



Corporate Political Social Capital, Financing Constraints and Firm Performance

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Abstract. In China, the government has a significant impact on enterprise development, and how to help enterprise development with corporate political social capital is crucial for enterprises. This paper empirically investigates the relationship between corporate political social capital, financing constraints and corporate performance with a sample of Chinese A-share listed companies from 2018 - 2023. It is found that (1) corporate political social capital positively affects performance; (2) financing constraints play a partial mediating role in this influence path.

Keywords: social capital; government relations; financing constraints; performance

1 Introduction

The global economic slowdown and the rise of trade protectionism, superimposed on the domestic economic structural transformation, enterprises are facing internal and external challenges, and the state has introduced policies to optimize the environment to help the development of enterprises. Currently, the internal influences on corporate performance include internal control quality [1], ESG performance[2], and executive team characteristics [3], etc.; and the external factors involve the stability of supplier relationships [4], national policies such as taxation [5], and business environment [6], etc. However, informal institutions such as social capital have not been sufficiently studied. Given the political environment in China, where the firm-government relationship is crucial, it is important to explore the political social capital of firms.

2 Theoretical Analysis and Research Hypotheses

The political social capital of enterprises, i.e., good government-enterprise relations, has a significant positive impact on enterprise performance. In China, the government holds the right to allocate resources [7], through which enterprises can obtain policy tilts, such as tax incentives [8], government subsidies [9], reduce operating costs, and directly enhance performance; at the same time, political social capital broadens the

channel of information, which enables enterprises to gain insight into the direction of policy [10], to reduce the loss of information lag, improve investment efficiency, accurately position strategy, and indirectly promote performance growth. Good government-business relations enable the government to understand the plight of enterprises [11] and provide targeted support, which is beneficial to the long-term development of enterprises despite the lag [12]. With government support, enterprises' innovation ability is enhanced [13], which continues to promote performance improvement. Accordingly, hypothesis 1 is proposed:

H1: Corporate political social capital can enhance enterprise performance.

"Financing is difficult and expensive" is the main problem faced by private enterprises, which affects enterprise performance [14]. In the short term, financing constraints hinder capital turnover, affect production and operation, and reduce short-term performance [15]. In the long run, the shortage of capital inhibits R&D investment and innovation drive, reduces technology investment, and affects enterprise growth and financial performance [16]. Social capital plays a key role in relationship and credit financing [17], which strengthens the corporate credit system and improves financing efficiency [18]. As a bridge between government and enterprises, corporate political social capital not only accelerates access to government subsidies and preferential policies to fill the funding gap, but also pushes financial institutions to provide loose credit conditions and lower the financing threshold. At the same time, good government relations attract investors through the reputation mechanism [19], reduce the cost of financing and alleviate the pressure of external financing [20]. Based on the above analysis, the following hypothesis is proposed:

H2: There is a certain mediating utility of financing constraints in the relationship between corporate political social capital and performance, while other conditions remain unchanged.

3 Research Design

3.1 Sample data Source

The research sample of this paper is the Shanghai and Shenzhen A-share enterprises in 2018-2023, and the data is derived from CSMAR database. The screening criteria include the exclusion of financial sector enterprises, ST and *ST enterprises, as well as anomalies and missing data, and a total of 8,256 observations from 1,376 enterprises are finally obtained. Continuous variables are subjected to 1% and 99% quantile shrinkage to eliminate the effect of extreme values.

3.2 Model Design

This paper adopts Wen Zhonglin's mediation effect test procedure to construct the role path model of corporate political social capital, financing constraints and corporate performance, and sets up the empirical analysis model accordingly.

$$Roe_{it} = \beta_0 + \beta_1 GSC + \beta_2 \sum Controls_{it} + \sum Ind + \sum Year + \varepsilon_{it} \quad (1)$$

$$SA = \beta_0 + \beta_1 GSC + \beta_2 \sum Controls_{it} + \sum Ind + \sum Year + \varepsilon_{it} \quad (2)$$

$$Roe_{it} = \beta_0 + \beta_1 GSC + \beta_2 SA + \beta_3 \sum Controls_{it} + \sum Ind + \sum Year + \varepsilon_{it} \quad (3)$$

Where the explanatory variable *Roe* is the return on net worth, the explanatory variable *GSC* is the firm's political social capital, the mediator variable *KZ* is the financing constraints, and *Controls* is the control variables. The subscript *i* represents the firm, *t* represents the year, β_0 is the intercept term, and ε is the random error term.

3.3 Definition of variables

3.3.1 Explained Variables.

Drawing on the research of Liu Haijian et al. [21], this paper chooses the more stable *Roe* as the explanatory variable to measure corporate performance.

3.3.2 Explanatory Variables.

This paper refers to the studies of Wang Zhuquan and Han Xingjia [22] and Wei Tongtong [23], and selects the natural logarithm of government subsidies as a measure of corporate political social capital.

3.3.3 Mediating Variables.

Drawing on Tang Song et al. [24], this paper adopts the *KZ* index to measure financing constraints, and the level of the index is proportional to the degree of corporate financing constraints.

3.3.4 Control Variables.

Referring to the research of scholars such as Hu Haibo and Cao Xinyu [25], this study controls the factors that may affect innovation performance. See Table 1 for all variable names and descriptions:

Table 1. Design Table of Relevant Variables and Indicators

Variable Type	English Code	Variable Name	Variable Description
Explained Variable	Roe	Return on Equity	Net Profit / Average Shareholders' Equity
Explanatory Variable	GSC	Corporate Political Social Capital	Natural Logarithm of Government Subsidies
Mediating Variable	KZ	Financing Constraints	KZ Index
Control Variable	Asset	Company Size	Natural Logarithm of Total Assets
	Board	Board of Directors Size	Number of Board of Directors Members
	Own	Proportion of Ownership of the Actual Controller	Proportion of Ownership Held by the Actual Controller

	Grown	Growth Rate of Main Business Revenue	(Main Business Revenue of the Current Year - Main Business Revenue of the Previous Year) / Main Business Revenue of the Previous Year
	Top	Ownership Concentration	Proportion of Shares Held by the Largest Shareholder
	TQ	Tobin's Q	Tobin's Q Value
	Age	Company Age	Observation Year - IPO Year
	Lev	Debt-to-Asset Ratio	Total Liabilities at the End of the Year / Total Assets at the End of the Year
	Ind	Industry	Assign 1 if it is the corresponding industry, otherwise 0
	Year	Year	Assign 1 if it is the corresponding year, otherwise 0

4 Analysis of Empirical Results

4.1 Descriptive Statistics

Table 2 demonstrates the descriptive statistics of the main variables. Roe has a large variance, with a minimum value of -0.811, a maximum value of 0.408, and a mean value of 0.035, which shows that some enterprises are losing money, and the overall profitability is not high. GSC is centralized by logarithmic processing, with a mean value of 17.66 and a median value of 17.64, which is stable overall. The enterprise financing constraint indicator is discrete, with a minimum of -3.395, a maximum of 6.325, and a mean value of 1.926. Most of the control variables have small standard deviations, indicating that the sample enterprises' ability is stable, and the effect of heterogeneity can be excluded.

Table 2. Descriptive Statistics of Main Variables

Variable	N	Mean	p50	SD	Min	Max
Roe	8256	0.0350	0.0590	0.167	-0.811	0.408
GSCC	8256	17.66	17.64	1.448	8.987	22.98
KZ	8255	1.926	2.009	1.819	-3.395	6.325
Asset	8256	9.799	9.739	0.518	8.797	11.33
Board	8256	8.331	9	1.504	5	13
Own	8256	32.47	30.31	15.52	3.998	70.28
Grown	8256	0.121	0.0850	0.312	-0.512	1.673
Top	8256	30.93	28.81	13.64	8.770	68.45
TQ	8255	1.744	1.464	0.940	0.810	6.282
Age	8256	12.01	11	7.279	1	29
Lev	8256	0.477	0.470	0.170	0.136	0.898

4.2 Correlation Analysis

The results of the correlation test in Table 3 show that GSC and Roe are significantly positively correlated at the 0.01 level, indicating that the more political social capital,

the better the corporate performance. Meanwhile, KZ is significantly negatively correlated with both GSC and Roe at the 0.01 level, indicating that financing constraints move inversely with these two. The correlation coefficients of most of the control variables with the core variables are lower than 0.4, and the VIF test shows that the inflation factor is less than 3, which excludes serious multicollinearity problems.

Table 3. Pearson Correlation Coefficient Table

	Roe	GSC C	KZ	Asset	Board	Own	Grow n	Top	TQ	Age	Lev
Roe	1										
GSCC	0.16 9***	1									
KZ	-0.48 0***	-0.07 6***	1								
Asset	0.16 4***	0.626 ***	0.027 **	1							
Board	0.04 9***	0.152 ***	-0.01 40	0.239 ***	1						
Own	0.18 6***	0.050 ***	-0.16 2***	0.108 ***	-0.080 ***	1					
Grow n	0.32 2***	0.029 ***	-0.12 9***	0.052 ***	-0.006 00	0.08 6***	1				
Top	0.18 1***	0.119 ***	-0.14 2***	0.220 ***	0.018 0	0.66 8***	0.059 ***	1			
TQ	0.05 8***	-0.13 4***	0.060 ***	-0.36 5***	-0.123 ***	-0.0 73**	0.108 ***	-0.11 1***	1		
Age	-0.02 8***	0.212 ***	0.153 ***	0.446 ***	0.186 ***	-0.1 44**	-0.09 4***	0.042 ***	-0.17 1***	1	
Lev	-0.27 8***	0.152 ***	0.662 ***	0.351 ***	0.090 ***	-0.0 29**	0.004 00	0.030 ***	-0.21 1***	0.207 ***	1

Note: ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

4.3 Regression Analysis

Before the regression analysis, this paper first conducted Hausman test and the p-value was 0. Therefore, the fixed effect model was chosen for the next step of regression analysis.

Table 4 demonstrates the regression results. Model (1) shows that GSC and Roe are significantly and positively correlated at the 1% level, verifying Hypothesis 1. Models (2) and (3) show that KZ is a partial mediating variable between GSC and Roe: GSC significantly reduces KZ, and when GSC and KZ act together on Roe, both of them significantly affect Roe, with GSC positively and KZ negatively. This indicates that GSC not only directly enhances corporate performance, but also indirectly promotes performance growth by reducing financing constraints, verifying Hypothesis 2. And the natural logarithm (SR) of operating income is used to re-measure corporate performance and tested, and the conclusions of the regression analysis are basically the same, which indicates that the conclusions of this paper have a high degree of robustness.

Table 4. Corporate Political Social Capital, Financing Constraints and Corporate Performance

VARIABLES	(1) Roe	(2) KZ	(3) Roe
GSC	0.009*** (5.61)	-0.097*** (-7.31)	0.005*** (3.49)
KZ			-0.038*** (-29.65)
Asset	0.078*** (14.61)	-0.545*** (-12.25)	0.058*** (11.26)
Board	0.004*** (3.27)	-0.025*** (-2.74)	0.003** (2.54)
Own	0.001*** (5.50)	-0.004*** (-3.04)	0.001*** (4.79)
Grown	0.152*** (28.95)	-0.626*** (-14.41)	0.128*** (25.42)
Top	0.001*** (5.18)	-0.008*** (-6.17)	0.001*** (3.42)
TQ	0.015*** (7.46)	0.285*** (17.63)	0.025*** (13.38)
Age	-0.001*** (-2.65)	0.017*** (7.51)	-0.000 (-0.33)
Lev	-0.361*** (-34.26)	7.879*** (85.21)	-0.072*** (-5.12)
Constant	-0.799*** (-16.61)	4.472*** (11.21)	-0.631*** (-13.70)
R-squared	0.307	0.596	0.374
Year FE	YES	YES	YES
Ind FE	YES	YES	YES

Note: ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

5 Results and Implications

Through empirical tests on sample data, this paper finds that corporate political social capital is significantly positively correlated with performance and can improve performance; financing constraints play a partly intermediary role, and corporate political social capital can reduce financing constraints and indirectly promote performance improvement. This study provides new perspectives for understanding the factors influencing corporate performance, and is of great significance for enterprises to rationally utilize political social capital and improve the financing environment.

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