The Value of Implicit Political Connections

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ABSTRACT

We investigate whether the aggregated political relations of a firm's top management team (TMT) add value to the firm's performance. We distinguish between the political relations that arise from TMT's own work experience, which are termed direct political connections (DPC), and the relations that TMT develops from working for the same institution with the government officials, which are termed implicit political connections (IPC). We find that IPC are positively associated with firm performance and that they often have a stronger effect than DPC do. We also find that the effect of IPC on firm value is stronger in SOEs and in firms located in under-developed provinces. Moreover, we find that after the anti-corruption campaign, the effect of DPC decreases but the effect of IPC does not significantly change. Overall, our results suggest the importance of investigating a firm's aggregated political connections, especially its IPC.

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I. INTRODUCTION

Make friends with governments but stay away from politics.
—Langi (2014)
As quoted by Wang Jianlin, Founder of Dalian Wanda Group (2017 Net worth: US$30.1 billion)

Political resources play a very important role in business. The connection between firms and politicians is widely studied in the finance, economics, and accounting literature. There are two challenges in this area of research: the ability to accurately measure political connections and the limited evidence on differentiating between different types of political connections. Empirical papers often employ Faccio's (2006) measure by which a firm is defined as being politically connected if at least one of the firm's largest shareholders (holding more than 10 percent of the voting shares), or one of its top officers, is a member of the parliament, a minister, or a head of state.[1] In our paper, we take advantage of a unique dataset that enables us

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[1] Faccio (2006) also looks at firms' closeness to a top politician or party.

to distinguish between the type of political connections arising from themselves and those arising from close relations with government officials. We term the political connections defined in Faccio (2006), in which the firm's insiders serve or served as government officials, as direct/explicit political connections (*DPC*). We define the other type of political connections as implicit political connections (*IPC*).

It is important to differentiate between *DPC* and *IPC*. As this paper's opening quote suggests, making friends with governments but staying away from politics offers the benefits of a relationship with politicians while avoiding political risk.[2] Specifically, *IPC* are more difficult for outsiders to observe and are thus less likely to attract media attention, resulting in lower political risk. According to the *South China Morning Post* (Yu 2016), the political climate has changed since 2012, when Chinese President Xi Jinping launched a nationwide anti-corruption campaign.[3] The 2012 anti-corruption drive has caught many corrupt officials, which subsequently led to a change in attitudes among Chinese firms about the value of hiring and retaining staff with overt political connections (Jennings 2018). As a result, the political risk of *DPC* has increased compared to that of *IPC*. For this reason, we differentiate between *DPC* and *IPC* and test their effects on firm value separately. Specifically, we ask whether *IPC* provide higher firm value than *DPC*—a question that prior studies do not investigate.

Most papers examining *DPC* of Chinese firms utilize the measures provided by Fan, Wong, and Zhang (2007) who identify politically connected firms on the basis of whether the CEO is currently or was a former officer of the central or local government or the military (Chen, Guan, Zhang, and Zhao 2017a). This measure is largely incomplete because defining political connectedness requires information on firms' relation with numerous government institutions and because the way of aggregating political connections need lots of personnel judgment (Fisman 2001). Given that a firm's political connections can come from many members in a firm and numerous government institutions, aggregating the political connections across members and members' friends can be an important yet daunting task. Motivated by the common observation that political connections are pervasive across Chinese firms, efforts have been made to improve upon prior measures and constructs of political connections. Chen, Li, Luo, and Zhang (2017b) construct a unique index of political connections that captures how many top management teams (TMT) are or were themselves bureaucrats or government officials.

It should be noticed that *DPC* and *IPC* are just conceptual terms (discussed later). In measuring a firm's political connections, we follow the aggregation process by incorporating the various channels through which a firm's executives, board chair, its directors, and other senior officers are politically connected with government officials and bureaucrats. This measure has the merits of taking into account all dimensions of political connections and being less subject to the problem with some prior research that uses a binary indicator for political connections. For the purpose of our analysis, we measure *F_DPC_Count* as the number of TMT members who themselves are/were government officials, and *F_IPC_Count* as the number of government officials with whom TMT members may have relationships through their working institutions. We present detailed descriptions of these measures in the data section.

A large strand of the literature demonstrates that political connections are valuable to corporations, offering easier access to debt financing, lighter taxation, better investment opportunities, and government financial assistance (Shleifer and Vishny 1994; Fisman 2001; Villalonga and Amit 2006; Faleye 2007; Claessens, Feijen, and Laeven 2008; Vafeas and Vlittis 2019). Some studies, however, find that political connections have a negative effect on accounting quality and accounting performance (Boubakri, Cosset, and Saffar 2008; Chaney, Faccio, and Parsley 2011). Some Chinese studies also document a negative relation between political connections and firm value (Fan et al. 2007; W. Wu, C. Wu, Zhou, and J. Wu 2012). The lack of academic consensus on whether or not *DPC* improves firm value may arise because the *DPC* measure is incomplete. Thus, testing the effect of *IPC* on firm performance is an interesting and important empirical question.

Another important motivation behind our investigation of Chinese firms is the availability of a new and unique dataset, the China Corporate Figure Characteristic Series (presently only accessible in Chinese). This novel dataset contains detailed information on the social ties and political backgrounds of TMT members for the Chinese listed firms and those of the members' former colleagues. This dataset helps us to generate a broader measure of political connections, namely, aggregate *F_DPC* and *F_IPC*. These measures, in turn, allow us to more comprehensively evaluate the effect of political connections on firm performance.

Combining this data with conventional accounting, corporate governance, and firm performance measures, we construct a final dataset containing 6,458 firm-year observations covering 1,704 distinct firms for the period 2008–2015. Our main test results illustrate that *F_IPC* enhances firm value, as measured by Tobin's Q, often more than does *F_DPC*. Moreover, we find that the benefit of *F_IPC* to firm value is considerably stronger in *SOEs* (than in non-*SOEs*) and in provinces that are under-developed. A possible explanation is that the performance of *SOEs* heavily relies on the TMT's political power and ability to

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[2] Typically, there are three classes of political risk, including socio-political instability, regime change instability, and political uncertainty.
[3] Chinese President Xi Jinping's nationwide anti-corruption campaign was, in part, a response to general concerns about government officials exploiting their positions for personal gain.

gain resources. In under-developed provinces, political connections have higher value because of market inefficiency. More interestingly, we find that after the 2012 anti-corruption campaign, the effect of F_DPC on firm value decreases, while the effect of F_IPC on firm value does not substantially change. This is consistent with the belief that F_DPC has a larger political risk than F_IPC does, suggesting the importance of the latter in measuring political connections.

To alleviate the concern that political connections and firm performance could be endogenously determined, we show that our results are robust to using an instrumental approach. Additional tests show that our key findings are invariant when we adopt alternative measures of $F\_IPC,$ including putting weight on each connection according to the levels of political power (as measured by the rank of political affiliation) and not scaling the F_IPC by board size. We find that the value of the F_IPC is mainly built from the State Council of the People's Republic of China and the Chinese People's Political Consultative Conference, suggesting that the value of IPC does not necessarily originate from the very top. Finally, we show that our F_IPC measures carry incremental information on firm value beyond a general connectedness of individuals or firms.

Our study contributes to the literature on political connections. This literature highlights the importance of political connections in both developed and developing countries (Acemoglu, Johnson, Kermani, Kwak, and Mitton 2016; Akey 2015; Liu, Shu, and Wei 2017), and typically focuses on CEOs' backgrounds, political positions, or connections with top government officials. Our paper complements and contrasts with the existing literature in that we consider the social ties of all TMT members likely to be more important than the positions they hold. Our results suggest that researchers should take into account all TMT members' implicit relationships when measuring political connections.

Moreover, our study contributes to the literature on social ties. Previous literature in this field focuses on different network measures, such as centrality, alumni networks, networks built by relatives, and so on. Larcker, So, and Wang (2013) find that board centrality improves the economic performance of firms in the network. El-Khatib, Fogel, and Jandik (2015) find that CEOs with higher network centrality are more likely to pursue acquisitions and that these deals are more likely to destroy value. Liu (2014) shows that a CEO's connectedness expands outside options and thus increases the turnover probability. Our paper is one of the few studies to investigate political connections built through colleagues.

Our paper provides novel evidence that previous studies do not consider. We present early empirical evidence that after the anti-corruption campaign, the value of F_DPC decreases but the value of F_IPC does not change, indicating that the anti-corruption campaign affects the function of F_DPC. Also, we show that the value of F_IPC does not necessarily come from colleagues who worked/work at more powerful government institutions but from those who are at relatively less powerful (lower rank) ones. This finding may be surprising at first glance and is likely to stimulate further research into the sources of political connections and how they are built.

We acknowledge that our results may not extend to developed markets such as the U.S. However, it is likely that our conclusions can be generalized to a range of middle-income countries, especially countries with a lower level of marketization and where political connections and social capital are highly valued in the community.

The remainder of the paper is organized as follows: Section II reviews the related literature and develops the hypothesis. Section III presents the data, sample, and variable definitions. Section IV discusses the results of the main empirical analyses. Section V develops several cross-sectional tests. Section VI provides some additional tests. Section VII concludes.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The literature on political connections is proliferating, but it has not reached a consensus on whether such connections are a value-enhancing or risk-inducing firm attribute. Many studies demonstrate that political connections can translate into easier access to debt, financing, lighter taxation, better investment opportunities, and certain oligopoly market entrance licenses (Shleifer and Vishny 1994; Fisman 2001; Chow, Fung, Lam, and Sami 2012; Khwaja and Mian 2005; Goldman, Rocholl, and So 2009). For example, Agrawal and Knoeber (2001) show that directors with prior employment in government or in a political party are more prevalent in U.S. manufacturing firms if the firm performance is tied to government purchases, trade policy, and environmental regulations. Likewise, Khwaja and Mian (2005) detail the role of ex-politicians in providing politically connected Pakistani firms with government bank loans. Goldman, Rocholl, and So (2013) claim that political connections improve the efficacy of procurement contracts and hence add value to companies.

The literature also shows positive relations between political connections and wider finance-related variables, including the cost of capital and stock market valuation. Using an international sample that includes U.S. firms, Faccio (2006) finds positive cumulative abnormal stock returns around election dates when a corporate officer or director successfully enters politics. Houston et al. (2014) analyze S&P 500 companies and finds that firms governed by board members with political ties have reduced monitoring costs and lowered banks' credit risk, which in turn reduces the borrower's cost of debt. A lower cost of capital and tax incidence can further improve firm value (Fama and French 1998). Addoum and Kumar (2016) show that the broader political climate generates mispricing in certain segments of the market, especially during periods of high political awareness.

In contrast, a number of studies explore the negative effects of political connections on corporate governance, accounting quality, and accounting performance (Chaney et al. 2011; Boubakri, Cosset, and Safar 2008). Shleifer and Vishny (2002) find that strong-handed, high-level political interference in a firm's decision-making processes can distort managers' objectives, giving rise to a form of agency problem and a likely loss in long-term firm value. Fan et al. (2007) find that firms with politically connected CEOs underperform those without by almost 18 percent based on three-year post-IPO stock returns and have poorer three-year post-IPO earnings growth, sales growth, and a poorer change in returns on sales. Ngo (2008) argues that firms with strong incentives to stay close to the government, bribe politicians, or form personal relationships in exchange for contracts and opportunities for private illicit gains are exposed to considerable risk.

It is worth noting the previous literature focuses primarily on the influences of more direct political connections (*DPC*) on various attributes of firm performance. Direct connections derive from the personal experiences of individual managers/ directors that can be exploited for outcomes that are beneficial to the firm. To the best of our knowledge, the literature does not empirically consider the indirect or implicit political connections (*IPC*) of top management team members. Hence, no studies explicitly contrast *DPC* with *IPC*. *IPC* have several unique features characterized by the "grabbing hand" and "helping hand" conceptual theories. That is, connected individuals have an opportunity to reach out and "grab" support from cooperative connections willing to offer a helping hand. *IPC* are more difficult for outsiders to detect, thus they get less attention from the media or from non-governmental organizations and carry lower political risk. In China, where political connections are important to firm operations, we expect that *IPC*—a more pervasive measure with fewer political costs than *DPC*—improve firm performance. Hence, we state our testable hypothesis as follows:

H1: IPC improve firm performance.

III. SAMPLE AND VARIABLES

In this section, we describe our data sources and sample construction, with special emphasis on the key measures of *IPC*. Our initial sample consists of all listed Chinese firms from 2008 to 2015. We require a range of corporate financial data and data on CEO characteristics taken from the China Stock Market and Accounting Research database (CSMAR), which has been widely used in China-related studies (e.g., Lennox, Wang, and Wu 2018; Giannetti, Liao, and Yu 2015). We exclude all industries with fewer than ten observations and then remove observations with missing variables. We are left with 6,458 observations from 1,704 distinct firms. Consistent with prior studies, we winsorize all continuous variables (at the 1 percent and 99 percent levels) to lessen the influence of outliers.

Constructing Measures of Direct (*DPC*) and Implicit (*IPC*) Political Connections

Using a combination of large-scale web-scraping and textual analysis, GTA Company (the developer and maintainer of CSMAR) has developed the China Corporate Figure Characteristic Series. By gleaning information from the annual reports, temporary announcements, Sina Weibo (a popular Chinese online chat platform), and other native Chinese online resources, the database generates text-based information for individual managers. Natural language processing and classification tools are then applied to isolate information relevant to the backgrounds and connections of these executives, i.e., top management team members. This process results in a comprehensive dataset that contains more than half a million observations for up to 2,980 distinct firms. This database provides detailed information on each firm's TMT members as well as information on the political background of their present and former colleagues. Information on colleagues' political backgrounds is differentiated according to 12 connection types, as detailed in Appendix B. We exclude ranks 9–12 when constructing our political connections measures because they are not formal political institutions with "material" sway over aspects of the political decision-making process.

Our objective is to create firm-level metrics of direct, *F_DPC_count,* and implicit, *F_IPC_count,* political connections. *F_DPC_count* measures the number of TMT members who themselves have either current or past work experience as a political official. *F_IPC_count* captures the number of political colleagues to whom TMT members are connected. It is simply the sum of two types of implicit connections: *F_IPC_Col_count* and *F_IPC_Fgo_count*, where "*_Col*" denotes connections to government officials through TMT's colleagues and "*_Fgo*" denotes connections to government officials via the government units where TMT members work or have worked. *F_IPC, F_IPC_Fgo, F_IPC_Col,* and *F_DPC* are calculated by taking the natural logarithm of the count value scaled by board size.

To illustrate, suppose firm *i* has four top management team members in year *t: A, B, C,* and *D*. Manager *B* has three former political colleagues (G1, G2, and G3). Manager *D* has one politically connected colleague through another firm. In this situation, *F_DPC_count* equals 1 because only Manager *B* has direct government experience. *F_IPC_Col_count* equals 1 because Manager *D* has one political connection. *F_IPC_Fgo_count* equals 3 because of Manager *B*'s three former colleagues.

FIGURE 1
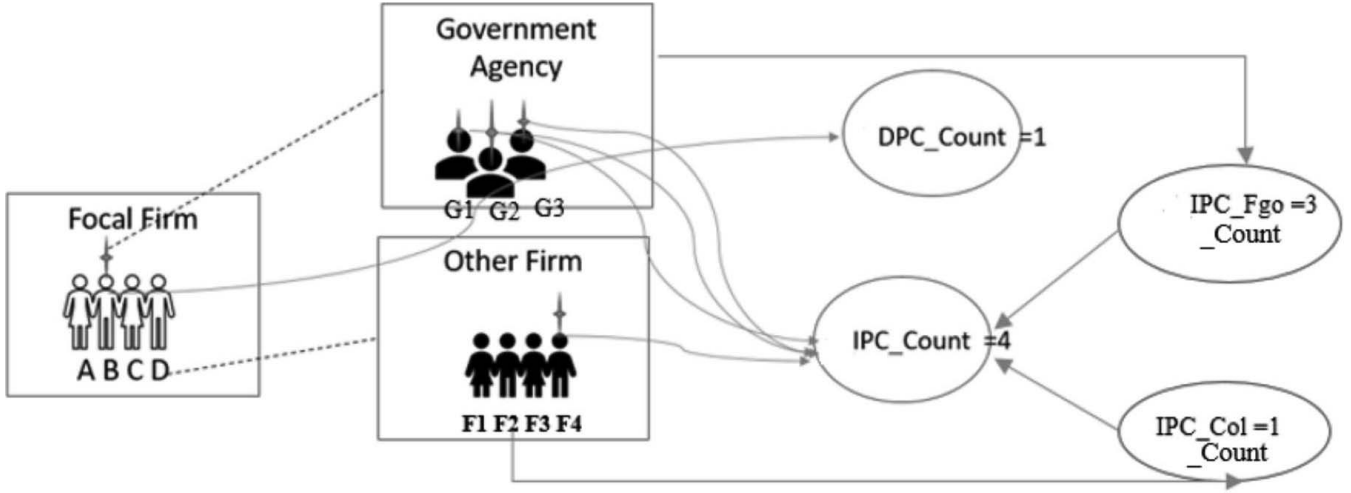**Flow of *F_DPC* and *F_IPC* Construction**

Figure 1 presents how *F_DPC* and *F_IPC* are developed in a given situation.

The total *F_IPC_count* then equals 4 = *F_IPC_Col_count* + *F_IPC_Fgo_count* = 1 + 3. A flowchart detailing these relationships is provided in Figure 1.

In constructing the various *F_IPC* measures, we note that as in our example above, each senior TMT member may have multiple politically connected colleagues. We therefore first take a simple headcount measure by counting the number of politically connected colleagues a TMT member has. We then aggregate the individual-level (TMT member) counts at the firm level by adding up all TMT members within the same firm in the same year. Finally, we scale the firm-level number by board size and take its natural logarithm to arrive at the final political connection variables used in the estimation: ln(1 + *headcount Index*).

As for constructing *F_DPC*, any individual *TMT* member with political experience receives a score of one, and we aggregate the individual-level counts at the firm level by adding up all TMT members within a firm and within a year. As with *F_IPC,* the *F_DPC* variable is also scaled by board size, and its natural logarithm is taken.

Summary Statistics

Table 1 reports the summary statistics for the main variables used in the analysis. The mean of *F_DPC_count* is 3.678 and the mean of *F_DPC* is 0.327, implying that on average, there are about 3.678 TMT members either presently serving or who previously served as a political official. The mean of *F_IPC_count* is around 69.17, implying that on average, a firm's TMT has around 69.17 politically connected colleagues. Turning next to our adopted measure of firm performance/value, the average *Tobin's Q* score across the sample is 2.544, with a standard deviation of 1.892, which is reasonably large, as might be expected, and which reflects the considerable differences in firm performance across our sample firms. For the remaining control variables, the distribution and values are broadly consistent with those in previous Chinese studies.

IV. EMPIRICAL ANALYSIS

F_IPC and Firm Performance

The main model used in our estimations is as follows:

$$\ln(Tobin's\,Q) = \beta_0 + \beta_1 Political\,Connections(DPC\,or\,IPC) + \beta_2 SOE + \beta_3 Independent + \beta_4 Duality + \beta_5 LS$$
$$+ \beta_6 Leverage + \beta_7 \ln(Sales) + \beta_8 \ln(Board\,Size) + \beta_9 \ln(Firm\,Size) + \beta_{10} Firm\,Age + Year\,FE$$
$$+ Industry\,FE + \varepsilon \tag{1}$$

The dependent variable is ln(*Tobin's Q*), the ratio of the firm's market value to the replacement cost of its assets. Tobin's Q is a widely used measure of firm value (Yermack 1996; Villalonga and Amit 2006; Faleye 2007; Vafeas and Vlittis 2019). We

TABLE 1

Descriptive Statistics

Variable	n	SD	Min	P25	Mean	P50	P75	Max
ln(*Tobin's Q*)	6,458	0.561	−0.152	0.319	0.752	0.664	1.086	2.518
F_DPC	6,458	0.171	0.000	0.201	0.327	0.288	0.442	1.350
F_IPC_Col	6,458	0.642	0.000	0.539	1.063	1.022	1.522	3.854
F_IPC_Fgo	6,458	0.909	0.000	0.575	1.356	1.224	2.079	4.100
F_IPC	6,458	0.806	0.000	1.204	1.835	1.810	2.454	4.287
F_DPC_count	6,458	2.445	0.000	2.000	3.678	3.000	5.000	26.000
F_IPC_Col_count	6,458	25.960	0.000	6.000	23.730	16.000	32.000	277.000
F_IPC_Fgo_count	6,458	59.150	0.000	7.000	45.440	21.000	65.000	653.000
F_IPC count	6,458	68.530	0.000	21.000	69.170	46.000	98.000	682.000
Tobin's Q	6,458	1.892	0.859	1.375	2.544	1.942	2.963	12.400
SOE	6,458	0.500	0.000	0.000	0.511	1.000	1.000	1.000
Independent	6,458	0.054	0.300	0.333	0.370	0.333	0.400	0.571
Duality	6,458	0.403	0.000	0.000	0.204	0.000	0.000	1.000
LS	6,458	0.158	0.098	0.244	0.372	0.354	0.488	0.770
Leverage	6,458	0.217	0.050	0.289	0.458	0.457	0.626	0.969
ln(*Sales*)	6,458	1.590	0.000	20.340	21.340	21.250	22.240	28.460
ln(*Board Size*)	6,458	0.196	1.386	2.079	2.188	2.197	2.197	2.890
ln(*Firm Age*)	6,458	0.482	0.000	2.303	2.552	2.639	2.890	3.555
Firm Size	6,458	1.310	19.090	21.060	22.000	21.850	22.750	25.930

Table 1 shows summary statistics on firm value, direct and implicit political connections, and the control variables for the sample. All variables are defined in Appendix A.

follow Liu et al. (2015) by controlling for variables that reflect board structure, ownership structure, managerial ability, firm characteristics, etc. More specifically, we include (1) *SOE,* a dummy variable for whether the firm is state-owned based on the firm's ultimate owner; (2) *Independent,* the number of outside (independent) directors divided by the total number of directors, following Weisbach (1988); (3) *Duality,* a dummy variable indicating whether the CEO is also the chairman of the board; (4) *LS,* the percentage of shares owned by the largest shareholder; (5) *Leverage,* defined as long-term and short-term leverage divided by total assets; (6) ln(*Sales*), the natural logarithm of revenues; and (7) ln(*Board Size*), the logarithm of the number of board members. Larger board size increases firm value by providing expertise and resources to the company (Goodstein, Gautam, and Boeker 1994), but may cause greater social loafing and make it more difficult for board members to coordinate; (8) ln(*Firm Size*), the natural logarithm of total assets; and (9) ln(*Firm Age*), the natural logarithm of the firm's age since establishment. Detailed definitions are provided in Appendix A.

Table 2 shows the effect of political connections on firm performance. The first column uses *F_DPC* as the independent variable and we find that the effect of *F_DPC* on firm performance is not significant. In contrast, *F_IPC* has a significantly positive effect on firm performance. There are several reasons why we expect *F_IPC* to make a stronger contribution to firm performance outcomes than does *F_DPC*. First, *F_IPC,* to a large extent, captures the indirect political connections of TMT via former and current colleagues. By definition, they capture much broader, utilizable political resources than does *F_DPC*. Second, the political risk of *F_DPC* is higher than that of *F_IPC* because direct connections are more likely to attract the attention of media groups, investors, and non-governmental organizations that actively seek out and target corrupt business practices. In contrast, the political resources obtained through social ties are less likely to be detected and monitored by investors.

Among the control variables, we find that other things being equal, *SOEs* have weaker firm performance than non-*SOEs*. One explanation is that in non-*SOEs,* the management team is reluctant to make some high-risk, high-return investments. *SOEs* typically encounter more government bureaucracy and more severe agency problems. Consequently, we expect *SOE* to be negatively related to firm performance. *Independent* has a positive effect on firm performance because independent directors bring in more knowledge and resources. Besides, an independent board is a more effective supervisor and causes fewer agency problems. We also find that *LS,* the largest shareholder ratio, has a positive and statistically significant impact on profitability, potentially due to the fact that higher *LS* reduces agency problems. Consistent with Cornett, Marcus, and Tehranian (2008), we observe that *FirmSize* has a negative and significant impact on firm performance, which supports the assertion that the larger the firm, the more serious the bureaucracy and agency problems are. *Leverage* is negatively related to firm performance, possibly because high leverage may lead to significant financial limitations, which negatively impact the current and future firm performance.

TABLE 2

Baseline Regression

	Dep = ln(*Tobin's Q*)	
	F_DPC	*F_IPC*
SOE	−0.076***	−0.076***
	(−3.62)	(−3.67)
Independent	0.487***	0.457***
	(2.89)	(2.71)
Duality	0.026	0.026
	(1.26)	(1.28)
LS	0.190***	0.187***
	(3.32)	(3.29)
Leverage	−0.277***	−0.266***
	(−4.76)	(−4.61)
ln(Sales)	−0.007	−0.006
	(−0.40)	(−0.37)
ln(Board Size)	0.072	0.073
	(1.33)	(1.37)
ln(Firm Age)	0.014	0.014
	(0.68)	(0.70)
Firm Size	−0.202***	−0.209***
	(−11.26)	(−11.72)
F_DPC	0.047	
	(0.98)	
F_IPC		0.044***
		(4.56)
Industry and Year F.E.	Yes	Yes
n	6,458	6,458
Adj. R^2	0.529	0.532

*, **, *** Indicate $p < 0.1$, $p < 0.05$, and $p < 0.01$, respectively.
Table 2 reports the OLS regression results for political connections against firm value. The dependent variable is ln(*Tobin's Q*). The test variables are *F_DPC* and *F_IPC*.
t-statistics based on robust standard errors and clustered by the firm are reported in parentheses.
All variables are defined in Appendix A.

Endogeneity Tests

Well-performing firms have a greater capacity and the resource flexibility to recruit "higher-value" TMT members with politically connected backgrounds. Consequently, there is a legitimate concern that firm-level *F_IPC* and firm performance may be endogenously determined. We, therefore, adopt an instrumental variable (IV) design to address this concern. Following Houston et al. (2014), we construct the IV by calculating the distance (in kilometers) between the corporate headquarters and the location of the provincial government office. The underlying reasoning is as follows. First, firms that are located near a government office can obtain useful information at a lower cost, and they have more opportunities to approach politicians. Second, at the same time, politicians (including former politicians) might prefer working in the same area where they build their social and political networks. We argue that this instrument should not be conceptually related to firm performance because the geographic locations of companies' headquarters are predetermined and are unlikely to directly affect firm performance. In summary, our identification assumption is that companies' geographic locations are not directly related to firm performance, which can only be affected through political connections.

In Table 3, in the first stage, we expect a negative relation between distance and political connections, implying that the shorter the distance between the firm and the provincial government office, the higher the possibility of having political access. We find that *F_IPC* is consistent with our predictions and the coefficients on the instruments are significantly different from zero. However, the first-stage regression for *F_DPC* is not significant. One explanation is that whether the TMT is comprised of current or former political officials is unrelated to the distance. However, distance plays an important role in building political resources from social ties. In the second stage, we find a positive sign for *F_IPC* on firm value. However, the coefficient of *F_*

TABLE 3

Endogeneity Tests

	Dep =			
	F_DPC 1st	ln(Tobin's Q) 2nd	F_IPC 1st	ln(Tobin's Q) 2nd
SOE	0.020**	0.542**	0.012	−0.088***
	(2.20)	(2.49)	(0.28)	(−4.22)
Independent	0.217***	7.107***	0.883***	0.083
	(2.97)	(3.10)	(2.66)	(0.37)
Duality	0.002	0.099***	0.000	0.026
	(0.25)	(3.01)	(0.00)	(1.29)
LS	−0.069***	−1.924***	−0.007	0.190***
	(−2.70)	(−2.63)	(−0.06)	(3.32)
Leverage	−0.036*	−1.373***	−0.293***	−0.146*
	(−1.85)	(−3.63)	(−3.40)	(−1.90)
ln(Sales)	−0.002	−0.082***	−0.012	−0.001
	(−0.51)	(−2.58)	(−0.58)	(−0.04)
ln(Board Size)	−0.119***	−3.583***	−0.146	0.136**
	(−5.00)	(−2.84)	(−1.51)	(2.25)
ln(Firm Age)	−0.026***	−0.777***	−0.047	0.031
	(−2.86)	(−2.84)	(−1.23)	(1.46)
Firm Size	0.030***	0.717**	0.174***	−0.282***
	(4.54)	(2.26)	(6.21)	(−8.27)
ln(1 + Distance to Provincial Office Building)	0.001		−0.041***	
	(0.21)		(−3.39)	
Predicted F_DPC		−30.572***		
		(−2.89)		
Predicted F_IPC				0.457***
				(2.89)
n	6,458	6,458	6,458	6,458
Industry and Year F.E.	Yes	Yes	Yes	Yes
R^2	0.167		0.191	0.248
Durbin p-value		0.000***		0.000***
IV F-stat		0.187		38.91

*, **, *** Indicate $p < 0.1$, $p < 0.05$, and $p < 0.01$, respectively.
Table 3 presents results using a two-stage least squares regression framework that tests for the potential effects of endogeneity between political connections and firm performance.
We employ ln(1 + *Distance to Provincial Office Building*) to instruments *F_DPC* and *F_IPC*. *Distance to the Provincial Office Building* refers to the distance (in kilometers) from the firm headquarters to a provincial government office building.
In columns (1) and (3), we report the regression results for the first-stage regression of the two-stage least squares procedure for *F_DPC* and *F_IPC*, respectively. In columns (2) and (4), the results for the second-stage regression are presented.
The dependent variable is ln(*Tobin's Q*). The test variables are *F_DPC* and *F_IPC*.
t-statistics based on robust standard errors and clustered by the firm are reported in parentheses.
All variables are defined in Appendix A.

DPC is negative and significant, possibly because *F_DPC* can bring up political risk while *F_IPC* is less observable to outsiders and thus helps avoid political risk.

V. CROSS-SECTIONAL TESTS

Our analyses so far document a positive relation between *F_IPC* and firm performance. In this section, we conduct several tests to extend the basic findings. We test whether the effects of *F_DPC/F_IPC* on firm value are more significant in *SOEs,* in places with a lower level of marketization, and before the anti-corruption campaign.

TABLE 4
Cross-Sectional Tests

Panel A: *SOEs* versus Non-*SOEs*

	Dep = ln(*Tobin's Q*)	
	F_DPC	*F_IPC*
F_DPC	−0.040	
	(−0.57)	
SOE ∗ *F_DPC*	0.139	
	(1.57)	
F_IPC		0.006
		(0.45)
SOE ∗ *F_IPC*		0.079***
		(4.59)
Controls	Yes	Yes
n	6,458	6,458
Adj. R^2	0.530	0.535

Panel B: Market Index

	Dep = ln(*Tobin's Q*)	
	F_DPC	*F_IPC*
F_DPC	−0.198	
	(−1.04)	
Market Index ∗ *F_DPC*	0.033	
	(1.35)	
F_IPC		0.120***
		(3.01)
Market Index ∗ *F_IPC*		−0.010*
		(−1.94)
Controls	Yes	Yes
n	6,458	6,458
Adj. R^2	0.530	0.533

SOE and Non-*SOE* Comparison

Political power plays a more important role in *SOEs* than in non-*SOEs*. With higher political resources, firms could gain better resources. The whole system of *SOEs* is more sensitive to political resources. In light of this, we expect the effects of political connections on firm value to be more pronounced for *SOEs*. Consistent with our prediction, the results in Panel A of Table 4 show that the effects of *F_IPC* on firm value are more significant in *SOEs* than in non-*SOEs*. The coefficient on the interaction between *SOE* and *F_IPC* is significantly positive (0.079, t = 4.59). However, consistent with the main findings, *F_DPC* has no significant effects on firm value. Further, there is no significant difference between *SOEs* and non-*SOEs*.

Market Index

According to findings by Chen, Guan, Zhang, and Zhao (2017b), political connections are particularly prevalent where the legal system is less developed, property rights protection is weaker, and there are more investment barriers to foreign capital. Often, political connections play a more crucial role in places with lower levels of "traditional" marketization, e.g., where less formal economic structures underpin a larger share of the local economic output. Political connections can, in such places, help provide property rights protection. In regions and locations with a low level of marketization, government roles dominate market power. Thus, firms in under-marketized provinces are more likely to rely on political resources.

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TABLE 4 (continued)

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Panel C: Anti-Corruption Campaign

	Dep = ln(*Tobin's Q*)	
	F_DPC	**F_IPC**
F_DPC	0.109*	
	(1.84)	
*F_DPC * POST*	−0.140**	
	(−2.21)	
F_IPC		0.051***
		(4.19)
*POST * F_IPC*		−0.016
		(−1.12)
Controls	Yes	Yes
n	6,458	6,458
Adj. R^2	0.530	0.532

*, **, *** Indicate $p < 0.1$, $p < 0.05$, and $p < 0.01$, respectively.
Table 4 provides cross-sectional tests based on firm characteristics, market conditions, and different periods. The dependent variable is ln(*Tobin's Q*).
Panel A of Table 4 presents results that examine the moderating effects of *SOEs*.
Panel B of Table 4 shows the moderating effect of marketization.
Panel C of Table 4 shows the moderating effect of the anti-corruption campaign.
t-statistics based on robust standard errors and clustered by the firm are reported in parentheses.
All variables are defined in Appendix A.

Using the marketization index provided by Fan, Wang, and Ma (2011), we test whether political connections enhance firm value more in under-marketized provinces. Panel B of Table 4 shows that the interaction term between the market index and F_IPC remains significant (the coefficient = −0.010, t-statistic = −1.94). This outcome offers some evidence that political resources exert a larger positive effect on firm profitability in provinces with weaker marketization.

Anti-Corruption Campaign

On December 4th, 2012, President Xi Jinping announced the Eight-Point Regulation to restrict corruption. Following the onset of the anti-corruption campaign in 2013, about 182,000 officials nationwide were punished for corruption and abuse of power (Lin, Morck, Yeung, and Zhao 2016). While we expect the effect of *F_DPC* on firm value to decrease after the anti-corruption campaign, the effect of *F_IPC* is not obvious. On the one hand, *F_IPC* may be a substitute for *F_DPC*. The value of *F_IPC* may increase as a result of the campaign because it attracts less legal attention. On the other hand, the anti-corruption campaign would constrain all types of corrupt activities due to the higher litigation risk. Thus, it is interesting to empirically test this question. Panel C of Table 4 shows that the effect of *F_DPC* on firm value decreases significantly after the anti-corruption campaign, but the effect of *F_IPC* on firm value does not substantially change.

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VI. ADDITIONAL TESTS

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We conduct several additional tests to verify the robustness of our findings to key steps in our analysis and to help strengthen construct validity for our *F_IPC* measure. First, we decompose *F_IPC* into *F_IPC_Col* and *F_IPC_Fgo*. Second, we consider alternative measures for *F_DPC* and *F_IPC*. Third, we construct each political connection measure at the political institutional level. Fourth, we differentiate our measures of *F_DPC/F_IPC* from general connections.

Decomposition of *F_IPC*

In this section, we decompose *F_IPC* into *F_IPC_Col* and *F_IPC_Fgo*. In the data construction section, we show that *F_IPC* contains two parts: *F_IPC_Col* and *F_IPC_Fgo*. *F_IPC_Col* denotes connections to government officials through TMT's colleagues and *F_IPC_Fgo* denotes connections to government officials via the government institutions where TMT members work or have worked. We want to test whether these two different types of implicit political connections both carry value to the firm.

TABLE 5

Decomposition of *F_IPC*

	Dep = ln(*Tobin's Q*)	
	F_IPC_Col	**F_IPC_Fgo**
SOE	−0.076***	−0.076***
	(−3.65)	(−3.63)
Independent	0.476***	0.477***
	(2.81)	(2.83)
Duality	0.026	0.026
	(1.30)	(1.26)
LS	0.185***	0.189***
	(3.24)	(3.30)
Leverage	−0.275***	−0.269***
	(−4.74)	(−4.66)
ln(Sales)	−0.007	−0.006
	(−0.43)	(−0.36)
ln(Board Size)	0.067	0.073
	(1.26)	(1.37)
ln(Firm Age)	0.014	0.013
	(0.70)	(0.62)
Firm Size	−0.202***	−0.208***
	(−11.30)	(−11.62)
F_IPC_Col	0.025**	
	(2.10)	
F_IPC_Fgo		0.033***
		(3.77)
Industry and Year F.E.	Yes	Yes
n	6,458	6,458
Adj. R²	0.530	0.532

*, **, *** Indicate p < 0.1, p < 0.05, and p < 0.01, respectively.
Table 5 presents the results from OLS regressions decomposing *F_IPC* into *F_IPC_Col* and *F_IPC_Fgo*. The dependent variable is ln(*Tobin's Q*). The test variables are *F_IPC_Col* and *F_IPC_Fgo*.
t-statistics based on robust standard errors and clustered by the firm are reported in parentheses.
All variables are defined in Appendix A.

In Table 5, we find that the coefficient on *F_IPC_Col* is 0.025 and significant at the 5 percent level (t = 2.10). The marginal effect suggests that holding all other variables at their means, colleagues' *F_IPC* improves firm performance. In comparison, the coefficient on *F_IPC_Fgo* is significantly positive (0.033, t = 3.77), suggesting a marginal value addition of 0.033 percent for an increase of 1 percent in *F_IPC_Fgo*.

Alternative Measures of Political Connections

In the main regression, we use an equally weighted headcount measure of political connections. We acknowledge that doing so fails to take into account the relative power and influence of different connection types. Here we extend our test in an alternative direction to account for this limitation by assigning simple importance weights to different types of government institutions. The connection types are ordered from the most to the least powerful in Appendix B, with the numbers in column three in (e.g., 1/1, 1/2,...) approximating the relative importance of each type of connection. We recognize that this methodology lacks precision and that it makes assumptions about the relative importance between ranks. However, in the absence of information, our adopted weighting schemes appear plausible. Using the weighted measures, *F_DPC_w,* we find similar results. In Panel A of Table 6, the coefficient on *F_DPC_w* is not significant and the coefficients on the three *F_IPC* measures are all positively significant. In Panel B of Table 6, we use unscaled measures (unscaled by board size) of implicit political connections. We find that the coefficients on *F_IPC_Fgo_n* and *F_IPC_n* are both positive and significant. Overall, our results are robust to using alternative measures of political connections.

TABLE 6

Additional Tests
Alternative Measures of Political Connections

Panel A: Weighted Measures of Political Connections

	Dep = ln(*Tobin's Q*)			
	F_DPC_w	*F_IPC_Col_w*	*F_IPC_Fgo_w*	*F_IPC_w*
F_DPC_w	0.241			
	(1.27)			
F_IPC_Col_w		0.063**		
		(2.34)		
F_IPC_Fgo_w			0.074***	
			(4.19)	
F_IPC_w				0.082***
				(4.78)
Controls	Yes	Yes	Yes	Yes
Industry and Year F.E.	Yes	Yes	Yes	Yes
n	6,458	6,458	6,458	6,458
Adj. R^2	0.530	0.531	0.533	0.533

Panel B: Unscaled Measures of Political Connections (i.e., Not Scaled by Board Size)

	Dep = ln(*Tobin's Q*)			
	F_DPC_n	*F_IPC_Col_n*	*F_IPC_Fgo_n*	*F_IPC_n*
F_DPC_n	0.011			
	(0.64)			
F_IPC_Col_n		0.011		
		(1.46)		
F_IPC_Fgo_n			0.022***	
			(3.59)	
F_IPC_n				0.034***
				(4.47)
Controls	Yes	Yes	Yes	Yes
Industry and Year F.E.	Yes	Yes	Yes	Yes
n	6,458	6,458	6,458	6,458
Adj. R^2	0.529	0.530	0.531	0.532

*, **, *** Indicate $p < 0.1$, $p < 0.05$, and $p < 0.01$, respectively.
Table 6 presents the results from OLS regressions examining the impact of political connections on firm value using alternative measures for explicit and implicit political connections. The dependent variable is ln(*Tobin's Q*).
The test variables for Panel A are *F_DPC_w, F_IPC_Col_w, F_IPC_Fgo_w*, and *F_IPC_w*.
The test variables for Panel B are *F_DPC_n, F_IPC_Col_n, F_IPC_Fgo_n*, and *F_IPC_n*.
t-statistics based on robust standard errors and clustered by the firm are reported in parentheses.
All variables are defined in Appendix A.

The Value of Political Connections from Different Levels of Political Institutions

Previously, we use weighted measures of political connections. However, those weighted indexes may have limitations because the score assignment is based on the premise that higher-ranked institutions usually have higher scores (i.e., more powerful) under the scoring system. The reality is that some politically connected members at the local or lower ranked level may be more valuable to a firm due to easier access. On the other hand, many studies that analyze the importance of "institutions" ignore the importance of "positions." The government system in China is very complicated. Officials at higher-ranked government institutions may have more power compared to those at lower-ranked institutions, even if the former holds a more junior position. In Table 7, we avoid this noisy aggregation method by aggregating the four measures at each government institutional level and run eight regressions on each type of political connection. The political landscape of China is somewhat

TABLE 7

Additional Tests

Value Variation among Political Connections of Different Levels

	Dep = ln(*Tobin's Q*)			
	F_DPC	**F_IPC_Col**	**F_IPC_Fgo**	**F_IPC**
D1: Central Committee of the	−0.075***	−0.076***	−0.075***	−0.076***
Communist Party of China	(−3.61)	(−3.65)	(−3.62)	(−3.64)
D3: The State Council of the	0.484***	0.476***	0.477***	0.456***
People's Republic of China	(2.87)	(2.81)	(2.83)	(2.70)
D4: National People's Congress	0.025	0.026	0.025	0.026
	(1.24)	(1.30)	(1.26)	(1.27)
D5: Chinese People's Political	0.190***	0.185***	0.189***	0.187***
Consultative Conference	(3.33)	(3.25)	(3.31)	(3.29)
D6: National Party Congress	−0.275***	−0.275***	−0.268***	−0.265***
	(−4.73)	(−4.74)	(−4.65)	(−4.60)
D7: Local people's governments	−0.007	−0.007	−0.006	−0.006
at all levels	(−0.42)	(−0.43)	(−0.36)	(−0.37)
D8: Institutional sector	0.072	0.067	0.072	0.072
	(1.33)	(1.26)	(1.36)	(1.35)
Controls	Yes	Yes	Yes	Yes
Industry and Year F.E.	Yes	Yes	Yes	Yes

*, **, *** Indicate p < 0.1, p < 0.05, and p < 0.01, respectively.
Table 7 presents the summary regression results obtained by considering the eight levels/ranks of political connections separately. The dependent variable is ln(*Tobin's Q*). The test variables are *F_DPC, F_IPC_Col, F_IPC_Fgo,* and *F_IPC*.
t-statistics based on robust standard errors and clustered by the firm are reported in parentheses.
All variables are defined in Appendix A.

complicated—a mixture of different types of institutions, parties, congresses, and conferences, etc. Any attempt to try to assign importance scores or rank to these organizations would be open to challenge. Therefore, instead of trying to define importance-weighted measures of political connectedness, i.e., *F_IPC_Col* and *F_IPC_Fgo,* we run separate regressions based on their constituent components. Doing so allows us to gauge which pillars of political connectivity matter more.

Table 7 shows that effect of political connections obtained through *D3* (The State Council of the People's Republic of China) and *D5* (Chinese People's Political Consultative Conference) are positively significant across all four variables, while political connections built through *D1* (Central Committee of the Communist Party of China) and *D6* (National Party Congress) are negatively significant across all four variables.[4] Prior studies show that political connections have two effects on firm value: a positive effect, or helping hands, based on firms' capabilities in capitalizing their connections; and a negative effect, or grabbing hands, due to rent seeking by government officials and bureaucrats. For example, Chen, Li, Luo, and Zhang (2017a) find that a positive helping hand effect is more important for non-*SOEs* with lower levels of connections, while a negative grabbing hand effect dominates for non-*SOEs* with higher levels of connections. Our result is in line with co-existence of both helping hands and grabbing hands of political connections; it is possible that grabbing hands effect is stronger for connections built through the national party system (*D1* and *D6*) while the connections built through the state administrative system (*D3* and *D5*) provide a helping hand.

Difference between *F_DPC/F_IPC* and General Connectedness

One possible concern about our results is whether our defined measure of *F_IPC* is materially different from more general notions of connectedness, i.e., the total size of a TMT's network. To address this concern, we control for the total number of connected colleagues that a TMT member has, irrespective of whether they are government officials. Table 8 shows that after controlling for the total number of connected colleagues, the effect of *F_IPC* on firm value is still significant and positive. Our

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[4] We do not have enough observations in our sample belonging to *D2* categories.

TABLE 8

Additional Tests
Control for Wider Notions of Social Connectivity

	Dep = ln(*Tobin's Q*)			
	F_DPC	*F_IPC_Col*	*F_IPC_Fgo*	*F_IPC*
SOE	−0.079***	−0.079***	−0.078***	−0.077***
	(−3.80)	(−3.80)	(−3.75)	(−3.70)
Independent	0.467***	0.474***	0.467***	0.457***
	(2.77)	(2.81)	(2.77)	(2.71)
Duality	0.027	0.027	0.026	0.026
	(1.32)	(1.31)	(1.30)	(1.29)
LS	0.179***	0.177***	0.182***	0.186***
	(3.13)	(3.09)	(3.18)	(3.25)
Leverage	−0.268***	−0.268***	−0.266***	−0.266***
	(−4.63)	(−4.65)	(−4.62)	(−4.61)
ln(Sales)	−0.007	−0.007	−0.007	−0.006
	(−0.43)	(−0.43)	(−0.39)	(−0.38)
ln(Board Size)	0.035	0.028	0.050	0.066
	(0.65)	(0.52)	(0.92)	(1.21)
ln(Firm Age)	0.014	0.013	0.013	0.014
	(0.68)	(0.63)	(0.65)	(0.70)
Firm Size	−0.207***	−0.207***	−0.209***	−0.209***
	(−11.59)	(−11.62)	(−11.71)	(−11.73)
ln(Number of Colleagues)	0.036***	0.042***	0.023**	0.006
	(3.86)	(3.46)	(1.99)	(0.41)
F_DPC	0.015			
	(0.32)			
F_IPC_Col		−0.009		
		(−0.58)		
F_IPC_Fgo			0.021*	
			(1.93)	
F_IPC				0.039**
				(2.38)
Industry and Year F.E.	Yes	Yes	Yes	Yes
n	6,458	6,458	6,458	6,458
Adj. R^2	0.532	0.532	0.532	0.532

*, **, *** Indicate p < 0.1, p < 0.05, and p < 0.01, respectively.
Table 8 presents results from extending the baseline regression to including more general social connection measures to control for potential confounding effects. We include ln(*Number of Colleagues*), which measures the total number of connected colleagues the TMT has, not only those with political associations. The dependent variable is ln(*Tobin's Q*). The test variables are *F_DPC, F_IPC_Col, F_IPC_Fgo,* and *F_IPC*.
t-statistics based on robust standard errors and clustered by the firm are reported in parentheses.
All variables are defined in Appendix A.

test result verifies that *F_IPC* is not perfectly correlated with the total size of the network available to a firm. In turn, it carries incremental information, i.e., *F_IPC* contains additional information that a broader measure of connectedness cannot isolate.

VII. CONCLUDING REMARKS

In this study, we take advantage of a previously under-explored dataset to develop a novel measure for, and conduct an initial examination into the value of, implicit political connections. This dataset contains rich information about the social ties of top management team (TMT) members at Chinese listed firms, including the TMT's political backgrounds and the backgrounds of their connected colleagues. On the basis of this data, we develop a novel measure of firm-level political resources, namely *F_IPC,* which captures the strength and scale of the implicit political connections available to a firm. We find a positive connection between firm *F_IPC* and firm performance, but no significant relation between *F_DPC* and firm value.

We conduct a variety of robustness checks and cross-sectional tests to establish the stability of our conclusions, to strengthen the construct validity behind our adopted measure of *F_IPC,* and to mitigate concerns about endogeneity.

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APPENDIX A

Variable Definitions

Variable	Definition (All Data Are from CSMAR Unless Otherwise Noted)
F_DPC	F_DPC captures direct political connections, compiled on the basis of the current and former government positions of top management team members. We count the number of board members who are current or former government officials and then aggregate this number at the firm level to construct F_DPC_count. We further take the natural logarithm of this headcount value and scale it by board size. $F\_DPC = \ln(1 + F\_DPC\_count/Board\ Size)$.
F_IPC_Col	F_IPC_Col is constructed as $\ln(1 + F\_IPC\_Col\_count/Board\ Size)$. F_IPC_Col_count captures the variations in the degree of a firm's implicit political connections, compiled from the number of politically connected colleagues of the top management team who work at the same firm.
F_IPC_Fgo	F_IPC_Fgo is constructed as $\ln(1 + F\_IPC\_Fgo\_count/Board\ Size)$. F_IPC_Fgo_count is another measure of implicit political ties. The difference between F_IPC_Fgo_count and F_IPC_Col_count is that the latter only includes the politically connected colleagues of the top management team who work at the same government institutions.
F_IPC	F_IPC is measured as $\ln(1 + (F\_IPC\_Col\_count + F\_IPC\_Fgo\_count)/Board\ Size)$. This measure tries to aggregate colleagues' implicit political connections.
F_DPC_w	This measure applies "importance" weights to different levels of political connections and is calculated as $F\_DPC\_w = \ln(1 + F\_DPC\_count * Importance/Board\ Size)$. Further details about the weighting scheme are provided in the main text.
F_IPC_Col_w	This measure applies "importance" weights to different levels of political connections and is calculated as $F\_IPC\_Col\_w = \ln(1 + F\_IPC\_Col\_count * Importance/Board\ Size)$. Further details about the weighting scheme are provided in the main text.
F_IPC_Fgo_w	This measure applies "importance" weights to different levels of political connections and is calculated as $F\_IPC\_Fgo\_w = \ln(1 + F\_IPC\_Fgo\_count * Importance/Board\ Size)$. Further details about the weighting scheme are provided in the main text.
F_IPC_w	This measure applies "importance" weights to different levels of political connections and is calculated as $F\_IPC\_w = \ln(1 + (F\_IPC\_Col\_count + F\_IPC\_Fgo\_count) * Importance/Board\ Size)$. Further details about the weighting scheme are provided in the main text.
F_DPC_n	This measure removes all weighting schemes, including scaling by board size and is calculated as $F\_DPC\_n = \ln(1 + F\_DPC\_count)$.
F_IPC_Col_n	This measure removes all weighting schemes, including scaling by board size and is calculated as $F\_IPC\_Col\_n = \ln(1 + F\_IPC\_Col\_count)$.
F_IPC_Fgo_n	This measure removes all weighting schemes, including scaling by board size and is calculated as $F\_IPC\_Fgo\_n = \ln(1 + F\_IPC\_Fgo\_count)$.
F_IPC_n	This measure removes all weighting schemes, including scaling by board size, and is calculated as $F\_IPC\_n = \ln(1 + (F\_IPC\_Col\_count + F\_IPC\_Fgo\_count))$.
ln(Tobin's Q)	ln(Tobin's Q) is estimated as the natural logarithm of the market capitalization of a firm's stock (tradable shares multiplied by the stock price at the fiscal year-end) plus non-tradable shareholder equity plus total debt, divided by total assets.
SOE	A firm is classified as state-owned if its ultimate controlling shareholder is owned by the state government.
Independent	The number of independent directors/board size. The independent directors of a listed company are those directors who hold no position within the company other than that of the director.
Duality	A dummy variable that equals 1 if the chairperson and CEO are the same person.
LS	The largest shareholding proportion of the controlling shareholder.
Leverage	The ratio of long-term debt (including the current portion of long-term debt) to total assets.
ln(Sales)	Natural logarithm of the revenues.
ln(Board Size)	Natural logarithm of the size of the board, as measured by the number of directors sitting on the board at the end of the year.
ln(Firm Age)	Natural logarithm of the number of years since the firm's IPO date.
Firm Size	Natural logarithm of total assets.
Market Index	Rank measure ranging from 1 (low) to 10 (high) following Fan et al. (2011).
ln(1 + Distance to Provincial Office Building)	Natural logarithm of (1 + Distance (in kilometers) from firm headquarters to the provincial office building), where the distance is obtained from Google Maps.
ln(Number of Colleagues)	Natural logarithm of the number of TMT's colleagues, counting only connections from outside of the firm.

APPENDIX B
Political Connections at Different Institutions and the Assignment of Importance Scores

Variable Definitions	Variables in Chinese	Importance
1 = Central Committee of the Communist Party of China	1 = 中国共产党中央委员会	1/1
2 = President of the People's Republic of China	2 = 中华人民共和国主席	1/2
3 = The State Council of the People's Republic of China	3 = 中华人民共和国国务院	1/3
4 = National People's Congress	4 = 全国人民代表大会	1/4
5 = Chinese People's Political Consultative Conference	5 = 中国人民政治协商会议	1/5
6 = National Party Congress	6 = 全国党代表大会	1/6
7 = Local people's governments at all levels	7 = 地方各级人民政府	1/7
8 = Institutional sector (including institutions directly under the central government, state institutions, and local institutions)	8 = 机构部门（包括中央直属构、国务院机构以及地方机构)	1/8
9 = Democratic parties	9 = 民主党派	0
10 = Social groups	10 = 社会团体	0
11= Universities	11 = 高等院校	0
12 = Local Committee of the Communist Party of China	12 = 中国共产党地方委员会	0
98 = Institution type cannot be determined	98 = 无法确定机构类别	missing
99 = No government background	99 = 无政府背景	0