Firm Performance and Investment in Political Human Capital

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Employment of political human capital is a characteristic exhibited by firms in many countries, including both developed and developing nations.
<table>
<thead>
<tr>
<th>Country</th>
<th>No. of firms with available data</th>
<th>No. of connected firms</th>
<th>Country</th>
<th>No. of firms with available data</th>
<th>No. of connected firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>34</td>
<td>0</td>
<td>Mexico</td>
<td>68</td>
<td>7</td>
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<tr>
<td>Australia</td>
<td>257</td>
<td>2</td>
<td>Netherlands</td>
<td>179</td>
<td>1</td>
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<tr>
<td>Austria</td>
<td>87</td>
<td>1</td>
<td>New Zealand</td>
<td>47</td>
<td>0</td>
</tr>
<tr>
<td>Belgium</td>
<td>104</td>
<td>5</td>
<td>Norway</td>
<td>113</td>
<td>0</td>
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<tr>
<td>Brazil</td>
<td>127</td>
<td>0</td>
<td>Peru</td>
<td>24</td>
<td>0</td>
</tr>
<tr>
<td>Canada</td>
<td>438</td>
<td>6</td>
<td>Philippines</td>
<td>100</td>
<td>5</td>
</tr>
<tr>
<td>Chile</td>
<td>71</td>
<td>2</td>
<td>Poland</td>
<td>32</td>
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<tr>
<td>Colombia</td>
<td>32</td>
<td>0</td>
<td>Portugal</td>
<td>60</td>
<td>3</td>
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<tr>
<td>Czech Rep.</td>
<td>58</td>
<td>0</td>
<td>Russian Fed.</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Denmark</td>
<td>172</td>
<td>7</td>
<td>Singapore</td>
<td>215</td>
<td>16</td>
</tr>
<tr>
<td>Finland</td>
<td>91</td>
<td>2</td>
<td>South Africa</td>
<td>188</td>
<td>0</td>
</tr>
<tr>
<td>France</td>
<td>519</td>
<td>19</td>
<td>South Korea</td>
<td>271</td>
<td>7</td>
</tr>
<tr>
<td>Germany</td>
<td>507</td>
<td>10</td>
<td>Spain</td>
<td>138</td>
<td>1</td>
</tr>
<tr>
<td>Greece</td>
<td>90</td>
<td>1</td>
<td>Sri Lanka</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>381</td>
<td>7</td>
<td>Sweden</td>
<td>172</td>
<td>3</td>
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<tr>
<td>Hungary</td>
<td>26</td>
<td>1</td>
<td>Switzerland</td>
<td>180</td>
<td>4</td>
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<tr>
<td>India</td>
<td>257</td>
<td>8</td>
<td>Taiwan</td>
<td>237</td>
<td>7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>116</td>
<td>27</td>
<td>Thailand</td>
<td>204</td>
<td>32</td>
</tr>
<tr>
<td>Ireland</td>
<td>52</td>
<td>2</td>
<td>Turkey</td>
<td>78</td>
<td>1</td>
</tr>
<tr>
<td>Israel</td>
<td>47</td>
<td>2</td>
<td>U.K.</td>
<td>1,417</td>
<td>119</td>
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<tr>
<td>Italy</td>
<td>178</td>
<td>21</td>
<td>U.S.A.</td>
<td>6,007</td>
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<tr>
<td>Japan</td>
<td>2,322</td>
<td>30</td>
<td>Venezuela</td>
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<td>Luxembourg</td>
<td>23</td>
<td>1</td>
<td>Zimbabwe</td>
<td>8</td>
<td>0</td>
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<tr>
<td>Malaysia</td>
<td>418</td>
<td>81</td>
<td></td>
<td>All countries</td>
<td>16,191</td>
</tr>
</tbody>
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- securing favorable regulatory conditions (United States: Agrawal and Knoeber, 2001)
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Here we explore the relationship between Chinese firm characteristics and the decisions to invest in political human capital.
In the past three decades, China went through two types of transformations:
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- Sharp decline of state-owned enterprises (SOEs)
- Bloom of privately-controlled industrial activities
The economic transformation

- There are, however, still many institutional constraints in the development of the private sector including, for example,
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- Lack of regulatory and bureaucratic knowledge
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These constraints offer firms potential incentives to invest in political human capital.
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  - The average retirement age fell from 64 to 58 for ministers, from 62 to 55 for provincial governors, from 58 to 50 for city mayors (the Chronicle of Contemporary Chinese Politics, 1996).
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  - Administrative decentralization
The analysis shown here is drawn from a Chinese firm-director panel dataset which covers:

- around 1,200 publicly listed firms excluding those with government entity shareholders
- the period of 2004-2007
- 36,308 directors with detailed biography

Based on the biographies, each individual’s previous political positions are identified and mapped into the Chinese political hierarchy.
Data

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Table A.1: The political hierarchy in China

<table>
<thead>
<tr>
<th>Rank</th>
<th>Positions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top leaders</td>
<td>General party secretary, President, Chairman of NPC</td>
</tr>
<tr>
<td></td>
<td>Premiers, Vice Premiers, State councilors</td>
</tr>
<tr>
<td>Bu</td>
<td>Minister</td>
</tr>
<tr>
<td></td>
<td>Provincial party secretary, Governor</td>
</tr>
<tr>
<td>Ting</td>
<td>Department head of government bureau</td>
</tr>
<tr>
<td></td>
<td>Municipal party secretary, Mayor</td>
</tr>
<tr>
<td>Chu</td>
<td>Division director of government bureau</td>
</tr>
<tr>
<td></td>
<td>County party secretary, County magistrate</td>
</tr>
<tr>
<td>Ke</td>
<td>Section chief of government bureau</td>
</tr>
<tr>
<td></td>
<td>Township party secretary, Township magistrate</td>
</tr>
<tr>
<td>Variable</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Politician dummy</td>
<td>An indicator that equals 1 if the executive held a political position and 0 otherwise</td>
</tr>
<tr>
<td>Max rank</td>
<td>The highest political rank held by the executive</td>
</tr>
<tr>
<td>Number of posts</td>
<td>The number of political positions held by the executive</td>
</tr>
<tr>
<td>Ave. rank</td>
<td>The average political rank held by the executive</td>
</tr>
<tr>
<td>Education</td>
<td>The level of education of the executive</td>
</tr>
<tr>
<td>Credential</td>
<td>An indicator that equals 1 if the executive has a professional credential</td>
</tr>
</tbody>
</table>
Figure 1: The composition of political human capital
<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Mean</th>
<th>Std.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Politician dummy</td>
<td>An indicator that equals 1 if there is at least one politician and 0 otherwise</td>
<td>0.37</td>
<td>0.48</td>
<td>0</td>
<td>1</td>
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<tr>
<td>Politician count</td>
<td>The number of politicians on board</td>
<td>0.61</td>
<td>1.06</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Max rank</td>
<td>The average of the highest rank held by the politicians</td>
<td>0.76</td>
<td>1.02</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Num. of posts</td>
<td>The average number of political positions held by the politicians</td>
<td>0.42</td>
<td>0.59</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Ave. rank</td>
<td>The average rank of political positions held by the politicians</td>
<td>0.74</td>
<td>1.00</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Ave. education</td>
<td>The average education level</td>
<td>3.16</td>
<td>0.37</td>
<td>1.57</td>
<td>5</td>
</tr>
<tr>
<td>Ave. credential</td>
<td>The fraction of directors with professional credential</td>
<td>0.31</td>
<td>0.28</td>
<td>0</td>
<td>1</td>
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<tr>
<td>Firm productivity</td>
<td>Estimated physical efficiency</td>
<td>2.50</td>
<td>1.06</td>
<td>-4.36</td>
<td>7.40</td>
</tr>
</tbody>
</table>
Figure 2: The relationship between firm productivity and investment in political human capital
Figure 3: The relationship between firm productivity and investment in political human capital
Figure 4: The relationship between firm revenue and investment in political human capital.
Figure 5: The relationship between firm revenue and investment in political human capital
Figure 6: The relationship between firm net income and investment in political human capital
Figure 7: The relationship between firm net income and investment in political human capital
Figure 8: The relationship between firm capital intensity and investment in political human capital
Figure 9: The relationship between firm capital intensity and investment in political human capital
Figure 10: The relationship between firm productivity and investment in conventional human capital
Figure 11: The relationship between firm revenue and investment in conventional human capital
Figure 12: The relationship between firm net income and investment in conventional human capital
Figure 13: The relationship between firm capital intensity and investment in conventional human capital
Firms with greater productivity are associated with greater investments in both conventional and political human capital, suggesting a potential complementary relationship among firm physical productivity, conventional human capital, and political human capital in firm operation.
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There is a U-shape relationship between firm revenue and investments in conventional and political human capital.