



EDITORIAL

Corporate politics, philanthropy and governance: their impacts on unit performance

Corporate
politics,
philanthropy
and governance

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Abstract

Purpose – This aim of this article is to review the 12 manuscripts accepted into the special issue of “Corporate Politics, Philanthropy and Governance” in Chinese Management Studies. It explains basic concepts, provides brief introduction to each manuscript and presents the related findings.

Design/methodology/approach – Most manuscripts in this special issue used primary empirical data (collected from field surveys or interviews) or secondary historical data (extracted from published literature, corporate reports or financial databases) for analyses. Both qualitative (case studies, comparative reviews) and quantitative (logistic regression, multiple regression, simultaneous equations) methods were used to draw conclusions.

Findings – The results of the studies in this special issue show: Singapore, rather Hong Kong, is a better governance model for China in reforming her society to be corruption free; corporate governance structure affects a firm’s performance and foreign direct investment decision; corporate governance can affect auditor selection only in low and medium agency conflict conditions; trustworthy characteristic of benevolence can mitigate the damages of perceived politics on affective commitment; the firms who selected to expense their research and development expenditures have lower stock price and return; organizational citizenship behavior can mediate the relationship between psychological contract and organizational performance; both relational and formal governance mechanisms can facilitate knowledge transfer in the alliance; companies with political connections are more likely to enter into industries with high entry barriers; circular-economy accounting information disclosure quality has low correlation with the profitability and the location of the listed companies; media self-regulation has a significant influence on philanthropic marketing and brand resonance.

Originality/value – The manuscripts in this special issue cover a wide range of topics, including corporate governance, corruption, politics, philanthropy, agency conflict, organizational citizenship behavior, media self-regulation and firm performance. The findings from the studies provide leaders of corporate governance with valuable insights, allowing them to adjust governance mechanisms properly to heighten governance quality and improve firm performance.

The author is grateful to all the authors who submitted their manuscripts to this special issue and patiently underwent the lengthy review process; without them this publication would not be possible. To Prof Check-Teck Foo, the Editor-in-Chief of *Chinese Management Studies*, I sincerely thank him for his guidance and trust in completing this special issue. Special thanks go to the anonymous reviewers who contributed their outstanding voluntary effort to provide detailed comments and constructive suggestions that greatly enhanced the quality of the manuscripts. Lastly but not least, I would like to thank Ms Annie Simmons and the staff of Emerald Group Publishing who tirelessly supported the entire editorial and production processes.



Introduction

Corporate governance, as defined by [Anazett \(2012, p. 340\)](#), is:

[...] a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby, mitigating agency risks which may stem from the misdeeds of corporate officers.

In general, there are two most common approaches to corporate governance, both of which rely on giving investors some power. The first approach is to give investors power through legal protection from expropriation by managers, while the second major approach is ownership by large investors (concentrated ownership), matching significant control rights with significant cash flow rights. A good corporate governance system should combine some type of large investors with legal protection of both their rights and those of small investors ([Shleifer and Vishny, 1997](#)). From a theoretical perspective, it is very likely that firm performance depends on the efficiency of a bundle of governance mechanisms in controlling the agency problem, rather than on the efficiency of any single mechanism; and that different corporate governance methods may substitute for each other. Even though the overall effect of the bundle of mechanisms is efficient in aligning manager–shareholder interests, the impact of any one mechanism might be insufficient to achieve this alignment ([Rediker and Seth, 1995](#)).

Agency conflict in corporate governance exists in many firms today. It refers to the conflicting interests between managers and shareholders, arising from the separation of ownership and control where the manager maximizes his own utility rather than maximizing shareholder's value. It may arise for various reasons, including differences in their preferred levels of managerial effort, their attitudes toward risk and their time horizons ([Smith and Watts, 1983](#)). For example, the managers may diversify the firm's portfolio of businesses to increase their job security ([Amihud and Lev, 1981](#); [Jensen, 1986](#)). For this reason, corporate governance rules throughout the years have evolved to help mitigate such conflicts.

Another important issue related to corporate governance is organizational politic. It is a social influence process in which behavior is strategically designed to maximize short-term or long-term self-interest, which is either consistent with or at the expense of others' interests ([Miller et al., 2008](#)). Such politic can be particularly damaging for an organization, thus measures must be put in place to help employees align themselves with corporate values. Individuals not in harmony with organizational values can be detrimental to the overall culture of the unit in which the employee works, or even the organization itself. Moreover, government regulations can affect corporate governance mechanism. According to new Chinese Accounting Standards (CAS) issued in 2006, internal research and development (R&D) expenses are divided into research expenditures and development expenditures ([Jiang and Penman, 2013](#)). The standards prescribe full expensing for all research expenditures and capitalization of development outlays only if the technical and commercial feasibility of the sale or use of the asset concerned has been established. If an R&D project does not fulfill certain conditions then its costs must be expensed when incurred. This reform is consistent with the

international standards. Therefore, R&D expenditure can either be expensed as a whole or as partly capitalized and partly expensed since 2007. Such a new accounting regulation is destined to affect the financial governance of many firms in China.

Equally important to the issues above are the behavioral issues of the organizational members, such as psychological contract (PC), self-regulation and organizational citizenship behavior (OCB) of employees, and philanthropy, alliance, political connection, sustainability-focus, leadership and corruption of top management, to name a few. All these issues have been probed into by the studies reported in this special issue of *Chinese Management Studies*. Each paper attempts to explain the differences in perceptions and thoughts between China and the West, and discusses the implications from a Chinese management perspective. After almost two years of editorial effort, we are delighted to present 12 research papers in this special issue. The remaining paragraphs summarize the contents of these papers.

Synopses of the papers

Corruption (Rose-Ackerman, 1978) is commonplace in many countries worldwide. In any society, it is inimical to outstanding governance. Particularly at the crossroad of her economic development, China is at a possible risk of being destabilized by the corruption of the unethical leaders and their kith and kin. Chinese authorities must properly control local corruption. With 5,000 years of civilization, Chinese management must have been qualitatively different from American or European approaches. Foo *et al.* (2014) used a multi-method design (etymological analyses, case studies, perceptual measures, policy based, statistical analyses) to gain deeper insights into corruption, which are useful for better governance. They embarked on inter-country comparisons, including China, Hong Kong, Taiwan, South Korea and Japan. The study found that most scholars are unaware that the English word “corruption” is narrower in scope than its Chinese equivalent. In retrospect, the Chinese for a very long time had attributed corruption, as being filthy, polluting, and dirty, to psychological concept of greed. Yet in English, corruption does not denote greed *per se*. Moreover, destabilizing corruption cases occurs in China today as it did in Qing Dynasty. They also confirmed that Singapore, rather Hong Kong, is a better model for China in reforming her society based on their statistical analysis of longitudinal data. The results provide a rationale and basis for the Chinese leaders to implement a policy for a less corrupt society.

Corporate governance is known to influence foreign direct investment (FDI) and firm performance. To explore the effects of corporate governance structure and resources on FDI commitment and firm performance, Tsai and Tung (2014) collected the data from 137 high-tech firms in Taiwan during the 3-year period of 2007-2009 and analyzed them with multiple regression models. They found that both CEO duality (Rechner and Dalton, 1991) and government shareholdings affect a firm’s FDI; and the higher the management shareholding ratio, the lower the return on equity. Moreover, a large ownership of substantial shareholders can enhance a firm’s performance; and higher institutional ownership can lead to higher firm performance. Specifically, a firm with CEO duality should increase the ratio of government holdings to mitigate the influence of CEO on FDI decisions. When a firm’s performance is poor, the ratio of managerial holdings should be reduced. Conversely the firm could attract more holdings from domestic securities and funds to improve performance.

Given the ongoing debate between the complementary and substitution effects in corporate governance (Lazzarini *et al.*, 2004; Ward *et al.*, 2009), Cho and Wu (2014) investigated whether hiring a high-quality auditor (industry specialist) depends on corporate governance indicators, after controlling agency conflicts. They adopted three types of indicators:

- (1) internal monitoring mechanisms;
- (2) ownership structure; and
- (3) external governance mechanism.

After collecting 2,449 firm-year samples of listed companies in Taiwan from the 14-year period of 1998-2011, they used logistic regression analysis to verify that the corporate governance indicators can explain the decision of auditor selection only in low and medium agency conflict conditions. This suggests that there may be a complementary relationship between external (auditors) and internal governance when the agency conflicts are mild.

To examine the effects trustworthiness on the perception of organizational politics and organizational outcomes, Olson *et al.* (2014) collected a total of 249 employees from 11 organizations in China and analyzed them using multiple and moderated hierarchical regression models. The results show that trustworthiness moderates the negative effects of organizational politics on job satisfaction, affective commitment and normative commitment. A related finding is that only one trustworthy characteristic (benevolence) seems to mitigate the damages of perceived politics on affective commitment. These findings support the importance of combating the negative effects that are in most, if not all, organizations by providing support groups and caring supervisors so as to help the employees value their organizational commitment.

Under the new CAS 2006 directive, Wang and Fan (2014) investigated how different R&D accounting choice (capitalization or expensing) affects the value of the listed companies. After collecting 3,664 data points from stock listed companies in China during the 6-year period of 2007-2012, they use stock price model (Wang *et al.*, 2010) and stock return model (Chaudhury and Lee, 1997) to predict stock price and return. The study reveals that those who chose to capitalize their R&D investments had higher stock price and return. On the contrary, those who selected to expense their R&D expenditures had lower stock price and return.

Budget concerns often force nonprofit organizations (NPOs) to downsize full-time staff, making considerable portion of their operations relies on a large number of volunteers. Internal governance in a NPO is increasingly important nowadays. To explore the relationships among PC, OCB and organizational performance (OP), Tsai (2014) collected 500 volunteers and 73 full-time employees of international NPOs in Taiwan and analyzed them together with a linear structural equation model. She confirmed significant, positive relationships between PC and OCB, OCB and OP and PC and OP. She also found the mediating effect of OCB on the relationship between PC and OP. The study offers practical guidelines for NPOs to effectively entice and support both volunteers and employees for achieving its organizational goals. Companies pursuing Chinese market should cooperate with NPOs in multiple ways including marketing for philanthropic purposes, supporting volunteer services, sponsoring the NPO, etc. This

way the company's image will improve and its business will expand among its Chinese clientele.

Corporate political performance (CPP) refers to political benefits obtained by firms when they formulate and implement political strategies to influence the public policy process through the investment of political resources. How do firms engage in political strategies to improve their performance is an everlasting question in corporate politics. [Wei et al. \(2014\)](#) presented a conceptual CPP model that integrates political efficiency and effectiveness approach. They viewed CPP as two distinct but related types – generalized and contingent. In a generalized approach, three phases of CPP include:

- (1) sources of political advantage;
- (2) political competitive advantage; and
- (3) political performance outcome.

Three dimensions are identified as political efficiency, effectiveness and adaptiveness. The difference among political goals and environments in corporate political activity indicates that CPP approach does not involve a generalized nature of political performance. The contingent CPP approach is a complement to the generalized CPP approach and reflects the effects of context, response and outcome factors on CPP. The study provides a strong theoretical foundation for future research to test model feasibility by using the proposed measurement scales of CPP from an empirical angle.

Business alliance ([Street and Cameron, 2007](#)) is a common practice in the industries. Joining forces with other firms gives a firm otherwise unavailable competitive advantages and values. To examine the relationship between alliance governance mechanisms and knowledge transfer characteristics in alliance, [Long et al. \(2014\)](#) collected 293 usable samples from high-tech industries in China and analyzed them using multiple regression analysis. They found that environmental uncertainty impairs relational governance mechanisms, and enhances formal governance mechanisms used in the alliance; that both relational and formal governance mechanisms could facilitate knowledge transfer in the alliance; and that environmental uncertainty hinders knowledge transfer and negatively moderates the relationship between alliance governance mechanisms and knowledge transfer. The study provides managers some insights into the dark side of the environmental uncertainty in knowledge transfer; it also reminds public policy makers to pay enough attention for the improvement of institutional environment to deal with uncertainty.

The political connections of firm management are a crucial determinant of a firm's scope. Although the existing research on this topic has shown that firms tend to use political connections to increase their scopes, it remains unclear into which industries companies with political connections choose to enter. Drawing on the resource-based view ([Wernerfelt, 1984](#)) and economic regulation theory ([Clark, 1987](#)), [Chen et al. \(2014\)](#) proposed a model to predict the entry scope of private enterprises. They collected 2,090 firm-year observations from private enterprises listed on Shanghai and Shenzhen Stock Exchanges during the 5-year period of 2005-2009 and analyzed them using logistic random effect regression analysis. The result reveals that companies with political connections are more likely to enter into industries with high entry barriers, as they are more likely to obtain entry permits from the government and can gain more benefits

after entering these industries. The research findings of this study contribute to the existing research on political connections and strategic choices.

Circular economy (Yuan *et al.*, 2006) refers to an economy with low pollution, low emission, reduction, reuse and recycling. It is an important way to protect the environment and resources, and to achieve sustainable development, it can transform traditional linear growing economy which depends on resource consumption into economy which relies on the development of ecological resources circulation. Both in China and the West, few scholars empirically identify the determinants of accounting information disclosure quality in circular economy from an institutional theory and corporate governance theory perspective. Wang *et al.* (2014) made a thorough analysis of the factors that affect circular economy accounting information disclosure quality of Chinese stock listed companies, and provide some corresponding suggestions for heightening circular economy accounting information disclosure quality. They collected complete data from 218 listed companies in China and analyzed them with a multiple linear regression model. The results reveal that Chinese listed companies have heightened their circular economy accounting information disclosure quality due to ownership concentration, shareholding of institutional investors, mandatory disclosure, capital structure and assets size. However, the circular economy accounting information disclosure quality has low correlation with the profitability and the location of the listed companies.

Social governance (Reddel, 2004) influences leadership behaviors because it is used to allocate the crucial resources the leaders want to acquire for the development of their organizations. After 30 years of transformation from a planned economy to a market economy, China has significantly changed social governance structure. Chinese social governance is more complex than that of Western nations because of the mix of different rationalities. Under this social governance structure, Chinese organizational leaders may adopt different behavioral models when acquiring resources because of the coexistence of market and planned economies. Zhang and Zhang (2014) conducted a grounded multi-case study to explore leadership behavioral model in the Chinese context. They confirmed that the Chinese social governance structure is hierarchically oriented, whereas the Western social governance structure is market oriented. Moreover, they found the “contorted leadership” in the Chinese organizational leaders, which refers to the inconsistency between leaders’ cognition and their behavior when acquiring resources for the development of their organizations. Further researches should pay more attention to exploring the origins, functions, and impacts of leaders’ contorted behaviors.

The Japanese earthquakes on March 11, 2011 had shocked the whole world. The self-regulation of Japanese media also touched all of us deeply. Many private and public organizations actively launched aid-providing activities to demonstrate their corporate social responsibility (CSR) performance. Tsai *et al.* (2014) investigated whether engagement in post-disaster corporate philanthropic marketing can enhance brand resonance and consumer satisfaction of CSR performance, and that brand resonance can foster consumer satisfaction of CSR performance. Media self-regulation was found to have a significant influence on philanthropic marketing and brand resonance. However, it did not exert any significant effect on consumer satisfaction of CSR performance. This study reveals that the positive coverage of the disaster could give the audience a positive impression, rather than showing provocative violent or sexual content to push

viewership. At the time when disasters become increasingly common, people's expectations of the media will also elevate. Dramatization, exaggeration and information overload make the audience distrust the media and constantly seek the truth behind the story.

Conclusions

Corporate politics, philanthropy and governance are important factors that influence OP around the world. This article reviews the 12 manuscripts accepted into the special issue of "Corporate Politics, Philanthropy and Governance" in *Chinese Management Studies*. It explains basic concepts, provides brief introduction to each manuscript and presents the related findings. The manuscripts in this special issue cover a wide range of topics, including corporate governance, corruption, politics, philanthropy, agency conflict, OCB, media self-regulation and examine their effects on OP. Most manuscripts used primary empirical data (collected from field surveys or interviews) or secondary historical data (extracted from published literature, corporate reports or financial databases) for analyses. Both qualitative (case studies, comparative reviews) and quantitative (logistic regression, multiple regression, simultaneous equations) methods were used to draw conclusions. The findings from the studies provide leaders of corporate governance with valuable insights, allowing them to adjust governance mechanisms properly to enhance governance quality and improve firm performance.

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