The Impact of TMT Political Connection on Corporate Performance-with CSR as the Mediation

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Abstract

Background and Aim: The recent release of corporate social responsibility (CSR) reports by companies has once again attracted public attention to the performance of CSR. CSR, as an important aspect that affects a company's financial performance, is highly valued. This research is based on the resource theory and upper-echelons theory to study the impact of Top Management Team (TMT) political connections on CSR strategies and corporate performance.

Materials and Methods: Taking A-share listed companies in Shanghai and Shenzhen from 2010 to 2019 as research samples, a multiple linear regression model is used to empirically analyze and test the mechanism of the effects of TMT political connection on CSR and corporate performance.

Results: The research results indicate that TMT's political connection has a positive impact on CSR. TMT political connection has a positive impact on corporate performance, and CSR plays a mediating role between TMT political connection and corporate performance.

Conclusion: The findings have important implications for a deeper understanding of the motives and economic consequences of CSR, and also help enterprises adjust their corporate governance structure, enhance their strategic awareness of consciously fulfilling CSR, and ultimately promote the sustainable development of enterprises.

Keywords: TMT Political Connection; Corporate Social Responsibility; Corporate Performance

Introduction

Modern enterprises need to fulfill their social responsibilities and abide by business ethics to promote and achieve sustainable development between enterprises and society. Corporate social responsibility (CSR) is a moral trend, an indispensable requirement, and an element in business and sustainable development. Enterprises must abide by commercial behavior that maximizes the interests of all stakeholders. Companies and various sectors have always attached great importance to CSR since CSR has important value for the survival and sustainable development of enterprises. Many enterprises not only fulfill their CSR but also begin to release their CSR reports to the public.

The management of enterprises plays an important role in the development of enterprises. The realization of enterprise strategies and business goals often relies on an effective and integrated management team, which has a significant impact on the performance of enterprises and even directly leads to the success or failure of enterprise operations. The upper echelons theory holds that as the main body of strategic choices and decisions, the behavior of the Top Management Team (TMT) is influenced by their characteristics. The background characteristics of the TMT reflect the cognitive level and values of the entire team. The different background characteristics of executives have a significant impact on organizational strategic choices and corporate performance (Hambrick & Mason,1984). Prior research focus on the relationship between CSR and corporate performance from the perspective of environmental protection and less attention has been paid to the impact of TMT characteristics. Especially, there is a lack of exploration of the relationship between the political background characteristics of TMT and CSR and corporate performance. Based on the upper echelon's theory, and resource theory, this research intends to address the gap by studying the relationship between TMT political connection, CSR, and corporate performance. Hopefully via this study, we can gain a deeper understanding of the antecedents and economic significance of CSR, help companies improve their corporate governance structure, coordinate the political connections of managing teams, fulfill social responsibility, and eventually promote the sustainable development of enterprises.
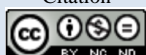
Research objectives:

1) This paper takes Environment, Social, and Governance (ESG), and sustainable development as the background, and uses the research process of literature review-theoretical model induction-empirical testing, to examine the relationship among the TMT political connection, CSR, and corporate performance.

2) This paper will investigate the mediating effect of CSR on TMT political connection and corporate performance.

3) This paper will provide corresponding and reasonable suggestions to managers, governments, and listed companies, based on the research results.

Literature Review and Research Hypothesis

1)The impact of TMT political connection on corporate performance

Political relations are an important reputation mechanism in China. This is because entrepreneurs obtain political identities such as representatives of the National People's Congress and members of the Chinese People's Political Consultative Conference, which on one hand indicates that the enterprise has considerable economic strength and scale. On the other hand, it indicates that the enterprise has made contributions to economic development and has been recognized by society and the government. In this sense, the political identity of entrepreneurs plays a role in conveying the quality signal of enterprises, helping them obtain additional development opportunities and financial resources, and promoting their development (Hu, 2006). Faccio (2006) studied 450 politically connected companies and a series of comparable companies that could be paired, the results showed that politically connected companies borrowed more money than unrelated companies and were more likely to receive government assistance in times of economic difficulties. Wang et al. (2017) found that political connections can compensate domestic enterprises for their international research and development costs, which is beneficial for them to improve their innovation performance through overseas research and development. Dai (2018) empirically analyzed the main effect of the political connection of TMT of state-owned enterprises on performance and enterprise value and found that TMT political connection of state-owned enterprises can improve the short-term performance of enterprises. In summary, the political connections of corporate executive teams enhance the value of enterprises. Politically connected enterprises benefit from government orders, financing convenience, market access, tax incentives, and media attention, thereby improving economic performance. Therefore, this research proposes the following hypothesis:

H1: TMT's political connection has a significant positive impact on corporate performance.

2)The impact of TMT political connection on CSR

According to the stakeholder theory, the motivation of enterprises to fulfill social responsibility can be divided into two types: resource-based motivation and legitimate motivation (Mackey, 2007). Resource-based motivation believes that to establish and maintain good relationships with stakeholders and obtain special resources (such as human resources) that can be provided by various stakeholders, enterprises need to meet the needs of stakeholders and actively fulfill their social responsibilities. Legitimate motivation believes that stakeholders have certain expectations and requirements for the operation of the enterprise, and the enterprise can meet these expectations and requirements by assuming social responsibility. When the level of connection between enterprises and the government is higher, the easier it is for enterprises to obtain resources and the better the quality. The importance of the government as a stakeholder is also higher, and the enthusiasm of enterprises to meet government requirements by fulfilling social responsibilities is also higher. Pan (2009) found that the degree of political connection among TMT members is positively correlated with the level of benefits they bring to the company. The level of government positions that executives hold or have held determines the level of benefits they bring to the company. The resource of a company is a prerequisite for it to fulfill its CSR, providing a basic financial guarantee for it to fulfill its social responsibility. While enterprises benefit greatly from political connections, the government's expectations for them also increase, and the more they hope to form a role model and guide other enterprises to actively fulfill their social responsibilities. Enterprises will cater to the government's expectations to maintain political

connections. Zhang and Liang (2012) found a positive correlation between political connection and social responsibility in the context of China's transitional economy, and the closer the degree of political connection, the more significant the positive impact. Ma and Ou (2013) used agricultural listed companies in China as an example to empirically test and found a positive correlation between TMT political connections and CSR. In areas with poor institutional environments, the positive impact of political connections on CSR is enhanced. Other scholars Yi and Xu (2014), Chen et al. (2018), and He et al. (2020) found that TMT political connection has a significant positive effect on the fulfillment of CSR. Therefore, this research proposes the following hypothesis:

H2: TMT's political connection has a significant positive impact on CSR.

3) The impact of TMT political connection on CSR and corporate performance

Stakeholder perspectives suggest that when a company understands the needs of its stakeholders and strives to meet their needs, the company's situation will be better, and a company that satisfies its stakeholders can create a strategic competitive advantage (Freeman, 1994). The fulfillment of good CSR will bring about better financial performance in the future. By fulfilling and disclosing CSR, enterprises can enhance their reputation, establish a good image, obtain social capital, gain recognition from different stakeholders, obtain market investment, and create a favorable environment for enterprises to make profits. In addition, enterprises can benefit from the reputation of CSR when experiencing major crises or scandals. That is, when CSR performance is high, the financial performance of a company is easily guaranteed and will not be severely damaged in crises and scandals (Gove & Janney, 2011). Almsafr (2014) also found that CSR can improve a company's profitability, and compared to other companies, financial performance is better when the CSR index is highly rated. It has also been found that companies with good CSR ratings enjoy higher credit ratings. Having a good credit rating can reduce financing costs, allowing companies to obtain the cash they may need in their strategic plans, thus having better opportunities than other competitors with lower CSR performance (Jiraporn, Boeprasert & Chang, 2014). In empirical research conducted by scholars (Qi, 2019; Yang, 2020), the results showed that CSR has a positive impact on financial performance. It can be seen that taking on CSR by enterprises is more conducive to improving financial performance. Therefore, this research proposes the following hypothesis:

H3: CSR has a significant positive impact on corporate performance.

The government background and political connections of the TMT have a significant impact on CSR and corporate performance. Compared to enterprises that do not have implicit connections with the government, when enterprises have such political connections, they are more likely to obtain resources such as land, access qualifications, financing, etc. Therefore, when enterprises have connections with the government, the government becomes a more important party among the multiple stakeholders of the enterprise. Therefore, to obtain the "special resources" controlled by the government, enterprises will actively fulfill their social responsibilities to meet government requirements. Management teams with government work experience have more abundant and powerful social network resources, which allows senior managers to obtain more resources for enterprises, bring more development opportunities, and reduce certain operational risks. At the same time, TMTs with government work backgrounds will pay more attention to maintaining their own and the reputation of the enterprise, thus actively assuming CSR and promoting sustainable development of enterprises (Yi and Xu, 2014). Politically related enterprises will actively promote their CSR strategy and cooperate with national macroeconomic policies to ensure their legitimacy. This not only ensures the survival environment of the enterprise but also obtains more resources to improve its competitive environment, thereby enhancing its competitive advantage and enhancing its performance. Therefore, this research believes that TMT political connections can improve corporate performance and are fulfilled through CSR. Based on this, this research proposes the following hypothesis:

H4: CSR plays a mediating role between TMT's political connection and corporate performance.

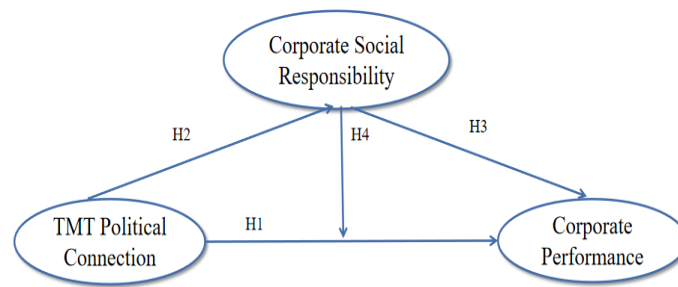In conclusion, the theoretical model of this research is shown in Figure 1 below.

Figure 1 Theoretical model of this research (compiled by the author)

Methodology and Materials

1)Sample selection and data sources

This research adopts a quantitative method and selects Chinese A-share listed companies from 2010 to 2019 as the research sample. The data for CSR is sourced from the Hexun Network database. TMT political connection data mainly comes from the China Stock Market & Accounting Research Database (CSMAR), financial data mainly comes from the Wind database, and some comes from enterprise annual reports. This research uses Stata 16 and subjected the extreme values of continuous variables at percentiles below 1% and above 99% to winsorize treatment.

2)Variables

The dependent variable is corporate performance, using TobinQ as a proxy indicator. The independent variable is the Top Management Team's political connection (TMTPC). The intermediary variable is corporate social responsibility (CSR). This research refers to many scholars who used the scores from the CSR rating report of Hexun Network as a substitute indicator for CSR. The control variables are enterprise type (Own), which means, whether the company is a state-owned company or not, enterprise size (Size), asset-liability ratio (Lev), and board size (Board). The year and industry are dummy variables.

Table 1- Variables measurement (compiled by the author)

Variables	Names	Proxy	Meanings and Measurement
Dependent variable	Corporate performance	TobinQ	Enterprise market value/replacement cost
Independent variable	TMT Political connection	PC	1 for representatives to the National People's Congress or the Chinese People's Political Consultative Conference, otherwise 0
Mediator	Corporate social responsibility	CSR	The score of CSR from the ranking institution Hexun
Control variables	Enterprise type	Own	1 for state-owned enterprises, otherwise 0
	Enterprise size	Size	Total assets natural logarithm
	Asset liability ratio	Lev	Total liabilities/total assets
	Board size	Board	Number of directors on the board
	Year	Year	dummy
	Industry	Ind	dummy

The nd H4 $TobinQ_{i,t} = c_0 + c_1 TMTPC_{i,t} + \sum \vartheta Controls_{i,t} + \lambda_t + \varepsilon_{i,t}$ () $CSR_{i,t} = \alpha_0 + \alpha_1 TMTPC_{i,t} + \sum \vartheta Controls_{i,t} + \lambda_t + \varepsilon_{i,t}$ (2) $TobinQ_{i,t} = \beta_0 + c'_1 TMTPC_{i,t} + \beta_1 CSR_{i,t} + \sum \vartheta Controls_{i,t} + \lambda_t + \varepsilon_{i,t}$ (3)

Among them, the subscript i represents the individual, and t represents the time. TMTPC represents political connection, *Controls* mean control variables, namely, enterprise ownership type (Own), enterprise size (Size), asset-liability ratio (Lev), and board size (Board). ϑ is the coefficient matrix of the control variable; λ_t indicates that the fixed year effects enrolled $\varepsilon_{i,t}$ is the perturbation term of the model.

Results and Discussion

1)Descriptive statistics

Table 2 reports the descriptive statistical results of the main variables of the model, which contain the number of observations, the average, the standard deviation, the minimum value, the maximum value, and the median. It shows that sample companies in this research have a large difference in corporate performance. As for the independent variable TMT PC, the mean is 0.3422. The mean of the intermediary variable CSR is 24.4348. It indicates that the overall level of the general CSR performance of listed companies in China is low.

Table 2 Descriptive statistical results (compiled by the author)

Variables	Sample	Mean	Standard Deviation	Minimum	Median	Maximum
TobinQ	25846	2.6498	1.9772	0.8644	2.0080	12.4150
TMTPC	25846	0.3422	0.4744	0.0000	0.0000	1.0000
CSR	25846	24.4348	15.8809	-19.7500	21.9800	92.0900
Own	25846	0.3522	0.4777	0.0000	0.0000	1.0000
Size	25846	22.0869	1.3410	13.0760	21.9048	28.6365
Lev	25846	0.4249	0.2956	-0.1947	0.4091	13.3969
Board	25846	8.6327	1.7121	4.0000	9.0000	18.0000

2)Correlation analysis

Table 3 reports the correlation between various variables and corporate performance. Overall, there is a significant correlation between the variables in this study. According to the Pearson coefficient correlation analysis results among the variables, there is a positive correlation between TMTPC, CSR, and corporate performance at a significant level of 1%.

Table 3 Correlation results（compiled by the author）

	TobinQ	TMT_PC	CSR	Own	Size	Lev	Board
TobinQ	1.0000						
TMT_PC	0.2002[***]	1.0000					
CSR	0.1674[***]	0.0841[***]	1.0000				
Own	-0.2431[***]	0.3427[***]	0.1386[***]	1.0000			
Size	0.5035[***]	0.3632[***]	0.2734[***]	0.3633[***]	1.0000		
Lev	-0.0999[***]	0.2011[***]	0.0681[***]	0.1003[***]	0.3081[***]	1.0000	
Board	-0.1687[***]	0.0533[***]	0.1448[***]	0.2617[***]	0.2806[***]	0.1087[***]	1.0000

Note: * * *, * *, and * indicate that the correlation coefficients are significant at the levels of 1%, 5%, and 10%, respectively.

3) Multiple regression results

Based on the hypothesis and estimated results of the F test and Hausman test, it is suggested that a fixed effect panel model should be selected. The multiple regression results are shown in Table 4. The results show that the estimated coefficient for TMTPC on corporate performance in Model 1 is 0.1085, significant at the level of 1%; the estimated coefficient for TMTPC on CSR in Model 2 is 0.4153, significant at the level of 1%, indicating that TMTPC has a significant positive impact on corporate

performance and CSR, thereby verifying the hypotheses H1 and H2. The coefficient for CSR on corporate performance in Model 3 is 0.0047, significant at the level of 1%, so H3 is established. When putting CSR as the mediator in Model 3, the TMT PC coefficient is 0.1064, at the significant level of 1%, so H4 is established. To sum up, according to the regression results, the hypotheses H1, H2, H3, and H4 in this research are all verified.

Table 4 The multiple regression results（compiled by the author）

	(1) TobinQ	(2) CSR	(3) TobinQ	VIF
TMT_PC	0.1085***	0.4153***	0.1064***	1.04
	(0.005)	(0.001)	(0.036)	
CSR	-	-	0.0047***	
	-	-	(0.001)	
Own	-0.2634***	-0.0974	-0.2626***	1.58
	(0.088)	(0.638)	(0.087)	
Size	-1.1969***	3.2851***	-1.2076***	1.95
	(0.059)	(0.239)	(0.060)	
Lev	0.3454***	-4.2110***	0.3652***	1.16
	(0.096)	(0.554)	(0.097)	
Board	0.0294***	0.1300	0.0288**	1.46
	(0.010)	(0.134)	(0.010)	
Constant	25.4997***	25.6474***	25.8110***	
	(1.499)	(1.534)	(1.586)	
Fixed year effect	Yes	Yes	Yes	
N	25846	25846	25846	
R2	0.418	0.420	0.418	
adj. R2	0.417	0.415	0.417	

Note: *＊＊, ＊＊, and ＊ indicate that the correlation coefficients are significant at the levels of 1%, 5%, and 10%, respectively.

4)Robustness test

To test the robustness of the model estimation results, the dependent variable TobinQ is processed with a delay of one period before being put into the model for multiple regression. The regression results are consistent with the results of the previous main effect test, so it can be considered that the model estimation results have a certain degree of robustness.

Conclusions and Recommendation

1)Research conclusion

The empirical results of this study prove that there is a significant positive correlation between TMT political connection and corporate performance. This research examines the relationship among TMT political connections, CSR, and corporate performance in listed companies. Based on upper-echelons theory and resource theory, and from the perspective of stakeholders, research hypotheses are proposed to examine the relationship among the three variables. Model tests are also conducted on data from 2009 to 2019 of 343 Chinese A-share listed companies. The empirical research results indicate that TMT's political connection has a positive impact on CSR. TMT political connection has a positive impact on corporate performance, and this positive impact is achieved through CSR, which means CSR mediates the positive relationship between TMT political connection and corporate performance.

2)Recommendations

As for the managers, the business environment is becoming increasingly complex, especially during the VUCA era (an era of volatility, uncertainty, complexity, and ambiguity), creating and maintaining competitiveness and sustainable development is the approach for enterprises to survive, therefore, the management ought to bear the mind that CSR has become an inevitable choice of organizational strategy to help create and maintain the competitive advantage and thereby endeavor to take the initiatives not only to promote social responsibilities and also guarantee the quality of it.

As for the companies, stakeholder theory suggests that when a company understands the needs of its stakeholders and strives to meet their needs, its situation will be better, and a company that satisfies its stakeholders can create a strategic competitive advantage. When a company fulfills its social responsibility to its stakeholders, it brings legitimacy, resources, and a good reputation to the company, which in turn affects its performance. Companies should attach importance to obtaining the requirements and expectations of policy authorities for CSR strategies through TMT political connections, to align their CSR strategies with the development of policy authorities, meet the requirements of stakeholders, and better obtain legitimacy and various resources.

The government should also actively guide the positive role of TMT political connections in CSR strategies. TMT's political connection represents the economic, environmental, and social requirements of governments at all levels, while also seeking government support in financing convenience, market access, and other resources for enterprises. The government should encourage companies to fulfill their social responsibilities via different approaches such as subsidizing social responsibility, controlling environmental risk, promoting sustainable finance, and eventually establishing a sound CSR system to achieve the sustainable development of the economy and society.

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