Political Connections, Financial Crisis and Firm's Value: Evidence from Chinese Listed Firms

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Abstract

Political connection is a popular topic in the financial academia. We are interested in the relationship between political connections and firm's value in Chinese listed companies and we attempt to find the possible approaches that would impact political connected firm's value. Furthermore, we would investigate the impact that changes before and after the financial crisis, since Chinese government carried out the 4 trillion bailout plan in 2008.

The results exhibit that political connections have both positive and negative impacts on Chinese listed firms. The investigated possible approaches shows that net asset per share of political connected firms have positive impact on firm's value; however, the growths of political connected firms have insignificant impact on firm's value. Prior to financial crisis, political connections have insignificant impacts on firm's value; after the crisis, political connections have significant positive impacts on firm's value.

Keywords: political connections, firm's value, financial crisis

1. Introduction

After the financial crisis, to boost Chinese economy, government carries out 4 trillion bailout plan. The purpose is to stimulate domestic demand and economic development, including support for the domestic finance, environmental protection and accelerate infrastructure construction, such as railways, roads and airports. After 4 years, the plan ensures Chinese economy to increase stably, and to make significant impact on employment. On the other side, the plan causes inflation, discrimination of some corporations and greater gap between rich and poor.

In this paper, we will investigate the relationship between political connections and firm's value and we will try to find possible approaches that would impact politically connected firm's value in Chinese market. Moreover, we are interested in how the impacts of political connections changes before and after financial crisis.

2. Literature Review

2.1 Definition of Political Connections

2.1.1 Studies on Global Perspective

Recently, scholars both home and abroad have not come to agreement on an accurate and general definition of political connection. Usually, it means the hidden political relations between senior management and government officials. Data on political ties come from Faccio (2006), who analyzed political connections across 47 countries. In particular, a company is defined as politically connected if at least one of its large shareholders (anyone controlling at least 10 percent of voting shares) or one of its top officers (CEO, president, vice-president, chair man, or secretary) is a member of parliament, a minister, or is closely related to a top politician or party. Connections with government ministers include cases in which the politician himself is a director or a large shareholder, as well as cases where a politician's close relative holds such a position (Faccio, 2006).

2.1.2 Studies on Chinese Perspective

As for the studies based on Chinese market, Fan, Wong & Zhang (2007) defined the company is political connected if the senior management is a member of government officials, members of People's congress and member of CPPCC (Chinese People's Political Consultative Congress). Furthermore, Chen, Li & Su (2005)

defined private enterprises as political connected firms if one of the board members is a member of government officials, members of People's congress and member of CPPCC.

The event study is the major approach to research on the relationship between political connections and firm's value, investigating the changes of the political connected firm's value when a politician's career is affected.

2.2 The Relationship between Political Connections and Firm's Value

2.2.1 Political Connections Have Positive Effects on Firm's Value

Most of scholars believed that political connections improve the firm's value, especially in the countries with severe corruption and incomplete legal institutions. When one of the company senior management steps into political cycles, the firm's stock can get positive abnormal return. Fisman (2001) focused on the close relationship between President Suharto and Indonesian listed companies. When the news about his health deteriorated, the prices of related companies decrease dramatically. Claessens (2008) used political donation data in Brazil prove that political donations affect the firm's performance in the market significantly.

Chinese scholars also found that political connections improve the firm's value. For example, Wu Wenfeng (2008) found that the value of local government-background corporation is much higher than the one with central government-background. More aggressive government intervention stimulates the impact on the firms. And Luo, D. & Liu, X. (2009) found political connections have positive impacts on the Chinese private companies. The political connected private firms have higher value, and investors can obtain a higher return in a long period, which acts as the "Supporting Hand".

2.2.2 Political Connections Have Negative Impacts on the Firm's Value

For the sake of agency problems, management may do harm to firm's value by political connections, and government may exert pressure to political connected senior management by controlling interest and political power (Pan, H., Xia, X. & Yu, M., 2007). Bertrand et al. (2007) analyzed whether political connected CEO of French listed companies may change his recruitment and resign policy to help the politicians win the coming elections. The research shows political connected firms can create more jobs. Further, the asset return decreases because of increasing amount of salaries, which results in huge costs (Shleifer & Vishny, 1997). Government utility target includes economic claim and political claim. In order to pursuit political goals, government force corporations to undertake more social responsibilities, In this way, government damages the firm's value by deviating shareholder interest maximization. And the results of robust test are consistent with prior results, arguing that political relationship can act as "Exploiting hands".

2.2.3 Political Connections Are Irrelevant to the Firm's Value

There is little literature to support this opinion. Fisman (2012) studied on the relationship between political career of Vice President Cheney and fluctuations of political connected firms; he can not find any valuable evidence. He explained the reasons that American complete regulations violate the rent seeking through government.

2.3 Various Approaches that Make Impact on Political Connected Firm's Value

According to previous studies, political connected firms can achieve significantly higher earnings than those non-connected peers through favorable investment and financing opportunities (Faccio, 2006). As for Chinese private firms take political connections as a kind of fame, which brings extraordinary growth opportunities and longer mortgage duration (Yu, M. & Pan, H., 2008). And Bertrand (2006) found connected firms can obtain lower tax rate from local government. In summary, various approaches that make impact on political connected firm's value.

2.4 Political Connections and Financial Crisis

Faccio (2006) found that political connected firms can derive subsidies from government more easily than non-connected ones when they trap in financial crisis based on the samples from 35 countries in the world. And Pan, Y. (2009) discovered that Chinese private firms are significantly influenced by the political relationship with local government when they get financial troubles.

The rest of the paper is organized as follows. Section 2 describes the literature review. Section 3 presents the research design and data. Section 4 provides descriptive analysis, hypotheis testing and discussion. Section 5 presents conclusion.

3. Research Design and Data

3.1 Study Hypothesis

The hypothesis of this study has been derived from previous studies. According "Supporting Hand" Theory, The political connected firms have higher value than those non-connected ones. Therefore, we derive the first hypothesis:

H 1: Political connections improve firm's value.

Following previous studies, a number of ways would impact on political connected firm's value. To further investigate the possible approaches that affects political connected firm's value, we will take growth of the firm and net asset per share to exam our hypothesis. We define the growth of revenue as growth of the firm. And net asset per share means the ratio of shareholder's equity and the number of listed shares. Higher net asset per share of the listed company means more assets the shareholders own in reality. Due to higher precision, book value becomes one of the most important factors for investors. In this section, we will use these two variables and derive other two hypotheses:

H 2: Higher growths of political connected firms, their values are higher.

H 3: Higher net asset per share of political connected firms, their values are higher.

According to Faccio's discovery (2006), connected firms can obtain subsidies more easily than non-connected peers when they trap in financial crisis. We are interested in the changes of impacts before and after the financial crisis on Chinese political connected firms. Therefore, we derive the hypothesis:

H 4: After financial crisis, political connections enhance the firm's value.

3.2 Methodology and Data

This study contains of two samples of 1251 and 1380 observers for the year of 2006-2007 and the year of 2009-2010 from Shanghai A shock market respectively. We classify the samples into political connected and non-connected. All data are selected from CCER, Chinese Center for Economic Research. We set 1 for connected firms and 0 for the non-connected ones. Whether board members are political connected or not, we rely on the information from Corporate Management Section in East Money, a famous finance website in China. At last, we classified the political connected firms and non-political firms and try to find the influence factors of firm's value.

T-Q represents the firm's value at fiscal year end, reflecting the ratio of firm's fair market value and firm's replacement value. Since it is hard to obtain the replacement value, we select total assets at the year end instead. And market value equals to the market value of total debts and equity.

Then we can derive the first model for the relationship between the political connections and firm's value:

$$T - Q = \beta_0 + \beta_1 PC + \beta_2 P\_S + \beta_3 Growth + \beta_4 LEV + \beta_5 ROA + \beta_6 SIZE + \beta_7 Industry + \beta_8 TOP + \beta_9 Year + \xi \tag{1}$$

The second model exams the impacts of firm's growth and net asset per share on the firm's value in two different situations respectively. We will classify firm's value into two groups: book value and fair market value, represented by Tobin-Q and EPS respectively. The explaining variables are Growth, representing by growth of revenue in the fiscal year. Net asset per share is represented by P_S. Model 2 and Model 3 stands for the fair market value and book value respectively.

$$T - Q = \beta_0 + \beta_1 P\_S + \beta_2 Growth + \beta_3 LEV + \beta_4 ROA + \beta_5 SIZE + \beta_6 Industry + \beta_7 TOP + \beta_8 Year + \xi \tag{2}$$

$$EPS = \beta_0 + \beta_1 P\_S + \beta_2 Growth + \beta_3 LEV + \beta_4 ROA + \beta_5 SIZE + \beta_6 Industry + \beta_7 TOP + \beta_8 Year + \xi \tag{3}$$

To further investigate the impacts from before and after financial crisis, we get the similar model as model 1. We will make regressions for two groups of data from 2006-2007 and 2009-2010 respectively to compare the results and provide the explanation.

Variables are listed in the Table 1 and Table 2 respectively.

Table 1. Variables for the relationship between political connections and firm's value

Variables	Definitions and description
Explained variables	
Firm's value T-Q	The ratio of fair market value and the book value of listed firms.
Explaining variables	
Political connections (PC)	The company is political connected if the senior management is a member of government officials, members of People's congress and member of CPPCC. We take 1 if the firm is politically connected, and 0 if non-political connected.
Control variables	
Leverage ratio (LEV)	The ratio of total debt to total assets;
Return on assets (ROA)	The ratio of net profit to total assets;
Growth of the firm (GROWTH)	The growth rate of revenue;
Size (SIZE)	The total assets of the firm;
Ownership concentration (TOP 3)	The ownership percentage of top 3 shareholders';
Year (YEAR)	Samples in the year of 2006-2007 and 2009-2010;
Industry	We delete some irrelevant industries, such as agriculture. And we classified mining, manufacturing into industry.

Table 2. Variables for the possible approaches that impact political connected firms

Variables	Definitions and description
Explained Variables	
Firm's value T-Q/EPS	The ratio of fair market value and the book value of listed firms.
Explaining Variables	
Growth of the firm	The growth ratio of total revenue
Net asset per share	The ratio of owner's equity to outstanding shares
Control variables	
Leverage ratio (LEV)	The ratio of total debt to total assets;
Return on Assets (ROA)	The ratio of net profit to total assets;
Growth of the firm (GROWTH)	The growth rate of revenue;
Size (SIZE)	The total assets of the firm;
Ownership concentration (TOP 3)	The ownership percentage of top 3 shareholders';
Year (YEAR)	Samples in the year of 2006-2007 and 2009-2010;
Industry	We delete some irrelevant industries, such as agriculture. And we classified mining, manufacturing into industry.

4. Descriptive Analysis, Hypothesis Testing and Discussion

4.1 Descriptive Analysis, Hypothesis and Discussions on the Relationship between Political Connections and Firm's Value before Financial Crisis

4.1.1 Descriptive Statics

On the perspective of descriptive statics on Table 3 and Table 4, the values of political connected firms are higher than the values of non-connected ones.

Table 3. Descriptive statics of political connected firms of 2006-2007

	Minimum	Maximum	Average	St. d
T-Q	0.550	9.95	1.747	0.960
Revenue	0.020	120.0	8.640	64.20
Net profit	-2.780	135.0	0.656	5.550
Total Assets	0.135	994.0	10.00	51.20
Earning per share	-1.630	5.530	0.334	0.476
Net asset per share	-0.278	23.94	3.257	1.853
ROE	-1.730	0.650	0.078	0.146
ROA	-0.299	0.420	0.045	0.055
Growth of revenue	-0.985	82.01	0.396	4.089
Leverage ratio	0.040	1.040	0.501	0.172

Table 4. Descriptive statics of non-political connected firms of 2006-2007

	Minimum	Maximum	Average	St. d
T-Q	0.690	7.220	1.725	0.943
Revenue	0	192.0	4.540	14.20
Net profit	-0.523	13.00	0.259	1.010
Total assets	0.315	188.0	5.440	15.10
Earning per share	-1.890	3.700	0.296	0.426
Net asset per share	0.120	11.82	3.390	1.791
ROE	-11.50	1.000	0.031	0.598
ROA	-0.639	0.260	0.036	0.062
Growth of revenue	-1.000	7.840	0.110	0.499
Leverage ratio	0.080	0.920	0.497	0.162

We will classify the samples into political connected firms and non-connected firms respectively and compare all the data in the descriptive tests to test whether political connections have significant impacts on firm's value. We find the political firm's value is 2% higher than that of non-connected ones. The result shows political connections have positive impacts on firm's value. Similarly, the revenue, net profits and total assets of political connected firms are 91%, 153% and 84% higher than those of non connected ones respectively. As for growth of total revenue and ROA, the results implicate that the profitability and growth of companies are higher than those of non-connected ones.

However, the standard deviations of political connected firms are higher than those of non-connected ones. For example, revenue and net profits are 354% and 404% higher those of non-connected ones respectively. The results show that the violations of political connected firms are comprehensive.

In summary, we can see political connected firms have higher value than the non-connected ones. Also, their profitability and financial ratios are better than the non-connected ones.

Table 5 shows the results of co-linear inspection. We think there is no co-linear problems since the correlation coefficients are quite small.

Table 5. Co-linear inspection for relationship between political connections and firm's value of 2006-2007

	Tobin-Q	PC	Size	P_S	ROA	Growth	LEV	TOP3
Tobin-Q	1							
PC	0.011	1						
SIZE	0.073	0.052	1					
P_S	0.181	0.035	0.040	1				
ROA	0.112	0.080	0.138	0.308	1			
Growth	0.020	0.041	0.145	0.022	0.099	1		
LEV	0.151	0.011	0.026	0.176	0.297	0.001	1	
TOP3	0.031	0.001	0.082	0.043	0.033	0.035	0.035	1

4.1.2 Univariate Analysis

In this sector, we will use T-test for independent samples to analyze the impacts of political connections to the firm's value.

In the T-test of independent sample, we classify the samples in a similar way as above. We find the impact is not significant, so we can not refuse the hypothesis above.

Table 6. T-test of independent sample of 2006-2007

		F	Sig.	t	df.	Sig.
T-Q	VAR=1	0.024	0.878	0.393	1249	0.693
	VAR=0			0.396	926	0.692

4.1.3 Multiple Regression Analysis

Table 7. Regression analysis of the impact of political connections on firm's value in the year of 2006-2007

	Coefficients	T
Intersection	2.476	21.32***
Explaining variable		
PC	-0.010	-0.176
Control variables		
ROA	2.575	5.174***
SIZE	0.019	3.068***
Leverage	0.827	5.114***
Growth	0.006	0.803
Net asset per share	0.131	8.759***
TOP 3	0.123	0.582
Industry	--	
Year	--	
Samples	1251	
Adjusted R^2	0.091	

***, **, * represents significant level at 1%, 5% and 10% respectively.

Table 7 shows the results of regression analysis of the impact on the firm's value. We find that political connections do not have significant impacts on firm's value in the year of 2006-2007. For the controlling variables, growth does not affect firm's value significantly in the year of 2006-2007. We take ROE as substitute variable to test the robustness of the results in Table 8.

Table 8. Robust test of the impact of political connections on firm's value in the year of 2006-2007

	Coefficients	T
Intersection	0.071	1.742*
Explaining variable		
PC	-0.028	-1.099
Control variables		
SIZE	0.003	0.187
Leverage	0.084	1.293
Growth	0.017	2.336**
Net asset per share	0.001	0.091
TOP 3	0.022	0.272
Industry	--	
Year	--	
Samples	1251	
Adjusted R^2	0.006	

***, **, * represents significant level at 1%, 5% and 10% respectively.

4.2 Descriptive Analysis, Hypothesis and Discussions on the Impacts of Growth on Politically Connected Firms

4.2.1 Descriptive Statics

Table 9 and Table 10 show the results of the descriptive statics for growth that would impact political connected firm's value. We discover that the PE ratio of political connected firms is higher than that of non-connected ones. That means investors believe political connected firms have better future. Similarly, the growth of revenue is higher than that of non-connected ones, which means the firms are able to get better growth opportunities (Faccio, 2006).

Table 9. Descriptive statics of political connected firms

	Minimum	Maximum	Average	St. d
T-Q	0.550	9.950	1.747	0.960
Revenue	0.020	1200	8.640	64.20
Net profit	-2.780	135.0	0.656	5.550
Total assets	0.135	994.0	10.00	51.20
Earning per share	-1.630	5.530	0.335	0.477
Net asset per share	-0.278	23.94	3.257	1.853
Return on net assets	-1.500	0.930	0.102	0.163
ROE	-1.730	0.650	0.078	0.146
ROA	-0.299	0.420	0.046	0.054
Growth of revenue	-0.985	82.01	0.396	4.089
Leverage ratio	0.040	1.040	0.501	0.172

Table 10. Descriptive statics of non-connected firms

	Minimum	Maximum	Average	St. d
T-Q	0.690	7.220	1.724	0.943
Revenue	0	192.0	4.540	14.20
Net profit	-0.523	13.00	0.259	1.010
Total assets	0.315	188.0	5.440	15.10
Earning per share	-1.890	3.700	0.296	0.426
Net asset per share	0.120	11.82	3.390	1.791
Return on net assets	-13.20	1.170	0.049	0.664
ROE	-11.50	1.000	0.031	0.598
ROA	-0.639	0.260	0.036	0.062
Growth of revenue	-1.000	7.840	0.110	0.499
Leverage ratio	0.080	0.920	0.497	0.162
PE	-3620	5270	151.0	487.1

Table 11 exhibits the results of co-linear inspection for the hypothesis. Generally, we believe there are no co-linear problems for coefficients are quite small.

Table 11. Co-linear inspection for the impact of growth on firm's value

	Tobin-Q	Size	ROA	Growth	LEV	TOP3	P_S
Tobin-Q	1						
SIZE	-0.073	1					
ROA	0.175	0.163	1				
Growth	0.013	0.147	0.114	1			
LEV	-0.168	0.013	-0.330	0.001	1		
TOP3	0.029	0.092	0.061	0.051	-0.067	1	
P_S	-0.147	0.031	0.307	0.023	-0.155	-0.050	1

4.2.2 Univariate Analysis

We refuse the original hypothesis for the result is significant in revenue growth rate. Therefore, we can expect revenue grow does not significantly affect political connected firm's value. Table 12 shows the results.

Table 12. T-test of independent samples

		F	Sig.	t	df	Sig.
Revenue	VAR=1	3.301	0.069	1.610	1378	0.108
growth	VAR=0			2.156	1206	0.031

4.2.3 Multiple Regression Analysis

We classify our visions into two perspectives, fair market value and book value. Generally, the growth of political connected firms does not affect the firm's value significantly, according to regression analysis in Table 13 and Table 14. The result can not support our second hypothesis. We can simply explain that revenue mainly comes from daily operation, including design, manufacture, sale and other processes. To make the profit from sales is a market-oriented process. According to the definition of political connections, corporate management intends to establish associations with government, which relies on competitive advantages and technology, distinguish from normal business. While, relying on political connections, companies can acquire political

resources in a certain approaches, such as easier access to bank loan, longer credit period, more tax benefit and market permission. The so called political resources can not improve financial performance directly, the impact is always invisible.

In the analysis for control variables, political connections are positively correlated with firm's size. In China, most of state-owned corporations are transformed from central or local government and most of senior management once worked as government officials. Normally, for most senior management of huge private firms incline to build political connections for political protection.

Table 13. Regression for both political connected and non-connected firms in market value perspective

	Political connected firms			Non-connected firms	
	Coefficients	T		Coefficients	T
Intersection	2.293	16.45***	Intersection	2.585	14.16***
Explaining Var.			Explaining Var.		
Growth	0.012	1.059	Growth	0.345	4.105***
Net asset per share	0.125	6.773***	Net asset per share	0.164	6.572***
Control Var.			Control Var.		
ROA	5.061	5.281***	ROA	2.001	2.478***
SIZE	0.048	2.615***	SIZE	0.049	-0.853
Leverage	0.680	3.368***	Leverage	0.946	3.491***
TOP 3	0.033	0.124	TOP 3	0.035	1.116
Industry	--	--	Industry	--	--
Year	--	--	Year	--	--
Samples	807		Samples	444	
Adjusted R^2	0.117		Adjusted R^2	0.159	

***,**,* represents significant level at 1%, 5% and 10% respectively.

Table 14. Regression for both connected and non-connected firms in book value perspective

	Connected firms			Non-connected firms	
	Coefficient	T		Coefficient	T
Intersection	0.611	17.16***	Intersection	0.459	10.43***
Explaining Var.			Explaining Var.		
P_S	0.102	21.61***	P_S	0.104	17.38***
Growth	0.002	0.921	Growth	-0.018	-0.868
Control var.			Control var.		
ROA	6.304	37.09***	ROA	4.543	25.75***
SIZE	0.037	2.199**	SIZE	0.010	1.418
Leverage	0.667	13.00***	Leverage	0.440	6.752***
TOP 3	-0.018	-0.265	TOP 3	0.098	1.210
Industry	--		Industry	--	
Year	--		Year	--	
Samples	807		Samples	444	
Adj. R^2	0.757		Adj. R^2	0.757	

***,**,* represents significant level at 1%, 5% and 10% respectively.

Table 14 shows the regression results for both political connected and non-connected firms in book value perspective. The results are consistent with prior results in fair market value perspective. The R^2 in Table 15 is much higher than that in Table 14. The results suggest book value perspective is more powerful to explain the result.

Compared with two groups of data, we find insignificant impact of firm's growth on firm's value; while significant for non-connected firms. We can properly explain that political connections are invisible resources, such as tax benefit, easier loan and property protection. For most scholars, political connections are beneficial for companies in various ways, such as business promotion, lower contract costs, or more subsidies from government when the firm is trapped (Faccio, 2006). In most situations, all the benefits are occasional. The so-called long term growth means the ability to improve product service and operation efficiency by elevating technology and management. So the positive effects will not be permanent. We can only classify them as extraordinary gain in accounting. Another possible reason is that political connections are social capital with dual functions, including risk and return (Li, W., 2010). In Shleifer & Vishny's (1997) opinion, government utility target includes economic claim and political claim. In order to pursuit political goals, government force corporations to undertake more social responsibilities, such as stricter employee-benefit requirements and higher standard working environment. Specifically, government rent seeking behavior is harmful to the firm's performance, as well as increases information risk and governance risk. In this way, government damages the firm's value by deviating shareholder interest maximization. And the results of robust test are consistent with prior results.

We will substitute ROE for Tobin-Q to complete robust test. The result in Table 15 shows the robust test for the research. It implicates the size, ownership concentration and profitability of political connected firms are higher than those of non-connected peers. Political connections are positively correlated to firm's value and performance. On the other side, political connections do not positively affect revenue and long term growth. What is more, it will damage firm's value.

Table 15. Robust test of both political connected and non-connected firms

	Connected firms			Non-connected firms	
	Coefficient	T		Coefficient	T
Intersection	0.560	2.699***	Intersection	0.123	1.010
Explaining Var.			Explaining var.		
P_S	0.068	2.288**	P_S	0.531	,2.978***
Growth	0.015	5.504***	Growth	0.040	2.479*
Control Var.			Control var.		
Size	0.002	1.786*	Size	0.016	0.867
Leverage	0.001	1.073	Leverage	0.071	1.254
Top 3	0.032	0.764	Top 3	0.128	0.562
Industry	--		Industry	--	
Year	--		Year	--	
Samples	807		Samples	444	
Adj. R^2	0.050		Adj. R^2	0.038	

***,**,* represents significant level at 1%, 5% and 10% respectively.

4.3 Descriptive Analysis, Hypothesis Testing and Discussions on the Impacts of Net Asset Per Share on Politically Connected Firms

4.3.1 Descriptive Statistics

Also in Table 9 and Table 10, we can find average of net asset per share exhibits opposite results.

Table 16. Co-linear inspection for the impact of net asset per share on political connected firm's value

	EPS	Size	P_S	ROA	Growth	LEV	TOP3
EPS	1						
SIZE	0.322	1					
P_S	0.062	0.001	1				
ROA	0.034	0.007	0.001	1			
Growth	0.005	0.030	0.045	0.003	1		
LEV	0.001	0.059	0.193	0.002	0.202	1	
TOP3	0.006	0.178	0.050	0.001	0.076	0.065	1

It implicates political connection do harm to net asset per share of the firm in certain degree. According to Pan, H., Xia, X. & Yu, M. (2007), it might be the case that firms with poor performance are likely to establish political connections. For another reason, huge number of outstanding shares dilutes the net asset per share.

Table 16 shows the results of co-linear inspection. We think there is no co-linear problems since the correlation coefficients are quite small.

4.3.2 Univariate Analysis

In the T test of independent samples, we do not refuse the original hypothesis for it is significant in net asset per share. Table 17 shows the result.

Table 17. T-test of independent samples

		F	Sig.	t	df	Sig.
Net asset per	VAR=1	1.797	0.180	1.146	1378	0.252
share	VAR=0			1.590	1048	0.112

4.3.3 Multiple Regression Analysis

Also in Table 13 and Table 14, we find the results consistent with our hypothesis. We find net asset per share have positive effect on firm's value for political connected firms. Compared with non-connected ones, T value is greater and more significant. Possibly, it can be explained as the "Supporting Hand" Theory for the political connections. Similarly, firm's growth does not have significant effects on firm's value. In China, transaction cost is quite high for inadequate legal system and transition economy. Chinese corporations tend to transform its political resources as part of business strategies to achieve privileges and improve firm's value (Li, W., 2010). Political connections can bring tremendous benefits, such as higher asset quality and profitability. Connected-firms can get more profit in similar size of asset. As prior researches, political connected firms can get more tax benefits (Bertrand et al., 2007), easier to get subsidy from government when it falls in financial traps (Faccio, 2006).

And leverage has significant impact on firm's value, which is consistent with Faccio's conclusions (2007). The result suggest that political firms have less financial constraints, are easier to get financial loan(Luo D., 2008) and promote investment (Francis et al., 2009).

In all, political connections have both positive effects and negative effects on firm's value. These two effects work simultaneously. After financial crisis, positive effects are more powerful than the negative effects.

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4.4 Descriptive Analysis, Hypothesis Testing and Discussions for Political Connections on Firm's Value after the Financial Crisis

4.4.1 Descriptive Analysis

We can find descriptive statics for both political connected and non-connected firms. After financial crisis, the value and net asset per share of political connected firms is higher than those of non-connected ones. However, their growth is lower than non-connected peers'.

Table 18. Descriptive statics for political connected firms of 2009-2010

	Minimum	Maximum	Average	St. d
T-Q	0	15.11	2.310	1.376
Revenue	0.565	2020	62.92	169.5
Net profit	-1.630	129.0	9.432	23.62
Total Assets	0	224.0	0.724	55.50
Earning per share	-0.720	14.78	0.119	0.708
Net asset per share	0.150	122.7	6.649	8.741
ROE	-0.270	0.200	0.036	0.511
ROA	-1.000	5.250	0.185	0.587
Growth of revenue	-0.900	6.940	0.180	0.587
Leverage ratio	0	1.370	0.523	0.181

Table 19. Descriptive statics for non-political connected firms of 2009-2010

	Minimum	Maximum	Average	St. d
T-Q	0	14.46	2.204	1.437
Revenue	0	1910	14.90	99.94
Net profit	-75.40	1400	9.368	67.47
Total Assets	0	2840	22.07	130.1
Earning per share	-3.260	2.210	0.094	0.198
Net asset per share	-0.090	291.8	3.901	9.773
ROE	-0.350	1.420	0.042	0.071
ROA	-0.175	0.357	0.031	0.587
Growth of revenue	-0.990	43.61	0.332	1.970
Leverage ratio	0	0.960	0.586	0.186

4.4.2 T-Test of Independent Samples

We should no refuse the hypothesis for the results are insignificant in Table 20.

Table 20. T-test of independent sample of 2009-2010

		F	Sig.	t	df	Sig.
T-Q	VAR=1	0.281	0.596	0.020	1411	0.984
	VAR=0			0.020	1083	0.984

4.4.3 Multiple Regression Analysis

By similar method, we make regression for data in the year of 2009-2010, and compare the results in Table 21. We find that political connections do not have significant impacts on firm's value in the year of 2006-2007, but

significant at 10% in the year of 2009-2010. The results show political connected firms benefited from investment from government after financial crisis. And it proves that political connected firms are easier to get subsidy from government when they meet financial difficulties (Faccio, 2006). Robust test is listed in Table 22.

Table 21. Regression analysis of the impact of political connections on firm's value

	2006-2007		2009-2010	
	Coefficients	T	Coefficients	T
Intersection	2.476	21.32***	3.431	25.43***
Explaining Var.				
PC	-0.010	-0.176	0.118	1.552*
Control Var.				
ROA	2.575	5.174***	2.815	4.741***
SIZE	0.019	3.068***	0.009	1.956**
Leverage	0.827	5.114***	2.205	10.65***
Growth	0.006	0.803	0.036	1.587*
Net asset per share	0.131	8.759***	0.014	2.177***
TOP 3	0.123	0.582	0.274	0.346
Industry	--		--	
Year	--		--	
Samples	1251		1380	
Adjusted R^2	0.091		0.131	

***,**,* represents significant level at 1%, 5% and 10% respectively.

Table 22. Robust test of the impact of political connections on the firm's value

	2006-2007		2009-2010	
	Coefficients	T	Coefficients	T
Intersection	0.071	1.742*	0.042	0.919
Explaining Var.				
PC	-0.028	-1.099	0.050	2.280**
Control Var.				
SIZE	0.003	0.187	0.002	0.889
Leverage	0.084	1.293	-0.214	-3.385***
Growth	0.017	2.336**	0.002	0.531
Net asset per share	0.001	0.091	0.025	4.354***
TOP 3	0.022	0.272	0.050	0.581
Year	--		--	
Industry	--		--	
Samples	1251		1380	
Adjusted R^2	0.006		0.007	

***,**,* represents significant level at 1%, 5% and 10% respectively.

5. Conclusion

We research for the impacts of political connections on the firm's value, especially the changes before and after financial crisis. Furthermore, we discuss the possible approaches that political connected firms make impact on firm's value. The results are demonstrated below:

Political connections have both positive and negative effects on firm's value. Net asset per share of political connected firms have positive impact on its value. However, the growth of political connected firms does not greatly affect firm's value. After the empirical study, we found political connections do not significantly affect firm's long term growth.

The impacts of political connections are changing as time passing by or events coming out. In the year of 2006-2007, political connections do not significantly affect firm's value; in the year of 2009-2010, the impacts are quite obvious. This paper improves our understanding of impacts of political connections before and after financial crisis in Chinese market and provides new insights into possible approaches affecting connected firm's value.

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