

# **The Contingent Value of Political Connections on Donations to Chinese Foundations: Exploring the Moderating Role of Transparency**

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**Abstract**

Existing studies assume the value of political connections is homogeneous to different types of nonprofits and seldom consider their interplay with other accountability mechanisms. Based on a multilevel analysis of 2,085 foundations in China, this study builds and tests a theoretical framework of the contingent value of political connections to nonprofits, treating transparency as a moderator for the relationship between political connections and donations. Our findings suggest that while transparency is positively associated with the amount of donations obtained by foundations, political connections can help foundations obtain more donations only when their transparency score is higher than a certain threshold.

## Introduction

Inquiries about government-nonprofit relations have exploded in the last two decades both in the western and non-western context. A wider recognition has been reached that it is hard to rely only on the public sector to solve complex societal problems in modern society (Brinkerhoff & Brinkerhoff, 2002). In the western context, the interest towards nonprofit organizations and their relationships with the government is largely driven by the New Public Management Movement and the prevalence of contracting out in public service provision (Salamon, 2002). The funding flow from governments to nonprofits for public service provision dominates the mode of government-nonprofit relationships. In the non-western context, such as China, two parallel yet contradictory trends happen simultaneously. On the one hand, governments are constraining the space of nonprofit organizations which make democratic claims (Spires, 2011) or collective expression (King, Pan, & Roberts, 2013). On the other hand, following the contracting model in the western context, governments are actively collaborating with nonprofits for public service provision (Jing & Chen, 2012; Zhao, Wu & Tao, 2016). In both contexts, because of the significant power imbalances between government and nonprofits both in terms of resources and political authority, a key focus of the scholarly inquiry is how government support or control influences the operation and behaviors of nonprofit organization (Brooks, 2000; Cheng, 2019a; Gazley & Brudney, 2007; Guo, 2007).

Because of the power imbalances between the state and nonprofit sector, especially in authoritarian regimes like China where governments often not only control the resources but determine the survival of these organizations, forming political connections with governments thus became an important cooptation strategy both for for-profit firms (Sun, Mellahi, & Wright, 2012) and nonprofit organizations (Johnson & Ni, 2015; Zhan & Tang, 2016; Yan & Luo, 2016)

to survive and grow in a turbulent environment. Despite the accumulation of literature on the benefits of political connections on the operation of nonprofits, what is missing in the literature is on how the impact of nonprofit political connections may be moderated by or work together with other accountability mechanisms such as transparency to influence private donations received by nonprofit organizations.

Situated in 2,085 foundations in China, which are more than 67% of the entire population of foundations established before January 1, 2013 in China, we explore the question of how the transparency level of Chinese foundations moderates the impact of political connections on their revenue raising capacities. This article makes several contributions to our understanding of the role of political connections for nonprofit operations and government-nonprofit relationships. First, despite an accumulation of empirical studies how political connections and transparency contribute to the revenue-raising capacities of nonprofit organizations, public and nonprofit management research paid limited attention to how these two distinct signaling mechanisms may interact with each other and jointly influence the amount of donations received by nonprofit organizations. By building a unified theoretical framework that treats transparency as a moderator for the nonprofit political connections – donations relationships, this study provides a more nuanced understanding of the contingent value of political connections for the development of nonprofit organizations.

Second, by building a unique dataset that contains rich information about organizational and contextual characteristics of more than two thousand foundations in China, including their transparency score and political connections, this study extends the literature of the determinants of private donations from the western context to the non-western context. With the global diffusion of consultative authoritarianism, defined by Teets (2013, p.20) as “encouraging the

simultaneous expansion of a fairly autonomous civil society and the development of more indirect tools of state control”, this study provides insights for understanding how the interaction between the nonprofit sector and the state in the authoritarianism regime may be moderated by the transparency of the nonprofit sector.

Finally, this article offers a comprehensive framework to take both organization level and provincial level characteristics into the consideration of nonprofit revenue-raising capacity. We use multilevel regression to account for the nested data structure in our model (foundations are nested in different regions and provinces in China). This is important as there are huge regional variations in nonprofit sector development in China (Teets, 2014). We also incorporate innovative measures at the provincial level to control contextual factors such as the marketization index and province-level transparency score. The inclusion of variables at both levels helps generate a more comprehensive understanding of the development of nonprofit organizations in China.

In the following sections, we will first review the current literature about how political connections and transparency may influence the level of private donations received by nonprofit organizations. We will then build our argument about how and why transparency may moderate the impact of political connections on private donations to nonprofit organizations. Based on the data of more than two thousand foundations in China, we describe our empirical strategy and the findings. The article concludes by discussing the implication of this study on the literature of government-nonprofit relationships both in and beyond the Chinese context.

## **Literature Review**

### **Nonprofit Political Connections and Private Donations**

Resource dependency theory provides key insights about why nonprofit organizations, or private organizations in general, form political ties with the government. Pfeffer and Salancik (1978) pointed out that private organizations depend on external organizations for resources. This resource dependence on other organizations creates power imbalances and uncertainty that may affect the performance and behavior of private organizations. To reduce uncertainty and external dependency, private organizations form ties and links with other organizations, especially those organizations from which they draw resources from, to buffer the organization from the turbulence of the external environment. Because of the significant impact government funding, regulations and policies have on nonprofit organizations (Smith & Grønbjerg, 2018), nonprofit organizations often seek to form linkages with the government to reduce uncertainty and improve performance. Using a historical case study approach, Stone (1996) illustrated how nonprofits' board structures and functions significantly changed in response to an environment dominated by government funding and contracting.

In his study of the Tennessee Valley Authority (TVA), Selznick (1949) offered a classic example of how public and nonprofit organizations may use co-optation to reduce dependence and help organizations form linkages with other organizations. The TVA integrated influential individuals from the community to its core leadership structures and decision-making processes to gain support from important external actors, especially those who initially had a hostile attitude towards TVA. Through such co-optation of influential external actors, TVA was able to gain legitimacy and support from the community, which is crucial for its survival and growth.

However, co-optation did lead to less autonomy of TVA as these co-opted agents gained control of the organization.

In the nonprofit management literature, interlocking boards and establishing political connections with the government are regarded as an important co-optation strategy to adapt to and survive in a turbulent environment (Malatesta & Smith, 2014). Such evidence of establishing political connections with government is particularly salient as many nonprofits heavily rely on government funding (Grønbjerg, 1993; Van Slyke, 2003). Beyond attracting government funding through co-optive board appointment of government officials, nonprofit political connections may also influence the ability of nonprofits in acquiring private donations or obtain legitimacy from the government. Situated in the case of government-nonprofit partnerships for managing city parks, Cheng (2019b) found that government representation on the nonprofit board is a commonly used governance strategy by most partnerships. By appointing government officials on the board, nonprofits create open channels of communication with the government to coordinate their works. For government agencies, sitting on the board of nonprofits provides a feasible way of tracking what nonprofit partners are doing. Alexander and Nank (2009) found that collaborating with community-based nonprofits offers public administrators an opportunity to engage disenfranchise communities, thus improving the public trust in government. The linkage formed by government representation on the nonprofit board serves as a key coordination mechanism of how government-nonprofit partnerships are governed.

Despite the value of legitimacy, government funding, and communication brought by nonprofit political connections, the theoretical propositions and empirical evidence seem to be mixed in terms of how nonprofit political connections may influence the acquisition of private

donations. On the one hand, co-optive board through putting government officials and other elites on the board may crowd out community representation on the nonprofit board (Guo, 2007), which discourages the public from making donations to nonprofits with a co-optive board as the public feel disconnected with the nonprofit. As Selznick (1949) has pointed out, those powerful government officials or elites on the board may also decrease the autonomy of the organization and shift the focus of the organization from its mission. This mission drift due to nonprofit political connections may cause harm to the organization. LeRoux (2009) found that some nonprofits devote disproportionate time and resources to satisfying funding agencies at the expense of serving clients.

On the other hand, nonprofit political connections may also bring multiple organizational benefits to nonprofits, including the ability to acquire more private donations (Johnson & Ni, 2015). Compared with nonprofit organizations in the western context, nonprofit organizations in China face additional barriers to gain official recognition for tax-exempt purposes and gain trust from the public (Ma, 2006), especially because of several high-profile scandals in recent years. Having political connections with the government will, therefore, enhance the legitimacy and the reputation of the organization (Ni & Zhan, 2017). Recent studies about the nonprofit sector in China also seem to make theoretical propositions that the positive impact of nonprofit political connections on private donations outweigh their negative impacts (Johnson & Ni, 2015; Ni & Zhan, 2017; Zhan & Tang, 2016; Zhao, Wu & Tao, 2016). Given such a rationale, we formulate the following hypothesis for the value of nonprofit connections in the Chinese context. However, we do recognize that nonprofit political connections may work differently in the western context.

***Hypothesis 1a:*** *Nonprofit organizations with political connections are more likely to receive private donations compared to those without political connections.*

*Hypothesis 1b: Nonprofit organizations with political connections receive more donations compared to those without political connections.*

### **Nonprofit Transparency and Private Donations**

Nonprofit transparency or information disclosure is considered to be another key strategy for nonprofits to demonstrate their accountability to key stakeholders, especially the donors (Ebrahim, 2003; Mitchell, 2018). Information asymmetry is often regarded as one of the main reasons why nonprofits exist in a mixed economy. Hansmann (1980) proposed the theory of contract failure to describe why the nonprofit organizational form may be preferred in service areas where information asymmetry between the buyers and sellers is significant. Since nonprofits are not allowed to distribute benefits or earnings to their stakeholders (the “non-distribution constraint”), buyers or donors are more likely to trust nonprofits in terms of their commitment to the mission. However, this premise is only true when the buyers or donors are able to hold the organizations accountable in terms of not distributing their earnings to their shareholders. In the western context, the level of trust towards nonprofit organizations is high because of their historical roots in the community and the more predictable legal frameworks. In the non-western context, since the idea of nonprofit or nongovernmental organizations is still foreign both to the government and the public, it is harder for nonprofits to build such trust. Therefore, transparency is likely to play very important roles in nonprofits’ ability to obtain private donations. Sidel (2005) observed a wave of nonprofit self-regulation in both the Asian and American context, with transparency or information disclosure as one of the key mechanisms of these self-regulation regimes.

In the literature on the relationship between nonprofit transparency and donations to nonprofits, although a consistent conclusion on the impact of various dimensions of information

disclosure on donations to nonprofits has not yet been reached, most studies emphasized the importance of transparency (or information disclosure) to donors in promoting private donations to nonprofits and revealed a positive association between transparency and donations to nonprofits. In an experimental study in the US, Parsons (2007) found that financial information disclosed was used by donors when donation decisions were made. In observational studies, a positive association between total level of information disclosure and total donations to nonprofits was revealed in samples from the US (Saxton, Neely & Guo, 2014), Malaysia (Atan, Zainon, & Wah, 2012), and China (Deng, Lu, & Huang, 2015). Although some studies emphasized more on the importance of non-financial information disclosure, such as performance information (e.g. Saxton, Neely & Guo, 2014), and others focused more on the impact of financial information disclosure (e.g. Deng, Lu, & Huang, 2015), a common understanding is that a higher level of information disclosure will help donors obtain a higher level of trust on nonprofit organizations, thus increasing their level of private donations. Based on the above rationale, we propose the following hypothesis:

***Hypothesis 2a:** Nonprofit organizations with a higher level of transparency are more likely to receive private donations compared to those with a lower level of transparency.*

***Hypothesis 2b:** Nonprofit organizations with a higher level of transparency receive more private donations compared to those with a lower level of transparency.*

### **Transparency as a Moderator between Political Connections and Private Donations**

Transparency and nonprofit political connections, as two major signaling mechanisms for nonprofits to obtain legitimacy and resources, are likely to work simultaneously in influencing nonprofits' ability in obtaining private donations. The general management literature seems to

suggest that political connections for different types of firms are likely to have heterogeneous effects on the benefits they receive. Sun, Mellani, and Wight (2012, p.68) proposed the idea of “the contingent value of corporate political ties” to describe the role of environmental and interorganizational factors in conditioning the value of corporate political ties. Hillman (2005) found that firms with politicians on the board in heavily regulated industries enjoy a higher level of benefits than those in less regulated industries.

In the nonprofit management literature, Ma and DeDeo (2018) documented the emergence of an autonomous elite group of Chinese foundations that “not only enjoys higher levels of within-elite links but even preferentially excludes government officials from the NGOs with a higher degree.” (p.291). Despite some evidence that political connections bring in more private donations for nonprofits (Zhan & Tang, 2016), Johnson & Ni (2015) and Ni & Zhan (2017) failed to find consistent support that having political connections lead to more private donations for all Chinese foundations. Such mixed empirical evidence suggests that the value of nonprofit political connections is not homogeneous. It might be contingent on other legitimization signals employed by nonprofit organizations.

Built on the above two streams of literature in the management literature and the important role of transparency in shaping donors’ confidence towards nonprofit organizations, we propose that transparency serves as a moderator for relationship between political connections and private donations. There are two main reasons why we postulate this moderator role of transparency. First, existing literature assumes that nonprofits with political connections can be observed by donors and the public, thus increasing their legitimacy and trustworthiness. However, there is no guarantee that donors or the public are aware of the political connections formed by nonprofit organizations (De Wit & Bekkers, 2016). Transparency thus serves as an important mechanism

for donors to be aware of the level of political connections enjoyed by nonprofit organizations. Nonprofit political connections are likely to have a stronger influence on donors when these nonprofits are more transparent.

Second, as pointed out by the last two sections, both transparency and political connections serve as signals for the legitimization of nonprofit organizations (Zhou & Ye, 2019). Nonprofit organizations are likely to get more private donations when the two mechanisms are in place simultaneously. A higher level of transparency may help legitimize the political connections enjoyed by nonprofits. As Ni & Zhan (2017) has shown, external shocks may either strengthen or weaken the enabling role of political connections. In this article, we propose that transparency will enable and strengthen the positive role of political connection. This moderating effect of transparency on the relationship between political connections and donations is shown in Figure 1.

1. Based on the framework presented by Figure 1, we propose the following hypothesis:

***Hypothesis 3a:*** *Transparency positively moderates the relationship between political connections and the probability of receiving private donations by nonprofit organizations, such that the presence of political connections is positively correlated to the likelihood of receiving private donations by nonprofit organizations with high as opposed to low levels of transparency.*

***Hypothesis 3b:*** *Transparency positively moderates the relationship between political connections and the amount of total donations received by nonprofit organizations, such that the presence of political connections is positively correlated to the amount of donations received by nonprofit organizations with high as opposed to low levels of transparency.*

[Insert figure 1 about here]

## **Context: The Foundation Sector in China**

To empirically investigate the contingent value of nonprofit political connections on private donations, we choose the foundation sector in China to test the above hypotheses. Although the foundation sector in China is unique and we do not want to make any claim that the findings of this article can be generalizable to other contexts without any caution, we do believe that the foundation sector in China provides an important context to test the political connections – transparency – private donations relationship.

First, according to Ma & DeDeo (2018, p. 293), the foundation sector controls over 76% of all nonprofit funding in China. Therefore, foundations serve as a major force in China to mobilize donations and public support for nonprofit organizations. Although these foundations are outnumbered by grassroots or informal nonprofits in China, their financial impact is significant. They also often serve as a linking mechanism between the elites and grassroots organizations. As one of the key funding sources for Chinese nonprofits, foundations' ability in mobilizing private donations matters for the development of the nonprofit sector in China.

Second, most foundations in China are operating foundations, rather than grant-making foundations. They are more like service-driven nonprofit organizations in the United States that operate their own projects and provide services to the population in need. As service providers, they raise money from private donors (both individuals and organizations) to fund their projects. Foundations compete for funding in the donation market as private donations have become a key component of their revenues.

Finally, compared to social service organizations and associations, foundations in China are the most transparent type of nonprofit organizations in general. They are also among the most

regulated subsectors in the nonprofit sector in China. Foundations are the only type of social organizations that are required by regulatory policies to disclose annual reports to the public through public media before 2016, although implementation of these policies varies across organizations and regions. In addition, a self-regulation mechanism for accountability in the foundation sector has been established since the founding of the China Foundation Center in 2009. The China Foundation Center (CFC) is an independent, self-organized watchdog organization that promotes transparency in the foundation sector in China. Through formation and operation of the Foundation Transparency Index and annual publishing of its rankings, more and more foundations were persuaded by CFC to believe in the value of information disclosure and eventually became more willing to voluntarily disclose their annual reports and related information either through CFC or other public platforms, such as their own websites.

## **Data and Method**

### **Data**

This study is based on a unique dataset that combines data from multiple sources that include transparency score, nonprofit political connections, total donations, and other characteristics at the organizational level, as well as province-level covariates. The first part of data comes from the 2013 FTI, a comprehensive index that is composed of multi-dimensions, including basic information, financial information, project-related information, and donor-related information, and is developed by a panel of scholars and practitioners organized by the China Foundation Center. The 2013 FTI score, ranging from 0 to 100 points, was calculated by the CFC, based on the disclosure of foundations' 2012 annual reports and other related information. Therefore, it measures the transparency level of a foundation in 2012. Since foundations established after

January 1, 2013 are only required to disclose their annual reports in mid-2014, this paper only studies foundations that were founded before December 31, 2012, were required to disclose their 2012 annual reports in mid-2013 and were included into the ranking of 2013 FTI by the CFC. There are about 3,100 foundations founded before December 31, 2012, among which, transparency information of 2,939 foundations were collected by the CFC (CFC, 2013).

The second part of data comes from the Research Infrastructure of Chinese Foundations 2013 (Ma, et al., 2017), which is based on foundations' 2013 annual reports and includes key organizational variables, such as total donations, nonprofit political connections, and other organizational characteristics. This part of the data includes information of 2,509 foundations. The third part of data comes from secondary data sources and includes contextual covariates across 31 provinces in mainland China, such as province-level transparency score, percentage of public foundations in a province, level of marketization, etc. After excluding missing values due to merging different datasets, 2,085 foundations (about 67% of the population) across 31 provinces are included in the final analyses.

## **Method**

### ***Variables***

The dependent variable is total donations. This variable is measured at two-stages. The first stage of the dependent variable measures whether a foundation received donations in 2013. 17.2% of the 2,085 foundations did not receive any donations in 2013. The second stage measures the amount of private donations that the rest 82.8% (1,727) of foundations received. The first dependent variable is a binary variable, with “0” as “did not receive donations” and “1” as “received donations”. The second dependent variable is treated as a continuous variable, with 200 RMB as the minimum, 1.45 billion RMB as the maximum, and a mean of 13 million RMB. Since

the distribution of the second variable is not normal, we used log-transformation to make its distribution close to normal.

The key independent variable of this study is the political connections of foundations, which is measured by whether there is a previous or current government official on the board of directors of a foundation. If the answer is “yes”, it is coded as “1”; if the answer is “no”, it is coded as “0”. The moderating variable is the transparency score, which is a continuous variable, ranging from 16.8 to 100 points (after excluding missing values, the minimum score is 16.8), with a mean of 57.543 points. According to the China Foundation Center Foundation Transparency Index Guidebook (2018), the transparency index is calculated based on the information disclosure of basic information (16 indicators), financial information (16 indicators) and program information (8 indicators). Information disclosed by the foundation’s official website will be weighted as 1.2 while information disclosed by other channels will be only weighted as 0.8. The indicators included in each category is rather basic. For example, for basic information, the indicators include whether the foundation has information ranging from a mission to the resume of its executive director. Therefore, the requirement is rather basic. A mean score of 57.543 means in general Chinese foundations only disclose a moderate level of information to the public. A high score typically means that the foundation discloses more information from its website.

Based on existing research, we also included several organizational and contextual predictors as control variables. Organization age and size are two commonly used organizational predictors (e.g. Cheng, 2019c; Saxton, Neely & Guo, 2014). Foundation type is the public fundraising status of the foundation (e.g. Johnson & Ni, 2015), which is measured by whether a foundation is allowed to fundraise publicly through public fundraising campaigns or through

public events. If yes, then it is a public foundation; if not, then it is a non-public foundation. While Suarez (2009) defined nonprofit professionalization as “the extent to which a nonprofit is staffed and run by paid personal” and developed an index using five indicators to measure professionalism, we follow Ni and Zhan (2017) to measure professionalization by the percentage of full-time employees in the staff (including full-time employees and volunteers) since it is the best proxy we could use to measure professionalization based on the data we could collect on Chinese foundations. Program expense ratio is the percentage of expenses spent on programs in total expenses (e.g. Saxton, Neely & Guo, 2014), ranging from 0 to 1. Fundraising cost is the expenses or cost spent on fundraising activities (e.g. Saxton, Neely & Guo, 2014), which is log-transformed in Table 2, ranging from 0 to 16.735; donor dependence is the ratio of donations relative to total income (e.g. Saxton, Neely & Guo, 2014), also ranging from 0 to 1.

To capture the variance of dependent variable as much as possible, and due to the fact that foundations in the same region might be affected by the same regional factors, we also included several province-level economic and political predictors as control variables, such as marketization level, percentage of population received higher education, and government expenditure per capita (Wei, 2017). According to Wang, Fan, and Yu (2017), the marketization index measures the level of economic marketization at province level in China, which is composed of five aspects of the economy: government–market relationship development of private sector, development of product markets, development of factor markets, and development of market intermediaries and legal environment. The reason for including this index is that the differences in economic development at region level is thought to be determining the supply of resources and institutions for nonprofits in the regions. Regions with higher level of economic development might have provide more supply of middle-class and wealthy individuals, as well as

private corporations, which are the major sources of private donations to nonprofits. In fact, Wei (2017) found that provincial marketization level is significantly correlated with total revenues of foundation in China. The percentage of population received higher education is also thought to be another important regional variable that might influence the supply of donors in a region. Government expenditure per capita at province level is included since government funding may crowd out or crowd in private contributions to nonprofits (e.g. Johnson & Ni, 2015; Steinberg, 1991). We also province-level transparency score and percentage of public foundations in a province as controls since these two variables can capture the regional differences in transparency practices and the market share of public-fundraising foundations. Table 1 lists the variables, their definitions, and the sources for each. The descriptive statistics of the variables used in this study are presented in Table 2.

[Insert Table 1 about here]

[Insert Table 2 about here]

### ***Empirical strategy***

Due to the nesting structure of the dataset (foundations are nested in provinces), we adopted a multi-level modeling strategy to analyze the data. Multi-level modeling can help capture the between-province variance while examining the within-province variance at the same time. Because of the unique legal, social, and economic status of different provinces in China, foundations in the same province are more alike than foundations in different provinces. Because a two-part model is not able to fit with multilevel mixed-effects model, we estimate the two part of dependent variable separately. Given that the first dependent variable is a binary variable, we used multilevel mixed effect logistic regression to estimate the probability of receiving private donations. The second stage dependent variable is estimated using multilevel mixed effects OLS

regression as the log-transformed dependent variable is continuous and its distribution is close to normal. To check the robustness of results from the above two models, a Tobit model with clustered errors on the total donations was also estimated based on the full sample.

## **Findings**

To test the hypotheses in the literature review section, we build two multi-level models for the binary and continuous dependent variables respectively: Model 1 with no interaction term between nonprofit political connections and transparency score, and Model 2 with an interaction term between nonprofit political connections and transparency score. We present findings from each model and then compare the two models to find the difference made by adding the interaction term. To help better understand the interaction effect or moderating effect of transparency on the relationship between nonprofit political connections and donations to foundations, we also draw the interaction plot to graphically illustrate this relationship.

For the dependent variable on whether the foundations received donations in 2013, neither political connections nor its interactive term with transparency have significant effect on whether receiving donations, while transparency level has significant relation with the probability of receiving donations. As shown in Model 1 and Model 2 in Table 3, the coefficients of political connections are not statistically significant, neither is the interaction term between political connections and transparency. Thus, hypotheses 1a and 3a are not supported by the analysis. However, in both models, the coefficients of transparency are statistically significant and positive. The higher transparency level, the higher probability a foundation received donations in 2013. Therefore, hypothesis 2a is supported by the analysis. These findings indicate that compared to political connections, the transparency mechanism has a more important and

significant effect on whether a foundation received donations in 2013. In addition, there is no interaction effect between the two on influencing the probability of receiving donations. Both the non-significant effect of political connections and significant effect of transparency on the probability of receiving donations are consistent with previous studies (e.g. Johnson & Ni, 2015; Saxton, Neely & Guo, 2014).

For the dependent variable on the log of amount of total donations, political connections have no significant direct impact, but transparency has direct positive effect. In addition, there is a significant interactive effect between political connections and transparency. As shown in Model 1 in Table 4, without considering the interaction between the two factors, we fail to find a statistically significant relationship at the 0.05 level between nonprofit political connections and private donations. Hypothesis 1b is therefore rejected by our analysis. This finding is consistent with Johnson and Ni (2015) where no significant correlation between political ties and donations was found in a multiple-year sample of foundations in China.

Without adding the interaction terms, the transparency score is positively correlated with the total amount of donations received by the foundation ( $p < 0.001$ ). Hypothesis 2b is, therefore, supported by our analysis. Specifically, when the transparency score of a foundation increases by 1 point, on average, the total amount of donations received will increase by 2.1%, holding everything else constant. This finding is consistent with most previous research conducted in western contexts and confirms the potential benefit of information disclosure in improving private donations to nonprofit organizations (e.g. Saxton, Neely & Guo, 2014).

[Insert Table 3 about here]

After adding the interaction term between nonprofit political connections and transparency, the coefficient of nonprofit political connections remains not statistically significant. However, the coefficient of transparency is still statistically significant at 0.001 level and positive, with the positive impact of transparency reduced to 1.9% per one-point increase in transparency score in Model 2 from 2.1% per one-point increase in transparency score in Model 1. It shows that the statistically significant and positive correlation between transparency and donations is robust after adding the interaction term, although the size of the positive effect is reduced.

[Insert Table 4 about here]

From Table 4, we can also see that the interaction term between nonprofit political connections and transparency is statistically significant at the 0.05 level. Thus, hypothesis 3b is supported by our analysis. It is difficult to understand the complex interaction effect simply based on this positive coefficient since the relationship between nonprofit political connections and donations is not fixed, but depending on one condition, which is the transparency level. As shown in Figure 2 and Table 5, having nonprofit political connections makes a positive difference only when a foundation's transparency score is higher than a critical point (roughly 60 points), which is about 60% of the total transparency score. When the transparency level is higher than this critical point, nonprofit political connections start to have a significant positive impact on private donations. When the transparency level continues to increase after this critical point, the positive effect of political connections will be enlarged.

[Insert Figure 2 about here]

[Insert Table 5 about here]

On the other hand, if a foundation's transparency level is lower than this critical point, nonprofit political connections no longer play a significant role. Both Figure 2 and Table 5 indicate that the tests for differences of the average marginal effect of having political connections on donations at transparency level below 60 points are negative but not statistically significant. Thus, when transparency level is below 60 points, having political connections have no significant impact in terms of obtaining private donations. One possible explanation of this is when donors' trust in a foundation is low because the level of transparency is not high, the foundation's political connections cannot either promote or hinder the legitimacy of a foundation. On the contrary, when the transparency level is high, having political connections provides additional assurance mechanisms for donors to gain trust on the nonprofit organizations they support, thus resulting in a higher level of private donations. This feature of a cross-over interaction (the effect of political connections on donations is opposite, depending on the value of the transparency) also justifies why we cannot find a statistically significant main effect of political connections.

From a management perspective, according to China Foundation Center (2018), it is not difficult to increase the transparency score by 1 point especially when the foundation's transparency score is relatively low. For example, by adding the resume of their executive, a foundation's transparency score can increase from 0.8 (disclosed through channels other than its website) to 1.2 points (disclosed through its website). By having a website, the transparency score can increase 4 points. The China Foundation Center (2018) provides very detailed information about how to increase the transparency score. It is realistic for most Chinese foundations to strategically increase its transparency score. Our findings show that increasing

transparency will not only increase donations by itself, it will also help establish the positive correlations between political connections and donations.

To check the robustness of the findings in terms of only using cases with donations for Table 4 and Table 5, a Tobit model with clustered standard errors on the total donations was estimated on the full sample (foundations both with and without donations). Table 6 shows that the interaction term between nonprofit political connections and transparency is positive and statistically significant at 0.05 level. This result is consistent with the findings from Table 4, which demonstrates the robustness of our main findings.

[Insert Table 6 about here]

## **Discussion**

Based on the empirical evidence from this study, we find that both nonprofit political connections and transparency play an important role in influencing private donations. Transparency level seems to play a positive role across the board. However, nonprofit political connections do not always make a positive difference in terms of their impact on nonprofits' ability in obtaining private donations. In fact, the impact of nonprofit political connections on private donations to foundations in China is contingent on a key condition, which is the transparency level of foundations.

The novel finding on the contingent role of nonprofit political connections on private donations adds to the literature of government-nonprofit relationships by advancing our understanding of the complex role that political connections might play in influencing private donations. It shows that political connections do not always help nonprofit organizations gain more private donations. In fact, the functioning of nonprofit political connections depends on the

transparency level of nonprofit organizations. As we depict a picture of the nonprofit sector in China as restrictive and corporatist, there seems to be some push from the public for a more transparent and independent sector. Nonprofits are able to survive and attract resources regardless of the status of their political connections. This finding speaks to Ma & DeDeo (2018)'s observation that there is a certain level of elite autonomy of Chinese nonprofits which are not subject to direct government control.

The findings of this study also speak to the larger literature of the development of the nonprofit or nongovernmental sector in China. No matter for the contingent symbiosis hypothesis (Spires, 2011), the consultative authoritarianism model (Teets, 2013), or the embedded government control thesis (Ni & Zhan, 2017), scholars have recognized that it is unrealistic to assume a single pattern of development for the whole nonprofit sector in China. This study adds to this complex and contingent understanding by demonstrating how political connections may mean different things to different types of nonprofit organizations in China. Even in the context such as China where the level of individual donations is relatively low and the culture of giving is developing, donors value information disclosure from these nonprofit organizations. The connections to public officials and government agencies do not automatically bring legitimacy and trust to nonprofit organizations in China unless they have also made some efforts to disclose enough information to donors. This finding corresponds well to Ni & Zhan (2017)'s advocate for enhancing the transparency and governance quality of the nonprofit sector in China in the long run.

## Conclusion

This is a timely examination for the development of the nonprofit sector in authoritarian regimes like China as the government is tightening their control over the nonprofit sector and the public trust toward the sector is still in construction in such societies. By establishing a framework of the contingent value of nonprofit political connections, we are able to demonstrate how nonprofit political connections work with other accountability mechanisms and how transparency serves as an important moderator in the political connections – donations relationship. This study provides a more in-depth look at the revenue-raising capacity of foundations in China. It also helps provide an alternative explanation to reconcile the competing findings of the relationship between political connections and private donations to Chinese NGOs (Johnson & Ni, 2015; Ni & Zhan, 2017).

This article has important policy and practical implications. For fundraisers, managers and leaders of nonprofit organizations, the findings of this article indicate the value of promoting transparency and information disclosure for their organizations. No matter whether the organizations seek to establish political connections with the government or not, being more transparent helps them get more private donations. If nonprofit managers do decide to establish political connections to either increase the predictability of the regulator environment or bridge government resources, it is important to understand that establishing political connections alone is not sufficient to bring in desired benefits, at least for private donations. Nonprofit managers need to consider multiple accountability or legitimization mechanisms simultaneously. From a public policy perspective, this article reinforces the value of setting policies or regulations to promote transparency and information disclosure in China's nonprofit sector.

This study has several limitations. First, although we have made ambitious efforts in finding organizational and provincial level information to control for factors that may influence the level of private donations received by foundations, the dataset is cross-sectional in nature and cannot prove whether there is a causal relationship between nonprofit political connections and donations, or between transparency level and donations. In additions, the political connections of most foundations are not likely to change in a short period of time which limit the options we could take to make the causal argument. Future research could focus on collecting longitudinal data or design experimental studies to explore the causal effects of transparency and political connections on private donations. The moderating or mediating effect of other types of communication and accountability mechanisms (e.g., social media or nonprofit self-regulation) should also be explored by future studies on the relationship between political connections and donations.

Second, since the datasets used are based on organizational level information, little information from the donor side is available and included in the analysis. Thus, we are not able to know why and how donors consider and interpret those two mechanisms simultaneously in their decision-making process. Future research could use in-depth case study method or other qualitative research designs to collect donors' preferences on these two mechanisms may work together. Experimental approaches are also promising empirical strategies to test the causal mechanisms of how nonprofit political connections influence private donations and other types of public support towards nonprofit organizations.

In addition, the moderating factor, transparency score is the total FTI score, which is a composite score of four dimensions, including disclosure of basic information, financial information, project-related information, as well as donor-related information. We are not able to

differentiate the potential different effects of the four dimensions of information disclosure in the sample because the China Foundation Center did not disclose the sub-scores of these dimensions for each foundation. Future research should collect data on the sub-scores and test whether they have different relations with private donations so that the findings based on coefficients of each sub-dimension can provide more practical meaning to nonprofit managers and fundraisers.

Finally, although foundations control the biggest share of resources of the nonprofit sector in China and they are mostly operating foundations, they cannot represent the whole nonprofit sector in China. We are also not able to collect the information of all foundations in China (our sample represents approximately 67% of the total populations of foundations established before January 1, 2013). Because of the resource and power imbalances between grassroots nonprofit organizations and governments in China, political connections may be more important for these grassroots nonprofits compared with foundations. The foundations in our sample may also be more transparent compared with foundations which we cannot find information from. Applications should therefore be made with caution when generalizing the findings of this study to other contexts or subsectors. Future comparative and international studies should be conducted to understand how the value of political connections for nonprofits and foundations is contingent on geographical and political contexts.

In conclusion, as government-nonprofit relationships become increasingly contentious and complex, especially in the non-western context, it is imperative to understand different mechanisms of how nonprofits may gain legitimacy both from the government and the donors. By examining the interplay of transparency and nonprofit political connections, this study contributes to a more nuanced understanding of the contingent value of nonprofit political

connections on private donations. It suggests that the positive value of nonprofit political connections can be only achieved when nonprofit organizations reach a certain level of transparency. It is important for nonprofit organizations to both obtain political connections and transparency to increase their ability in acquiring private donations.

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**Figure 1 Transparency as Moderator for Political Connections – Donation Relationship**

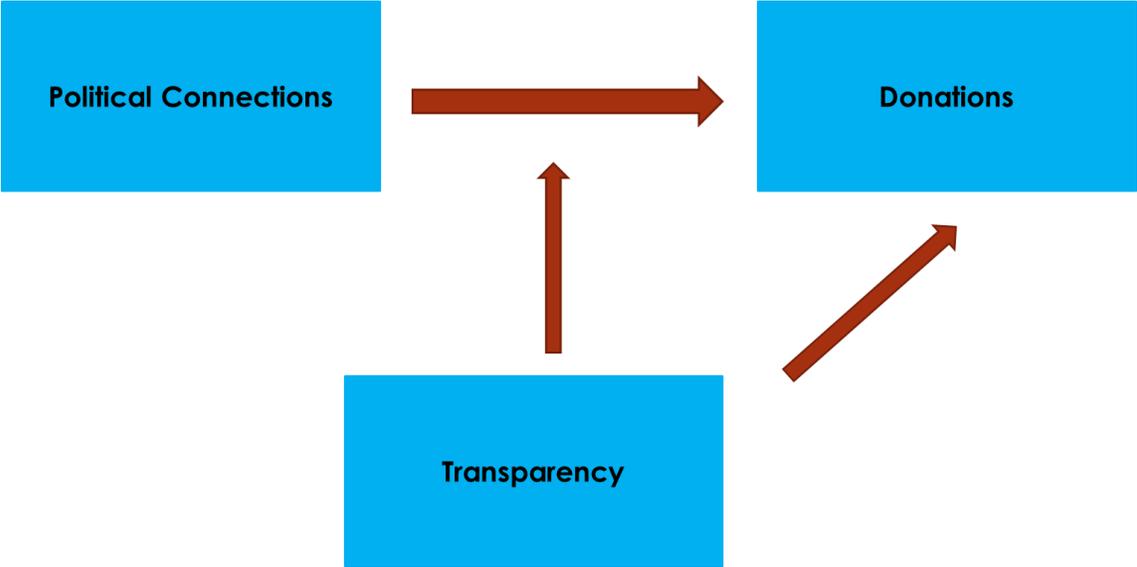
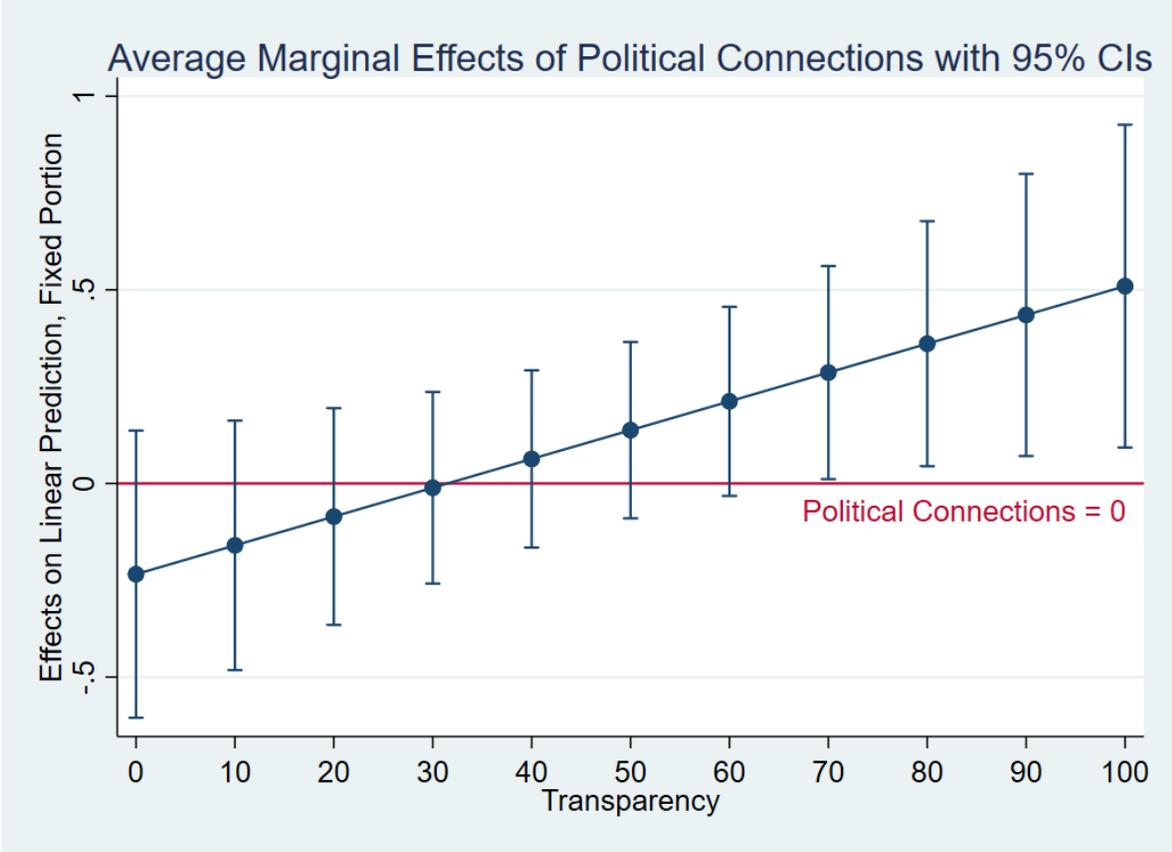


Figure 2 Interaction Effects between Political Connections and Transparency



**Table 1 Variables, Definitions, and Sources of Data**

<b>Name</b>	<b>Definition</b>	<b>Source</b>
<b>Organization level</b>		
Whether receiving donations	Whether received donations in 2013	RICF (2013)
Total Donations	Total amount of donations received in 2013	RICF (2013)
Political connections	Previous or current government official as board member	RICF (2013)
Transparency	Total transparency index score rated by CFC	CFC (2013)
Age	Age of foundation: 2013 minus founding year	RICF (2013)
Type	Whether has public fundraising status	RICF (2013)
Size	Log-transformation of total net assets in 2013	RICF (2013)
Professionalization	Percentage of full-time employees relative to total staff	RICF (2013)
Program Expense Ratio	Ratio of expenses on program relative to total expenses	RICF (2013)
Ln (Fundraising cost)	Log-transformation of cost on fundraising activities	RICF (2013)
Donor Dependence	Ratio of donative revenue relative to total revenue	RICF (2013)
<b>Province level</b>		
Provincial Transparency	Average transparency score at province level	CFC (2013)
Percentage of public foundations	Percentage of foundations with public fundraising status	CFC (2013)
Marketization Index	Level of marketization at province level	Wang et. al (2017)
Percentage of population with higher education	Percentage of population in a province that received higher education	China Statistical Yearbook (2014)
Government expenditure per capita	Province-level government spending per person	China Statistical Yearbook (2014)

**Table 2 Descriptive Statistics**

<b>Variable</b>	<b>N</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Min</b>	<b>Max</b>
<b>Organization level</b>					
Received donations	2,085	.828	.377	0	1
Amount of Total Donations	1,727	1.22e+07	4.97e+07	200	1.45e+09
Political connections	2,085	.289	.454	0	1
Transparency	2,085	57.543	17.147	16.8	100
Age	2,085	7.390	7.317	0	32
Type	2,085	.443	.497	0	1
Size	2,085	16.022	1.937	0	21.893
Professionalization	2,085	.359	.337	0	.979
Program Expense Ratio	2,085	.918	.149	0	1
Ln (Fundraising cost)	2,085	2.346	4.160	0	16.758
Donor Dependence	2,085	.629	.396	0	1
<b>Province level</b>					
Provincial Transparency	31	37.759	15.253	7.33	61.09
Percentage of public foundations	31	41.722	13.610	16	96
Marketization Index	31	7.812	1.653	-.30	9.88
Percentage of population with higher education	31	16.797	11.221	2.39	41.21
Government expenditure per capita	31	11,131.80	4,782.478	5,930.43	32,510.03

**Table 3 Multilevel Mixed-Effects Logistic Regression on Whether Receiving Donations**

<b>Whether Receiving Donations</b>	<b>Model 1</b>	<b>Model 2</b>
<b>Organization-level variables</b>		
Political connections * Transparency	-	.004(.008)
Political connections: yes	-.183(.152)	-.405(.491)
Transparency	.025(.009)***	.024(.008)***
Age	-.005(.009)	-.005(.009)
Size	.075(.027)***	.075(.027)***
Type: public	1.406(.438)**	1.400(.435)**
Professionalization	.297(.188)	.295(.185)
Program Expense Ratio	1.830(.263)***	1.822(.264)***
ln (Fundraising Cost)	.084(.020)***	.084(.020)***
<b>Province-level variables</b>		
Provincial Transparency	-.008(.012)	-.009(.012)
Percentage of Public Foundations	-.001(.007)	-.001(.007)
Marketization Index	-.056(.099)	-.057(.098)
Percentage of Population with Higher Education	.052(.023)*	.053(.023)*
Government Expenditure Per Capita	-.000(.000)	-.000(.000)
<b>Cross-level interaction</b>		
Type * Marketization Index	-.168(.057)***	-.167(.056)***
Random Intercept Coefficient	-2.560(1.239)*	-2.467(1.254)*
Level two variance	.056	.055
Intra-class correlation	0.017	0.016
Log pseudo-likelihood	-866.804	-866.700
Wald chi <sup>2</sup>	721.57***	715.15***
N of Sample 1	2,085	2,085
N of Sample 2	31	31

\*\*\* p < 0.001; \*\* p < 0.01; \* p < 0.05; + p < 0.1.  
Robust standard errors are in parentheses.

**Table 4. Multilevel Mixed Effects OLS Regression on Log of Total Donations**

<b>Ln (Total Donations)</b>	<b>Model 1</b>	<b>Model 2</b>
<b>Organization-level variables</b>		
Political connections * Transparency	-	.007(.003)*
Political connections: yes	-.199(.138)	-.227(.191)
Transparency	.021(.004)***	.019(.003)***
Age	.006(.006)	.006(.006)
Size	.425(.088)***	.423(.088)***
Type: public	1.220(.343)***	1.220(.336)***
Professionalization	.215(.120) <sup>+</sup>	.216(.118) <sup>+</sup>
Program Expense Ratio	2.108(.342)***	2.069(.331)***
Ln(Fundraising Cost)	.052(.007)***	.051(.007)***
Donor Dependence	3.743(.149)***	3.740(.152)***
<b>Province-level variables</b>		
Provincial Transparency	-.015(.009) <sup>+</sup>	-.016(.009) <sup>+</sup>
Percentage of Public Foundations	-.005(.005)	-.005(.005)
Marketization Index	.022(.084)	.024(.082)
Percentage of Population with Higher Education	.034(.022)	.034(.022)
Government Expenditure Per Capita	-8.95e-06(.000)	-.000(.000)
<b>Cross-level interaction</b>		
Type * Marketization Index	-.079(.040)*	-.079(.039)*
Random Intercept Coefficient	1.157(1.514)	1.333(1.532)
Level two variance	.055	.052
Intra-class correlation	0.028	0.026
Log pseudo-likelihood	-3,033.902	-3,032.516
Wald chi <sup>2</sup>	3,529.86***	3,637.78***
N of Sample 1	1,727	1,727
N of Sample 2	31	31

\*\*\* p < 0.001; \*\* p < 0.01; \* p < 0.05; + p < 0.1

Robust standard errors are in parentheses.

**Table 5 Average Marginal Effects of Political Connections on Log of Total Donations**

Model VCE: Robust		Number of Observations = 1,727		
	dy/dx	Delta-method Std. Err.	z	P> z
<hr/>				
Political Connections = 0	(base outcome)			
<hr/>				
Political Connections = 1				
Transparency =				
0	-.227	.191	-1.19	0.235
10	-.153	.166	-0.92	0.355
20	-.080	.144	-0.56	0.579
30	-.007	.127	-0.05	0.959
40	.067	.117	0.57	0.569
50	.140	.117	1.20	0.229
60	.214	.125	1.71	0.087
70	.287	.141	2.04	0.041
80	.361	.162	2.23	0.016
90	.434	.186	2.33	0.020
100	.507	.213	2.38	0.017

Note: dy/dx for factor levels is the discrete change from the base level.

**Table 6 Tobit Model with Clustered Errors on Total Donations**

<b>Total Donations</b>	<b>Coefficients (Robust Std. Err.)</b>
<b>Organization-level variables</b>	
Political connections * Transparency	406,083 (179,683) *
Political connections: yes	-2.03e+07 (9,480,610) *
Transparency	264,567 (131,584) *
Age	501,019 (300,440) +
Size	7,876,260 (2,012,143) ***
Type: public	-6,209,681 (7,864,085)
Professionalization	6,068,392 (2,455,773) *
Program Expense Ratio	9,114,324 (8,384,221)
Ln (Fundraising Cost)	1,551,426 (543,548) **
Donor Dependence	5.33e+07 (8,635,900) ***
<b>Province-level variables</b>	
Provincial Transparency	-323,664 (132,917) *
Percentage of Public Foundations	-47,165 (109,409)
Marketization Index	-1,795,234 (1,169,132)
Percentage of Population with Higher Education	585,464 (228,580) *
Government Expenditure Per Capita	232.37 (324.70)
<b>Cross-level interaction</b>	
Type * Marketization Index	849,664 (977,843)
Random Intercept Coefficient	-1.77e+08 (4.35e+07) ***
/sigma	4.84e+07
Log pseudo-likelihood	-33,139.725
F (16, 2069)	187.64 ***
N of Sample 1	2,085
N of Sample 2	31