

Party Committee Secretary serving on corporate boards and firm bribery channels

Hamish D. Anderson

School of Economics and Finance, Massey University, New Zealand

Jing Liao

School of Economics and Finance, Massey University, New Zealand

Jingjing Yang

Guangdong University of Foreign Studies, China

Martin Young

School of Economics and Finance, Massey University, New Zealand

Abstract

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Key words: Party secretary, bribery, SOE, anti-corruption campaign, China

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1. Introduction

Bribery increases the costs of doing business (Wu, 2009), however, corruption in the form of bribery is widespread across firms (Zeume, 2017). This study investigates the impact of the Secretary of the Chinese Communist Party (CCP)'s committee at the company level (Party Secretary hereafter) on firm bribery channels.

The significant role played by the CCP in Chinese State-owned Enterprise (SOEs) has been emphasised repeatedly in recent years. The CCP always appoints the SOE's Party Secretary¹ and the Party Secretary may simultaneously serve as a top executive (e.g., board chairman, CEO or director). This dual Party Secretary-Executive position signals the ultimate executive power in Chinese SOEs (Chen et al., 2011). The fate of government appointed bureaucrats "*depends entirely on their loyalty or personal connections to party leaders at upper levels*" (Guo, 2009, p. 622). In order to maintain the absolute decision making power in SOEs, Party Secretaries have strong personal political objectives to influence government officials who are authorised to appoint Party Secretaries in SOEs.

Bribery is an "unspoken rule" in Chinese markets (Zhu, 2017).² Yet, there is very little research on corruption in Chinese listed firms. One empirical challenge is how to measure bribery at the firm level. As bribery is largely unobserved at the firm level we use two approaches to proxy for common channels through which bribery can occur. Following Liu, An and Zhang (2016), abnormal management expenses (AMEs) is utilized as a bribe channel measure. AMEs reflect the perquisites that corporate executives command and are partly used to build and maintain corporate public relationships (Luo et al., 2011). We also use entertainment and travel costs (ETCs) scaled by total sales (Zhu, 2017). Cai, Fang and Xu

¹ The CCP retains ultimate control over the appointment and removal of Party Secretaries and CEOs/board chairs in SOEs (Chen et al., 2011; Fan et al., 2007).

² Transparency International's 2016 Corruption Perceptions Index ranked China at the 79th out of 176 countries and territories, with a pool score 40 out of 100. According to the Enterprise Surveys (2012) conducted by the World Bank, 11.6% of firms experienced at least one bribe payment request in China. In addition, a gift or informal payment was requested for 9.9% of public transactions.

(2011) and Zhu (2017) argue that Chinese firms use ETCs to reimburse expenditures used to bribe government officials³. Cai, Fang and Xu (2011) recognize ETCs as firms' investment in "connections" to "get anything done". Of the two bribery channels, ETCs are more visible as Chinese accounting principles require ETCs to be reported for each fiscal year in Notes to the Income Statement (Lin et al., 2016). ETCs have also faced much stricter monitoring since President Xi Jinping's administration started in November 2012.

We investigate the Party Secretary influence on firm bribery channels using a sample of 1,159 SOEs.⁴ On average, 9.34% of our sample firms have the dual Party Secretary-Executive position. The results show that the dual Party Secretary-Executive position is positively related to the EMEs bribery channel and is more pronounced in government agency controlled firms than in SOE controlled firms. We further categorize Party Secretaries into former government bureaucrats, inside promotion and outside appointment, respectively, by tracking their background. Interestingly, only Party Secretaries nominated through inside promotion appear to use AMEs as their bribery channel. This could be due to their superior firm-specific knowledge. In addition, former bureaucrats are significantly related to ETCs, even though such expenses are more visible than AMEs. This suggests former government bureaucrats value political power more and are more eager to maintain this power.

³ ETC is also widely considered by news media to be associated with corruption (Griffin, Liu and Shu, 2016). For example, *Security Times*, a government affiliated media, occasionally discloses the listed firms with higher ETCs (http://epaper.stcn.com/paper/zqsb/page/1/2014-08/29/B002/20140829B002_pdf.pdf).

⁴We exclude the privately controlled firms with the intuition that as Party Secretaries in private firms are selected by party members of the firm rather than appointed by the CCP government authorities. Party Secretaries in private firms have much less personal political objective to bribe given government bureaucrats do not have the direct saying on appointing the top management appointments in private firms. As for Chinese private firms, if there are more than three party members within the firm, those members have the right to set up a communist party branch. The establishment of the Communist Party branch in private firms needs to approved by the local CCP committee, the Party Secretary is selected by party members in the firm rather than appointed by the government authorities (Regulations on the Work of the grassroots organizations of the Chinese Communist Party and state organs Tutoring, 2000).

President Xi Jinping's corruption campaign since November 2012 is suggested to be the most effective anti-corruption effort in the communist party's history (Griffin, Liu and Shu, 2016). Assuming it is effective, then SOE Party Secretaries should be less inclined to bribe following the anti-corruption campaign commencement. The anti-corruption campaign provides a natural shock that allows us to test the political sensitivity of the dual Party Secretary-Executive positions. Overall we find firms significantly reduce their use of the ETCs bribery channel but significantly increase their AMEs bribery channel usage in the post-anti-corruption period. However, firms with dual role Party Secretaries significantly reduce the use of both ETCs and AMEs after the anti-corruption shock. Further we find that the significant relationship between Party Secretaries who were former bureaucrats and bribe payments measured by ETC becomes insignificant after the anti-corruption shock. We have evidence that well-performance firms bribe more than underperformed firms, indicating that Party Secretaries are less likely to bribe for improving firm performance. These results support our argument that Party Secretaries bribe for personal political motivations rather than as a desire to improve their firm's performance.

Our results are robust after controlling for endogeneity. It is possible that Party Secretaries were appointed onto boards of firms that have higher bribe payments. First, the government may appoint Party Secretaries to monitor bribe payments. Alternatively, government authorities appoint Party Secretaries in firms for rent-seeking incentives. Either reason may cause the reverse causality concern. We employ the difference-in-difference approach and instrumental generalized method of moments (GMM) approach to address the possible causality concern. The robustness results all point to the same conclusion; firms with the dual Party Secretary-Executive position are associated with higher bribery channel measures.

Our paper contributes to the literature in three ways. First, we contribute to the ongoing debate of politicians on corporate boards. We provide empirical evidence from a developing market perspective, where the research on political connection and bribe payments is still relatively unexplored. Our evidence indicates that personal political objectives lead to more bribe activities. Party Secretaries are likely to bribe government bureaucrats to show loyalty, which supports the proposition of the political objective of bureaucrats in SOEs (Shleifer and Vishny, 1997). Second, we provide evidence on the success of President Xi Jinping's anti-corruption campaign. The anti-corruption campaign reduces the use of ETCs significantly. However, we also have evidence that firms in general increase their use of the AMEs bribery channel given it is more invisible than ETCs. This indicates that AMEs need to be monitored more closely in China. Third, the results of this study offer significant implications to Chinese policymakers. The dual Party Secretary-Executive position is a significant driver for bribe activities in SOEs. Party Secretaries, especially those who are former bureaucrats or corporate insiders on corporate boards, hurt shareholders' interests by misusing resources. Therefore, it casts doubt on the policy of nominating Party Secretaries to boards in Chinese listed firms.

Section 2 discusses why the dual Party Secretary-Executive position is important to Party Secretaries and reviews the literature. Section 3 outlines the data, proxies for firm bribery channels, and various control variables. The core results, robustness and endogeneity checks are described in Section 4 and our conclusions are presented in Section 5.

2. Dual Party Secretary-Executive position, why important to Party Secretaries?

The CCP has emphasised the significant role it plays in SOE decisions on numerous occasions. For example, the Chinese State Council published the Guiding of "*Further promoting San Zhong Yi Da decision-making system in the state-owned enterprises*" in 2010. This Guiding requires major decisions including appointment and removal of top

management, assignment of significant projects, and large amounts of funds should be monitored by the CCP. The party's desire to strengthen its control of SOE decisions is further highlighted in the "*Guiding Opinions of the Central Committee of the Communist Party of China and the State Council on Deepening State-Owned Enterprise Reform*" (2015). This Guiding states the party will "*insist on the leadership of the State-owned enterprises by the party. This is the political direction and principle which must be followed...*".

The appointment and removal of the Party Secretaries and board chairman in SOEs is implemented through the Central Organization Department, which is the key human resource manager of the CCP (Nathan and Gilley, 2002). In SOEs, decision rights are shared between the Party Secretary at the company, the chairman of the board and the CEO (Chen et al., 2011). When a top manager also serves as the Party Secretary their power becomes much stronger in the SOE (Chen et al., 2011). The dual Party Secretary-Executive position signals the ultimate executive power in Chinese SOEs, and therefore is extremely valuable to managers holding these dual roles.

The anomie theory suggests unethical firm behaviours, such as bribery, are more likely facilitated by the local institutional environment (Martin, Cullen, Johnson and Parboteeah, 2007). According to the anomie theory, firms are less capable of coping with the external environment when the policy environment is unstable (Vaaler and Schrage, 2009). Corporate managers in an uncertain society would have more incentive to engage in deviant behaviours, including bribery, for the sake of job security (Chen, Cullen and Parboteeah, 2015). In addition, resource dependence theory suggests that external resources of organizations significantly affect organization behaviour (Pfeffer and Salancik, 1978), firms around the world engage in bribery to access resources allocated by the government (Boddewyn and Brewer, 1994; Habib and Zurawicki, 2002; Lee and Hong, 2012). Government officials hold a relatively high level of discretion over resource allocation and law enforcement under a

weak institutional environment (Zhou and Peng, 2012). This discretionary power held by government officials provides them with opportunities to abuse the power for private benefits and solicit bribery payments from firms (Murphy, Shleifer, and Vishny, 1993; Zhou and Peng, 2012). If the environmental conditions for firms are not satisfactory and bribery is considered normal, firms will give gifts and make informal payments for government services that they are actually entitled to (Zhou, Han, and Wang, 2013). Particularly, in a corrupt society where government officials seek private gains from their relationships with firms, the bargaining power of government officials can be large and lead to severe bribery (Clarke and Xu, 2004).

We expected that the dual Party Secretary-Executive position will be positively related to firm bribery in Chinese SOEs. Literature has shown it is critical to maintain ties with party leaders at upper levels for career security. In a unitary communist system like China, the fate of government appointed bureaucrats such as SOE Party Secretaries depends highly on their loyalty and/or personal connections to party leaders at upper levels (Guo, 2009). Shih et al. (2012) fail to find evidence strong growth performance being rewarded with higher party ranks in China. Instead, factional ties with various top leaders play substantial roles in elite rankings (Shih et al., 2012). Consequently, the Party Secretary-Executive duality may lead to higher briberies in SOEs due to the strong incentive of the Party Secretary to please party leaders at upper levels. It is a concern that bribery as a way of misusing firm resources, may hurt firm performance. However, it has been found that politically connected firms are bailed out with greater frequency than non-connected firms (Faccio, Masulis and McConnell, 2006). We hypothesize that;

Hypothesis: The Dual Party Secretary-Executive position is positively related to bribery channels in Chinese SOEs.

3. Data and variables

3.1. Data

The initial sample includes all companies listed on the Shanghai and Shenzhen Stock Exchanges from 2004 to 2015. We exclude the privately controlled firms because the Party Secretaries in private firms are selected by Party members of the firm rather than appointed by the government authorities. We exclude observations with missing information. The final sample includes 1,149 listed SOEs and 7,379 firm-year observations.

We hand collect the background of Party Secretaries from websites (e.g. Yahoo finance, Sina finance). All other data are from the China Listed Firms Research Database of China Stock Market and Accounting Research (CSMAR).

3.2 Variable construction

3.2.1 Dual Party Secretary-Executive position

A dummy variable is used as the proxy for the dual Party Secretary-Executive position. *Party* is equal to one if the Party Secretary is serving as a director, the board chairman or the CEO, and zero otherwise.⁵ We also hand-collect Party Secretary characteristic information, including age, gender and work experience.

3.2.2 Firm bribery channels

We use two measures as proxies for firm bribery channels. Following Liu, An and Zhang (2016), we estimate residuals from the following model to obtain AMEs, which is used as our first bribery channel proxy (*Bribe 1*).

$$Mexpense_{i,t} = \alpha_0 + \beta_1 \Delta Sale_{i,t} + \beta_2 PPE_{i,t} + \beta_3 Inv_{i,t} + \beta_4 LnEmployee_{i,t} + \mu_{i,t} \quad (1)$$

Where, $Mexpense_{i,t}$ refers to the management expenses for firm i in year t scaled by one-year lagged total assets of the firm. $\Delta Sale_{i,t}$ refers changes in sales of firm i in year t scaled by one-year lagged total assets of the firm. $PPE_{i,t}$, and $Inv_{i,t}$ refer to the net fixed assets and

⁵ We also employ *Party 1*, which is equal to one if the Party Secretary is serving as the board chairman or the CEO, and zero otherwise for robustness. On average, 3.68% of the sample firms have the Party Secretary serving as either the board chairman or the CEO. The regression results using *Party 1* as the dual role measure are quantitatively similar to those reported in Tables 3,4,6,7. The *Party 1* results are available on request.

inventories of firm i in year t , scaled by one-year lagged total assets for the firm, respectively. $\text{LnEmployee}_{i,t}$ is calculated as the natural logarithm of the number of employees for firm i in year t .

As discussed earlier, Chinese firms use ETCs to reimburse expenditures that can be used to bribe government officials (Cai et al., 2011). Hence, we construct the second bribery channel measure, *Bribe 2*, which is calculated as a firm's expenditures on ETCs scaled by its total sales. The data for ETCs is only available from 2010 to 2015. Compared with *Bribe 1*, *Bribe 2* are more visible to the public, given listed firms are required to disclose their ETCs.

3.2.3 Summary statistics

Table 1 reports the summary statistics of the dual Party Secretary-Executive (*Party*) position from 2004 to 2015. On average, 9.34% of the sample firms have the Party Secretary simultaneously serving as either the board chairman, CEO or director. The dual role Party Secretaries are predominantly male (93%) with an average age of 50.5 years; the youngest of which is 34 and oldest 62 years. We track the working experience of the dual role Party Secretaries and categorize them as former government bureaucrats, inside promotion and outside appointment. Former government bureaucrats represent 23.95% of the Party Secretaries⁶. Among the Party Secretaries who do not have political background, we classify them into insiders and outsiders who are promoted as the Party Secretaries. Insiders account for 40.98% of the total Party Secretaries, who are appointed to the Party Secretary position through an internal promotion. While 35.06% of the Party Secretaries are outsiders, who are appointed to the position from other corporations.

Insert Table 1 here

⁶ They may have been working in industry for several years before being appointed as the Party Secretary in the specific firm.

3.2.4 Control variables

Following the literature, we employ a series of variables to control for other determinants of bribe payments (e.g., Ayyagari et al., 2014; Liu, An and Zhang, 2016). Firm size (*Fsize*) is calculated as the natural logarithm of total assets. Both Ayyagari et al. (2014) and Liu, An and Zhang (2016) report a negative association between firm size and bribery. We control for firm leverage (*Leverage*), which is calculated as total debt to total assets. Leverage is expected to be negatively related to bribery due to the lack of cash flows of highly leveraged firms. But it is also possible that firms with dual role Party Secretaries get better access to debt, therefore those firms with more leverage bribe more to maintain the connections. *ROA* is calculated as the ratio of net profits to total assets. Well-performing firms may have more resources to bribe (Liu, An and Zhang, 2016). Sales growth (*Growth*) is captured by the growth ratio of sales revenue. High-growth firms require more resources to grow which may lead to higher incentives to bribe officials. *Bsize* is the natural logarithm of the total number of directors on board. *Bindep* is the ratio of number of independent directors to total directors on board. Smaller boards with more independent directors are expected to provide greater monitoring (Raheja, 2005). In line with the literature, board size (board independence) is expected to be positively (negatively) related to bribe payments. *Largest* is calculated as the proportion of the largest shareholder's shareholding. Ownership concentration should provide large shareholders with better bargaining power, and hence, reduce bribery. Finally, we control for institutional investors' ownership, including mutual funds and Qualified Foreign Institutional Investors (QFIIs). *MF* is the proportional of share held by mutual funds, while *QFII* is the proportional of share held by QFIIs. Firth et al. (2016) argue that mutual funds in China could play an important monitoring role and find a positive relationship between mutual funds ownership and dividend payments. Foreign institutional investors play an active role in improving corporate governance practices, particularly in

countries with weak shareholder protection (Aggarwal et al., 2011). Both *MF* and *QFII* is expected to reduce bribe payments.

3.2.5 Control variables, summary statistics

Table 2 presents the summary statistics for the main variables. On average, the largest shareholder holds 41.57% of firms' shares outstanding, with a maximum ratio of 89.89%. Institutional shareholding still tends to be minor in our sample firms, including the average mutual funds ownership of 2.77% and less than 1% of average QFIIs ownership.⁷

Insert Table 2 here

4. Results and discussion

In this section, we present and discuss the results of the effect of the dual Party Secretary-Executive position on firm bribery. We then present and discuss the various robustness checks.

4.1 Party Secretary and firm bribery channels

We conduct multivariate regressions of the panel data controlling for industry and year fixed effects, with standard errors clustered by firm. The initial regression specification is as follows:

$$Bribe\ I/2 = \alpha + \beta_1 Party + \beta_2 Fsize + \beta_3 Leverage + \beta_4 Growth + \beta_5 ROA + \beta_6 Bsize + \beta_7 Bindep + \beta_8 Largest + \beta_9 MF + \beta_{10} QFII + \varepsilon \quad (2)$$

Table 3 reports the baseline regression results. *Party* dummy is positively related to *Bribe I*, significant at the 5% level. The coefficient of *Party* (0.0023) indicates that on average firms with a dual Party Secretary-Executive position incur 1.21% more bribe payments compared to those without such a representative. The result appears to be

⁷ Untabulated pairwise correlation matrix of the key variables do not reveal any serious multicollinearity issues. Among the variables, the correlation between *ROA* and *Leverage* has the largest coefficient with -0.418. These results are available from the authors on request.

economically significant given the mean value of *Bribe 1* of 5.55%.⁸ This result suggests that dual role Party Secretaries have strong incentives to maintain political power and engage in more bribery activity through the AMEs channel. We fail to find a significant result between *Party* dummy and *Bribe 2*. This result is not unexpected given that ETCs are visible and closely monitored by authorities compared to AMEs.

For the control variables, firm size is negatively related to *Bribe 1* and *Bribe 2*, indicating large firms undertake less bribery. *ROA* is positively related to *Bribe 1*, suggesting that firms with better performance are able to bribe more, which is in line with Liu, An and Zhang (2016). However, *ROA* is negatively related to *Bribe 2*. High growth firms undertake more bribery as measured by *Bribe 1*, given they need more resources. Ownership concentration is negatively related to both *Bribe 1*. This is line with our expectation that ownership concentration provides more bargaining power, and therefore can reduce bribery. Opposite to our expectation, *MF* is positively related to both *Bribe 1*. This may be due to the causality issue that mutual funds choose firms having the Party Secretary-Executive duality. Party Secretaries serving on boards indicates a strong political tie, which may benefit firms with better access to resources. *QFII* is positively related to *Bribe 1*, but is negatively related to *Bribe 2*. Foreign investors reduce the ETCs due to the possible reputation concern of QFIIs given the high visibility of *Bribe 2*. The positive relationship between *QFII* and *Bribe 1* can be driven by the rent-seeking incentives of foreign investors as discussed in Zhu (2017). Zhu (2017) indicates that foreign investors may undertake more bribery to enhance the return of their investment.

Insert Table 3 here

4.2 Party Secretary and firm bribery, government agency vs. SOE control

⁸ We use the standard approach to calculate the economic significance as the coefficient of a variable times the standard deviation of the variable divided by the mean value of the dependent variable.

The influence of the Party Secretaries on firm bribe behaviour may be different in firms controlled by government agencies and SOEs. In 2004, close to half of the sample firms were controlled by government agencies and half by SOEs, but by 2015 firms controlled by government agencies had increased to 65%. Party Secretaries in government agency controlled firms should have more personal political motivation to bribe than in SOE controlled firms. Literature shows that the identity of controlling shareholder matters, since different types of owners may have different objectives and motivations (Chen et al., 2009). Government agency controlled firms are expected to be more influenced by political objectives than firms controlled by company even though controlling shareholder may be a state-owned company.

Panel A of Table 4 reports the results for firms controlled by government agencies, while Panel B reports the results of sample firms controlled by SOEs. *Party* dummy is positively related to *Bribe 1*, significant at the 1% level in government agency controlled firms, while insignificant in SOE controlled firms. This is consistent with our expectations.

Insert Table 4 here

4.3 Party Secretary background and firm bribery channels

Dual role Party Secretaries' background may affect firm bribe behaviour. As discussed, we categorize Party Secretaries as former bureaucrats, insiders and outsiders and construct three dummy variables. *Politician* is equal to one if a former government bureaucrat is appointed as the Party Secretary, and otherwise zero. *Insider* is a dummy of one if a corporate insider is promoted to Party Secretary of the firm, and otherwise zero. While *Outsider* is equal to one if a corporate outsider is promoted as the Party Secretary, and otherwise zero.

Table 5 highlights that *Insider* is a significant factor affecting *Bribe 1*, and as corporate insiders have more firm-specific knowledge they may be more capable of using AMEs as their preferred bribery channel. Even though ETCs are visible and are under tough

monitoring, *Politician* shows a significant relationship with *Bribe 2*. This indicates that former government bureaucrats value political power very much and they have strong incentive to maintain this power. Bribery may hurt firm performance because it is a misuse of resource. However, former bureaucrats less concerned with firm performance as they are more likely to be bailed out when facing financial distress (Faccio, Masulis and McConnell, 2006). It is not surprising that both insiders and outsiders are less likely to use ETCs to bribe. They have more concern on the consequences if those activities were disclosed by either media or auditors, especially since President Xi's governance.

Insert Table 5 here

4.4 Party Secretary and President Xi's Anti-corruption campaign

As discussed earlier, the anti-corruption campaign launched by President Xi Jinping in late 2012 is expected to reduce bribes in listed firms. We construct a dummy variable *Shock*, which is equal to one if the observation year is for 2013, 2014 or 2015, respectively. The *Shock* dummy is expected to be negatively related to related to firm bribery. Given the significant impact of the anti-corruption campaign, firms will be more cautious when undertaking bribes since 2013. We construct an interaction $Shock \times 2013$, given the campaign launched in late 2012 is exogenous. The anti-corruption campaign is a natural shock which allows us to test the political sensitivity of Party Secretaries in the post-campaign period. We control for industry fixed effect with standard errors clustered by firm as the 2013 dummy is highly correlated with year dummies. The results are presented in Table 6.

The *Shock* dummy is negatively related to *Bribe 2*, which is consistent with our expectation that the use of the bribery channels reduces following the exogenous anti-corruption campaign. However, 2013 is significantly positively related to *Bribe 1*, this is,

firms undertake more AMEs during the post-anti-corruption period. Firms in general rely more on the AMEs bribery channel since 2013 due to the very close scrutiny of ETCs following the anti-corruption campaign. Interestingly, $Party \times Shock$ is significantly and negatively related to both *Bribe 1* and 2. The coefficient of $Party \times Shock$ is significant at the 1% level when bribe is measured by ETCs, suggesting that the anti-corruption campaign reduces bribes in firms with Party Secretaries serving on board significantly. These results indicate that Party Secretaries are very sensitive to political environment changes and avoid actions that will hurt their career development.⁹

Insert Table 6 here

Overall, the panel data analysis shows that Party Secretaries serving on boards are positively related to firm bribery. This positive effect is more pronounced in government agency controlled firms than in SOE controlled firms. In addition, Party Secretaries appointed through an inside promotion are more capable to bribe through abnormal management expenses. Former government bureaucrats are more likely to bribe through ETCs although those expenses are much more visible than AMEs. Importantly, firm bribery measures reduce significantly in firms with Party Secretaries serving on board during the post-anti-corruption campaign period.

4.5 Endogeneity

In this section, we address possible endogeneity concerns that Party Secretaries are appointed in firms that have higher bribe payments. First, the government may appoint Party Secretaries to monitor bribes. Alternatively, government authorities appoint Party Secretaries for rent-seeking incentives. The reverse causality could be driven by either.

⁹ We also create interactions *Politician/ Insider / Outsider* $\times Shock$ for robustness checks. The results suggest that former government bureaucrats are most sensitive to the corruption effect. *Politician* $\times Shock$ is significantly and negatively related to both *Bribe 1* and 2.

4.5.1 Determinants of Party Secretary serving on board

We first test the determinants of have Party Secretaries serving on board by performing the following logistic regression model.

$$Party = \alpha + \beta_1 Bribe\ 1/2 + \beta_2 Government + \beta_3 Fsize + \beta_4 Leverage + \beta_5 Growth + \beta_6 ROA + \beta_7 Bsize + \beta_8 Bindep + \beta_9 Largest + \beta_{10} MF + \beta_{11} QFII + \varepsilon \quad (3)$$

We control for industry-year fixed effect. All independent variables are lagged by one period. *Government* is a dummy variable equal to one if the firm is controlled by a government agency and zero otherwise. The results are reported in Table 7. *Bribe 1* is significantly related to *Party* dummy, suggesting that the dual Party Secretary-Executive position is more likely to happen in firms with higher AMEs. This result indicates the importance to address the causality concern associated with the positive relationship between the dual Party Secretary-Executive position and firm bribery.

In addition, government agency controlled firms, firms with higher leverage and well performing firms are more likely to have such a duality position. Large firms, firms with higher ownership concentration and firms with higher QFII ownership are less likely to have Party Secretaries who also serve as top executives.

Insert Table 7 here

4.5.2. Difference-in-difference approach

We first employ the difference-in-difference approach to control for the possible endogeneity. The sample for the difference-in-difference analysis includes 1,262 observations which have a dual Party Secretary-Executive position in at least one observation year during 2004 to 2015. We employ t-test as the main approach to examine the mean difference of bribery channel measures between the observations years with and without Party Secretary serving on board. This approach helps address the firm effect as only those firms with at least one observation with a dual role Party Secretary are included in the sample. We further use

the *Party × Shock* dummy to test the impact of Party Secretary serving on board on firm bribery by employing the 2013 anti-corruption campaign as a natural shock. The results are reported in Table 8.

The t-tests confirm that *Insider* is associated with higher *Bribe 1* and *politician* is associated with higher *Bribe 2*. However, *Politician/Insider/Outside* are associated with lower *Bribe 1 and Bribe 2* during the post-anti-corruption period.¹⁰ These results confirm that Party Secretaries undertake more bribe payments due to the strong personal political motivations, but the anti-corruption campaign mitigates the bribery behaviour.¹¹

Insert Table 8 here

4.5.3. Instrumental variables (GMM) approach

We further control for the endogeneity by estimating the instrumental generalized method of moments (GMM) approach. Similar to Liu et al. (2016) method of addressing endogeneity we construct a dummy variable *Age55*, which equals one if the age of the Party Secretary is less than 55, otherwise zero. We use *Age55* as the instrumental of the dual Party-Secretary position measure, because older Party Secretaries have much less chance of being. Age and education credentials play a prominent role in Chinese political promotions, which is advantageous for younger bureaucrats, while older bureaucrats are strongly encouraged to retire (Landry, 2008). In addition, we use *Age55 × Government* to further address the impact of personal political motivation on firm bribery. *Age55 × Government* is a dummy of one if the firm is control by a government agency and the age of the Party Secretary is less than 55,

¹¹ We run the following regressions using the 1,262-observation sample.

$$Bribe\ 1/2 = \alpha + \beta_1 Politician/Insider/Outside + \beta_2 Shock + \beta_3 Politician/Insider/Outside \times Shock + \beta_4 Fsize + \beta_5 Leverage + \beta_6 Growth + \beta_7 ROA + \beta_8 Bsize + \beta_9 Bindep + \beta_{10} Largest + \beta_{11} MF + \beta_{12} QFII + \varepsilon$$

The results show that *Insider* is still significantly and positively related to AMEs, while the coefficient of *Insider × Shock* turns negative when AMEs is used to measure bribery. In addition, *Politician* is still significantly and positively related to ETCs, but the coefficient of *Politician × Shock* turns to be significantly negative when ETCs is used to measure bribery.

and zero otherwise. As younger Party Secretaries in firms controlled by government agencies should have more personal political motivations.

Table 9 reports the instrumental GMM regression results. We find a significant positive relationship between $Age55/Age55 \times Government$ and *Bribe 1*, confirming that the dual role Party Secretaries are utilizing the AMEs bribery channel due. The other results are similar to those in Table 3.

Insert Table 9 here

4.6 Additional tests

We do addition tests to further address the impact of Party Secretaries who are also top executives on firm bribery in this section.

4.6.1 Party Secretary and bribe channel, cross-listing effect

Some Chinese firms simultaneously trade in overseas stock exchanges, including the Hong Kong and New York Stock Exchanges. By the end of 2013, there were 185 firms listed in overseas stock exchanges (Shen, Zhou and Lau, 2016). It has been documented that a particular benefit emerging market firms enjoy when cross-listing in more developed markets is improved corporate governance (Stulz, 1999). Cross-listed firms are expected to undertake less bribe payments because of the overall higher corporate governance standard in Hong Kong and U.S. compared to China.

Of the 1,149 sample firms 62 cross listed in overseas markets, among which 10 cross-listed firms also have the dual Party Secretaries-Executive positions. We first test the mean difference of bribe channels between cross-listed firms and non-cross-listed firms. The t-test results in Panel A of Table 10 shows that cross-listed firms have significantly lower *Bribe 1* and *Bribe 2* than non-cross-listed firms. We also construct a *H Shares* dummy equals to one if the firm issues foreign shares by listing in overseas stock exchanges, including the Hong Kong Stock Exchange and the New York Stock Exchanges, and zero otherwise. We exclude

firm size variable from the regression due to its high correlation with the cross-listing dummy. The coefficient of *Party* is still significantly and positively related to AMEs (*Bribe 1*), but the coefficient of *Party* × *H Shares* is significantly negative, suggesting that crossing listing reduces bribes in firms with the dual Party Secretary-Executive position.

Insert Table 10 here

Finally, an interesting question is whether Party Secretary compensation matters for bribes. We construct a variable *Salary*, which refers to the natural logarithm of the compensation of the Party Secretary per year, to address this issue. The results show higher compensation is associated with higher *Bribe 1* payments. This result is reasonable as the higher personal compensation received, the greater the incentive to keep the connections with higher party officials. Other results are similar as those reported in Table 3.¹²

6. Conclusion

We show that personal political objective is a significant driven factor of bribery in Chinese SOEs. SOEs have Party Secretary representing on top management is positively associated with firm bribery channels. In addition, this relationship is more pronounced in government agency controlled firms than in SOE controlled firms. We categorize Party Secretaries into former government bureaucrats, inside promotion and outside appointment, respectively. We have evidence that Party Secretaries appointed through an inside promotion are more capable to bribe through AMEs which are relatively invisible and require extensive firm-specific knowledge to manage. Former government bureaucrats are more likely to bribe through ETCs although those expenses are much more visible than AMEs. Our empirical evidence supports President Xi Jinping's anti-corruption campaign. Bribery measures reduce

¹²Results are available on request.

significantly in firms with Party Secretaries serving on board during the post-anti-corruption campaign period. The relationship between Party Secretaries and bribe payments turns to be negative since 2013. This indicates that Party Secretaries are very sensitive to political environment changes. However, we also have evidence that firms in general increase their use of the AMEs. This indicates the urgency of monitoring AMEs in Chinese SOEs.

One possible topic for future research is to investigate whether and how institutional investors affect corporate bribery. The adverse effects of corruption on growth and development have raised much attention among policy makers and investors. Aggarwal et al. (2011) argue that good corporate governance travels around the world. Utilizing data from 23 countries during the period 2003 to 2008, they document a significant positive relation between foreign institutional ownership and a firm-level governance index. However, it is also argued that multinational corporation activity can lead to more corruption due to the rent-seeking incentives of foreign investors (Zhu, 2017). Our results on the relationship between institutional ownership and corruption channel measures are mixed. Given the importance of institutional investors in emerging markets, it might be worth to explore this research question further in future studies.

Appendix: Variable definitions

This appendix reports the variables and definitions used in this study.

Variables	Definition
<i>Party</i>	A dummy variable that equals one if the Party Secretary of the firm is serving as chairman of the board, the CEO or a director, and zero otherwise
<i>Male</i>	A dummy variable that equals one if the Party Secretary of the firm is male, and zero otherwise.
<i>Age</i>	The age of the Party Secretary of the firm
<i>Politician</i>	A dummy that equals one if a former government bureaucrat is appointed as the Party Secretary of the firm.
<i>Insider</i>	A dummy that equals one if an insider is promoted as the Party Secretary of the firm.
<i>Outsider</i>	A dummy that equals one if an outsider is appointed as the Party Secretary of the firm.
<i>Bribe 1</i>	Abnormal management expenses (AMEs)
<i>Bribe 2</i>	Expenditures on entertainment and travel costs (ETCs) scaled by total sales
<i>Fsize</i>	The natural logarithm of total assets
<i>Leverage</i>	Total debts to total assets
<i>Growth</i>	Growth ratio of sales revenue
<i>ROA</i>	Net profits to total assets
<i>Bsize</i>	The natural logarithm of the total number of directors on the board
<i>Bindep</i>	The number of independent directors to total number of directors on the board
<i>Largest</i>	The proportion of the largest shareholding
<i>MF</i>	The proportional of shares held by mutual funds
<i>QFII</i>	The proportional of share held by Qualified Foreign Institutional Investors (QFIIs)

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Table 1: Summary statistics of the dual Party Secretary- Executive position

This table reports the summary statistics of the dual Party Secretary- Executive position. The whole sample includes 1,149 listed state-owned enterprises that consists of 7,379 firm-year observations for the period from 2004 to 2015. The description of each variable is summarized in the Appendix.

Panel A: Summary statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
<i>Party</i>	7379	0.0939	0.2917	0	1
<i>Male</i>	693	0.9307	0.2541	0	1
<i>Age</i>	693	50.531	6.2226	34	62
<i>Politician</i>	693	0.2395	0.4271	0	1
<i>Insider</i>	693	0.4098	0.4922	0	1
<i>Outsider</i>	693	0.3506	0.4775	0	1

Table 2: Descriptive statistics and correlations

This table reports the summary statistics of the main independent variables included in the analysis. The description of each variable is summarized in the Appendix.

Variable	Obs	Mean	Std. Dev.	Min	Max
<i>Bribe 1</i>	7379	0.0555	0.0158	-0.0464	0.1673
<i>Bribe 2</i>	4432	0.0018	0.0029	0	0.0574
<i>Fsize</i>	7379	22.2947	1.3493	18.4742	28.5086
<i>Leverage</i>	7379	0.5174	0.2028	0.0103	1.9942
<i>Growth</i>	7379	0.1372	0.3077	-0.8821	3.1942
<i>ROA</i>	7379	0.0328	0.0622	-0.7539	0.4279
<i>Bsize</i>	7379	2.2357	0.2015	1.3863	2.9444
<i>Bindep</i>	7379	0.3628	0.0539	0	0.8000
<i>Largest</i>	7379	0.4157	0.1529	0.0238	0.8989
<i>MF</i>	7379	0.0277	0.0406	0	0.3342
<i>QFII</i>	7379	0.0015	0.0061	0	0.1104

Table 3: Party Secretary and firm bribery

This table reports the estimates of the following regression model, controlling for industry-year fixed effect with standard errors clustered by firm.

$$Bribe\ 1/2 = \alpha + \beta_1 Party + \beta_2 Fsize + \beta_3 Leverage + \beta_4 Growth + \beta_5 ROA + \beta_6 Bsize + \beta_7 Bindep + \beta_8 Largest + \beta_9 MF + \beta_{10} QFII + \varepsilon$$

The variable descriptions are summarized in the Appendix. The superscripts *, **, and *** indicate significance at the 90%, 95%, and 99% confidence levels, respectively.

	<i>Bribe 1</i>		<i>Bribe 2</i>	
	Coef.	<i>p</i> -Value	Coef.	<i>p</i> -Value
<i>Party</i>	0.0023**	0.031	-0.0001	0.430
<i>Fsize</i>	-0.0008***	0.000	-0.0005***	0.000
<i>Leverage</i>	-0.0018	0.221	-0.0005	0.334
<i>Growth</i>	0.0128***	0.000	-0.0003	0.310
<i>ROA</i>	0.0083**	0.033	-0.0030***	0.008
<i>Bsize</i>	0.0001	0.965	0.0001	0.835
<i>Bindep</i>	0.0058	0.263	0.0009	0.425
<i>Largest</i>	-0.0031*	0.070	-0.0008	0.143
<i>MF</i>	0.0167**	0.034	0.0027	0.180
<i>QFII</i>	0.0727**	0.013	-0.0164**	0.018
<i>Intercept</i>	0.0711***	0.000	0.0133***	0.000
Industry fixed effect	Yes		Yes	
Year fixed effect	Yes		Yes	
Obs.	7379		4432	
<i>R</i> ²	0.4191		0.1349	

Table 4: Party Secretary and firm bribery, government agency control Vs. SOE control

This table reports the estimates of the following regression model, controlling for industry-year fixed effect with standard errors clustered by firm.

$$Bribe\ 1/2 = \alpha + \beta_1 Party + \beta_2 Fsize + \beta_3 Leverage + \beta_4 Growth + \beta_5 ROA + \beta_6 Bsize + \beta_7 Bindep + \beta_8 Largest + \beta_9 MF + \beta_{10} QFII + \varepsilon$$

The variable descriptions are summarized in the Appendix. The superscripts *, **, and *** indicate significance at the 90%, 95%, and 99% confidence levels, respectively.

Panel A of this table reports the results of sample firms controlled by government agencies.

	<i>Bribe 1</i>		<i>Bribe 2</i>	
	Coef.	<i>p</i> -Value	Coef.	<i>p</i> -Value
<i>Party</i>	0.0037***	0.004	-0.0001	0.463
<i>Fsize</i>	-0.0009***	0.001	-0.0004***	0.000
<i>Leverage</i>	-0.0014	0.458	-0.0006	0.359
<i>Growth</i>	0.0153***	0.000	-0.0008***	0.009
<i>ROA</i>	0.0079	0.106	-0.0029**	0.046
<i>Bsize</i>	0.0011	0.543	0.0003	0.505
<i>Bindep</i>	0.0034	0.610	0.0006	0.636
<i>Largest</i>	-0.0032	0.174	-0.0014**	0.034
<i>MF</i>	0.0154	0.116	0.0016	0.516
<i>QFII</i>	0.0675*	0.059	-0.0125*	0.098
<i>Intercept</i>	0.0715***	0.000	0.0109***	0.000
Industry fixed effect	Yes		Yes	
Year fixed effect	Yes		Yes	
Obs.	4366		2744	
<i>R</i> ²	0.451		0.1427	

Panel B of this table reports the results of sample firms controlled by SOEs.

	<i>Bribe 1</i>		<i>Bribe 2</i>	
	Coef.	<i>p</i> -Value	Coef.	<i>p</i> -Value
<i>Party</i>	-0.0007	0.629	0.0000	0.944
<i>Fsize</i>	-0.0008**	0.027	-0.0007***	0.000
<i>Leverage</i>	-0.0021	0.320	-0.0002	0.781
<i>Growth</i>	0.0104***	0.000	0.0004	0.493
<i>ROA</i>	0.0084	0.119	-0.0031*	0.072
<i>Bsize</i>	-0.0007	0.707	-0.0005	0.492
<i>Bindep</i>	0.0085	0.209	0.0015	0.486
<i>Largest</i>	-0.0030	0.171	0.0001	0.853
<i>MF</i>	0.0174	0.105	0.0045	0.199
<i>QFII</i>	0.0918*	0.051	-0.0314**	0.049
<i>Intercept</i>	0.0711***	0.000	0.0170***	0.000
Industry fixed effect	Yes		Yes	
Year fixed effect	Yes		Yes	
Obs.	3013		1688	
<i>R</i> ²	0.4018		0.1574	

Table 5: Party Secretary and firm bribery, does background matter

This table reports the estimates of the following regression model, controlling for industry-year fixed effect with standard errors clustered by firm.

$$Bribe\ 1/2 = \alpha + \beta_1 Politician/Insider/Outsider + \beta_2 Fsize + \beta_3 Leverage + \beta_4 Growth + \beta_5 ROA + \beta_6 Bsize + \beta_7 Bindep + \beta_8 Largest + \beta_9 MF + \beta_{10} QFII + \varepsilon$$

Politician is a dummy that equal to one if a former government bureaucrat is appointed as the Party Secretary of the firm and otherwise zero. *Insider* is a dummy that equal to one if a corporate insider is promoted as the Party Secretary and otherwise zero. *Outsider* is a dummy that equal to one if a corporate outsider is appointed as the Party Secretary and otherwise zero. The other variable descriptions are summarized in the Appendix. The superscripts *, **, and *** indicate significance at the 90%, 95%, and 99% confidence levels, respectively.

			<i>Bribe 1</i>				<i>Bribe 2</i>					
	Coef.	p-Value	Coef.	p-Value	Coef.	p-Value	Coef.	p-Value	Coef.	p-Value		
<i>Politician</i>	0.0017	0.450					0.0008*	0.072				
<i>Insider</i>			0.0048***	0.009					-0.0004	0.109		
<i>Outsider</i>					-0.0007	0.502				-0.0005**	0.016	
<i>Fsize</i>	-0.0008***	0.000	-0.0008***	0.001	-0.0008***	0.000	-0.0005***	0.000	-0.0005***	0.000	-0.0005***	0.000
<i>Leverage</i>	-0.0015	0.295	-0.0020	0.174	-0.0015	0.303	-0.0005	0.327	-0.0005	0.351	-0.0005	0.331
<i>Growth</i>	0.0128***	0.000	0.0129***	0.000	0.0128***	0.000	-0.0003	0.315	-0.0003	0.306	-0.0003	0.308
<i>ROA</i>	0.0085**	0.029	0.0079**	0.041	0.0085**	0.028	-0.0031***	0.007	-0.0030***	0.009	-0.0031***	0.006
<i>Bsize</i>	0.0002	0.894	0.0000	0.991	0.0003	0.856	0.0000	0.930	0.0001	0.813	0.0001	0.878
<i>Bindep</i>	0.0059	0.257	0.0061	0.240	0.0061	0.243	0.0007	0.513	0.0009	0.435	0.0009	0.433
<i>Largest</i>	-0.0033*	0.059	-0.0033*	0.058	-0.0033*	0.053	-0.0007	0.163	-0.0008	0.149	-0.0008	0.144
<i>MF</i>	0.0166**	0.035	0.0166**	0.033	0.0165**	0.035	0.0029	0.157	0.0027	0.187	0.0028	0.171
<i>QFII</i>	0.0689**	0.018	0.0739**	0.012	0.0684**	0.019	-0.0161**	0.020	-0.0164**	0.018	-0.0167**	0.016
<i>Intercept</i>	0.0712***	0.000	0.0709***	0.000	0.0711***	0.000	0.0134***	0.000	0.0133***	0.000	0.0134***	0.000
Industry fixed effect	Yes		Yes		Yes		Yes		Yes		Yes	
Year fixed effect	Yes		Yes		Yes		Yes		Yes		Yes	
Obs.	7379		7379		7379		4432		4432		4432	
R ²	0.4176		0.4208		0.4174		0.1366		0.1352		0.1359	

Table 6: Party Secretary and firm bribery channels, the anti-corruption shock

This table reports the estimates of the following regression model, controlling for industry fixed effect with standard errors clustered by firm.

$$Bribe\ 1/2 = \alpha + \beta_1 Party + \beta_2 Shock + \beta_3 Party \times Shock + \beta_4 Fsize + \beta_5 Leverage + \beta_6 Growth + \beta_7 ROA + \beta_8 Bsize + \beta_9 Bindep + \beta_{10} Largest + \beta_{11} MF + \beta_{12} QFII + \varepsilon$$

Shock is a dummy variable that equal to one if the observation year is for 2013, 2014 or 2015, respectively. The other variable descriptions are summarized in the Appendix. The superscripts *, **, and *** indicate significance at the 90%, 95%, and 99% confidence levels, respectively.

	<i>Bribe 1</i>		<i>Bribe 2</i>	
	Coef.	<i>p</i> -Value	Coef.	<i>p</i> -Value
<i>Party</i>	0.0026**	0.044	0.0002	0.370
<i>Shock</i>	0.0013***	0.002	-0.0005***	0.000
<i>Party</i> × <i>Shock</i>	-0.0026*	0.064	-0.0007***	0.007
<i>Fsize</i>	-0.0009***	0.000	-0.0005***	0.000
<i>Leverage</i>	-0.0028*	0.062	-0.0005	0.314
<i>Growth</i>	0.0122***	0.000	-0.0004	0.221
<i>ROA</i>	0.0046	0.261	-0.0029**	0.010
<i>Bsize</i>	0.0005	0.697	0.0001	0.754
<i>Bindep</i>	0.0029	0.585	0.0010	0.373
<i>Largest</i>	-0.0023	0.180	-0.0008	0.139
<i>MF</i>	0.0113	0.155	0.0023	0.248
<i>QFII</i>	0.0661**	0.021	-0.0180***	0.008
<i>Intercept</i>	0.0735***	0.000	0.0134***	0.0000
Industry fixed effect	Yes		Yes	
Obs.	7379		4432	
<i>R</i> ²	0.3658		0.128	

Table 7: Determinants of Party Secretary in director appointments

This table reports the estimates of the following logistic regression model, controlling for industry-year fixed effect.

$$Party = \alpha + \beta_1 \text{Bribe 1/2} + \beta_2 \text{Government} + \beta_3 \text{Fsize} + \beta_4 \text{Leverage} + \beta_5 \text{Growth} + \beta_6 \text{ROA} + \beta_7 \text{Bsize} + \beta_8 \text{Bindep} + \beta_9 \text{Largest} + \beta_{10} \text{MF} + \beta_{11} \text{QFII} + \varepsilon$$

Government is a dummy variable that equals one if the firm is controlled by a government agency and zero otherwise. All independent variables are lagged by one period. The variable descriptions are summarized in the Appendix. The superscripts *, **, and *** indicate significance at the 90%, 95%, and 99% confidence levels, respectively.

	<i>Party</i>		<i>Party</i>	
	Coef.	<i>p</i> -Value	Coef.	<i>p</i> -Value
<i>Bribe 1</i>	13.1935***	0.000		
<i>Bribe 2</i>			-39.7115	0.130
<i>Government</i>	0.4563***	0.000	0.4871***	0.000
<i>Fsize</i>	-0.1048**	0.019	-0.1879***	0.000
<i>Leverage</i>	1.7557***	0.000	1.6691***	0.000
<i>Growth</i>	-0.1022	0.562	-0.0912	0.678
<i>ROA</i>	2.6583**	0.013	3.8119***	0.007
<i>Bsize</i>	1.2122***	0.000	1.4388***	0.000
<i>Bindep</i>	1.4384	0.112	2.3015**	0.023
<i>Largest</i>	-0.9428***	0.005	-0.9420**	0.020
<i>MF</i>	-1.0644	0.359	-2.8405*	0.098
<i>QFII</i>	-47.0321***	0.000	-30.2047*	0.053
Industry fixed effect	Yes		Yes	
Year fixed effect	Yes		Yes	
Obs.	5298		3548	
Log likelihood	-1537.13		-1060.25	

Table 8: Party Secretary and firm bribery, difference-in-difference approach

This table reports the t test results of the sample including 1,262 observations that have Party Secretary serving on board in one or more sample years from 2004 to 2015. Party refers to the observations that have the Party Secretary serving on board in the observation year. Non-Party the observations that do not have the Party Secretary serving on board in the observation year. Politician refers to the observations that have the former bureaucrat appointed as Party Secretary serving on board in the observation year. Insider refers to the observations that have a corporate insider appointed as Party Secretary serving on board in the observation year. Outsider refers to the observations that have a corporate outsider appointed as Party Secretary serving on board in the observation year. The superscripts *, **, and *** indicate significance at the 90%, 95%, and 99% confidence levels, respectively. Party-2013 refers to the observations with the interaction, Party \times 2013 equals 1. 2013 is a dummy variable that equal to one if the observation year is for 2013, 2014 or 2015, respectively. Non-Party-2013 refers to the observations with the interaction, Party \times 2013 equals 0.

	Politician	Non-Politician	Difference	t
<i>Bribe 1</i>	0.0601	0.0572	0.0029	1.8422*
<i>Bribe 2</i>	0.0026	0.0015	0.0011	2.9310***
	Insider	Non-insider	Difference	t
<i>Bribe 1</i>	0.0593	0.0570	0.0023	1.9574*
<i>Bribe 2</i>	0.0014	0.0018	-0.0004	-1.7963*
	Outsider	Non-outsider	Difference	t
<i>Bribe 1</i>	0.0550	0.0580	-0.0003	-2.8041***
<i>Bribe 2</i>	0.0013	0.0018	-0.0005	-3.0044***
	Politician-2013	Non-Politician-2013	Difference	t
<i>Bribe 1</i>	0.0524	0.0577	-0.0053	-2.6287**
<i>Bribe 2</i>	0.0013	0.0017	-0.0004	-1.3410
	Insider-2013	Non-Insider-2013	Difference	t
<i>Bribe 1</i>	0.0557	0.0576	-0.0019	-1.1326
<i>Bribe 2</i>	0.0008	0.0018	-0.0010	-6.2880***
	Outsider-2013	Non-Outside-2013	Difference	t
<i>Bribe 1</i>	0.0551	0.0577	-0.0026	-1.3956
<i>Bribe 2</i>	0.0009	0.0018	-0.0009	-4.9995***

Table 9: Party Secretary and firm bribery, instrumental variables (GMM) approach

This table reports the estimates of the instrumental variables (GMM) regression by constructing an instrumental variable for *Party* dummy, including *Age55* and *Age55*× *Government*. *Age* is a dummy variable equal to one if the age of the Party Secretary is less than 55 and zero otherwise. *Age55*× *Government* is a dummy variable equal to one if the firm is control by a government agency and the age of the Party Secretary is less than 55, and zero otherwise.

$$\text{Bribe } 1/2 = \alpha + \beta_1 \text{Age55} / \text{Age55} \times \text{Government} + \beta_2 \text{Fsize} + \beta_3 \text{Leverage} + \beta_4 \text{Growth} + \beta_5 \text{ROA} + \beta_6 \text{Bsize} + \beta_7 \text{Bindep} + \beta_8 \text{Largest} + \beta_9 \text{MF} + \beta_{10} \text{QFII} + \varepsilon$$

The variable descriptions are summarized in the Appendix. The superscripts *, **, and *** indicate significance at the 90%, 95%, and 99% confidence levels, respectively.

	<i>Bribe 1</i>				<i>Bribe 2</i>			
	Coef.	<i>p</i> -Value	Coef.	<i>p</i> -Value	Coef.	<i>p</i> -Value	Coef.	<i>p</i> -Value
<i>Age55</i>	0.0018**	0.013			-0.0002	0.287		
<i>Age55</i> × <i>Government</i>			0.0019**	0.045			-0.0003*	0.097
<i>Fsize</i>	-0.0011***	0.000	-0.0011***	0.000	-0.0005***	0.000	-0.0005***	0.000
<i>Leverage</i>	-0.0117***	0.000	-0.0117***	0.000	-0.0003	0.244	-0.0003	0.267
<i>Growth</i>	0.0118***	0.000	0.0118***	0.000	-0.0003	0.364	-0.0003	0.358
<i>ROA</i>	0.0023	0.503	0.0023	0.506	-0.0025***	0.007	-0.0025***	0.008
<i>Bsize</i>	0.0032***	0.001	0.0032***	0.001	0.0003	0.196	0.0003	0.180
<i>Bindep</i>	-0.0076**	0.035	-0.0076**	0.035	0.0014*	0.060	0.0014*	0.055
<i>Largest</i>	-0.0019	0.104	-0.0019	0.105	-0.0007**	0.022	-0.0007**	0.020
<i>MF</i>	0.0171***	0.001	0.0171***	0.001	0.0029*	0.067	0.0028*	0.072
<i>QFII</i>	0.1203***	0.000	0.1204***	0.000	-0.0193***	0.000	-0.0195***	0.000
<i>Intercept</i>	0.0733***	0.000	0.0733***	0.000	0.0000***	0.000	0.0152***	0.000
Industry effect	Yes		Yes		Yes		Yes	
Year effect	Yes		Yes		Yes		Yes	
Obs.	7379		7379		4432		4432	
<i>R</i> ²	0.1164		0.1164		0.1202		0.1199	

Table 10: Cross-listing and firm bribery channels

This table reports the estimates of the following regression model, controlling for industry-year fixed effect with standard errors clustered by firm.

$$Bribe\ 1/2 = \alpha + \beta_1 Party\ 1 + \beta_2 H\ shares + \beta_3 Party\ 1 \times H\ shares + \beta_4 Fsize + \beta_5 Leverage + \beta_6 Growth + \beta_7 ROA + \beta_8 Bsize + \beta_9 Bindepen + \beta_{10} Largest + \beta_{11} MF + \beta_{12} QFII + \varepsilon$$

H shares refers to a dummy variable equals one if the firm issues foreign shares by listing in overseas stock exchanges, including the Hong Kong Stock Exchange and the New York Stock Exchanges and others. The other variable descriptions are summarized in the Appendix. The superscripts *, **, and *** indicate significance at the 90%, 95%, and 99% confidence levels, respectively.

	<i>Bribe 1</i>		<i>Bribe 2</i>	
	Coef.	<i>p</i> -Value	Coef.	<i>p</i> -Value
<i>Party</i>	0.0026**	0.018	-0.0001	0.565
<i>H shares</i>	0.0010	0.298	0.0001	0.630
<i>Party</i> × <i>H shares</i>	-0.0059**	0.020	-0.0006	0.386
<i>Fsize</i>	-0.0009***	0.001	-0.0005***	0.000
<i>Leverage</i>	-0.0017	0.247	-0.0005	0.345
<i>Growth</i>	0.0128***	0.000	-0.0003	0.314
<i>ROA</i>	0.0082**	0.033	-0.0030***	0.008
<i>Bsize</i>	0.0001	0.938	0.0001	0.824
<i>Bindepen</i>	0.0057	0.271	0.0009	0.432
<i>Largest</i>	-0.0030	0.081	-0.0008	0.157
<i>MF</i>	0.0171**	0.029	0.0028	0.172
<i>QFII</i>	0.0717**	0.015	-0.0163**	0.018
<i>Intercept</i>	0.0717***	0.000	0.0134***	0.000
Industry fixed effect	Yes		Yes	
Year fixed effect	Yes		Yes	
Obs.	7379		4432	
<i>R</i> ²	0.4196		0.1347	

