

Political Endorsement and Firm Performance: Evidence from Propaganda Coverage

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Abstract:

Endorsement is a pervasive phenomenon and has traditionally been studied under marketing context. However, few literatures focus on the endorsement in financial market and no studies to date have paid attention to political endorsement. To fill these gaps, political endorsement is introduced as a new kind of endorsement in financial market. We use the propaganda coverage of the listed firms by Chinese central government to proxy the government endorsement. To explore the degree of benefits or costs of political endorsement, we examine a sample of Chinese listed firms from 2009 to 2011. We first show that the ratio of party members in the board is positively correlated with the incidence of government endorsement. The results also demonstrate that government endorsement leads to improved firm performances, in terms of both the level and change of ROA and ROS. To address the selection bias, we apply propensity score matching and document consistent results. Finally, the sequence and the length in propaganda coverage are found to result in more positive market reactions.

Keywords: Political endorsement, political connection, firm performance

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1. Introduction

Endorsement demonstrates the formal support and approval from social actors such as celebrities, authorities and prestigious partners, and can be either explicit or implicit. Explicit endorsement is widely utilized and has traditionally been studied under marketing context. For example, inviting celebrities (Khatri, 2006; Farrell et al., 2000), typical customers (Frieden 1984) and experts (Dean and Biswas, 2001; Fireworker and Friedman, 1977) to endorse the goods and services is the main strategy for firms to enhance reputation and improve sales. Royal warrant, for another example, is also explicit endorsement which can enhance firm creditability. In contrast with explicit endorsement, little study has been carried out on implicit endorsement. Implicit endorsement refers to the situation whereby entities indirectly and unconsciously become the endorsers by exerting subtle influence on recipients' evaluation. For instance, royal members can implicitly become the endorser for companies by wearing their clothes. Implicit endorsement is also pervasive in finance. Affiliating with prestigious underwriters, venture capitals, auditors or authoritative third parties, and being granted accreditations are common phenomena and can serve as implicit endorsements since the affiliated partners exert subtle influence on investors' evaluation.

However, no study to date has paid attention to political endorsements. Governments are inclined to endorse firms through presidents' speech and national central news program in order to improve market or foster an industry that is consistent with the national development plan. For example, during Obama's speech in the state of education, he praised the contributions of Apple, Microsoft Verizon and Sprint on education by connecting 99% of the students to high-speed internet. By doing this, more firms will be

motivated to contribute to the society. For another example, Chinese government is inclined to commend creative firms which are consistent with national development plan. Evoc Group, a high-tech company, is praised by government through central news program for its creativity in computer. The news even disclosed that Evoc achieved 150% higher growth rate and 40% of its sales is attributed to creativity. Therefore, political endorsement is a phenomenon permeates our life while no existent literatures focus attention on.

To fill this gap, this study aims to introduce political endorsement as a new kind of endorsements. Political endorsement, in this paper, is defined as the public statement or action showing that government supports the firms. This paper investigates the determinants to be endorsed by government, the impacts of political endorsements on firm performances, and the effects of the specific characteristics of endorsement on market reactions. Competing hypotheses are established about the impacts of political endorsement because of the coexistence of benefits and costs.

To conduct this research, the data of endorsement is manually collected by watching daily Xinwenlianbo, the central news program in China, from 1st September 2009 to 31st December 2011. One vital methodological and logical drawback we have to overcome is endogeneity. It can be suspected that the better performances of firms after political endorsements are just because firms with better performances are more likely to be selected and endorsed by the governments. To address this endogeneity problem, propensity scoring matching (PSM) is used to match endorsed firms with firms who have identical characteristics except for political endorsement. These matched firms serve as control

group, which enable us to rule out the possibility of reverse causality.

The results of this paper highlight the fact that political connection is the main determinant for political endorsement, supporting the argument of Buchanan (1968, 1987) that government is self-interested rather than publicly interested. Since government can obtain vested interests by endorsing politically connected firms, connected firms have higher probability to be endorsed by government. This paper also finds that firms with larger size, younger age, more employees and no duality are more likely to achieve political endorsements.

Moreover, the results demonstrate that political endorsement can significantly improve firm performance, no matter which performance measure is used and no matter whether the industry and year trends are controlled. Furthermore, when previously non-endorsed firms achieve political endorsement this year, the positive performance change will be more dramatic. The positive impacts of political endorsement on firm performance and performance change support the resource dependence theory and provide supporting evidence for the value of political connections. This paper further decomposes endorsement into 5 specific characteristics and examines which characteristics dominate the influences on cumulative abnormal return (CAR). The results indicate that political endorsement which appears in the later part of government-controlled news programs and which is longer is easier to catch recipients' attentions and trigger positive market reactions. This study also examines which characteristics of endorsement dominate the influences on performance and performance change. Results show that when the political endorsement is

tailored to one specific company rather than mentioning several firms simultaneously, this specific firm must have intimate relationship with government to obtain favorable treats and outperform competitors.

Both theoretical and practical contributions can be offered by this paper. Theoretically, this paper fills the significant gap in literatures on endorsements. Previous literatures are dominated by explicit endorsements and no studies have paid attention to implicit endorsements. By introducing political endorsement, the concept of endorsement can be broadened to be tested in the financial context, rather than just restricted to the marketing context. This study further integrates theories to provide a theoretical basis to explain the mechanism through which endorsements influence the market. Finally, this study complements the literatures on political connection by introducing political endorsement as a new benefit of connection, thus further contributing to the literatures on the value of political connections by answering the ongoing debate as to whether political connection is beneficial or detrimental to firm performance.

Practically, the results are relevant for other forms of political endorsement, can be generalized to other countries, and provide practical implications for both investors and managers. First, political endorsements can take place in other forms besides propaganda coverage. For instance, political endorsements may exist in presidents' or senior officials' speech. As a result, the application of our results is not only suitable to the political endorsements through central news programs, but also well suited to other forms of political endorsements. Second, the practical implications of this study can be generalized

to countries such as North Korea if those countries' central news programs are also controlled by governments, and to countries such as Japan and South Korea which have similar programs to Xinwenlianbo. The results are also applicable to countries with pervasive political connections, especially the Asian and developing countries where the ties are embedded deeply in culture. Third, this study provides implications for both domestic and international investors who want to invest in emerging markets where institutional infrastructures and legal systems are relatively weak. It is sensible for investors to follow the indications from political endorsements since they imply future firm performance. Fourth, the results provide managerial implications by identifying what kind of firms are most likely to receive political endorsement. Firms who pursue political endorsements can consider hiring more directors and executives who are party members to increase the party intensity, try to employ more staff, increase the size of the company and avoid CEO duality.

The remaining paper is organized as follows. Section two provides basic institutional background. Section three reviews extant researches to provide supporting evidences for the meaning and effectiveness of political endorsements. Section four establishes the hypotheses. Research design and results are detailed in section five and six respectively. Finally, conclusion is articulated in section seven in the paper.

2. Institutional background

2.1 Culture and institutions of political endorsement in china

Although political endorsement is a pervasive phenomenon all over the world, China is especially suitable to study the political endorsement since power distance is embedded deeply in culture, resulting in individuals' great esteem for government and finally cause market's dramatic reaction to political endorsement. Ever since the Confucianism was established during sixth century B.C., relationship has been the propelling power of the development of Chinese society (Luo, 1997). Confucianism identified five types of relationships (i.e., Wu-lun) as the foundation of Chinese society: sovereign-subject, father-son, husband-wife, elder brother-younger brother, and friend-friend (Dunning and Kim, 2007; Lin, 2010). Within these relationships, Confucius emphasized the differential social order (Fei, 1992; Chen and Chen, 2004), which means people should respect authority and accept inequality. Specifically, sovereign, father, husband, elder brother, the friend with higher status should be given more privileges and authorities than their counterparts, directly cultivating a culture with greater power distance (Dunning and Kim, 2007). The power distance, finally, encourage royal esteem and governmental esteem, and becomes the underlying motive for low-status people to build up relationship with superior counterparts in order to get more favorable treats. Political endorsement has existed since ancient China. For example, the traditional famous brand 'Wangzhihe' experienced huge increase in reputation and sales after its products became a tribute for the empress dowager. 'Liubiju', a store established in Ming Dynasty which sold daily necessities, also had similar experience after the chancellor wrote a signboard for it.

In addition to culture, the Chinese market provides a particularly suitable institutional context in which to explore political endorsement. The first unique point lies in the huge power of government, which straightforwardly trigger individuals' strong reactions of political endorsement. The Chinese market is characterized by coexistence of market mechanism and government redistributive mechanism (Zhou, 2000), and by non-thorough reform, indicating that the government maintains controlling power over the economic transition (Luo, 2005), in contrast to transformed economies such those of as Poland, Russia and the Czech Republic who decentralized thoroughly (Hitt et al., 2004). As a result, the key resources remain under the control of the Chinese government, leading to the overwhelmingly powerful role of government. Furthermore, some special policies guarantee the power of government to influence market. For example, as Fan, Wong and Zhang (2007) stated, the Chinese government has the rights to nominate and appoint executives for listed companies. In their sample of 790 firms from 1993 to 2001, 27% CEOs of these listed firms were appointed directly by the government.

The second institutional advantage to examining political endorsement in China relates to its media control, which enables Xinwenlianbo to be a unified platform to reflect political endorsement and ensures the feasibility of data collection. It is regulated that reporters of all channels have the responsibility to provide news for Xinwenlianbo and significant news must be broadcasted first by Xinwenlianbo. Consequently, if the government wants to provide strong endorsements for firms, Xinwenlianbo is the best platform since it represents authority and significance. Due to media control, the positive idea about companies disseminated through Xinwenlianbo is a consistent proxy for

political endorsement.

The third benefit of focusing on Chinese market consists in the fact that China only has one ruling Party. Collecting data from a sole ruling party country can help us to buffer against the instability of political endorsement during Party alternation. Finally, as the major player in the world market, China merits attention. The Chinese stock market is now the largest market among emerging countries and the second largest market in the world (Cumming et al., 2011).

2.2 Xinwenlianbo

Political endorsement, in this study, is defined as the public statement or action showing that government supports the firms. This paper measures political endorsement in China by analyzing the government's support for firms through Xinwenlianbo. Xinwenlianbo is a central news program that reports the most important political activities, policy announcements, chief social and economic issues and international news, and serves as a medium through which government disseminates their views, wishes, and ideology.

Xinwenlianbo is suitable to be the intermediary for governments to disseminate political endorsement due to two reasons. First, it is regulated that television channels in all provinces, municipalities and autonomous regions should broadcast Xinwenlianbo at 7 p.m. every day in order to expand the influence. As a result, Xinwenlianbo dominates the Chinese media market by catching the attention of more than 95% of the population and

thus has extensive coverage (Jin, 2009). Second, Xinwenlianbo, as the only one of its kind to be authorized by the Central Committee of Communist Party of China (CPC), is tightly controlled by government, enabling it to reflect the views of government. For instance, the appointments of managers of Xinwenlianbo are decided by the Central Propaganda and Central Organization Departments, reflecting direct political connection between Xinwenlianbo and government.

Several policies tailored to Xinwenlianbo make it especially suitable to the capture of political endorsement and avoidance of research problems. Government made several special policies to ensure the priority and authority of Xinwenlianbo. For instance, the ‘collective reporter’ system requires that reporters of all channels provide news for Xinwenlianbo first. It is further regulated that significant news must be broadcasted first by Xinwenlianbo, demonstrating the authority of Xinwenlianbo (Zhang, 2010). Therefore, the authority and priority of political endorsements through Xinwenlianbo can help us to avoid the problem of information leakage, thus capturing the effects of political endorsement more accurately. Furthermore, since Xinwenlianbo started broadcasting in 1978, even earlier than the establishment of the stock market, the long history ensures sufficient samples for the study.

Given the fact that Xinwenlianbo serves as the mouthpiece of government, commendation on firms from Xinwenlianbo can be deemed strong political endorsements, which lead to investors’ quick reactions on stock market. The political endorsements from Xinwenlianbo are granted to firms only after deliberate consideration, the politically

connected firms are presumed in this study to have a higher probability of being supported by government and endorsed through news.

For example, in 2007, Xinwenlianbo reported on the creativity of the 'China State Shipbuilding Corporation' and pointed out that they had a full order book through to 2010. As a result, the stock price of this company increased 50% after the news. A similar effect also happened when the firm 'Meiling Electric' achieved political endorsement in 2009. As shown in figure 1, these two endorsed firms share one common denominator --- they have political connections: 77% shares of 'China State Shipbuilding Corporation' and 25% shares of 'Meiling Electric' are government owned. Therefore, political endorsement can be an implicit indicator for political connections.

<<Insert figure 1 about here>>

3. Literature Review

Endorsement demonstrates the formal support and approval from social actors such as celebrities, authorities, partners or governments. Endorsements can be divided into two broad classes: implicit and explicit. Explicit endorsement is widely examined in marketing (Daneshvary and Schwer, 2000; Khatri, 2006; Farrell et al., 2000; Fireworker and Friedman, 1977; Friedman and Friedman, 1979). Three types of explicit endorsements through advertising are pervasive in life and well examined in researches: celebrity endorsement (Khatri, 2006; Dean and Biswas, 2001; Farrell et al., 2000), typical customer endorsement (Friedman and Friedman 1979) and expert endorsement (Dean and Biswas, 2001; Fireworker and Friedman, 1977). For instance, the quarterly sales of Nike mounted

up by 55% due to market's immediate response to the endorsement of Tiger Woods. And the sales of footwear and golf apparels which were endorsed by Woods doubled (Farrell et al., 2000). Explicit endorsement has various other forms in addition to advertisements mentioned above. For instance, Royal warrant, a common tradition in the countries with Monarch such as U.K., Belgian, France, Malaysia, Thai, Spain, and Sweden, is a kind of quality certificate given by royal household. In U.K., firms cannot obtain royal warrant until they supply goods and services to The Queen, The Duke of Edinburgh or The Prince of Wales over five years and royal household are satisfied with the quality. Once firms achieve the royal warrant, they have a tradition to display the royal coat of arms since 18th century, leading to the improvement of recognition and sales. For example, according to Raconteur Media (2011), the sales of Schweppes, a fizzy drinks maker, soared by 47% after displaying the royal warrant on products.

On contrary to the explicit endorsements stated above, implicit endorsements refer to the situation whereby entities indirectly and unconsciously become the endorsers since they exert subtle influences on investors' evaluation of firms. For instance, under the influence of royal esteem and political esteem, market will make dramatic reactions to the decision and endorsement of royal household and governments. In U.K., for example, the clothes and wheels of Britain's Prince George triggered a buying spree when he was introduced to the world at the first time. The brand of the clothes, swaddling wraps, and wheels are identified by people quickly and visits to the website of the supplier 'Aden + Anais' increased 1960% and crashed within four hours, finally leading to flooding orders. Furthermore, this buying spree is also pervasive in countries without Monarch. For

example, in U.S., Rocco, a brand used by First Lady Michelle Obama, experienced huge demand and shortage of stock. The share price of retailer J.Crew even increased from \$9.61 to \$19.23 after Michelle Obama wore its cardigan.

Implicit endorsement is also pervasive in finance. Affiliating with prestigious underwriters, venture capitals, auditors or authoritative third parties, and being granted accreditations can serve as implicit endorsements as the reputation and trust can be transferred from endorsers to endorsees and finally influence firm evaluation. For example, Venture capitals can make affiliated firms more credible, lower information asymmetry and increase the net proceeds of IPO (Megginson and Weiss, 1991; Pollock et al., 2010; Gulati and Higgins, 2003). For another example, Fancort Industries, Inc., a manufacturer of electronics, experienced intense competition and estimated a potential loss of 50% sales. After this company was granted ISO 9000 accreditation (international standardization organization), it reported an increased sales since ISO accreditation implies an implicit endorsement from authority. However, the extant literatures are dominated by explicit endorsement while the impacts of implicit endorsement, in particular the political endorsement, are largely ignored by researches. This paper aims to solve this restriction by investigating a new form of implicit endorsement, namely political endorsement.

Abundant empirical evidences embrace the benefits of endorsements. Explicit endorsements can improve recipients' assessments and stimulate sales. For example, brand awareness (Daneshvary and Schwer, 2000), brain recall about the products (Misra and Beauty, 1990; Petty et al., 1983; Menon et al., 2001) and sales are all certified to increase

after explicit endorsements. Similarly, implicit endorsement can enhance firms' resource accessibility and performance. For instance, affiliating with prestigious underwriters not merely increase the accessibility of external financing (Ramirez, 1995), but also provide intangible resources such as knowledge or technologies (Quintas et al., 1992). For another example, third-party endorsements such as granting awards and rankings can certify firms' legitimacy (Waddock and Graves, 1997), facilitate trust transfer process (Jiang et al., 2008), as well as provide commercial-related advantages (Daneshvary and Schwer, 2000) and attractive-related benefits (Rindova et al., 2005).

On the contrary, some literatures implicate the burden of endorsement. As researches on resource dependence theory indicate, firms are highly likely to be dominated by the entities that control the resources (Nicholson et al., 2004; Rao et al., 2007). Compared with explicit endorsements which only cause high advertising fees, implicit endorsements usually show more severe problems. For example, according to Malmendier and Tate, (2005), internal endorsers (prestigious executives or directors) tend to be self-content and overconfident, ending in higher acquisition premium and greater agency costs (Hayward and Hambrick, 1997; Malmendier and Tate, 2005). Based on Hsu (2004), the more prestigious the external endorsers are (e.g. prestigious VC), the more they will charge for the affiliation and interfere with firms' operation. As a result, firms will suffer from high costs, experience conflicting goals with their partners and face external pressures.

This paper focuses on a new type of implicit endorsement – political endorsement. Although no direct literature testifies the effectiveness of political endorsement, researches

on the strong persuasive power of government speech can demonstrate the usefulness of political endorsement. Endorsements provided by government through central news programs are presented in the form of government speech or government comments. Government speech is a powerful tool to influence individuals' assessment. First, literatures on cognitive psychology indicate that message's source is a vital clue for individuals to judge information quality (Norton, 2008). This view is consistent with the ideas of Chaiken and Maheswaran (1994), Hovland and Weiss (1952) and Petty, Cacioppo and Schumann (1983) who confirm that the credibility of the speaker can strengthen the effectiveness of information no matter whether the content is true or false. Since government is credible generally, government endorsement can weaken individuals' suspicion and vigilance, hence being especially persuasive and efficient in guiding public opinion (Norton, 2008).

Second, considering the fact that government's views are representative of collective opinions of individuals (Norton, 2008), political endorsements can cause herd behavior among onlookers. Specifically, herd behavior exists in information processing, which means onlookers will follow the public reactions of message. As a result, if the information is widely accepted by audiences, it is highly likely that onlookers will be persuaded to accept the information since they think the information quality is guaranteed by the majority (Axson et al., 1987; Mutz, 1992). Since government's interests are in line with those of majority individuals, government's views are usually consistent with those of the great majority. Therefore, onlookers will deem government's views as collective opinions of individuals and tend to follow, which improves the effectiveness of the political endorsements.

Third, since some problems are beyond personal ability to examine, individuals depend on credible and professional entities like government to make judgment (Norton, 2008). As a result, individuals believe in political endorsements. For example, problems like whether commerce threatens environment (Kahan and Braman, 2006) or whether wars can motivate the economic development cannot be handled by individuals. Government then serves as a reliable, professional and objective source to gain answers for these problems, resulting in government's overwhelming role in persuading individuals. For instance, after the president of U.S. and Secretary of State claimed that Iraq possessed antipersonnel weapons, people believed firmly without doubt. Half of Americans are still convinced of this even after experts clarified the facts (Bambauer, 2006). By the same token, it is reasonable to propose that when individuals are unsure about firm's performance based on their personal investigation, political endorsement can guide individuals' assessment and persuade individuals to believe firmly in political endorsement.

4. Hypothesis Development

Governments are usually partial to politically connected firms. Although political rules provide conventional guidelines about how to allocate the resources, it is up to political officers to make the final decisions. According to Buchanan (1968, 1987), political officers are self-interested rather than public interested, which means government will provide resources only to the selected firms who make campaign contributions or vote for the party

(Hillman and Hitt, 1999). As a result, political connection is one of the critical determinants of obtaining resources from government. With an overwhelming advantage compared with most of the unconnected peers in terms of intimate relationship with government, connected firms can obtain more favorable treats. As Faccio, Masulis and McConnell (2006) suggested, once firms belong to the cronies or families of current ruling political parties or leaders, these connected firms can get preferential resources such as bailouts. Other preferential treats such as tax reduction (Li, Meng and Wang, 2008; Faccio, 2010; Bertrand, 2006), tariffs on counterparts (Goldman, Rocholl and So, 2009) and easier access to loans (Khwaja and Mian, 2005) are common among connected firms. Given that governments are partial to connected firms and can obtain vested interests by endorsing politically-connected firms, political connection is one of the most vital determinants to obtain political endorsement. Therefore, the following hypothesis can be proposed:

H1: Politically connected firms are more likely to achieve political endorsements.

A series of managerial, marketing and financial theories can be integrated together to support the effectiveness and positive effects of political endorsement on market reaction and firm performance. Based on signaling theory (Spence, 1974), endorsement perfectly complies with the risk-reduction hypothesis and bonding hypothesis. As a result, political endorsement is a strong market signal that can reduce perceived risk and demonstrate the credibility of the firm, thus triggering positive market reactions. From the recipient's side, following the signal of endorsement issued by the firms, recipients tend to use categorical thinking to link firms with endorser. After the firms and endorsers being classified into the

same category through social categorization process, trust, meaning, and legitimacy can be transferred from the government to the firms, hence enhancing the reliability of the unknown firms and reduce the searching costs. All these effects are supported by social categorization theory (Macrae and Bodenhausen, 2000), trust transfer theory (Stewart, 2003), meaning transfer model (McCracken, 1989) and institutional theory (Selznick, 1957) respectively. Furthermore, resource dependence theory (Pfeffer and Salancik, 1978) suggests that political connection can increase the accessibility of resources such as the favorable regulation (Goldman, Rocholl and So, 2009), operation licenses (Li, Meng and Wang, 2008), equity capital (Hearn, 2012; Johnson and Mitton, 2003), the allocation of profitable government contracts (Goldman, Rocholl and So, 2008) and bailouts (Faccio, Masulis and McConnell, 2006). Political endorsement, representing the established linkage between government and firms, can help firms to get the key resources and reduce uncertainty. Therefore, by issuing signals of reduced risk, interfering recipients' assessment and increase access to government-controlled resources, political endorsements can enhance firm performances. The following hypothesis can be proposed:

H2A: Political endorsement improves firm performances and triggers positive market reactions.

Resource dependence theory, however, highlights the burden of endorsement by claiming that during the interaction with other firms to obtain resources, firms are highly likely to be dominated by the entities that control the resources (Nicholson et al., 2004; Rao et al., 2007), suffer from high costs (Hsu, 2004), experience conflicting goals with their partners

(Froelich, 1999) and face external pressures (Oliver, 1991; Rowley, 1997). Similarly, the political connection indicated by political endorsement is not unilateral. The mutual influences constrain firm operations and cause higher costs. The inefficiency caused by the unreasonable diversion of firm resources and the surrender of autonomy (Shleifer and Vishny, 2002), officers' pursue of personal objectives at the expense of connected firms' value (Shleifer and Vishny, 1994, 2002), the heavy "liability to localness" (Uzzi, 1997; Perez-Batres and Eden, 2008) and the unstable political relationship will cause high costs and deteriorate firms' performance. Consequently, investors deem political endorsement as an indicator of detrimental political connection, leading to negative market reactions.

H2B: Political endorsement harms firm performances and triggers negative market reactions.

5. Research Design:

5.1 Data and sample:

Data about political endorsement is collected manually by watching Xinwenlianbo from 1st September 2009 to 31st December 2011. The dates and names of the endorsed firms are recorded. Other data about the characteristics of the endorsements are also collected, including the sequence of the specific piece of news which include endorsements in the news program of that day (*Sequence*), the times the same company name is mentioned (*Times*), the length of the endorsement (*Length*), whether the same piece of news mentions several firms simultaneously (*Multi*) and whether the firm is endorsed in the brief summary

of the news program (*Brief*). 442 endorsement observations are collected initially. After merging with CAR, the final observations for endorsement are 433, which cover 181 companies. The reason for the decreased sample is that these deleted firms were delisted or were not listed when they were endorsed by the government, thus market return is not available for these firms. Since the same firm can achieve political endorsements for multiple times during the same year, when endorsement data is merged with annual financial data to form panel data in order to test the influences of endorsement on firm performance, only 249 observations (still 181 companies) are left. The small observations are consistent with common wisdom that political endorsements are rare and precious resources that are efficient at triggering market reactions and improving firm performances.

Financial data such as return on assets and firm size can be obtained from China Securities Market and Accounting Research Database (CSMAR) or RESSET database. These two databases were developed according to international standards and focus on Chinese market. The financial data also cover three years from 2009 to 2011. Finally, a panel data is formed which incorporate 2418 firms.

5.2 Models:

Model 1:

To test the first hypothesis on the determinants of political endorsements, the following model can be established:

$P(\text{Endorsements})$

$$\begin{aligned} &= \beta_0 + \beta_1 \text{Partyintensity} + \beta_2 \text{Stateshare\%} + \sum_{k=3}^K \beta_k * \text{FirmCharacteristics} \\ &+ \sum_{n=k+1}^N \beta_n * \text{Governance} + \sum_{j=n+1}^J \beta_j * \text{PreviousPerformance} + \varepsilon_T \end{aligned}$$

where the dependent variable $P(\text{Endorsement})$ means the probability to be endorsed, which equals 1 if the firm achieved political endorsement. *Party intensity* represents the ratio of the number of party members to the total number of directors. *Stateshare%* means the percentage of shares owned by the state. Both *Partyintensity* and *Stateshare%* are the indicators of political connections. Since hypothesis 1 proposes that political connection is one of the most vital determinants of political endorsements, these two variables are the major variables of interest.

FirmCharacteristics incorporate a series of firm features, including firm size, age, leverage, book-to-market value, logarithm of the number of employees, and cash turnover. *Size* is defined as the logarithm of market value, which is consistent with the method used by other researchers like Hasan et al. (2014). Since size is certified to be the determinant of political connection (Hasan et al., 2014), the determinant of obtaining political bailouts (Faccio, Masulis and McConnell, 2006), and one of the determining factor of achieving third-party endorsement (Adams,1999), firm size is included in this model to predict the probability of endorsement. Since the younger the firm is, the more likely firm pursue political endorsement in order to adapt to market and achieve trust from consumers, age is included in this model. Logarithm of employees (Lnemployees) is also included to predict

the probability of endorsement since government may consider the political endorsement as a method to win over people's support (Faccio, Masulis and McConnell, 2006). As a result, the more employees one firm has, the more likely the government grants endorsements to that firm. Furthermore, leverage (proxy for solvency), cash turnover (proxy for operating ability) and book-to-market ratio (proxy for investment opportunities) are used as predictors because government will have preference to endorse firms with good financial status in order to avoid losing reputation.

Governance refers to the variables related to the quality of corporate governance, incorporating manager size, management share%, duality and independent director. *Manager size* is the number of senior managers disclosed in financial statement. *Management share%* is defined as the percentage of shares owned by managers. *Duality* refers to whether the CEO is also the board chairman. *Independent director* means the number of independent directors.

PreviousPerformance incorporate two sets of variables: ROA (return on asset) and ROA_L1 (one-period lagged return on asset); or ROS (return on sales) and ROS_L1 (one-period lagged return on sales). Two sets of different proxies for previous performance are included to ensure the robustness of the results. As Malmendier and Tate (2009) indicate, previous performance is a significant determining factor for CEOs to win awards. In other words, previous performances can determine the probability of obtaining third-party endorsement. Similarly, governments are partial to firms with good previous performance in order to avoid hurting governments' reputation and creditability.

Model 2:

To test the second hypothesis on the impacts of political endorsements on firm performance, the following model can be established:

$$\begin{aligned} Performance = & \beta_0 + \beta_1 Endorsement + \beta_2 Partyintensity + \beta_3 Stateshare\% \\ & + \sum_{k=4}^K \beta_k * FirmCharacteristics + \sum_{n=k+1}^N \beta_n * Governance \\ & + \sum_{j=n+1}^J \beta_j * PreviousPerformance + Year + Industry + \varepsilon_T \end{aligned}$$

Before executing the regression, propensity scoring matching should be used to control endogeneity since it is highly likely that the firms perform well have higher possibility to be endorsed by government. In order to correct the problems of endogeneity, propensity scoring matching (PSM) is used to match endorsed firms with firms who have identical characteristics except for endorsement. These matched firms serve as control group, which enable us to rule out the possibility of reverse causality.

To implement PSM, the first step is to run a logit regression (Model 1) on the probability to be endorsed by government. The matching characteristics include political connection-related variables (party intensity and stateshare%), firm characteristics (size, leverage, B/M, age, ln(employees), cash turnover), governance (duality, manager size, manager share% and independent directors), and previous performance (ROA and ROA_L1; or ROS and ROS_L1). Then the nearest neighbors are matched according to these characteristics based on the propensity scores of logit regression. 155 pairs are

generated, including 155 firms with political endorsements, and 155 firms without endorsements but are identical in other aspects.

After matching firms, model 2 and model 3 can be executed to test the influences of political endorsements on firm performances and performance changes. Since political endorsement is the only difference between the endorsed group and control group, the possibility of reverse causality is eliminated and generate a more reliable and robust results.

Model 2 uses two accounting-based performance measures (ROA_F , ROS_F) and one market-based performance measure (market-adjusted return). ROA_F refers to one-period forwarded return on asset, which is calculated as the ratio of next year's net income to next year's total asset, indicating the efficiency of utilizing assets to generate profits. One-period forwarded return on sales (ROS_F) is calculated as the ratio of next year's net income to next year's sales and stands for the operating performances. Both ROA and ROS are forwarded one period in order to leave enough time for firms to make full use of the benefits of political endorsements. Moreover, both ROA and ROS are winsorized at 5% since there are a lot of outliers in Chinese market. *Market-adjusted return* refers to annual stock return adjusted by annual market return, which is closely linked with shareholders' wealth. Market-adjusted return is not forwarded for one period because market-based returns reflect short-term market reactions and have already reflected the differences between prices caused by political endorsement. *Endorsement* is a dummy variable, which is set to 1 if the firm achieved political endorsement during that year. Endorsement is the variable of interest because hypothesis two tend to testify whether political endorsements

can exert positive or negative effects on firm performances.

In terms of control variables, their definitions are the same as the definitions in model 1. Political connection-related variables (*Partyintensity* and *stateshare%*) have significant influences on firm performances. According to Fan, Wong and Zhang (2007), the quality of politically connected CEOs are often not satisfying since they are less professional and are inclined to appoint other politically connected managers to secure their controlling power. The quality of politically connected firms are also criticized by Shleifer and Vishny (1994) who point out that state-owned firms focus more on social goals at the cost of firm value. On the contrary, researchers like Faccio, Masulis and McConnell (2006), Li et al. (2008), and Khwaja and Mian (2005) highlight connected firms' easier access to government-controlled resources. Therefore, *partyintensity* and *stateshare%* should be included as control variables since political connection can affect performance though the direction is under controversy. *FirmCharacteristics* such as size and leverage are widely proved to be correlated with firm performance by researchers like Li and Xia (2013) and Fan, Wong and Zhang (2007). Since abundant literatures corroborate that high quality governance is a contributing factor for better performance, *Governance* is included in the model as control variables. As stated in model 1, *PreviousPerformance* include two sets of variables: *ROA* and *ROA_L1*; or *ROS* and *ROS_L1*. Whether *ROA* or *ROS* will be chosen to control previous performance is depend on which performance measure is used as dependent variable. For instance, if the dependent variable is *ROA_F*, then *ROA* and *ROA_L1* will be the proxies for previous performance. *Year* dummies and *industry* dummies are constructed to control the time trend and industrial effects. The industry

dummies are generated according to Global Industry Classification Standards (GICS) codes.

Model 3:

The following model is established to further examine the influences of endorsement change on performance change:

$$\begin{aligned} \Delta Performance = & \alpha_0 + \alpha_1 \Delta Endorsement + \alpha_2 Partyintensity + \alpha_3 Stateshare\% \\ & + \sum_{k=4}^K \beta_k * FirmCharacteristics + \sum_{n=k+1}^N \beta_n * Governance \\ & + \sum_{j=n+1}^J \beta_j * PreviousPerformance + Year + Industry + \varepsilon_T \end{aligned}$$

$\Delta performance$ included both ΔROA and ΔROS . Since market-adjusted return focus on short-run and have already reflected the change between stock prices, Δ market-adjusted return is not used. Δ Endorsement is a dummy variable, which is set to 1 if the firm is not endorsed in the previous year, but is endorsed by government this year. All other variables are the same as variables in model 2. This model can serve as a double check about the influences of political endorsement on firm performance.

Model 4:

In order to explore the effects of political endorsement on performance and market reaction more deeply (Hypothesis 2), the following model can be developed to examine which specific characteristics of political endorsement dominate the influences on cumulative abnormal return (CAR):

$$CAR = \alpha_0 + \alpha_1 Sequence + \alpha_2 Times + \alpha_3 Length + \alpha_4 Multi + \alpha_5 Brief + \sum_{k=6}^K \beta_k * Controls$$

An event study is employed and the market reaction is measured by CAR which is calculated as follow:

$$AR_{i,t} = R_{i,t} - R_{m,t}$$

$$CAR_i(T - n, T + n) = \sum_{t=T-n}^{T+n} AR_{i,t}$$

$$\text{where } R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}} \times 100 \quad R_{m,t} = \frac{I_t - I_{t-1}}{I_{t-1}} \times 100$$

In order to reflect both short-term and long-term market reactions, CAR(1,1), CAR(2,2), CAR(3,3), CAR(4,4), CAR(5,5), CAR(5,10), CAR(5,20), CAR(5,25), CAR(5,30) are examined.

Unlike model3 which only include an endorsement dummy as the variable of interest, this model decompose endorsement into 5 specific characteristics: 1) sequence of the specific piece of news which includes political endorsement in the news program of that day (*Sequence*); 2) the times the same company name is mentioned (*Times*); 3) the length of the endorsement (*Length*); 4) whether same piece of news mentions several firms simultaneously (*Multi*); 5) whether the firm is endorsed in the brief summary of the news program (*Brief*). Examining the effects of the political endorsement's specific characteristics can generate more practical indications. For instance, if the length is significantly positively correlated with CAR, then investors should pay more attention to the firms whom the central news programs allocate a lot time to.

Control variables cover political connection-related variables (party intensity and share%), firm characteristics (size, leverage, B/M, age, ln(employees), Tobin's Q, cash turnover and acid ratio), governance (duality, manager size, manager share% and

independent directors), and previous performance (ROA and ROA_L1; or ROS and ROS_L1). Definitions of variables are shown in table 1.

<<Insert table 1 about here>>

6. Results:

6.1 Descriptive Statistics:

Table 2 demonstrates the summary statistics of the variables after one-to-one matching. 155 endorsed firms are matched with 155 non-endorsed firms with matched characteristics except for political endorsements. The matching characteristics include firm characteristics (size, leverage, B/M, age, ln(employees), cash turnover), political connection-related variables (party intensity and stateshare%), quality of corporate governance (manager size, manager share%, duality, and independent directors), and previous performance (ROA and ROA_L1; or ROS and ROS_L1). The final column demonstrates the results of mean-comparison test, suggesting that the differences between the variables of endorsed group and non-endorsed group are not significant after one-to-one matching. Table 3 presents the pairwise correlations. Endorsement is significantly correlated with size, book-to-market ratio, firm age, logarithm of employee number, percentage of state shares, party intensity, manager size, percentage shares of manager, duality and independent directors, indicating that these variables are important determinants for firms to achieve political endorsements. Based on the correlation matrix, no multi-collinearity exists.

<<Insert table 2 and 3 about here>>

6.2 The determinants of political endorsement:

Table 4 explores the determinants to be endorsed by government. In the first column, the probability of endorsement is modeled as a function of political connection-related variables: party intensity and the percentage of shares held by state. Both of them are significant determinants for endorsement, providing supporting evidences for hypothesis 1. In column 2, variables about firm characteristics are added to the model. Column 3 includes political connection-related variables, firm characteristics-related variables and variables about the quality of corporate governance. Column 4 and 5 further incorporate variables about previous performance. Although percentage shares held by state is no longer significant when more variables are added, all results demonstrate that party intensity is significantly positively correlated with the probability of endorsement. This supports hypothesis 1 which states that politically connected firms are more likely to be endorsed by government.

Size, age, employee number, duality and lagged ROA are determining factors of political endorsement. Firms with larger size, younger age, more employees and no duality are more likely to achieve political endorsements. Younger firms are more inclined to pursue political endorsement in order to achieve legitimacy and gain resources due to their inferior status compared with mature firms. Government prefers firms with more employees because government may consider the political endorsement as a method to win over people's support (Faccio, Masulis and McConnell, 2006). Therefore, in order to draw more support, government is partial to firms with more employees. Duality means concentrated power, which is detrimental to firm performances (Fama and Jensen, 1983).

As a result, governments tend to grant endorsements to firms without duality for their better performances in order to protect governments themselves' reputations, which is in line with the bonding hypothesis of signaling theory. Lagged ROA is significantly correlated with endorsement probability (1.071, P= 0.096), indicating that better previous performance can motivate governments to grant endorsements.

<<Insert table 4 about here>>

6.3 Political endorsements on firm performances:

Table 5 reveals the impacts of political endorsements on firm performances. Before implementing the regressions, PSM is applied to match endorsed firms with non-endorsed firms according to a series of characteristics. The probit regressions in column 4 and 5 of table 4 serve as the first step of PSM. When forwarded ROA serves as dependent variable, ROA and lagged ROA are proxies for previous performances, and probit regressions in column 4 of table 4 is used for matching. Similarly, when ROS is the dependent variable, ROS and lagged ROS are proxies for previous performance, and probit regressions in column 5 of table 4 is used as propensity scoring matching. Since market-adjusted return reflects market reaction and short-term, it is unreasonable to use one-year lagged market-adjusted return as previous performance. ROA and ROA_L1 is chosen to be the proxy for previous performance when the dependent variable is market-adjusted return since ROA is more widely accepted as a proxy for performance compared with ROS.

The results of all models in table 5 demonstrate that political endorsements can improve firm performance significantly, which provide congruent results with hypothesis

2A no matter which performance measure is used and no matter whether the industry and year are controlled. Use column 1 as an example, firm performance will increase 0.026 unit ($P=0.004$) if the firm is endorsed by the government.

<<Insert table 5 about here>>

6.4 Political endorsement change and firm performances change:

Table 6 explores the impacts of political endorsement change on firm performance change. Endorsement change refers to the situation when the firm is not endorsed in the previous year, but is endorsed by government this year. Column one shows the impacts on ROA change when industry and years are not controlled. With endorsement change, ROA change will shift upward by 0.021 unit, which means the improvement in ROA will be 0.021 higher for firms with endorsement change. When industries and years are controlled, the impacts are still positively significant at 10% level.

Column 3 discloses that when industries and years are not controlled, endorsement change will significantly push changes in ROS upward by 0.398 unit, which is in line with hypothesis 2A that endorsement can improve performance. However, as shown in column 4, when time trends and industries are under control, the impacts of endorsement change on ROS change fail to reach conventional significance level but are still leaning toward significance ($P=0.108$).

<<Insert table 6 about here>>

6.5 Endorsement characteristics and CAR

Besides investigating the influences of political endorsements on firm performance, this section focuses on the impacts on cumulative abnormal return, which is more market-oriented. Unlike previous models, models in this section decompose endorsement into 5 specific characteristics: *Sequence*, *Times*, *Length*, *Multi* and *Brief* in order to explore which specific characteristics of political endorsement dominate the influences on cumulative abnormal return (CAR).

According to table 7, sequence and length are the major characteristics captured by recipients to assess the firms and finally exert significant influences on market reactions during all event windows (from car(1,1) to car(5,30)). The significant positive coefficients of sequence demonstrate that political endorsement appears in the later part of Xinwenlianbo can catch people's attention and change their assessment on firms more easily and effectively. Furthermore, the longer the political endorsement, the more attention can be attracted and hence trigger positive market reactions. Use column one as an example, every minute increase in length is associated with 0.028% (P=0.081) increase in car (1,1), which is consistent with hypothesis 2A that political endorsement can motivate investors to react positively.

<<Insert table 7 about here>>

6.6 Endorsement characteristics and Performance

Table 8 reveals the impacts of the 5 specific endorsement characteristics on firm performance and performance change. Since it is possible that the same firm can achieve

political endorsement several times during the same year, the maximum value of sequence, times, length, multi and brief during specific year are used in the regressions as the strongest endorsement can impose dominating effects. According to column 1 and 2, *Multi* is significantly negatively associated with ROA and Δ ROA, signaling that firms perform better when one piece of political endorsement focus on one firm rather than mentioning several firms simultaneously. One possible reason is that if the political endorsement is tailored to one specific company, it is highly likely that this firm has intimate relationship with the government and can obtain more favorable resources and regulatory treats from government, which is beneficial for future performances.

In column 3 and 4, when ROS and Δ ROS serve as the proxies for firm performances and performance changes, the significantly negative coefficients of the sequence demonstrate that the earlier the political endorsement is broadcasted, the better the firm performance is, which is contradictory to the impacts of sequence on CAR in table 7. In the previous section, the positive relationship between sequence and CAR demonstrates that political endorsement appears in the later part of Xinwenlianbo can change investors' assessment on firms more easily and effectively, and trigger positive market reactions. Therefore, in previous section when CAR is the dependent variable, political endorsement is a signal for investors to react. However, in this section, the sequence is an indicator for resource dependence when the dependent variables are performances rather than market reactions. Since the headline news are usually the most important and striking news, the earlier appearance of the political endorsement implicate that government puts emphasis on supporting these firms, thus improving firms' performance and performance change.

Based on column 5, sequence is positively correlated with market-adjusted return, which is contradictory to the results in column 3 and 4, but consistent with the results in table 7. As stated above, when accounting-based performance measures are used as dependent variables (ROA, ROS), sequence is negatively associated with performance because political endorsement functions as a source of key resources and sequence shows how intimate the connection is. The earlier the political endorsement is broadcasted, the more importance government attaches to, and the more likely these firms can obtain favorable resources. However, when market-based performance measures are dependent variables, sequence is positively correlated with market-based performances since political endorsements functions as signaling for investors. For example, result in column 5 indicates that political endorsement in later part of Xinwenlianbo is a stronger signal to catch investors' attentions and push market-adjusted return upward.

<<Insert table 8 about here>>

7. Conclusion:

Endorsement is a pervasive phenomenon and has traditionally been studied under marketing context. However, few literatures focus on the endorsement in financial market and no studies to date have paid attention to political endorsement. To fill these gaps, political endorsement is introduced as a new aspect of endorsement in financial market. Political endorsement, in this paper, is defined as the public statements or actions showing that governments support the firms.

The results of this paper demonstrate that political connection is the main determinant for political endorsement. Since government can obtain vested interests by endorsing politically connected firms, connected firms have higher probability to be endorsed by government. In addition, this paper find that firms with larger size, younger age, more employees and no duality are more likely to achieve political endorsements. After controlling endogeneity by applying PSM, this paper certifies the positive influences of political endorsement on firm performance and performance change, which support resource dependence theory and provide supporting evidences for the value of political connections. The positive effects on firm value indicate that endorsed companies can participate in an exclusive club where the reputation and esteem can be transferred from government to firms. By decomposing endorsement into 5 specific characteristics, results reveal that sequence and length of political endorsement are the major characteristics that trigger market reactions. Results also point out that whether political endorsement is tailored to one specific company and the sequence of political endorsement are closely associated with firm performance since these characteristics implicate how government values the firms, and how easily firms can obtain resources from government, which augment resource dependence theory.

This study fills the gap of literatures on endorsements by introducing political endorsement as a brand new kind of endorsements, which is implicit and pervasive in financial market. This study further broadens the concept of endorsement, integrates theories to provide a theoretical basis to explain the mechanism through which endorsements influence the market, and adds value to the ongoing debate over the value of

political connection. Practically, the results are suitable for other forms of political endorsements, and can be generalized to fit other countries. The empirical results of this paper can give practical implications for both domestic and international investors who are interested in investing in emerging markets where institutional infrastructures are relatively weak. It is sensible for investors to follow the indications from political endorsements since they serve as important indicators of political connections and future firm performances. For firms who want to pursue political endorsements in order to enhance firm performance, they can consider hiring more directors and executives who are party members to increase the party intensity, try to employ more staffs, increase the size of the company and avoid CEO duality.

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Figure 1 Ownership Structure for Endorsed Firm

This figure provides examples of the ownership structures of endorsed firm. Figure 1A is the ownership structure of ‘China state shipbuilding corporation’ who is endorsed by Xinwenlianbo on 2007. Figure 1B is the ownership structure of ‘Meiling Electric’ who achieved political endorsement on 2009. State-owned shares mean the shares held by government. Legal-person shares refer to the non-tradable shares held by corporate or social organizations. Tradable shares are the shares that can be traded in exchanges.

Ownership Structure For Endorsed Firm
China state shipbuilding corporation

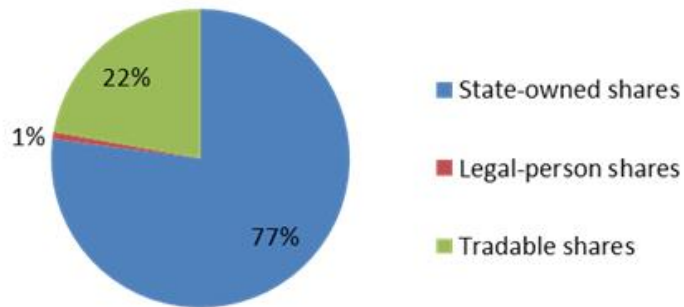


Figure 1A

Ownership Structure For Endorsed Firm
Meiling Electric

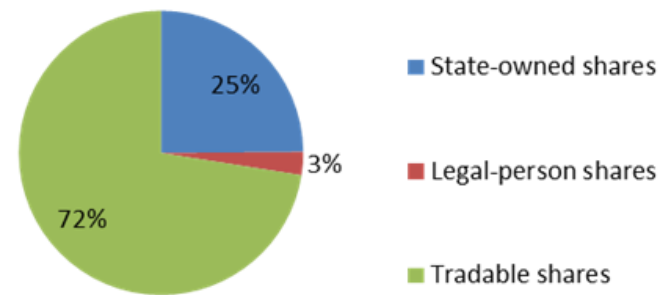


Figure 1B

Table 1 Definition of variables

Variable of interest	
Performance-related Variables	
ROA	Net income/Total asset, winsorized at 5%.
ROA_L1	One-period lagged winsorized Net income/Total asset
ROA_F	One-period forwarded winsorized Net income/Total asset
Δ ROA	$ROA_{t+1} - (ROA_t + ROA_{t-1})/2$
ROS	Net income/Sales, winsorized at 5%.
ROS_L1	One-period lagged winsorized Net income/Sales
ROS_F	One-period forwarded winsorized Net income/Sales
Δ ROS	$ROS_{t+1} - (ROS_t + ROS_{t-1})/2$
Market-adjusted R	Market-adjusted annual stock return
Endorsement-related Variables	
Endorsement	Dummy variable. If the firm is endorsed by government, equal 1.
Δ Endorsement	Dummy variable. If the firm is not endorsed in the previous year, but is endorsed by government this year, equal 1.
Sequence	The sequence of the specific piece of news which includes endorsement in the news program of that day.
Times	How many times the same company name is mentioned.
Length	The length of the piece of news which includes political endorsement.
Multi	Dummy variable, if the same piece of news mentions several firms simultaneously, equal 1.
Brief	Dummy variable. If the firm is endorsed in the brief summary of the news program, equal 1. If the firm is endorsed in normal news, equal=0.
Political connection variables	
Party intensity	No. of party members/ Total number of directors
State share%	Percentage of shares owned by the state
Other control variables	
Firm-level Control variables	
Size	Ln(Market value), where the value of non-tradable shares are calculated by using net asset value.
Leverage	Total equity/total liability
B/M	Book value/market value
age	The age of the firm from its establishment.
Ln employees	Ln(employee number)
TQ	Market value/Ending total asset
Cash turnover	Sales/ cash and cash equivalents
Acid ratio	(Current asset-inventory)/current liability
Corporate Governance Control	
Manager size	No. of senior managers disclosed in financial statement
Management share%	Percentage shares held by senior mangers
Duality	Dummy variable, if the CEO is also the board chairman, equal 1
Independent Director	Number of independent directors.
Board top3	Sum of the three highest salaries of board.

Table 2: Descriptive Statistics

This table presents the descriptive statistics of endorsed firms and matched non-endorsed firms. Endorsed firms are the firms who are endorsed by government through Xinwenlianbo. The matched non-endorsed firms are identified by applying PSM. The matching characteristics include political connection-related variables (party intensity and stateshare%), firm characteristics (size, leverage, B/M, age, ln(employees), cash turnover), governance (duality, manager size, manager share% and independent directors), and previous performance (ROA and ROA_L1; or ROS and ROS_L1). ROA_F, ROS_F and market-adjusted return are three proxies for firm performances. The definitions of these variables are shown in table 1. The sample period covers 2009 to 2011.

<i>Variables</i>	<i>Endorsed Firms</i>			<i>Matched non-endorsed Firms</i>			<i>Differences</i>
	<i>mean</i>	<i>Median</i>	<i>SD</i>	<i>mean</i>	<i>Median</i>	<i>SD</i>	
<i>Size</i>	24.341	24.213	1.848	24.250	24.005	1.842	0.434
<i>Leverage</i>	1.019	0.680	1.073	0.864	0.588	1.034	1.295
<i>B/M</i>	0.718	0.739	0.261	0.709	0.707	0.262	0.321
<i>age</i>	11.916	12.000	4.568	12.052	12.000	5.027	-0.248
<i>Ln employees</i>	9.307	9.243	1.598	9.341	9.331	1.465	-0.193
<i>Cash turnover</i>	9.585	5.799	12.939	8.128	4.881	14.328	0.940
<i>State share%</i>	0.190	0.011	0.253	0.174	0.000	0.241	0.570
<i>Party intensity</i>	0.313	0.286	0.247	0.316	0.250	0.252	-0.129
<i>Manager size</i>	7.658	7.000	4.663	7.890	7.000	3.326	-0.505
<i>Management share%</i>	0.014	0.000	0.075	0.012	0.000	0.058	0.214
<i>Duality</i>	0.039	0.000	0.194	0.045	0.000	0.208	-0.283
<i>Independent Director</i>	3.813	4.000	0.979	3.890	4.000	1.072	-0.664
<i>ROA</i>	0.004	-0.009	0.045	0.001	-0.008	0.058	0.410
<i>ROA_L1</i>	0.024	0.013	0.066	0.013	0.002	0.073	1.390
<i>ROS</i>	0.163	-0.000	0.644	0.183	-0.005	1.795	-0.131
<i>ROS_L1</i>	0.092	0.009	0.580	0.069	0.012	1.004	0.254
<i>Market-adjusted return</i>	0.116	-0.052	0.600	0.082	0.010	0.514	0.823
	No. of observations: 155			No. of observations:155			

Table 3: Correlation Matrix

This table presents the correlation matrix among variables. The correlation coefficients are in boldface if they significant at 1% level in a two-tailed test. The definitions of these variables are shown in table 1.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(17)	(18)	(20)
<i>Endorsement</i>	1.000																	
<i>Size</i>	0.331	1.000																
<i>Leverage</i>	-0.028	-0.155	1.000															
<i>B/M</i>	0.128	0.273	-0.064	1.000														
<i>Age</i>	-0.049	0.100	-0.107	-0.038	1.000													
<i>Ln employees</i>	0.2437	0.645	-0.121	0.335	-0.075	1.000												
<i>Cash turnover</i>	-0.004	-0.022	-0.034	-0.043	0.039	0.004	1.000											
<i>State share%</i>	0.093	0.174	-0.039	0.227	-0.041	0.170	0.004	1.000										
<i>Party intensity</i>	0.073	0.192	-0.092	0.102	0.143	0.179	-0.003	0.284	1.000									
<i>Manager size</i>	0.109	0.340	-0.046	0.164	-0.067	0.343	-0.015	0.094	0.077	1.000								
<i>Manager share%</i>	-0.065	-0.318	0.184	0.048	-0.414	-0.139	-0.036	-0.206	-0.256	-0.025	1.000							
<i>Duality</i>	-0.077	-0.220	0.093	-0.059	-0.152	-0.138	0.016	-0.143	-0.176	-0.043	0.278	1.000						
<i>Indep Director</i>	0.140	0.433	-0.083	0.176	0.020	0.325	-0.003	0.167	0.144	0.270	-0.132	-0.124	1.000					
<i>ROA</i>	-0.004	0.124	0.070	-0.156	-0.156	0.058	-0.094	0.049	-0.075	0.048	0.098	0.045	0.013	1.000				
<i>ROA_LI</i>	0.019	0.069	0.085	-0.045	-0.127	0.020	-0.067	-0.039	-0.078	0.070	0.153	0.064	-0.009	0.197	1.000			
<i>ROS</i>	-0.014	-0.035	0.041	-0.045	-0.013	-0.055	-0.030	0.007	-0.002	-0.015	0.011	-0.029	-0.014	0.105	0.005	1.000		
<i>ROS_LI</i>	-0.009	-0.051	0.029	0.003	-0.004	-0.088	-0.015	-0.031	-0.015	-0.043	0.045	-0.019	-0.050	-0.024	0.121	-0.040	1.000	
<i>Market-adjustedR</i>	-0.018	-0.022	0.025	-0.234	-0.023	-0.062	0.005	0.010	-0.025	-0.043	0.002	0.002	-0.043	0.139	0.012	0.009	-0.011	1.000

Table 4: The determinants of political endorsement

This table presents the results for the determinants of political endorsements. In column (1), the probability of endorsement is modeled as a function of political connection-related variables. In column (2), firm characteristics are added into the model. In column (3), variables about the quality of corporate governance are included in the model. Column (4) and (5) further incorporate variables about previous performance. The definitions of all variables are shown in table 1. *, **, *** denote the significance level at 10%, 5% and 1% respectively.

	(1)	(2)	(3)	(4)	(5)
	<i>Endorsement</i>	<i>Endorsement</i>	<i>Endorsement</i>	<i>Endorsement</i>	<i>Endorsement</i>
<i>Party intensity</i>	0.469 ^{***} (0.000)	0.365 ^{**} (0.034)	0.350 ^{**} (0.049)	0.417 ^{**} (0.025)	0.402 ^{**} (0.030)
<i>State share%</i>	0.712 ^{***} (0.000)	0.142 (0.459)	0.171 (0.391)	0.181 (0.403)	0.160 (0.455)
<i>Size</i>		0.268 ^{***} (0.000)	0.274 ^{***} (0.000)	0.261 ^{***} (0.000)	0.259 ^{***} (0.000)
<i>Leverage</i>		0.013 [*] (0.056)	0.014 [*] (0.057)	-0.008 (0.748)	-0.008 (0.727)
<i>B/M</i>		0.249 (0.180)	0.185 (0.331)	0.131 (0.546)	0.183 (0.371)
<i>Age</i>		-0.023 ^{***} (0.009)	-0.022 ^{**} (0.020)	-0.027 ^{**} (0.013)	-0.026 ^{**} (0.015)
<i>Ln employees</i>		0.159 ^{***} (0.000)	0.163 ^{***} (0.000)	0.208 ^{***} (0.000)	0.201 ^{***} (0.000)
<i>Cash turnover</i>		-0.002 (0.493)	-0.002 (0.514)	-0.002 (0.522)	-0.002 (0.462)
<i>Manager size</i>			0.008 (0.563)	0.007 (0.640)	0.008 (0.565)
<i>Manager share%</i>			0.300 (0.370)	-0.246 (0.628)	-0.238 (0.637)
<i>Duality</i>			-0.388 ^{***} (0.009)	-0.481 ^{***} (0.009)	-0.464 ^{**} (0.011)
<i>Independent director</i>			-0.054 (0.326)	-0.071 (0.223)	-0.072 (0.212)
<i>ROA</i>				-1.109 (0.220)	
<i>ROA_LI</i>				1.071 [*] (0.096)	
<i>ROS</i>					0.064 (0.589)
<i>ROS_LI</i>					0.009 (0.948)
<i>Intercept</i>	-1.942 ^{***} (0.000)	-9.151 ^{***} (0.000)	-9.118 ^{***} (0.000)	-9.041 ^{***} (0.000)	-8.971 ^{***} (0.000)
<i>N</i>	6086	4005	3936	3523	3515

Table 5: Impacts of political endorsements on firm performances

This table reveals the impacts of political endorsements on firm performances after PSM matching. The dependent variable is firm performances: one-period forwarded return on asset (ROA_F), one-period forwarded return on sales (ROS_F), and market-adjusted annual stock return. The independent variable is endorsement. The probit regressions in column 4 and 5 of table 4 serve as the first step of PSM to match endorsed firms with non-endorsed firms. The definitions of all variables are shown in table 1. *,**,*** denote the significance level at 10%, 5% and 1% respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	ROA_F	ROA_F	ROS_F	ROS_F	Market-adjusted Return	Market-adjusted Return
<i>Endorsement</i>	0.026*** (0.004)	0.025*** (0.005)	0.091* (0.069)	0.094* (0.066)	0.602*** (0.000)	0.604*** (0.000)
<i>State share%</i>	-0.026 (0.228)	-0.024 (0.267)	-0.182 (0.212)	-0.181 (0.220)	0.242 (0.593)	0.231 (0.615)
<i>Party intensity</i>	0.005 (0.926)	-0.003 (0.959)	0.909** (0.030)	0.934** (0.030)	0.359 (0.779)	0.408 (0.756)
<i>Size</i>	0.043 (0.145)	0.044 (0.142)	0.176 (0.287)	0.166 (0.323)	0.272 (0.663)	0.260 (0.681)
<i>Leverage</i>	0.103*** (0.001)	0.105*** (0.001)	-0.061 (0.729)	-0.047 (0.795)	0.114 (0.823)	0.105 (0.839)
<i>B/M</i>	0.085 (0.167)	0.084 (0.175)	0.485 (0.193)	0.495 (0.190)	-3.127*** (0.009)	-3.130*** (0.009)
<i>Age</i>	-0.051*** (0.000)	-0.050*** (0.000)	-0.112** (0.022)	-0.111** (0.026)	-0.270 (0.119)	-0.274 (0.119)
<i>Ln employees</i>	0.099*** (0.001)	0.100*** (0.001)	-0.269 (0.115)	-0.258 (0.139)	-0.612* (0.054)	-0.611* (0.057)
<i>Cash turnover</i>	0.001 (0.279)	0.001 (0.273)	0.001 (0.865)	0.001 (0.835)	0.004 (0.104)	0.004 (0.108)
<i>Manager size</i>	-0.002 (0.484)	-0.002 (0.451)	-0.004 (0.852)	-0.005 (0.834)	0.071 (0.286)	0.072 (0.282)
<i>Manager share%</i>	0.122 (0.697)	0.107 (0.734)	0.679 (0.759)	0.644 (0.775)	7.370 (0.270)	7.444 (0.271)
<i>Duality</i>	-0.017 (0.512)	-0.016 (0.564)	-0.635** (0.041)	-0.643** (0.043)	0.207 (0.775)	0.211 (0.773)
<i>Independent director</i>	0.008 (0.354)	0.008 (0.362)	-0.007 (0.881)	-0.007 (0.892)	0.364* (0.078)	0.365* (0.080)
<i>ROA</i>	-0.321** (0.034)	-0.314** (0.040)			-11.351*** (0.001)	-11.370*** (0.001)
<i>ROA_L1</i>	-0.075 (0.296)	-0.075 (0.308)			-6.656*** (0.000)	-6.648*** (0.000)
<i>ROS</i>			-0.925*** (0.000)	-0.917*** (0.000)		
<i>ROS_L1</i>			-0.484*** (0.000)	-0.479*** (0.000)		
<i>_cons</i>	-1.556** (0.016)	-1.606** (0.014)	-0.769 (0.834)	-0.680 (0.855)	2.201 (0.875)	2.477 (0.861)
<i>Industry dummy</i>	NO	YES	NO	YES	NO	YES
<i>Year Dummy</i>	NO	YES	NO	YES	NO	YES
<i>N</i>	310	310	310	310	310	310
<i>r2</i>	0.573	0.583	0.791	0.793	0.637	0.637

Table 6 : Impacts of political endorsements change on firm performance change

This table explores the impacts of political endorsement change on firm performance change after PSM matching. The dependent variable is performance change: change in return on assets (Δ ROA) and change in return on sales (Δ ROS). The independent variable is change in endorsement, which refer to the situation when the firm is not endorsed in the previous year, but is endorsed by government this year. The definitions of all variables are shown in table 1. *,**,*** denote the significance level at 10%, 5% and 1% respectively.

	(1)	(2)	(3)	(4)
	Δ ROA	Δ ROA	Δ ROS	Δ ROS
<i>ΔEndorsement</i>	0.021** (0.042)	0.017* (0.076)	0.398* (0.090)	0.373 (0.108)
<i>State share%</i>	0.029 (0.354)	0.046 (0.136)	-0.575 (0.381)	-0.569 (0.379)
<i>Party intensity</i>	0.003 (0.970)	0.010 (0.877)	6.090*** (0.003)	7.025*** (0.001)
<i>Size</i>	0.021 (0.564)	0.013 (0.697)	0.317 (0.620)	0.203 (0.749)
<i>Leverage</i>	0.029 (0.385)	0.001 (0.972)	-0.548 (0.404)	-0.410 (0.530)
<i>B/M</i>	-0.055 (0.568)	-0.139 (0.163)	0.703 (0.665)	0.873 (0.586)
<i>Age</i>	-0.038*** (0.004)	-0.032** (0.010)	-0.381 (0.140)	-0.308 (0.233)
<i>Ln employees</i>	0.138*** (0.005)	0.142*** (0.002)	-1.347 (0.149)	-1.644* (0.085)
<i>Cash turnover</i>	-0.000 (0.621)	-0.001 (0.209)	0.007 (0.581)	0.010 (0.430)
<i>Manager size</i>	-0.004 (0.187)	-0.004 (0.263)	-0.072 (0.454)	-0.090 (0.349)
<i>Manager share%</i>	0.873 (0.838)	-1.128 (0.782)	-5.345 (0.000)	-5.253 (0.000)
<i>Duality</i>	0.003 (0.893)	0.016 (0.499)	-0.682 (0.510)	-0.957 (0.359)
<i>Independent director</i>	-0.012 (0.301)	-0.021* (0.084)	-0.038 (0.840)	-0.045 (0.806)
<i>ROA</i>	-0.782*** (0.000)	-0.801*** (0.000)		
<i>ROA_LI</i>	-0.599*** (0.000)	-0.646*** (0.000)		
<i>ROS</i>			-3.426*** (0.000)	-3.338*** (0.000)
<i>ROS_LI</i>			-4.129*** (0.000)	-4.131*** (0.000)
<i>_cons</i>	-1.264 (0.120)	-1.075 (0.157)	65.218*** (0.000)	68.762*** (0.000)
<i>Industry dummy</i>	NO	YES	NO	YES
<i>Year Dummy</i>	NO	YES	NO	YES
<i>N</i>	282	282	280	280
<i>r2</i>	0.842	0.869	0.977	0.978

Table 7: Characteristics and CAR

This table explores the impacts of five specific characteristics of endorsement on market reactions. The dependent variables include both short-term and long-term cumulative abnormal returns: CAR(1,1), CAR(2,2), CAR(3,3), CAR(4,4), CAR(5,5), CAR(5,10), CAR(5,20), CAR(5,25), CAR(5,30). Independent variables are 5 characteristics of political endorsement: 1) sequence of the specific piece of news that includes political endorsement in the news program of that day (Sequence); 2) the times the same company name is mentioned (Times); 3) the length of the endorsement (Length); 4) whether same piece of news mentions several firms simultaneously (Multi); 5) whether the firm is endorsed in the brief summary of the news program (Brief). Control variables cover political connection-related variables (party intensity and stateshare%), firm characteristics (size, leverage, B/M, age, ln(employees), Tobin's Q, cash turnover and acid ratio), governance (duality, manager size, manager share% and independent directors), and previous performance (ROA and ROA_L1; or ROS and ROS_L1). The definitions of all variables are shown in table 1. *, **, *** denote the significance level at 10%, 5% and 1% respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	CAR(1,1)	CAR(2,2)	CAR(3,3)	CAR(4,4)	CAR(5,5)	CAR(5,10)	CAR(5,20)	CAR(5,25)	CAR(5,30)
<i>Sequence</i>	0.002 [*] (0.097)	0.003 [*] (0.069)	0.003 ^{**} (0.047)	0.003 ^{**} (0.047)	0.003 [*] (0.059)	0.003 [*] (0.068)	0.004 [*] (0.059)	0.005 ^{**} (0.031)	0.006 ^{**} (0.014)
<i>Times</i>	-0.002 (0.715)	-0.000 (0.974)	-0.000 (0.943)	-0.001 (0.862)	0.001 (0.902)	0.002 (0.785)	0.001 (0.950)	0.006 (0.503)	0.005 (0.582)
<i>Length</i>	0.028 [*] (0.081)	0.033 [*] (0.056)	0.033 [*] (0.071)	0.038 [*] (0.051)	0.037 [*] (0.070)	0.028 (0.190)	0.044 [*] (0.067)	0.052 ^{**} (0.045)	0.052 [*] (0.055)
<i>Multi</i>	-0.010 (0.470)	-0.008 (0.612)	-0.008 (0.628)	-0.010 (0.547)	-0.011 (0.553)	-0.009 (0.617)	-0.013 (0.540)	-0.017 (0.465)	-0.022 (0.344)
<i>Brief</i>	-0.010 (0.547)	-0.010 (0.549)	-0.010 (0.576)	-0.011 (0.573)	-0.015 (0.469)	-0.010 (0.639)	-0.004 (0.882)	-0.004 (0.891)	-0.011 (0.679)
<i>Control variables</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>_cons</i>	-0.364 ^{**} (0.034)	-0.538 ^{***} (0.003)	-0.488 ^{**} (0.011)	-0.432 ^{**} (0.038)	-0.389 [*] (0.073)	-0.308 (0.167)	-0.122 (0.629)	-0.140 (0.607)	-0.099 (0.726)
<i>N</i>	227	227	227	227	227	227	227	227	227
<i>r2</i>	0.417	0.434	0.409	0.382	0.350	0.332	0.313	0.305	0.302

Table 8: Characteristics and Performance

This table presents the impacts of the 5 specific characteristics of endorsement on firm performance and performance change. The dependent variables are one-period forwarded return on assets (ROA_F), change in return on assets (Δ ROA), one-period forwarded return on sales (ROS_F), change in return on sales (Δ ROS) and market-adjusted annual stock return. Since it is possible that the same firm can achieve political endorsement several times during the same year, the independent variables are the max sequence, max times, max length, max multi and max brief of the political endorsement during that year. Control variables cover political connection-related variables (party intensity and stateshare%), firm characteristics (size, leverage, B/M, age, ln(employees), Tobin's Q, cash turnover and acid ratio), governance (duality, manager size, manager share% and independent directors), and previous performance (ROA and ROA_L1; or ROS and ROS_L1). The definitions of all variables are shown in table 1. *, **, *** denote the significance level at 10%, 5% and 1% respectively.

	(1)	(2)	(3)	(4)	(5)
	<i>ROA_F</i>	Δ <i>ROA</i>	<i>ROS_F</i>	Δ <i>ROS</i>	<i>Market-adjusted</i>
					<i>Return</i>
<i>MAXsequence</i>	-0.00003 (0.961)	-0.00003 (0.961)	-0.00985* (0.075)	-0.07650* (0.076)	0.01895** (0.037)
<i>MAXtimes</i>	0.00287 (0.177)	0.00287 (0.177)	-0.02325 (0.245)	-0.15208 (0.327)	-0.00024 (0.994)
<i>MAXlength</i>	-0.00440 (0.490)	-0.00440 (0.490)	0.00158 (0.979)	0.00170 (0.997)	0.11237 (0.246)
<i>MAXmulti</i>	-0.01162* (0.081)	-0.01162* (0.081)	0.03637 (0.555)	-0.63183 (0.188)	-0.15566 (0.123)
<i>MAXbrief</i>	-0.00808 (0.256)	-0.00808 (0.256)	0.06418 (0.334)	0.75359 (0.145)	-0.15503 (0.152)
<i>Control</i>	Yes	Yes	Yes	Yes	Yes
<i>_cons</i>	-0.15771** (0.028)	-0.15771** (0.028)	0.37571 (0.568)	4.19582 (0.412)	0.43880 (0.684)
<i>N</i>	147	147	147	147	147
<i>r2</i>	0.56389	0.26441	0.14419	0.16994	0.38933