Political connections, Employees' Benefits and Firm Performance ：Evidence from the Chinese Private Firms

Jie Zhou

A Thesis

in

The John Molson School of Business

Presented in Partial Fulfilment of the Requirements

for the Degree of Master of Science (Finance) at

Concordia University

Montreal, Quebec, Canada

January 2020

CONCORDIA UNIVERSITY
School of Graduate Studies

This is to certify that the thesis prepared

By: JIE ZHOU

Entitled: Political connections, Employees' Benefits and Firm Performance : Evidence from the Chinese Private Firms

and submitted in partial fulfillment of the requirements for the degree of

Master of Science (Option Finance)

complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Arvind K. Jain Chair

Arvind K. Jain Examiner

Ravi Mateti Examiner

Saif Ullah Thesis Supervisor(s)

Signed by the final examining committee:

Approved by Nilanjan Basu
Chair of Department or Graduate Program Director

Dean Anne-Marie Croteau
Dean of Faculty

Date January 13, 2020

Abstract

Political connections, Employees' Benefits and Firm Performance ：Evidence from the Chinese Private Firms

Jie Zhou

The purpose of this paper is to study how political connections affect the employees' benefits and the firm performance of private firms listed in Chinese stock market. I use a sample of 1,583 private firms from15 industries in Chinese A-share market (Shenzhen and Shanghai stock market) from 2008 to 2017. I find that the employees' benefits in politically connected firms are not as high as generally expected, but the firms with political connections hire more employees in order to show their social responsibility. Common perception is that a politically connected firm will get lots of benefits from the government; however, the results show that the political connections damage the performance of the firm. The results also show that the improvement of employees' benefits improves the firm performance, and the representative connection plays a more important role in improving the performance of firms when compared with official connection.

Key Words: political connections; employees' benefits; official connection; representative connection

ACKNOWLEDGEMENT

The completion of this paper marks an end to my three years of graduate studies in Concordia University. During the past three years, I have received much help from many people. I would like to express my gratitude to all those who helped me during the process of writing this thesis and my three years at John Molson School of Business in Concordia University.

I would first like to thank my thesis supervisor Professor Saif Ullah of the John Molson School of Business at Concordia university. The door to Prof. Saif's office was always open whenever I ran into a trouble spot or had a question about my research or writing. He consistently allowed this paper to be my own work but steered me in the right the direction whenever he thought I needed it. He has offered me valuable suggestions int he academic studies. In the preparation of this thesis, he has spent much time reading through each draft and provided me with inspiring advice. Without his consistent and illuminating instruction, this thesis could not have reached its present form.

I would also like to acknowledge Professor Ravi Mateti and Professor Arvind K. Jain of the John Molson School of Business at Concordia university as the committee members of this thesis, and I am gratefully indebted to for their very valuable comments on this thesis.

Thirdly, I must express my very profound gratitude to my parents and my husband for providing me with unfailing support and continuous encouragement throughout my years of study and through the process of researching and writing this thesis. This accomplishment would not have been possible without them. Thank you.

Table of Contents

List of tables

1. Introductions and Background

With the development and transformation of the Chinese economy, private firms have become an important part in Chinese market. In the past thirty years, private firms have played a significant role in promoting employment, paying taxes and accelerating economic development. However, compared with the inherent advantages of state-owned firms, the development of private firms is still constrained by the local government and the legal system. The institutional environment shapes the private entrepreneur's motivation to participate in politics (Li (2007)). Private firms try to establish political connections. Political connections of companies is a widespread phenomenon throughout the world. Many firms in developed countries and developing countries have established close ties with the government. But is it good for the firms to get political connections? The answer to this question is critical for companies and the society.

China has the largest populations in the world today based on the data from United Nations estimates. [1] Even though the population growth is slow, there are still almost 900 million people of working age in China (Report of Employment Promotion Law of the People's Republic of China (2019)). [2] The provision of employment is still the most important task of the government. According to prime minister Li Keqiang, whereas the market is more interested in GDP growth rate, Chinese government's top priority is employment.[3] The number of new graduates is more than 8 million and the provision of employment to them is a big concern of the government.[4] Chinese chairman Xi Jinping (2018) points that Private firms in China take 80% employments. [5] Do the Chinese private firms take more (less) responsibility for the employment after they establish

[1] https://www.worldometers.info/world-population/china-population/ Retrieved on December 21, 2019
[2] http://www.npc.gov.cn/npc/c30834/201908/f5b70bfd15fd4548a241d35ff25c7c42.shtml Retrieved on December 21, 2019.
[3] http://www.xinhuanet.com/english/2018-07/26/c_137350120.htm Retrieved on December 19, 2019.

[4] https://www.economist.com/china/2019/08/01/the-growing-ranks-of-unemployed-graduates-worry-chinas-government Retrieved on December 19, 2019.
[5] https://www.scmp.com/economy/china-economy/article/2171267/xi-jinping-tells-chinas-private-business-owners-you-can Retrieved on December 21, 2019

political connections? Several recent research studies investigate the link between the political connections and the private firms focus on taxes (Adhikari et al. (2006), Wu et al. (2012), Li. (2016), Kim and Zhang. (2016)), loans (Yeh (2013), Houston and Ma (2014), Li (2016)) and firm performance (Zhang (2015), Lim (2018)). However, the research studies focusing on the relationship between the number of employees, the employees' benefits and the political connections are rare. This study focuses on the relation between political connections, employees' number and employment benefits.

In China, both the employer and the employees should contribute towards mandatory benefits, and these benefits consist of medical insurance, endowment insurance, unemployment insurance, maternity insurance, work-related injury insurance and housing accumulation funds. Do the politically connected private firms pay more (less) employees' benefits than others not politically connected ones? The big difference between private firms and the state-owned firms is that private firms put business goal to maximize their profits first, but the SOE put the government's goals first. So, in their operation, will the private companies follow the lead of the political connections and implement government initiated welfare protection policies? Do the employees' interests and firm interests converge or diverge? Do the political connections have a positive or a negative effect on the firm's performance? This paper investigates these questions.

This study selects the listed private firms in Chinese A-share market (Shenzhen and Shanghai stock market) from 2008 to 2017 as the sample. The financial statements, executives, shareholders and other related information of listed private firms come from Csmar database. The political connections data is manually collected from the firm's annual reports in Csmar database. The final sample used for the study includes 1,583 private listed firms in 15 industries with 10,331 firm year observations.

There are four main findings of this paper. Firstly, the employees' benefits in politically connected firms are not as high as we generally expect. The employees' benefits at the representative connection firms are lower. Secondly, politically connected firms employ more employees than other firms. Thirdly, key executives who have political connections

damage the performance of the firm. The politically connected firm is subjected to intervention from the government to achieve the goal of expanding employment and promoting social stability. Labor cost is a huge cost for private firms, and this cost may exceed the benefits they get from the political connections. Finally, I find that the improvement of employees' benefits promotes the firm performance, and the representative connection plays a more important role in improving the performance of a firm.

The paper is organized as follow: Section 2 reviews the literature and provides hypotheses. Section 3 shows the data resources used in the paper. Section 4 analyses the results and section 5 is the conclusion.

2. Literature review and hypotheses

2.1 Political connections

Political connections of private firms are a general phenomenon in the world. Faccio (2006) shows that the political connections exist in 35 of 47 countries in her sample. There are many different definitions of political connections used in the existing studies. Bertrand et al. (2008) and Do et al. (2015) defined political connections broadly by following a social network approach: a firm is connected to a politician if one of its directors shares educational background with a politician. However, a majority of the researchers consider political connections as direct relationship between firm and politicians. A company is defined as politically connected if at least one of its top officers (CEO, chairman, president, vice president, or secretary of the board) or a large shareholder was head of state, government, or a member of the national parliament (Faccio (2006), Ang (2013), Braham et al (2019)). Many researchers focus on the political connections in China because of the specific political system. Pan et al. (2008) consider that a firm is politically connected if one of the general managers or chairmen are serving (have served) as government officers. Wu et al. (2008) define the political connections as "the implicit political relationship formed between a company and an individual with political rights" (Page 2). The definition of this implicit relationship is mainly based on the company's chairman or general manager who has served in the

government or the military. Chinese research studies generally consider that the firms are politically connected when they meet one of the three conditions: i) former government officials serve as corporate executive; ii) former government officials start businesses; iii) corporate executives or actual controllers participate in politics as elected representatives of the People's Congress or as Chinese People's Political Consultative Conference (CPPCC) members (Liang et al (2010)).

2.2 Political connections, Employments and firm performance

China is a country with a large population. The total population of working age is also very large[6]. Although the population at working-age 16-59 has fallen by an average 3.82 million per year since 2012, there are still nearly 900 million people in China at the age of working, and it estimated that there will still be 800 million people at working-age by 2035 (Report of Employment Promotion Law of the People's Republic of China (2019)). [7] Moreover, State Council documents (2018) point out that all levels of government and firms should set out the employment as a priority and pay more attention to promoting employment. Therefore, the provision of employment is still a big challenge for China and the Chinese firms. Chinese President Xi Jinping (2018) has stated that private firms are the most important part of the Chinese economy. They contribute more than 60% GDP and are responsible for 80% of the employment. Nearly 90% of new employment is in private firms and more than 50% of taxes come from private firms. However, the development of private firms is still constrained by the local government and the legal system. In order to protect the external environment so that a company may survive and develop, private firms often actively seek political connections and expect to obtain benefits (Wang et al (2005)). This paper studies the relation between political connections and the Chinese private firms. In China, the government holds the right to allocate important resources (Zhang. (2013)). Due to political system and cultural reasons, private firms have obtained a favorable environment for survival and development by

[6] The number of graduates has also been rising.
[7] http://www.npc.gov.cn/npc/c30834/201908/f5b70bfd15fd4548a241d35ff25c7c42.shtml
Retrieved on December 21, 2019.

affiliating with SOEs, hiring government officials as manager, and establishing party organizations in firms (Liang et al. (2010)). With the development of the private economy, more and more private entrepreneurs have become members of the National People's Congress or members of the CPPCC and thus they are directly participating in politics (Liang et al. (2010)). In democratic societies, voters have the choice of voting politicians out of power. In less fully democratic societies, and in between voting cycles in democratic societies, the public has other means of influencing their agent's behavior. The mechanisms include exerting influence (Jain (2001)). To be a member of NPC or CPPCC, one needs to be voted by local population, so these private entrepreneurs are more likely to promote employees and pay more in order to get the votes.

Several studies find that political connections are valuable, as ties with the government help firms to gain comparative advantages, which enhance firm performance and value (Fan et al., (2008); Fisman, (2001); Goldman et al., (2009)). The advantages of political connections include access to key resources, including bank loans (Yu et al. (2008); Charumilind et al., (2006)), a higher IPO offering price (Francis et al. (2009)) and tax benefits (Faccio (2006)). Husnan (2001) proposes the benefits to the firms are in the form of capital funding. In his research, the connected firms can easily raise debt financing by obtaining "lending memos" form politicians. Khwaja and Mian (2005) also show that politically affiliated firms enjoy increased access to capital from financial institutions. The benefits from the political ties help the firm face fewer budget constraints, and they are less sensitive to competitors' pressure than firms without political connections (Boubakri et al. (2012)). Wu et al. (2012) investigate the performance of privately-owned firms, they find that politically connected managers in the private firms are more like to enjoy the tax benefits. In order to promote employment, Chinese government also provides tax benefits to the private firms according to the Chinses tax policy. Notice on supporting and promoting employment-related tax policies (2018)[8] states that if private firms expand the new employments, sign a labor contract with a term of more than one year and paid social insurance premiums in accordance with the law, private firms can

[8] http://www.chinatax.gov.cn/chinatax/n810341/n810765/n812161/201010/c1084716/content.html Retrieved on December 21, 2019.

get deduction on related tax (the business tax, city maintenance and construction tax, education surcharge, and corporate income tax) in sequence according to the actual number of employees hired within 3 years. Moreover, No17 in Employment Promotion Law of the People's Republic of China states (original in Mandarin, my translation follows): “government encourages firms to expand employment, supports the employment of the unemployed and the disabled, and grants preferential tax treatment”. No10 states that “all levels of government and relevant departments give recognition and rewards to firms and individuals who have made outstanding achievements in promoting employment”. Cheng. (2014) finds that actively fulfilling social responsibilities can help firms face fewer financing constraints. When considering the benefits that private companies can get by following the government policies, I propose that private firms with political connections will hire more employees and provide more benefits. Therefore, political connections are positively related to firm performance.

H1a: Politically connected firms have higher level of employees’ benefits compared with those of other firms.
H2a: Private firms with political connection will hire more employees than firms that are not politically connected.
H3a: The political connections in a private firm are positively related to the firm performance

However, the impact of political connections on firm performance is still not conclusive. Other research studies find that political connections have a negative effect on firms’ performance. Su and Fung (2013) show that the political connections have a negative effect on firm value due to related-party transactions. Ling et al. (2016) examine the influence of firms’ political connections on external financing, firm investment and financial performance. They find that firms with strong political ties are financed with more long-term bank loans and are more likely to overinvest. Based on a sample of 47countries, Faccio (2006) reports that politically connected firms underperform their non-connected peers on an ex ante basis, even though political ties provide a number of benefits. Fan et al. (2007) find that listed firms in China with politically connected CEOs

underperform those without connected CEOs. Boubakri et al. (2008) report that politically connected firms exhibit poor accounting performance compared to their non-connected counterparts based on sample of 245 privatized firms headquartered in 41 countries. In addition, from the perspective of business objectives the goal of the firm is profit maximization or value maximization. Employees' benefits are a big part of labor costs. Higher labor costs (higher wage rates and employee benefits) make workers better off, but they can reduce companies' profits (Hamermesh (2014)). The aim of liberalization process is to reduce the government's intervention, the implementation process itself requires a high level of state intervention (Jain. (2001)). Government can transfer all or part of the political objectives to politically connected private firms, make the firms achieve political goals and ignore the t goal of value maximization. This will damage the enterprise efficiency and profit (Shleifer. (1998)). The political connections may increase the corruptions and corruption has significant distributional implications. Given its negative efficiency implications, corruption should be considered harmful to both growth and equity (Jain (2001)). Therefore, I propose three more hypotheses based on the negative effects (costs) of the political connections:

H1b: Politically connected firms have low level of employees' benefits.
H2b: Private firms with political connection will hire fewer employees
H3b: The political connections in a private firm are negatively related to the firm performance.

In recent years, employee satisfaction has become a popular and interesting field in finance research. The primary source of satisfaction is assumed to be the employees' compensation and benefits (Meyer et al. (2001)). The compensation and benefits always consist of different insurances, which could provide benefits for the employer and the employee. *Efficiency of Salary Theory* predicts that firms with higher levels of pay will have higher employee performance. Levine (1992) found a positive relationship between employee salaries and various measures of productivity. The high level of a benefits package will lead to high employee satisfaction. Best (2008) finds strong evidence that

satisfied workers are associated with greater levels of productivity, and the firms with highly satisfied employees have a significantly higher value.

The private firm needs to ensure the maximization of firm profits or the maximization of value. Therefore, it needs to make sure that the employees have the same goal as the firm (Jianxin (2011)). Reasonable employee welfare is important for improving labor relations. It is not just insurance for the employees, but it is also a way to align the employees' interest with the firm value. In the context of China, it implies that the higher the firm social responsibility commitments, the greater the support by the government. The government will also provide more resources.

H4: In politically connected firms, employees' benefits have a positive effect on firm performance.

3. Data and Descriptive statistics

3.1 Data sample

This paper studies the relationship between political connections in Chinese private firm, employments and firm performance. Specifically, I investigate whether politically connected firms provide higher level of benefits and hire more people than firms that are not politically connected. I also investigate the relationship between political connections and firm value. This study includes the listed private firms in Chinese A-share market (Shenzhen and Shanghai stock market) from 2008 to 2017. The financial statements, executives, shareholders and other related information of listed private firms come from Csmar database. The political connections data is manually collected from the firm's annual reports in Csmar database. In terms of sample selection, I exclude special treatment stocks (ST and *ST), because the firm with ST or *ST tags suffer losses for two consecutive years or more and enter delisting procedures. Firms with ST or *ST tags also have incomplete financial reports, so the data is not complete. Therefore, I drop them. I also drop the financial firms because these firms have different accounting standards from others. Moreover, I exclude the firms in mining and power industries, because most

of these firms are monopoly (Laixin (2010)). I require firms in the sample to have at least three years of complete financial data. After the above screening steps, the final sample I use for the study includes 1,583 private listed firms in 15 industries with 10,331 firm year observations.

In the literature on political connections, the main approach is to measure political connections of the firm's executives with the government. Faccio (2006) considers a firm as having political connections based on, whether executives or major shareholders are members of parliament or government officials, whether they have close ties with senior government officials or political parties. Based on relevant studies, I consider the political connections of the firms with respect to the key executives (chairman and general manager). The General Manager is elected by and responsible to the board of directors. In the literature, the General Manager is often regarded as equivalent to the CEO of US firms (Fan et al., (2007)). These two positions generally have the most significant impact on firm decisions (Yu et al., (2008); Liu et al., (2011)). I also stratify the political connections into an official connection and a representative connection. If the key executives of the private firms who are serving (or have served as) in party committees, government, institutions of the National People's Congress, courts, and procuratorates currently or previously, I consider the key executives to have the official connection, and the variable PC1 equals 1, and 0 otherwise. Moreover, the representative connection will be considered when the key executives of the firm are serving (or have served) as representatives of the National People's Congress and CPPCC members. If connected, the variables PC2 equals 1, and zero otherwise. Therefore, the political connections of a firm are based on the PC1 and PC2. Therefore, if the key executives are connected with the politics, no matter the official or the representative connection, the firm will be considered as having the political connections. From the Table 1, the key executives of the 10,311 firm years used in this paper, there are 4,114 observations with political connections, which is approximately 39.90% of the total. There are 1,002 (9.72%) official connections and 3,558 (34.51%) representative connections in the sample. The proportion of firms with political connections in each year ranges from 30.72% to 46.71%, the proportion increase slightly from 2008 to 2012 and decreases slightly from

2012 to 2017. The official connection proportion ranges from 6.38% to 13.08%, the representative connection ranged from 27.39% to 40.40%. Moreover, there are more representative connections than official ones in the private firms in China.

The employees' benefits are a very important way to motivate and compensate the employees. The employees' benefits data are manually collected from the financial statements data. In terms of employees' benefits levels, I use social welfare (or mandatory benefits) including employment welfare, housing fund and social insurance. Social insurance includes medical insurance, endowment insurance, unemployment insurance, maternity insurance, work-related injury insurance. Education benefits is also a benefit that firms provide to employees. But this kind of benefit is not provided by all firms, so I exclude it. This study investigates the employees' benefits at three levels: industry level, firm level and regional level. Variable EB1 is the employment benefits at the firm level, it equals to average benefits divided by average operating income. And the EB2 is the industry level employees' benefits (average Benefits / average annual benefits). The employment benefits at regional level (EB3) are average benefits divided by regional average income.

Table 1 Political connections by the Year

Year	No. Company	Political connections	%	Official connection	%	Representative connection	%
2008	413	166	0.402	54	0.131	132	0.320
2009	518	207	0.400	53	0.102	172	0.332
2010	748	336	0.449	85	0.114	286	0.382
2011	1014	471	0.464	125	0.123	401	0.395
2012	1141	533	0.467	136	0.119	461	0.404
2013	1154	535	0.464	140	0.121	456	0.395
2014	1235	550	0.445	121	0.098	486	0.394
2015	1322	444	0.336	87	0.066	398	0.301
2016	1380	424	0.307	88	0.064	378	0.274
2017	1386	448	0.323	113	0.082	388	0.280
Total	10311	4114	0.399	1002	0.097	3558	0.345

This research study uses Tobin's Q as an estimate of firm performance. Tobin's Q is the ratio of the market value of a firm's assets to the replacement cost of its assets; it is a widely accepted measure of firm performance. As we do not know the replacement cost of total assets, Tobin's Q is measured as the market value of total assets deflated by the book value of total assets. Thus it is calculated as the ratio of the market value of equity plus the book value of total debts to the book value of total assets. I use the control variables based on the study of Jianxin (2018), and the Table 2 provides the definitions of the control variables that I use in my study. These variables include the basic characteristics of the firm and the firm's governance characteristics. Size, the log of total assets, is used in different models to control for the size effect. I also include industry dummies in the models to control for the industry effect. The industry classification is based on the industry codes of the China Securities Regulatory Commission. The data sample has 15 industries. Year dummy variables are also included in all the models.

Table 2 Control Variable definition and calculation method

Control Variable	Symbol	Calculation Method
The size of the firm	Size	Log of total assets
The financial leverage	Lev	Total debts/total assets
CEO Duality	Dual	Equals 1, if the firm general manager and chairman is one person, otherwise 0
Board of Directors Independence	Ind	Number of Independent Directors / Total number of Boards.
Separation of ownership and control level	PD	Actual controller's control ratio minus ownership ratio
Largest shareholder ratio	FSH	The shareholding ratio of the largest shareholder
Top ten shareholders' shares	Zindex	Sum of the % shareholding of the top ten shareholders
Executives Age	Age	The average age of the key executives.

3.2 Descriptive statistics

The table 3 provides the basic information about the sample at fiscal year, industry and regional levels. The number of private firms of China increases dramatically from 2008 to 2017. There are 413 listed private firms in 2008, and it increases to 1,386 in 2017. With the development of Chinese market, there are more listed private firms in the economy. Manufacturing industry is the main part of a country's economy, and it is also the foundation of the country's economy. China is the world's largest manufacturing country and the data shows that most of the private firms are in the manufacturing

industry. 1,243 private firms are from the manufacturing industry; they are 78.5% of the total number of listed firms. Development of the economy in different regions of China has been uneven, for the northeast and northwest part of china, the pace of development has been slow, therefore the private firms are less numerous here than in the rest of the country. Only 4.9% and 3.3% of the total number of firms are located in these regions. Moreover 46.9% of the private firms in my sample are located in the eastern part of China.

Table 4 provides the descriptive statistics. It shows that the political connections are widespread in Chinese private firms; it is 39.9% of the total sample with standard deviation 0.49. The representative connection (34.51%) is more prevalent than 9.72% official connection. The sum of total number of representative and official connection is greater than the number of political connections due to some firms having both representative and official connections. For the employees' benefits, the minimum at firm level is almost 0, and the maximum is 2.43. At industry level the minimum is 0.007, the maximum is 8.99, and at the regional level the minimum is almost 0 and the maximum is 3.66. There is a big difference among different benefits levels. The mean for the percentage of independent board of directors' members is 37%, which shows the independent director percentage meets the official requirements of 1/3; it also means only these firms in my sample have established a relatively good independent board of directors. Zindex is the sum of the shareholding ratio of the top ten shareholders, the mean is 0.54, the minimum is 0.0013 and the maximum is 0.899.

Table 3 Profiles of the Sample Companies N= 1583

Sample Characteristics	Number of firms	%
Panel A: Year		
2008	413	4.0%
2009	518	5.0%
2010	748	7.3%
2011	1014	9.8%
2012	1141	11.1%
2013	1154	11.2%
2014	1235	12.0%
2015	1322	12.8%
2016	1380	13.4%
2017	1386	13.4%
Panel B: Industry		
Primary industry	26	1.6%
manufacturing	1243	78.5%
Construction	43	2.7%
Wholesale retail	75	4.7%
Transportation warehousing	17	1.1%
Accommodation	5	0.3%
IT	8	0.5%
Real estate	67	4.2%
Business	21	1.3%
Research	15	0.9%
Public environmental protection	22	1.4%
Resident service	1	0.1%
Health	4	0.3%
Cultural	16	1.0%
Complex	20	1.3%

Panel C: Region		
Central China	130	8.2%
East China	742	46.9%
North China	162	10.2%
North East China	78	4.9%
North West China	53	3.3%
South China	315	19.9%
South West China	103	6.5%

Table 4 Data descriptive summary

Variable	Obs	Min	Max	Mean	Std. Dev
PC	10311	0.000	1.000	0.399	0.490
PC1	10311	0.000	1.000	0.097	0.296
PC2	10311	0.000	1.000	0.345	0.475
EB1	10311	0.000	2.439	0.016	0.031
EB2	10311	0.008	8.999	0.965	0.685
EB3	10311	0.001	3.661	0.141	0.139
Tobin's Q	10311	0.666	9.998	3.079	1.685
Size	10311	18.174	26.613	22.343	0.900
En	10311	1.176	5.303	3.190	0.498
Lev	10311	0.007	1.256	0.386	0.203
Dual	10311	0.000	1.000	0.373	0.484
Ind	10311	0.143	0.667	0.374	0.053
PD	10311	-0.052	0.533	0.058	0.082
FSH	10311	0.034	0.900	0.333	0.140
Zindex	10311	0.001	0.960	0.541	0.193
Age	10311	25.000	88.000	50.644	8.012

Table 5 provides the correlation matrix. The political connections and representative connection have negative relationship with all levels of employees' benefits, and it is significant at 1% level of significance. But for the official connection, it is only significant at 5% level for the industry level employment benefits. All kind of political connections have a negative relationship with the Tobin's Q at 1% and 5% levels of significance.

Based on whether the firm has political connections or not, the sample is divided into two categories, one is the firms with political connections, the other is the firms without political connections. I compare the means of different variables of these two types of firms and the results are presented in Table 6. It shows that the mean of employees' benefits at three levels in the firms, which have political connections, are smaller than the mean of firms without political connections, so the firms with political connections provides fewer benefits to the employees. Moreover, mean of the Tobin's Q for the firms with political connections is also smaller than it is for the firms without political connections. The firms that establish political connections will not improve the firm performance. However, the mean of employee numbers has the opposite results. This shows that the firms with political connections hire more employees, which supports the hypothesis 2a.

Table 5 Correlation Analysis of all variables

	PC	PC1	PC2	EB1	EB2	EB3	EN	Tobin's Q	Size	Lev	Dual	Ind	PD	FSH	Zindex
PC	1														
PC1	0.403***	1													
PC2	0.891***	0.069***	1												
EB1	-0.028***	0.012	-0.043***	1											
EB2	-0.081***	-0.025**	-0.079***	0.133***	1										
EB3	-0.035***	0.011	-0.047***	0.148***	0.744***	1									
EN	0.017*	-0.016*	0.028***	-0.073***	-0.184***	-0.248***	1								
Tobin's Q	-0.034***	-0.025**	-0.032***	0.043***	0.003	-0.060***	-0.291***	1							
Size	-0.046***	-0.044***	-0.029***	-0.101***	0.093***	-0.011	0.490***	0.200***	1						
Lev	-0.040***	0.039***	-0.072***	-0.064***	0.003	0.050***	0.278***	-0.393***	0.131***	1					
Dual	0.020**	-0.022**	0.028***	0.002	-0.021**	-0.037***	-0.048***	0.115***	-0.021**	-0.099***	1				
Ind	0	-0.015	-0.001	0.007	-0.007	-0.024**	-0.060***	0.069***	0.001	-0.029***	0.114***	1			
PD	-0.016*	0.046***	-0.036***	-0.017*	0.037***	0.055***	0.153***	-0.145***	0.065***	0.150***	-0.130***	-0.109***	1		
FSH	0.044***	0.034***	0.067***	-0.052***	-0.013	0.005	0.082***	0.032***	0.082***	-0.01	0.041***	0.036***	0.230***	1	
Zindex	0.065***	0.034***	0.097***	-0.062***	-0.028***	-0.069***	0.017*	0.157***	0.106***	-0.159***	0.067***	0.028***	-0.016*	0.409***	1
Age	0.166***	0.126***	0.134***	0.012	0.014	-0.034***	0.026***	0.013	0.031***	-0.096***	-0.039***	-0.032***	0.038***	-0.003	0.040***

*** Represent significance at the 1% level. ** Represent significance at the 5% levels. * Represent significance at the 10% level.

Table 6 Mean comparison T Test

Variables	Mean of Political connection firms	Mean of Non-Political connection firms	T-Value
EB1	0.015	0.016	3.267***
EB2	0.897	1.010	8.299***
EB3	0.135	0.145	3.467***
En	3.200	3.180	1.810*
Tobin's Q	3.009	3.125	3.486***

*** Represent significance at the 1% level. ** Represent significance at the 5% levels. * Represent significance at the 10% level.

4. Regression Analysis

4.1 Political connections and employees' benefits

In this paper, I use social welfare (or mandatory benefits), including employment welfare, housing fund and social insurance at three different levels as the measure of the employees' benefits. In order to test the relation between the political connections and the employees' benefits, I use the regression model (1) as follow:

$$\text{Eb} = \alpha_0 + \alpha_1 PC + Control + \varepsilon \qquad (1)$$

The dependent variable is Eb (Employees' benefits), which measures employees' benefits and the independent variable is the political connections. The control variables include firm size, financial leverage, Dual, Indep, PD, Zindex, and Age. These variables are as defined in Table 2. Moreover, I add the year, industry and region dummies. I use a panel dataset; therefore, I use the *Hausman Test* to determine if I should use Random Effects or the Fixed Effects in the regression analysis. When the Hausman Test results of the regression for the model between political connections and firm level benefits shows that $p>0.05$, I use the random effects regression and when the other Hausman test results

show that $p<0.05$, the regression model chosen is the fixed-effects one. I run the above regression model for nine subsamples based on the benefits level and political connections categories.

The results are presented in Table 7. The political connections (PC) is negatively correlated with the employees' benefits of private firms at the 1% level of significance, which means the employees' benefits in politically connected firm are low. It is generally believed that the politically connected firms have a strong sense of responsibility to the society and they will improve the employees' benefits to show this responsibility and establish their reputation as a socially responsible firm.. However, the results show that the politically connected firm does not provide more benefits to their employees due to the government intervention. In order to get more benefits from government, they try to establish the political connections, but they usually ignore the employees' benefits. This supports hypothesis……..

The firm needs to take more responsibility for the employment, and the government pays more attention to the "Quantity" rather than the "Quality" of employment. Secondly, the employees' benefits are closely related to the firm performance. Firm have the ability to undertake more social responsibilities when they are doing well financially. But some firm may not be doing well and to curry favor with the party they cannot assume the responsibility for the cost of employees' benefits before they take advantage of the political connections. Employees' benefits are the most fundamental responsibility of the firm; the outsiders cannot easily observe the reputation effect generated by these benefits. Therefore, the firm is more willing to use resources on charitable donations and other altruistic acts and does not assume more fundamental firm social responsibilities.

In addition, I find that the negative correlation between representative political connections (PC2) is higher than that of official political connections (PC1), although the relationship between official political connections and employees' benefits is not significant under regional and firm level. This shows that the key managers who have

official experience show greater ability to understand and handle relevant policies, therefore these official connections protect the employees' benefits system, and they tend to provide favorable employee welfare system, and restrain the firm from reducing welfare expenditures by controlling costs.

Table 7 Regression of Model (1)

$$\mathrm{Eb} = \alpha_0 + \alpha_1 PC + Control + \varepsilon$$

Variables	Eb1			Eb2			Eb3		
	Company level benefits			Industry level benefits			Regional level benefits		
PC	-0.002***			-0.110***			-0.013***		
	(-0.001)			(-0.014)			(-0.003)		
PC1		0.000			-0.061***			-0.007	
		(-0.001)			(-0.023)			(-0.004)	
PC2			-0.003***			-0.113***			-0.013***
			(-0.001)			(-0.014)			(-0.003)
Size	0.003***	0.003***	0.003***	0.069***	0.071***	0.070***	0.016***	0.016***	0.016***
	(-0.000)	(-0.000)	(-0.000)	(-0.008)	(-0.008)	(-0.008)	(-0.002)	(-0.002)	(-0.002)
Lev	-0.011***	-0.011***	-0.011***	-0.057	-0.054	-0.063*	-0.019***	-0.019***	-0.020***
	(-0.002)	(-0.002)	(-0.002)	(-0.037)	(-0.037)	(-0.037)	(-0.007)	(-0.007)	(-0.007)
Dual	0.000	0.000	0.000	-0.010	-0.012	-0.010	-0.001	-0.001	-0.001
	(-0.001)	(-0.001)	(-0.001)	(-0.014)	(-0.014)	(-0.014)	(-0.003)	(-0.003)	(-0.003)
Ind	0.006	0.006	0.006	0.068	0.069	0.061	-0.018	-0.018	-0.019
	(-0.006)	(-0.006)	(-0.006)	(-0.126)	(-0.127)	(-0.126)	(-0.024)	(-0.024)	(-0.024)
PD	0.000	0.000	0.000	0.247***	0.269***	0.235***	0.031*	0.034**	0.030*
	(-0.004)	(-0.004)	(-0.004)	(-0.087)	(-0.087)	(-0.087)	(-0.017)	(-0.017)	(-0.017)
FSH	-0.005**	-0.005**	-0.005**	-0.048	-0.064	-0.040	-0.003	-0.003	-0.002
	(-0.002)	(-0.002)	(-0.002)	(-0.055)	(-0.055)	(-0.055)	(-0.011)	(-0.011)	(-0.011)
Zindex	-0.008***	-0.008***	-0.008***	-0.118***	-0.133***	-0.113***	-0.041***	-0.043***	-0.040***
	(-0.002)	(-0.002)	(-0.002)	(-0.039)	(-0.039)	(-0.039)	(-0.008)	(-0.008)	(-0.008)
Age	0.000**	0.000	0.000**	0.002*	0.001	0.001*	0.000	0.000	0.000
	(-0.000)	(-0.000)	(-0.000)	(-0.001)	(-0.001)	(-0.001)	(-0.000)	(-0.000)	(-0.000)
Constant	0.085***	0.084***	0.085***	-0.670***	-0.710***	-0.692***	-0.237***	-0.229***	-0.236***
	(-0.008)	(-0.008)	(-0.008)	(-0.185)	(-0.185)	(-0.185)	(-0.043)	(-0.043)	(-0.043)
Observations	10311	10311	10311	10311	10311	10311	10311	10311	10311

*** Represent significance at the 1% level. ** Represent significance at the 5% levels. * Represent significance at the 10% level.

In terms of control variables, the size of the firm is significantly positively related with the level of employees' benefits, indicating that large firms have sufficient resources to protect the basic welfare of employeeThe equity concentration level (FSH) and the Zindex are negatively related with the employee welfare level, indicating that the major shareholders are more likely to use the profits to develop the production and operation activities, while neglecting employees benefits and satisfaction.

4.2 Political connections and number of employees

As discussed above controlling unemployment and promoting employment has always been one of the most important goals of Chinese governments at all levels. The government has the motivation to require firms to solve the employment pressure. Therefore, I measure the implementation of social responsibility by politically affiliated firms from the perspective of employee numbers. I use regression model (2) is to examine the relationship between the number of employees and the political connections. I run the En (the log of employees' number) regression model for three subsamples based on political connections categories in fixed-effect regression. The coefficient α_1 is expected to be positive to validate my hypothesis 2.

$$\text{En} = \alpha_0 + \alpha_1 PC + Control + \varepsilon \qquad (2)$$

Table 8 provides the results of the regression analysis. The coefficient of the political connections (PC) is significantly positive at the 5% level, indicating that the politically connected firms employ more employees and assume employment responsibilities. These results are consistent with the hypothesis 2a; politically connected firms employ more employees than non-affiliated firms. This result may also explain why politically connected firms have low level of employees' benefits. In fact, politically connected firms have taken on the social goals that the government has passed on.

Table 8 Regression results of Model(2)

$$\mathrm{En} = \alpha_0 + \alpha_1 PC + Control + \varepsilon$$

Variables	En		
	The number of Employees		
PC	0.019**		
	(0.008)		
PC1		-0.024*	
		(0.013)	
PC2			0.029***
			(0.008)
Size	0.332***	0.332***	0.332***
	(0.005)	(0.005)	(0.005)
Lev	0.738***	0.740***	0.739***
	(0.020)	(0.020)	(0.020)
Dual	-0.022***	-0.021***	-0.022***
	(0.008)	(0.008)	(0.008)
Ind	-0.276***	-0.274***	-0.275***
	(0.069)	(0.069)	(0.069)
PD	0.429***	0.429***	0.433***
	(0.048)	(0.048)	(0.048)
FSH	0.072**	0.069**	0.070**
	(0.030)	(0.031)	(0.030)
Zindex	-0.041*	-0.037*	-0.044**
	(0.022)	(0.022)	(0.022)
Age	0.002***	0.002***	0.002***
	(0.001)	(0.000)	(0.000)
Constant	-4.450***	-4.463***	-4.444***
	(0.122)	(0.122)	(0.122)
Observations	10311	10311	10311

*** Represent significance at the 1% level. ** Represent significance at the 5% levels. * Represent significance at the 10% level..

However, the private firm is just helping the government to decrease the pressure of employment in the number of the employees. It is not solving the employment pressure in quality. I also find that only firms with representative connections hire more employees. On the contrary, the official firms do not hire more employees. This supports previous results; the official connection will pay more attention to guarantee the quality of employment. The quality of employment means the benefits and compensation for the employees. Moreover, in terms of control variables, the size of the firm is significantly positively related with the level of employees' benefits, indicating that large firms have sufficient resources to hire more employees.

4.3 Political connections and firm performance

The regression analysis above shows that the political connections do not provide employees with a high level of welfare. Does this behavior affect the firm performance? The government's role in a private firm has always been a double-edged sword. Politically connected firms can usually obtain preferential policies and resources to promote the development of firms. Therefore, I next examine the relationship between political connections, employees' benefits, and firm value.

Following existing literature, I use Tobin's Q as an estimate of firm performance in this paper. Tobin's Q is a widely accepted measure of firm financial performance. The region, industry and year dummies are also included in the model. I use the model (3) to examine the relationship among firm performance, political connections and employees' benefits. I run the regressions with the control variables included in Model (1). In this model the estimated coefficient of political connections β_1 estimates the impact of the political connections on firm performance and the $\mathrm{pc} * \mathrm{Eb}$ represents the impact of employees' benefits in politically connected firm on the firm performance. As discussed in the hypotheses section, I expect β_1 and the estimated coefficient of $\mathrm{pc} * \mathrm{Eb}$ to be positive.

$$\mathrm{TobinQ} = \beta_0 + \beta_1 \mathrm{pc} + \sum \mathrm{pc} * \mathrm{Eb} + \mathrm{Controls} + \mathcal{E} \qquad (3)$$

The Hausman test results show $p<0.05$, so the model I use to examine the relation among firm performance, political connections and employees' benefits includes fixed effects. I run the above regression model for nine subsamples based on the benefits level and political connections categories.

The results show that political association (PC) and firm value (Tobin's Q) are significantly negatively correlated at 1% level of significance in table 9. This shows that political connections impair the value of firm. The results are not consistent with my third hypothesis that the political connections in private firm are positively related to the firm performance. The reason for the opposite result may be that the establishment and maintenance of political connections are huge costs for private firms, and these costs exceed the benefits the firms get from the political connections. First of all, political connections increase the instances of government intervention. The government often intervenes in the operations of firms to achieve political goals, and the degree of intervention increases when political connections bring a closer relationship. Therefore, the politically connected firms tend to achieve the political goals instead of their business goals, which hurt efficiency and profits of the private firms (Shleifer and Vishny (1998)). Then political connections may increase agency costs. In modern firms, the conflict of interest between manager and owners of a firm will lead to agency problem. The political connections make the agency problem between the manager and the firm turns into the agency problem between the government and the firm. The key managers who are directly appointed by the government may lack managerial skills. They do not know the market and have no idea about the operations of the firm. This will make relationship between political connections and the firm value negative. In addition, the representative executives blindly cater to the demands of the government and carry out other activities that are detrimental to the goal of value maximization.

However, the results show that the coefficient of all the political connections interacted with employees' benefits (PC*Eb) is positive at 1% and 10% levels of significance. Thus, my hypothesis 4 is supported by the results, even though the coefficient of representative

Table 9 Regression results of Model (3)

$$\text{TobinQ} = \beta_0 + \beta_1 \text{pc} + \sum \text{pc} * \text{Eb} + \text{Controls} + \mathcal{E}$$

Variables	Tobin's Q								
	Company level benefits			Industry level benefits			Regional level benefits		
PC	-0.200***			-0.138***			-0.154***		
	(-0.035)			(0.040)			(0.034)		
PC1		0.092			-0.047			-0.036	
		(0.056)			(0.076)			(0.060)	
PC2			-0.312***			-0.185***			-0.200***
			(0.038)			(0.042)			(-0.035)
PC*EB	7.748***			0.055*			0.489***		
	(-1.386)			(0.032)			(0.140)		
PC1*EB		3.727*			0.219***			1.316***	
		(1.962)			(0.0659)			(0.263)	
PC2*EB			10.020***			0.011			0.185
			(1.855)			(0.034)			(-0.148)
Size	0.245***	0.239***	0.248***	0.237***	0.238***	0.242***	0.236***	0.238***	0.240***
	(-0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(-0.019)
Lev	-3.147***	-3.182***	-3.154***	-3.174***	-3.191***	-3.183***	-3.171***	-3.190***	-3.182***
	(-0.075)	(0.075)	(0.075)	(0.075)	(0.075)	(0.075)	(0.075)	(0.075)	(-0.075)
Dual	0.193***	0.190***	0.194***	0.192***	0.191***	0.193***	0.190***	0.189***	0.193***
	(-0.029)	(-0.029)	(-0.029)	(-0.029)	(-0.029)	(-0.029)	(-0.029)	(-0.029)	(-0.029)
Ind	1.089***	1.102***	1.096***	1.121***	1.107***	1.114***	1.125***	1.102***	1.118***
	(-0.255)	(0.256)	(0.255)	(0.256)	(0.256)	(0.255)	(0.256)	(0.255)	(-0.255)
PD	-1.860***	-1.855***	-1.879***	-1.851***	-1.855***	-1.879***	-1.849***	-1.856***	-1.878***
	(-0.176)	(0.176)	(0.176)	(0.176)	(0.176)	(0.176)	(0.176)	(0.176)	(-0.176)
FSH	0.310***	0.299***	0.316***	0.276**	0.298***	0.286**	0.276**	0.301***	0.286**
	(-0.113)	(0.113)	(0.113)	(0.113)	(0.113)	(0.113)	(0.113)	(0.113)	(-0.113)
Zindex	0.541***	0.520***	0.554***	0.537***	0.515***	0.557***	0.542***	0.517***	0.559***
	(-0.083)	(0.082)	(0.083)	(0.083)	(0.082)	(0.083)	(0.083)	(0.082)	(-0.083)
Age	-0.004**	-0.005***	-0.003*	-0.003**	-0.005***	-0.003**	-0.004**	-0.006***	-0.003**
	(-0.002)	(-0.002)	(-0.002)	(-0.002)	(-0.002)	(-0.002)	(-0.002)	(-0.002)	(-0.002)
Constant	-1.809***	-1.644***	-1.876***	-1.641***	-1.630***	-1.732***	-1.598***	-1.630***	-1.705***
	(-0.452)	(0.452)	(0.452)	(0.453)	(0.452)	(0.453)	(0.453)	(0.451)	(-0.452)
Observations	10311	10311	10311	10311	10311	10311	10311	10311	10311

*** Represent significance at the 1% level. ** Represent significance at the 5% levels. * Represent significance at the 10% level..

connection interacted with employees' benefits at industry and regional level are not significant. Therefore, the improvement of employees' benefits can significantly improve the negative impact of political connections on firm value. I further investigate the type of the political connections and their effects on firm value. Only the regression coefficients of representative connection (PC2) are significantly negative relate to Tobin's Q, and the regression coefficient of official political association (PC1) is not significant. The results also show that interaction of official connection and employees' benefits (PC1*Eb1) are lower than representative connection (PC2*Eb1) at firm level, indicating that the representative executives improve the performance of the firm by improving employee welfare. In terms of control variables, the firm Size, Dual, Ind, FSH, Zindex have a positive relationship with the firm performance. The interesting thing is that the key executive' age is negatively related to the Tobin's Q, that is to say the young CEO will improve the firm performance.

5. Robustness Tests

In order to test the reliability of using employees' benefits that only include social benefits and firm level benefits, I conduct a number of of robustness tests. These tests use the compensation as the indicator of employees' benefits. I use two variables; Wage1 is the logarithm of the amount of the cash paid to employees in the cash flow statement divided by the number of employees in the current year. Moreover, Wage2 is the ratio of the average cash income of employees to the average operating income. The results are presented in Table 10.

Then I use clustered standard errors along two dimensions to do the robustness test for all the models. This approach allows for correlations among different firms in the same year and different years for the same firm for my large panel data. Table 11 presents the results for the relationship between employees' benefits and political connections. It shows that the political connections (PC) is negatively related with the employees' benefits of private firms at the 1% level of significance, which means the employees' benefits in politically connected firm are low. The results for official connection and

representative connection are consistent with results reported in section 4. These results show that key managers who have official experience show greater ability to understand and handle relevant policies, therefore

Table 10 Robustness test of Employment Benefits Model (1)

$$\mathrm{Eb} = \alpha_0 + \alpha_1 PC + Control + \varepsilon$$

Variables	Wage1			Wage2		
PC	-0.0278***			-0.0205***		
	-0.00438			-0.00649		
PC1		-0.0301***			-0.0181*	
		-0.00715			-0.0106	
PC2			-0.0241***			-0.0257***
			-0.0045			-0.00666
Size	0.0472***	0.0466***	0.0472***	0.0396***	0.0400***	0.0395***
	-0.0029	-0.0029	-0.0029	-0.00429	-0.00429	-0.00429
Lev	0.0408***	0.0425***	0.0392***	-0.416***	-0.415***	-0.418***
	-0.011	-0.011	-0.011	-0.0162	-0.0163	-0.0162
Dual	-0.003	-0.00366	-0.00313	0.0345***	0.0340***	0.0346***
	-0.00441	-0.00441	-0.00441	-0.00653	-0.00653	-0.00653
Ind	0.0318	0.0303	0.03	0.124**	0.123**	0.123**
	-0.0397	-0.0398	-0.0398	-0.0588	-0.0589	-0.0588
PD	0.00362	0.0129	0.00214	-0.106***	-0.0997**	-0.109***
	-0.0274	-0.0274	-0.0274	-0.0405	-0.0405	-0.0405
FSH	-0.0184	-0.0215	-0.0165	-0.161***	-0.163***	-0.159***
	-0.0174	-0.0174	-0.0174	-0.0257	-0.0257	-0.0257
Zindex	0.0307**	0.0256**	0.0307**	-0.0179	-0.0217	-0.0162
	-0.0128	-0.0128	-0.0128	-0.019	-0.0189	-0.019
Age	-0.000207	-0.000362	-0.000315	0.0006	0.000464	0.00059
	-0.000271	-0.00027	-0.00027	-0.000401	-0.000399	-0.000399
Constant	3.574***	3.588***	3.577***	-0.205**	-0.194**	-0.207**
	-0.0652	-0.0652	-0.0652	-0.0965	-0.0965	-0.0965
Observations	10311	10311	10311	10311	10311	10311

*** Represent significance at the 1% level. ** Represent significance at the 5% levels. * Represent significance at the 10% level..

these official connections protect the employees' benefits system, and they tend to provide favorable employee welfare system, and restrain the firm from reducing welfare benefits.

Table 11 Robustness test of Employment Benefits Model 1

Variables	Eb1			Eb2			Eb3		
	Company level benefits			Industry level benefits			Regional level benefits		
PC	-0.002***			-0.108***			-0.007**		
	(-0.001)			(-0.02)			(-0.003)		
PC1		0.001			-0.059*			0.004	
		(-0.001)			(-0.03)			(-0.005)	
PC2			-0.003***			-0.109***			-0.010**
			(-0.001)			(-0.029)			(-0.004)
Size	0.003***	0.003***	0.003***	0.071***	0.073***	0.072***	-0.002	-0.002	-0.002
	(-0.001)	(-0.001)	(-0.001)	(-0.012)	(-0.011)	(-0.012)	(-0.003)	(-0.003)	(-0.003)
Lev	-0.009**	-0.009**	-0.009**	0.071***	0.066***	0.079***	0.019	0.019	0.018
	(-0.004)	(-0.004)	(-0.004)	(-0.027)	(-0.025)	(-0.028)	(-0.032)	(-0.032)	(-0.032)
Dual	0.000	0.000	0.000	-0.016*	-0.019*	-0.016	-0.007	-0.007	-0.007
	(-0.001)	(-0.001)	(-0.001)	(-0.01)	(-0.01)	(-0.01)	(-0.005)	(-0.005)	(-0.005)
Ind	0.005	0.005	0.005	-0.016	-0.015	-0.022	-0.042*	-0.041*	-0.042*
	(-0.005)	(-0.005)	(-0.005)	(-0.113)	(-0.115)	(-0.114)	(-0.023)	(-0.023)	(-0.023)
PD	0.001	0.001	0.000	0.271***	0.295***	0.259***	0.068***	0.068***	0.066***
	(-0.006)	(-0.006)	(-0.006)	(-0.086)	(-0.089)	(-0.085)	(-0.019)	(-0.019)	(-0.02)
FSH	-0.005	-0.005	-0.005	-0.054	-0.071	-0.048	0.028***	0.028**	0.029***
	(0.000)	(0.000)	(0.000)	(-0.063)	(-0.064)	(-0.062)	(-0.011)	(-0.011)	(-0.01)
Zindex	-0.008	-0.008	-0.008	-0.112**	-0.127***	-0.108**	-0.050***	-0.051***	-0.049***
	(-0.006)	(-0.006)	(-0.006)	(-0.047)	(-0.046)	(-0.05)	(-0.015)	(-0.015)	(-0.015)
Age	0.000	0.000	0.000	0.002**	0.001	0.002*	-0.000*	-0.001**	-0.000*
	(0.000)	(0.000)	(0.000)	(-0.001)	(-0.001)	(-0.001)	(0.000)	(0.000)	(0.000)
Constant	0.088***	0.087***	0.088***	-0.574**	-0.612**	-0.593**	0.237***	0.233***	0.237***
	(-0.019)	(-0.019)	(-0.018)	(-0.272)	(-0.25)	(-0.275)	(-0.071)	(-0.069)	(-0.071)
Observations	10311	10311	10311	10311	10311	10311	10311	10311	10311

*** Represent significance at the 1% level. ** Represent significance at the 5% levels. * Represent significance at the 10% level...

In order to see the results of the relationship between number of employees and political connections are reliable or not, Table 12 provides the robustness test results of the regression analysis that uses clustered standard errors along two dimensions. It shows that the coefficient of the political connections (PC) is significantly positive at the 5% level, indicating that the politically connected firms employ more employees and assume employment responsibilities. These results are consistent with the hypothesis 2.

Table 12 Robustness test of Employees' Numbers Model 2

Variables	En		
	The number of Employees		
PC	0.045**		
	(-0.02)		
PC1		-0.02	
		(-0.029)	
PC2			0.059***
			(-0.018)
Size	0.253***	0.251***	0.253***
	(-0.017)	(-0.017)	(-0.017)
Lev	0.505***	0.506***	0.509***
	(-0.176)	(-0.174)	(-0.175)
Dual	-0.004	-0.003	-0.004
	(-0.028)	(-0.029)	(-0.028)
Ind	-0.425***	-0.426***	-0.421***
	(-0.107)	(-0.104)	(-0.108)
PD	0.485***	0.482***	0.493***
	(-0.073)	(-0.077)	(-0.072)
FSH	0.12	0.124	0.115
	(-0.082)	(-0.08)	(-0.083)
Zindex	-0.034	-0.029	-0.038
	(-0.074)	(-0.077)	(-0.074)
Age	0.001	0.002	0.001
	(-0.001)	(-0.001)	(-0.001)
Constant	-2.633***	-2.606***	-2.629***
	(-0.391)	(-0.394)	(-0.383)
Observations	10311	10311	10311

*** Represent significance at the 1% level. ** Represent significance at the 5% levels. * Represent significance at the 10% level..

We can see that political connections (PC) and firm value (Tobin's Q) are significantly negatively related in table 12, even though the level of significance at industry and regional level is significant at 5% level of significance, it shows that political connections impair the value of firm. The coefficients of representative connection (PC2) are still statistically significantly negatively related with Tobin's Q, and the regression coefficient of official political association (PC1) is not significant. The interaction of official connection and employees' benefits (PC*EB) is not significant, only the coefficient of political connections and firm level benefits are positive and significant at 10% level. But we can also conclude that in politically connected firms, employees' benefits have a positive effect on firm performance and improved benefits will increase the firm performance.

Table 13 Robustness test of Firm Performance Model 3

Variables	Tobin's Q								
	Company level benefits			Industry level benefits			Regional level benefits		
PC	-0.238***			-0.134**			-0.134**		
	(-0.074)			(-0.053)			(-0.057)		
PC1		0.025			-0.07			-0.053	
		(-0.122)			(-0.094)			(-0.086)	
PC2			-0.332***			-0.172***			-0.173***
			(-0.04)			(-0.041)			(-0.05)
PC*EB	6.601*	3.302	8.307***	-0.009	0.165**	-0.053	-0.058	0.921**	-0.347
	(-3.831)	(-6.274)	(-1.674)	(-0.034)	(-0.07)	(-0.035)	(-0.279)	(-0.465)	(-0.239)
Size	0.476***	0.477***	0.476***	0.470***	0.475***	0.472***	0.470***	0.477***	0.471***
	(-0.108)	(-0.108)	(-0.105)	(-0.108)	(-0.107)	(-0.107)	(-0.107)	(-0.107)	(-0.106)
Lev	-3.284***	-3.309***	-3.299***	-3.309***	-3.315***	-3.326***	-3.308***	-3.318***	-3.323***
	(-0.213)	(-0.209)	(-0.205)	(-0.204)	(-0.205)	(-0.204)	(-0.205)	(-0.207)	(-0.204)
Dual	0.210***	0.207***	0.211***	0.209***	0.208***	0.210***	0.209***	0.207***	0.211***
	(-0.045)	(-0.043)	(-0.045)	(-0.045)	(-0.044)	(-0.045)	(-0.045)	(-0.044)	(-0.045)
Ind	1.202***	1.222***	1.199***	1.223***	1.225***	1.206***	1.223***	1.223***	1.199***
	(-0.222)	(-0.241)	(-0.237)	(-0.241)	(-0.248)	(-0.244)	(-0.237)	(-0.258)	(-0.239)
PD	-1.843***	-1.826***	-1.865***	-1.829***	-1.823***	-1.863***	-1.828***	-1.826***	-1.860***
	(-0.136)	(-0.132)	(-0.142)	(-0.134)	(-0.131)	(-0.138)	(-0.133)	(-0.132)	(-0.137)
FSH	0.018	-0.017	0.034	-0.01	-0.017	0.01	-0.009	-0.018	0.015
	(-0.246)	(-0.252)	(-0.252)	(-0.252)	(-0.255)	(-0.25)	(-0.25)	(-0.256)	(-0.249)
Zindex	0.567**	0.548**	0.578**	0.561**	0.544**	0.577**	0.560**	0.548**	0.574**

	(-0.25)	(-0.249)	(-0.247)	(-0.247)	(-0.244)	(-0.246)	(-0.245)	(-0.243)	(-0.245)
Age	-0.005	-0.006**	-0.004	-0.005	-0.006*	-0.004	-0.005	-0.006*	-0.004
	(-0.003)	(-0.003)	(-0.003)	(-0.003)	(-0.003)	(-0.003)	(-0.003)	(-0.003)	(-0.003)
Constant	-6.732***	-6.695**	-6.738***	-6.594**	-6.655**	-6.629**	-6.587**	-6.694***	-6.594***
	(-2.567)	(-2.584)	(-2.497)	(-2.56)	(-2.562)	(-2.545)	(-2.544)	(-2.555)	(-2.518)
Observations	10311	10311	10311	10311	10311	10311	10311	10311	10311

*** Represent significance at the 1% level. ** Represent significance at the 5% levels. * Represent significance at the 10% level..

6. Conclusions

With the development and transformation of the Chinese economy, private firms have become an important part of the market economy. The relationship between private firms and government has become more important. This paper studies how political connections affect the employees' benefits and firm performance. Focusing on private firms from A shares in Shanghai and Shenzhen stock markets from 2007 to 2018, I explore the impact of political connections on employee welfare and firm performance from the perspective of senior executives' political connections.

The results show that: (1) the employees' benefits in politically connected firms are not as high as we generally expect. This is due to the fact that the costs of employee welfare are larger than the benefits that firms get from political connections. When compared with official connection, the employees' benefits at the representative connection firm are lower. (2) Politically connected firms employ more employees than non-affiliated firms. After distinguishing between the types of the connections, I find that only the representative firms hire more employees. (3) Key executives who have political connections damage the performance of the firm. This is due to the fact that political connections are huge costs for private firms, which exceed the benefits they get from the political connections. (4) The improvement of employees' benefits will increase the firm performance, and the representative connections play a more important role in improving the performance of firms. Some findings are counter to popular beliefs. There are also

some limitations that need to be further researched. For example, the political connections only of the key manager are studied in this paper.

References:

Adhikari, A., Derashid, C., & Zhang, H. (2006). Public policy, political connections, and effective tax rates: Longitudinal evidence from Malaysia. Journal of Accounting and Public policy, 25(5), 574-595.

Ang, J. S., Ding, D. K., & Thong, T. Y. (2013). Political connection and firm value. Asian Development Review, 30(2), 131-166.

Best, R. J. (2008). Employee satisfaction, firm value and firm productivity. Retrieved August, 23, 2013.

Boubakri, N., Guedhami, O., Mishra, D., & Saffar, W. (2012). Political connections and the cost of equity capital. Journal of firm finance, 18(3), 541-559.

Braham, R., de Peretti, C., & Belkacem, L. (2019). Do political connections affect bank leverage? Evidence from some Middle Eastern and North African countries. Journal of Management and Governance, 23(4), 989-1006.

Chen, C., Li, Z., & Su, X. (2005). Rent seeking incentives, political connections and organizational structure: Empirical evidence from listed family firms in China. City University of Hong Kong Working Paper, 1, 22-29.

Cheng, B., Ioannou, I., Serafeim, G.. Corporate Social Responsibility and Access to Finance. Strategic Management Journal, 2014, 35(1): 1-23

Charumilind, C., Kali, R., & Wiwattanakantang, Y. (2006). Connected lending: Thailand before the financial crisis. The Journal of Business, 79(1), 181-218.

Cowherd, D. M., & Levine, D. I. (1992). Product quality and pay equity between lower-level employees and top management: An investigation of distributive justice theory. Administrative Science Quarterly, 302-320.

Danglun, L., & Qingquan, T. (2009). The Performance of Institutional Environment Evidence from China's Private Listed Firms [J]. Economic Research Journal, 2, 106-118.

Do, Q. A., Lee, Y. T., & Nguyen, B. D. (2015). Political connections and firm value: Evidence from close gubernatorial elections. Available at SSRN 2023191.

Do, Q. A., Lee, Y. T., Nguyen, B. D., & Nguyen, K. T. (2012). Out of sight, out of mind: The value of political connections in social networks.

Faccio, M. (2006). Politically connected firms. American economic review, 96(1), 369-386.

Faccio, M. (2010). Differences between politically connected and nonconnected firms: A cross country analysis. Financial management, 39(3), 905-928.

Faccio, M., Masulis, R. W., & McConnell, J. J. (2006). Political connections and firm bailouts. The Journal of Finance, 61(6), 2597-2635.

Fan, J. P., Wong, T. J., & Zhang, T. (2007). Politically connected CEOs, firm governance, and Post-IPO performance of China's newly partially privatized firms. Journal of financial economics, 84(2), 330-357.

Fisman, R. (2001). Estimating the value of political connections. American economic review, 91(4), 1095-1102.

Goldman, E., Rocholl, J., & So, J. (2008). Do politically connected boards affect firm value?. The Review of Financial Studies, 22(6), 2331-2360.

Huang, X. J., & Wang, T. (2011). Political connections, firm performance and loan renewals—The evidences from the privately listed firms. Systems Engineering-Theory & Practice, 5.

Husnan, S. (2001). Indonesia in Firm Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand. Volume Two.

Houston, J. F., Jiang, L., Lin, C., & Ma, Y. (2014). Political connections and the cost of bank loans. Journal of Accounting Research, 52(1), 193-243.

Hamermesh, D. S. (2014). Do labor costs affect companies' demand for labor?. IZA World of Labor.

Khwaja, A. I., & Mian, A. (2005). Do lenders favor politically connected firms? Rent provision in an emerging financial market. The Quarterly Journal of Economics, 120(4), 1371-1411.

Kim, C., & Zhang, L. (2016). Corporate political connections and tax aggressiveness. Contemporary Accounting Research, 33(1), 78-114.

Jain, A. K. (2001). Corruption: A review. Journal of economic surveys, 15(1), 71-121.

Ling, L., Zhou, X., Liang, Q., Song, P., & Zeng, H. (2016). Political connections, overinvestments and firm performance: Evidence from Chinese listed real estate firms. Finance Research Letters, 18, 328-333.

Liu, X. G., He, T., & Li, Q. X. (2013). Promoting the "Three Clear", Building Political Integrity. Journal of Jiangsu Teachers University of Technology, (3), 6.

Li, C., Wang, Y., Wu, L., & Xiao, J. Z. (2016). Political connections and tax-induced earnings management: evidence from China. The European Journal of Finance, 22(4-6), 413-431.

Li, H., Meng, L., & Zhang, J. (2006). Why do entrepreneurs enter politics? Evidence from China. Economic Inquiry, 44(3), 559-578.

LIANG, L. X., & FENG, Y. C. (2010). Political Connection of Private Firm, Number of Employees and Labor Cost [J]. China Industrial Economics, 10, 127-137.

Li, L., Hermes, N., & Lensink, R. (2016). Political Connections and Households' Access to Bank Loans: Evidence from China. Semantic Scholar.

Lim, C. Y., Wang, J., & Zeng, C. C. (2018). China's "mercantilist" government subsidies, the cost of debt and firm performance. Journal of Banking & Finance, 86, 37-52.

Meyer, C. S., Mukerjee, S., & Sestero, A. (2001). Work-family benefits: which ones maximize profits?. Journal of managerial Issues, 28-44.

Minggui, Y., & Hongbo, P. (2008). The Relationship between Politics, Institutional Environments and Private Firms' Access to Bank Loans [J]. Management World, 8.

Salancik, G. R., & Pfeffer, J. (1978). A social information processing approach to job attitudes and task design. Administrative science quarterly, 224-253.

Shleifer, A., & Vishny, R. W. (1993). Corruption. The quarterly journal of economics, 108(3), 599-617.

Su, Z. Q., & Fung, H. G. (2013). Political connections and Firm Performance in C hinese Firms. Pacific Economic Review, 18(3), 283-317.

Wu, S., Xu, N., & Yuan, Q. (2009). State control, legal investor protection, and ownership concentration: Evidence from China. Firm Governance: An International Review, 17(2), 176-192.

Wu, W., Wu, C., Zhou, C., & Wu, J. (2012). Political connections, tax benefits and firm performance: Evidence from China. Journal of Accounting and Public policy, 31(3), 277-300.

Wu, W., Wu C., & Liu X. (2008). The government background and company value of the executives of Chinese private listed companies. Economic Research, 7 (130.141).

Yeh, Y. H., Shu, P. G., & Chiu, S. B. (2013). Political connections, corporate governance and preferential bank loans. Pacific-Basin Finance Journal, 21(1), 1079-1101.

Zhang, J., Tan, J., & Wong, P. K. (2015). When does investment in political ties improve firm performance? The contingent effect of innovation activities. Asia Pacific Journal of Management, 32(2), 363-387.