

Can the Political Relationship Capital Really Improve Enterprise's Growth Performance?

Based on the Empirical Test of Enterprise Life Cycle

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Abstract—Taking the companies listed in Shenzhen Stock Exchange by the end of 2013 as example, this paper uses the Least Square Model to empirically study the government-enterprise relationship and enterprise's growth performance at different stage in the enterprise life cycle. The result shows that government-enterprise relationship has a positive effect on enterprise's growth performance at the growth stage and has a negative effect on enterprise's growth performance at the mature stage. The closer the relationship is, the more obvious the effect it. It doesn't have a significant effect on enterprise's growth performance at the decline stage. The empirical results demonstrate that the political relationship is indeed a double-edged sword. Therefore, enterprises should selectively develop a government-enterprise relationship appropriate for own development on the basis of fully understanding and grasping the economic consequences brought by the political relationship.

Keywords—political relationship capital; government-enterprise relationship distance; enterprise's growth performance; enterprise life cycle

I. INTRODUCTION

As an important part of the micro economy, the growth of enterprises has been a hot issue in the academic circle and industrial circle. However, many factors affect enterprises' growth performance. From different investigation angles and with different methods, the results are also not the same. In recent years, the research of enterprises' growth performance from the perspective of the political relationship has attracted more and more attention. It has provided a new explanation pattern for the research of growth distinction among enterprises. So far, the political relationship (political connection) has not been clearly defined. It generally refers to the hidden political connection between corporate executives/ managers and individuals/organizations with political power (Qu Liang, Ren Guoliang, 2012). It is worth mentioning that this political connection is different from corruption, because it is completely legal (Faccio, 2006).

In fact, as early as in 1970s, the academic circle has concerned about the economic behavior of enterprises strengthening the relationship with the government. The research of Krueger (1974) initially put forward that the

leaders of the enterprise could maintained close relationship with the government, for the political relationship could bring greater economic benefits to the enterprise. The researches of Faccio (2006), Fan (2006), Qian Xihong (2009) and et al. have found that the enterprises with political connection are more likely to enjoy tax and financing preferences than enterprises without political connection, which is very beneficial to enhance the enterprise value, especially in the developing countries with imperfect market mechanism and property rights system or emerging markets. With 100 top private enterprises in Zhejiang as analysis example, the research of Hu Xuyang (2006) found that enterprises with political connection had fewer barriers to enter into the financial industry and were easier to obtain financing convenience compared with enterprises with no political connection. Fan et al. (2006), analyzing from corruption cases of Chinese officials found that listed companies associated with these officials could get more loan support before they were arrested. After these officials were arrested, the situation is completely the opposite. Above researches give empirical support for the positive role of government-enterprise relationship on enterprises. But there are some research results to challenge this conclusion. The study of Fisherman (2002) has pointed out that the close government-enterprise relationship, to a certain extent, fosters the rent-seeking and corrupted behaviors of the government, which is very bad for the long-term growth of enterprises. With Chinese enterprises listed in IPO from 1993 to 2001 as example, the research of Fan et al. (2007) has found that the political background of enterprise's CEO could produce so-called "political cost", which will weaken the long-term growth performance of enterprises. Based the relevant data of Chinese listed enterprises from 2006 to 2009, the research of Feng Yanchao (2012) has found that shortening government-enterprise relationship distance and gaining political capital can not reduce the burden of enterprises, but increase relevant expenses. This research conclusion supports the "political cost hypothesis".

In summary, the present academic circles have different opinions on the shortening of government-enterprise relationship distance and gaining political relationship, and there exists great difference. This paper argues that a key reason for the differences is that previous studies have

ignored the important influence factor of enterprise life cycle. In fact, Stam Wouter et al. (2014) have noted that the relationship capital has different characteristics to the growth of the enterprise in different stages of enterprise life cycle. But unfortunately they did not conduct in-depth systematical analysis. In this paper, we carry out innovative research on the following two aspects: first, introduce the enterprise life cycle theory to empirically test the influence of government-enterprise relationship capital on the growth performance of enterprise at different stage of life cycle and discuss the difference of economic behaviors of enterprises seeking political relationship at different growth stage. Second, introduce the concept of relationship distance to use totally new perspective to measure the government-enterprise relationship capital. The enterprise relationship capital is a complex network system, which has been a difficult problem in the academic field. Many foreign scholars have carried out exploratory research to measure the government-enterprise relationship capital from network size, strong and weak ties, frequency of interaction, structural holes and many other perspectives, and they have achieved fruitful results. However, there are only a few researches in China. We either still stay the level of qualitative research, or frequency of interaction among related members, strong and weak ties. We seldom adopt important indexes that can truly reflect the network quality of enterprise relationship. The paper will define the government-enterprise relationship and interaction situation with "relationship distance".

II. LITERATURE REVIEW AND HYPOTHESIS

At present, our country is in the special period from the planned economy to the market economy, so the government still controls the resources allocation system to a great extent, and the important resources that determine the survival and the development of enterprise. Palepu and Khanna (1997) pointed out that the common point of transitional countries and regions with imperfect market economy and backward economic development is the "missing system". In such a system environment, a large number of corporate executives participate in politics and accumulate political capital and thus gain resources, financing convenience, tax preferences, property rights and other conveniences. Many domestic and foreign studies have indicated that, compared with the developed countries, in the developing countries with "missing system", the political relationship capital often plays a more important role. Compared with enterprises with no political connection, enterprises with political connection could get more longer term and more amount of bank loan (Leuz and Oberhizer, 2005; Charumilind et al., 2006) and be easier to enjoy tax preference (Adhikari et al., 2006; Faccio, 2006). In addition, due to our imperfect property right system, the political background of executives in a certain extent has provided enterprise political asylum, avoid or reduce the violation of the legitimate rights and interests, such as government's illegal fees and unjustified levies against corporate interests (Wu Wenfeng, 2008).

This kind of conveniences has played a key role in enterprises in the growth stage. Once enterprises solve the problems of survival and step into the growth stage, their

scale expands rapidly, sales revenue grows continuously, market share expands gradually, and the industrial competition is significantly enhanced. This rapid growth requires enterprises to invest a lot of human resources, material resources, financial resources, and etc. Many enterprises just tiding over difficulties in the survival period is forced to face the crisis of bankruptcy, because their speed of resources investment can not catch up the speed of business development. Enterprises with political relationship capital can enjoy a variety of conveniences in resources, financing, taxation and property rights protection, so a lot of development obstacles are removed. The closer the relationship is, the more favorable it is for the development of enterprises. In mature period, the enterprise strength is strong, product sales remain at high level, the market share gradually becomes saturated, and the industry competition ability reaches the highest level. At this time, the positive role of political relationship began to weaken and the negative effects of the political relationship become apparent. The most noteworthy points are the corporate political rent loss and the reducing of core competitiveness. In the early development stage, the development and maintenance of close relationship with the government is to get important resources and maximized political rent. But the acquisition of these key resources is not free of charge, and the enterprises shall distribute part or even all political rent to the so-called "political intermediaries" (Shleifer et al., 1994). What is more, the relevant political figures may set up a variety of administrative control to maximize their own interests and directly grab business results of enterprises, and breed corruption and other bad behaviors. In addition, it usually needs enterprises to invest a lot of human capital and economic capital to maintain the political relations (Tang Liang, Huang Wenfeng, 2013). For a long time, it will affect the enterprise's core ability construction and is not conducive to the long-term development of enterprises. In the decline stage, enterprises are declining in business sales, shrinking in business, and increasing in debt. Their operating profit may fall sharply, and even enterprises may have a loss. If there is no money investment in enterprises at this time, the enterprises are likely to face the threat of death. In this period, compared with the negative effect, the positive effects of the political connection begin to occupy the leading position. With the advantages of financing convenience, tax preferences and etc., it is possible for enterprises with political connection to get more chances to survive, so as to find a favorable opportunity to change to another new stage of development.

Based on this, the paper puts forward the hypothesis that the political relationship capital has positive effect on enterprises at the growth period and the declining period, and has a negative effect on enterprise at the mature period.

III. STUDY DESIGN

A. Data Source

All the companies listed with A-share in Shenzhen Stock Exchange in 2008-2013 have been taken as study samples, and all the data at level of enterprise comes from Wind

Database, among which, enterprise growth performance indicator and control variable indicator directly come from this database. The government-enterprise relationship distance is obtained by manual collection from, judgment on and sorting of enterprise annual report. In order to guarantee the validity and normalization of data, this paper has removed the following from the original samples: (1) companies with the type of ST, ST* and PT; (2) finance and insurance companies; (3) such companies within samples whose data is insufficient or has been omitted, or the companies who are in the observation period and cannot go on operation; (4) the companies with extreme abnormal values appear in the sample data. Finally, a study sample consists of 1171 listed companies is obtained.

B. Division of Life Cycle of Sample Enterprises

In accordance with modern enterprise theory, enterprise life cycle can generally be divided into such four development phases as start-up period, growth period, mature period and recession period. In view of the requirement of subject qualification for a company to be listed in China is that the company must have experienced an on-going operation for at least 3 years, after such a period, a company can be deemed to have lived through the start-up period. Therefore, the life cycle of sample enterprises is only divided into such three phases as growth period, mature period and recession period in this paper, thus to study the influence of government - enterprise relationship distance on enterprise growth performance.

As for the defining methods of enterprise life cycle, the most representative ones are comprehensive scoring, cash flow and industrial growth rate. In view of data availability and convenient analysis method, the enterprise life cycle is divided by industrial growth rate (Fan Conglai, Yuan Jing, 2002) in this paper. Namely, comparing the enterprise's adjacent two periods' growth rates to the corresponding industry growth rates within the same periods, the enterprise will be deemed to be in growth period if its growth rates are higher than the industry growth rates in both periods; the enterprise will be deemed to be in growth period if its overall growth rate in previous period is close to industry growth rate, while the growth rate in the later period is significantly higher than industry growth rate; the enterprise will be deemed to be in mature period if its growth rate in previous period is significantly higher than industry growth rate, while the growth rate in the later period is lower than the industry growth rate gradually; the enterprise will be deemed to be in recession period if its growth rates lower than the industry growth rates in both periods. This paper has taken the practices of Anthony (2006) and others as references, and adopted the sales growth rate which can reflect the enterprise's development phases as the indicator to divide the enterprise life cycle. Finally, it is concluded that in 2013 there were 625 enterprises in growth period, 308 entrepreneurs in mature period, 238 entrepreneurs in recession period through arrangement, calculation and classification, with the specific distribution as shown in "Table I".

TABLE I. DISTRIBUTION OF ENTERPRISES OF DIFFERENT TYPES

Industry	Complete Sample	Growth Period	Mature Period	Recession Period	State Owned	Non-state Owned
Material	252	162	49	41	85	167
Telecommunication Services	3	1	2	0	0	3
Industry	301	123	120	58	71	230
Public Utility	33	16	8	9	26	7
Optional Consumption	189	89	37	63	56	133
Energy	26	11	6	9	12	14
Daily Consumption	78	45	17	16	21	57
Information Technology	199	128	46	25	43	146
Health Care	89	50	23	16	21	68

Note: The industries in this paper are classified in accordance with A-level Industrial Standard.

IV. MODEL AND VARIABLE DEFINITION

The least squares model is adopted to make regression of the relationship between variables in this paper, and variables are defined as follows: (1) Business Growth Performance (Growth). Business growth is a complex dynamic process which mainly reflects in enterprise scale expansion, sales performance enhancement and profitability improvement (Chu Xiaoping, 2004). Delmar (1997) and Chrisman (2005) have conducted measurement of business growth performance mainly from the perspective of sales, assets condition and number of employees. Gilbert et al., (2006), Parker (2008) and other scholars believe that, on the one hand, the growth of market share reflects the market acceptance of products or

services; on the other hand, it reflects the competition of enterprises in the market, which is a reflection of enterprise growth potential to a certain extent. At the same time, some scholars has pointed out that profitability is an important guarantee of enterprise sustainable development, therefore, it is necessary to list it as an important indicator to measure enterprise growth performance (Zahra's et al., 2002; He Xiaogang, Li Xinchuan, 2005). Whereas the above mentioned, the enterprise sales growth rate, which can reflect enterprise profitability the best, is adopted as an indicator in this paper to measure enterprise growth performance.

(2) Government-enterprise relationship distance (G - dis). The international general practices are adopted in this paper for depiction of enterprise-government association. For example,

Chen, et al. (2005) has said in the study that one enterprise may be deemed to be associated with the government if its current or former president or general manager holds one of the following positions “government officer, member of the CPPC, NPC representative”; most domestic scholars define the enterprise-government association as whether or not the company’s executives (president or general manager) have ever hold a position in government departments (Wu Wenfeng and others, 2008, Luo Danglun, Liu Xiaolong, 2009), which is similar to the definition to enterprise-government association by Faccio (2006). As a result, the government-enterprise relationship is represented by “the ratio of NPC representative, member of the CPPC, current or former government officer within the enterprise executives” in this paper to reflect the government-enterprise relationship capital.

(3) Control variables. Taking the relevant domestic and foreign research literatures (Faccio, 2006; He Xiaogang, Li Xinchu, 2005; Luo Danglun, Liu Xiaolong, 2009) as references, the previous year’s sales growth rate [Growth (-1)], the nature of enterprise (Owner), scale (Lnscale) and financial Leverage (asset-liability ratio Leverage) are regarded as the exogenous variables influencing the enterprise growth performance in this paper, and industry type of the enterprise (Industry) is set as dummy variables. In addition, considering the endogeneity, and according to the research experience of Yu Honglin, the control variables at enterprise level in this paper are chosen to be one-phase lagged (Yu Honglin, 2013), with specific variable definitions shown in “Table II”.

TABLE II. DEFINITIONS OF VARIABLES

Names of variable	Code	Definitions of Variables
Sales revenue growth	Growth	(Current year’s sales revenue-previous year’s sales revenue) / previous year’s sales volume
Government-enterprise distance	G-dis	Ratio of NPC representative, member of the CPPC, current or former government officer within the enterprise executives
Previous year’s sales revenue growth	Growth (-1)	Calculation method is the same as “sales revenue growth rate”
Nature of enterprise	Owner	State-owned enterprise =1, Non state-owned enterprise =0
Scale	Lnscale(-1)	Natural logarithm of previous year’s total assets
financial Leverage	Leverage(-1)	Previous year’s asset-liability ratio
Industry	Industry	Manufacturing industry =1, Other =0

V. EMPIRICAL RESULTS AND DISCUSSION

A. Descriptive Statistics and Correlative Test

According to the above definitions of variables, the descriptive statistical results are concluded in this paper as shown in “Table III”. “Table III” shows that the majority of enterprises are in the growth period accounting for almost 50% of all the samples, and the enterprises that are in mature period and recession period account for less than 50%. In addition, the average sales growth rates of enterprises that are in growth

period have reached 92.66%, which are far higher than that of the enterprises in mature period, yet the growth performance of enterprises in recession period are negative, which is consistent with enterprise life cycle curve. Meanwhile, it indicates indirectly that the division of enterprise life cycle in this paper is accurate and fits the fact. “Table IV” shows the Pearson correlation test results of all samples (including growth period, mature period, and recession period). It can be seen from it that the correlation coefficient between variables are almost below 0.4, and there is no obvious multicollinearity problems, indicating that it can be analyzed in one model.

TABLE III. DESCRIPTIVE STATISTICS

	Growth Period (625)				Mature Period (308)				Recession Period (238)			
	Max	Min	Mean	Sd	Max	Min	Mean	Sd	Max	Min	Mean	Sd
Growth	17490	-64	92.66	977.80	479	-57	7.18	35.06	36	-59	-1.22	14.68
G-dis	44	0	6.31	7.39	38	0	6.21	7.72	33	0	6.37	7.14
Growth (-1)	8189	-88	50.51	354.95	2332	-85	13.05	163.75	54	-71	-4.14	15.40
Owner	1	0	0.24	0.42	1	0	0.3	0.46	1	0	0.41	0.49
Lnscale(-1)	16	8	12.31	1.05	17	10	12.41	1.63	16	9	12.17	0.97
Leverage(-1)	826	1	39.05	38.99	703	2	38.23	43.64	202	2	41.34	27.42
Industry	1	0	0.2	0.40	1	0	0.39	0.49	1	0	0.24	0.43

TABLE IV. (COMPLETE SAMPLES) PEARSON CORRELATION TEST

	growth1	growth1_1	gdis	owner	lnscal_1	leverage_1	Industry
Growth	1						
Growth (-1)	-0.003	1					
G-dis	-0.015	0.006	1				
Owner	-0.035	-0.007	0.073*	1			
Lnscale(-1)	-0.161**	-0.006	0.113**	0.361**	1		
Leverage(-1)	0.510**	0.100**	0.017	0.205**	0.153**	1	
Industry	-0.027	-0.007	-0.008	-0.066*	-0.029	0.022	1

Note: ** represents significant correlation at the level of 1% (both sides); * represents significant correlation at the level of 5% (both sides).

B. Empirical Results

According to the above theoretical analysis, in order to study the influence on enterprise growth performance by government-enterprise relationship distance, and to verify the differences in shortening political relationship distance and

obtaining corresponding political relationship capital demands by different life cycle of the enterprise, firstly, the enterprise life cycle is not divided and a complete sample regression is conducted, then sample regression is divided on the basis of enterprise life cycle division, with the results as shown in "Table V".

TABLE V. ENTERPRISE REGRESSION RESULTS BY DIFFERENT DEVELOPMENT PHASE

	Growth Period		Mature Period		Recession Period		Complete Sample	
	Coefficient	T Statistics	Coefficient	T Statistics	Coefficient	T Statistics	Coefficient	T Statistics
C	-18.79	-1.60	65.21***	3.50	5.00	0.56	32.80*	1.68
Growth (-1)	0.00	0.00	-0.01	-0.16	0.07*	1.74	0.01*	1.92
G-dis	4.50***	3.82	-2.65***	-8.52	1.54	0.28	1.39***	5.54
Owner	3.36	1.59	-1.21	-0.28	-1.57	-1.19	-8.95**	-2.40
Lnscale(-1)	0.25	0.25	-1.31	-0.82	-1.56*	-2.37	-2.03	-1.22
Leverage(-1)	-0.04	-0.59	-0.16	-1.29	-0.06*	-2.23	0.01	0.06
Industry	0.83	0.40	-2.80	-0.78	0.80	0.60	-7.28**	-2.09
Constant Term	0.88		0.65		0.87		0.13	
Adjusted R ²	0.87		0.63		0.85		0.12	

Note: ***, **, * represents that it is significant at the level of 1%, 5% and 10% respectively, and the numerical values within brackets are statistics of t.

From "Table V", it can be seen that, under the condition of complete sample regression within non-divided enterprise life cycle, the relationship between government-enterprise relationship distance and enterprise growth performance is significant positive correlation at the level of 1%, indicating that, generally speaking, the political relationship capital promotes enterprise growth performance remarkably. After enterprise life cycle is divided, and a sample regression of enterprises in different periods is conducted, the results of which shows that, in growth period, the relationship between government-enterprise relationship distance and enterprise growth performance is significant positive correlation at the level of 1%, indicating that the political relationship capital in growth period promotes enterprise growth performance remarkably, and the closer the relationship is, the larger the promotion effects; in mature period, the relationship between government-enterprise relationship distance and enterprise growth performance is significant negative correlation at the level of 1%, indicating that the political background of an enterprise in mature period can hinder enterprise growth, and the closer the relationship is, the stronger the negative impact; in recession period, the government-enterprise relationship distance has positive influence on enterprise growth

performance, but not significant. The explanation in this paper is that various political asylums (tax preference, financing convenience, property right protection etc.) (Adhikari et al., 2006; Leuz and Oberhizer, 2005) enjoyed by the enterprises in recession period due to political background and rent-seeking and corruption (Fisherman, 2002; Johnson and Mitton, 2003) generated by political background may restrict each other, and possibly there may be a reciprocal relationship exist between them. As a result, the government-enterprise relationship distance fails to indicate a significant positive effect on enterprise growth performance.

VI. STUDY CONCLUSION AND LIMITATIONS

All the A-share listed companies in Shenzhen Stock Exchange as of the end of 2013 have been taken as study samples, and the least squares model has been adopted to empirical test on the influence by government-enterprise relationship distance on enterprise growth performance within different life cycle, providing a brand new perspective for study of enterprise relationship capital and enterprise growth theory. The results in this paper indicate that the government-enterprise relationship distance has a significant positive effect

on enterprise growth performance in growth period, a significant negative effect on enterprise growth performance in mature period, and the closer the relationship is, the more significant the effect will be, while it has no significant effect on enterprises in recession period. The above empirical results have fully proved that political relationship capital of an enterprise is indeed a double-edged sword. Therefore, enterprises shall establish the government-enterprise relationship distance selectively in accordance with their actual development situation on the basis of full understanding and grasping of the economic consequences possibly brought by political relationship capital. As for the already established political relationship capital, enterprises shall seek advantages and avoid disadvantages, take advantage of new situation as appropriate, and take full use of positive effect of political relationship capital, to avoid unnecessary losses brought by negative effects and maximum their own benefits.

Although there is certain innovativeness in this paper, there are still shortcomings. Firstly, panel data hasn't been used. Panel data not only has the characteristics of both the cross-section data and time-series data, but also has such important advantages as expanding the information amount, improving reliability of dynamic analysis and being helpful to reflect the structural characteristics of the variables. As various relationship capitals are mainly collected from annual report with huge workload and tedious task, only the cross-section data of 2013 is selected as study object. Secondly, the classification study on state-owned enterprises and non-state-owned enterprises hasn't been conducted. There are huge differences of inside and outside environment existing in state-owned listed companies and non-state-owned listed companies, and the demand for various relationship capitals will vary a lot, for instance, the relationship capital of government-enterprise, bank-enterprise and commerce-enterprise may play significant different role in enterprise growth and development, which is a direction for further study and improvement.

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