CEO POLITICAL CONNECTION, GOVERNANCE MECHANISMS, AND FIRM PERFORMANCE

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Abstract

The purpose of this article is to examine the effect of chief executive officer (CEO) political connection on the performance of Chinese private enterprises from 2007 to 2015. Additionally, the study explores the moderating impact of majority shareholder ownership and market capitalization levels on the link between CEO political connection and business success. The study's findings indicate that CEO political connection positively affect corporate success. The moderating effects test on governance structures suggests that the majority shareholder ownership ratio enhances the association between CEO political connection and business performance. Simultaneously, the extent of marketization reduces the impact of CEO political connection on corporate performance.

Keywords: *CEO political connection; shareholding proportion; majority shareholders; marketization level; enterprise performance*

1. Introduction

Political connection has become a topical issue in academic research in recent years, which are more prevalent in countries with strong government intervention, weak protection of property rights, and low marketization levels (*Faccio, 2006; Gropper, Jahera, & Park, 2015*). China is currently in a transitional economic period, and various systems are still not perfect. Consequently, the government still intervenes in activiconnection to a certain extent. Political connection between private enterprises and the government has a significant impact on enterprises' investment and financing behavior. Studies have shown that political connection allow private enterprises to obtain greater benefits, such as bank loans, the protection of property rights, government subsidies, tax preferences, and land use rights. *Yan & Jiang (2019)* contend that private entrepreneurs can use political connection to ease the company's financing constraints and to promote the development of private enterprise. Policy uncertainty increases corporate investment risk and inhibits corporate investment. Political connection can reduce the negative impact of such uncertainty, thereby increasing corporate investment *(Xiong & Gui, 2020)*. The majority of

study on political connections examines their impact on mergers and acquisitions, financing limitations, diversification, and corporate investment. Only a few studies have examined the effect of chief executive officer (CEO) political links on the performance and processes of private firms. The executive team's core members play a critical role in the day-to-day administration of businesses. The majority of study on political connections examines their impact on mergers and acquisitions, financing limitations, diversification, and corporate investment. Only a few studies have examined the effect of chief executive officer (CEO) political links on the performance and processes of private firms. The executive team's core members play a critical role in the day-to-day administration of businesses. As a result, it is critical to investigate the impact of CEO political connections on the success of private firms, as well as the mechanisms underlying these relationships. In China, the level of marketization is low, while information asymmetry is high. In the case of separation of powers, low marketization, and weak external supervision, CEOs are prone to over-investment, on-the-job consumption, inefficient mergers and acquisitions, and diversification for the sake of personal gain. When CEOs have political connection, their influence and decision-making power may be more significant. As a result, this article also explores the method by which the ownership proportion of majority shareholders is adjusted at the corporate governance level, as well as the external environment's marketization. Both of these

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variables influence the link between the political connections of the CEO and company performance.

This article offers two significant contributions. To begin, it examines the effect of CEO political connections on the success of private firms, adding to the body of knowledge in this area. Second, it examines the link between CEO political affiliations and business performance in relation to the ownership percent of majority shareholders and the extent of marketization. The work contributes to our knowledge of governance mechanisms by determining the regulatory effect of this connection.

2. Literature review

Faccio (2006) argues that political connection serves as a vital "relationship resource" of enterprises. Enterprises value such resources; therefore, they seek to acquire them, which reduces the risk of such resources being lost. *Bai, Lu, & Tao (2010)* indicate that political connection has resource effects, which can be alleviated through corporate financing constraints. Thus, as enterprises obtain more loans, they achieve higher growth rates and superior performance. *Rusmin, Evans, & Hossain* (2012) observe that Indonesian firms with political links performed much better than those without political links, whether judged through accounting or market approaches. In comparison, *Ang, Ding, & Thong (2013)* analysis of Singaporean enterprises demonstrates that political connections have no discernible effect on corporate performance. However, political links have a strong beneficial influence on corporate performance in regulated industries. According to *Civilize, Wongchoti, & Young (2015)* analysis of Thai corporations, firms with political affiliations get greater stock returns.

As mentioned earlier, China is undergoing a period of economic transition, and various legal systems are still imperfect. Thus, political relationships can be employed as a substitute method for addressing a lack of property rights protection by limiting private company invasion *(Chen, Fu, & Jing, 2020)*. Prior studies show that companies with political connection are more likely to obtain bank loans and enjoy higher returns. Political connection also helps to overcome property barriers and obtain commercial support, which helps companies achieve high returns. *Claessens, Feijen, & Laeven (2008), Infante & Piazza (2014)* note that political connection significantly reduce equity financing costs and borrowing costs, extend debt maturity, and enhance corporate lending capabiliconnection, resulting in a significant positive impact on firm performance. *Chen et al.*

(2011) demonstrates that political relationships between Chinese listed corporations benefit corporate performance. Nevertheless, other research come to the opposite result, asserting that political links impair corporate performance. *Zhang & Shen (2010)* argue that political connection, while helping companies obtain bank loans and solve financing constraints, lead to inefficiencies in terms of over-investment and business activiconnection. Others argue that politicians' rent-seeking activity has a detrimental effect on business performance. Multiple researches pointed out that political connection would reduce firm performance *(Fan, Wong, & Zhang, 2007; Claessens, Feijen, & Laeven, 2008; Bourbaki, Cosset & Saffar, 2008; Bliss & Gul, 2012)*. In summary, existing research on the relationship between political relationships and corporate performance has failed to reach a unified conclusion.

3. Theoretical analysis and research hypothesis
3.1. Relationship between CEO political connection and firm performance

CEO political connection may be viewed as a "relationship resource". The CEO can secure external resources through connections with the government, which reduces uncertainty faced by the company. CEOs with political connection have easier access to supportive resources through their personal networks. Companies with well-connected CEOs also have access to strategic information and opportuniconnection through more channels. Moreover, political connection can endow the CEO with greater legitimacy and status. This, in turn, enhances the rights and prestige of the CEO in the eyes of key stakeholders. Political connection also facilitate access to additional strategic resources, thereby reducing risk aversion behavior when CEOs make investment decisions *(Faleye, Kovacs, & Venkateswaranet, 2014)*. *Zhang & Huang (2009)* indicate that companies with political connection are more likely to obtain land resources, capital resources, and preferential tax policies. *Rusmin, Evans, & Hossain (2012), Ang, Ding, & Thong (2013), Civilize, Wongchoti, & Young (2015), Sharma, Cheng, & Leung (2020), Broadstock et al. (2020)* argue that political connection significantly improves business performance. *Fan (2021)* demonstrate that the weakening of political connection reduces firm performance, *Wang et al. (2018)* argue that the termination of political connection significantly reduces fiem value.

In China, local governments can facilitate access to land acquisition, loan guarantees, industry access, and administrative approval.

Political connection help CEOs keep abreast of

policy changes, understand government operations, and effectively communicate with officials. This helps companies to gain access to development rights, land resources, government procurement, and regulatory industries, as well as increasing business opportuniconnection. CEO political connection reduce banks' perceptions of corporate default risk, ease financing constraints, help to obtain large loans from banks, and assist private enterprises to obtain government financial subsidies and tax breaks. Such connections also keep enterprises abreast of policy changes, facilitate market access, and improve protection of property rights, thereby enhancing profitability. Moreover, political connection alleviates the negative impact of political uncertainty on enterprises, helping them to grasp the direction of investment and expand investment. They also assist private enterprises to obtain relevant information on policy changes and official turnover, thereby protecting the interests of the company. CEO political connection can be considered an informal alternative to the protection of property rights. Further, a politically connected CEO can communicate with the government to express the interests and problems of the company. At the same time, the power of the government can be used to protect the property rights of the company from other organizations. Thus, it can be concluded that CEO political connection have a positive effect on the performance of private enterprises.

However, political connection has social costs. Enterprises with political connection need to respond positively to government calls for assistance to maintain good relations with the government. Thus, in the case of natural disasters, executives actively donate company assets to maintain their beneficial relationship with the government *(Jia & Zhang, 2010)*. *Zhou & Qiu (2013)* note that the performance of executives in private enterprises is not correlated with their political connection. This means that low-performance political connection CEOs have longer working hours, which has a negative impact on business performance. *Zhang & Shen (2010)* argue that although political connection help companies to obtain bank loans and solve financing constraints, they lead to over-investment and reduce investment efficiency and firm performance. *Fan, Wong, & Zhang (2007), Claessens, Feijen, & Laeven (2008), Bourbaki, Cosset, & Saffar (2008), Bliss & Gul (2012)* find that political connection reduces the company's business performance. CEOs exercise substantial influence on the strategic decision-making of corporations, and their choices have a considerable impact on company strategy and objectives. Unless the behavior of executives can be effectively supervised and constrained, the interests of shareholders may be violated. Other studies maintain that politicians' rent-seeking behavior has a negative impact on firm performance. Based on the previous information, the following predictions may be made:

H1a: CEO political connection significantly improve the performance of private companies.

H1b: CEO political connection significantly reduce the performance of private companies.

3.2. Moderating mechanism of the relationship between CEO political connection and firm performance

The relationship between CEO political connection and firm performance is influenced by the shareholding proportion of majority shareholders and the marketization process. Thus, the moderating effect of these two factors is analyzed below.

(1) Moderating effect of the shareholding proportion of the controlling shareholder

Yi, Zhang, & Wang (2015) argue that overconfident executives overestimate the net income of investment projects and underestimate the volatility of cash flows, resulting in over-investment. Further, overconfident executives engage in inefficient mergers and acquisitions compared with the average manager, thereby undermining the interests of shareholders. Because of the specificity of the manager's human resources, when management has greater control over cash flow, it often sacrifices the interests of shareholders and invests in projects with negative net cash flow to further their own interests and obtain more personal benefits. *Dou, Zhang, & Lu (2014)* observe that shareholder governance mechanisms could curb the excessive investment of managers. In decentralized equity, because of supervision costs, the phenomenon of "free riders" occurs for small and medium shareholders. Management's inherent motivation lacks oversight, which weakens corporate governance. The shareholder governance mechanism has more serious "insider" control problems, which leads to agency problems such as insufficient investment in good projects and excessive investment in poor projects. The concentration of equity is conducive to solving the "free rider" problem of shareholders' management supervision. Equity concentration enhances the ability and motivation of significant shareholders to supervise management, eases agency problems, reduces agency costs, enables boards to perform their duconnection better, oversees management,

weakens executives' overconfidence, and enhances management's cash dividends. Willingness to reduce excess cash flow within the company effectively curbs the excessive investment behavior of executives *(Dou, Zhang, & Lu 2014)*.

Majority shareholders are strongly motivated to maximize company value. They exert their oversight function by assigning personnel to the board of directors. The shareholding proportion of the majority shareholders is higher, the board members who represent their interests are more, the supervision is more robust, and the company is more. The investment and financing decisions made more comments or suggestions, the corresponding management autonomy becomes smaller, and agency problems are alleviated. *Morck (2007)* believes that the loyalty of management and board members to CEOs exceeds their loyalty to shareholders, and this is the main reason for corporate governance failure. CEOs with political connection often have greater authority and prestige in the enterprise. In addition, management has a greater influence. In the case of scattered shares, it is easy to gain insider control, leading to serious agency problems. The presence of majority shareholders can effectively oversee the behavior of CEOs and promote more effective use of their political capital as well as increasing shareholder value. Therefore, the following hypothesis is proposed:

H2: The shareholding proportion of majority shareholders strengthens the positive relationship between CEO political connection and firm performance, or it weakens the negative relationship between CEO political connection and firm performance.

(2) Moderating effect of marketization levels

China covers a vast territory. During the process of economic transformation and market-oriented reforms, the political, financial, legal, and economic development of various regions has not been even, and the level of marketization differs considerably across these regions. Thus, economic development and financial systems are relatively backward in some regions, legal protection is relatively weak, and government intervention in property rights is common. Government involvement is different from marketization in each region because of the degree of marketization in that particular location. Private enterprises are often discriminated against in this process, and investment and financing are disadvantaged compared with state-owned enterprises. This leads to the conclusion that CEO political affiliations have a significant impact on the performance of private firms because of the

specific market environment each business must contend with. In areas with high marketization, private enterprises obtain more resources based on market-oriented principles. In areas with lower marketization, enterprises place greater reliance on political connection to obtain resources.

Private firms, as well as their interest in getting the government on their side, have been found to be connected to the level of government protection and level of government involvement in a particular location. The intervention of local governments is greater, and the level of protection of property rights is lower, the establishment of politics is in private enterprises. The motivation for the association is stronger. In areas with low marketization levels, CEO political connection can be used as an informal alternative mechanism to protect enterprises from unfair treatment such as government apportionment, incidental charges, or market defects. Based on these findings, it can be safely inferred that in places with a low level of marketization, the political links of CEOs have a significant influence on the overall profitability of a business. However, as China's economic transition progresses, its financial systems and regional markets will improve, as will the quality of governance and the protection of property rights. Consequently, the influence of CEO political connection on firm performance will be weakened. Therefore, the following hypothesis is proposed:

H3: Regional marketization weakens the links of CEO political connection and the performance of private enterprises.

4. Study design
4.1. Study sample and data sources

In 2007, Chinese listed companies began using the new Accounting Standards for Business Enterprises. This represents a significant change from the previous accounting system. To avoid confusion with the previous system, the research centers on a group of Chinese A-share listed firms that were in operation from 2007 to 2015. The empirical data required for this article were collected from the Guotai' Database (China Stock Market and Accounting Research Database, also known as CSMAR). The marketization index of each province was drawn from China's Marketization Index Report by Province *(Wang, 2017)*. The index is larger, and the marketization level is higher. The sample selection criteria excluded (1) financial listed companies, (2) ST and PT companies, and (3) companies with missing data. To account for severe outliers, the continuous variables were reduced to less than 1% of their total values.

4.2. Models and variables

To test the above research hypotheses, the following regression model was established.

$$Performance_{i,t} = \alpha_0 + \alpha_1 PC_{i,t} + \beta_i Control\_V + Year + Industry + \varepsilon_{i,t} \qquad （1）$$

$$Performance_{i,t} = \alpha_0 + \alpha_1 PC_{i,t} + \alpha_2 Top1_{i,t} + \alpha_3 Top1_{i,t} \times PC_{i,t} + \beta_i Control\_V \\ + Year + Industry + \varepsilon_{i,t} \qquad （2）$$

$$Performance_{i,t} = \alpha_0 + \alpha_1 PC_{i,t} + \alpha_2 Market_{i,t} + \alpha_3 Market_{i,t} \times PC_{i,t} + \beta_i Control\_V \\ + Year + Industry + \varepsilon_{i,t} \qquad （3）$$

Among them, the explained variable was firm performance. Based on the previous studies *(Barnhart & Rosenstein, 2010; Cristian & Ross, 2012)*, net profit/total year-end assets (*ROA*) and net profit/net assets (*ROE*) were used to measure business performance. CEO political connection was the explanatory variable (*PC*). CEOs who are tied to government and business sectors might be classified as political players, according to *Li & Xie (2014)*.

PC was assigned a value of 1, and otherwise, a value of 0. *Top1 × PC* was the interaction multiplier between the CEO's political connection and the majority shareholders' shareholding proportion for CEO political connection. *Control_v* represented a series of control variables. Based on the literature, this study introduced the following control variables: enterprise size (*Size*), asset-liability ratio (*Lev*), CEO gender (*Gender*), CEO age (*Age*), independent director ratio (*Ind*). Whether the CEO concurrently served as the chairperson (*Dual*), and the top three executives' salary (*Salary*), industry, and year were Industry and annual dummy variables, respectively. These were used to control for other unobserved industry and year factors influencing the explanatory variables. Table 1 shows the specific definition of variables.

Table 1. **Definition of variables**

Variable name	Variable code	Definition of variables
Business Performance	ROA, ROE	Net profit / end-period total assets, net profit / net assets
Political connection dummy variables	PC	If the CEO is politically connected, the value is 1. If the CEO is not politically connected, the value is 0.
Age	Age	Natural logarithm of CEO age
Gender	Gender	If the CEO is male, the value is 1. If the CEO is female, the value is 0.
Shareholding proportion of majority shareholders	Top1	Number of shares held by the majority shareholders/total share capital
Enterprise size	Size	Natural logarithm of total assets at the end of the year
Is the CEO concurrently chairperson?	Dual	If the CEO is concurrently the chairperson, the value is 1. If the CEO is not concurrently the chairperson, the value is 0.
Independent director ratio	Ind	Number of independent directors/boards
Assets and liabiliconnection	Lev	Total liabiliconnection of the enterprise at the end of the year / total assets at the end of the year.
Executive compensation	Salary	Natural logarithm of top three executives' total compensation
Market level	Market	The marketization index is derived from Wang's (2017) *Report on China's Marketization Index by Province*.

5. Empirical test and result analysis

5.1. Descriptive statistics and correlation analysis

Table 2. **Descriptive statistics of the main variables**

Variable	Sample size	Average	Standard deviation	Minimum value	Maximum value
ROA	6,140	0.047	0.048	−0.273	0.315
ROE	6,140	0.077	0.082	−0.475	0.438
PC	6,140	0.224	0.417	0	1
Top1	6,140	0.336	0.139	0.094	0.806
Market	6,140	7.784	1.680	−0.300	10.110
Size	6,140	21.482	0.998	16.69	25.85
Gender	6,140	0.935	0.247	0	1
Age	6,140	3.866	0.135	3.26	4.34
Dual	6,140	0.285	0.452	0	1
Lev	6,140	0.39	0.198	0.05	0.857
Ind	6,140	0.372	0.053	0.143	0.667
Salary	6,140	13.97	0.725	10.308	17.352

In Table 2, the descriptive statistics of the key variables are provided. As can be seen in Table 2, the average values of corporate performance (*ROA* and *ROE*) were 0.047 and 0.077, the minimum values were −0.273 and −0.475, while the maximum values were 0.315 and 0.438, respectively. This indicates that the differences in the performance of Chinese private listed companies were relatively significant. The CEO has a politically connected sample of 22.4%.

Table 3. **Pearson correlation coefficients of main variables**

Variable	ROA	ROE	PC	Dual	Ind	Gender	Salary	Lev	Size	Vif
ROE	0.878***									
PC	0.105***	0.076***								1.01
Dual	0.023*	−0.023*	0.322***							1.24
Ind	−0.038***	−0.049***	0.006	0.026**						1.03
Gender	0.033***	0.025**	−0.050***	0.067***	0.011					1.26
Salary	0.202***	0.235***	−0.002	−0.005	0.013	0.012				1.03
Lev	−0.324***	−0.009	−0.088***	−0.126***	−0.049***	−0.016	0.072***			1.02
Size	0.002	0.170***	−0.040***	−0.071***	−0.040***	0.010	0.465***	0.473***		1.73
Age	−0.009	−0.006	0.083***	0.171***	0.023*	0.011	0.047***	0.018	0.022*	1.01

Note: ***, **, and * represent significant levels at 1%, 5%, and 10%, respectively.

The correlation coefficients shown in Table 3 are for the variables highlighted. Correlation coefficients were 0.105 and 0.076, respectively, as can be shown in Table 3. Even at the one percent level, these are both noteworthy. There was a low correlation between the other factors. Multicollinearity did not impact the regression findings, because the highest value of the variance inflation factor (Vif) was 1.73.

5.2. Regression results and analysis

Table 4. **Hypothesis test results**

Variable	ROA				ROE			
	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)	Model (7)	Model (8)
PC	0.082***	0.063***	0.059**	0.022***	0.071***	0.054***	0.041*	0.038***
	(8.24)	(7.48)	(2.08)	(3.37)	(4.48)	(5.28)	(1.78)	(3.21)
Top1			0.058***				0.119***	
			(10.31)				(11.64)	
Top1*PC			0.030***				0.037**	
			(3.18)				(2.17)	
Market				0.011*				0.009*
				(1.84)				(1.75)
Market*PC				−0.031***				−0.023**
				(−2.79)				(−2.12)
Gender		0.007***	0.007***	0.007***		0.010**	0.010**	0.011***
		(3.20)	(3.11)	(3.28)		(2.54)	(2.41)	(2.62)
Age		0.007*	0.010**	0.007*		0.011	0.016**	0.010
		(1.74)	(2.45)	(1.66)		(1.43)	(2.17)	(1.34)
Dual		−0.004***	−0.005***	−0.004***		−0.006**	−0.008***	−0.006**
		(−2.77)	(−3.57)	(−2.87)		(−2.40)	(−3.21)	(−2.52)
Ind		−0.028***	−0.033***	−0.029***		−0.040**	−0.048***	−0.042**
		(−2.71)	(−3.15)	(−2.75)		(−2.14)	(−2.59)	(−2.19)
Salary		0.016***	0.015***	0.015***		0.027***	0.025***	0.026***
		(17.57)	(16.91)	(17.04)		(16.57)	(15.89)	(16.08)
Lev		−0.104***	−0.097***	−0.104***		−0.054***	−0.040***	−0.053***
		(−30.96)	(−28.73)	(−30.85)		(−8.89)	(−6.57)	(−8.79)
Size		0.007***	0.006***	0.007***		0.014***	0.013***	0.014***
		(9.82)	(8.70)	(9.83)		(10.82)	(9.58)	(10.81)
Industry	Control	Control	Control	Control	Control	Control	Control	Control
Year	Control	Control	Control	Control	Control	Control	Control	Control
Constant	0.009	−0.324***	−0.323***	−0.325***	0.020	−0.645***	−0.643***	−0.646***
	(0.20)	(−6.87)	(−6.93)	(−6.88)	(0.25)	(−7.56)	(−7.64)	(−7.57)
N	6,140	6,140	6,140	6,140	6,140	6,140	6,140	6,140
F	4.283	25.989	28.045	25.351	2.842	13.165	15.589	12.884
Adj−R^2	0.031	0.223	0.243	0.224	0.017	0.122	0.147	0.123

Note: T statistics in parentheses * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

In Table 4, the ordinary least squares (OLS) regression results are presented for each of the above models. The first step was to assess the degree to which the political connections of corporate CEOs impact the performance of private firms. Models (1) and (5) only included CEO political connection (PC), industry, and annual control variables. It was found that CEO political connection (PC) influenced corporate performance (ROA and ROE) has a significant positive impact, with coefficients of 0.082 and 0.071 respectively, both of which were statistically significant at the 1% level. After introducing the control variables in Models (2) and (6), the CEO political connection (PC) coefficients were 0.063 and 0.054, which were still significant at the 1% level. The test results supported hypothesis H1a, namely, that CEO political connection significantly improve the performance of private enterprises.

Afterward, we examined the impact of the percentage of shares owned by the large shareholders, as well as the degree of marketization, on the relationship between CEOs' political connection and the overall business performance. Models (3) and (7) show the regulatory effects of the majority shareholders' shareholding proportion. The coefficients of the *Top1 * pc* was 0.030 and 0.037, and they were statistically significant at the 1% and 5% levels, respectively. In other words, the greater the shareholder percentage, the stronger the correlation between CEO political affiliations and company performance. Therefore, H2 was supported.

Models (4) and (8) show the test results of the regulation effect of marketization level. The results indicate that the adjustment coefficients were significantly negative at the 1% and 5% levels, respectively. Thus, the level of marketization weakens the political connection of the CEO. A low

marketization has a beneficial influence on private firm performance whereas the effect of CEO political linkages is more pronounced. Hence, Hypothesis H3 was supported.

5.3. Robustness test

Four tests of robustness and dependability were performed to test the research outcomes.

(1) Heckman's (1979) two-stage model was used to address any endogenous problems. In the first stage, the Probit model was used to estimate whether the CEO was politically connected. The model was used to estimate the Inverse Mill's Ratio (IMR) coefficient and a control variable was added to the regression model in the second stage to correct the effect of endogenous problems. Table 5 shows Heckman's second-stage regression results. The findings in Table 5 remained consistent with the findings from the test table. suggests that even after taking into consideration various defects intrinsic to the circumstances, the conclusions of this investigation are valid.

Table 5. **Heckman two-stage robustness test results**

Variable	I stage Regression results PC model (1)	II stage regression results ROA model (2)	model (3)	model (4)	ROE model (5)	model (6)	model (7)
PC		0.062*** (7.40)	0.59** (1.99)	0.021*** (3.27)	0.051*** (4.23)	0.041* (1.77)	0.036*** (3.10)
Top1	0.089 (1.59)		0.057*** (9.98)			0.119*** (11.43)	
Top1*PC			0.030*** (3.20)			0.036** (2.16)	
Market	−0.072*** (−5.33)			0.011 (1.11)			0.008 (1.06)
Market*PC				−0.029** (−2.79)			−0.023** (−2.00)
Gender	−0.437*** (−5.91)	0.010*** (3.24)	0.007** (2.40)	0.011* (1.86)	0.014** (2.53)	0.009 (1.55)	0.018 (1.61)
Dual	0.954*** (22.46)	−0.009** (−2.05)	−0.006 (−1.24)	−0.012 (−1.01)	−0.013* (−1.67)	−0.006 (−0.71)	−0.021 (−0.97)
Ind	−0.012 (−0.03)	−0.031*** (−2.91)	−0.035*** (−3.34)	−0.031*** (−2.97)	−0.043** (−2.25)	−0.051*** (−2.70)	−0.044** (−2.33)
Salary	−0.025 (−0.75)	0.016*** (17.57)	0.015*** (16.93)	0.016*** (16.18)	0.027*** (16.54)	0.025*** (15.87)	0.027*** (15.27)
Lev	−0.497*** (−4.07)	−0.102*** (−25.05)	−0.097*** (−24.06)	−0.100*** (−13.67)	−0.050*** (−6.85)	−0.041*** (−5.66)	−0.046*** (−3.45)
Size	0.033 (1.23)	0.007*** (9.31)	0.006*** (8.46)	0.007*** (7.97)	0.014*** (10.33)	0.013*** (9.37)	0.014*** (8.80)
Age	0.352** (2.37)	0.004 (0.92)	0.009** (1.96)	0.003 (0.46)	0.006 (0.70)	0.015* (1.83)	0.002 (0.21)
IMR		−0.008 (−1.31)	−0.001 (−0.21)	−0.012 (−0.71)	−0.011 (−1.01)	0.003 (0.24)	−0.022 (−0.71)
Industry	Control	Control	Control	Control	Control	Control	Control
Year	Control	Control	Control	Control	Control	Control	Control
Constant term	−2.911*** (−3.48)	−0.261*** (−8.16)	−0.289*** (−9.11)	−0.254*** (−3.60)	−0.545*** (−9.43)	−0.600*** (−10.48)	−0.510*** (−4.00)
N	6,022	6,022	6,022	6,022	6,022	6,022	6,022
LR chi2	1,052***						
Pseudo R2	0.163						
F		31.466	33.652	30.456	15.418	18.223	14.974
Adj-R^2		0.223	0.242	0.223	0.119	0.143	0.119

T statistics in parentheses * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

(2) To ensure that the research results were not affected by corporate performance measurement methods, we replaced the original enterprise performance indicators (ROA and ROE) with the company's annual average adjusted industry performance (Adj_ROA and Adj_ROE). The

regression model was performed, and the results were consistent, indicating that the research conclusions were not affected by the method of enterprise performance measurement.

(3) According to *Petersen (2009)*, the clustering adjustment of the standard error in terms of individuals and time can overcome the effects of autocorrelation and heteroscedasticity on statistical inferences. We found that using double clustering to modify the standard error for the t-test improved the conclusion. The regression results corroborated the findings of prior study.

(4) We modified the control variables as follows: the pay of the top three directors was used to calculate executive remuneration, and the total of the top five controlling shareholders' ownership proportions was used to calculate the majority shareholders' monitoring capability. The natural logarithm of total operating income was used to measure company size; the above model was then re-regressed. The results remain unchanged, indicating that different measurement methods of variables did not affect the conclusions of this study. Because of space limitations, the regression result for tests (2), (3), and (4) are not listed.

6. Conclusion

The purpose of this study was to determine the effect of CEO political connection on the performance of Chinese private firms. Additionally, the research studied the moderating influence of majority shareholders' ownership percent and marketization levels on the link between CEO political affiliations and business success. The findings indicated that CEO political connection considerably increase private firm success. The following are possible explanations: Political connection among CEOs assist private firms in obtaining further government backing, protecting corporate property rights, obtaining favorable tax policies, and securing further government subsidies and loans. Political connection can also alleviate financing constraints, thereby promoting the innovative activiconnection of private enterprises. Further, the results revealed the regulatory effect that when the shareholding proportion of the majority shareholders was higher and the level of marketization was lower, the positive influence of CEO political connection was more substantial on the performance of private enterprises. This may be because the oversight of the majority shareholders inhibited the actions of the CEO. In other words, the agency behavior of the company prevented the CEO from making unconsidered investment decisions to expand the company, thereby curbing the excessive investment of listed companies.

When marketization was higher, private enterprises acquired more resources following market rules. In this way, they reduced their dependence on government. The findings of this study contribute to the body of knowledge by offering fresh theories and empirical data about the link between political relationships and company performance.

In private firms, it is customary for CEOs to have political affiliations. Although CEOs promote the development of private enterprises, their reliance on inappropriate incentives may result in adverse effects. CEO political connection do not foster fair market competition, leading to "indiscrimination between government and business, collusion between government and business, and corruption" distorts preferential government policies. When private enterprises prefer to rely on political relations rather than improving operational efficiency, they distort the market behavior of enterprises.

According to these findings, it is advised that publicly traded corporations work to enhance both their corporate governance and their diverse legal systems in order to offer stronger investor protection. Listed companies should also strive to improve regional and provincial markets by reducing the level of government intervention in these markets. Listed companies should strengthen the level of protection of property rights of private enterprises and establish and improve the legal system of property rights protection for private enterprises. Moreover, private enterprises should strive to improve the macroeconomic environment in which they operate, increase the efficiency and fairness of government allocation of resources, and provide all enterprises with fair access to resources. Listed companies should also improve information communication channels, support the establishment of financial systems to ease financing constraints, strengthen corporate investment and innovation, and reduce operational risks. Last, Chinese enterprises face fierce global competition; this should motivate companies to improve their competitive advantage rather than relying on political connection to gain preferential treatment from the government or engaging in other rent-seeking behavior.

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