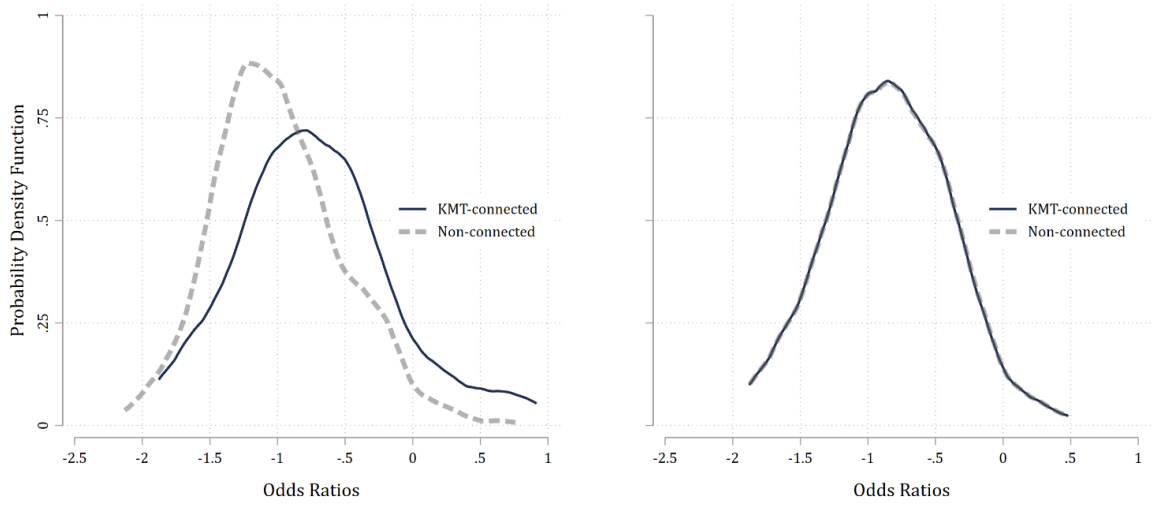
FIGURE 2. Balance Before and After Matching



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. Capped spikes indicate 95% confidence intervals. Probit regressions used *KMT connection* as the dependent variable and standardized covariates as independent variables. The *CommonWealth* Corporate Citizenship Award, a significant corporate reputation ranking, was used to create a dummy for esteemed firms. This ranking evaluates different-sized enterprises separately, reducing biases from size and visibility. Thus, the interaction of *admirable firm* with *firm size* was included. After matching, both marginal effects and significance levels decreased, indicating an improved balance between the treatment and control groups.
N before matching = 19,012; *N* after matching = 8,823. Data sources: TEJ, official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tsssw, taiwanbuying.com.tw, and TNIP.

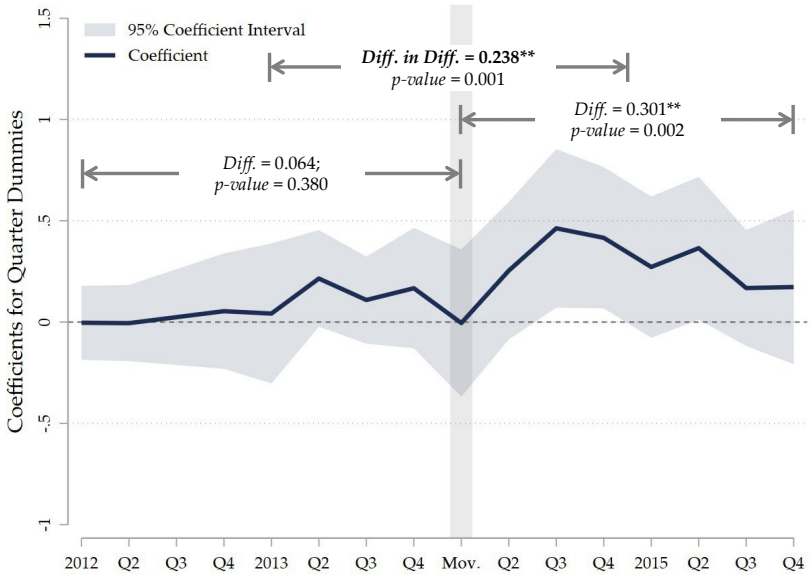
FIGURE 3. Kernel Density Estimations before and after Matching



a. Full Sample b. Matched Sample

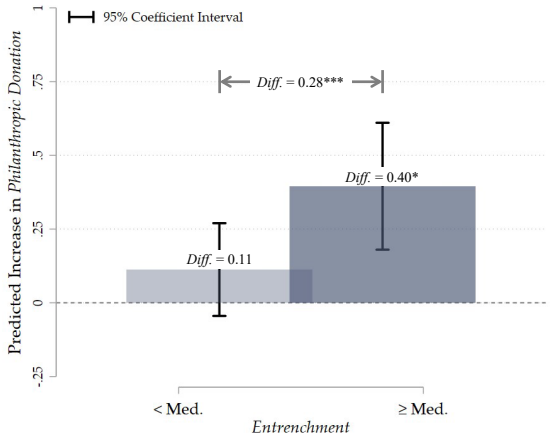
NOTE. These figures show the performance of propensity score matching by plotting the kernel density of probability of been treated. The overlap between the treatment and control groups in the matched sample indicates the high quality of our matching.
N before matching = 19,012; *N* after matching = 8,823. Data sources: TEJ, official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tsssw, taiwanbuying.com.tw, and TNIP.

FIGURE 4. Time Trend of Treatment Effects

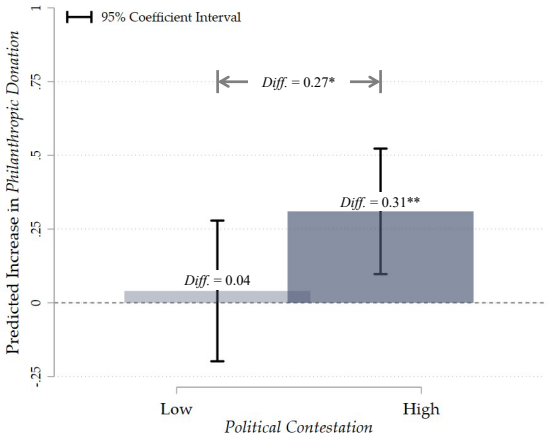


NOTE. The figures illustrate the trend of treatment effects. The dependent variable was *philanthropic donation*. The focal independent variable was the interaction of *KMT connection* and *quarterly dummies*. Before the movement, there were no disparities in donations between KMT-connected and non-KMT-connected firms. However, following the Sunflower Movement, the KMT-connected group's donations surpassed those of the control group, and this increase was statistically significant.
N = 8,823; Data sources: TEJ, official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

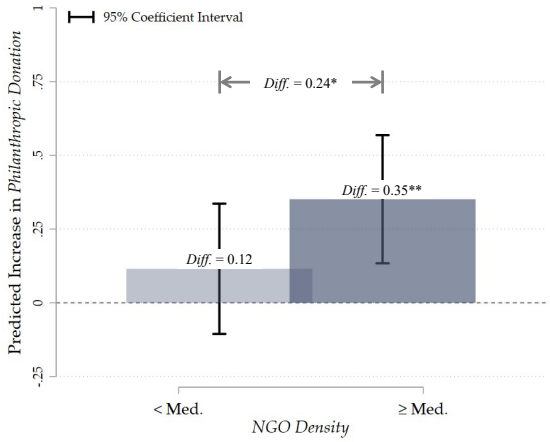
FIGURE 5. Moderating Effect Plots



a. Hypothesis 2



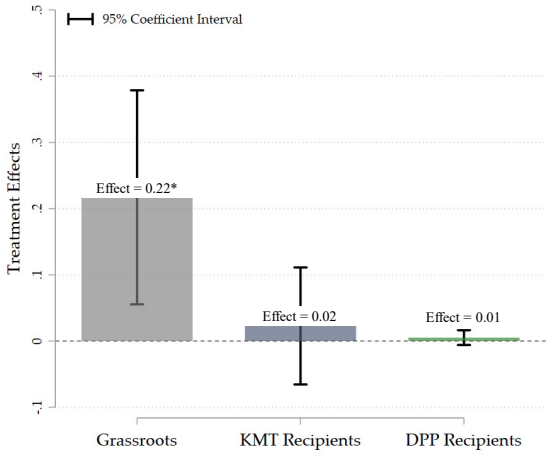
b. Hypothesis 3



c. Hypothesis 4

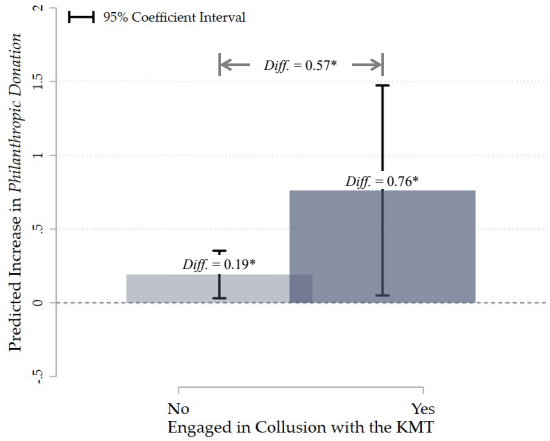
NOTE. The figures display the moderating effects. We split the sample into subsamples. The dependent variable was *philanthropic donation*. The focal independent variable was the interaction of *KMT connection* and *post movement.* All hypotheses were supported in the subgroup analyses.
N varied across matched samples. Data sources: TEJ, official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

FIGURE 6. Donation Recipients



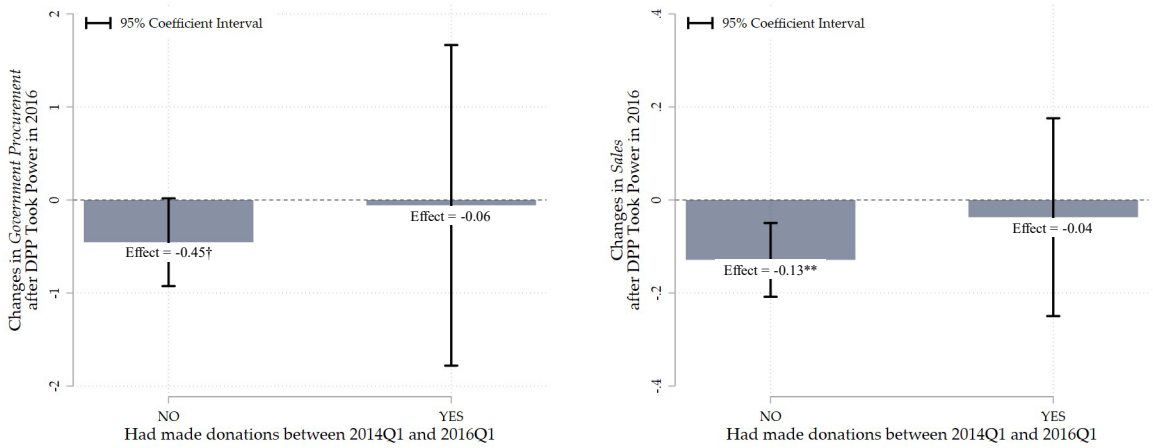
NOTE. This figure examines the recipients of donations. The key independent variable was the interaction of *KMT connection* and *post movement*. KMT-connected firms increased grassroots donations rather than those recipients linked to the KMT or DPP. The board members of recipients were collected from org.twincn.com.
N = 8,823; Data sources: TEJ, the official websites of political parties and governments, biographies, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, TNIP, and org.twincn.com.

FIGURE 7. Revealed Collusive Cases and Donation Increase



NOTE. The figures show how the KMT's prior dark reign with collusive practices drove the KMT-connected firms' donation increase. We examined the moderating impact of KMT-related collusive cases and Sunflower activists' participation in local elections on our primary treatment. The escalation of transition risk led to an increase in donations by KMT-connected firms.
N = 8,823; Data sources: TEJ, the official websites of political parties and governments, biographies, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

FIGURE 8. Donation Efficacies



a. Effect on Government Procurements b. Effect on Sales

NOTE. This figure illustrates how donations mitigate transitional risks and bolster social legitimacy. In Figure a, the dependent variable is *government procurement*, while in Figure b, it is *sales*. The primary independent variable is the interaction between a dummy variable indicating donations made between 2014Q1 and 2015Q1 and another dummy variable representing the period post the 2016 election. Donations between 2014Q1 and 2016Q1 mitigated KMT-connected firms' losses in political rents and retained their stronger social legitimacy after the 2016 regime change.
N = 2,643; Data sources: TEJ, official websites of political parties and governments, biographies, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

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NOTE A1. Public Statement Issued by the Sunflower Movement Protestors

318 青年佔領立法院 反對黑箱服貿行動宣言

(In Traditional Chinese)

我們不願看見台灣青年十年後，還過著 22K 的生活!我們相信，台灣是個可以讓青年實現創業夢想，開咖啡廳、開個人公司，可以靠自己打拼就能變「頭家」的創業天堂。

根據學者專家對服貿協議所做的影響評估，雖然政府宣稱台灣只對中國開放 64 項服務業，但這 64 項卻包含上千種行業，從雜貨店、在地小吃店、麵包店、文具店、理髮店、廣告設計等等，我們的食衣住行、生老病死全都包含在開放項目清單裡。

未來，台灣的中小企業、微型企業，即將面臨資金充裕、整合上中下游一條龍模式的中資企業來台競爭，不管是上班族、小農、工人、商人，生存都將面臨威脅。除了個人飯碗難保，台灣對中國開放入口網站經營、網站代管，以及印刷和出版發行通路，讓我們的言論自由受到嚴重威脅。

反對服貿，不是「逢中必反」，服貿最大的問題在於，自由化下只讓大資本受益，巨大的財團可以無限制的、跨海峽的擴張，這些跨海峽的財團將侵害台灣本土小型的自營業者。那個我們曾經引以為傲的中小企業創業天堂，未來將被一個、一個跨海資本集團併購。服務貿易協定的本質，和 WTO、FTA、TPP 一樣，這些國與國的經濟協議，都是在去除國家對人民的保護。服貿協議，不管統獨、不管藍綠，這是一個少數大資本吞噬多數小農小工小商的階級問題，更是所有台灣青年未來都將面臨的嚴苛生存問題。

我們強烈抗議，馬英九為首的少數執政者挾持國會、粗暴通過服貿出賣台灣未來。3 月 17 日，國民黨立委張慶忠在一片混亂中，搶下麥克風、用 30 秒宣布會議決議：「出席人數 52 人，已達法定人數，開會，進行討論事項，海峽兩岸服貿協議已逾 3 個月期限，依法視為已經審查，送院會存查，散會。」完全背棄先前承諾人民願意「逐條審查」的決議。如果今天國民黨可以如此粗暴通過這樣影響青年、影響全民的協議，完全不受國會監督、沒有國會實質審查，後續影響台灣經濟自主更為嚴重的自經區、貨貿也將比照辦理。 台灣未來不能如此被粗暴斷送。

我們要強調，我們不是不願意接受挑戰、不是不願意面對競爭的青年，我們只是不願意面對這種不公平的競爭、我們不願看見我們未來的生活掌控在這些少數權貴統治集團手裡、我們不願我們的工作都被大企業家、被跨海峽資本家控制；我們要掌握我們自己的未來，我們要的是一個給年輕人公平發展和競爭的環境與機會！

各位青年朋友，這些由大財團、大企業、少數執政者所組成的跨海峽政商統治集團，隨時可以拋棄台灣，他們隨時可以轉往世界上任何一處勞動力更廉價的地方；他們就像吸血鬼一樣，吸乾一個國家青年的血汗，就開始找尋其他國家青春的肉體。各位台灣的青年們，台灣是我們生活的土地、這是我們賴以維生的地方。為了阻止這個不公不義的經貿協議、為了阻止這個踐踏制度、威權復辟的政黨，請跟我們一起站出來，請跟我們一起站出來守護我們的台灣！

Declaration of the 318 Occupation of the Legislature: Oppose the Black-Box CSSTA

(English Translation)

We do not want to see, ten years from now, Taiwanese young people still living a 22K life! We believe that Taiwan should be a paradise where young people can pursue their entrepreneurial dreams to open a coffee shop, to start a company, to rely on one's self to work hard, make a living, and be one's own boss.

According to evaluations of the impact of the CSSTA made by scholars and experts, although the government claims that Taiwan will only open up 64 service industry sectors to China, these 64 sectors encompass thousands of businesses ranging from grocery stores, bakeries, stationery stores, hair salons, advertising, and other services covering the basic necessities of life.

In the future, Taiwan's small and medium-sized enterprises will soon face competition from well-funded Chinese enterprises that integrate up- and down-stream operations. No matter whether you are a white-collar, farmer, worker, or businessman, everyone will be under threat. Apart from the difficulty of preserving personal livelihood, Taiwan's open access to and use of the Internet, press and publishing services will be limited, leading to a serious threat to our freedom of speech.

The opposition of the 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. Our once-proud paradise for small and medium-sized enterprises would be carved up by these cross-strait consortia piece by piece. Fundamentally, the CSSTA is like the WTO, FTA, and TPP, removing a country's protections for its residents. 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 swallowed 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, to manipulate the Legislature, forcefully pass the CSSTA, and sell out Taiwan's future. On March 17th, KMT legislator Chang Ching-chung grabbed the microphone amid the chaos and within 30 seconds announced that the meeting had come to a resolution, "The presence of 52 legislative members has met the legal requirements to start the meeting. The discussion of the CSSTA has already met the three-month requirement, as a result, the oversight of the agreement has been completed and sent to the Legislature for a record. The meeting is now over." With no compunctions whatsoever, Chang deprives the people's right to oversight. That the KMT could railroad an influential policy without any oversight from the Legislature, it might behave in the same way for other more important policies in the future. Taiwan's future cannot be so rudely ruined.

We have to strongly emphasize that we are not a group of young people who are unwilling to embrace challenges or competition. We just don't want to face such unfair competition, and we don't want to see our future livelihood in the hands of a few powerful ruling elites, or our career in the hands of large corporations and cross-strait capitalists. We need to take control of our future and strive for a future that allows for fair development and competition.

Dear young friends: financial tycoons, large corporations, and political leaders have formed a cross-strait power elite group. They could, at any time, abandon Taiwan, and switch

to somewhere offering cheaper labor, and, like a vampire, drinking the blood and sweat of the youth and moving on to look for new prey in another country. Dear young Taiwanese: Taiwan is the land that we live on and we would continuously rely on to live. To stop this unjust trade agreement, to stop this authoritarian political party that has oppressed us and trampled our rights, please stand together with us, and let's step forward to protect our Taiwan!

NOTE A2. Measurement of Political Connections

To identify formal ties, we matched the names of businessmen and politicians. For the names of businessmen, we followed the *Securities Exchange Act of Taiwan* (*SEATT*) and Zhu and Chung (2014) and included directors, supervisors, senior executives, and shareholders with more than 10% of the shares. We collected these names from the Department of Commerce[1] and TEJ.

For the names of politicians, following Zhu and Chung (2014), we mainly considered government officers and party figures. Political leaders were members of the Central Committees, legislators-at-large, representatives of the National Assembly, and high-level government officials (deputy ministerial level or above); we excluded low-level politicians, such as county councilors. In Taiwan, government officers are either appointed or elected. The personnel appointments in the Presidential Office, Executive Council, Judicial Council, Control Council, Examination Council, and local governments are documented in Presidential Decrees, which cover personnel transfers from the county level to the central level and official moves from the section level to the state level. We obtained 7,342 Presidential Decrees and acquired 149,902 appointment and removal notices between 1949 and 2016 from the Office of the President[2]. When matching corporate and political leaders' names, we first considered namesakes by tracing biographies and news in Factiva and Google. For example, the CEO of Ace Pillar, Chen Wen-te, should not be confused with the cognominal vice-minister of the Council of Agriculture, who had been on the Agriculture Committee since graduating from university in 1981. Given the substantial associations that we were interested in, we then verified whether they had taken positions at the deputy ministerial level or above. Another reason to only consider higher-ranking positions was to make it possible to confirm their party affiliations.

For the names of party figures, we focused on central committee members, legislators-at-large, and representatives of the National Assembly, who were elected or appointed within the parties. From the official websites of the KMT[3], and the DPP[4] as of 2016, we collected 547 KMT and 285 DPP legislators-at-large, 231 KMT and 191 DPP assembly members, and 2,322 KMT and 191 DPP central committee members. We carried out a similar process to match party figures and corporate leaders.

We then used four additional data sources to identify the informal ties between corporate and political leaders. First, we searched the corporate/industrial news, political/general news, commodity/financial market news, and economic news in Factiva using the keywords of corporate leaders' names, KMT/DPP, as well as "relationship" (guanxi), "business-state relationship" (zhengshang guanxi), "henchman" (qinxin), and "crony" (qundai). Factiva includes major newspapers, newswires, trade journals, newsletters, magazines, and transcripts in Taiwan and has been widely used in financial and accounting studies (e.g., Fee,

[1] Retrieved from https://findbiz.nat.gov.tw/ on July 24, 2020.
[2] Retrieved from https://www.president.gov.tw/ on August 18, 2020.
[3] Retrieved from http://www.kmt.org.tw/ on July 14, 2020.
[4] Retrieved from https://www.dpp.org.tw/ on July 14, 2020.

Hadlock, and Pierce, 2013; Huang and Hilary, 2018). We also surveyed articles in Global Views Monthly,[5] where we found various in-depth reports on this topic. Second, we read articles and books by scholars focusing on the political–business system of Taiwan, for example, the works of Chou (1995), Huang (2004), Lee and Velema (2014), and Zhu (2019). Elite high schools play an important role in social connections, so we checked the alumni lists of elite high schools. Third, we retrieved the historical web pages of giant business associations and clubs to collect the memberships.[6] Finally, we collected 525 biographies of entrepreneurs from Wikipedia and used Google to double-check the accuracy of the data.

We considered three types of informal ties: (1) blood and marital relations, (2) friendships, classmates, and hometown relationships, and (3) joint memberships in social clubs. We documented a firm as having blood or marital ties when one of its corporate leaders had a blood relationship or relationship by marriage with a political leader. This kind of nexus profoundly impacts business development in Confucian Familism regions. The second type of informal tie focused on friendships, classmate relationships, and hometown relationships. For example, Kenneth Yen from Yulon Motor was well-known as a close friend of then-president Ma Ying-jeou. For the last type of tie, we considered whether corporate and political leaders were reported to be members of the same clubs. For example, the Third Wednesday Club was initiated and organized by a KMT bigwig, Chiang Pin-kung. Its name came from the regular gatherings held on the third Wednesday of every month. The founder of the Far Eastern Group, Douglas Hsu, and the founder of Foxconn, Terry Gou, were both directors of this club. Given the infrequency of changes in political connections within our sample (as demonstrated in Table 4 of our manuscript), and to ensure rigor and mitigate potential bias arising from treatment effect heterogeneity (Liu, Wang, and Xu, 2022), we adopted the approach of (Hu et al. (2020), Green and Homroy (2022), and Lim, Kim, and Agarwal (2023) to define *KMT connection* as a binary variable indicating the presence of personal connections between a corporation and the KMT before the movement period.

We excluded all SOEs from our sample. Article 3 of the *Administrative Law of State-owned Enterprises* (*ALSE*) of Taiwan defines SOEs as firms owned by the government or firms whose chairmen were by law appointed by the government. The *ALSE* requests these firms to report to and be interrogated by the Legislative Council and were responsible for the government departments they were connected to. This means that even though the government may not hold the majority shares of some SOEs, SOEs' mission is to serve the government (Claessens, Djankov, and Lang, 2000). Theoretically, what we were interested in were firms that actively build, leverage, and rely on the government instead of those with policy goals that confound our results; thus, we followed Jia (2014) and Zhang, Marquis, and Qiao (2016) and excluded 31 SOEs defined by *ALSE* from our sample. However, when including them as either a treatment or a control group, we received similar results.

NOTE A3. Measurement of *Entrenchment*

The *entrenchment* calculation involved networks comprising all KMT-connected firms to ensure direct KMT access for all nodes. Subsequently, all potential sub-networks, termed components, were extracted from the KMT network. For each component, the minimum count of *unique redundant pathways* (*URP*s) connecting each node pair within it was tallied (Moody and White, 2003; see Appendix Figure A1 for an illustration). Given that a focal firm could be

[5] Retrieved from https://www.gvm.com.tw/ on July 18, 2020.
[6] Retrieved from https://web.archive.org/ on August 18, 2022.

nested within multiple components, its *entrenchment* was gauged by the highest *URP* value across all associated components (refer to Appendix Figure A2 for an illustration).

Appendix Figure A1 illustrates that, unlike other network metrics such as centrality, which gauges node power and autonomy, our measure is more suitable for *entrenchment* as it gauges a firm's degree of connection within an existing network. This process was facilitated by the Whitney embedding theorem through NetworkX (Hagberg, Schult, and Swart, 2008). Appendix Figure A2 exemplifies *entrenchment* calculation.

We also broadened the scope of network nodes with KMT access by applying the two-step rule (Sorenson and Stuart, 2008). That is, firms within a two-step distance from the KMT, implying firms linked to KMT politicians or connected to KMT-connected firms, were included in the network for KMT *entrenchment* computation. This approach yielded robust outcomes. Nevertheless, since we observed no treatment effect on firms at a two-step distance from the KMT, we rigorously treated the *entrenchment* of non-connected firms as missing values and constrained the KMT network to firms with direct KMT connections.

NOTE A4. Details of Robustness Checks

We ran several additional analyses to rule out alternative explanations and to strengthen the validity of our results. We reported the details of these checks here. The results of alternative measures or estimation strategies were similar to our main analyses, with the previously insignificant moderating effect of *political contestation* becoming significant in our subgroup analysis.

Subgroup Comparison. According to Shaver (2019) and Giesselmann and Schmidt-Catran (2022), the fixed effect interaction estimator might be biased as it confounds within-firm and between-firm variances. Following Shaver's (2019) recommendation, we employed subgroup comparison to re-evaluate moderating effects. Following Sooriakumaran et al. (2014) and Wang et al. (2018), we utilized the calculated propensity score within a caliper for 1:1 matching to evaluate H3 and 4 and executed 1:1 matching within the same caliper for both low- and high-entrenchment firms using the complete control group to evaluate H2. Furthermore, we performed distinct matching within industries or cities, generating akin hypothesis testing results. As shown in Appendix Table A1, our hypotheses gained support. We attributed the initial insignificance of H3 in our primary analysis to the bias stemming from the interaction term's confounding of within-firm and between-firm variations.

Alternative Explanation: Political Sensitivity. The political sensitivity of firms might also explain our findings, as firms that were sensitive to the external environment may engage in both political activities and corporate giving when the environment was volatile. We used three placebo tests to address this concern (reported in Appendix Table A2). First, we constructed a pseudo shock of the Gay Pride Protest in October 2012, which aimed at changing the same-sex marriage policy but was not particularly anti-regime. We found that KMT-connected firms did not donate more after this placebo protest. Second, we defined firms whose CARs were negatively impacted by the movement were highly politically sensitive (Fisman, 2001; Pástor and Veronesi, 2012). In line with our findings above, political sensitivity did not increase firms' donations after the movement. This result also suggests that the increased donations were not led by the direct impact of the movement. Based on these three placebo tests, we concluded that the increase in KMT-connected firms' donations after the Sunflower Movement was not driven by these firms' political sensitivity.

Alternative Explanation: Anti-Mainland-China sentiment. As reported in Appendix Table A2, we ruled out the alternative explanation of anti-mainland-China sentiment by

determining that firms with *Wai-sheng-jen* (*WSJ*) origins, i.e., firms controlled by mainland China immigrants or their children, and firms profiting from mainland China did not increase their donations after the Movement.

Alternative Explanation: Direct Movement Pressure. Another explanation was that firms were directly threatened by the Sunflower Movement and made donations to protect themselves against public pressure. The public can create pressure on firms either by protesting or challenging the pro-corporation policies (Soule, 2012; Leitzinger, King, and Briscoe, 2018). To capture the impact of the protest, we executed a comprehensive search of the news in Factiva with the keywords of firm names and "Sunflower." After reading all of the results, we identified four firms targeted by activists; all of the protests were triggered by the dissenting voices of corporate leaders. We extended our search to Facebook and PTT, a dominant activist online forum, without finding new cases. After we excluded these firms from our sample, the treatment effects remained significant. Then, we excluded 272 firms that had scandals exposed after the movement due to their risk of attracting protests. The treatment effects held when we excluded these firms. Finally, we used event studies to identify firms with negative market responses to the movement. By excluding them from our sample, we isolated both observable and unobservable influences from the movement. Our main results were unchanged.

To evaluate the impact of the challenge to pro-corporation policies, first, we assumed that mainland China-related firms benefited more from the policies. Thus, we excluded from our sample firms with investments in mainland China when the movement began, firms that had invested in mainland China before the movement, and firms that had made profits from mainland China before the movement. We found that the treatment effects remained the same. Then, we used event studies to identify the firms that benefited from the CSSTA by calculating the CARs around the day (June 21, 2013) when the mainland Chinese government signed the CSSTA and disclosed its details. We excluded these firms and found that our results held. Finally, we excluded the giant KMT-connected firms with the top one-third of revenue and the small and medium-sized non-connected firms with the last two-thirds of revenue from our sample. These tests indicated that the challenge of pro-big-firm policies did not drive our results. Figure A3 reports all of the results.

Alternative Time Frame. We theorized the Sunflower Movement had a lasting impact on Taiwanese politics beyond the immediate protests, affecting corporate behavior (philanthropic donations) in the context of the subsequent local elections. Thus, including the time frame after the local election enabled us to examine the enduring effects of the Sunflower Movement on Taiwanese politics and, by extension, on the behavior of connected firms. This approach allows us to capture both the lasting and immediate impacts of the protest on corporate behavior. To specifically gauge the immediate impact of the protest on corporate behavior, we excluded all observations after the local elections. As depicted in Figure A4, Hypotheses 1, 2, and 4 were supported. However, Hypothesis 3 did not receive support, likely because the results of the local elections were not yet released within the shortened time frame.

Alternative Unit of Observation. Quarterly data have several advantages for our setting, but we used two alternative observation windows, yearly data, and a sample contrasting donation-making before and after the movement, as robustness checks. The results were reported in Appendix Table A3. Models 1-5 used the total donation amounts for four quarters, and Models 6-10 used a binary variable indicating the act of donation-making before or after the movement.

Alternative Measures of KMT Connection. A potential concern of our measurement of *KMT connection* was that KMT-connected firms' responses might be disproportionately dominated by either formal or informal connections. We thus separately estimated the

treatment effects on formal and informal connections. Appendix Table A4 shows that the Sunflower Movement similarly impacted the formally and informally KMT-connected firms. In addition, we found that our main findings were generally robust to the use of different measures of *KMT connection*. The results were similar to our main analysis, and the insignificant moderating effect of *political contestation* became significant in the subsample comparisons.

We also employed the numbers, ratios (divided by the number of board members and high executives), and multiplicities (numbers of types of connections) of connections as alternative measures of *KMT connection*. As demonstrated in Figure A5, our findings remained robust.

Alternative Measures of Philanthropic Donations. We used more conservative measures of philanthropic donations by merely focusing on donations directly related to movement causes and donations to recipients without board links to the KMT; this yielded similar treatment and moderating effects to our main analysis. We reported the results in Appendix Table A5.

Confounding Events. Other confounding events or channels may drive our results. We identified two major concerns: (1) politically connected firms had already faced risk or lost advantages after the 2014 local election, and (2) the increased donations were responses to the local election instead of the Sunflower Movement.

First, we found that the local election did not pose substantial risks to KMT-connected firms' political privileges. As shown in Figures A6a and A6b, compared with the period between the Sunflower Movement, the government procurements and tax rates did not experience significant changes after the 2014 local election; however, political rents from government procurements and tax rates were undermined by the 2016 regime change. Additionally, as shown in Figure A6c, we found that the influence of the KMT on the business sector was confined to the period after the 2016 regime change when the KMT's investments in the listed firms significantly decreased.

For the second concern, we found that the treatment effects were not driven by the 2014 local election. As shown in Figure A7, the treatment effects still held when we excluded all observations after the 2014 local election. The Sunflower Movement's influence on donations was significantly stronger than that of the 2014 local election in the horse race model, implying that without the Sunflower Movement, the local election's enhancing effect on donations by KMT-connected firms would be significantly weakened.

Finally, we found that the Sunflower Movement had a lasting impact on Taiwanese politics beyond the immediate protests, affecting corporate behavior (philanthropic donations) in the context of the subsequent local elections. In Figure A8, we observed that the treatment effect of the 2014 local election on the increase in donations by KMT-connected firms was strengthened as the number of Sunflower Activists participating as candidates in the local election increased. This finding suggests that the Sunflower Movement altered the local political dynamics, and the local election acted as a subsequent event following the movement.

Second-degree Connection. Our DID-style model contrasted the firms with connections with the KMT and firms without such connections. We explored whether the effects of these connections could extend to second-degree KMT-connected firms, which refers to firms linked to the KMT-connected firms. If we had observed significant spillover effects, including this category of firms within the treatment group would have been necessary.

As demonstrated in Table A6, the outcome indicates the absence of both treatment and moderating effects on the second-degree-connected firms. The fact that we did not find any

substantial effects on the second-degree-connected firms underscores the validity of our treatment group definition and substantiates our rationale for designating firms directly connected with the KMT as the treatment group.

Random Sampling and Alternative Matching Method. To address other alternative explanations, we randomly assigned 200 pseudo-treatment groups and replicated the matching and estimation methods used in our primary analyses. Appendix Figure A9 shows that the treatment effects on most random samples were insignificant and thus unlikely to have been driven by other unobserved factors. We also implemented coarsened exact matching (CEM) on the same dimensions and periods as the PSM. Models 1 to 5 of Table A7 show that all of our results remain consistent.

Instrument Variable Estimations. We used instrumental variable estimations to further account for the endogeneity. Specifically, we constructed two instruments for *KMT connection*: (1) the average political contributions to the KMT by other firms within the same city between 2007 to 2014 (excluding the focal firm) and (2) the average political contributions to the KMT by other firms in the same industry between 2007 to 2014 (excluding the focal firm). City- and industry-level peers' political contributions affect focal corporations' political activities (Marquis and Tilcsik, 2016), but these peers cannot directly affect focal firms' philanthropic donations. We included the residual from the first stage of the DID regression (Rawley, Godart, and Shipilov, 2018; Hughes et al., 2020). Corresponding to the RIR result, the insignificant residual indicates that the results were unlikely to be biased by endogeneity issues. As shown in Models 6 to 10 of Table A7, all of the results were similar to our main analyses. We provided the details and reported the quality of the instruments in the table's notes.

Time-variant vs. Time-invariant KMT Connection. Given the infrequency of changes in political connections within our sample (as demonstrated in Table 4 of our manuscript), and to ensure robustness and minimize potential bias (Liu, Wang, and Xu, 2022), we adopted the approach of Lim, Kim, and Agarwal (2023) to define *KMT connection* as a binary variable indicating the presence of personal connections between a corporation and the KMT before the movement period. Here, we tested whether our results would be changed if we considered the switching back and forth of the treatment, i.e., the tie dissolution and formation. We deployed an alternative estimator that Liu, Wang, and Xu (2022) developed and used a time-variant measure of KMT connection. This alternative estimator is particularly adept at estimating the treatment effect for a group receiving time-variant treatment. Figure A10 demonstrates that the treatment effects estimated by the FEct estimator were consistent with our main analyses, indicating that our findings remain robust.

TABLES

TABLE A1. Subgroup Analysis

	Entrenchment		***Political Contestation***		***NGO Density***	
	< Med.	≥ Med.	Low	High	< Med.	≥ Med.
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Firm size	0.00	-0.06	0.14	0.24*	0.18*	0.27*
	(0.12)	(0.14)	(0.13)	(0.10)	(0.09)	(0.12)
Cash flow	-0.00	0.00	-0.01	0.01	-0.01	0.01†
	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)
ROA	0.00	-0.00	-0.00	0.00	-0.01	0.01
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)
Financial leverage	0.14	-0.38	-0.48	-0.03	0.05	-0.38
	(0.22)	(0.29)	(0.50)	(0.34)	(0.45)	(0.34)
R&D intensity	0.25	0.08	0.18	0.15	-0.23	0.73
	(0.27)	(0.35)	(0.39)	(0.31)	(0.24)	(0.74)
Mainland investment	-0.02	0.08	0.00	-0.02	0.00	-0.22
	(0.14)	(0.14)	(0.00)	(0.16)	(0.00)	(0.31)
WSJ origin	0.00	-0.00	0.00	-0.01	-0.00	-0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Foreign ownership	0.42	0.94	0.78	0.88	0.45	1.06
	(0.62)	(0.77)	(0.70)	(0.93)	(1.11)	(0.88)
Government procurement	-0.01*	-0.01*	-0.00	-0.01	-0.01*	-0.01
	(0.00)	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)
Most admirable firm	0.48	-0.13	-0.13	-2.07†	-0.44	-1.75*
	(0.68)	(0.47)	(0.17)	(1.06)	(0.63)	(0.84)
CSR Scandal	0.08	-0.03	-0.09	-0.11	-0.11	-0.09
	(0.11)	(0.16)	(0.49)	(0.15)	(0.30)	(0.22)
KMT regime	0.09	0.05	-	-1.18	0.04	0.01
	(0.09)	(0.10)	-	(1.25)	(0.13)	(0.14)
DPP connection	0.00	-0.06	0.14	0.24*	0.18*	0.27*
× *Post movement*	(0.12)	(0.14)	(0.13)	(0.10)	(0.09)	(0.12)
KMT connection	0.11	0.40***	0.04	0.31**	0.12	0.35**
× ***Post movement***	(0.08)	(0.11)	(0.12)	(0.11)	(0.11)	(0.11)
Difference in effects	0.28***		0.27*		0.24*	
Constant	0.00	0.61	-0.56	-0.60	-0.99	-1.57*
	(0.74)	(0.94)	(0.89)	(1.08)	(0.65)	(0.74)
Two-way-fixed	YES	YES	YES	YES	YES	YES
Industry-fixed	YES	YES	YES	YES	YES	YES
Governance-fixed	YES	YES	YES	YES	YES	YES
Firm-level clustered	YES	YES	YES	YES	YES	YES
City-level clustered	YES	YES	YES	YES	YES	YES
Observations	6,955	6,262	3,011	4,588	3,433	4,186
Adj R-squared	0.14	0.13	0.15	0.12	0.17	0.10

NOTE. Robust standard errors were in parentheses and were doubly adjusted for clustering within firms and cities; † $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$. The dependent variable was *philanthropic donation*.

Data sources: TEJ, official websites of political parties and governments, biographies, TSCS and SCSGS, CommonWealth, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

TABLE A2. Alternative Explanations and Placebo Tests

	Political Sensitivity		Anti-Mainland Sentiment	
	Pseudo-shock	Pseudo-treatment	Pseudo-treatment	
	LGBT Protest	***Negative CAR***	***WSJ origin***	***Profit from Mainland***
Variable	Model 1	Model 2	Model 3	Model 4
Firm size	-0.23†	-0.13	-0.21	-0.00
	(0.11)	(0.10)	(0.21)	(0.03)
Cash flow	0.00	0.00	-0.01	-0.00*
	(0.00)	(0.00)	(0.02)	(0.00)
ROA	-0.00	0.01	-0.02	-0.01
	(0.01)	(0.01)	(0.03)	(0.00)
Financial leverage	-0.18	0.34	2.33*	-0.21
	(0.30)	(0.37)	(0.99)	(0.19)
R&D intensity	0.16	-0.02	4.37	0.01
	(0.38)	(0.14)	(4.52)	(0.13)
Mainland investment	-0.02	1.16	0.62	0.01
	(0.10)	(0.68)	(0.46)	(0.03)
WSJ origin	-0.00	0.00	0.01	-0.01†
	(0.00)	(0.01)	(0.03)	(0.00)
Foreign ownership	0.17	-0.21	0.44	0.85*
	(0.98)	(0.42)	(0.90)	(0.33)
Government procurement	-0.02**	-0.00	0.00	-0.00
	(0.00)	(0.00)	(0.01)	(0.00)
Most admirable firm	-0.66	0.20	0.38*	0.00
	(0.87)	(0.39)	(0.14)	(0.05)
CSR Scandal	-0.19	-0.03	0.32*	0.06
	(0.22)	(0.09)	(0.11)	(0.04)
KMT regime	0.00	0.08	-0.03	0.09†
	(.)	(0.05)	(0.20)	(0.05)
DPP connection	0.00	0.17	0.31	-0.05
× *Post movement*	(0.00)	(0.14)	(0.40)	(0.05)
KMT connection	0.08			
× *Post LGBT*	(0.07)			
Pseudo-treatment		-0.00	0.09	0.05
× *Post movement*		(0.08)	(0.18)	(0.05)
Constant	1.74†	0.61	0.33	0.11
	(0.83)	(0.61)	(1.41)	(0.27)
Two-way-fixed	YES	YES	YES	YES
Industry-fixed	YES	YES	YES	YES
Governance-fixed	YES	YES	YES	YES
Firm-level clustered	YES	YES	YES	YES
City-level clustered	YES	YES	YES	YES
Observations	4826	5408	1286	6600
Adj R-squared	0.15	0.11	0.12	0.12

NOTE. Robust standard errors were in parentheses and were doubly adjusted for clustering within firms and cities; † $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$. The dependent variable was *philanthropic donation*.
Data sources: TEJ, the official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

TABLE A3. Alternative Observation Windows

	Yearly Data					Before vs after the Movement				
	Total Annual Donation Amounts					***Whether to Donate***				
Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Firm size	0.44*	0.97*	0.44*	0.45*	0.45*	0.05**	0.09*	0.05**	0.05**	0.06**
	(0.20)	(0.41)	(0.21)	(0.21)	(0.21)	(0.02)	(0.04)	(0.02)	(0.02)	(0.02)
Cash flow	0.02*	0.04*	0.02*	0.02†	0.02*	0.00**	0.01**	0.00*	0.00**	0.00†
	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
ROA	0.02	0.04	0.02	0.02	0.02	0.00	0.01	0.00	0.00	0.00
	(0.02)	(0.04)	(0.02)	(0.02)	(0.02)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)
Financial leverage	-0.30	-0.42	-0.32	-0.31	-0.32	-0.05	-0.10	-0.06	-0.05	-0.06
	(0.49)	(0.95)	(0.49)	(0.49)	(0.50)	(0.06)	(0.17)	(0.06)	(0.06)	(0.06)
R&D intensity	1.06	1.25	1.05	1.05	0.97	-0.01	-0.24	-0.01	-0.01	-0.02
	(0.83)	(1.77)	(0.84)	(0.82)	(0.81)	(0.08)	(0.16)	(0.08)	(0.08)	(0.07)
Mainland investment	2.34	-1.00	2.29	2.36	2.34	0.55	0.03	0.54	0.55	0.55
	(2.03)	(0.88)	(2.01)	(2.02)	(1.97)	(0.42)	(0.08)	(0.41)	(0.41)	(0.40)
WSJ origin	0.02†	0.04	0.02†	0.02†	0.02†	-0.00	-0.00	-0.00	-0.00	0.00
	(0.01)	(0.04)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Foreign ownership	1.48†	2.32	1.46†	1.47†	1.41	-0.14	-0.37	-0.14	-0.14	-0.15
	(0.83)	(3.06)	(0.82)	(0.84)	(0.86)	(0.13)	(0.40)	(0.14)	(0.13)	(0.14)
Government procurement	-0.02†	-0.01	-0.02†	-0.02†	-0.02†	-0.00	-0.00	-0.00*	-0.00†	-0.00*
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Most admirable firm	0.89	0.62	0.89	0.93	0.91	0.02	-0.07	0.02	0.02	0.02
	(0.95)	(1.55)	(0.94)	(0.95)	(0.96)	(0.13)	(0.16)	(0.12)	(0.13)	(0.13)
CSR Scandal	-0.24	-0.22	-0.24	-0.24	-0.24	-0.08	-0.08	-0.07	-0.08	-0.07
	(0.22)	(0.35)	(0.21)	(0.21)	(0.20)	(0.05)	(0.08)	(0.04)	(0.05)	(0.04)
KMT regime	-0.08	-0.57*	-0.16	-0.03	-0.16	0.01	-0.06	-0.64*	0.02	-0.66*
	(0.10)	(0.24)	(0.18)	(0.12)	(0.18)	(0.03)	(0.05)	(0.28)	(0.03)	(0.27)
DPP connection	0.05	-0.18	0.04	0.05	0.00	0.02	-0.01	0.02	0.02	0.01
× Post movement	(0.29)	(0.44)	(0.29)	(0.29)	(0.30)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
KMT connection	1.01***		0.62***	0.97***	0.88***	0.10***		0.07***	0.09***	0.10***
× Post movement	(0.23)		(0.07)	(0.09)	(0.10)	(0.02)		(0.01)	(0.00)	(0.01)
Post movement		0.34***			0.34***		0.04**			0.04**
× Entrenchment		(0.08)			(0.08)		(0.01)			(0.01)
Political contestation ×Post movement			-0.32*		-0.33*			-0.40*		-0.40*
			(0.14)		(0.15)			(0.17)		(0.16)
KMT connection × Post movement			0.64**		0.15			0.05*		-0.00
× Political contestation			(0.22)		(0.25)			(0.02)		(0.01)
NGO density × Post movement				-0.07	0.01				-0.01	-0.00
				(0.05)	(0.03)				(0.01)	(0.00)
KMT connection × Post movement				0.39***	0.33**				0.03***	0.03***
× NGO density				(0.07)	(0.11)				(0.00)	(0.00)
Constant	-2.74†	-5.09	-2.55	-2.79†	-2.64	-0.34*	-0.36	0.23	-0.35*	0.23
	(1.56)	(3.33)	(1.67)	(1.60)	(1.67)	(0.14)	(0.27)	(0.26)	(0.15)	(0.26)
Two-way-fixed	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry-fixed	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Governance-fixed	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Firm-level clustered	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
City-level clustered	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	4,904	1,637	4,904	4,904	4,904	2,490	836	2,490	2,490	2,490
Adj R-squared	0.47	0.45	0.47	0.47	0.47	0.56	0.52	0.56	0.56	0.57

NOTE. Robust standard errors were in parentheses and were doubly adjusted for clustering within firms and cities; † $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$. The dependent variables were the amount of philanthropic donations (Models 1-5) and a binary indicator for donation behavior (Models 6-10). All hypotheses were supported. In the full model, due to the high correlation between *KMT connection × Post movement × Political contestation* and *KMT connection × Post movement × NGO density*, the impact of the former was assimilated by the latter.

Data sources: TEJ, the official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, TNIP, and Factiva.

TABLE A4. Alternative Measures of *Political Connection*

	Formal Connection					***Informal Connection***				
Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Firm size	0.04	0.17*	0.03	0.04	0.04	0.09	0.34**	0.09	0.09	0.11
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)	(0.23)	(0.09)	(0.23)	(0.23)	(0.23)
Cash flow	0.00	0.01	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)
ROA	-0.00	0.00	-0.00	-0.00	-0.00	0.02*	0.02	0.02*	0.02*	0.02*
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)
Financial leverage	-0.02	-0.29	-0.04	-0.02	-0.03	-0.56	-0.60	-0.57	-0.60	-0.47
	(0.26)	(0.32)	(0.25)	(0.26)	(0.24)	(0.58)	(1.07)	(0.59)	(0.57)	(0.52)
R&D intensity	0.08	0.23	0.10	0.08	0.07	0.11	-1.97	0.10	0.08	0.15
	(0.14)	(0.20)	(0.13)	(0.14)	(0.14)	(0.34)	(2.05)	(0.36)	(0.35)	(0.34)
Mainland investment	0.58	-0.26	0.58	0.59	0.60	-0.26	0.00	-0.26	-0.21	-0.04
	(0.62)	(0.31)	(0.62)	(0.62)	(0.60)	(0.26)	(0.00)	(0.26)	(0.26)	(0.27)
WSJ origin	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	0.00	0.00	0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)
Foreign ownership	1.33†	2.90*	1.34†	1.37†	1.35†	0.79	1.95	0.79	0.79	0.52
	(0.73)	(1.25)	(0.72)	(0.71)	(0.70)	(0.88)	(1.27)	(0.89)	(0.92)	(1.01)
Government procurement	-0.01	-0.00	-0.01	-0.01	-0.01	-0.02*	-0.03**	-0.02*	-0.02**	-0.02**
	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Most admirable firm	0.04	-0.40	0.04	0.06	0.03	0.17	-0.04	0.18	0.24	0.25
	(0.54)	(0.89)	(0.53)	(0.54)	(0.54)	(0.44)	(1.04)	(0.44)	(0.43)	(0.42)
CSR Scandal	0.10	0.21	0.11	0.10	0.11	0.18	0.56	0.19	0.19	0.19
	(0.20)	(0.30)	(0.20)	(0.20)	(0.20)	(0.25)	(0.46)	(0.25)	(0.25)	(0.24)
KMT regime	0.03	-0.05	0.06	0.10	0.06	0.05	-0.09	0.09	0.16†	0.09
	(0.08)	(0.11)	(0.07)	(0.06)	(0.07)	(0.10)	(0.23)	(0.11)	(0.09)	(0.11)
DPP connection	-0.03	-0.11	-0.03	-0.04	-0.06	-0.12	-0.07	-0.12	-0.07	-0.10
× Post movement	(0.08)	(0.14)	(0.08)	(0.08)	(0.08)	(0.16)	(0.31)	(0.16)	(0.17)	(0.16)
KMT connection	0.17†		0.02	0.16*	0.10	0.54**		0.45†	0.50***	0.66**
× Post movement	(0.09)		(0.10)	(0.06)	(0.11)	(0.15)		(0.21)	(0.11)	(0.22)
Post movement		0.15*			0.16**		0.23*			0.25*
× Entrenchment		(0.05)			(0.05)		(0.09)			(0.11)
Political contestation ×Post movement			-0.09		-0.15*			-0.00		-0.02
			(0.07)		(0.07)			(0.13)		(0.13)
KMT connection × Post movement			0.26*		0.14			0.13		-0.29
× Political contestation			(0.11)		(0.13)			(0.26)		(0.34)
NGO density × Post movement				0.02	0.06***				0.02	0.01
				(0.02)	(0.01)				(0.03)	(0.03)
KMT connection × Post movement				0.12*	0.07				0.21*	0.28†
× NGO density				(0.04)	(0.05)				(0.08)	(0.14)
Constant	-0.22	-0.87†	-0.20	-0.31	-0.20	-0.24	-1.69*	-0.29	-0.31	-0.46
	(0.44)	(0.44)	(0.47)	(0.47)	(0.43)	(1.78)	(0.68)	(1.74)	(1.79)	(1.70)
Two-way-fixed	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry-fixed	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Governance-fixed	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Firm-level clustered	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
City-level clustered	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	7,988	3,972	7,988	7,988	7,988	3,701	1,846	3,701	3,701	3,701
Adj R-squared	0.16	0.17	0.16	0.16	0.16	0.15	0.14	0.15	0.15	0.15

NOTE. Robust standard errors were in parentheses and were doubly adjusted for clustering within firms and cities; † $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$. The dependent variable was *philanthropic donation*. Estimations were based on propensity score matching using a one-to-one without replacement technique for each sample.
Data sources: TEJ, the official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

TABLE A5. Alternative Measures of *Philanthropic Donation*

	Donations Directly Related to Movement Causes						Donations to KMT-connected Recipients					
	Yes					No	No					Yes
Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
Firm size	0.10	0.30*	0.09	0.10	0.11	-0.04	0.04	0.32**	0.04	0.04	0.05	0.02†
	(0.06)	(0.13)	(0.06)	(0.06)	(0.06)	(0.06)	(0.10)	(0.09)	(0.11)	(0.11)	(0.11)	(0.01)
Cash flow	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	-0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)
ROA	0.01	0.00	0.01	0.01	0.01	-0.00	-0.00	-0.00	-0.00	0.00	0.00	0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)
Financial leverage	-0.27	-0.24	-0.28	-0.27	-0.26	0.17	-0.06	-0.17	-0.06	-0.05	-0.04	-0.10
	(0.18)	(0.32)	(0.18)	(0.18)	(0.18)	(0.15)	(0.27)	(0.29)	(0.27)	(0.27)	(0.27)	(0.10)
R&D intensity	0.20	-0.01	0.20	0.20	0.18	0.32	0.18	0.08	0.17	0.17	0.14	0.00
	(0.18)	(0.23)	(0.18)	(0.17)	(0.19)	(0.34)	(0.18)	(0.26)	(0.18)	(0.17)	(0.18)	(0.02)
Mainland investment	-0.09	-0.30	-0.10	-0.07	-0.05	0.02	-0.08	-0.31†	-0.11	-0.07	-0.07	0.00
	(0.21)	(0.17)	(0.20)	(0.21)	(0.17)	(0.05)	(0.23)	(0.17)	(0.24)	(0.23)	(0.21)	(0.01)
WSJ origin	0.00	-0.00	0.00	0.00	0.00	-0.00†	0.00	0.01	0.00	0.00	0.00	-0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)
Foreign ownership	0.96	1.13	0.95	0.95	0.90	-0.11	0.97	1.55	0.98	0.99	0.94	-0.15
	(0.62)	(1.17)	(0.63)	(0.63)	(0.64)	(0.22)	(0.60)	(1.38)	(0.60)	(0.62)	(0.63)	(0.22)
Government procurement	-0.01†	-0.01	-0.01†	-0.01†	-0.01*	-0.01*	-0.01*	-0.01	-0.01*	-0.01*	-0.01*	0.00
	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)
Most admirable firm	-0.32	-0.58	-0.31	-0.31	-0.30	0.20	-0.11	-0.61	-0.10	-0.10	-0.10	0.00
	(0.67)	(1.26)	(0.68)	(0.68)	(0.67)	(0.23)	(0.71)	(1.27)	(0.72)	(0.71)	(0.71)	(0.01)
CSR Scandal	-0.04	-0.16	-0.04	-0.04	-0.04	-0.01	-0.06	-0.26	-0.07	-0.07	-0.06	0.01
	(0.14)	(0.20)	(0.14)	(0.14)	(0.15)	(0.04)	(0.13)	(0.21)	(0.13)	(0.13)	(0.13)	(0.01)
KMT regime	0.06	0.02	0.00	0.08†	0.00	-0.03	0.02	-0.05	0.04	0.05	0.04	0.03
	(0.04)	(0.09)	(0.06)	(0.04)	(0.06)	(0.02)	(0.03)	(0.08)	(0.09)	(0.05)	(0.09)	(0.04)
DPP connection	0.04	0.08	0.04	0.05	0.02	-0.03	0.01	0.09	0.01	0.02	-0.01	-0.02
× Post movement	(0.13)	(0.18)	(0.13)	(0.13)	(0.13)	(0.08)	(0.17)	(0.21)	(0.17)	(0.17)	(0.16)	(0.02)
KMT connection	0.25*		0.16	0.25**	0.29†	0.01	0.21*		0.05	0.21**	0.13	0.03
× Post movement	(0.10)		(0.14)	(0.06)	(0.13)	(0.02)	(0.09)		(0.12)	(0.06)	(0.12)	(0.04)
Post movement		0.16***			0.16***			0.14**			0.14**	
× Entrenchment		(0.03)			(0.04)			(0.04)			(0.04)	
Political contestation ×Post movement			-0.16		-0.13				-0.10		-0.10	
			(0.13)		(0.12)				(0.13)		(0.13)	
KMT connection × Post movement			0.16		-0.02				0.26*		0.16	
× Political contestation			(0.16)		(0.16)				(0.12)		(0.12)	
NGO density × Post movement				-0.05	-0.03					-0.02	0.00	
				(0.04)	(0.02)					(0.04)	(0.03)	
KMT connection × Post movement				0.14*	0.14*					0.12*	0.07***	
× NGO density				(0.05)	(0.06)					(0.05)	(0.02)	
Constant	-0.51	-1.60	-0.41	-0.56	-0.51	0.25	-0.17	-1.80*	-0.16	-0.22	-0.22	-0.05
	(0.46)	(0.95)	(0.51)	(0.47)	(0.48)	(0.40)	(0.75)	(0.66)	(0.81)	(0.76)	(0.78)	(0.04)
Two-way-fixed	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry-fixed	YES	YES	YES	YES	YES	YES	YES	YES	NO	YES	YES	YES
Governance-fixed	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Firm-level clustered	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
City-level clustered	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	8,823	4,427	8,823	8,823	8,823	8,823	8,823	4,427	8,823	8,823	8,823	8,823
Adj R-squared	0.13	0.13	0.13	0.13	0.13	0.07	0.11	0.09	0.11	0.11	0.11	0.29

NOTE. Robust standard errors were in parentheses and were doubly adjusted for clustering within firms and cities; † $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$. The dependent variable was *philanthropic donation*. Estimations were based on propensity score matching using a one-to-one without replacement technique for each sample.
Data sources: TEJ, the official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, TNIP, and org.twincn.com.

TABLE A6. Second-degree Connection

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Firm size	0.06	0.35**	0.06	0.07	0.07
	(0.09)	(0.10)	(0.10)	(0.10)	(0.10)
Cash flow	0.00	0.01	0.00	0.00	0.00
	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)
ROA	0.00	-0.00	0.00	0.00	0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Financial leverage	-0.16	-0.36	-0.17	-0.16	-0.14
	(0.18)	(0.32)	(0.26)	(0.26)	(0.26)
R&D intensity	0.18	0.05	0.17	0.17	0.14
	(0.15)	(0.25)	(0.17)	(0.16)	(0.17)
Mainland investment	-0.08	-0.29	-0.09	-0.06	-0.04
	(0.23)	(0.17)	(0.23)	(0.23)	(0.19)
WSJ origin	-0.00	-0.00	-0.00	-0.00	-0.00
	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)
Foreign ownership	0.83†	1.26	0.83	0.84	0.79
	(0.45)	(1.12)	(0.48)	(0.49)	(0.50)
Government procurement	-0.01*	-0.01	-0.01**	-0.01**	-0.01**
	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)
Most admirable firm	-0.12	-0.62	-0.11	-0.11	-0.11
	(0.68)	(1.24)	(0.70)	(0.70)	(0.69)
CSR Scandal	-0.04	-0.22	-0.05	-0.05	-0.05
	(0.10)	(0.21)	(0.12)	(0.12)	(0.13)
KMT regime	0.05	0.01	0.03	0.08	0.03
	(0.07)	(0.10)	(0.09)	(0.06)	(0.08)
DPP connection	(0.05)	(0.00)	(0.10)	(0.04)	(0.10)
× *Post movement*	-0.01	0.06	-0.01	0.00	-0.03
KMT connection	0.26***		0.22*	0.26***	0.33**
× ***Post movement***	(0.05)		(0.08)	(0.05)	(0.09)
Second-degree Connection	0.02	0.00	0.08	0.02	0.08
× ***Post movement***	(0.05)	(0.00)	(0.10)	(0.04)	(0.10)
Post movement		0.16**			0.17**
× ***Entrenchment***		(0.05)			(0.05)
Political contestation ×Post movement			-0.01		-0.01
			(0.07)		(0.08)
KMT connection × Post movement			0.07		-0.09
× ***Political contestation***			(0.13)		(0.17)
Second-degree Connection × Post movement			-0.11		-0.10
× ***Political contestation***			(0.13)		(0.15)
NGO density × Post movement				0.02	0.01
				(0.04)	(0.05)
KMT connection × Post movement				0.08*	0.11
× ***NGO density***				(0.03)	(0.07)
Second-degree Connection × Post movement				-0.04	-0.01
× ***NGO density***				(0.05)	(0.05)
Constant	-0.26	-1.87*	-0.24	-0.32	-0.32
	(0.62)	(0.67)	(0.71)	(0.69)	(0.69)
Two-way-fixed	YES	YES	YES	YES	YES
Industry-fixed	YES	YES	YES	YES	YES
Governance-fixed	YES	YES	YES	YES	YES
Firm-level clustered	YES	YES	YES	YES	YES
City-level clustered	YES	YES	YES	YES	YES
Observations	8,823	4,427	8,823	8,823	8,823
Adj R-squared	0.13	0.12	0.13	0.13	0.13

NOTE. Robust standard errors were in parentheses and were doubly adjusted for clustering within firms and cities; † $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$. The dependent variable was *philanthropic donation*.
Data sources: TEJ, the official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, TNIP, and org.twincn.com.

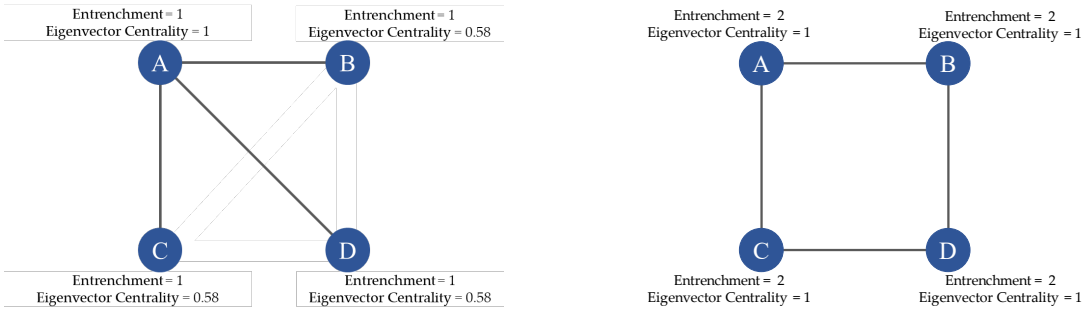
TABLE A7. Coarsened Exact Matching and Instrumental Variable Estimation

	Coarsened Exact Matching (CEM)					Instrumental Variables (IV) Estimation				
						1st-Stage	2nd-Stage			
Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
DPP connection	0.04	0.20	0.03	0.04	0.03	0.13†	0.11	0.07	0.10	0.10
× *Post movement*	(0.12)	(0.21)	(0.12)	(0.12)	(0.12)	(0.08)	(0.11)	(0.18)	(0.11)	(0.11)
KMT connection	0.28**		0.19*	0.28***	0.26*		0.31**		0.18*	0.30***
× ***Post movement***	(0.08)		(0.07)	(0.06)	(0.09)		(0.09)		(0.07)	(0.06)
Post movement		0.08†			0.09†			0.08†		
× ***Entrenchment***		(0.04)			(0.04)			(0.04)		
Political contestation ×Post movement			-0.08		-0.07				-0.10	
			(0.08)		(0.08)				(0.07)	
KMT connection × Post movement			0.15		0.04				0.21†	
× ***Political contestation***			(0.10)		(0.17)				(0.11)	
NGO density × Post movement				-0.02	-0.00					-0.02
				(0.02)	(0.01)					(0.02)
KMT connection × Post movement				0.09*	0.08					0.12*
× ***NGO density***				(0.04)	(0.07)					(0.05)
Instrument: *Local KMT Contribution*						-0.73				
						(0.73)				
Instrument: *Industrial KMT Contribution*						1.40***				
						(0.34)				
Residuals							0.71	0.56	0.69	0.67
							(0.52)	(0.88)	(0.51)	(0.50)
Control Variables	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Constant	0.09	-1.92†	0.15	0.09	0.12	-1.12***	-0.76	-2.62	-0.71	-0.77
	(0.93)	(1.06)	(0.97)	(0.94)	(0.97)	(0.22)	(0.69)	(2.47)	(0.72)	(0.69)
Two-way-fixed	YES	YES	YES	YES	YES	NO	YES	YES	YES	YES
Industry-fixed	YES	YES	YES	YES	YES	NO	YES	YES	YES	YES
Governance-fixed	YES	YES	YES	YES	YES	NO	YES	YES	YES	YES
Firm-level clustered	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
City-level clustered	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	17,039	5,467	17,039	17,039	17,039	19,012	19,012	6,322	19,012	19,012
Adj R-squared / Pseudo R-squared	0.18	0.20	0.18	0.18	0.18	0.07	0.19	0.19	0.19	0.19

NOTE. Robust standard errors were in parentheses and were doubly adjusted for clustering within firms and cities; † $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$. The dependent variable of Models 1-5 and 7-10 was *philanthropic donation*, Model 6 was *KMT connection*. We used CEM by matching the treatment and control groups in the same dimensions as PSM. For the instrumental variable estimation, we used the city-level and industry-level political contributions between 2007 to 2012. Following Terza (2017), we used a probit model in the first stage; then, we included the residual from the first stage of the DID regression (Rawley, Godart, and Shipilov, 2018; Hughes et al., 2020). Corresponding to the RIR result, the insignificant residual indicated that the results were unlikely to be biased by endogeneity issues. To test the quality of the instruments, we used the LM test statistic for under-identification and rejected the null hypothesis that the endogenous regressor in question was unidentified (p-value < 0.001). Then we used the Sargan test statistic for over-identification and failed to reject the null hypothesis that the instruments were valid and uncorrelated with the error term (p-value = 0.143). Finally, the Cragg-Donald Wald F statistic was 159.035 and the F statistic for the instrument was 33.678, suggesting that the instruments were not weak.
Data sources: TEJ, the official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, TNIP, and G0V.

FIGURES

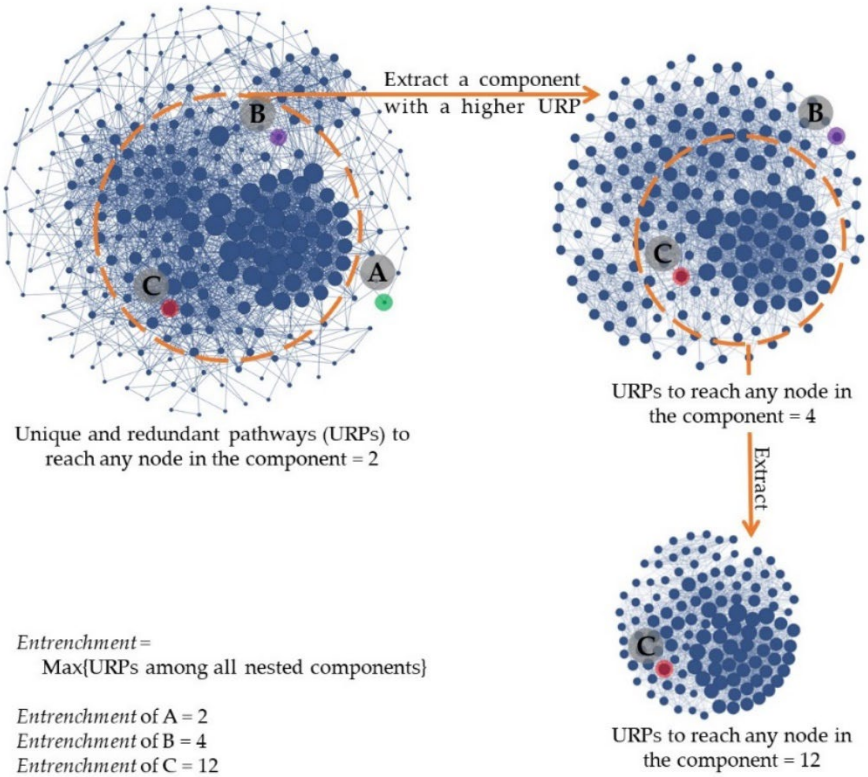
FIGURE A1. Illustration of Entrenchment Calculation and Comparison with Centrality



a. Network Component a b. Network Component b

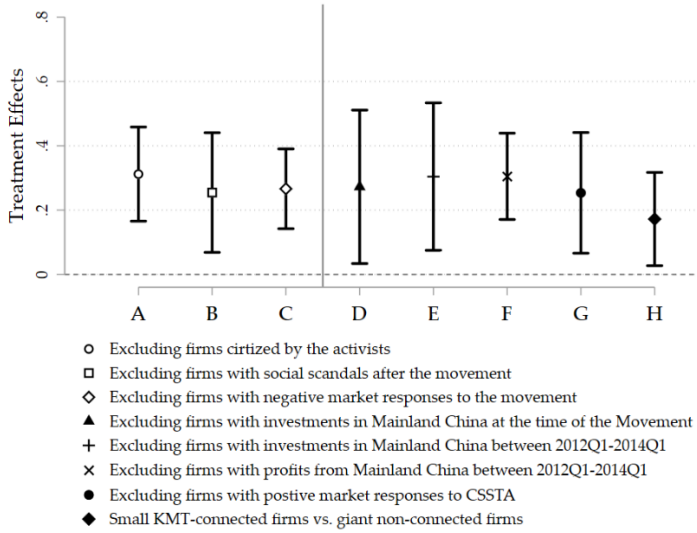
NOTE. This figure illustrates the calculation of *entrenchment* and compares it with centrality. *Entrenchment* reflected the extent of embeddedness in an existing network, while centrality captured the power and autonomy of nodes. In Component a, each node was connected to one other node by a single unique pathway. In Component b, the nodes were more tightly interlocked, and each node was connected to one other node by two unique pathways. In Component a, although Node A was located in a more central position with the highest centrality, it was not more tightly entrenched than the other nodes because it could only reach another node using one pathway (Moody and White, 2003; Benton, 2017; Benton and Cobb, 2019). Because a node can be nested in multiple network components, we used the maximum number of *URP*s among all components to measure *entrenchment*, making *entrenchment* a firm-level variable. Considering all possible sub-networks, the values of *entrenchment* for all nodes in Component a equal to 1, and the values of *entrenchment* for all nodes in Component b equal to 2.

FIGURE A2. An Example of Entrenchment Calculation



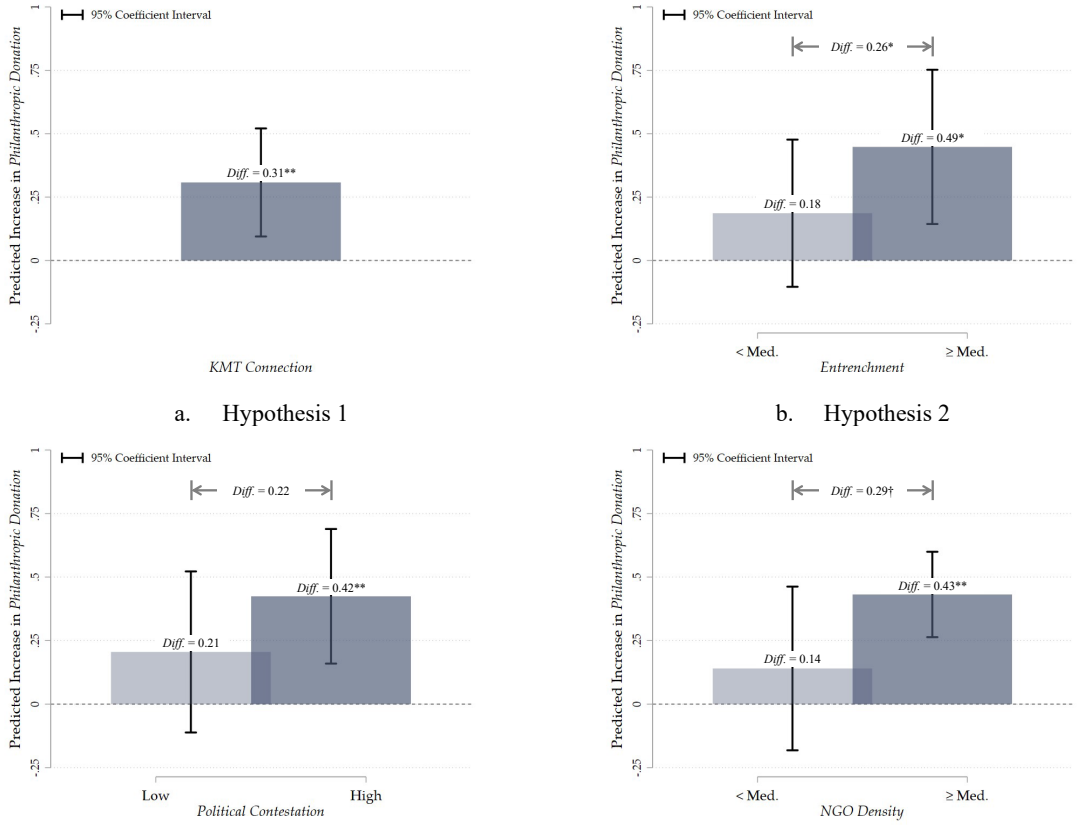
NOTE. This graph visualizes the process of computing the value of *entrenchment* for a network consisting of KMT-connected firms in the first quarter of 2013. The sizes of the nodes represented the degrees of centrality. The components with a higher *URP* were nested in the components with a lower *URP*. In Component 1, each node had at least two unique and redundant pathways to reach any other node, resulting in the *entrenchment* value of the nodes in this component being at least 2. The value of *URP* increased and the number of firms decreased as firms were positioned deeper in the "inner circle," where the components became more tightly connected and entrenched. For the focal firm, the value of *entrenchment* was the highest *URP* among the components in which it was embedded.

FIGURE A3. Threat of the Movement



NOTE. This figure assesses if direct threats from the Sunflower Movement caused KMT firms' donation increases. Capped spikes indicate the 95% coefficient intervals. The treatment effects held across all panels, suggesting that the Sunflower Movement was the driving factor of KMT firms' *philanthropic donation* increases.
N varies across samples. Data sources: TEJ, the official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

FIGURE A4. Hypothesis Testing Using the Time Frame of 2012Q1-2014Q4



a. Hypothesis 1

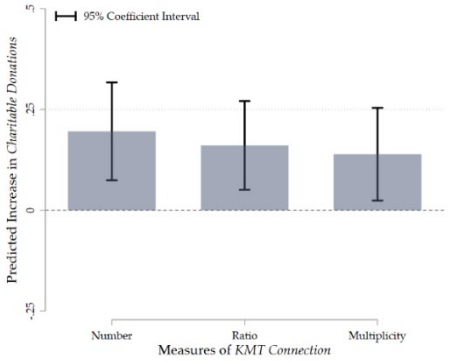
b. Hypothesis 2

c. Hypothesis 3

c. Hypothesis 4

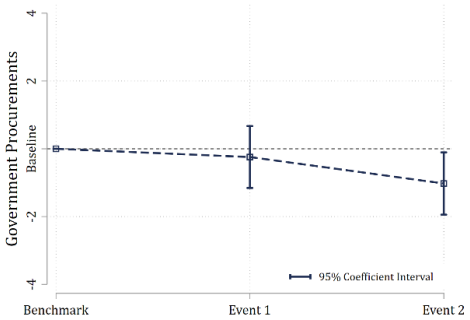
NOTE. These figures illustrate the moderating effects of different hypotheses. All observations after the 2014 local elections have been excluded. We employed a 1:1 matching within the same caliper in our main analyses. It's important to note that Hypothesis 3 was not supported, largely due to the unavailability of local election results within the revised time frame.
N = 8,823. Data sources: TEJ, official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

FIGURE A5. Treatment Effects Based on Numbers, Ratios, and Multiplicities of Connections

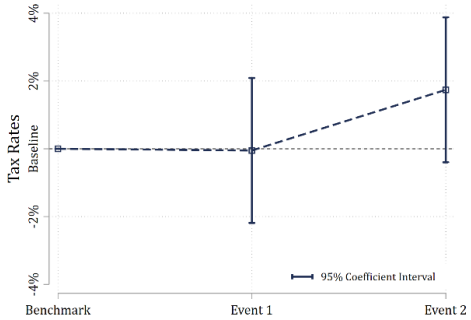


NOTE. This figure uses the number, ratio, and multiplicity of the KMT connections as alternative treatment variables. *Number* refers to the number of KMT politicians that a focal firm connects with. *Ratio* refers to the ratio of KMT politicians over all politicians that a focal firm connects with. *Multiplicity* pertained to the variety of KMT politicians a focal firm was linked with, where the variety was determined by the different roles or positions they held. The categories of political connections encompass legislators, party officials, central government officials, and local government officials.
N = 8,823. Data sources: TEJ, the official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

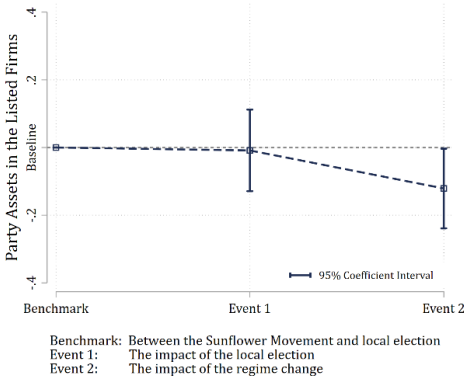
FIGURE A6. Risk of the 2014 Local Election and Its Impact on the Benefits of Political Connections



a. KMT-connected Firms' Government Procurements



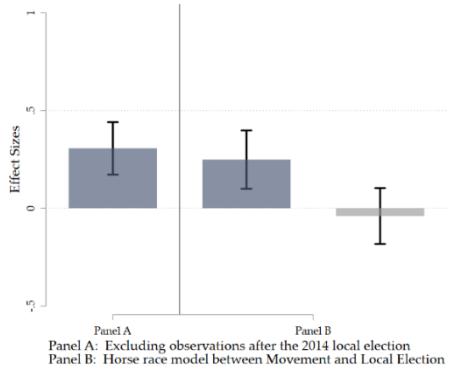
b. KMT-connected Firms' Tax Rates



c. KMT's Control of All Listed Firms

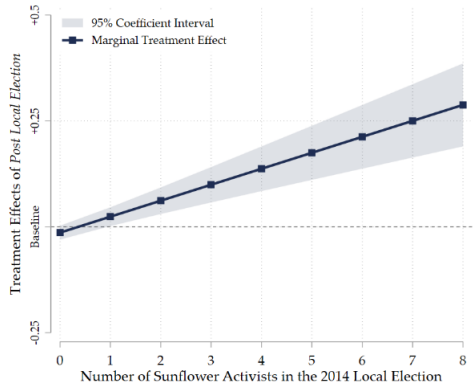
NOTE. Figures A6a and A6b show changes in government procurement contracts and tax rates for KMT-connected firms, while A6c displays changes in the KMT's party asset investments in all listed firms. Capped spikes indicate the 95% coefficient intervals. *Event 1* refers to the 2014 local election. *Event 2* refers to the 2016 regime change. *Benchmark* were periods between the movement and the local election. In Figures A6a and A6b, period-specific dummies multiplied by *KMT connection* serve as the independent variable. After the 2014 local election, government procurement contracts and tax rates remained unchanged, but the 2016 regime change adversely impacted political rents. In Figure A6c, the dependent variable was log-transformed investments from the KMT with data from IPASC and kmt.exposed. The KMT's investments in all firms decreased after the 2016 regime change.
N of A6a and A6b = 4,567, *N* of A6c = 14,197. Data sources: TEJ, the official websites of political parties and governments, biographies, IPASC, and kmt.exposed.

FIGURE A7. Impacts of the 2014 Local Election



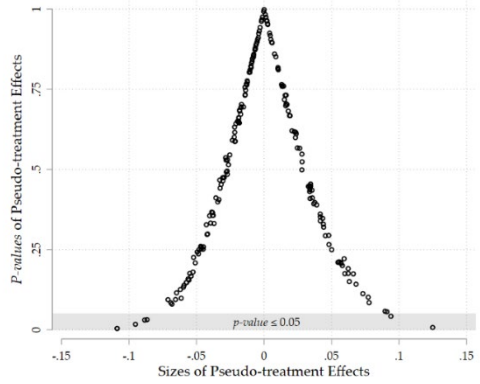
NOTE. This figure shows the Sunflower Movement takes a more dominant role in our treatment effect compared to the 2014 local election. Capped spikes represent the 95% coefficient intervals. The dependent variable was *philanthropic donation*. Panel A, excluding post-local election observations, maintains the treatment effect. In Panel B, a horse race model suggests that the effect of post-local election can be absorbed by the post-Sunflower Movement (*p*-value = 0.048). Thus, without the movement, the local election's enhancing effect on donations by connected firms would be significantly weakened.
N of Panel A = 6,545, *N* of Panel B = 8,823. Data sources: TEJ, the official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

FIGURE A8. Impacts of Sunflower Activists



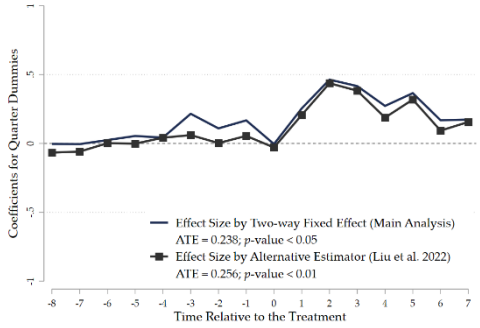
NOTE. This figure investigates the impact of the Sunflower Movement on the local political landscape during the 2014 local election, thereby influencing the response of KMT-connected firms to the election. The dependent variable was *philanthropic donation*; the focal independent variable was the interaction of *post-2014 election, KMT connection,* and the number of activist candidates in the election. The results indicated that the election served as a subsequent event to the Sunflower Movement in driving the increase in donations.
N = 8,823. Data sources: TEJ, the official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

FIGURE A9. Treatment Effects of Pseudo-treatment Groups



NOTE. This figure indicates that the Movement's impact on KMT-connected firms was not contaminated by unobserved factors. Each circle represents a random sample. We conducted 200 pseudo-treatment group assignments and replicated our primary analysis methods. Treatment effects in most random samples were insignificant and clustered around 0, notably lower than the effect observed in the KMT-connected firms' sample. *N* varies across matching methods. Data sources: TEJ, the official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

FIGURE A10. Estimations Based on Time-variant vs. Time-invariant *KMT Connection*



NOTE. This figure compares our main results to those based on the estimator developed by Liu, Wang, and Xu (2022). Their alternative estimator is particularly adept at estimating the treatment effect for a group receiving time-variant treatment. The coefficients based on the alternative estimator consistently fall within the 95% confidence interval of our main analysis. The estimated average treatment effect (ATE) is also similar to our main results.
N = 8,823. Data sources: TEJ, the official websites of political parties and governments, biographies, TSCS and SCSGS, *CommonWealth*, findbiz.nat.gov.tw, taiwanbuying.com.tw, and TNIP.

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