

Political Connection, Management Promotion and Risk Taking Activities

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Abstract

This paper investigates how political connection and management promotion affect chances of risk-taking activities, in order to offer theoretical support for state-owned enterprises to select optimal managers, and to maintain and increase their company values. Using the data of chairman of state-owned listed enterprises in Shenzhen securities market, we find that in state-owned listed enterprises, the shorter the pyramid of listed enterprises to ultimate shareholders is, the closer the political connection is, the more likely the chairman is to take up risk-taking activities for promotion. While for the same pyramid, the longer the tenure of chairman, the more chances of risk-taking activities.

Keywords

Political Connection, Management Promotion, Firm Pyramid, Duration, Risk Taking Activities

1. Introduction

In China, the promotion of managers of state-owned enterprises is like the promotion of officials, whose hierarchy is very clear. A certain level of management in firms is equivalent to the appropriate level in government and managers may even be transferred to government departments. Therefore, if the manager of a state-owned enterprise has a good promotion prospects, he may have the opportunity to enter government departments, which shows political connection. We define political connection as the degree of relation between enterprise and government. Because each state-owned enterprise has many levels of subsidiaries, the shorter level is, the higher executive level is; the relation with government will be closer and the company will be more influenced by political factors. Because the Chinese government possesses the right to appoint chairman of a listed company, the chairman's political affiliation makes a difference. However, in state-owned listed enterprises, the higher

executive level is, the more intense competition will be and the more difficult the promotion will be. Due to market conditions and their own characteristics, if managers simply do daily work to maintain its day-to-day operations, they can hardly have any outstanding performance to get the chance of promotion. So what is the influence the hierarchical system makes on managers' decisions? Will the managers of lower-level state-owned enterprises be more likely to do risk-taking activities to prove his management skills and enter government departments?

In addition, some managers' durations are very short and then they are transferred to other positions in many cases. It is easy to imagine that within a relatively short period, they just need to maintain its operating status. In contrast, for those with a longer duration, their own political promotion mostly depends on its businesses performance. So what difference would duration make on managers' decisions? For the same pyramid, will the manager with a longer duration be more likely to do risk-taking activities?

2. Literature Review

Firms face many kinds of risks during its operation and management. According to the theory of risk return theory, there is a reciprocal relationship between risk and return. Managers have two opposite choices based on the theory. On one hand, they do more risk-taking activities to get more profits. On the other hand, they accept less profits to reduce the risk. In other words, if a firm wants to get huge profits, it must take the risk of tremendous losses. So the firm has a motivation to do risk-taking activities.

The current studies on enterprises' risk-taking activities mainly focus on the factors influencing the risk-taking activities. The scholars analyzed the factors including the structure of managerial compensation, diversified and decentralized management of enterprises, corporate governance and the board structure and so on. Hoskisson *et al.* (1991) believed that limited diversification along with decentralized management could stimulate risk-taking activities of the managers [1]. Nonetheless, they also believed excessive diversification produced problems of control, in regard of which the managers tended to reduce risks. On the contrary, it increased the threat that the enterprise might be acquired. Hence the enterprise might restructure and pay more attention to diversification, and risk-taking activities thus would be induced. King and Wen (2010) supposed that solid creditor governance would result in that the enterprise undertakes more lower-risk investments like capital expenditure and undertakes less high-risk investments like research and development expenditure [2]. But solid shareholder governance would generate opposite effects, which meant encouragement of more risk-taking activities. Therefore, the final risk-taking activities of the managers depended on the result comprehensively determined by creditor governance and shareholder governance. Dong *et al.* (2010) thought that as a part of the managerial compensation, stock option payment would not have effects as it's expected to maximize the shareholders' benefits [3]. On the contrary, it might encourage the managers to harm the interests of the shareholders in order to maximize the value of these options. Their studies show that the stock option compensation of the managers can spur them to undertake risk-taking activities whose level is higher than the shareholders' expectation. Chen *et al.* (2006) concluded that the stock option payment of managers could spur them to undertake more risk-taking activities, from the analysis of banking [4].

In the specific banking area, Konishi and Yasuda (2004) believed that the demand of capital adequacy ratio of Japanese banks prompted the managers to reduce risk-taking activities [5]. The relationship between shareholders' equity value and the risks of the bank was nonlinear. Initially, the risks decreased as the equity value of the fixed shareholders decreased. When the asset substitution benefit surpassed the managerial entrenchment benefit, the risks tended to increase. Delis and Kourtas (2010) found that the level of interest rates of most banks in Europe was negatively correlated with the risk-taking activities of the banks [6]. Low level of interest rates could spur the banks to undertake risk-taking activities. Pathan (2009) noticed that risk-taking activities of large banks in USA were positively correlated with powerful board, and negatively correlated with the manager's authority [7], which was accordant with the previous conclusions of these two issues (Jensen and Meckling, 1976 [8]; Merton, 1977 [9]; Smith and Stulz, 1985 [10]).

Managers take adventures because of agency problems. In capital markets like the United States, agency problems were mainly reflected among the creditors, shareholders and managers (Jensen and Meckling, 1976). In China, state-owned enterprises are the mainstay of all enterprises. There is a double agency problem in state-owned enterprises that the managers are both company operators and appropriate level of government cadres.

That is because the selection ways and means of the managers of state-owned enterprises in China are different from those of non-state-owned enterprises. They are not selected through the market, but by the government. The client (government) search for the hedging and added value of state-owned assets, while the agent (manager) work for their own wage, luxury consumption and leisure time. This will inevitably lead to conflicts between them. The agent's behavior is likely to eventually affect the benefit of its client in the absence of effective institutional arrangements. Dong Jun (2010) said some managers operated the state-owned enterprises as a step for political promotion, leaving the burden to investor agency and government [11]. Xu Chuanshen (2011) believed that it was the agency problem that made managers search for their own economic or political benefit, regardless of the stage of development and the actual situation of the firm itself, take the wrong business behavior, and eventually lead to damage to the value of the firm as a whole [12].

In our special national conditions and economic system of China, the manager of state-owned enterprises not only plays a role of entrepreneurs, but also a government cadre with some political consideration. A manager tends to have more chances to get political promotion with a higher executive level, which means there is more contact with government. For example, a former chairman and general manager of China Huaneng Group, Li Xiaopeng, became a member of the Standing Committee in Zhejiang Provincial Committee and vice governor in 2008. A former general manager and party secretary of China Petrochemical Corporation, Su Shulin, was appointed vice governor and acting governor of Fujian Province in 2011. The degree of political connection has a certain impact on the enterprise. Chan *et al.* (2012) thought that politically-connected firms would display no financing constraints, whereas firms without connection would experience significant constraints [13]. Li *et al.* (2014) believed that there was a significant and positive relationship between political connections and the likelihood and extent of firm contributions [14]. Chen *et al.* (2014) concluded that share prices of politically connected firms would react with greater impacts than nonpolitically connected firms to announcements of identical political events [15]. And Houston *et al.* (2014) suggested that political connections could increase the value of US companies and reduce monitoring costs and credit risk faced by banks, which, in turn, would reduce the borrower's cost of debt [16]. However, what will political connection do with risk-taking activities? What's the influence the Chinese special system makes on the management of listed firms? Especially when competition is more intense and executive promotion is more difficult, will managers take more risk-taking activities for political promotion? Researchers all over the world rarely studied about this.

3. The Research Hypotheses

There are large assets and wide distribution in the state-owned economy of China, which are related to the key sectors of the national economy. At present, the central owned state-owned assets are unified managed by the State-owned Assets Supervision and Administration Commission (SASAC), while SASAC authorizes some state-owned enterprises to do the specific investments in management. Each state-owned enterprise has many levels of subsidiaries. The shorter level is, the closer relations with SASAC, and it will be more influenced by political factors. The promotion of managers of state-owned listed enterprises is like the promotion of officials, whose hierarchy is very clear. A certain level of management in firms is equivalent to the appropriate level in government and managers may even be transferred to government departments. Therefore, if the manager of a state-owned listed enterprise has a good promotion prospects, he may have the opportunity to enter government departments. Moreover, if the firm ranks higher, the manager's level in government departments will be higher and his political future will be brighter.

Business managers will be promoted to upper level due to outstanding performance, but they are rarely leap-frog promoted. In addition, in state-owned enterprises, the higher executive level is, the more intense competition will be and the more difficult the promotion will be. And because of our special economic system, managers of state-owned enterprises are not only business managers, but also administrative cadres. When the client makes an assessment about the manager, the standard will be more complex, including both business management and political ideology. Therefore, due to market conditions and their own characteristics, if managers simply do daily work to maintain its day-to-day operations, they can hardly have any outstanding performance to get the chance for promotion. In order to get opportunities for promotion, managers need to try their best to prove management skills. It's hard to achieve better performance in a short time by the daily operation, while risk taking activity may be a crash and effective way.

Hypothesis 1: A manager tends to take more risk-taking activities if the pyramid of state-owned enterprise¹ to ultimate shareholders is shorter.

Every manager will be appointed for a certain period of time. Because of personal perspective and vision problems, there is often parallel transfer and rotation of cadres in China. So in state-owned enterprises, some managers' durations are very short and then they are transferred to other positions. In this case, if they simply do daily operations, the possibility of a big crisis and turbulence in business will be relatively small. Stable operation of the enterprise can let them go through this period steadily. But if they take adventures this time, they are likely to be just one step short of success. Therefore, they don't tend to do more risk-taking activities.

But for those managers with longer durations, they can get opportunities for promotion only by brilliant performance. Their advancement will be difficult because they must face competitions from within the firms and other state-owned enterprises outside the firms. If there are no outstanding achievements, they are likely to be left behind by others. Therefore, in order to achieve career success and get great economic and political benefit, they are likely to do more risk-taking activities.

It is not to say that managers with longer durations are more likely to take adventures. Managers' promotions are different with different levels. Therefore, relatively speaking, for the same pyramid, more risk-taking activities will be done by managers with longer durations to get better performance.

Hypothesis 2: For the same pyramid, a manager tends to take more risk-taking activities if his duration is longer.

4. Study Design

4.1. Model and Variable

This paper discusses the relationship between management promotions and risk-taking activities using the following as our basic regression:

$$\begin{aligned} \text{Risktaking} = & \beta_1 \text{Rank} + \beta_2 \text{Tenure} + \beta_3 \text{Rank} \times \text{Tenure} + \beta_4 \text{Age} + \beta_5 \text{Own} + \beta_6 \text{Com} \\ & + \beta_7 \text{ROE} + \beta_8 \text{Size} + \beta_9 \text{Lev} + \beta_{10} \text{Grow} + \beta_{11} \text{V} + \beta_i \sum \text{Inds} + \varepsilon \end{aligned} \quad (1)$$

where Risktaking is the adventures for the enterprise. Because it's difficult to measure, we use its outcome in this paper, which is the standard deviation of return on assets (ROA) divided by the mean value of ROA within the period of managers (Laeven and Levine, 2009 [17]). To avoid the influence of outliers, we winsorize observations of the top and bottom 5% for all financial data.

Rank is management promotions, decided by the rank of firms which tells the political connection². Unlike other countries, because of our special economic system, there are some special limitations in promotions. First of all, in China, the promotion of managers of state-owned enterprises is like the promotion of officials, whose hierarchy is very clear, including leading roles of divisions, departments and ministries. In the administrative hierarchy, business managers will be promoted due to outstanding performance, but they are rarely leapfrog promoted. And if the executive level is higher, there will be more intense competition and managers need to make greater efforts. Due to market conditions and their own characteristics, if managers simply do daily work to maintain its day-to-day operations, they can hardly have any outstanding performance to get the chance for promotion. Therefore, in order to get opportunities for promotion and higher payment, managers of state-owned enterprises in higher executive level need to prove their management skills and tend to do more risk-taking activities. In China, there is hierarchy problem between state-owned listed enterprises and their ultimate controller, the State-owned Assets Supervision and Administration Commission (SASAC). Generally speaking, the shorter the pyramid of listed firms is to SASAC, the higher executive level is, the closer the political connections are.

¹In fact, the state-owned listed corporations are divided into central SASAC controlled firms and local SASAC controlled firms, of which the latter are lower than the former in administrative level. However, in personnel promotions, managers of central enterprises are appointed by Central Organization Department, while managers of local enterprises are generally appointed by local government. Therefore, even if the level is only 2, the managers of local state-owned enterprises and central state-owned enterprises are quite different in the administrative level, but the promotions are determined by respective departments of power. Business promotions depend on the political connections with the respective departments.

²Because the information of what managers did after their withdrawals from the enterprises is difficult to obtain, only that of some famous corporate executives is available. It is difficult to measure management promotions directly. So it is a very strong hypothesis that we use political connection to measure promotion possibilities.

Instead, the lower executive level is, the lower degree of political connections are³. In our special national conditions and economic system of China, the manager of state-owned enterprises not only plays a role of entrepreneurs, but also a government cadre with some political consideration. For example, a former chairman and general manager of China Huaneng Group, Li Xiaopeng, became a member of the Standing Committee in Zhejiang Provincial Committee and vice governor in 2008. A former general manager and party secretary of China Petrochemical Corporation, Su Shulin, was appointed vice governor and acting governor of Fujian Province in 2011. For the time being, if the state-owned enterprise ranks higher, the manager's political future will be brighter, so he will have more power to make firm perform better. In contrast, if the state-owned enterprise ranks lower, the chance of advancement will be relatively small. Therefore, in different executive levels of state-owned enterprises, the same agency problem makes managers act differently. In other words, because the promotion to managers of their own value realization degree differs between man and man, or we can say that because the result of their risk-taking behaviors is different to promotions, managers of different levels will have different preferences. Therefore, the relationship between the state-owned listed enterprises and nation reflects managers' administrative level and political connections. Shorter pyramid means closer relationship with government and managers' chance of promotion may be greater. A firm's level means the relationship with its ultimate controller, according to Sun Zheng, Yu Xuhui (2007) [18], and Xia Donglin, Zhu Song (2008) [19].

Tenure is chairman's duration, using year as the unit. Parts of less than one year are measured as one year. We use chairman's duration in the annual financial reports of listed corporations before 2006.

Each company makes an assessment of advancement combined with its specific circumstances. Although different companies have different detailed assessment systems, each system basically contains manager's age, tenure, personal qualities, job performance, organizational leadership skills and work experience. This paper also controls the influence of managers of their own characteristics and firm's characteristics. Age is chairman's age, using the figure in the annual financial reports of listed corporations of 2006. Own is chairman's equity ratio, using the average number of shares at the end of the year divided by total shares during chairman's term of office. Com is the payment of chairman, using the natural logarithm of chairman's average payment during his term. ROE is the rate of return on common stockholders' equity of listed companies, using the average value of ROE in the chairman's term. Size is company size, using the natural logarithm of the average of total assets at the end of each year. Lev is the debt level, using the average debt asset ratio in the chairman's term. Grow is the increase rate of main business revenue. V is the ultimate controller's shareholding ratio. Inds are the industry dummy variables, using 12 dummy variables excluding the financial sector according to industrial classification standard of China Securities Regulatory Commission (CSRC).

4.2. Samples and Data

This paper selected the annual report data from 2001 to 2008 of listed corporations controlled by central and local SASAC in Shenzhen Stock Exchange⁴. And as the manager, it took chairman as the research object⁵. Chairman's age (Age), industry (Inds) and company's level (Rank), which indicates the length of the control chain, were decided by the annual report in 2006, while others were decided by the average record in the chairmen's term of office. Financial data (including ROE, Size, Lev, Grow and V) was extracted from Wind database. And chairman's duration (Tenure), equity ratio (Own) and payment (Com) were from Rasset database.

Since this article only uses the data of state-owned listed enterprises in Shenzhen securities market, financial and ultimate controller's data of some samples were missing. Our final samples were 108 listed firms.

5. Empirical Analysis

5.1. Descriptive Statistics

Table 1 is a descriptive statistics of the regressor variables. Enterprise's adventure (Risktaking) shows an aver-

³"The lower executive level is, the lower degree of political connections are." This is a very strong hypothesis. Although there is no data, it is indisputable realistically.

⁴This article only looks into the relationship between career advancement and risk-taking activities of state-owned listed enterprises, so we exclude private listed companies and those whose ultimate controllers were unable to confirm.

⁵The chairman plays an important role when a Board's agreement is required. Although to a certain extent, general manager is also one of the administrators, when it comes to issues involving major risks and resolution, it still needs the Board of Directors to hold discussions and then make decisions. Therefore, this paper took chairman as the research object.

Table 1. Descriptive statistics of the sample.

Variable	Sample size	Average value	Standard deviation	Minimum value	Median	Maximum value
Risktaking	108	-0.280	1.750	-5.208	0.295	2.103
Rank	108	2.250	0.597	1	2	4
Tenure	108	2.833	0.555	1	3	4
Age	108	50.296	6.929	35	50	69
Com	108	12.072	1.216	7.600	12.300	14.420
Own	108	0.001	0.455	0	0	0.047
ROE	108	0.010	0.267	-1.613	0.047	0.827
Size	108	21.415	0.932	18.944	21.351	24.458
Lev	108	0.535	0.229	0.047	0.555	1.950
Grow	108	0.170	0.264	-0.279	0.125	2.038
V	108	36.731	14.797	12.160	33.760	82.120

age value of -0.28 , and there is a marked difference between the maximum value and the minimum value. The average value being a negative number means that major fluctuations may happen to the company's profitability because of its adventure activities, which, as a result, will have a negative impact on the operation of the company. There are also some differences in the rank of state-owned enterprises (Rank) in the sample. The minimum rank value is 1, which means that the company is directly led by SASAC, indicating a high degree of political connections, while the maximum value is 4, showing that the company, under the indirect leadership of SASAC, is a third-tier subsidiary of a state-owned enterprise, and that it's less politically connected. The administrators' tenures (Tenure) vary from 4 years to 1 year, and the median falls on 2.26 years. The ages of the chairmen of the board range from 35 to 69, with an average of around 50. Gaps also exist in the payment of chairmen (Com) and the equity ratio (Own). The marked differences in the company size (Size), the ultimate controller's equity ratio (V), and the capacity of revenue growth (Grow) of the sample enterprises all have a certain impact on the engagement in risk-taking activities.

5.2. Correlation

Table 2 shows the correlation coefficient matrix of regressor variables. Both the Pearson and Spearman correlation coefficients do not exceed 0.5, indicating that there is no severe collinearity problem.

5.3. Regression Analysis

Table 3 is the result of multiple regression. Model 2, based on Model 1, takes further control on the enterprise-level features, and inspects the probability for chairman to get promoted, as well as the company's risk-taking activities. Model 3 removes the samples of listed companies that are directly controlled by the local organs relevant to the SASAC. Model 4 analyzes the samples whose control levels are above 2 separately.

Whether or not the company's basic characteristics are under control, both Model 1 and Model 2 show that the regression coefficient of rank is significant negative, which means that the political relevancy (Level) characterizes higher probability of promotion, and the company is more likely to take up risk-taking activities so as to improve its performance and the opportunity for promotion. Hypothesis 1 is validated. The coefficient of Rank \times Tenure is significantly positive at the 0.10 level. In other words, among the listed companies of the same level, the longer the tenure of the chairman, the more chances of risk-taking activities. The reason is obvious: a shorter term often indicates an official's transition period, during which the official has no momentum to conduct risk-taking only to destroy his/her prospect. But in a longer term, the chairman, getting no promotion, may choose risk-taking to improve performance for higher recognition. So far, Hypothesis 2 is validated.

After removing the samples of listed companies that are directly controlled by the local organs relevant to the SASAC, Model 3 still shows a significant negative influence at the 0.10 level in the coefficient of Rank, mean-

Table 2. Correlation coefficient matrix.

Variable	Risktaking	Rank	Tenure	Age	Com	Own	ROE	Size	Lev	Grow
Risktaking		-0.047	0.133	0.037	0.037	-0.035	0.364	-0.058	-0.088	0.067
Rank	0.007		-0.110	-0.121	-0.095	0.037	-0.028	-0.130	-0.169	0.024
Tenure	0.049	-0.070		0.285	0.145	-0.022	0.019	0.070	0.072	0.149
Age	0.047	-0.085	0.255		0.082	0.054	0.080	0.084	-0.110	0.084
Com	0.062	-0.116	0.107	0.057		0.131	0.275	0.302	-0.033	0.115
Own	-0.176	-0.029	0.032	-0.085	0.124		0.040	0.031	0.105	0.025
ROE	0.371	0.044	-0.037	-0.008	0.058	-0.045		0.337	-0.274	0.500
Size	-0.027	-0.141	0.106	0.099	0.345	0.067	0.136		0.058	0.249
Lev	-0.111	-0.174	-0.076	-0.127	0.007	0.113	-0.121	-0.032		0.056
Grow	0.131	0.075	0.111	-0.045	0.016	-0.070	0.203	0.068	0.122	
V	0.096	0.072	0.155	-0.061	-0.028	-0.113	0.056	-0.009	-0.181	0.038

Note: left lower is the correlation coefficient of Pearson, while upper right is the correlation coefficient of Spearman.

ing that to a certain degree, the company's risk-taking activities depend on the promotion of chairman, and the more chances to get promoted, the more likely to improve operating performance through risk-taking. For administrators of the same rank, the longer their tenure are, the more momentum to take part in risk-taking to get promoted. So the coefficient of Rank \times Tenure at the 0.10 level is significantly positive. Thus, Hypothesis 1 and Hypothesis 2 are further verified.

The coefficient of rank in Model 4 is significantly negative, while the coefficient of Rank \times Tenure is significantly positive, which suggests that when there are more promotion chances for chairman, the state-owned listed enterprises are more likely to carry out risk-taking activities. In some listed companies at a certain level, the tenure can result in differences in chairmen's performances, especially their risk-taking behavior. Again, Hypothesis 1 and Hypothesis 2 are proved to be true.

5.4. Sensitivity Testing

Since the government emphasizes on the rejuvenation of talented cadres, many administrators above 60 have to retire from the leading post. Although they may still be nominal chairmen of the companies, in fact, they don't actually take charge of the operation administration and investment decisions. As a result, we decide to carry out another regression analysis after removing the factor of chairman of state-owned enterprises above 60, referring to Model 5 of the Table 4. The regression results of Model 5 show that after removing the data of chairmen above 60, the shorter the state-owned enterprise's rank is, the more likely the chairman would take up risk-taking activities, which can be seen that the coefficient of Rank is significant negative, supporting Hypothesis 1. And among state-owned enterprises of the same level, the longer the chairman's tenure is, the greater the chances are for them to take risk-taking activities, which supports Hypothesis 2 again. Model 6 takes a further sensitivity test on the age factor after the remove of the elements whose ages are above 50. Still, the coefficient of Rank is significant negative, and the coefficient of Rank \times Tenure is significant positive, so Hypothesis 1 and 2 are proved to be true.

Results from Model 5 and Model 6 also reveal that the shareholding ratio of chairman has an obvious inhibiting effect on the risk-taking possibility, that is to say, the coefficient of own is significantly negative, which do not consist with the conclusion made by Eisenmann (2002) [20] and Chen *et al.* (2006) through their research. Their research found out that the administrators' shareholding and share option would lead to more risk-taking activities with the purpose to make more personal fortune. However, in China, this is often the case when "money" and "promotion" cannot be obtained at the same time. Under such circumstances, companies with high shareholding ratios would reduce risk-taking activities to seek stability and to avoid risks, because the chairmen

Table 3. The probability for chairman to get promoted and company's risk-taking activities.

Variable	Symbol	Model 1	Model 2	Model 3	Model 4 ^a
		All	All	Rank > 1	Rank > 2
Rank	-	-3.209* (-1.76)	-3.410* (-1.81)	-3.616* (-1.91)	-2.149* (-1.95)
Tenure	+	-2.276 (-1.57)	-2.427 (-1.63)	-2.795 (-1.54)	
Rank × Tenure	+	1.129* (1.81)	1.169* (1.82)	1.329** (2.03)	0.642*** (4.18)
Age	-	0.001 (0.01)	0.003 (0.12)	0.002 (0.07)	-0.052 (-1.45)
Com	-	0.051 (0.36)	0.088 (0.60)	0.079 (0.52)	0.002 (0.01)
Own	-	-0.673* (-1.94)	-0.581 (-1.63)	-0.544 (-1.51)	3.735 (0.95)
ROE	+	2.323*** (3.69)	2.315*** (3.53)	2.253*** (3.38)	12.691*** (3.49)
Size	?		-0.151 (-0.81)	-0.200 (-1.03)	-0.560 (-1.56)
Lev	?		-0.667 (-0.89)	-0.702 (-0.92)	2.492* (2.14)
Grow	?		0.174 (0.26)	0.217 (0.31)	0.765 (0.33)
V	?		0.010 (0.82)	0.012 (0.97)	-0.018 (-1.06)
Inds		Control	Control	Control	Control
Sample size		108	108	102	30
R ²		0.300	0.319	0.339	0.807

^aThe tenure variable is automatically removed in regression due to collinearity issues. ***, **, and * denote significant at the 0.01, 0.05, and 0.10 level, respectively.

can gain fairly great return on equity through stable management. Having no stock rights may bring more attention to their careers.

Given the impact shareholders of administrators have on the company's risk-taking activities, Model 7 and Model 8 conduct tests respectively on share holding companies and those are not. Model 7 shows the regression result of the companies where chairmen have shares. The coefficients of both Rank and Rank × Tenure are non-significant, in other words, the chairman, with shares in hand, may cut down the risk-taking activities in order to retain stability. On the other hand, if the chairman has no shares of the listed company, then he/she will have more motives to pursuit "career". Therefore, in the regression result from Model 8 where there are no stock rights samples, the coefficient of Rank is significantly negative at the 0.05 level, while the coefficient of Rank × Tenure is significantly positive at the same level, in accordance with the result of the entire sample. So Hypothesis 1 and 2 are verified.

Table 4. Sensitivity testing.

Variable	Model 5	Model 6	Model 7	Model 8
	Age < 60	Age < 50	Ownship > 0	Ownship = 0
Rank	-3.794*	-3.081*	0.632	-6.829**
	(-1.84)	(-1.70)	(0.34)	(-2.43)
Tenure	-2.546	-2.271	0.862	-4.887
	(-1.42)	(-1.58)	(0.53)	(-1.27)
Rank × Tenure	1.282*	1.076*	-0.322	2.413**
	(1.74)	(1.73)	(-0.50)	(2.51)
Age	-0.086	0.040	-0.026	0.006
	(-1.15)	(1.21)	(-0.99)	(0.16)
Com	0.320	0.116	0.242	-0.005
	(1.30)	(0.77)	(1.58)	(-0.03)
Own	-0.611*	-0.566*	-0.746***	
	(-1.83)	(-1.66)	(-3.51)	
ROE	4.546***	2.304***	1.633***	6.076***
	(3.73)	(3.66)	(3.87)	(2.92)
Size	-0.003	-0.195	-0.389*	-0.289
	(-0.01)	(-1.06)	(-1.89)	(-1.11)
Lev	-0.341	-0.582	-1.043	-0.635
	(-0.39)	(-0.80)	(-1.08)	(-0.63)
Grow	-0.010	0.127	-0.015	-0.579
	(-0.01)	(0.19)	(-0.02)	(-0.62)
V	0.026	0.010	-0.008	-0.009
	(1.45)	(0.87)	(-0.57)	(-0.46)
Inds	Control	Control	Control	Control
Obs.	52	97	39	69
R ²	0.632	0.355	0.813	0.394

Note: ***, **, and * denote significant at the 0.01, 0.05, and 0.10 level, respectively.

Therefore, no matter we use the whole data, take control on the enterprise-level features, remove the samples of listed companies that are directly controlled by the local SASAC, or only analyze the samples whose control levels are above two, Hypothesis 1 and Hypothesis 2 are proved to be true. Besides, after removing the factor of chairman of state-owned enterprises above 60 or 50, we find that the shareholding ratio of chairman has an obvious inhibiting effect on the risk-taking possibility, which indicates that chairmen with high shareholding ratios may reduce risk-taking activities to seek stability while having no stock rights may bring more attention to their careers. In addition, Hypothesis 1 and 2 are also verified, which means the shorter the pyramid of listed enterprises is, the more likely the chairman is to take up risk-taking activities and for the same pyramid, the longer the tenure of the chairman, the more chances of risk-taking activities.

6. Conclusions

Taking chairman of state-owned listed companies as a study object, we find that in state-owned enterprises, the shorter the company level is, the higher its administrative level is; and the greater its political relevance is, the bigger the administrator's political benefits will be once he/she gets promoted. So the administrators of state-owned companies with shorter level will have a preference for risk-taking activities. At the same time, in state-owned companies of the same level, the administrators with shorter tenures are likely to be transitional ones, and they would adopt actions that can avoid risks. On the contrary, the administrators with longer tenures, in order to get further promotion, will prefer to carry out risk-taking activities to achieve expected outstanding performance. The above analysis explains that when political connection is strong, the managers of state-owned enterprises will make decisions referring to not only market standard, but also political risk and return. To some extent, the problem of corporate governance structure is prominent. SASAC is in charge of state-owned enterprises and at the same time plays the regulator's role, which shows a defect of system that needs to be improved. Managers of state-owned listed enterprises do not fully follow the market rules for management, which makes the resources of the whole society fail to get reasonable allocation and use.

The chairman's personal behaviors are directly relevant to the company's benefit because of the agent issue. Therefore, for those companies, when it comes to choosing appropriate administrators according to different developing periods and situations, as well as decreasing agent cost and maximizing company values, it is of great importance to study the relationship between the promotion of the chairman and the company's risk-taking activities. Existing researches pay little attention to the effects the administrator have on company's risk-taking activities, and this article provides relevant empirical evidence. Promotion is an encouragement for managers. Under China's special economic system, SASAC generally appoints managers whose political performance is more prominent as the chairman of state-owned enterprises. However, state-owned enterprises, especially central enterprises have already involved in technology, products and fields, which are extremely complex and diverse. And the requirements for leader's quality are comprehensive. This situation makes the management system of state-owned enterprises distorted. In addition, the managers who take their own political career into consideration, often subject to state-owned assets management department, and their short-sighted behaviors are prominent. So the decision-making errors may cause loss of state-owned assets, which is the cause for the lack of existing regulatory system. Therefore, the research on the relationship between promotion of chairman and company's risk-taking activities would offer theoretical support for state-owned companies of different types, sizes and developing periods to select optimal managers, and to maintain and increase their company values.

At present, because of the political connection system of state-owned enterprises in China, the development of enterprises experience significant constraints. On one hand, some managers of state-owned enterprises would like to take up more risk-taking activities in order to achieve political gains, but corruption problems caused by these adventures have become increasingly prominent at the same time. On the other hand, some managers choose to take conservative business decisions in order to avoid political risk, which makes a lot of resources of state-owned enterprises be idle and wasted. This paper studying on political connection and risk-taking activities provides a realistic requirement for the reform of state-owned enterprises.

The object of this research is currently limiting the behaviors of the chairmen of state-owned firms, and having no reference to other administrators' behaviors, so further study is needed. Besides, this research doesn't include non-state-owned enterprises, so omissions are inevitable. Further study can expand the range of sample, conducting further research on the relationship between the promotions of the chairmen of the non-state-owned companies and their risk-taking activities.

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