

# Firm Performance and Investment in Political Human Capital

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October 2010

- Employment of political human capital is a characteristic exhibited by firms in many countries, including both developed and developing nations.

Country	No. of firms with available data	No. of connected firms	Country	No. of firms with available data	No. of connected firms
Argentina	34	0	Mexico	68	7
Australia	257	2	Netherlands	179	1
Austria	87	1	New Zealand	47	0
Belgium	104	5	Norway	113	0
Brazil	127	0	Peru	24	0
Canada	438	6	Philippines	100	5
Chile	71	2	Poland	32	0
Colombia	32	0	Portugal	60	3
Czech Rep.	58	0	Russian Fed.	11	4
Denmark	172	7	Singapore	215	16
Finland	91	2	South Africa	188	0
France	519	19	South Korea	271	7
Germany	507	10	Spain	138	1
Greece	90	1	Sri Lanka	18	0
Hong Kong	381	7	Sweden	172	3
Hungary	26	1	Switzerland	180	4
India	257	8	Taiwan	237	7
Indonesia	116	27	Thailand	204	32
Ireland	52	2	Turkey	78	1
Israel	47	2	U.K.	1,417	119
Italy	178	21	U.S.A.	6,007	13
Japan	2,322	30	Venezuela	17	0
Luxembourg	23	1	Zimbabwe	8	0
Malaysia	418	81			
			All countries	16,191	458

Source: Faccio, Mara (2006). "Politically connected firms," *American Economic Review*.

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# Introduction

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  - raising market value (United States: Roberts, 1990; Indonesia: Fisman, 2001; Brazil: Rmalho, 2007)

- Here we explore the relationship between Chinese firm characteristics and the decisions to invest in political human capital.

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  - Bloom of privately-controlled industrial activities



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- These constraints offer firms potential incentives to invest in political human capital.

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  - around 1,200 publicly listed firms excluding those with government entity shareholders
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  - 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.

# The political hierarchy in China

Table A.1: The political hierarchy in China

Rank	Positions
Top leaders	General party secretary, President, Chairman of NPC Premiers, Vice Premiers, State councilors
Bu	Minister Provincial party secretary, Governor
Ting	Department head of government bureau Municipal party secretary, Mayor
Chu	Division director of government bureau County party secretary, County magistrate
Ke	Section chief of government bureau Township party secretary, Township magistrate

Table 1: Director-level variables

Variable	Definition	Mean	Std.	Min	Max
Politician dummy	An indicator that equals 1 if the executive held a political position and 0 otherwise	0.03	0.18	0	1
Max rank	The highest political rank held by the executive	0.07	0.38	0	3
Number of posts	The number of political positions held by the executive	0.04	0.22	0	6
Ave. rank	The average political rank held by the executive	0.07	0.37	0	3
Education	The level of education of the executive	3.12	0.71	1	5
Credential	An indicator that equals 1 if the executive has a professional credential	0.32	0.46	0	1

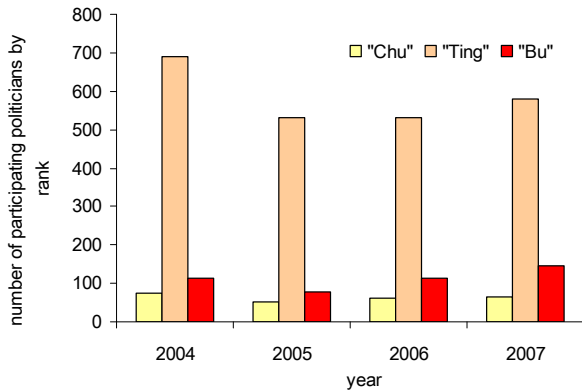


Figure 1: The composition of political human capital

Table 2: Firm-level variables

Variable	Definition	Mean	Std.	Min	Max
Politician dummy	An indicator that equals 1 if there is at least one politician and 0 otherwise	0.37	0.48	0	1
Politician count	The number of politicians on board	0.61	1.06	0	11
Max rank	The average of the highest rank held by the politicians	0.76	1.02	0	3
Num. of posts	The average number of political positions held by the politicians	0.42	0.59	0	4
Ave. rank	The average rank of political positions held by the politicians	0.74	1.00	0	3
Ave. education	The average education level	3.16	0.37	1.57	5
Ave. credential	The fraction of directors with professional credential	0.31	0.28	0	1
Firm productivity	Estimated physical efficiency	2.50	1.06	-4.36	7.40

# Firm Performance and Political Human Capital Investment

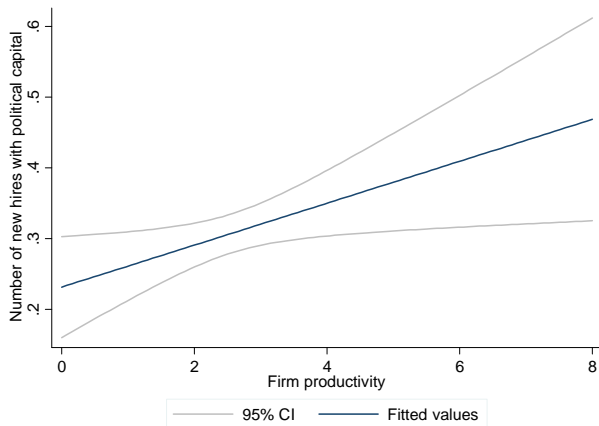


Figure 2: The relationship between firm productivity and investment in political human capital

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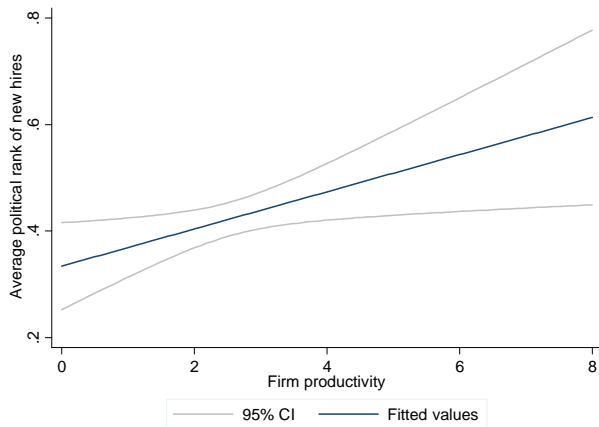


Figure 3: The relationship between firm productivity and investment in political human capital



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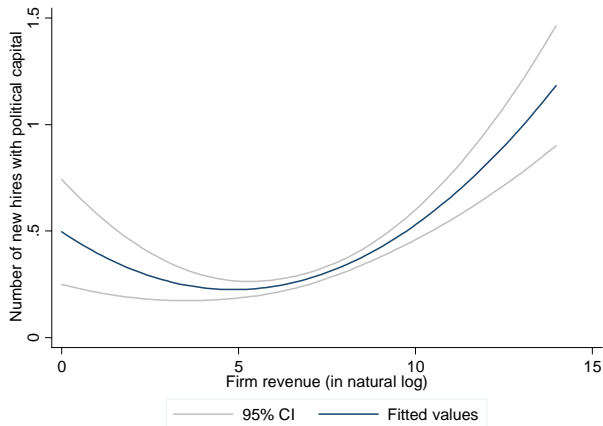


Figure 4: The relationship between firm revenue and investment in political human capital

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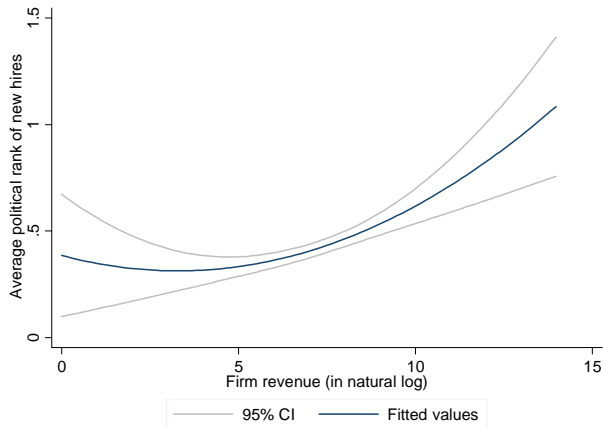


Figure 5: The relationship between firm revenue and investment in political human capital

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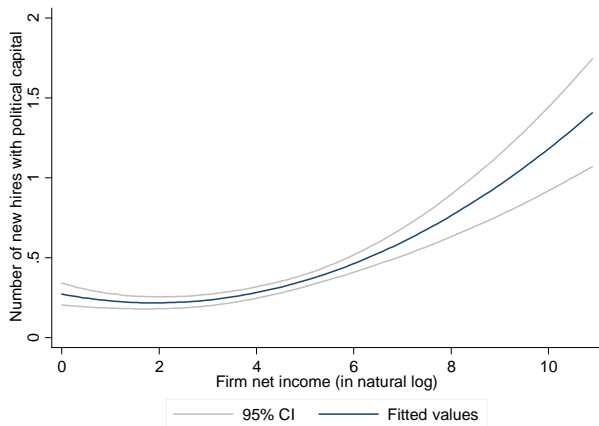


Figure 6: The relationship between firm net income and investment in political human capital

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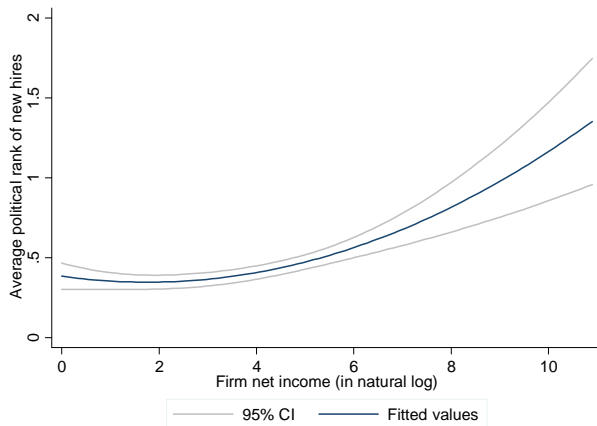


Figure 7: The relationship between firm net income and investment in political human capital

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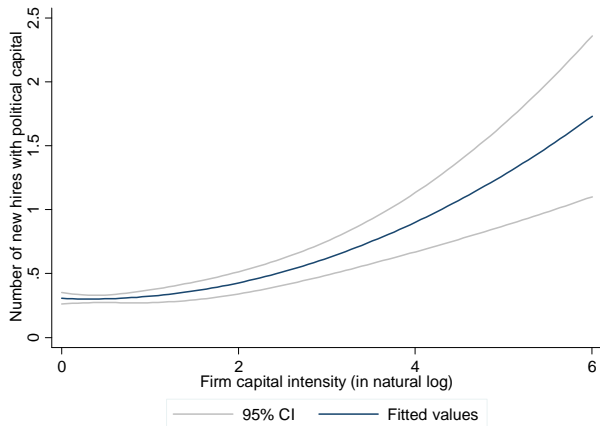


Figure 8: The relationship between firm capital intensity and investment in political human capital

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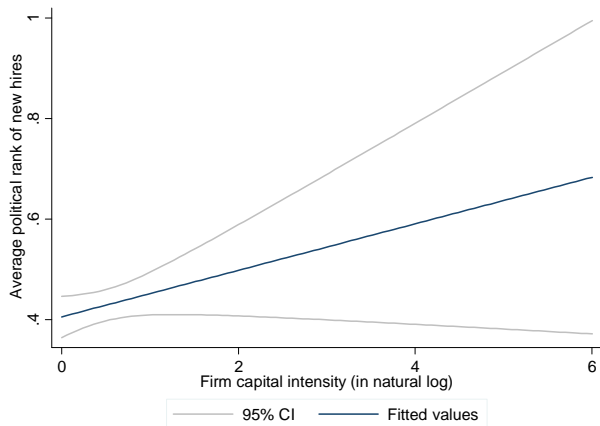


Figure 9: The relationship between firm capital intensity and investment in political human capital

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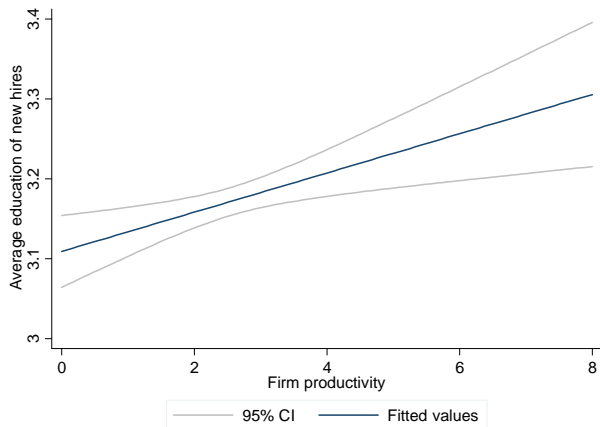


Figure 10: The relationship between firm productivity and investment in conventional human capital

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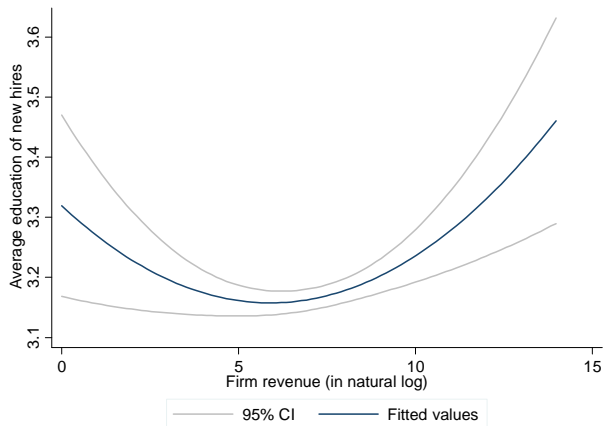


Figure 11: The relationship between firm revenue and investment in conventional human capital



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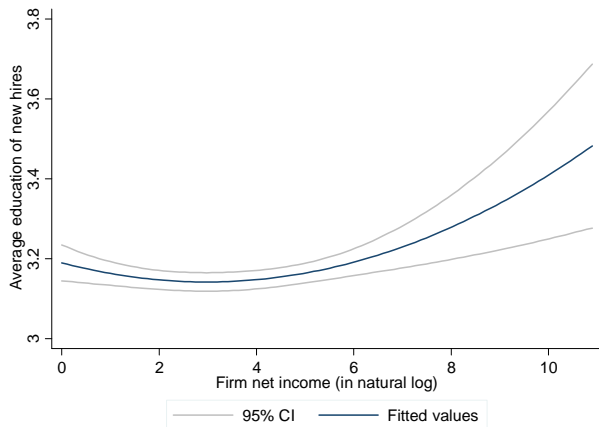


Figure 12: The relationship between firm net income and investment in conventional human capital

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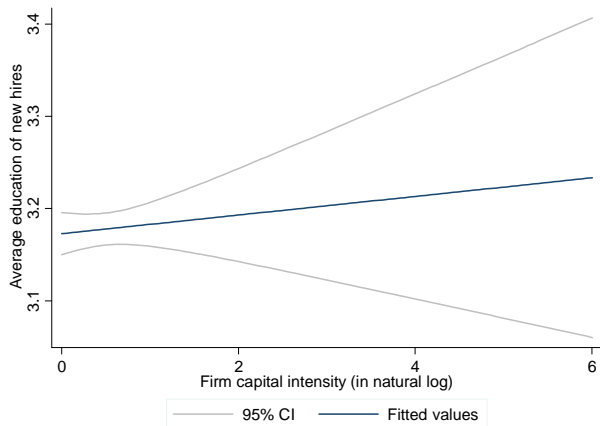


Figure 13: The relationship between firm capital intensity and investment in conventional human capital

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- Firms with higher capital intensity have greater investments in political human capital.
- There is a U-shape relationship between firm revenue and investments in conventional and political human capital.