Party Control in China's Listed Firms

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January 2009

* This paper is the first part of my dissertation. I would like to thank my dissertation committee, Professor Joseph P.H. Fan (supervisor), Professor T.J. Wong (chair), Professor Oliver M. Rui, Professor Cong Wang, Professor George Y. Yang, and Professor Stuart Gillan for their valuable suggestions and comments. I am also grateful to participants of the research workshop at the Chinese University of Hong Kong. All errors are my own.

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Abstract

Along with state shareholding and government administration, the third source of political control of Chinese listed firms is the Communist Party of China (CPC). Using a unique hand-collected dataset that includes the party secretaries' information for listed firms between 2000 and 2004, I examine the existence and power of the party secretaries in companies and their influence on performance. The party secretary is the leader of party committee and exercises the power of the CPC at firm-level. Power is assessed by whether the party secretary concurrently holds another key management position, such as chairman or CEO, thus allowing him or her to exert influence on the managerial decisions of the firm. I find that state-owned enterprises (SOEs) and firms with many employees are more likely to have a party secretary or a powerful party secretary than are other firms. Party secretaries are more likely to have political reliability but less professionalism than are CEOs or other senior managers. The existence of a party secretary is negatively associated with a firm's performance, but only in SOEs. Non-state firms with a party secretary are more likely to have senior managers with political connections, but less professionalism, but I find no such significant results for SOEs. The firms with a party secretary or a powerful party secretary have lower labor productivity than do other firms, especially in SOEs and in regions with high unemployment rates. Overall, the results of this study suggest that the CPC has great influence over listed firms in China and that this influence should not be neglected in Chinese studies.

JEL codes: G34, G38, L22, P26.

Keywords: Communist Party of China (CPC), party secretary, performance

1. Introduction

Along with state shareholding and government administration, the third source of political control of Chinese listed firms is the Communist Party of China (CPC). A firm's party committee, which is commonly staffed with hand-picked executives, channels state policy into corporate practice. Morck, Yeung, and Zhao (2005) observed that the party committee has control over the board of directors and, thus, exerts actual corporate governance power. As leader of the party committee, the party secretary exercises the power of the CPC. These "bosses" and their influence on firm operation and performance have been something of a mystery in academe.

To date, most analyses of failures of governance in China's state-owned enterprises (SOEs) have focused on administrative interference by state institutions (Aharony et al., 2000; Fan et al., 2007; Sun et al., 2003). In addition, no detailed analysis of the participation and influence of CPC institutions in the governance of Chinese-listed firms has yet been conducted. The few existing studies on this important issue are primarily descriptive in nature, and their findings tend to be based on selective case studies (Tenev et al., 2002; McGregor, 2001; Dean, 2006) or survey results (Wong et al., 2004). Systematic evidence on the existence of party secretaries and their influence on firm performance is scarce.

In this paper, I examine the political control of the CPC over China's enterprises using a unique hand-collected dataset that includes information about party secretaries for listed firms between 2000 and 2004. The existence of a party secretary and the extent of his or her power over a firm's managerial decisions are used as proxy for the CPC's influence on the enterprise. Although China's economy has recently undergone some of the most far-reaching and fundamental changes in its history, the country's political system has not adapted, and the combination of an emerging market and CPC

management has resulted in conflicting goals. The party's role in the new governing institutions of the country's SOEs has created pronounced governance problems and may also be affecting the behavior of non-state firms.

The first set of tests investigates which types of firms are more likely to have a party secretary and, by extension, when a party secretary has more power than usual (i.e., he or she concurrently holds a key management position, such as chairman, CEO, or senior manager, in the firm). I find that SOEs and firms with a large number of employees are more likely to have a party secretary or a powerful party secretary than are other firms, which suggests that the CPC wants to maintain its power over these types of firms in order to avoid challenges to its political status as the ruling party.

The second set of tests examines the personal characteristics of party secretaries. The differing duties of a party secretary and managers (e.g., CEOs) lead to differences in their personal characteristics. CEOs and managers work on the company's operational and strategic decisions, but a party secretary's major duties are to disseminate the CPC's principles, carry out the policies and resolutions of the government-party in the firm, and so on. Empirical evidence shows that a party secretary is likely to be a person with more political reliability (that is, connections) but less professionalism than other managers.

The third set of tests examines the way in which a party secretary affects a firm's performance. Because the CPC has multiple political and social objectives that may deviate from the interests of the firm (that is, those of its shareholders), firm value is likely to be dissipated by a powerful party secretary. Although the controlling shareholders or ultimate owners of a newly listed firm, regardless of whether they are the government or individuals, may be aware of the negative impact on the firm of the

decision to hire a full-time party secretary, they still choose to do so for other reasons. Using several stock- and accounting-based performance measures, I study the impact of a party secretary on firm performance, classifying firms as SOEs or non-SOEs and running performance regressions on the sub-samples. Because the self-choice of controlling shareholders and interested parties may affect whether a party secretary plays a role in the firm and, if so, the level of his or her power, I also use a two-stage regression model for a robustness check. Taken together, my findings suggest that firm performance for SOEs is worse when a firm has a party secretary or a powerful party secretary, although this finding is not supported for non-SOEs.

More specifically, I study the association between the existence of a party secretary or powerful party secretary and the characteristics of a firm's directors and senior mangers ("the party supervises the cadre"), and his or her influence on productivity. I argue that the influence of the party secretary on firm performance stems from his or her ability to control the appointment and dismissal of top managers and influence the productivity of workers. Party management personnel emphasize the political reliability of SOE executives, so the criteria for their selection may not be exclusively based on business performance. In a non-SOE, one of the major duties of the party secretary is to build an external channel between the firm and the government (*Contemporary Manager Journal*, 2006). Although the party committee does not have the power to decide on the appointment and dismissal of key personnel, the presence of a party secretary may indicate that the firm relies heavily on its political ties to do business. Therefore, I hypothesize that the directors and senior managers of firms that have a party secretary are more likely to have political reliability (i.e., connections), but less professionalism. My empirical results show that non-SOEs with a powerful party secretary are more likely to have a senior manager

with political connections and less professionalism. However, I do not find such a result in SOEs.

The CPC's priority is to maintain social stability and keep its ruling power. A high unemployment rate may lead to social instability and encourage negative views of the current government, creating challenges to that ruling power. Therefore, firms with a party secretary are more likely to be used to serve political objectives and so are more likely to hire an excess labor force, which may lead to a low level of productivity. This phenomenon is more likely to be pronounced in SOEs and in regions with high unemployment rates. Accordingly, I find that the existence of a party secretary is significant negatively associated with labor productivity, especially in SOEs and in regions with high unemployment rates, since excess employment may be one reason for low labor productivity.

This study addresses an important corporate governance issue for China's listed firms. Although China's economy has undergone some of the most far-reaching and fundamental changes in its history, the country's political system has not adapted. Without political reform, the interference of the CPC and other state institutions in the corporate governance of enterprises will continue, resulting in poor performance and productivity in many cases.

Although the existence of party secretaries is unique to China, this research also contributes to the literature on firm de-politicization and to comparative studies of corporate governance and reform strategies in transitional economies. More specifically, this study addresses the corporate governance problems of firms in countries that are undergoing economic transition without the introduction of a pluralistic and democratic political system. An understanding of these firms' successes and failures will lead to a better understanding of the interdependence of economic

and political reform.

The remainder of the paper proceeds as follows: Section 2 discusses the institutional background of the CPC in China and develops the research hypotheses. Section 3 introduces the data and the sample. Section 4 describes the existence of a party secretary or a powerful party secretary on a firm. Section 5 shows the party secretary's personnel characteristics. Section 6 examines the performance implications of a party secretary, and Section 7 considers the correlation of this secretary with the characteristics of senior managers. Section 8 presents the association of the party secretary with labor productivity, and Section 9 concludes the paper.

2. Background and hypotheses development

Since winning victory in the "new democratic revolution" and founding the People's Republic of China (PRC) in 1949, the Communist Party of China (CPC) has been the country's ruling party. In theory, the CPC does not take the place of the government in the state's leadership system but, as the party in power, turns its ideas and policies into state laws and decisions, which are then passed by the National People's Congress of China through the state's legislative process. By the end of 2006, there were about 72 million CPC members in China,[1] which accounts for about five percent of the nation's citizens. It is not easy to become a CPC member. An applicant for Party membership must be accepted at a general membership meeting of the Party branch concerned and approved by the next higher Party organization. He or she usually undergoes observation through rigorous examination by the Party brand for a probationary period before being granted full membership. The examination includes whether the persons can fulfill the duties of CPC member in an organization and implement the Party's basic line, principles and policies. Until now, Party members

[1]Source: statistics of the Organizing Department, Central Committee of the CPC.

serve in almost all types of organizations and hold key positions in government, schools, research institutes, and enterprises.

The managers of China's firms have been subject to party control since the founding of the PRC. In late 1978, the country's leadership under Deng Xiaoping introduced a number of economic reforms and started the ongoing efforts to transfer firms' decision-making power from local party committees and state bureaucrats to managers (You, 1998). However, although China's economy has undergone some of the most far-reaching and fundamental changes in its history, the country's political system has not adapted because political stability and control have top priority. The gradual reform approach has generated some competitive pressure and increased the productive efficiency of some state-owned enterprises (SOEs), but it has also allowed the interference of the party and state institutions in the corporate governance of these firms to continue. The reforms implemented have not been able to disentangle party management from corporate governance, and the combination of this management with an emerging market has produced conflicting goals.

The CPC plays two central roles in the corporate governance of SOEs. First, it remains the political center of these enterprises and, as such, handles all political affairs, including managing cadre appointments, enforcing commitment to ideological principles, and ensuring that corporate decisions take national policies into account. The Party selects Party and non-Party cadres according to the principle that they should possess political integrity, implement the Party's policies, and also have some professional competence. The ranks of the cadres usually determine the level of managerial positions they can hold. For instance, CEO is one-level higher cadre than CFO and other department managers. Second, the party may become involved in all of the major corporate decisions of SOEs by placing party cadres in the most

important leadership positions, including those of the CEO and the general manager (MaNally, 2002).

According to the CPC's constitution after 2002, all types of organizations, including non-SOEs, are required to establish the primary organizations of the party if they have at least three full party members. The primary Party organizations precede the Party's work in the basic units of society and usually are constituted by some selected CPC members who are approved by the next higher Party organization. In 2002, the 16th National Congress of the CPC inscribed the duties of the primary organizations in non-SOEs in the party constitution as a signal of its intention to strengthen its control over foreign and private enterprises. Over time, increasing numbers of private enterprises have established the primary organizations of the party, and some have hired a full-time party secretary. In this kind of political and economic institutional environment, these non-SOEs may also have to alter their operating strategies in order to show their compatibility with policies of the dual party-government.

2.1. Party secretaries in China's listed firms

To establish the primary organizations of the CPC, an organization may select a party committee or party branch (a less powerful organization), subject to approval by the next higher party organization. However, if there is no higher party organization, as may be the case with certain private or foreign firms, sometimes no party organization has be established. This may be the reason that CPC strengthens its control over these firms after 2002. A party secretary is hired only when there is a party committee in the firm, although even these firms may have only a deputy party secretary or a number of committee members. As I mentioned before, the party secretary is the leader of party committee and exercises the power of the CPC at

firm-level.

The party executive in the holding company or the government owner decides on the establishment of the primary party organizations and the appointment of party representatives in listed firms. Even in SOEs, the party committee may only be established in the parent company, with the party secretary of the controlling shareholder handling the work in the listed firms. If a listed firm does not hire a full-time party secretary, then the influence of the CPC in that firm is comparatively weak, regardless of whether it has a party committee, demonstrating how a parent company can choose to lessen the direct influence of the Party. Since China's adoption of a market economy, the party secretary has been unable to take the place of managers or directors, although he or she can still exercise power by taking up management positions within the company, such as chairman, CEO, or senior manager. When a party secretary is powerful, that is, he or she serves concurrently as chairman and/or CEO and has influence over the firm's managerial decisions, it is easy for him or her to exercise party control in the firm. This gives rise to my first research question: which types of firms are more likely to have a party secretary or a powerful party secretary?

SOEs are ultimately owned by levels of government (i.e., central or provincial). Because, in reality, China has a party-government system, the CPC has a great effect on these enterprises. At the same time, because the government is run by the CPC, the latter also still controls a major portion of the economy, even after the economic reforms, and its leadership has no intention of giving up that control, particularly over strategic industries such as electricity and telecommunications.

China's private sector (including both privately owned and foreign-owned firms)

is developing very fast. In 2005, non-SOEs (including foreign-owned enterprises) contributed about 65 percent of the country's GDP.[2] The 16th National Congress of the CPC in 2002 inscribed the duties of the primary organizations in non-SOEs in its constitution to signal of the party's intention to strengthen its level of control over foreign and private enterprises. However, the revision of the constitution also shows the comparatively weak influence of CPC over these firms.

In theory, the CPC faces no challenges to its power as ruling party unless the one-party system is abolished. In reality, it shows a strong inclination to maintain its ideological influence over the people, obtain their political support, and avoid any type of defiance. For these reasons, the CPC is more likely to attempt to strengthen its power in firms with many employees ("voters"). Therefore, I expect to find that SOEs, firms with many employees, and firms in strategic industries are more likely to have a party secretary or a powerful party secretary than are other firms.

2.2. Personal characteristics of party secretaries

Compared with the CEO and other managers in the firm, a party secretary should have different personal characteristics and talent, since her or his duties differ. The CEO and managers work on the company's operational and strategic decisions while a party secretary's major duties are to disseminate the CPC's principles, carry out the policies and resolutions of government-party in the firm, and so on. The selection criteria for a qualified party secretary will include the candidate's political reliability and working experience in government and party agencies, while talent and experience in business will be less important. Therefore, it is predictable that a party secretary is likely to have more political reliability and less professionalism than other

[2]October 1, 2007, *Outlook Weekly*, Xinhua News Agency.

managers.

2.3. Performance implications of party control

Since the party secretary has historically been involved in all aspects of strategic decisions in SOEs, it is predictable that he or she would be involved in a broad range of decisions that have performance implications. The party secretary's influence on firm performance can be exerted either by concurrently working as a director or manager or by influencing the decisions of the chairman and/or CEO, since the persons in those jobs may also be party members. The institutional structure through which a party secretary exercises his or her authority over the SOE is likely to have an impact on other aspects of corporate governance and, ultimately, on firm performance.

A survey carried out by *Contemporary Manager Journal* (September 2006, in Chinese) investigated the role of the party in 400 private enterprises in 26 provinces. Only 9% of the respondents thought that the party organization played no role and/or had a weak influence over management. In 7% of the firms under investigation, all important strategies and polices had to be approved by the party secretary. In the remaining 84% of the firms, the party heavily influenced strategy and policy because the senior managers were also CPC members. These survey results demonstrate that the role of party secretaries in the private sector is strong and influential.

A substantial body of empirical evidence has documented both the superior efficiency of private firms relative to public firms (Dewenter et al., 2001; Kole et al., 1997) and the improvement in efficiency after privatization (Boubakri et al., 1998; Jones et al., 1999; Megginson et al., 2001). Public enterprises in China are inefficient, the result of political pressure from the politicians who control them. Therefore, a similar result may be found in firms with a party secretary, regardless of whether they

are non-SOEs or SOEs. The party secretary's responsibility is to channel state policy into corporate practice and to make sure that the directives of the CPC are upheld within the firm. This kind of influence is not always inherently favorable to shareholder interest, because the party is looking at the company's broader social and economic impact (Dean, 2006), rather than at maximizing shareholder value. In the party secretary's reward-and-advancement system, following policy directives and creating the right political image are first-order considerations, especially since there are few negative consequences to economic mismanagement (Ke et al., 2008). On the basis of this argument, firm value is likely to be dissipated if a firm has a party secretary or a powerful party secretary. Wong, Opper, and Hu (2004) found a negative relationship between party control and firm performance in a small sample of 71 listed firms. Their party control proxies were obtained from survey data and measured by respondents' assessment of that control in the firms under study.

Demsetz and Lehn (1985) argued that ownership concentration and firm performance are unrelated because a decision by shareholders to alter the ownership structure of a firm would be made with awareness of its consequences. China's listed firms are usually carved out from SOEs to qualify for listing and to increase the offering price in the initial public offering (IPO); the original SOE then becomes the parent or holding company (Aharony et al., 2000). After listing, the controlling shareholders or owners decide whether to hire a full-time party secretary for the newly listed firm or to rely on the party secretary who is in the parent company. (Sometimes private firms that choose not to have a party secretary try to introduce one later.) Therefore, whether a party secretary operates in the firm is the choice of the controlling shareholders and reflects their underlying interests. Because they should be aware of the consequences of their decision, I expect there to be no relationship

between whether a firm has a party secretary and firm performance in non-SOE firms. However, in SOEs, although the controlling shareholders—or the government behind them—know the negative consequences on firm performance of having a party secretary, they may still choose to hire one for other considerations, for example, to strength the power of CPC in a firm.

If having a party secretary has implications for firm performance, then another question arises: how does the party secretary go about affecting firm performance? In the next section, I identify the channels through which he or she does so and consider that the correlation between the presence of a party secretary and firm performance may be due to the secretary's direct control of appointments and dismissal of top managers and to his or her indirect influence on labor productivity.

2.3.1. Senior management characteristics ("the party supervises the cadre")

In 2004, just before the listing of Netcom, the Chinese government suddenly swapped the top executives at China's big four telecom companies. The boards were presented with a fait accompli, as the decision had been made by party committees comprised of a handful of senior executives (Dean, 2006).

The CPC firmly controls personnel appointments and dismissals in SOEs. In ordinary SOEs, it is the CPC, not the board of directors, that appoints top managers. The "party supervises the cadre" rule refers to the party's right to recommend and approve all appointments for managerial positions in the economic bureaucracy and in state enterprises. Internal management appointments, career advancements, and disciplinary actions are all strictly controlled by party agencies (Qian, 1995).

Wong, Opper, and Hu (2004) analyzed the extent of party control over individual

firm decisions and revealed that that control is primarily focused on personnel decisions, followed by strategic decisions and financial decisions. The five personnel decisions over which local party committees exert the greatest level of control are the selection and dismissal of (1) functional department managers, (2) business department managers, (3) branch managers, (4) subsidiary managers, and (5) vice-CEOs.

Top enterprise leaders tend to have considerable say over who their successors will be, although, in most cases, it is the party committee of state holding corporations that suggests appointments. This approach allows key committee members, especially the party secretary, to control the decision-making process tightly from the outset and to skew it in favor of candidates with strong party connections. Once the decision-making process is complete, the board of directors simply rubber-stamps the appointments.

The continuity of the CPC's control over personnel decisions has important implications. First, the party's personnel management emphasizes the political reliability of state sector executives, so these executives tend to exert considerable effort in presenting the right political image and in nurturing good relationships with their superiors in the party hierarchy. Second, the CPC's selection criteria are not exclusively based on economic or business performance; party management within SOEs curtails the effective monitoring of managerial behavior and thereby distorts the management incentive system. This is not a very efficient selection criterion and does not lead to an effective governance structure (MacNally, 2002). Political reliability and connections are primary considerations, whereas managerial skill is secondary,

especially because there are few negative consequences to economic mismanagement (Ke et al., 2008).

By contrast, in non-SOEs, it is the ownership, rather than the party committee, that has the power to decide on the appointment and dismissal of key personnel. The major duty of the party secretary within non-SOEs is not to choose personnel but to build connections between the firm and the government. The deputy party secretary of the Fosun Group,[3] Xue Xingwen, explained: "I have two major types of work: one is to attend the meetings conducted by government agencies; the other is public relations"[4] (*Contemporary Manager Journal*, 2006). Both types of work are related to establishing a good image for the firm and to strengthening political connections. A firm's having a party secretary may reveal that a firm relies heavily on political ties to do business. In this case, firms also have the incentive to hire managers with good political relationships in addition to business talent. Therefore, I hypothesize that firms with a party secretary are likely to have senior managers with more political reliability (that is, connections) but less professionalism than senior managers in firms without a party secretary.

2.3.2. Labor productivity

Major duties of a party secretary include enforcing ideology and ensuring that corporate decisions take national policies into account. If the political and ideological incentives he or she uses to motivate workers work, then we can predict a high level of labor productivity in the firm. However, without material incentives, it is doubtful that such a ritualized system can affect labor productivity in the current economic

[3]Fosun's business portfolio includes listed companies, namely, Nanjing Iron & Steel Co., Ltd. (600282.SH), the Forte Group (233.HK), Fosun Pharmacy (600196.SH), Yuyuan Tourist Mart (600655.SH), and Zhojin Mining (1818.HK).
[4]"A party secretary's day in a private enterprise," *Contemporary Manager Journal*, 2006 September.

environment.

The priority consideration of the CPC is to maintain social stability and keep its ruling power. Lin et al. (1998) noted that, because of party concerns about unemployment, SOEs are not allowed to lay off surplus workers without party approval, so surplus employees lead to a low level of employee productivity in firms with a party secretary who represents the interests of the CPC. This phenomenon will be more pronounced in regions with a high unemployment rate, an undesirable condition from the point of view of the party because unemployment may lead to social instability and encourage negative views of the government and challenges to the ruling power of the CPC. Thus, firms with a party secretary are more likely to serve the party's political objectives by maintaining excess employment, and this may lead to reduced labor productivity.

3. Sample selection and data description

3.1. Sample selection

My data include information about the party secretary in firms with A-shares for the years between 2000 and 2004, inclusive. Because it is not mandatory for firms to disclose their information about party secretaries, I obtained these data in a proactive manner. First, I consulted the proxy statements of the firms' annual reports and announcements in the news. Some of the proxy statements included party secretary information if the secretaries also worked as directors, executives, or supervisors. If this was not the case, then I browsed the firm's website (if it had one) or performed a Google search using the key words "firm's name" + "party secretary," "firm's listing symbol" + "party secretary," "firm's stock code" + "party secretary," "the chairman's

name" + "party secretary," "the CEO's name" + "party secretary," etc. For those firms for which I was still unable to obtain the relevant information, I called the telephone numbers listed in their financial statements. In most cases, this put me through to the staff in the office of the board secretary, most of whom kindly answered my questions about the presence of a party secretary in their firms. In the end, I was able to gather information about party secretaries for about 70% of the firms for the sample period under consideration.

My empirical analyses require accounting numbers and data on the listing status and ownership structure of the firms, and biographical information about senior manager and directors. I obtained all of the required data from CSMAR (a widely used database in Chinese research), except for the data on the directors and senior managers, which was retrieved from the Wind database. Wind contains detailed information about company executives of publicly traded firms in China. From the biographical information, I extracted the personal characteristics—including age, sex and educational background—of the current or former government bureaucrats, CPC members, CPAs, and lawyers in a firm. I winsorized the top and bottom 1% of the financial variables to diminish the effect of outliers. Because of incomplete data for some of the items, the total number of observations varies across the estimation models.

3.2. Data description

The sample distribution is reported in Table 1. Most of the firms have a party secretary. I obtained party secretary data for 4,104 firm-years between 2000 and 2004, which represents 68% of the total firms with A-shares in China during that period. Only 11% of the firms said that they did not have a party secretary. In those firms with

party secretaries, many of the secretaries hold other management positions as well: 5% also serve as both the chairman and the CEO; 18% also serve as the chairman; 6% also serve as the CEO; and 26% also serve as a supervisor, director, or executive (Table 1). Thus, many party secretaries have a significant affect on firm management.

In the following analysis, I delete the 30% of firms whose party secretary status was not determined, although I added those 30% missing observations in unreported sensitivity tests. With no reason to predict that these firms are any different from the others, I assume that those firms behave as other firms do and that their results are similar to results from the other firms. The percentage of firms without a party secretary (235/806, or 29.2%) is higher in non-SOEs than in SOEs (330/2828, or 11.6%). The industry sector classification is based on the *Index of Industrial Distribution of List Companies*, which is issued by the China Securities Regulatory Commission (CSRC). I use the one-digit industry codes, except for the manufacturing sector, for which I use two-digit codes. The manufacturing sector accounts for about 56% of the sample.

Table 2 presents the summary statistics of financial numbers in the sample firms, both as a group and as classified by their party secretary status. The definitions of the variables used in this paper are listed in Appendix A. Table 2 shows that the firms with a party secretary are larger in terms of both total assets and the number of employees. The mean and median of sales growth, Tobin_Q, and MTB, but not the ROA, of the firms with a party secretary are statistically significantly lower than those for the firms without a party secretary, indicating the possible negative effect of party intervention. However, there is no significant difference between the two groups in terms of the amount of leverage. As for the labor productivity measures, there is no significant difference between the groups in sales per employee, although firms with a

party secretary have more sales than those without one, which is consistent with the results for total assets and the number of employees.

Appendix B.1 reports the correlation coefficients of the party secretary and the key model variables. The two measures of party secretary show a simple positive correlation with the firm size measures of *log_totalassets*, *ln_employees*, and *ln_sales*. They also correlate positively with the dummy variables for SOEs, regardless of whether they are owned by the central or provincial government. However, both *secretary_dummy* and *secretary_important* are negatively correlated with the firm performance measures, except for ROA. Furthermore, the two measures for party secretary are highly correlated.

4. The presence of a party secretary in a firm

I test the existence of a party secretary and powerful party secretary using a logistic model or ordered logistics model of the following form:

$$Logistic(Secretary\_dummy) = f(\alpha_0 + \beta_1 Ownership + \beta_2 Strategic\ \ industry + \beta_3 Number\ of\ employees + \sum \beta_i Control\ Variables + \varepsilon_i) \qquad (1)$$

$$Ordered\ Logistic(Secretary\_important) = f(\alpha_0 + \beta_1 Ownership + \beta_2 Strategic\ \ industry + \beta_3 Number\ of\ employees + \sum \beta_i Control\ Variables + \varepsilon_i) \qquad (2)$$

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I use both the logistic and ordered logistic model to test for the existence of a party secretary and a powerful party secretary in the firms. One of the dependent variables, *Secretary_dummy*, is a binary dummy variable that is equal to 1 if a firm has a party secretary, and zero otherwise. Another dependent variable, *Secretary_important*, is an ordinal number equal to zero if a firm has no party secretary; to 1 if the party secretary holds no other position in the firm; to 2 if he or she is also a director, senior manager, or supervisor; to 3 if he or she is also the chairman or CEO; and to 4 if the party secretary is also both the chairman and the CEO. *Secretary_important* measures the

power the party secretary wields in the firm's management. The underlying assumption is that his or her level of power will increase if he or she concurrently holds another important management position in the firm. The independent variables include *Ownership*, *Strategic industry*, and *Number of employees*. In addition, I attempt to control for certain other factors by using control variables, *log_totalassets*, *BH_list*, and the fraction of shares held by the largest shareholder. In China, firms may issue A-shares, B-shares, or H-shares individually or jointly. A-shares are issued on the Shanghai or Shenzhen Stock Exchange and are traded by local investors. B-shares are also issued on the Shanghai or Shenzhen Stock Exchange but, before 2000, were traded only by foreign investors.[5] H-shares are issued on the Hong Kong Stock Exchange and traded by global investors. This study focuses on firms with A-shares, although some of the firms in the sample also issued B- or H-shares at the same time. The participation of foreign investors may have a negative effect. Industry and year dummies are included in all of the regression models.

In general, it is likely that, because of local economic, political, and cultural factors, firms within the same geographical context will be more like each other than like those in other municipalities (Fan et al., 2007). Therefore, I include a regional dummy variable to categorize the firms based on the provincial-level location of their headquarters. Because I use panel data, I run the regression with and without controlling for firm-cluster effects. In the model without this control, I estimate the standard errors using Huber-White sandwich estimators, which take into account the issues surrounding heterogeneity.

Table 3 reports the results of the logistic and ordered logistic regressions to determine whether firms have a party secretary or a powerful party secretary. The

[5]After 2000, local investors with foreign currency could also trade B-shares.

dependent variable in Models (1) and (2) is *secretary_dummy*, and both the coefficients and the marginal effects are presented. As expected, the coefficients of *ownership_soe* and *ln _employees* are significantly positive, which suggests that SOEs and firms with many employees are more likely to have a party secretary. However, the coefficient of *strategic_industr*y is insignificant, although it has a positive sign. Models (3) and (4) use *secretary_important* as the dependent variable, and the results are generally consistent with those of Models (1) and (2). However, in Models (3) and (4), the coefficient of *log_totalassets* becomes insignificant. Compared with the assets measure (*log_totalassets*), "voters" seem to be a more important consideration for the CPC. Surprisingly, foreign investors have no obvious influence.

I perform some robust tests and consider two alternative explanations for these results. One explanation is that these firms have a full-time party secretary simply because they have many party members; the number of CPC members in a firm is proportional to the number of employees hired. To rule out this possibility, I add the interaction terms of *ln_employees* and *ownership_soe* in Models (1) and (2). If SOEs are more likely to hire party member employees and to have a high percentage of CPC members, then the coefficients on these interaction terms should be positive. However, these coefficients are negative and significant in Model (2). Therefore, in a sense, I can rule out this explanation. Another concern is the reverse causality that the firms with a party secretary are more likely to hire excess employees. In Models (3) and (4), I use the industry-level number of employees to replace my measure of employees because an industry-level measure is less likely to be affected by the presence of a party secretary in a firm. The coefficients on industry-level of employee numbers in the two determinant models remain significantly positive.

In addition, I run the regression by separating samples into SOE and non-SOE

firms in the sensitivity test and obtain similar results in both SOE and non-SOE firms, except that the coefficients on *strategic_industry* are significantly positive in the regression of non-SOE firms.

In summary, SOEs and firms with many employees are more likely to have a party secretary or a powerful party secretary than are other firms. However, I do not find significant results regarding whether strategic industries are likely to have a party secretary.

5. Personal characteristics of party secretaries

I use the following model to study the personal characteristics of party secretaries:

$$Logistic(Party\_secretary) = f(\alpha_0 + \beta_1 Current\ or\ ex-government\ bureacrats + \beta_2 Age + \beta_3 CPA + \beta_4 Lawyer + \beta_5 Education + \beta_6 Woman + \varepsilon_i) \quad (3)$$

I use the logistic model to test for what types of persons are most likely to be a party secretary. My sample includes party secretaries, managers, and directors in Chinese listed firms from 2000 to 2004. The dependent variable *Party_secretary* is a binary dummy variable that is equal to 1 if an individual is a party secretary, and zero otherwise. The independent variables measure the personal characteristics, including *current or ex-government bureaucrats*, *age, CPA, lawyer, education, and woman*. The variables definitions are listed in Appendix A. Because I use panel data, I run the regression with year dummies and control for individual-cluster effects.

Table 2 shows that the party secretary is less professional and more politically connected than are CEOs and other managers.

Table 4 reports the regression results for the type of person that is most likely to be a party secretary for all party secretaries, managers and directors and for only party secretaries and CEOs. Consistent with my prediction, party secretaries are more likely to be persons with political connections who are less professional than CEOs and

other senior managers.

6. Party secretary and firm performance

I perform regression analyses to examine the effect of a party secretary on firm performance, employing several stock- and accounting-based measures to evaluate the performance of the listed firms with and without a party secretary. Table 5 presents the regression analysis using Tobin's Q, MTB, and ROA as the dependent variables. On the right-hand side of the regressions, I include *secretary_dummy* and *secretary_important*. I also include a few control variables: the leverage ratio, the log of total assets, sales growth, two dummies that proxy for centrally or provincially owned SOEs, the fraction of shares held by the largest shareholder, and the strategic industry dummy variable. I control for year and industry dummies and consider the cluster effect of the firm level.

Table 5 shows that all of the coefficients of *secretary_dummy* and *secretary_important* are negative. After controlling for the firm-cluster effect, only MTB is significantly negative. Firms with a party secretary or a powerful party secretary exhibit worse performance than do the other types of firms. Firm value is likely to be diluted in such firms since the CPC has multiple political and social objectives that may deviate from the interests of the firm (i.e., the shareholders).

Because governments are more likely to use SOEs than non-SOEs to achieve their political or social objectives, I expected to find more negative effects in SOEs than in non-SOEs. Because the choice to have a party secretary is voluntary on the part of the controlling shareholders and reflects their interests, individual or family owners should place more weight on firm performance. Moreover, if the presence of a party secretary reflects the firm's political connections, then a non-negative

correlation should be expected between the presence of a party secretary and firm performance. Table 5 reports the regression results for SOEs and non-SOEs separately, showing that the coefficient on *secretary_important* is not significant for non-SOE firms but is significantly negative for SOEs. After controlling for firm-cluster effects, the coefficient on *secretary_important* becomes only weakly significant for SOEs, with a p-value of 0.117.

As a robustness check, Table 5 also provides a treated model for *secretary_dummy* and a 2-SLS model for *secretary_important* in order to address the impact of self-selection on the results. I use the index of provincial-level market development (Fan and Wang, 2001, 2006) as the instrumental variable and find that this index is strongly correlated with the presence of a party secretary in a firm. Moreover this instrumental variable is not correlated with firm-specific performance. Two-step regression estimation obtains consistent estimates. Thus, there is some evidence that a party secretary has a negative impact on firm performance, but only in SOEs.

7. Characteristics of senior management

Senior managers are defined as the directors and executives whose biographical information is listed in the firms' financial statements. I exclude the chairman, CEO, and the party secretary if he or she also serves as a director or executive because appointments to these positions are mainly determined by the higher-level party organization, such as the party committee in the parent company. Following Fan et al. (2007), the dependent variables in these regressions are (1) the number of female managers, (2) the number of managers who have at least a Bachelor's degree, (3) the mean age of the managers, (4) the number of managers who are CPAs, (5) the number of managers who are lawyers, (6) the number of managers who are CPC members, and (7) the number of managers who are current or former government bureaucrats.

Professionalism is measured by the number of female managers, the number of managers with a Bachelor's degree, the age of managers, and the number of managers who are CPAs and lawyers. Political connections are measured by the number of managers who belong to the CPC and the number of managers with working experience in government bureaus. The independent variables in each regression are *secretary_dummy*, *secretary_imporant*, the size of the management team, the ownership-type dummy, the strategic-industry dummy, the leverage ratio, ROA, and the log of total assets. Following Hermalin and Weisbach (1988), Agrawal and Knoeber (2001), and Fan et al. (2007), I estimate a Poisson model using the maximum likelihood method, controlling for the industry and year dummies and using standard errors clustered by firm.

Appendix B.2 reports the correlation coefficients of the pairs of party secretary and managerial characteristics variables. In general, the two measures of party secretary correlate positively with the political reliability measures and negatively with the professionalism measures. Firms with a party secretary and a powerful party secretary are more likely to have older managers, managers who are CPC members, and managers with working experience in government bureaus, and are less likely to have female managers and managers who are CPAs or lawyers.

The overall regression results are reported in Table 6. The coefficient of *secretary_dummy* is significantly negative in the regression when *lawyer_manager* is the dependent variable and significantly positive when *comm_manager* is the dependent variable. There is a significantly positive correlation between *poli_manager* and *secretary_important.* Although the coefficients of *secretary_dummy* and *secretary_important* are insignificant in the other regressions, all regressions show the expected sign, which indicates management with a high

degree of political reliability but a low degree of professionalism in firms with a party secretary or a powerful party secretary.

In the regression reported in Table 6, I control for ownership type, as it may be assumed that a firm's governance structure depends primarily on who has the control rights. I classify the sample firms into two types: SOEs and non-SOEs. The party secretaries in non-SOEs are related negatively with managerial professionalism and positively with their political connections or political reliability. The presence of a party secretary has no incremental effect on management characteristics, although the coefficients show the predicted signs. One possible reason for this finding is that all of the SOEs in the sample had similar management teams with a low degree of professionalism and a high degree of political reliability, regardless of whether they had a party secretary.

In addition, I perform several sensitivity tests to redefine senior management in groups such as all directors and executives, including the CEO and chairman; all directors and executives, but separated into insiders and outsiders; only executives, including and excluding the CEO; only directors, including and excluding the chairman; only the CEO; and only the chairman, and obtained similar results in these tests.

In general, the results are consistent with my expectations: non-SOEs with a party secretary are more likely to have senior managers with political connections but a low degree of professionalism. However, there is no such significant result for SOEs, although the coefficients show the predicted signs.

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8. Labor productivity

I also examine the relationship between the presence of a party secretary and the level of labor productivity. I assume a typical Cobb-Douglas production relationship

between productivity and the two general categories of inputs, capital and labor. The translog production function is expressed as:

$$Ln(productivity) = \alpha_0 + \alpha_1 \ln Labor + \alpha_2 \ln capital \qquad (4).$$

This translog production function (4) is modified by adding variables that reflect firms' characteristics, for example, ownership structure or the presence of a party secretary.

$$\begin{aligned} Ln(productivity_i) = {} & \alpha_0 + \alpha_1 \ln Labor_i + \alpha_2 \ln capital_i + \alpha_3 Secretary_i + \alpha_4 Ownership_i \\ & + \alpha_5 \ln Labor_i * Secretary_i + \alpha_6 \ln capital_i * Secretary_i + \alpha_7 \ln Labor_i * Ownership_i \\ & + \alpha_8 \ln capital_i * Ownership_i + \text{Industry Dummies} + \text{Year Dummies} + \varepsilon_i \qquad (5) \end{aligned}$$

In (5), *i* is the firm subscript, and ε is the disturbance term. I capture the year- and industry-specific effects by introducing industry and year dummies. The estimates of the production function indicate the impact of a party secretary and type of ownership on total factor productivity. The interaction term between the party secretary and *ln Labor* provides a test of the effect of a party secretary on labor productivity; this effect is accounted for by its interaction with labor (α_5). I also include *ownership* as the control variable because different ownership types may affect firm productivity differently.

I measure productivity as *ln_sales*. Inputs to the production function are capital, measured by total PPE, and labor, proxied by the number of employees (Clark 1984; Bemmels 1987; Brunello 1992; and Moretti 2004). Clark (1984), Bemmels (1987) and Brunello (1992) used a similar model to investigate the way in which unions affect productivity, while Moretti (2004) studied the spillover effect of educated workers on firm productivity by separating workers into low and high levels of human capital.

Table 7 shows the relationship between the presence of a party secretary and labor productivity. The coefficient of *ln_employees* in firms with a party secretary is

comparatively lower than that in firms without one. To examine the difference, I run a regression that includes the interaction variables. The interactions of both *secretary_dummy*ln_employees* and *secretary_important*ln_employees* are significantly negative.

In general, SOEs or firms in regions with a high unemployment rate tend to have extra constraints on the decision to lay off surplus workers; an excess number of employees should lead to a low level of employee productivity in these firms. To verify this suggestion, I separate the sample into two sub-samples of firms, SOEs and non-SOEs and firms in high- and low-unemployment regions, according to whether the provincial unemployment rates are in the top or bottom one-third of the sample. Table 7 shows that, consistent with my hypothesis, the negative association between the presence of a party secretary and the level of labor productivity is much more pronounced in SOEs and in firms located in regions of high unemployment.

In summary, firms with a party secretary have lower labor productivity than other firms do, especially among SOEs and in regions with high unemployment rates. An excess number of employees may be the reason for this low level of labor productivity.

9. Conclusion

This study analyzes the political control of the Communist Party on China's enterprises. I examine which types of firms are more likely to have a party secretary and, by extension, when that party secretary has more power by holding a key management position, such as chairman or CEO. I also study the personal characteristics of party secretaries. In addition, I investigate the impact of a party secretary on a firm's performance and study the relationship of the presence of a party secretary in a firm and the characteristics of senior management and the influence of a

party secretary on labor productivity.

I find that SOEs and firms with many employees are more likely to have a party secretary and a powerful party secretary than are other firms. Party secretaries are more likely to have more political reliability but less professionalism, compared to CEOs and other senior managers. The presence of a party secretary has a negative implication on firm performance, but only in SOEs. Although non-SEOs with a party secretary are more likely to have senior managers with political connections, but a lower degree of professionalism, I do not find significant result for SOEs. The firms with a party secretary also have lower labor productivity than that of other firms, especially in SOEs and in regions with high unemployment rates; an excess number of employees may be the reason for the lower degree of labor productivity. Overall, the results of this study suggest that party secretaries are an essential source of political control in Chinese listed firms. By influencing the appointment and dismissal of top managers and labor productivity, these secretaries have a negative impact on firm performance.

These results have several implications for the study of government intervention in less developed countries, including China. First, I investigate the third source of political control in China's listed firms: the CPC. (The other two are state shareholding and government administration.) To date, no other detailed analyses of CPC institutions in the governance of these firms have been carried out, so this research is the first to study in detail the influence of a party secretary in Chinese enterprises and to be supported by empirical evidence. Second, as long as politicians and bureaucrats enjoy unchallengeable political authority, the high political costs will have an effect on the behavior of both SOEs and non-SOEs. The party secretary's role in the governing institutions of the country's listed firms creates several pronounced

governance problems. Finally, I identify the channels through which the party secretary may influence firm performance, which distinguishes the work from other firm-performance studies.

There are at least two important caveats to be made with regard to an interpretation of this study's findings. First, the evidence is based on one country, so it may not be applicable to others. This limitation may be particularly severe because China is unique in many respects, and prior research has found that existing theories are often unable to explain many Chinese economic phenomena (Allen, 2005). Moreover, caution should be exercised because of the specific focus on the political control that party secretaries exert over China's listed firms. However, China has become a formidable force in the world's economy, and understanding its successes and failures in the face of economic transition without the introduction of a pluralistic and democratic political system should help us understand the interdependence of economic and political reform. A second limitation is the possibility that the party secretary and firm performance are determined jointly and are in equilibrium. The fact that a party secretary has a negative impact on a firm does not necessarily lead to a conclusion of causality. However, the two-stage models lessen the problem. I also identify that the party secretary might influence the appointment and dismissal of top managers and also labor productivity.

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Table 1. Panel A. Sample Distribution

This table presents the party secretary information for all the listed firms over 2000 and 2004.

Year		2000		2001		2002		2003		2004		total	
		Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Firms have party secretary	No split of Secretary/Chairman/CEO	54	5%	53	5%	55	5%	59	5%	63	5%	284	5%
	Party secretary is chairman of board	169	16%	201	18%	220	18%	240	19%	264	19%	1094	18%
	Party Secretary is CEO	70	7%	73	6%	70	6%	72	6%	78	6%	363	6%
	Party Secretary is the chairman of supervisor committee	7	1%	8	1%	10	1%	9	1%	11	1%	45	1%
	Party secretary is executive, director, or supervisor	262	25%	288	25%	303	25%	325	26%	320	23%	1498	25%
	Others	26	2%	29	3%	30	2%	31	2%	42	3%	158	3%
Firms do not have party secretary		111	10%	116	10%	130	11%	141	11%	164	12%	662	11%
Information is not available		361	34%	371	33%	389	32%	390	31%	421	31%	1932	32%
Total		1060	100%	1139	100%	1207	100%	1267	100%	1363	100%	6036	100%

Table 1. Panel B. distribution of sample by ownership

	Secretary_dummy		
Ownership_soe	0	1	Total
0	235	571	806
1	330	2,493	2823
Total	565	3,064	3,629

Note: I exclude the sample whose party secretary information and ownership type are not available.

Table 1. Panel C. Sector distribution of the sample

csrc_code	Industry	Frequency	Percent
A	Agriculture	71	1.73%
B	Mining	55	1.34%
C	Manufacturing	2,311	56.31%
C0	Food, Beverage	176	4.29%
C1	Textile, Apparel, Leather	154	3.75%
C2	Wood Products	8	0.19%
C3	Paper, Printing	74	1.80%
C4	Petroleum, Chemical Products, Rubber, Plastics	450	10.96%
C5	Electronic Equipment	129	3.14%
C6	Metal, Nonmetallic Mineral Products	367	8.94%
C7	Machinery, Equipment, Meters	613	14.94%
C8	Medicine, Biological Products	287	6.99%
C9	Other Manufacturing	53	1.29%
D	Electricity, Gas, Water Supply	163	3.97%
E	Construction	67	1.63%
F	Transportation & Storage	187	4.56%
G	Information, Technology	215	5.24%
H	Wholesale and Retail Trade	297	7.24%
I	Finance and Insurance	30	0.73%
J	Real Estate	150	3.65%
K	Social Services	96	2.34%
L	Transmission, Culture	33	0.80%
M	Conglomerate	429	10.45%
	Total	4,104	100%

Note: The classification is based on *Index of Industrial Distribution of List Companies*, Issued by the CSRC on April 3rd, 2001.
I exclude the sample whose party secretary information is not available and whose industry group I cannot identify.

Table 2. Summary Statistics

Panel A reports the mean and median statistics of the financial characteristics for the sample during 2000-2004. The table also reports the statistics for two sub-samples of firms sorted by whether or not they have a party secretary. The definitions of the variables are given in Appendix A. Test statistics of the differences in the mean and median are provided.

Panel A. Financial Numbers

Variable	All	Firm without Party Secretary	Firm with Party Secretary	P_value (difference)
	(1)	(2)	(3)	(4)
Log_totalassets	21.1285	20.7596	21.1994	**0.0000**
	(20.9987)	(20.6285)	(21.0678)	**0.0000**
	[4104]	[662]	[3442]	
Ln_employees	7.3694	6.7368	7.4911	**0.0000**
	(7.4281)	(6.8357)	(7.5299)	**0.0000**
	[4104]	[662]	[3336]	
leverage	0.2458	0.2530	0.2444	0.2285
	(0.2302)	(0.2256)	(0.2306)	0.8652
	[4104]	[662]	[3442]	
Sale_growth	1.2973	1.5794	1.2431	**0.0000**
	(0.2746)	(0.3882)	(0.2656)	**0.0000**
	[4104]	[662]	[3442]	
ROA	0.02880	0.0218	0.0302	**0.0121**
	(0.0327)	(0.0299)	(0.0334)	0.1068
	[4104]	[662]	[3442]	
MTB	2.3993	2.6605	2.3490	**0.0005**
	(1.7262)	(1.8582)	(1.7130)	**0.0039**
	[4104]	[662]	[3442]	
Tobin_Q	1.5596	1.6517	1.5419	**0.0002**
	(1.3344)	(1.3806)	(1.3264)	**0.0051**
	[4104]	[662]	[3442]	
Ln_sales	20.3259	19.7208	20.4422	**0.0000**
	(20.2535)	(19.6956)	(20.3322)	**0.0000**
	[4104]	[662]	[3442]	
Ln_sales_per_employee	12.9564	12.9840	12.9511	0.5847
	(12.8524)	(12.9032)	(12.8317)	0.2347
	[4104]	[662]	[3442]	
Ln_PPE	19.8906	19.4540	19.9746	**0.0000**
	(19.8089)	(19.4212)	(19.8784)	**0.0000**
	[4104]	[662]	[3442]	

Panel B reports the mean statistics of party secretary, CEO, senior managers and directors' characteristics during 2000-2004. The definitions of the variables are given in Appendix A. Test statistics of the differences in the mean are provided.

Panel B Party secretary, CEO, Senior Managers and Directors' characteristics

	Party Secretary		CEO		P_value for difference in mean (Party Secretary Versus CEO)	Senior Managers and Directors		P_value for difference in mean (Party Secretary Versus Senior Managers and Directors)
	Mean	N	Mean	N		Mean	N	
Woman	0.078	3314	0.042	5896	**0.0000**	0.102	101252	**0.0000**
Age	49.476	3301	44.709	5843	**0.0000**	45.653	99463	**0.0000**
Education	2.024	3223	2.159	5689	**0.0000**	2.082	94514	**0.0004**
CPA	0.002	3329	0.007	5875	**0.0000**	0.048	99411	**0.0000**
Lawyer	0.004	3329	0.004	5875	0.8142	0.020	99411	**0.0000**
CPC member	1	3442	0.403	5875	**0.0000**	0.328	99411	**0.0000**
Current or ex-government bureaucrats	0.427	3329	0.312	5875	**0.0000**	0.333	99411	**0.0000**

Table 3. The existence of a party secretary or a powerful party secretary

Panel A reports the regression results for the existence of a party secretary or a powerful party secretary. The variable definitions are listed in the Appendix A. Due to incomplete data for some items, the total number of observations varies across the estimation models.

Panel B reports the some results for the robust tests. In model (1) and (2), I add the interaction terms of *ln_employees* and *ownership_soe*. In model (3) and (4), I use industry-level of employee number to replace firm-level of employees.

Panel A

	Logit Model: Secretary_dummy(0,1)				Ordered Logit Model: Secretary_important	
	(1)		(2)		(3)	(4)
	Coefficient	Marginal Effect	Coefficient	Marginal Effect	Coefficient	Coefficient
ownership_soe	1.118***	0.155***	1.055***	0.139***	0.644***	0.627***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.002)
strategic_industry	1.057	0.084	0.546	0.048	0.636	0.209
	(0.336)	(0.177)	(0.655)	(0.591)	(0.218)	(0.735)
ln_employees	0.351***	0.038***	0.373***	0.039***	0.121*	0.116**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.083)	(0.049)
bh_list	-0.239	-0.028	0.055	0.005	-0.541	-0.488
	(0.813)	(0.828)	(0.957)	(0.956)	(0.113)	(0.139)
ownership_percent	-0.004	-0.0004	-0.005	-0.0005	-0.006	-0.004
	(0.529)	(0.526)	(0.428)	(0.429)	(0.114)	(0.348)
log_totalassets	0.324***	0.035***	0.271**	0.028***	0.090	0.085
	(0.006)	(0.008)	(0.048)	(0.046)	(0.307)	(0.263)
Constant	-9.971***		-10.729***			
	(0.000)		(0.000)			
Year Dummy	Yes		Yes		Yes	Yes
Industry Dummy	Yes		Yes		Yes	Yes
Region Dummy	No		Yes		No	Yes
Control for Cluster	Region		Firm		Region	Firm
Observations	3549		3327		3628	3567
Pseudo R^2	0.1286		0.1855		0.0257	0.0474

Robust p values in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Panel B. Robust tests

	(1)	(2)	(3)	(4)
	secretary_dummy	secretary_important	secretary_dummy	secretary_important
ownership_soe	2.360*	3.762***	1.077***	0.683***
	(0.051)	(0.000)	(0.000)	(0.001)
lg_employee_number	0.501***	0.458***		
	(0.001)	(0.000)		
median_employee_number			0.451**	0.299**
			(0.035)	(0.020)
ln_employees *ownership_SOE	-0.190	-0.437***		
	(0.280)	(0.001)		
strategic_industry	0.508	0.088	0.164	0.083
	(0.688)	(0.887)	(0.695)	(0.710)
bh_list	0.128	-0.349	0.341	-0.455
	(0.905)	(0.307)	(0.711)	(0.169)
ownership_percent	-0.005	-0.003	-0.005	-0.004
	(0.466)	(0.481)	(0.433)	(0.310)
log_totalassets	0.268*	0.083	0.458***	0.167**
	(0.052)	(0.271)	(0.000)	(0.012)
Constant	-11.618***		-15.382***	
	(0.000)		(0.000)	
Year Dummy	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	No	No
Region Dummy	Yes	Yes	Yes	Yes
Control for Cluster	Firm	Firm	Firm	Firm
Observations	3327	3567	3345	3567
Pseudo R^2	0.1869	0.0524	0.128	0.037

Robust p values in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 4. Party secretary's personal characteristics

Table 4 reports the results for what type of persons is more likely to be a party secretary. The dependent variable is *party_secretary*, which equals to 1 if the person is a party secretary and zero otherwise. Personal characteristics are included as independent variables. In column (1), the sample includes all party secretary, managers and directors. In Column (2), the sample only includes party secretaries and CEOs. The variables definitions are listed in the Appendix A.

	Logit Model: Party_secretary(0,1)	
	(1)	(2)
Current or ex-government bureaucrats	0.280***	0.443***
	(0.000)	(0.000)
Age	0.044***	0.097***
	(0.000)	(0.000)
CPA	-3.135***	-1.666
	(0.000)	(0.100)
Lawyer	-1.487***	0.465
	(0.008)	(0.432)
Education	0.040	0.090
	(0.289)	(0.101)
Woman	-0.171	0.660***
	(0.218)	(0.001)
Constant	-5.535***	-5.594***
	(0.000)	(0.000)
Year Dummy	Yes	Yes
Control for Cluster	Individual	Individual
Observations	97030	8871
Pseudo R^2	0.0329	0.0888

Robust p values in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 5. Party secretary and firm performance

Table 5 reports the results of the association between the existence of a party secretary or a powerful party and firm performance. In Panel A, *secretary_dummy* is included as the independent variable. In Panel B, *secretary_important* is included as the independent variable. In Panel C, I classify the sample firms into two types: SOEs and non-state firms (or non-SOEs). In Panel D, I use the two-stage regression models. I use the index of provincial-level market development (Fan and Wang, 2001, 2006) as the instrumental variable. The variables definitions are listed in the Appendix A.

Panel A

	(1)	(2)	(3)	(4)	(5)	(6)
	Tobin_Q	MTB	ROA	Tobin_Q	MTB	ROA
secretary_dummy	**-0.046***	**-0.211*****	**-0.003**	**-0.046**	**-0.211***	**-0.003**
	(0.055)	**(0.003)**	**(0.238)**	**(0.217)**	**(0.064)**	**(0.398)**
log_totalassets	-0.143***	-0.228***	0.027***	-0.143***	-0.228***	0.027***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
leverage	0.792***	4.526***	-0.115***	0.792***	4.526***	-0.115***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
sale_growth	0.058***	0.129***	0.008***	0.058***	0.129***	0.008***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
province_soe	0.015	0.028	-0.007***	0.015	0.028	-0.007**
	(0.469)	(0.652)	(0.003)	(0.603)	(0.740)	(0.024)
central_soe	0.111***	0.256***	-0.012***	0.111***	0.256**	-0.012***
	(0.000)	(0.001)	(0.000)	(0.005)	(0.034)	(0.004)
strategic_industry	-0.086	-0.119	-0.004	-0.086	-0.119	-0.004
	(0.227)	(0.510)	(0.634)	(0.370)	(0.596)	(0.775)
ownership_percent	-0.003***	-0.010***	0.000**	-0.003***	-0.010***	0.000*
	(0.000)	(0.000)	(0.017)	(0.000)	(0.000)	(0.089)
Constant	4.850***	7.092***	-0.496***	4.850***	7.092***	-0.496***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Year Dummy	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes	Yes	Yes
Control for cluster	No	No	No	firm	firm	firm
Observations	3881	3881	3881	3881	3881	3881
R-squared	0.398	0.387	0.284	0.398	0.387	0.284

Panel B

	(1)	(2)	(3)	(4)	(5)	(6)
	Tobin_Q	MTB	ROA	Tobin_Q	MTB	ROA
secretary_important	**-0.006**	**-0.061*** **	**-0.000**	**-0.006**	**-0.061***	**-0.000**
	(0.401)	**(0.003)**	**(0.591)**	**(0.586)**	**(0.060)**	**(0.703)**
log_totalassets	-0.145***	-0.232***	0.027***	-0.145***	-0.232***	0.027***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
leverage	0.796***	4.526***	-0.115***	0.796***	4.526***	-0.115***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
sale_growth	0.058***	0.130***	0.008***	0.058***	0.130***	0.008***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
province_soe	0.011	0.023	-0.008***	0.011	0.023	-0.008**
	(0.583)	(0.705)	(0.002)	(0.691)	(0.779)	(0.019)
central_soe	0.105***	0.237***	-0.012***	0.105***	0.237**	-0.012***
	(0.000)	(0.002)	(0.000)	(0.007)	(0.046)	(0.003)
strategic_industry	-0.091	-0.126	-0.004	-0.091	-0.126	-0.004
	(0.204)	(0.484)	(0.603)	(0.352)	(0.575)	(0.756)
ownership_percent	-0.003***	-0.010***	0.000**	-0.003***	-0.010***	0.000*
	(0.000)	(0.000)	(0.018)	(0.000)	(0.000)	(0.090)
Constant	4.881***	7.155***	-0.494***	4.881***	7.155***	-0.494***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Year Dummy	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes	Yes	Yes
Control for cluster	No	No	No	firm	firm	firm
Observations	3881	3881	3881	3881	3881	3881
R-squared	0.397	0.387	0.284	0.397	0.387	0.284

Panel C. Stratified subsamples by ownership

	Dependent variable: MTB			
	SOE		Non-SOE	
	(1)	(2)	(3)	(4)
secretary_important	**-0.064** **	**-0.064**	**-0.045**	**-0.045**
	(0.016)	**(0.117)**	**(0.307)**	**(0.431)**
log_totalassets	-0.253***	-0.253***	-0.741***	-0.741***
	(0.000)	(0.000)	(0.000)	(0.000)
leverage	3.866***	3.866***	5.418***	5.418***
	(0.000)	(0.000)	(0.000)	(0.000)
sale_growth	0.150***	0.150***	0.125***	0.125**
	(0.000)	(0.000)	(0.010)	(0.020)
strategic_industry	0.078	0.078	-0.058	-0.058
	(0.641)	(0.721)	(0.881)	(0.897)
ownership_percent	-0.011***	-0.011***	-0.021***	-0.021***
	(0.000)	(0.000)	(0.000)	(0.000)
Constant	8.113***	8.113***	23.055***	23.055***
	(0.000)	(0.000)	(0.000)	(0.000)
Year Dummy	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes
Control for cluster	No	Firm	No	firm
Observations	2823	2823	805	805
R-squared	0.366	0.366	0.469	0.469

Robust p values in parentheses

*significant at 10%; **significant at 5%; ***significant at 1%

Panel D. two-stage regression model

	Treatment-effect Model				2SLS regression			
	Stage One	Stage two			Stage One	Stage two		
		(1)	(2)	(3)		(4)	(5)	(6)
	Secretary_dummy	Tobin_Q	MTB	ROA	secretary_important	Tobin_Q	MTB	ROA
secretary_dummy		**-0.621*** **	**-1.879*** **	**-0.006**				
		(0.000)	**(0.000)**	**(0.556)**				
secretary_important						**-0.467** **	**-1.147** **	**-0.018**
						(0.010)	**(0.027)**	**(0.255)**
Market Development	**-0.092*** **				**-0.018***			
	(0.001)				**(0.065)**			
ln_employees	0.345***				0.098***			
	(0.000)				(0.000)			
bh_list	-0.236				-0.294**			
	(0.627)				(0.025)			
ownership_soe	1.109***				0.395***			
	(0.000)				(0.000)			
log_totalassets	0.341***	-0.141***	-0.226***	0.026***	0.075***	-0.115***	-0.184**	0.028***
	(0.000)	(0.000)	(0.061)	(0.014)	(0.002)	(0.001)	(0.048)	(0.000)
regulated_industry	0.982**	0.085	0.328	0.456	0.317**	0.168	0.485	0.006
	(0.013)	(0.352)	(0.620)	(0.361)	(0.032)	(0.311)	(0.234)	(0.699)
ownership_percent	-0.004	-0.003***	-0.004	-0.003	-0.003**	-0.004***	-0.013***	0.000
	(0.183)	(0.000)	(0.140)	(0.099)	(0.022)	(0.001)	(0.000)	(0.346)
leverage		0.567***	3.904***	-0.126***		0.369**	3.461***	-0.134***
		(0.000)	(0.000)	(0.000)		(0.029)	(0.000)	(0.000)
sale_growth		0.056***	0.131***	0.007***		0.047***	0.110***	0.007***
		(0.000)	(0.000)	(0.000)		(0.000)	(0.000)	(0.000)
province_soe		0.119***	0.294***	-0.006		0.210**	0.467*	0.001
		(0.001)	(0.009)	(0.157)		(0.024)	(0.080)	(0.927)
central_soe		0.197***	0.491***	-0.012**		0.225***	0.494**	-0.008
		(0.000)	(0.001)	(0.017)		(0.009)	(0.037)	(0.206)
Constant	-9.897***	4.678***	7.072***	0.034	-0.041	4.694***	7.295***	-0.508***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.945)	(0.000)	(0.000)	(0.000)
Year Dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control for cluster	No	Firm	Firm	Firm	No	Firm	Firm	Firm
Observations	3563	3563	3563	3563	3563	3563	3563	3563

Robust p values in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 6. Senior managers' and directors' characteristics

Table 6 reports the results of the association between the existence of a party secretary or a powerful party and the senior managers' and directors' characteristics. In Panel A, *secretary_dummy* is included as the independent variable. In Panel B, *secretary_important* is included as the independent variable. In Panel C and Panel D, I classify the sample firms into two types: SOEs and non-state firms (or non-SOEs). The variables definitions are listed in the Appendix A.

Panel A

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	gend_manager	college_manager	manager_age	cpa_manager	lawyer_manager	comm_manager	poli_manager
secretary_dummy	**-0.058**	**-0.037**	**0.008**	**0.031**	**-0.262****	**0.248*****	**0.04**
	(0.413)	**(0.322)**	**(0.250)**	**(0.786)**	**(0.041)**	**(0.002)**	**(0.524)**
num_man_direct	0.071***	0.081***	-0.001*	0.055***	0.053***	0.078***	0.081***
	(0.000)	(0.000)	(0.065)	(0.000)	(0.000)	(0.000)	(0.000)
ownership_soe	-0.152**	0.036	0.032***	-0.238**	0.054	0.218***	0.037
	(0.014)	(0.283)	(0.000)	(0.011)	(0.688)	(0.001)	(0.444)
strategic_industry	-0.313	-0.014	-0.001	-0.26	-0.112	-0.043	-0.06
	(0.101)	(0.891)	(0.969)	(0.319)	(0.720)	(0.857)	(0.515)
log_totalassets	-0.080**	0.031**	0.023***	-0.200***	0.073	-0.046	0.03
	(0.029)	(0.025)	(0.000)	(0.000)	(0.287)	(0.100)	(0.216)
leverage	-0.213	0.059	-0.028**	0.478**	-0.096	0.389***	0.017
	(0.221)	(0.415)	(0.039)	(0.036)	(0.761)	(0.005)	(0.889)
ROA	-0.199	-0.015	-0.042	0.463	-0.636	0.17	0.066
	(0.591)	(0.925)	(0.136)	(0.320)	(0.302)	(0.508)	(0.790)
Constant	1.719**	-0.089	3.354***	0.78	-4.012***	0.523	-0.431
	(0.030)	(0.785)	(0.000)	(0.589)	(0.006)	(0.463)	(0.406)
Year Dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control for cluster	Firm	Firm	Firm	Firm	Firm	Firm	Firm
Observations	3629	3629	3629	3629	3629	3629	3629

Panel B

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	gend_manager	college_manager	manager_age	cpa_manager	lawyer_manager	comm_manager	poli_manager
secretary_important	**-0.016**	**-0.017**	**0.002**	**0.004**	**-0.097****	**0.044***	**0.039***
	(0.518)	**(0.170)**	**(0.448)**	**(0.901)**	**(0.022)**	**(0.051)**	**(0.060)**
num_man_direct	0.071***	0.081***	-0.001*	0.056***	0.053***	0.079***	0.081***
	(0.000)	(0.000)	(0.072)	(0.000)	(0.000)	(0.000)	(0.000)
ownership_soe	-0.154**	0.037	0.033***	-0.235**	0.053	0.230***	0.029
	(0.013)	(0.268)	(0.000)	(0.012)	(0.691)	(0.000)	(0.548)
strategic_industry	-0.315	-0.013	-0.00007	-0.256	-0.111	-0.028	-0.07
	(0.101)	(0.899)	(0.996)	(0.326)	(0.722)	(0.906)	(0.451)
log_totalassets	-0.082**	0.031**	0.023***	-0.198***	0.069	-0.038	0.027
	(0.026)	(0.026)	(0.000)	(0.000)	(0.312)	(0.178)	(0.253)
leverage	-0.214	0.057	-0.028**	0.477**	-0.09	0.377***	0.026
	(0.218)	(0.433)	(0.037)	(0.037)	(0.776)	(0.006)	(0.832)
ROA	-0.195	-0.014	-0.043	0.456	-0.614	0.143	0.072
	(0.599)	(0.928)	(0.127)	(0.329)	(0.318)	(0.580)	(0.771)
Constant	1.696**	-0.25	3.297***	-12.081***	-18.281***	1.13	-0.378
	(0.021)	(0.454)	(0.000)	(0.000)	(0.000)	(0.110)	(0.435)
Year Dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control for cluster	Firm	Firm	Firm	Firm	Firm	Firm	Firm
Observations	3629	3629	3629	3629	3629	3629	3629

Robust p values in parentheses

*significant at 10%; **significant at 5%; ***significant at 1%

Panel C. SOEs

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	gend_manager	college_manager	manager_age	cpa_manager	lawyer_manager	comm_manager	poli_manager
secretary_important	**-0.024**	**-0.011**	**-0.00002**	**0.005**	**-0.068**	**0.038**	**0.028**
	(0.459)	**(0.435)**	**(0.994)**	**(0.916)**	**(0.169)**	**(0.148)**	**(0.231)**
num_man_direct	0.071***	0.080***	-0.002***	0.055***	0.056***	0.075***	0.078***
	(0.000)	(0.000)	(0.003)	(0.000)	(0.000)	(0.000)	(0.000)
strategic_industry	-0.442**	0.017	-0.004	-0.227	-0.01	-0.072	-0.058
	(0.026)	(0.873)	(0.759)	(0.406)	(0.975)	(0.781)	(0.542)
log_totalassets	-0.078*	0.038**	0.025***	-0.232***	0.053	-0.033	0.019
	(0.073)	(0.012)	(0.000)	(0.000)	(0.483)	(0.286)	(0.472)
leverage	-0.232	0.061	-0.038***	0.639**	-0.077	0.334**	-0.059
	(0.259)	(0.446)	(0.009)	(0.025)	(0.832)	(0.032)	(0.688)
ROA	-0.395	-0.023	-0.001	0.305	-0.213	0.167	0.381
	(0.348)	(0.900)	(0.975)	(0.613)	(0.789)	(0.588)	(0.213)
Constant	1.745*	-0.139	3.313***	2.709**	-4.531***	1.138*	-0.18
	(0.051)	(0.683)	(0.000)	(0.025)	(0.002)	(0.092)	(0.742)
Year Dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control for cluster	Firm	Firm	Firm	Firm	Firm	Firm	Firm
Observations	2823	2823	2823	2823	2823	2823	2823

Panel D. non-SOEs

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	gend_manager	college_manager	manager_age	cpa_manager	lawyer_manager	comm_manager	poli_manager
secretary_important	**-0.011**	**-0.031**	**0.006**	**-0.015**	**-0.190****	**0.071***	**0.071***
	(0.776)	**(0.190)**	**(0.106)**	**(0.781)**	**(0.015)**	**(0.074)**	**(0.062)**
num_man_direct	0.068***	0.084***	0.003*	0.059***	0.036	0.108***	0.095***
	0.000	0.000	(0.070)	(0.006)	(0.206)	0.000	0.000
strategic_industry	-0.187	-0.057	0.004	-1.157	-16.002***	-0.246	-0.152
	(0.518)	(0.559)	(0.897)	(0.152)	0.000	(0.420)	(0.646)
log_totalassets	-0.063	0.022	0.018**	-0.13	0.192	-0.06	0.04
	(0.295)	(0.517)	(0.016)	(0.165)	(0.173)	(0.401)	(0.409)
leverage	-0.068	-0.059	-0.004	0.103	-0.416	0.609**	0.154
	(0.810)	(0.706)	(0.896)	(0.780)	(0.492)	(0.041)	(0.434)
ROA	0.444	-0.022	-0.109**	0.148	-1.532*	0.328	-0.6
	(0.510)	(0.942)	(0.027)	(0.830)	(0.091)	(0.491)	(0.111)
Constant	1.104	-0.349	3.489***	-0.069	7.931***	0.247	-1.002
	(0.414)	(0.635)	0.000	(0.978)	(0.002)	(0.878)	(0.364)
Year Dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Control for cluster	Firm	Firm	Firm	Firm	Firm	Firm	Firm
Observations	806	806	806	806	806	806	806

Robust p values in parentheses

*significant at 10%; **significant at 5%; ***significant at 1%

Table 7. Labor productivity

Table 7 shows the association of a party secretary and labor productivity. Columns (1) and (2) of Panel A illustrate the regression results for firms with or without a party secretary separately. In Columns (3) and (4), the interaction variables are included. In Panel B, I separate the sample into two sub-samples of firms, SOEs and non-SOEs and firms in high- and low-unemployment regions, according to whether the provincial unemployment rates belong to the top or bottom one-third of my sample. The variables definitions are listed in the Appendix A.

Panel A. Full sample				
	Dependent Variable: ln_sales			
	(1)	(2)	(3)	(4)
	Firm without Party Secretary	Firm with Party Secretary	All firms	
ln_employees	**0.191*** **	**0.068*** **	**0.197*** **	**0.206*** **
	(0.000)	**(0.000)**	**(0.007)**	**(0.002)**
ln_PPE	0.584***	0.658***	0.654***	0.670***
	(0.000)	(0.000)	(0.000)	(0.000)
secretary_dummy			0.176	
			(0.903)	
secretary_dummy*ln_employees			**-0.138***	
			(0.052)	
secretary_dummy*ln_PPE			0.054	
			(0.521)	
secretary_important				0.104
				(0.810)
secretary_important*ln_employees				**-0.053** **
				(0.014)
secretary_important*ln_PPE				0.016
				(0.531)
ownership_soe			-0.971	-0.826
			(0.341)	(0.414)
ownership_soe*ln_PPE			0.057	0.054
			(0.302)	(0.324)
ownership_soe*ln_employees			-0.002	-0.010
			(0.978)	(0.868)
Constant	7.078***	6.793***	6.161***	5.891***
	(0.000)	(0.000)	(0.000)	(0.000)
Year Dummy			Yes	Yes
Industry Dummy			Yes	Yes
Control for cluster			Yes	Yes
Observations	662	3442	3629	3629
R-squared	0.471	0.461	0.574	0.571

p values in parentheses

*significant at 10%; **significant at 5%; ***significant at 1%

Panel B. Partition by ownership and regional unemployment rate

	Dependent Variable: ln_sales			
	(1)	(2)	(3)	(4)
	non-state firms	SOEs	Unemployment Rate>1/3	Unemployment Rate<1/3
ln_employees	0.166**	0.206***	0.134*	0.471***
	(0.027)	(0.002)	(0.062)	(0.000)
secretary_important*ln_employees	**-0.055**	**-0.053****	**-0.055****	**-0.047**
	(0.105)	**(0.049)**	**(0.050)**	**(0.223)**
secretary_important	0.516	-0.029	0.117	-0.461
	(0.369)	(0.959)	(0.870)	(0.489)
secretary_important*ln_PPE	-0.004	0.021	0.015	0.043
	(0.909)	(0.503)	(0.660)	(0.256)
ln_PPE	0.658***	0.711***	0.793***	0.390***
	(0.000)	(0.000)	(0.000)	(0.000)
ownership_soe			0.271	-2.533
			(0.859)	(0.134)
ownership_soe*ln_PPE			0.012	0.212**
			(0.864)	(0.017)
ownership_soe*ln_employees			-0.038	-0.207
			(0.573)	(0.114)
Constant	6.791***	4.433***	3.627**	9.871***
	(0.000)	(0.002)	(0.028)	(0.000)
Year Dummy	Yes	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes	Yes
Cotrol for cluster	Yes	Yes	Yes	Yes
Observations	806	2823	1372	1146
R-squared	0.561	0.573	0.615	0.591

Robust p values in parentheses
*significant at 10%; **significant at 5%; ***significant at 1%

Appendix A:

This table provides the definitions of the variables employed in the study.

Variable	Definition
secretary_dummy	a dummy variable: 1 if a firm has party secretary; zero otherwise.
secretary_important	an ordered variable: 0 if a firm has no party secretary;1 if the party secretary holds no other position in the firm;2 if the party secretary is also a director, senior manager, or supervisor; 3 if the party secretary is also the chairman or CEO; 4 if the party secretary is also the chairman and CEO
ownership_SOE	a dummy variable: 1 if the ultimate owner is a government agency or state-owned enterprise; zero otherwise.
strategic_industry	a dummy variable: 1 if the firm belongs to the following industry: "B01" Coal Mining;"B03"Oil and Gas Extraction;"D01"Electric, Gas, & Sanitary Services;"F01"Railroad Transportation;"I01" Depository Insitutions;"I21"Security & Commodity Brokers, Dealers, Exchanges & Services ;"I31" Trusts,"J01"Real estate and Construction,"K01"Utilities Services,"L10"Media(CSRC industry Classification);0 otherwise.
ln_employees	log of employees' number
bh_list	a dummy variable : 1 if a firm also issue B- or H- shares;zero otherwise
central_soe	a dummy varialbe: 1 if the ultimate owner is central government; zero otherwise
province_soe	a dummy varialbe: 1 if the ultimate owner is local government; zero otherwise
ownership_percent	ownership percent of the largest shareholder
log_totalassets	log of total assets
leverage	(short_term_debts+long_term_debts)/total_assets
ln_PPE	log of total fixed assets
sale_growth	average sales growth in three years (t-1,t,t+1)
Tobin_Q	(total liabilities+market value of tradable shares+book value of non-tradable shares)/total_assets
MTB	(market_value_of_tradable_shares+book value of non-tradable shares)/total_shareholders_equity
ROA	operating income/total Assets
gend_manager	number of female managers and directors
college_manager	number of managers and directors who have at least a bachelor degree
manager_age	mean age of managers and directors
cpa_manager	number of managers and directors who are or were CPAs
lawyer_manager	number of managers and directors who are or were lawyers
comm_manager	number of managers and directors who are CPC members
poli_manager	number of managers and directors who are current or former government bureaucrats
num_man_direct	number of managers and directors whose biographical information is disclosed in financial statements
median_employee_number	industry median level of number of employees
ln_sales	log of sales
ln_sales_per_employee	ln(sales/number of employees)
current or ex-government bureaucrats	a dummy variable: 1 if the person is current or former government bureaucrat; zero otherwise

age	the person's age
CPA	a dummy variable: 1 if the person is or was CPA; zero otherwise
lawyer	a dummy variable: 1 if the person is or was lawyer; zero otherwise
education	an ordered variable: 4 equals a doctoral degree, 3 a master's degree, 2 a university degree, 1 a junior college degree, and 0 below junior college.
woman	a dummy variable: 1 if the person is woman; zero otherwise
party_secretary	a dummy variable: 1 if the person is the party secretary; zero otherwise
Market development	index constructed to be inversely related to the extent that government influences the market price of commodities

Appendix B.1:

This table reports the Pearson correlation coefficients between pairs of the variables of party secretary and financial numbers. *denotes significance at the 5% percent level.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(1) Secretary_dummy	1																
(2) Secretary_important	0.8208*	1															
(3) central_soe	0.0735*	-0.014	1														
(4) ownership_SOE	0.2002*	0.1631*	0.2457*	1													
(5) strategic_industry	0.0164	0.0096	0.0131	0.0469	1												
(6) bh_list	0.04	0.0104	0.1091*	0.0557	-0.0082	1											
(7) ownership_percent	0.0562*	0.0222	0.1082*	0.2394*	-0.0021	0.0513	1										
(8) log_totalassets	0.1701*	0.1309*	0.0971*	0.1372*	0.1626*	0.2302*	0.1544*	1									
(9) ln_employees	0.2159*	0.1601*	0.0463	0.0758*	-0.1197*	0.1678*	0.1794*	0.4044*	1								
(10) leverage	-0.0189	-0.0321	-0.0908*	-0.1135*	0.0677*	-0.0508	-0.1629*	0.2300*	0.0428	1							
(11) Sale_growth	-0.0690*	-0.0442	-0.005	-0.0157	0.0272	-0.0271	0.0800*	-0.0167	-0.0346	-0.0289	1						
(12)ROA	0.0426	0.0541	0.0146	0.0567	0.0748*	0.0201	0.1534*	0.3578*	0.0596*	-0.1837*	0.2456*	1					
(13) MTB	-0.0602*	-0.0632*	-0.0117	-0.0852*	0.0541	-0.0867*	-0.1961*	-0.0012	-0.0854*	0.4656*	0.2008*	-0.0343	1				
(14) Tobin_Q	-0.0633*	-0.0448	0.0133	-0.0426	0.0361	-0.1050*	-0.1474*	-0.1267*	-0.1419*	0.2475*	0.2872*	0.1105*	0.8305*	1			
(15) ln_PPE	0.1488*	0.1346*	0.0664*	0.1446*	0.047	0.2165*	0.1684*	0.8082*	0.4968*	0.2270*	0.0146	0.3456*	-0.0013	-0.0910*	1		
(16) ln_sales_per_employee	-0.0086	-0.0203	0.0597*	0.0598*	0.1313*	0.0284	0.0056	0.4200*	-0.5185*	0.0777*	0.041	0.3714*	0.0539	0.0179	0.1900*	1	
(17) ln_sales	0.2003*	0.1337*	0.1059*	0.1396*	0.0233	0.1928*	0.1802*	0.8381*	0.4192*	0.1240*	0.01	0.4521*	-0.0256	-0.1186*	0.6835*	0.5590*	1

Appendix B.2:

This table reports the Pearson correlation coefficients between pairs of the variables of party secretary and manager characteristics. *denotes significance at the 5% level.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Secretary_dummy	1									
(2)Secretary_important	0.8208*	1								
(3) Ownership_soe	0.2002*	0.1631*	1							
(4) gend_manager	-0.0136	-0.0126	-0.0562*	1						
(5) college_manager	0.0326	-0.0012	0.0660*	0.1231*	1					
(6) manager_age	0.1092*	0.0884*	0.2108*	-0.027	-0.1313*	1				
(7) cpa_manager	-0.0371	-0.0322	-0.1141*	0.1058*	0.1545*	-0.1637*	1			
(8) lawyer_manager	-0.0549*	-0.0543*	-0.0033	0.0972*	0.1731*	-0.0788*	0.1860*	1		
(9) comm_manager	0.1356*	0.0943*	0.1339*	0.0519*	0.2194*	0.0797*	0.0321	0.0024	1	
(10) poli_manager	0.0518*	0.0736*	0.0634*	0.0997*	0.3173*	0.1494*	0.1356*	0.1038*	0.2875*	1