Pacific-Basin Finance Journal xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Pacific-Basin Finance Journal

journal homepage: www.elsevier.com/locate/pacfin

Political connections and firm performance: Evidence from government officials' site visits☆

Yizhong Wang, Chengxue Yao, Di Kang*

College of Economics and Academy of Financial Research, Zhejiang University, Hangzhou, China

ARTICLE INFO

JEL classifications:
G30
G32

Keywords:
Officials' site visit
Political connection
Firm value

ABSTRACT

This study uses government officials' corporate site visits as a measurement of political connection and examines how political connection affects firm performance. Using a novel dataset on government officials' site visits from 2004 to 2014, we find that firm performance increases following corporate site visits by government officials. This study finds that firms obtain more new investment projects and bank loans, improve corporate governance, and decrease information asymmetry as well. Government officials' site visits are also associated with positive abnormal stock returns, indicating that investors interpret government officials' site visits as a signal of government endorsement and support. Using China's recent anti-corruption campaign as an exogenous shock, we find that political connections are more valuable in the absence of political corruption.

1. Introduction

The implications of political connections in the business world have attracted numerous academic and public attention. Previous studies have examined the influences of political connections on firm performance extensively. However, the literature finds mixed evidence concerning the relation between political connection and firm performance. Most previous studies find that firms benefit from political connections (e.g., Fisman, 2001). Firms with political connections receive more government contracts and regulatory relief (e.g., Brown and Huang, 2017; Bunkanwanicha and Wiwattanakantang, 2009); gain more access to bank loans (Khwaja and Mian, 2005; Li et al., 2008); are more likely to be bailed out (Faccio et al., 2006); and are more likely to receive government subsidies (Johnson and Mitton, 2003; Lin et al., 2015).

On the other hand, some studies find that political connections hurt firm performance. Chen et al. (2011) examine top executives with a government background as a measurement of firms' political connection and find that political connections significantly reduce investment efficiency in state-owned enterprises (SOEs) in China. Saeed et al. (2016) find that politically connected firms underperform non-connected firms by 17% and 15% based on return on assets and return on equity. Cao et al. (2011) document an unintended consequence of establishing a political connection—management entrenchment. They find that political connections significantly lower the CEO's turnover probability and firm performance improves after politically connected CEOs are replaced.

Despite the importance of political connections for firm performance, the relation between these two is inconclusive. Moreover, defining political connectedness is difficult. To measure political connections, researchers have investigated whether executives or

☆ Wang, Yao, and Kang are with the College of Economics and Academy of Financial Research, Zhejiang University, Hangzhou, China. We thank seminar participants at Zhejiang University for helpful comments. Wang acknowledges support from the Key Research Institute of Social Science and Humanities, the Ministry of Education (15JJD790031). Kang acknowledges support from the Real Estate Investment Research Center of Zhejiang University. All errors and omissions are our own.

* Corresponding author.
E-mail address: kangdi@zju.edu.cn (D. Kang).

https://doi.org/10.1016/j.pacfin.2018.05.003
Received 15 February 2018; Accepted 7 May 2018
0927-538X/

board directors have a government background (Faccio and Zingales, 2017), whether firms provide campaign contributions (Mehta et al., 2017), whether corporate executives have personal relationships with politicians (Brown and Huang, 2017), or whether the firm is active in lobbying (Lambert, 2017).

In this study, we use a more direct measurement of political connection—government officials' corporate site visits, which refer to government officials' field trips to firms. During these corporate site visits, firm executives can gain and maintain access to government officials and have opportunities to communicate directly with them on the firm's strengths and challenges. Government officials can gain a better understanding of the needs of firms and draw up a corresponding plan to maximize both the economic interests and their political performance. Therefore, firms can build, maintain, and enhance political connections through government officials' corporate site visits.

This approach allows us to capture the dynamics of political connections and identify the exact timing and strength of the political connection. Moreover, the various measurements of political connection used in most previous studies are based on firms' perspective, such as providing campaign contributions (Mehta et al., 2017) and lobbying (Lambert, 2017). Entrepreneurs are incentivized to develop political connections. However, whether firms can successfully establish political connections depends on government officials' willingness to be connected with a particular business firm. Government officials' site visits stem from the government officials' motivation. While it is difficult to distinguish whether firms solicit government officials' site visits or government officials initiate these visits, government officials have their motivations and decide whether to visit a particular firm. Li et al. (2016) find that government officials would evaluate the firm after receiving an invitation since they may damage their reputation by associating with low-quality firms. Further, there is ample anecdotal evidence showing that government officials initiate on-site visits to demonstrate their concern for economic development.[1] Therefore, on-site visits suggest that officials are willing to be connected with the firms and provide a clearer measurement of firms' political connection and influence. Further, ample anecdotal evidence suggests that firm's stock price increases following officials' site visits.[2] Thus, stock market investors may interpret officials' site visits as a signal of government endorsement and support.

China offers a natural setting to examine how government officials' site visits affect firm performance. First, political connections in China are very important for business firms (Cull et al., 2015; Fan et al., 2007), and so firms actively seek ways to establish their political networks (Jiang and Kim, 2015; Lin et al., 2015). The incentive for firms to establish political connections in transition countries arises from the state control of key resources (Li et al., 2008). Second, government officials' corporate site visits occur frequently in China, resulting in rich data for analysis. It is common practice for Chinese government officials to visit business firms. Moreover, the Chinese government encourages officials to pay visits to firms to demonstrate their concerns about business activities and economic growth. Third, Chinese government officials have undergone frequent turnover and exchange. High turnover of local government officials provides a dynamic setting of political connections. Thus, new political officials can establish connections with local firms through site visits. Fourth, the coexistence of both SOEs and non-SOEs provides another unique institutional environment for examining how firm characteristics shape the influence of political connection on firm performance.

Li et al. (2016) conducted the most related study that examined a sample of manufacturing companies listed on either the Shenzhen or Shanghai Stock Exchange from 2004 to 2007 and found that firms that received officials' visits had better financial performance. This current study differs from theirs in several ways. We generalize the link between officials' visits and firm performance to all listed firms in China. Further, we find that firms are becoming more likely to receive officials' visits in recent years. More occurrences of government officials' visits enable us to examine the underlying channels linking officials visits and firm performance. We also examine the variations in the value of officials' corporate on-site visits with different administrative rankings and associations with different levels of administration institutions. Additionally, we use China's recent anti-corruption campaign as an exogenous shock and examine the interaction between political connections and political corruptions.

In this research, we hand-collect the information on government officials' site visits, including the visit date, firm name, level of administration institution which the visiting officials are affiliated to, and the visiting official's administrative ranking. Our final sample consists of 898 non-financial firms listed on the Shanghai and Shenzhen Stock Exchanges during 2004 to 2014.

We begin by documenting the occurrence of government officials' site visits. We find 5207 reported site visit events over our sample period. Firms are more likely to receive official site visits over time. For each firm, the probability of receiving official site visits in each year increases from 4.12% in 2004 to 33.74% in 2014. The numbers of site visits from central, provincial, and local governments are similar. Firms in the manufacturing industry received the most site visits, while firms in the culture, sports, entertainment industries received the least site visits.

Government officials may not randomly choose which firms to visit. Thus, to better understand officials' site visit decision and to address the potential endogeneity bias, we develop a Probit model to examine the determinants of government official site visits. We find that government officials are more likely to pay visits to larger firms, younger firms, firms with better past performance, higher financial leverage, and lower largest shareholder's holding. We also find that firms located in provinces with a higher GDP growth rate are more likely to receive official visits. To address the potential endogeneity bias, we adopt the two-stage treatment effect model and include *Lambda* generated from the first-stage Probit estimation in all of our main analyses.

Additionally, we examine the effect of officials' site visits on firm performance. The resource dependent theory and signaling theory may serve as the main theoretical perspectives to explain how government officials' site visits could affect firm performance. Li et al. (2008) argue that the incentive for firms to establish political connections in transition countries ultimately arises from the state

[1] http://www.xinhuanet.com/english/2017-12/13/c_136823930.htm

[2] https://www.forbes.com/sites/ceibs/2015/08/18/chinese-firms-wasting-political-capital

control of key resources. The resource dependent theory suggests that firms with better political connections would receive more strategic resources, such as gaining more access to bank loans (Khwaja and Mian, 2005; Li et al., 2008) and receiving more government subsidies (Lin et al., 2015). On the other hand, severe information asymmetries exist in the emerging economies, which greatly increase transaction costs and have a negative impact on firm performance (Li et al., 2016). Government officials' site visits can be interpreted as a signal of government endorsement and support, which could efficiently reduce the transaction costs. Therefore, both the resource dependent theory and signaling theory suggest that political connections have a positive impact on firm performance.

We find that firm performance improves significantly following government officials' corporate site visits. The firm's return on assets (ROA) increases by 4.40%, and total factor productivity (TFP) increases by 7.10% in the following year of the site visit. These findings are robust to alternative measurements of firm performance. Consistent with Brown and Huang (2017), Khwaja and Mian (2005), and Li et al. (2008), we find that firms that received official visits obtain more new investment projects and bank loans compared to other firms that do not receive official visits.

Next, we examine the variations in the effect of government officials' site visits on firm performance. By the levels of administration institution to which the visiting officials are affiliated, we classify officials' site visits into central government official visits, provincial government official visits, and local government official visits. According to the visiting official's administrative rankings, we classify officials' site visits into national-ranking official visits, ministerial-ranking official visits, bureau-ranking official visits, and county-ranking official visits.

The results, based on these sub-samples of specific officials' site visits, indicate that visits from central government officials or officials with high administrative rankings have more influence on firm performance. Similar to Amore and Bennedsen (2013) and Sun et al.'s (2011) findings, which highlight the importance of connections with local government, we find that visits from the local government officials or low administrative ranking officers lead to more increases in new investments and banking loans. This result is consistent with Qian's (1999) study, which documents that local governments in China at provincial, municipal, and county levels have gained greater influence over banks' lending decisions through the banks' regional branches.

We also find evidence that the improvements in firm performance are accompanied by improvements in corporate governance and decreases in information asymmetry. The results indicate that firms that have received government officials' site visits gain more public and regulatory attention and are motivated to perform better due to the self-discipline effect. The firms are more likely to reduce adverse selection costs, suggesting that the degree of the firm's information asymmetry and information uncertainty is reduced after the government officials' corporate site visits. These findings contribute to the growing literature on whether and how political connection matters.

This study shows that firms improve performance, gain more investment projects and bank loans following government officials' site visits. The findings suggest that political connections established and enhanced through officials' site visits are beneficial to firms. To provide more evidence that political connections are beneficial, we divide our sample into SOEs and non-SOEs. Non-SOEs have far fewer political relationships than do SOEs because top executives of SOEs are appointed by the government and SOEs are ultimately controlled by the government. Non-SOEs are discriminated against in both investment and loan financing. Therefore, we would expect that political connections have a larger marginal effect on non-SOEs and officials' site visits can effectively improve the performance of non-SOEs more than that of SOEs. We find that the improvement in the firm's ROA following the government officials' site visit is significantly higher for non-SOEs than SOEs.

We have demonstrated that officials' site visits improve firm performance. Next, we examine how the stock market reacts to officials' site visits by using daily stock returns around each government officials' site visit event. The univariate analysis shows significant positive market reactions to the officials' site visit event. Specifically, the market-adjusted abnormal return is, on average, 0.10% in the three-day event window $[t-1, t+1]$ around officials' site visits. Further, the market reacts more strongly to visits from central government officials or officials with high administrative rankings. This finding indicates that investors have more confidence in firm performance following official site visits and interpret officials' site visits as a signal of government endorsement and support.

Moreover, we find that the magnitude of the effect of officials' site visits on stock returns depends on firm characteristics. According to the signaling theory, signals are more valuable when there is more severe information asymmetry (Spence, 1973). Therefore, we expect that government endorsement and support has a stronger impact on firms with less observable good financial performance. Consistent with this expectation, we find that the abnormal stock return around officials' site visits is significantly higher for firms with a low growth rate of sales.

While the value of political connections is found to be high in countries with higher levels of official corruption (Ang et al., 2013), we examine whether the effect of political connection on firm performance is based on political corruption. We use China's recent anti-corruption campaign as an exogenous shock to political corruption and find that the effect of political connections is stronger in the absence of political corruption. This finding suggests that political corruption is not the precondition for political connections to be valuable.

This current study contributes to the literature in several ways. First, the effects of political connections on firm performance have been heavily examined (e.g., Brown and Huang, 2017; Fisman, 2001; Hou et al., 2017; Ma et al., 2013). We use comprehensive government officials' on-site visit data and find new evidence that political connections are beneficial to firms by examining the change in firm performance and stock price following officials' site visits. Second, while Li et al. (2016) examine the effect of officials' visit on firm performance, we further find that visits by officials with different administrative rankings and associations with different levels of administration institutions have different effects on firm performance. Third, we directly examine the underlying channels linking officials' visits and firm performance and highlight the changes in corporate governance and information asymmetry to explain the impact of officials' site visits on firm performance. Fourth, while Ang et al. (2013) find that political connection has a

higher value in countries with higher levels of official corruption, we use China's recent anti-corruption campaign as an exogenous shock and find that political connections are more valuable in the absence of political corruption.

The remainder of this study is organized as follows. Section 2 reviews the data and summary statistics. Section 3 provides the methodologies and the empirical results. Section 4 discusses extensions to our main analyses, while Section 5 provides our conclusions.

2. Data and summary statistics

2.1. Data sources

We begin with a sample of non-financial firms listed in Shanghai and Shenzhen Stock Exchanges in China during 2004 to 2014. To capture the impact of government officials' corporate site visits, we manually fetch detailed information from the news of officials' site visits posted on the website of each firm. Thus, firms without a public corporate website from 2004 or the information on the website was not updated timely are excluded. The collected officials' site visit data include the visit time, administrative rankings of government officials who visited the firm, and the level of administration institutions to which visiting officials are associated. We cross-verify the information with companies' annual reports and internet searches. Our final sample includes 5207 government officials' site visit events.

The basic corporate financial and stock market information is from the CSMAR and WIND databases, two major Chinese financial data vendors. Firm-year observations with missing data for our primary tests are eliminated from the sample. These criteria result in a final sample of 898 publicly-listed companies and 9878 firm-year observations. Continuous variables are winsorized at 1% in both tails to mitigate the effect of extreme values. Variable definitions are described in Appendix A.

2.2. Officials' site visits

The main variable used in the paper is $Visit_{i,j,t}$, which equals to one if there are government officials visiting the firm i in industry j in year t and zero otherwise.

Officials have different administrative rankings and are associated with different levels of administration institutions. Therefore, the effect of officials' site visits may vary. Though officials with high administrative rankings or associated with a high level of administration institutions can provide a stronger endorsement; anecdotal evidence suggests that local government maintains control over key resources and thus has more advantages than the central government in the allocation of resources to local firms. We examine heterogeneous levels of officials' site visits in two methods. First, based on the level of the administrative institution with which the visiting officials are affiliated, we classify all official visits into central government official visits, provincial government official visits, and local government official visits. We use this approach because the administrative institution with which the visiting officials are affiliated is subordinated to the central government, provincial government, or local government. Second, based on the administrative rankings of visiting officials, we classify official visits into national-ranking official visits, ministerial-ranking official visits, bureau-ranking official visits, and county-ranking official visits. For example, a visit from the Minister of Treasury of China is classified as a central government official visit according to the first classification method and ministerial-ranking official visit according to the second method. This is because the Ministry of Treasury of China is a national executive agency, while the Minister of Treasury of China is a ministerial-level official. Similarly, a visit from the Chair of the Department of Finance of Zhejiang Province is classified as a provincial government official visit according to the first classification method and the Chair is a bureau-ranking official visit according to the second method.

2.3. Summary statistics

Table 1 presents the summary statistics on the number of government officials' site visits. Panel A tabulates the number of government officials' site visits over time. In total, we find 5207 site visit events over our sample period from 2004 to 2014. Among those, 1308 visits are from officials associated with the central government, 1916 visits are associated with the provincial government, and 1713 visits are associated with the local government. The number of visits from the central, provincial, and local government is similar. The number of visits by ministerial-ranking and bureau-ranking officers has a great proportion based on the second classification method because some of the officials from both the central government and local government are ministerial-ranking or bureau-ranking officials.

Firms are more likely to receive government officials' site visits over time. As shown in Panel A of Table 1, the total number of site visits increases gradually from 80 in 2004 to 1015 in 2014. Moreover, the probability of receiving site visits in each year increases from 4.12% in 2004 to 33.74% in 2014. Panel B of Table 1 tabulates the number of government officials' site visits across industries. Consistent with Cheng et al.'s (2017) study, which finds that the majority of investors' site visits occur in the manufacturing industry, we find that 67.29% of the officials' site visits occur in the manufacturing industry. This is because the majority of the listed firms in China are in the manufacturing industry. Column 4 shows that 62.25% of the observations in our sample belongs to the manufacturing industry. Therefore, there is little difference in the distribution of officials' site visit events and the whole sample of observations.

Table 1
Summary Statistics.

This table reports the descriptive statistics for government officials' site visits on our sample firms from 2004 to 2014. Panel A tabulates the number of total visits and each type of officials' site visits over time. *Visiting Probability* is the probability of firms being visited each year, which equals to the number of firms being visited divided by the number of firms in the sample each year. Panel B reports the distribution of officials' site visits and number of observations in the final sample by industry.

Panel A: The distribution of officials' site visits by calendar year

Year	All	Central government	Provincial government	Local government	National ranking	Ministerial ranking	bureau ranking	County ranking	Others	Visiting probability
2004	80	37	24	16	22	26	26	3	3	4.12%
2005	161	53	58	41	28	61	51	12	9	7.13%
2006	167	56	52	50	25	59	59	15	9	6.90%
2007	214	62	80	68	15	94	69	32	4	9.02%
2008	317	93	129	79	40	129	105	27	16	12.69%
2009	442	137	166	123	64	144	170	48	16	17.93%
2010	476	118	157	169	55	122	200	67	32	18.15%
2011	640	161	238	199	55	164	277	102	42	23.94%
2012	800	188	286	290	45	208	381	130	36	29.84%
2013	895	177	356	317	35	246	429	140	45	32.74%
2014	1015	226	370	361	52	294	437	174	58	33.74%
Total	5207	1308	1916	1713	436	1547	2204	750	270	

Panel B: The distribution of officials' site visits by industry

Industry	(1)	(2)	(3)	(4)
	# of visiting events	Event percentage	# of sample observations	Observation percentage
Agriculture, forestry, husbandry & fishery	75	1.44%	110	1.11%
Mining	274	5.26%	264	2.67%
Manufacture	3504	67.29%	6149	62.25%
Electricity, heat, gas & water	261	5.01%	418	4.23%
Construction	232	4.46%	264	2.67%
Wholesaling & retailing	184	3.53%	726	7.35%
Transportation, warehousing & postal services	129	2.48%	418	4.23%
Accommodation & catering	28	0.54%	55	0.56%
Information transmission, software & information technology services	127	2.44%	418	4.23%
Financials	2	0.04%	11	0.11%
Real estate	180	3.46%	572	5.79%
Leasing & commercial services	118	2.27%	121	1.22%
Scientific research & technology services	12	0.23%	22	0.22%
Water conservancy, environment & public facilities management	69	1.33%	110	1.11%
Culture, sports & entertainment	2	0.04%	22	0.22%
Health & social work	0	0.00%	11	0.11%
Industrial conglomerates	10	0.19%	187	1.89%
Total	5207	100.00%	9878	100.00%

2.4. Firm performance

We use return on assets (*ROA*), return on equity (*ROE*), and firm's total factor productivity (*TFP*) to measure firm performance. All three measurements are broadly used as the measure of firm performance in the existing studies. To calculate *TFP*, we follow Schoar (2002) and regress the natural logarithm of sales on the natural logarithm of total assets, the natural logarithm of the total number of employees, and the natural logarithm of cash payments for raw materials and service. The firm's *TFP* is calculated as the residual of this regression.

We further examine the firm's investing and financing behaviors following the government officials' site visits by examining the change in investments, short-term bank loans, total bank loans, and total debts. Following Biddle and Hilary (2006), we identify the new investment in a given firm-year observation as the change in the sum of capital expenditures, R&D expenditures, and acquisitions minus sales of PPE, scaled by lagged total assets.

3. Methodologies and empirical results

3.1. Determinants of government officials' site visits

The prior section shows that the number of government officials' site visits increases over time. Officials may not pay visits to random firms. To better understand officials' site visit decision and to address the potential endogeneity bias, we next examine the determinants of government officials' site visits. We first compare the cross-sectional summary statistics between firms with and without officials' site visits. Panel A of Table 2 shows that firms with officials' site visits have more assets, higher financial leverage, lower growth rate, are elder and located in provinces with a lower GDP growth rate. Panel A indicates that firms with officials' site visits are significantly different from other firms. To further examine the determinants of government officials' visits, we use the following Probit model:

$$Probit\,(Visit_{i,j,t}) = \alpha + \beta X_{i,j,t-1} + \sum \lambda Industry_j + \sum \delta Year_t + \varepsilon_{i,t}, \quad (1)$$

where i indexes firms, j indexes industries, and t indexes years. $Visit_{i,\,j,\,t}$ is an indicator variable, which equals to one if there are government officials visiting the firm i in industry j in year t and zero otherwise. The vector $X_{i,\,j,\,t-1}$ includes the ROA of the firm ($ROA_{i,\,j,\,t-1}$), the natural logarithm of total assets ($Size_{i,\,j,\,t-1}$), the financial leverage ratio ($Leverage_{i,\,j,\,t-1}$), the growth rate of sales ($Growth_{i,\,j,\,t-1}$), the share proportion of the largest corporate shareholder ($Top1_{i,\,j,\,t-1}$), the corporate advertisement expenses ($Adv_{i,\,j,\,t-1}$), and the number of years the firm has been listed on the stock market exchange ($Age_{i,\,j,\,t-1}$).

We also include the measurements of political relationship and government ownership in our models. The indicator variable, $Political_{i,\,j,\,t-1}$, equals to one if the firm's directors or CEOs have prior government working experience. The indicator variable, $SOE_{i,\,j,\,t-1}$, equals to one if the firm i is state-controlled in year $t-1$, and zero otherwise. Firms are classified as state-controlled according to the calculation of the equity control chain.

We also notice that firms' location may affect the likelihood of receiving a government officials' site visit. Marketization reforms have proceeded to different stages in different parts of China. In areas where market institutions are better developed, officials may have less need or incentive to visit firms. To measure the stage of marketization, we use the province-level marketization index by Fan et al. (2017). We construct an indicator variable, $Market_{i,\,j,\,t-1}$, which equals to one if the marketization index of the province where the firm is located is above the year median of the national marketization index, and zero otherwise. Another control variable on province characteristics is the province's GDP growth rate, $GDP\ growth\ rate_{i,\,j,\,t-1}$. We also include year and industry fixed-effects in estimations to control for unobservable characteristics and cluster the standard errors by firm to account for potential within-firm correlations of the residuals.

Table 2, Panel B presents the regression results. In Column 1, we examine the determinants of overall officials' site visits. Column 1 indicates that firms with more political connections (as measured by whether corporate boards or CEOs have prior government working experience), better past performance, more assets, higher financial leverage, younger age, and less holdings by the largest shareholder are more likely to receive official visits. Also, firms located in provinces with higher GDP growth rates are more likely to receive official visits.

To assure that our results are not driven by one specific type of officials' site visits, we repeat the Probit model analysis separately for central government official visits, provincial government official visits, local government official visits, national-ranking official visits, ministerial-ranking official visits, bureau-ranking official visits, and county-ranking official visits. The results are qualitatively similar as shown in Columns 2–8 in Panel B. Overall, our findings indicate that government officials' site visits are not random. Officials' site visits are related to the firm's asset, financial leverage, age, largest shareholder holding, and the GDP growth rate of the province where the firm is located.

3.2. The effect of government officials' site visits on firm performance

Having studied the determinants of government officials' corporate site visits, we now examine how officials' site visits affect firm performance. If political connections are beneficial to firms, then firm performance should increase following site visits. We use ROA, ROE, and firm's total factor productivity (TFP) to measure firm performance and estimate the following model:

$$Y_{i,j,t} = \alpha + \beta Visit_{i,j,t-1} + \gamma Controls_{i,j,t-1} + \eta Lambda_{i,j,t} + \sum \lambda Industry_j + \sum \delta Year_t + \varepsilon_{i,t}, \quad (2)$$

where i indexes firms, j indexes industries, and t indexes years. $Y_{i,\,j,\,t}$ describes the firm performance; $Visit_{i,\,j,\,t-1}$ is an indicator variable, which equals to one if there are officials visiting the firm in a year and zero otherwise. $Controls_{i,\,j,\,t-1}$ is a lagged vector of firm-level controls, including firm size, leverage, profitability, and the largest shareholder's holding. We also include other control variables to capture firm characteristics, such as $Cash\ flow_{i,\,j,\,t-1}$, measured as the corporate net cash flow from operating activities at the end of year $t-1$, and $Return_{i,\,j,\,t-1}$, measured as the corporate annual stock return in year $t-1$. To control for the potential endogenous bias, we include $Lambda$, from the first-stage Probit estimation of Eq. (1). $Industry$ is the vector of industry fixed-effects, and $Year$ is the vector of year fixed-effects. We cluster the standard errors by firm to account for potential within-firm correlation of the residuals.

The results are presented in Table 3. Panel A focuses on corporate value, as measured by ROA. The coefficients on $Visit_{i,j,t-1}$ in all regressions are positive and statistically significant, suggesting that government officials' site visits are positively associated with firm performance after controlling for other performance factors. For example, in Column 1, the coefficient of $Visit_{i,j,t-1}$ is 0.044

Table 2
The determinants of government officials' site visits.

Panel A reports the difference in firm characteristics between firms with and without officials' site visits. Panel B reports the determinants of officials' site visits. The results are based on Eq. (1), the first stage of the treatment effect model. The dependent variable is *Visit*, a dummy equal to one if there are officials visiting the firm in a year and zero otherwise. Column (1) presents the determinants of *All Visits*. Column (2) to Column (4) present the determinants of *Central Government Visits*, *Provincial Government visits*, and *Local Government visits*, respectively. Column (5) to Column (8) present the determinants of *National-rankings visits*, *Ministerial-ranking visits*, *Bureau-ranking visits*, and *County-ranking visits*, respectively. All other variables are defined in the Appendix. Robust *t*-statistics adjusted for firm-level clustering are reported in parentheses. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Panel A: The difference between firms with and without official visits

	(1) Without visit	(2) With visit	(2)–(1)	*t*-Value
Political-connected	0.418	0.469	0.051***	3.89
SOE	0.577	0.596	0.018	1.40
Size	3.272	4.026	0.754***	22.12
Leverage	0.499	0.521	0.022***	4.44
*Top*1	0.365	0.366	0.001	0.21
Growth rate	0.173	0.155	−0.018**	−2.23
Cash flow	0.058	0.059	0.002	0.69
Return	0.230	0.228	−0.003	−0.08
Advertisement expenses	0.060	0.061	0.001	0.35
Age	9.258	10.207	0.950***	7.19
GDP growth rate	0.119	0.108	−0.011***	−16.52
Market	0.817	0.802	−0.015	−1.47

Panel B: The determinants of officials' site visits

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	All visits	Central government	Provincial government	Local government	National ranking	Ministerial ranking	Bureau ranking	County ranking
$Political_{t-1}$	0.113***	0.026	0.115***	0.191***	−0.057	0.107**	0.186***	0.182***
	(3.21)	(0.59)	(2.78)	(4.58)	(−0.96)	(2.46)	(4.67)	(3.58)
SO_{t-1}	0.027	−0.101**	−0.012	−0.100**	−0.282***	−0.088*	0.008	−0.083
	(0.70)	(−2.03)	(−0.27)	(−2.19)	(−4.20)	(−1.81)	(0.18)	(−1.47)
ROA_{t-1}	1.857***	1.681***	1.621***	1.098***	1.609***	1.727***	1.857***	0.593
	(5.30)	(3.71)	(3.91)	(2.71)	(2.75)	(4.12)	(4.64)	(1.31)
$Size_{t-1}$	0.217***	0.327***	0.251***	0.117***	0.369***	0.308***	0.162***	0.091***
	(12.42)	(14.59)	(12.67)	(5.85)	(11.75)	(14.56)	(8.52)	(3.83)
$Leverage_{t-1}$	0.255**	−0.011	0.223*	0.223	−0.274	0.031	0.301**	0.135
	(2.20)	(−0.07)	(1.66)	(1.64)	(−1.42)	(0.22)	(2.29)	(0.83)
$Top1_{t-1}$	−0.301**	−0.095	−0.333**	−0.278**	0.381*	−0.385**	−0.291**	−0.148
	(−2.50)	(−0.63)	(−2.34)	(−1.98)	(1.92)	(−2.57)	(−2.17)	(−0.89)
$Growth_{t-1}$	0.001	0.086	−0.033	−0.010	0.072	−0.015	−0.015	−0.043
	(0.02)	(1.10)	(−0.44)	(−0.13)	(0.71)	(−0.19)	(−0.20)	(−0.45)
Adv_{t-1}	0.066	0.436	−0.021	−0.687**	0.737**	0.030	−0.407	−0.724*
	(0.26)	(1.43)	(−0.07)	(−2.10)	(1.98)	(0.10)	(−1.33)	(−1.79)
$GDP\ growth\ rate_{t-1}$	3.315***	5.384***	3.609***	2.330**	5.118***	4.183***	4.039***	0.908
	(3.50)	(4.67)	(3.34)	(2.08)	(3.28)	(3.70)	(3.89)	(0.67)
$Market_{t-1}$	−0.048	−0.114**	−0.191***	0.039	−0.152**	−0.166***	−0.074	0.025
	(−1.11)	(−2.14)	(−3.87)	(0.74)	(−2.16)	(−3.23)	(−1.53)	(0.39)
Age_{t-1}	−0.020***	−0.014***	−0.025***	−0.006	−0.013*	−0.018***	−0.013***	−0.009
	(−4.77)	(−2.70)	(−5.18)	(−1.29)	(−1.84)	(−3.54)	(−2.82)	(−1.61)
Constant	−1.964***	−3.306***	−2.333***	−1.912***	−4.181***	−2.796***	−2.093***	−1.922***
	(−11.07)	(−14.76)	(−11.36)	(−9.08)	(−13.22)	(−12.75)	(−10.79)	(−7.72)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by firm	YES	YES	YES	YES	YES	YES	YES	YES
Observations	8054	8044	8041	8041	8031	8041	8054	8019
Pseudo R-squared	0.116	0.121	0.116	0.096	0.145	0.110	0.111	0.092

(t = 5.12), indicating that officials' site visits increase firms' ROA by 4.40% on average. Columns 2 to 8 show that the effect of an official visit on firm performance is robust across all types of government official visits.

Panel B and C repeats the analysis by using *TFP* and *ROE* as measurements of firm performance; we find that the results are qualitatively similar. The firms' TFP and ROE increases following official visits. In summary, we demonstrate that government officials' visits have a positive effect on firm performance after controlling for other performance factors.

Table 3
Government officials' site visits and firm performance.

This table reports the effect of officials' site visits on firm performance. The results are based on Eq. (2), the second stage of the treatment effect model. The dependent variable in Panel A is the firm's *ROA*. The dependent variable in Panel B is the firm's total factor productivity (*TFP*). The dependent variable in Panel C is the firm's *ROE*. Column (1) presents the results of *All Visits*. Column (2) to Column (4) present the results of *Central Government Visits*, *Provincial Government visits*, and *Local Government visits*, respectively. Column (5) to Column (8) present the results of *National-rankings visits*, *Ministerial-ranking visits*, *Bureau-ranking visits*, and *County-ranking visits*, respectively. All other variables are defined in the Appendix. Robust *t*-statistics adjusted for firm-level clustering are reported in parentheses. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	All visits	Central government	Provincial government	Local government	National ranking	Ministerial ranking	Bureau ranking	County ranking
Panel A: ROA_t								
$Visit_{t-1}$	0.044***	0.042***	0.025**	0.026**	0.044***	0.038***	0.027***	0.018
	(5.12)	(4.51)	(2.58)	(2.53)	(3.34)	(3.72)	(2.92)	(1.26)
ROA_{t-1}	0.627***	0.633***	0.634***	0.635***	0.635***	0.633***	0.633***	0.637***
	(31.49)	(32.12)	(31.92)	(31.67)	(32.20)	(32.04)	(31.75)	(31.81)
$Size_{t-1}$	−0.002***	−0.002**	−0.001	−0.000	−0.001	−0.002**	−0.001	0.000
	(−3.15)	(−2.52)	(−1.23)	(−0.47)	(−1.47)	(−2.11)	(−1.02)	(0.10)
$Leverage_{t-1}$	−0.025***	−0.023***	−0.024***	−0.025***	−0.023***	−0.023***	−0.025***	−0.025***
	(−6.30)	(−5.86)	(−6.17)	(−6.23)	(−5.67)	(−5.91)	(−6.26)	(−6.17)
$Top1_{t-1}$	0.008**	0.006	0.006*	0.007*	0.005	0.007*	0.006*	0.006
	(2.05)	(1.64)	(1.66)	(1.72)	(1.24)	(1.90)	(1.67)	(1.47)
$Growth_{t-1}$	0.003*	0.003	0.003	0.003	0.003	0.003	0.003	0.003
	(1.67)	(1.53)	(1.46)	(1.47)	(1.45)	(1.51)	(1.50)	(1.39)
$Lambda_{t-1}$	−0.023***	−0.020***	−0.011**	−0.013**	−0.020***	−0.018***	−0.013***	−0.007
	(−4.76)	(−4.16)	(−2.19)	(−2.36)	(−3.33)	(−3.39)	(−2.66)	(−1.08)
Constant	0.036***	0.034***	0.040***	0.038***	0.040***	0.041***	0.030***	0.028***
	(9.12)	(8.97)	(10.15)	(10.00)	(10.67)	(10.51)	(8.36)	(7.72)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by firm	YES	YES	YES	YES	YES	YES	YES	YES
Observations	7152	7143	7142	7142	7133	7142	7152	7123
R-squared	0.465	0.465	0.464	0.463	0.464	0.464	0.464	0.464
Panel B: TFP_t								
$Visit_{t-1}$	0.071*	0.075*	0.048	−0.078	0.143***	0.057	0.031	−0.142
	(1.67)	(1.82)	(1.17)	(−1.39)	(2.87)	(1.27)	(0.64)	(−1.63)
TFP_{t-1}	0.738***	0.738***	0.739***	0.739***	0.738***	0.739***	0.739***	0.738***
	(45.39)	(45.53)	(45.64)	(45.61)	(45.62)	(45.65)	(45.44)	(45.20)
$Size_{t-1}$	−0.009**	−0.009***	−0.007**	−0.004	−0.009***	−0.008**	−0.006**	−0.004
	(−2.56)	(−2.60)	(−2.39)	(−1.27)	(−3.17)	(−2.32)	(−2.06)	(−1.43)
$Leverage_{t-1}$	0.034**	0.036**	0.034**	0.035**	0.040***	0.036**	0.033**	0.034**
	(2.28)	(2.43)	(2.31)	(2.31)	(2.68)	(2.42)	(2.21)	(2.27)
$Top1_{t-1}$	0.075***	0.072***	0.072***	0.067***	0.068***	0.073***	0.072***	0.069***
	(4.19)	(4.09)	(4.08)	(3.77)	(3.86)	(4.12)	(4.03)	(3.93)
$Growth_{t-1}$	−0.021	−0.021	−0.021	−0.022	−0.021	−0.021	−0.021	−0.021
	(−1.52)	(−1.54)	(−1.57)	(−1.62)	(−1.53)	(−1.56)	(−1.58)	(−1.59)
$Lambda_{t-1}$	−0.042*	−0.039*	−0.024	0.036	−0.072***	−0.029	−0.019	0.063
	(−1.71)	(−1.74)	(−1.08)	(1.18)	(−3.05)	(−1.20)	(−0.70)	(1.46)
Constant	0.057***	0.056***	−0.005	−0.017	0.002	−0.004	0.047**	−0.017
	(2.81)	(2.82)	(−0.22)	(−0.84)	(0.09)	(−0.19)	(2.44)	(−0.84)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by firm	YES	YES	YES	YES	YES	YES	YES	YES
Observations	7147	7138	7137	7137	7128	7137	7147	7118
R-squared	0.585	0.584	0.585	0.585	0.585	0.585	0.584	0.585
Panel C: ROE_t								
$Visit_{t-1}$	0.116***	0.098***	0.056**	0.072**	0.100***	0.089***	0.070***	0.039
	(4.68)	(3.71)	(2.09)	(2.50)	(2.92)	(3.13)	(2.69)	(1.11)
ROE_{t-1}	0.429***	0.434***	0.435***	0.435***	0.436***	0.435***	0.433***	0.436***
	(16.38)	(16.73)	(16.69)	(16.63)	(16.77)	(16.73)	(16.56)	(16.72)
$Size_{t-1}$	−0.001	0.001	0.003*	0.004**	0.003	0.002	0.004*	0.006***
	(−0.35)	(0.53)	(1.83)	(2.51)	(1.58)	(0.84)	(1.94)	(3.13)
$Leverage_{t-1}$	−0.029**	−0.026**	−0.030**	−0.031***	−0.026**	−0.027**	−0.031***	−0.031***
	(−2.55)	(−2.27)	(−2.58)	(−2.64)	(−2.21)	(−2.33)	(−2.66)	(−2.64)
$Top1_{t-1}$	0.021**	0.016	0.017*	0.018*	0.013	0.019*	0.017*	0.015
	(2.08)	(1.63)	(1.65)	(1.76)	(1.28)	(1.87)	(1.69)	(1.46)
$Growth_{t-1}$	0.026***	0.026***	0.025***	0.026***	0.025***	0.026***	0.026***	0.025***
	(4.38)	(4.28)	(4.25)	(4.28)	(4.24)	(4.29)	(4.29)	(4.23)

(*continued on next page*)

Table 3 (*continued*)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	All visits	Central government	Provincial government	Local government	National ranking	Ministerial ranking	Bureau ranking	County ranking
$Lambda_{t-1}$	−0.061***	−0.046***	−0.024*	−0.034**	−0.044***	−0.041***	−0.034**	−0.015
	(−4.37)	(−3.46)	(−1.71)	(−2.33)	(−2.83)	(−2.81)	(−2.48)	(−0.86)
Constant	0.049***	0.073***	0.066***	0.063***	0.068***	0.070***	0.036***	0.030***
	(4.95)	(7.67)	(6.85)	(6.90)	(7.43)	(7.29)	(3.86)	(3.27)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by firm	YES	YES	YES	YES	YES	YES	YES	YES
Observations	7143	7134	7133	7133	7124	7133	7143	7114
R-squared	0.252	0.250	0.250	0.249	0.249	0.250	0.250	0.248

3.3. Firm investment and financing behavior

We have shown a positive effect of government officials' site visits on firm performance. The next natural question is how firm performance increases following on-site visits by government officials. In this section, we examine how firms' investments and financing behavior change around officials' site visits. Previous studies have found that firms with political connections receive more government contracts and regulatory relief (Brown and Huang, 2017; Bunkanwanicha and Wiwattanakantang, 2009) and gain more access to bank loans (Khwaja and Mian, 2005; Li et al., 2008). Therefore, we expect that firms have more investment opportunities and bank loans following officials' site visits.

Panel A of Table 4 reports the regression results of Model (2), using the firm's new investment as the dependent variable. Column (1) indicates that government officials' site visit is positively related to firm's new investment (coefficient = 0.078; significant at the 1% level). This result suggests that firms' new investment, on average, increases by 7.80% following officials' site visits, after controlling for other firm characteristics. Consistent with the literature, we also find that firms with high cash flow, high financial leverage, and high growth rate of sales have more new investments. Columns 2–8 report the change in firms' new investments following each type of government officials' site visits respectively. The results are qualitatively similar to Column 1.

Next, we examine whether firms gain more access to bank loans following officials' site visits. Panel B of Table 4 reports the regression results of Model (2), using the change in firms' short-term bank loans as the dependent variable. Column 1 of Panel B indicates that government officials' site visit is positively related with a change in firm's short-term bank loan (coefficient = 0.036; significant at the 1% level). This result suggests that firms' short-term bank loans, on average, increases by 3.60% following officials' site visits, after controlling for other firm characteristics. Consistent with the literature, we also find that firms with low financial leverage, high growth rate of sales, and more assets have more new short-term bank loans.

Columns 2–8 of Panel B report the change in firms' short-term bank loan following each type of government officials' site visits respectively. The results are qualitatively similar to Column 1. Specifically, firms' short-term bank loans significantly increase following provincial government official visits, bureau-ranking official visits, and county-ranking official visits. The results indicate that local governments have a more direct relationship with local banks and have more influence on banks' lending decisions.

If political connections enable firms to gain more access to bank loans, we expect that firms' total bank loans and total debts will increase following government officials' site visits as well. We examine the change in total bank loans and total debts following officials' site visits as a robustness check. The results are reported in Table 5 and are qualitatively similar to Panel B of Table 4. Total bank loans, on average, increase by 5.00% and total debts increase by 6.40% following officials' site visits.

3.4. Corporate governance and information asymmetry

To further explore the mechanism of how government officials' site visits improve firm performance, we examine the change in firms' corporate governance and information asymmetry following site visits. Firms may receive immediate media coverage after on-site visits by government officials. China's television broadcast news regularly reports scenes of government officials visiting firms; thus firms that have received officials' site visits gain more public and regulatory attention. Further, Li et al.'s (2008) study found that managers of enterprises with good political connections have incentives other than profit maximization (e.g., political and social objectives). Therefore, firm executives are motivated to perform better due to the self-discipline effect.

Moreover, receiving government officials' site visits can be interpreted as government endorsement, which is good for a firm's corporate image. A good corporate image is a genuine asset for business firms. Meanwhile, to protect government officials' reputation, government endorsement may come with more regulatory monitoring. Therefore, firms are more likely to reduce adverse selection costs, suggesting that the degree of the firm's information asymmetry and information uncertainty may be reduced after official visits.

To construct the measurement of corporate governance, we estimate the first principal component of the following twelve corporate governance provisions: the share proportion of the largest corporate shareholder, ownership concentration, the number of stockholders' general meetings, the proportion of floating shares, the proportion of state-owned shares, the proportion of managerial

Table 4
Government officials' site visits and corporate investment and financing behavior.

This table reports the effect of officials' site visits on corporate investment and financing behavior. The results are based on Eq. (2), the second stage of the treatment effect model. The dependent variable in Panel A is the firm's new investments. The dependent variable in Panel B is the firm's new short-term loans. Column (1) presents the results of *All Visits*. Column (2) to Column (4) present the results of *Central Government Visits*, *Provincial Government visits*, and *Local Government visits*, respectively. Column (5) to Column (8) present the results of *National-rankings visits*, *Ministerial-ranking visits*, *Bureau-ranking visits*, and *County-ranking visits*, respectively. All other variables are defined in the Appendix. Robust *t*-statistics adjusted for firm-level clustering are reported in parentheses. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	All visits	Central government	Provincial government	Local government	National ranking	Ministerial ranking	Bureau ranking	County ranking
Panel A: New investments								
$Visit_{t-1}$	0.078***	0.040**	0.052***	0.050***	0.041**	0.054***	0.048***	0.052*
	(5.38)	(2.55)	(3.02)	(2.69)	(2.15)	(3.16)	(3.02)	(1.91)
$Size_{t-1}$	−0.001	0.002	0.001	0.003***	0.003**	0.001	0.002*	0.003***
	(−0.59)	(1.49)	(1.15)	(2.66)	(2.47)	(1.03)	(1.91)	(3.34)
$Leverage_{t-1}$	0.063***	0.062***	0.062***	0.062***	0.062***	0.062***	0.062***	0.062***
	(8.73)	(8.51)	(8.48)	(8.52)	(8.44)	(8.53)	(8.56)	(8.47)
$Cash\ flow_{t-1}$	0.107***	0.111***	0.112***	0.114***	0.112***	0.111***	0.112***	0.115***
	(10.10)	(10.29)	(10.58)	(10.70)	(10.34)	(10.44)	(10.47)	(10.77)
$Return_{t-1}$	0.003***	0.003***	0.003***	0.003***	0.003***	0.003***	0.003***	0.003***
	(4.12)	(4.34)	(4.32)	(4.41)	(4.35)	(4.28)	(4.39)	(4.45)
$Growth_{t-1}$	0.017***	0.018***	0.019***	0.019***	0.019***	0.019***	0.018***	0.019***
	(6.96)	(7.24)	(7.53)	(7.53)	(7.52)	(7.49)	(7.40)	(7.69)
$Lambda_{t-1}$	−0.043***	−0.020**	−0.025***	−0.024**	−0.020**	−0.025***	−0.024***	−0.023*
	(−5.04)	(−2.34)	(−2.59)	(−2.34)	(−2.11)	(−2.70)	(−2.71)	(−1.66)
Constant	0.046***	0.038***	0.042***	0.038***	0.039***	0.043***	0.037***	0.033***
	(5.47)	(4.47)	(5.29)	(4.93)	(4.86)	(5.30)	(4.52)	(4.12)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by firm	YES	YES	YES	YES	YES	YES	YES	YES
Observations	8028	8018	8016	8016	8006	8016	8028	7994
R-squared	0.187	0.183	0.185	0.183	0.182	0.184	0.183	0.183
Panel B: New short-term loans$_t$								
$Visit_{t-1}$	0.036**	0.009	0.027*	0.024	−0.016	0.024	0.035**	0.044*
	(2.47)	(0.62)	(1.75)	(1.32)	(−0.93)	(1.47)	(2.22)	(1.88)
$Size_{t-1}$	0.001	0.003**	0.002	0.003***	0.004***	0.002	0.002*	0.003***
	(0.72)	(2.12)	(1.60)	(2.79)	(3.52)	(1.46)	(1.79)	(3.05)
$Leverage_{t-1}$	−0.028***	−0.028***	−0.028***	−0.028***	−0.029***	−0.027***	−0.028***	−0.028***
	(−4.92)	(−4.89)	(−4.95)	(−4.99)	(−5.04)	(−4.76)	(−5.04)	(−4.90)
$Top1_{t-1}$	0.011*	0.009	0.010*	0.010*	0.009	0.010*	0.010*	0.009
	(1.81)	(1.54)	(1.65)	(1.66)	(1.55)	(1.68)	(1.70)	(1.59)
$Growth_{t-1}$	0.017***	0.018***	0.018***	0.018***	0.019***	0.018***	0.018***	0.018***
	(4.94)	(5.18)	(5.22)	(5.22)	(5.38)	(5.20)	(5.06)	(5.32)
$Lambda_{t-1}$	−0.019**	−0.005	−0.012	−0.011	0.007	−0.011	−0.017*	−0.018
	(−2.26)	(−0.58)	(−1.49)	(−1.09)	(0.83)	(−1.23)	(−1.93)	(−1.56)
Constant	0.004	−0.001	0.010	0.007	0.004	0.009	0.002	−0.001
	(0.68)	(−0.18)	(1.52)	(1.19)	(0.55)	(1.37)	(0.31)	(−0.16)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by firm	YES	YES	YES	YES	YES	YES	YES	YES
Observations	6823	6813	6816	6816	6806	6816	6823	6797
R-squared	0.028	0.027	0.027	0.027	0.027	0.027	0.028	0.027

share ownership, CEO's tenure, board size, the proportion of independent directors, the number of board of directors' meetings, the number of board of supervisors' meetings, and the number of commissions. The first principal component of the correlation matrix of the available standardized twelve proxies is denoted as $CG_{i,\ j,\ t}$. The coefficients of factor loadings of twelve provisions on the first principal component are all consistent with theoretical predictions. For simplicity, the results are not reported here.

We use Model (2) with corporate governance index ($CG_{i,\ j,\ t}$) as the dependent variable to examine the effect on government officials' site visits on corporate governance. The results are reported in Table 6. Column 1 indicates that officials' site visits are positively related with corporate governance (coefficient = 0.693; significant at the 1% level). This result suggests that firms' corporate governance is improved following officials' site visits after controlling for other firm characteristics. We also find that firm size and largest shareholder's holdings are negatively related with corporate governance. Columns 2–8 report the regression results for each type of government officials' site visits respectively. The results are qualitatively similar to Column 1.

Next, we examine the change in firms' information asymmetry and information uncertainty. To construct an information

Table 5
Alternative measurements of firms' financing behaviors.

This table reports the effect of officials' site visits on alternative measurements of firms' financing behaviors. The results are based on Eq. (2), the second stage of the treatment effect model. The dependent variable in Panel A is the firms' *new bank loans*. The dependent variable in Panel B is the firms' *new debts*. Column (1) presents the results of *All Visits*. Column (2) to Column (4) present the results of *Central Government Visits*, *Provincial Government visits*, and *Local Government visits*, respectively. Column (5) to Column (8) present the results of *National-rankings visits*, *Ministerial-ranking visits*, *Bureau-ranking visits*, and *County-ranking visits*, respectively. All other variables are defined in the Appendix. Robust *t*-statistics adjusted for firm-level clustering are reported in parentheses. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	All visits	Central government	Provincial government	Local government	National ranking	Ministerial ranking	Bureau ranking	County ranking
Panel A: New bank loans$_t$								
Visit$_{t-1}$	0.050**	0.010	0.042*	0.024	−0.023	0.024	0.041*	0.069*
	(2.53)	(0.48)	(1.94)	(0.86)	(−0.95)	(1.10)	(1.76)	(1.71)
Size$_{t-1}$	0.002	0.005***	0.004**	0.005***	0.006***	0.004***	0.004***	0.005***
	(1.51)	(3.11)	(2.35)	(3.99)	(4.69)	(2.61)	(2.99)	(4.04)
Leverage$_{t-1}$	−0.040***	−0.041***	−0.041***	−0.041***	−0.042***	−0.040***	−0.041***	−0.041***
	(−5.86)	(−5.88)	(−5.90)	(−5.92)	(−6.00)	(−5.74)	(−5.99)	(−5.86)
*Top*1$_{t-1}$	0.007	0.005	0.006	0.006	0.005	0.006	0.006	0.005
	(0.87)	(0.58)	(0.71)	(0.65)	(0.60)	(0.67)	(0.71)	(0.64)
Growth$_{t-1}$	0.022***	0.023***	0.023***	0.023***	0.024***	0.023***	0.023***	0.024***
	(4.90)	(5.13)	(5.19)	(5.21)	(5.34)	(5.22)	(5.05)	(5.28)
Lambda$_{t-1}$	−0.027**	−0.005	−0.019	−0.009	0.008	−0.010	−0.018	−0.029
	(−2.30)	(−0.43)	(−1.57)	(−0.62)	(0.68)	(−0.78)	(−1.34)	(−1.47)
Constant	0.041***	0.020**	0.038***	0.033***	0.028***	0.035***	0.036***	0.021**
	(4.27)	(2.07)	(4.03)	(3.59)	(3.02)	(3.66)	(3.93)	(2.39)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by firm	YES	YES	YES	YES	YES	YES	YES	YES
Observations	7170	7160	7161	7161	7151	7161	7170	7142
R-squared	0.031	0.030	0.031	0.030	0.030	0.030	0.032	0.031
Panel B: New debts$_t$								
Visit$_{t-1}$	0.064***	0.022	0.056**	0.033	−0.023	0.034	0.059**	0.079*
	(3.12)	(0.98)	(2.44)	(1.17)	(−0.87)	(1.43)	(2.47)	(1.92)
Size$_{t-1}$	0.004**	0.007***	0.005***	0.007***	0.008***	0.006***	0.006***	0.007***
	(2.21)	(3.84)	(3.18)	(5.35)	(5.94)	(3.46)	(3.95)	(5.51)
Leverage$_{t-1}$	−0.050***	−0.050***	−0.050***	−0.051***	−0.052***	−0.049***	−0.051***	−0.050***
	(−6.84)	(−6.78)	(−6.89)	(−6.92)	(−6.94)	(−6.66)	(−7.01)	(−6.86)
*Top*1$_{t-1}$	0.004	0.000	0.002	0.001	0.000	0.002	0.002	0.001
	(0.41)	(0.05)	(0.23)	(0.16)	(0.04)	(0.18)	(0.23)	(0.09)
Growth$_{t-1}$	0.023***	0.024***	0.024***	0.024***	0.025***	0.024***	0.023***	0.025***
	(4.99)	(5.22)	(5.32)	(5.36)	(5.51)	(5.36)	(5.16)	(5.44)
Lambda$_{t-1}$	−0.034***	−0.011	−0.027**	−0.014	0.008	−0.014	−0.028**	−0.035*
	(−2.85)	(−0.91)	(−2.06)	(−0.94)	(0.62)	(−1.06)	(−2.06)	(−1.71)
Constant	0.029***	0.035***	0.025**	0.018*	0.028***	0.021**	0.024**	0.019**
	(2.87)	(3.34)	(2.55)	(1.93)	(2.85)	(2.12)	(2.46)	(2.04)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by firm	YES	YES	YES	YES	YES	YES	YES	YES
Observations	7206	7196	7197	7197	7187	7197	7206	7178
R-squared	0.038	0.036	0.037	0.036	0.036	0.036	0.038	0.037

asymmetry measurement, we first calculate the following measurements of liquidity: the illiquidity ratio $ILL_{i,\ t}$ (Amihud, 2002), defined as the mean of the square root of the ratio of firm *i*'s daily absolute stock return to the reported daily dollar volume over all days in fiscal year *t* with nonzero volume; the liquidity ratio $LR_{i,\ t}$ (Amihud et al., 1997), computed as minus the mean of the square root of the ratio of stock *i*'s reported daily dollar volume to its absolute stock return over all days in fiscal year *t* with nonzero return; and $GAM_{i,\ t}$ index (Pastor and Stambaugh, 2003). Pastor and Stambaugh (2003) suggest that a stock's liquidity can be captured by the interaction between its returns and lagged order flow. We compute the absolute magnitude of return reversal for each stock *i* over each fiscal year *t* and label it as $GAM_{i,\ t}$. To capture much of the common variation among these proxies, we estimate the first principal component of the correlation matrix of the available standardized three proxies, denoted as $ASY_{i,\ j,\ t}$, to measure firm-level adverse selection in each fiscal year. The higher $ASY_{i,\ j,\ t}$ is, the higher the severity of adverse selection problem is.

To measure the information uncertainty, we utilize accounting quality of working capital accruals and earnings as the proxy. The quality of accruals and earnings is decreasing in the magnitude of estimation error of accruals. Following Dechow and Dichev (2002), we compute the accrual quality ($AQ_{i,\ j,\ t}$) as the standard deviation of residuals from firm-specific regressions of changes in working capital on past, present, and future operating cash flows, where higher standard deviation denotes lower quality.

We use Model (2) with information asymmetry ($ASY_{i,\ j,\ t}$) and information uncertainty ($AQ_{i,\ j,\ t}$) as the dependent variable to

Table 6
Government officials' site visits and corporate governance.

This table reports the effect of officials' site visits on corporate governance. The results are based on Eq. (2), the second stage of the treatment effect model. The dependent variable is the indicator of corporate governance, constructed as Governance Index, $CG_{i,j,t}$, which is the first principal component of the correlation matrix of the available standardized twelve corporate provisions. Column (1) presents the results of *All Visits*. Column (2) to Column (4) present the results of *Central Government Visits*, *Provincial Government visits*, and *Local Government visits*, respectively. Column (5) to Column (8) present the results of *National-rankings visits*, *Ministerial-ranking visits*, *Bureau-ranking visits*, and *County-ranking visits*, respectively. All other variables are defined in the Appendix. Robust *t*-statistics adjusted for firm-level clustering are reported in parentheses. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	All visits	Central government	Provincial government	Local government	National ranking	Ministerial ranking	Bureau ranking	County ranking
$Visit_{t-1}$	0.693***	0.478*	0.834***	0.786**	0.446	0.579*	0.585**	0.722
	(3.00)	(1.94)	(3.04)	(2.27)	(1.58)	(1.94)	(2.03)	(1.54)
CG_{t-1}	0.636***	0.637***	0.637***	0.636***	0.638***	0.637***	0.637***	0.637***
	(41.87)	(41.83)	(41.84)	(41.90)	(41.84)	(41.63)	(42.04)	(41.62)
$Size_{t-1}$	−0.061***	−0.048***	−0.057***	−0.040***	−0.040***	−0.051***	−0.043***	−0.033**
	(−3.59)	(−2.96)	(−3.57)	(−2.92)	(−2.77)	(−2.95)	(−2.96)	(−2.53)
$Leverage_{t-1}$	0.173**	0.190**	0.178**	0.167**	0.195**	0.195**	0.169**	0.172**
	(2.23)	(2.43)	(2.30)	(2.13)	(2.48)	(2.49)	(2.16)	(2.19)
$Top1_{t-1}$	−1.536***	−1.559***	−1.542***	−1.543***	−1.570***	−1.542***	−1.548***	−1.559***
	(−12.91)	(−13.15)	(−12.99)	(−12.93)	(−13.21)	(−12.95)	(−13.01)	(−13.04)
$Growth_{t-1}$	−0.039	−0.043	−0.044	−0.043	−0.047	−0.044	−0.044	−0.048
	(−0.94)	(−1.05)	(−1.06)	(−1.04)	(−1.13)	(−1.07)	(−1.06)	(−1.15)
ROA_{t-1}	0.275	0.356	0.336	0.333	0.364	0.357	0.334	0.363
	(1.11)	(1.43)	(1.36)	(1.34)	(1.47)	(1.44)	(1.33)	(1.47)
$Lambda_{t-1}$	−0.406***	−0.277**	−0.419***	−0.406**	−0.247*	−0.320**	−0.327**	−0.283
	(−3.17)	(−2.23)	(−2.98)	(−2.36)	(−1.83)	(−2.10)	(−2.25)	(−1.29)
Constant	0.740***	0.820***	0.774***	0.701***	0.846***	0.800***	0.725***	0.731***
	(6.10)	(6.67)	(6.36)	(5.52)	(7.02)	(6.50)	(5.84)	(5.83)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by firm	YES	YES	YES	YES	YES	YES	YES	YES
Observations	3765	3760	3759	3759	3754	3759	3765	3748
R-squared	0.762	0.762	0.762	0.762	0.761	0.762	0.762	0.761

examine the effect of government officials' site visits on firms' information asymmetry and uncertainty. The results are reported in Table 7. Column 1 of Panel A indicates that officials' site visits are negatively related with future information asymmetry (coefficient = −1.663; significant at the 1% level). This result suggests that firms' information asymmetry decreases following on-site visits by government officials. Column 1 of Panel B indicates that officials' site visits are negatively related with future information uncertainty (coefficient = −0.040; significant at the 1% level). This result suggests that firms' information uncertainty decreases following officials' site visits. The regression results for each type of government officials' site visits are qualitatively similar.

Collectively, we find that firms gain more new investments and bank loans following government officials' corporate on-site visits. Meanwhile, firms' corporate governance is improved, and information asymmetry and uncertainty is decreased following officials' site visits. All these factors may contribute to the improvement in firm performance following officials' site visits.

4. Extension

4.1. SOEs vs. non-SOEs

We have shown that government officials' site visits help firms to access resources such as investment projects and bank loans. If the effect is caused by political connections that are established, maintained, or enhanced through officials' site visits, we expect that officials' site visits should provide more marginal benefits for firms with fewer political connections.

Non-SOEs have far fewer political connections than do SOEs because the top executives of SOEs themselves are government officials and SOEs are ultimately controlled by the government. Non-SOEs face more financial constraints and are discriminated against in both investments and loan financing. Therefore, we expect that non-SOEs have stronger incentives to build political connections through government officials' site visits and political connections are more valuable for non-SOEs compared to SOEs.

We divide our sample firms into SOEs and non-SOEs, where we designate a listed firm as an SOE if it is state-controlled according to the calculation of the equity control chain. To examine the difference in the effects of officials' site visits between SOEs and non-SOEs, we include one interaction term, $Visit_{i,j,t-1} * SOE_{i,j,t-1}$, in Model 2. Table 8 reports the regression results. Column 1 shows that officials' site visits are positively related with firms' future return on assets (coefficient = 0.045; significant at the 1% level). Column 1 also indicates that the interaction term between officials' site visits and SOE indicator ($Visit_{i,j,t-1} * SOE_{i,j,t-1}$) is negatively related with firms' future return on assets (coefficient = −0.004; significant at the 10% level). This result suggests that the effect of

Table 7
Government officials' site visits and information asymmetry and information uncertainty.

This table reports the effect of officials' site visits on information asymmetry and information uncertainty. The results are based on Eq. (2). the second stage of the treatment effect model. The dependent variable in Panel A is the indicator of information asymmetry, $ASY_{i,j,t}$, which is the first principal component of the correlation matrix of the available standardized three information asymmetry proxies. The dependent variable in Panel B is the indicator of information uncertainty, $AQ_{i,j,t}$, which is the standard deviation of residuals from firm-specific regressions of changes in working capital on past, present and future operating cash flows. Column (1) presents the results of *All Visits*. Column (2) to Column (4) present the results of *Central Government Visits*, *Provincial Government visits*, and *Local Government visits*, respectively. Column (5) to Column (8) present the results of *National-rankings visits*, *Ministerial-ranking visits*, *Bureau-ranking visits*, and *County-ranking visits*, respectively. All other variables are defined in the Appendix. Robust *t*-statistics adjusted for firm-level clustering are reported in parentheses. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	All visits	Central government	Provincial government	Local government	National ranking	Ministerial ranking	Bureau ranking	County ranking
Panel A: Information asymmetry								
$Visit_{t-1}$	−1.663***	−1.722***	−1.724***	−1.909***	−1.826***	−1.860***	−1.560***	−2.024***
	(−14.77)	(−13.54)	(−12.44)	(−11.04)	(−8.65)	(−12.59)	(−12.08)	(−7.89)
ASY_{t-1}	0.700***	0.704***	0.711***	0.732***	0.723***	0.703***	0.725***	0.743***
	(61.87)	(63.25)	(63.16)	(68.12)	(66.79)	(61.21)	(67.51)	(70.68)
$Political_{t-1}$	−0.007	−0.042***	−0.021	−0.001	−0.058***	−0.026*	−0.012	−0.020
	(−0.48)	(−2.89)	(−1.43)	(−0.04)	(−3.97)	(−1.80)	(−0.82)	(−1.34)
ROA_{t-1}	0.068	−0.122	−0.230	−0.391***	−0.343**	−0.141	−0.250	−0.582***
	(0.43)	(−0.79)	(−1.52)	(−2.65)	(−2.25)	(−0.91)	(−1.65)	(−4.02)
$Leverage_{t-1}$	0.125***	0.017	0.053	−0.011	−0.087*	0.021	0.031	−0.081*
	(2.65)	(0.37)	(1.16)	(−0.25)	(−1.96)	(0.47)	(0.68)	(−1.84)
$Top1_{t-1}$	0.270***	0.326***	0.266***	0.180***	0.329***	0.268***	0.233***	0.206***
	(5.31)	(6.42)	(5.21)	(3.42)	(6.25)	(5.36)	(4.45)	(3.89)
$Growth_{t-1}$	−0.090***	−0.075***	−0.079***	−0.076***	−0.067**	−0.076***	−0.078***	−0.067**
	(−3.22)	(−2.67)	(−2.84)	(−2.71)	(−2.35)	(−2.73)	(−2.80)	(−2.39)
Age_{t-1}	−0.011***	−0.006***	−0.009***	−0.006***	−0.005**	−0.007***	−0.007***	−0.006***
	(−4.84)	(−2.91)	(−4.33)	(−3.05)	(−2.28)	(−3.40)	(−3.33)	(−2.82)
$Lambda_{t-1}$	0.945***	0.864***	0.928***	0.986***	0.837***	0.963***	0.832***	0.976***
	(14.20)	(12.82)	(12.38)	(10.72)	(8.12)	(12.53)	(11.67)	(7.68)
Constant	−0.934***	1.368***	1.713***	1.615***	−0.620***	−0.892***	−0.926***	−0.883***
	(−16.26)	(5.88)	(7.31)	(5.89)	(−11.19)	(−15.60)	(−15.99)	(−15.18)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by firm	YES	YES	YES	YES	YES	YES	YES	YES
Observations	7148	7139	7138	7138	7129	7138	7148	7119
R-squared	0.741	0.740	0.739	0.736	0.737	0.740	0.737	0.734
Panel B: Information uncertainty								
$Visit_{t-1}$	−0.040***	−0.042***	−0.042***	−0.054***	−0.054***	−0.045***	−0.040***	−0.050**
	(−3.82)	(−3.98)	(−3.69)	(−3.06)	(−3.50)	(−4.48)	(−3.13)	(−2.28)
AQ_{t-1}	0.923***	0.923***	0.923***	0.923***	0.923***	0.923***	0.923***	0.923***
	(238.52)	(238.15)	(237.61)	(237.12)	(238.49)	(237.71)	(237.25)	(238.32)
$Political_{t-1}$	0.002	0.001	0.001	0.002	0.001	0.001	0.002	0.001
	(0.89)	(0.50)	(0.71)	(0.95)	(0.29)	(0.66)	(0.79)	(0.61)
ROA_{t-1}	0.010	0.005	0.002	−0.001	0.002	0.004	0.002	−0.006
	(0.53)	(0.25)	(0.13)	(−0.06)	(0.08)	(0.24)	(0.13)	(−0.36)
$Leverage_{t-1}$	0.017***	0.015**	0.015**	0.014**	0.013**	0.015**	0.015**	0.012*
	(2.65)	(2.35)	(2.40)	(2.25)	(2.05)	(2.38)	(2.35)	(1.94)
$Top1_{t-1}$	0.012**	0.013**	0.012**	0.010*	0.014**	0.012**	0.011**	0.011*
	(2.10)	(2.28)	(2.11)	(1.78)	(2.40)	(2.10)	(2.02)	(1.94)
$Growth_{t-1}$	0.005	0.005	0.005	0.005	0.005	0.005	0.005	0.005
	(1.46)	(1.55)	(1.55)	(1.51)	(1.58)	(1.58)	(1.52)	(1.57)
Age_{t-1}	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(3.52)	(3.80)	(3.51)	(3.70)	(3.83)	(3.73)	(3.70)	(3.72)
$Lambda_{t-1}$	0.020***	0.020***	0.019***	0.024***	0.025***	0.019***	0.019***	0.021**
	(3.35)	(3.37)	(3.24)	(2.67)	(2.96)	(3.69)	(2.76)	(2.05)
Constant	0.002	0.002	0.003	0.003	0.003	0.003	0.003	0.004
	(0.26)	(0.27)	(0.44)	(0.44)	(0.40)	(0.42)	(0.38)	(0.62)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by firm	YES	YES	YES	YES	YES	YES	YES	YES
Observations	6275	6267	6267	6267	6259	6267	6275	6251
R-squared	0.941	0.941	0.941	0.941	0.941	0.941	0.941	0.941

Table 8
SOEs versus non-SOEs.

This table reports the difference in the effect of officials' site visits on firm performance between SOEs and non-SOEs. The results are based on Eq. (2), the second stage of the treatment effect model. The dependent variable is the firm's ROA. Column (1) presents the results of *All Visits*. Column (2) to Column (4) present the results of *Central Government Visits*, *Provincial Government visits*, and *Local Government visits*, respectively. Column (5) to Column (8) present the results of *National-rankings visits*, *Ministerial-ranking visits*, *Bureau-ranking visits*, and *County-ranking visits*, respectively. All other variables are defined in the Appendix. Robust *t*-statistics adjusted for firm-level clustering are reported in parentheses. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	All visits	Central government	Provincial government	Local government	National ranking	Ministerial ranking	Bureau ranking	County ranking
$Visit_{t-1}$	0.045***	0.041***	0.025**	0.020*	0.038***	0.036***	0.030***	0.006
	(5.18)	(4.31)	(2.56)	(1.90)	(2.79)	(3.53)	(3.17)	(0.41)
$Visit_{t-1} * SOE_{t-1}$	−0.004*	−0.005	−0.004	−0.005*	−0.003	−0.006*	−0.006**	−0.001
	(−1.65)	(−1.43)	(−1.28)	(−1.78)	(−0.70)	(−1.79)	(−2.16)	(−0.33)
SOE_{t-1}	−0.003**	−0.003***	−0.004***	−0.003***	−0.003***	−0.003***	−0.003***	−0.004***
	(−2.42)	(−2.61)	(−2.97)	(−2.65)	(−2.86)	(−2.61)	(−2.66)	(−3.29)
ROA_{t-1}	0.622***	0.629***	0.630***	0.631***	0.631***	0.629***	0.628***	0.632***
	(31.00)	(31.59)	(31.34)	(31.27)	(31.63)	(31.50)	(31.23)	(31.34)
$Size_{t-1}$	−0.002**	−0.001*	−0.000	0.000	−0.000	−0.001	−0.000	0.001
	(−2.49)	(−1.71)	(−0.52)	(0.45)	(−0.63)	(−1.24)	(−0.33)	(0.96)
$Leverage_{t-1}$	−0.025***	−0.023***	−0.024***	−0.024***	−0.023***	−0.023***	−0.025***	−0.024***
	(−6.25)	(−5.88)	(−6.11)	(−6.14)	(−5.73)	(−5.92)	(−6.23)	(−6.11)
$Top1_{t-1}$	0.011***	0.009**	0.009**	0.009**	0.007*	0.010**	0.009**	0.008**
	(2.70)	(2.25)	(2.32)	(2.27)	(1.91)	(2.44)	(2.32)	(2.15)
$Growth_{t-1}$	0.003*	0.003	0.003	0.003	0.003	0.003	0.003	0.003
	(1.66)	(1.50)	(1.44)	(1.42)	(1.44)	(1.48)	(1.51)	(1.36)
$Lambda_{t-1}$	−0.022***	−0.018***	−0.010**	−0.008	−0.016***	−0.015***	−0.013***	−0.001
	(−4.60)	(−3.71)	(−1.97)	(−1.48)	(−2.73)	(−2.84)	(−2.58)	(−0.21)
Constant	0.035***	0.042***	0.040***	0.037***	0.040***	0.041***	0.031***	0.037***
	(8.91)	(10.69)	(10.10)	(9.77)	(10.58)	(10.30)	(8.30)	(9.67)
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by firm	YES	YES	YES	YES	YES	YES	YES	YES
Observations	7132	7123	7122	7122	7113	7122	7132	7103
R-squared	0.466	0.465	0.464	0.464	0.465	0.465	0.465	0.464

government officials' site visits is significantly stronger for non-SOEs. It provides more evidence that officials' site visits improve firm performance through the effect of political connections.

Columns 2–8 repeat the above analysis for each type of government officials' site visits respectively. The results are qualitatively similar to Column 1. Specifically, the effect of local-government official visits, bureau-ranking official visits, and ministerial-ranking official visits is stronger for non-SOEs compared to SOEs.

4.2. Manufacturing firms

The majority of the firms listed in the Shanghai and Shenzhen Stock Exchanges are manufacturing firms. Panel B of Table 1 shows that 67.29% of the government officials' site visits occur in the manufacturing industry. Although there is little difference in industry distribution between the event firms and the sample firms, to assure that our results are not driven by manufacturing firms only, here we explore the robustness of our results. We exclude manufacturing firms from our sample and repeat our main analysis.

The results without manufacturing firms are reported in Table 9. Column 1 reports the first-stage regression results of the two-stage treatment effect model. Firms with high past performance, more assets, high financial leverage, and low largest shareholder's holdings are more likely to receive visits by government officials. Columns 2–4 report the second-stage regression results of the treatment effect model. We again find that firms' performance increases following officials' site visit, even after excluding manufacturing firms. Table 9 demonstrates that the positive relation between officials' site visits and firm performance is not driven by one specific industry.

4.3. Stock market reaction

We have showed that firm performance increases following officials' site visits. Now, we examine the impact of government officials' site visits on the firm's stock price. If officials' site visits are interpreted as government endorsement and support, we expect that the stock market reacts positively towards the visits.

We examine the stock price impact based on cumulative abnormal stock returns (*CAR*). We construct *CARs* centered on the visit

Table 9
The effect of government officials' site visit on firm performance (excluding manufacturing firms).

This table reports the effect of officials' site visits on firm performance by using a two-stage treatment effect model after excluding manufacturing firms. Column 1 reports the first-stage results. The dependent variable is *Visit*, a dummy variable equal to one if there are officials visiting the firm in a year and zero otherwise. On the second stage of the treatment effect model, the dependent variable is the firm's ROA in Column (2), the firm's total factor productivity in Column (3) and the firm's ROE in Column (4). All other variables are defined in the Appendix. Robust *t*-statistics adjusted for firm-level clustering are reported in parentheses. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

	1st Stage	2nd Stage		
	(1)	(2)	(3)	(4)
	Inspection	ROA	TFP	ROE
$Visit_{t-1}$		0.027**	0.060	0.100***
		(2.13)	(0.86)	(3.11)
$Political_{t-1}$	0.210***			
	(3.50)			
SOE_{t-1}	0.024			
	(0.37)			
ROA_{t-1}	2.933***	0.597***		
	(4.80)	(18.13)		
TFP_{t-1}			0.656***	
			(22.23)	
ROE_{t-1}				0.439***
				(13.27)
$Size_{t-1}$	0.145***	−0.002**	−0.011**	−0.003
	(5.38)	(−2.05)	(−2.02)	(−1.28)
$Leverage_{t-1}$	0.668***	−0.016***	0.079***	0.021
	(3.29)	(−2.71)	(2.77)	(1.50)
$Top1_{t-1}$	−0.504**	0.016***	0.113***	0.045***
	(−2.53)	(3.12)	(3.11)	(3.22)
$Growth_{t-1}$	0.103	0.002	−0.031	0.018***
	(1.10)	(0.63)	(−1.59)	(3.15)
Adv_{t-1}	−0.059			
	(−0.09)			
GDP growth $rate_{t-1}$	2.946*			
	(1.85)			
$Market_{t-1}$	0.062			
	(0.78)			
Age_{t-1}	−0.015**			
	(−2.12)			
Lambda		−0.014**	−0.037	−0.053***
		(−1.98)	(−0.94)	(−3.02)
Constant	−2.083***	0.026***	−0.016	0.014
	(−7.31)	(5.63)	(−0.44)	(1.19)
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Cluster by firm	YES	YES	YES	YES
Observations	3076	2736	2731	2724
R-squared	0.134	0.444	0.531	0.270

date using the market model based on a 3-day window ($CAR_{-1,\ 1}$), a 11-day window ($CAR_{-5,\ 5}$), and a 21-day window ($CAR_{-10,\ 10}$). The benchmark model is estimated using data from 244 to 1 trading days before the event date of officials' site visits [$t-244$, $t-1$].[3]

Panel A of Table 10 presents the univariate analysis results. We find that firms have significant positive abnormal returns around officials' site visits. Specifically, the cumulative market-adjusted abnormal return is, on average, 0.10% in the three-day event window [$t-1$, $t+1$] around the officials' site visit. Further, we find that the market reacts more strongly to visits from central government officials or officials with high administrative rankings. The results suggest that investors have more confidence in firms' future performance following officials' site visits and interpret officials' site visits as a signal of government endorsement and support. Endorsement from top-level administration institutions and high-ranking officers have stronger effects on stock prices. We next examine the determinants of abnormal stock return around officials' site visits based on the following multivariate regression:

$$CAR_{i,t} = \alpha + \beta Growth_{i,t-1} + \sum \lambda Control_{i,t-1} + \varepsilon_{i,t}, \tag{3}$$

where $CAR_{i,t}$ is the cumulative abnormal return; $Growth_{i,t-1}$ is the growth rate of sales; and $Control_{i,t-1}$ include firms' asset, financial

[3] We also use different estimation windows and find that the results are qualitatively similar.

Table 10
Stock market reaction to government officials' corporate site visits.

Panel A presents the univariate tests on the market reaction to the official visits. *CAR* (−1,1) (*CAR* (−5,5), *CAR* (10,10)) is the cumulative abnormal returns over the three-day (11-day, 21-day) window around the visiting date, calculated from the market model, where the market return is value-weighted. Column (1) presents the results of *All Visits*. Column (2) to Column (4) present the results of *Central Government Visits*, *Provincial Government visits*, and *Local Government visits*, respectively. Column (5) to Column (8) present the results of *National-rankings visits*, *Ministerial-ranking visits*, *Bureau-ranking visits*, and *County-ranking visits*, respectively. Panel B reports the determinants on cumulative abnormal returns over the three-day (11-day, 21-day) window around the official visits. *t*-statistics are reported in parentheses. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Panel A: Abnormal stock return around officials' site visits

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	All visits	Central government	Provincial government	Local government	National ranking	Ministerial ranking	Bureau ranking	County ranking
CAR (−1,1) %	0.095**	0.254***	−0.060	0.165**	0.342**	0.088	0.029	0.154
	(2.21)	(3.00)	(−0.89)	(2.29)	(2.29)	(1.13)	(0.46)	(1.49)
CAR (−5,5) %	0.284***	0.344**	0.106	0.441***	0.652**	0.224	0.285**	0.158
	(3.31)	(2.00)	(0.80)	(3.08)	(2.12)	(1.39)	(2.34)	(0.77)
CAR (−10,10) %	0.575***	0.787***	0.264	0.765***	1.476***	0.387*	0.629***	0.203
	(4.55)	(3.11)	(1.32)	(3.65)	(3.07)	(1.65)	(3.50)	(0.67)

Panel B: The determinants of abnormal return

	(1)	(2)	(3)
	CAR (−1,1)	CAR (−5,5)	CAR (−10,10)
Size	0.000	0.002*	0.002*
	(1.02)	(1.89)	(1.85)
Leverage	0.001	−0.002	0.001
	(0.39)	(−0.27)	(0.08)
MTB	0.000*	0.000	0.001
	(1.78)	(0.75)	(1.24)
Growth	−0.005***	−0.014***	−0.019***
	(−2.58)	(−4.05)	(−3.64)
Age	0.000	0.001***	0.001***
	(1.44)	(2.69)	(2.74)
Cash	0.001	−0.005	−0.005
	(0.14)	(−0.37)	(−0.25)
SOE	−0.001	−0.002	−0.000
	(−1.00)	(−1.11)	(−0.17)
Political	−0.000	0.003	0.004
	(−0.25)	(1.53)	(1.61)
Constant	−0.003	−0.008*	−0.015**
	(−1.28)	(−1.68)	(−2.12)
Observations	4057	4057	4057
R-squared	0.003	0.010	0.009

leverage, market-to-book ratio, cash holdings, SOE indicator, and political connection indication. All variables are described in Appendix A.

Panel B of Table 10 shows that the effect of government officials' site visits on the firm's stock price is stronger for firms with a low growth rate of sales. This finding provides more evidence that investors interpret officials' site visits as government endorsement and government endorsement is more valuable for firms with poor past performance.

4.4. Political connection vs. political corruption

The value of political connections is found to be high in countries with higher levels of official corruption (Ang et al., 2013). A logical question is whether the effect of political connection is based on political corruption. We explore how political connection interacts with political corruption by examining the change in the effect of government officials' site visits on firms' stock price following China's anti-corruption campaign. Specifically, we examine how the introduction of the “Eight-point Regulation of the Centre” affect the influence of government officials' site visits.

The Eight-point Regulation of the Centre (the Regulation) is a set of regulations that was announced on December 4th, 2012 in China. These regulations were aimed at instilling more discipline among government officials. We use the introduction of the Regulation as a shock to political corruption and divide our sample periods into two sub-sample periods accordingly, before and after

Table 11
Political connections vs. political corruption.

This table presents the univariate tests on the market reaction to the government officials' site visits for two sub-sample periods, before and after the introduction of the Eight-point Regulation of the Centre (the Regulation). The Regulation is a set of regulations announced on December 4th, 2012. *CAR* (−1,1) (*CAR* (−2.2), *CAR* (−3.3), *CAR* (−5.5), *CAR* (−10,10)) is the cumulative abnormal returns over the three-day (5-day, 7-day, 11-day, 21-day) window around the visiting date, calculated from the market model, where the market return is value-weighted. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

	Before	After	After–Before	*t*-Value
CAR (−1.1)	0.035	0.197	0.162*	1.83
CAR (−2.2)	−0.049	0.353	0.402***	3.48
CAR (−3.3)	−0.043	0.588	0.631***	4.60
CAR (−5,5)	−0.096	0.928	1.024***	5.79
CAR (−10,10)	−0.138	1.784	1.922***	7.40

the Regulation, based on whether government officials' site visits occurred before December 4th, 2012. We then repeat the analysis of how officials' site visits affect stock prices for two sub-sample periods separately.

Table 11 shows that the effect of officials' site visits on stock prices is significantly stronger after the introduction of the Regulation. In particular, the cumulative abnormal return ($CAR_{-1,\ 1}$) around officials' site visit is 0.04% before the introduction of the Regulation, which increases to 0.20% after the introduction of the Regulation. The resulting difference of 0.16% in abnormal return is statistically significant at the 10% level. The results suggest that political connection is different with political corruption. The effect of political connection on firm performance is stronger in the absence of political corruption.

5. Conclusion

The influences of political connections on firm performance have been examined intensively in the literature. However, previous studies find mixed evidence concerning the relationship between political connection and firm performance. Moreover, defining political connectedness is difficult. This study uses government officials' corporate site visits as a measurement of political connections, which enables us to identify the exact timing and strength of the political connections and capture the dynamic nature of political connections.

We find that government officials' site visits are not random and the number of visits by officials increases over time. Firms with better past performance, more assets, higher financial leverage, younger age, and low largest shareholder's holding are more likely to receive government officials' visits. Also, firms located in provinces with a higher GDP growth rate are more likely to receive official visits.

We examine the effect of officials' site visits on firm performance and find that firms' return on assets, return on equity, and total factor productivity increase following officials' site visits, suggesting that the political connection formed through officials' site visits are beneficial to firms. Moreover, firms gain more access to investment projects and bank loans. Firms' corporate governance improves, and information asymmetry decreases following officials' visits. The effect of government officials' visits is stronger for non-SOEs than SOEs, suggesting that corporate on-site visits by government officials is more valuable for firms that lack political connections.

Additionally, the stock market reacts positively towards government officials' corporate site visits, suggesting that investors interpret official visits as government endorsement and support. We also provide evidence that the effect of political connection is stronger in the absence of political corruption, indicating that political corruption is not the precondition for political connections to be valuable.

Appendix A. Appendix

Table A1
Variable definitions.

Variable	Description
Visit	A dummy variable which equals to one if there are officials visiting the firm in a year and zero otherwise.
Central-government visit	A dummy variable which equals to one if the administration institution to which visiting officials are affiliated is subordinated to central government and zero otherwise.
Provincial-government visit	A dummy variable which equals to one if the administration institution to which visiting officials are affiliated is subordinated to provincial government and zero otherwise.
Local-government visit	A dummy variable which equals to one if the administration institution to which visiting officials are affiliated is subordinated to local government and zero otherwise.

(*continued on next page*)

Table A1 (*continued*)

Variable	Description
National-ranking visit	A dummy variable which equals to one if the executive ranking of the visiting officials is national-level and zero otherwise.
Ministerial-ranking visit	A dummy variable which equals to one if the executive ranking of the visiting officials is ministerial-level and zero otherwise.
Bureau-ranking visit	A dummy variable which equals to one if the executive ranking of the visiting officials is bureau-level and zero otherwise.
County-ranking visit	A dummy variable which equals to one if the executive ranking of the visiting officials is county-level and zero otherwise.
Advertisement expenses	Corporate advertisement expenses.
Age	The number of years the firm has been listed on the stock market.
AQ	Accrual quality $AQ_{i,\,j,\,t}$ as a proxy of information uncertainty. Following Dechow and Dichev (2002), $AQ_{i,\,j,\,t}$ is computed as the standard deviation of residuals from firm-specific regressions of changes in working capital on past, present and future operating cash flows: $\Delta WC_{i,\,t} = \beta_{0,\,i,\,t} + \beta_{1,\,i,\,t} CFO_{i,\,t-1} + \beta_{2,\,i,\,t} CFO_{i,\,t} + \beta_{3,\,i,\,t} CFO_{i,\,t+1} + \beta_{4,\,i,\,t} \Delta REV_{i,\,t} + \beta_{5,\,i,\,t} FA_{i,\,t} + \varepsilon_{i,\,t}$ where $\Delta WC_{i,\,t}$ is changes in working capital on firm i in year t, where working capital is the sum of current assets, current liabilities, cash and accounts payable; $CFO_{i,\,t}$ is cash flow from operations on firm i in year t; $\Delta REV_{i,\,t}$ is changes in earnings between year t and year $t-1$ and $FA_{i,\,t}$ is the quantity of fixed assets on firm i in year t.
ASY	Information asymmetry ($ASY_{i,\,j,\,t}$). We construct *ASY* by estimating the first principal component of the correlation matrix of the available standardized three proxies: the Amihud (2002) illiquidity ratio ($ILL_{i,t}$), Amihud et al. (1997) liquidity ratio ($LR_{i,t}$), and Pastor and Stambaugh (2003) liquidity measurement ($GAM_{i,t}$). The illiquidity ratio $ILL_{i,\,t}$ (Amihud, 2002) is defined as the mean of the square root of the ratio of firm i's daily absolute stock return to the reported daily dollar volume over all days in fiscal year t with nonzero volume: $\mathrm{ILL}_{i,t} = \frac{1}{D_{i,t}} \sum_{d=1}^{D_{i,t}} \sqrt{\frac{\lvert r_{i,t,d} \rvert}{V_{i,t,d}}}$ where $D_{i,\,t}$ is the number of trading days for stock i in year t, $r_{i,\,t,\,d}$ is the return on stock i on day d of year t and $V_{i,\,t,\,d}$ is the trading volume on stock i on day d of year t. The liquidity ratio $\mathrm{LR}_{i,\,t}$ (Amihud et al., 1997), computed as minus the mean of the square root of the ratio of stock i's reported daily dollar volume to its absolute stock return over all days in fiscal year t with nonzero return: $\mathrm{LR}_{i,t} = -\frac{1}{D_{i,t}} \sum_{d=1}^{D_{i,t}} \sqrt{\frac{V_{i,t,d}}{\lvert r_{i,t,d} \rvert}}$ where $D_{i,\,t}$ is the number of trading days for stock i in year t, $r_{i,\,t,\,d}$ is the return on stock i on day d of year t and $V_{i,\,t,\,d}$ is the trading volume on stock i on day d of year t. $\mathrm{GAM}_{i,\,t}$(Pastor and Stambaugh, 2003) is computed as the absolute magnitude of return reversal for each stock i over each fiscal year t: $\mathrm{GAM}_{i,\,t} = \lvert \gamma_{i,\,t} \rvert$ The liquidity measure for stock i in year t is the OLS estimate of $\gamma_{i,\,t}$ in the regression: $r_{i,\,t,\,d+1}^{\,e} = \theta_{i,\,t} + \varphi_{i,\,t} r_{i,\,t,\,d} + \gamma_{i,\,t}\, sign\,(r_{i,\,t,\,d}^{\,e}) \cdot V_{i,\,t,\,d} + \varepsilon_{i,\,t,\,d+1}$ where $r_{i,\,t,\,d}$ is the return on stock i on day d of year t, $r_{i,\,t,\,d}^{\,e} = r_{i,\,t,\,d} - r_{m,\,t,\,d}$, where $r_{m,\,t,\,d}$ is the return on the China's A-share value-weighted market return on stock i on day d of year t and $V_{i,\,t,\,d}$ is the trading volume on stock i on day d of year t.
Cash flow	The ratio of firms' operating cash flows to total assets.
CG	Corporate governance index. We construct *CG* by estimating the first principal component of the correlation matrix of the available standardized twelve corporate governance provisions, including the share proportion of the largest corporate shareholder, ownership concentration, number of general meetings with stockholders, the proportion of floating shares, the proportion of state-owned shares, the proportion of managerial share ownership, CEO duality, board size, the proportion of independent directors, number of board of directors' meeting, number of board of supervisors' meeting and the number of the commission.
GDP growth rate	The province's GDP growth rate.
Growth rate	The growth rate of firm's sales.
Leverage	Total liabilities divided by total assets.

(*continued on next page*)

Table A1 (*continued*)

Variable	Description
Market	A dummy variable which equals to one if the marketization index where the firm is located is above the year median of the national marketization index in year *t* and zero otherwise.
MTB	Market-to-book ratio.
New bank loans	The change in bank loans in the firm-year scaled by total assets.
New debts	The change in total debt in the firm-year scaled by total assets.
New investments	The change in the sum of capital expenditures, R&D expenditures, and acquisitions minus sales of PPE, scaled by lagged total assets.
New short-term loans	The change in short-term loans in the firm-year scaled by total assets.
Politically connected	A dummy variable which equals to one if corporate boards or CEOs have prior government working experience and zero otherwise.
Return	Annual market-adjusted stock return of the firm.
ROA	Return on assets.
ROE	Return on equity.
Size	Natural logarithm of total assets.
SOE	A dummy variable which equals to one if the firm is state-controlled in year *t* and zero otherwise. A firm is classified as state-controlled according to the calculation of the equity control chain.
TFP	The firm's total factor productivity as measured by Schoar (2002).
*Top*1	The share proportion of the largest corporate shareholder.

References

Amihud, Y., 2002. Illiquidity and stock returns: cross-section and time-series effects. J. Financ. Mark. 5 (1), 31–56.
Amihud, Y., Mendelson, H., Lauterbach, B., 1997. Market microstructure and securities values: evidence from the Tel Aviv Stock Exchange. J. Financ. Econ. 45 (3), 365–390.
Amore, M.D., Bennedsen, M., 2013. The value of local political connections in a low-corruption environment. J. Financ. Econ. 110 (2), 387–402.
Ang, J., Ding, D., Thong, T.Y., 2013. Political connection and firm value. Asian Development Review 30, 131–166.
Biddle, G.C., Hilary, G., 2006. Accounting quality and firm-level capital investment. Account. Rev. 81 (5), 963–982.
Brown, J., Huang, J., 2017. All the President's Friends: Political Access and Firm Value. NBER Working Paper No. 23356.
Bunkanwanicha, P., Wiwattanakantang, Y., 2009. Big business owners in politics. Rev. Financ. Stud. 22 (6), 2133–2168.
Cao, J., Pan, X., Qian, M., Tian, G., 2011. Political Connection and Managerial Entrenchment: Evidence From CEO Turnovers in China. Working paper. Singapore Management University.
Chen, S., Sun, Z., Tang, S., Wu, D., 2011. Government intervention and investment efficiency: evidence from China. J. Corp. Finan. 17 (2), 259–271.
Cheng, Q., Du, F., Wang, Y., Wang, X., 2017. Do corporate site visits impact stock price? Working paper. Management University, Singapore.
Cull, R., Li, W., Sun, B., Xu, L.C., 2015. Government connections and financial constraints: evidence from a large representative sample of Chinese firms. J. Corp. Finan. 32, 271–294.
Dechow, P.M., Dichev, I.D., 2002. The quality of accruals and earnings: the role of accrual estimation errors. Account. Rev. 77, 35–59.
Faccio, M., Masulis, R.W., McConnell, J., 2006. Political connections and corporate bailouts. J. Financ. 61 (6), 2597–2635.
Faccio, M., Zingales, L., 2017. Political determinants of competition in the mobile telecommunication industry. In: NBER Working Paper No. 23041.
Fan, G., Wang, X., Yu, J., 2017. NERI Index of Marketization of China's Provinces: 2016 Report. Social Sciences Academic Press.
Fan, J.P., Wong, T.J., Zhang, T., 2007. Politically connected CEOs, corporate governance, and post-IPO performance of China's newly partially privatized firms. J. Financ. Econ. 84 (2), 330–357.
Fisman, R., 2001. Estimating the value of political connections. Am. Econ. Rev. 91 (4), 1095–1102.
Hou, Q., Hu, M., Yuan, Y., 2017. Corporate innovation and political connections in Chinese listed firms. Pac. Basin Financ. J. 46, 158–176.
Jiang, F., Kim, K., 2015. Corporate governance in China: a modern perspective. J. Corp. Finan. 32, 190–216.
Johnson, S., Mitton, T., 2003. Cronyism and capital controls: evidence from Malaysia. J. Financ. Econ. 67 (2), 351–382.
Khwaja, A.I., Mian, A., 2005. Do lenders favor politically connected firms? Rent provision in an emerging financial market. Q. J. Econ. 120 (4), 1371–1411.
Lambert, T., 2017. Lobbying on Regulatory Enforcement Actions: Evidence from U.S. Commercial and Savings Banks. Working paper. Erasmus University.
Li, H., Meng, L., Wang, Q., Zhou, L.A., 2008. Political connections, financing and firm performance: evidence from Chinese private firms. J. Dev. Econ. 87 (2), 283–299.
Li, W., Tsang, E.W., Luo, D., Ying, Q., 2016. It's not just a visit: receiving government officials' visits and firm performance in China. Manag. Organ. Rev. 12 (3), 577–604.
Lin, K.J., Tan, J., Zhao, L., Karim, K., 2015. In the name of charity: political connections and strategic corporate social responsibility in a transition economy. J. Corp. Finan. 32, 327–346.
Ma, L., Ma, S., Tian, G., 2013. Political connections, founder-managers, and their impact on tunneling in China's listed firms. Pac. Basin Financ. J. 24, 312–339.
Mehta, M., Srinivasan, S., Zhao, W., 2017. Political Influence and Merger Antitrust Reviews. Working paper. University of Michigan, at Ann Arbor.
Pastor, L., Stambaugh, R.F., 2003. Liquidity risk and expected stock returns. J. Polit. Econ. 111 (3), 642–685.
Qian, Y., 1999. The Process of China's Market Transition (1978–98): The Evolutionary, Historical and Comparative Perspectives. Working paper. University of Stanford.
Saeed, A., Belghitar, Y., Clark, E., 2016. Do political connections affect firm performance? Evidence from a developing country. Emerging Markets Finance and Trade 52, 1876–1891.
Schoar, A., 2002. Effects of corporate diversification on productivity. J. Financ. 57 (6), 2379–2403.
Spence, M., 1973. Job market signaling. Q. J. Econ. 87 (3), 355–374.
Sun, P., Xu, H., Zhou, J., 2011. The value of local political capital in transition China. Econ. Lett. 110, 189–192.