

City University of Hong Kong

Department of Public Policy

Research Student Seminar

The Contingent Effects of Political Connections on Firm Performance

by

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Abstract:

Political connections as an essential part of firms' nonmarket strategy have a significant impact on firm performance. Companies intend to build political connections with the government to improve firm value through access to government information, get government contracts, and obtain critical resources. However, the effect of political connections is inconclusive since political connections can have both positive and negative impact on firm performance. Moreover, the effect of political connections will be contingent based on various conditions, such as the legal environment, government-market relationship, and industrial differences.

The proposed research will examine the effect of political connections by developing a framework of a portfolio of two types of political connections, ascribed and achieved, and the two types of firms' ownership structure, private and state-owned. Furthermore, the study will explore how different

combinations of political connections lead to distinct corporate financial support from governments and corporate social performance, respectively. Additionally, I argue that these impacts would be contingent on regional institutional development (marketization and decentralization), industrial conditions (state monopoly of industry) and political leader influences (the promotion incentives of government officials). The study will adopt a mixed-method design, including quantitative and qualitative method. First, the research intends to conduct several semi-constructed interviews to supplement the quantitative method. Second, quantitative analysis tools will be applied to test the proposed hypotheses. The study will construct a panel database which covers all listed Chinese firms from various resources from 2008 to 2018. The firm-level data include firms' corporate social responsibility (CSR) reports of all listed Chinese firms and the total amount of subsidies received from the government of listed Chinese companies in the agriculture industry and the new energy vehicle industry. The study complements the provincial development data which covers all provinces in China, including the marketization and decentralization degree, and the promotion incentives of political leaders.