



Contents lists available at ScienceDirect

Journal of Business Research



Corporate risk-taking: Exploring the effects of government affiliation and executives' incentives[☆]

Shujun Ding^{a,*}, Chunxin Jia^b, Baozhi Qu^{c,d}, Zhenyu Wu^e

^a University of Ottawa, Ottawa, Ontario, Canada

^b Peking University, Beijing, China

^c China Merchants Group, China

^d University of International Business and Economics, Beijing, China

^e University of Manitoba, Winnipeg, Manitoba, Canada

ARTICLE INFO

Available online xxxx

Keywords:

Corporate risk
Political incentives
Government-affiliated firms
Political connections

ABSTRACT

A firm's risk-taking behavior can have powerful implications for its employees and shareholders, and even surrounding communities. Corporate risk-taking may associate with firms' affiliation with the government and the incentives of their highest-ranking executives, rather than with strategic choices calculated to maximize firm value. This study addresses a novel sample of Chinese firms, controls for a set of firm and manager characteristics, and finds that firms' political ranking significantly affects their corporate risk-taking behavior. This effect is strong among firms with younger managers, and becomes insignificant when the highest-ranking manager is near retirement age. The findings indicate that the political connections of the highest-ranking manager (i.e., whether the manager is a former or current government bureaucrat) do not independently affect corporate risk-taking. However, the interaction between political connections, the firm's political rank, and the manager's age can affect corporate risk-taking.

© 2014 Elsevier Inc. All rights reserved.

1. Introduction

As business operations entail risks, risk management is an indispensable element of the management function (Chen & Ma, 2011; Garrett, Covin, & Slevin, 2009; John, Litov, & Yeung, 2008; Lee, 1994). Risk-taking, if properly managed, is a source of growth, innovation, and prosperity. However, excessive risk-taking may threaten a firm's bottom line, cause corporate collapse, and thereby incur substantial costs for employees, customers, shareholders, and broader communities, as evidenced by various recent scandals and financial crises around the world. Clearly, therefore, corporate risk-taking can have powerful economic implications. A variety of factors may affect corporate risk management, and a firm's risk-taking behavior should consider strategic choices calculated to maximize firm value. In reality, however, managers may make risky decisions without the right reasons, and incentives for corporate risk-taking sometimes arise from a firm's

particular organizational structure and the personal interests of its highest-ranking managers. The objective of this study is to explore the empirical evidence for such incentives for corporate risk-taking, and to examine the risk-taking behavior of a distinct group of listed companies against the backdrop of China's political-economic reforms.

The threats posed to an organization by a lack of effective risk management may arise from both corporate culture and individual factors. In this study, two rarely studied factors are the focal point: government affiliation and executives' personal incentives. The literature on the advantages and disadvantages of political influence on business is growing (Fan, Wong, & Zhang, 2007; Li, Meng, Wang, & Zhou, 2008). The current research differs from previous studies in that the objective is to provide evidence for the political implications of economic behavior by exploring the corporate risk-taking behavior of a group of firms that are affiliated with China's central government; due to this affiliation, the incentives of the firms' highest-ranking executives may be highly politically charged. The present study is one of the first to shed light on this important topic.

Another strand of the literature addresses the factors that determine corporate risk-taking (e.g., John et al., 2008). However, prior studies have not examined the effects on corporate risk-taking of firms' affiliation with the central government and the incentives of high-ranking managers. Risk-taking behavior should be judged according to its contribution to firm value and shareholders' wealth, but an optimal level of risk-taking is difficult to establish. Instead, this study examines

[☆] The research was partially sponsored by the Social Sciences and Humanities Research Council of Canada (SSHRC) under Canada Research Chairs Grant No. 950-226325, the Canada Foundation of Innovation (CFI) under Leaders Opportunity Fund No. 226325, and Manitoba Research and Innovation Fund (MRIF) No. 226325 for Zhenyu Wu. Chunxin Jia gratefully acknowledges the financial support of the National Social Science Fund of China (Grant #: 10BGL059).

* Corresponding author.

E-mail addresses: ding@telfer.uottawa.ca (S. Ding), cja@gsm.pku.edu.cn (C. Jia), baozhiqu@hotmail.com (B. Qu), zhenyu_wu@umanitoba.ca (Z. Wu).

the associations between firm- and executive-level characteristics and the risk-taking behavior of executives. The analysis of China's distinct political-economic environment suggests that the executives of enterprises affiliated with the central government, especially younger executives, have incentives to take such risks. This observation may depend on a key contextual factor: the political status of the firm.

The study examines a novel sample of Chinese firms affiliated with the central government, differentiating the firms according to their political rank and their managers' underlying incentives. The results indicate that firms' corporate risk-taking is significantly affected by their political status and certain personal characteristics of their board chairpersons. Furthermore, in firms controlled by high-ranking, central government affiliated conglomerates, the senior managers (hence the firms themselves) tend to take more risks. This association is stronger in firms with comparatively younger board chairpersons, arguably because these employees are at an early stage in their careers, with a greater potential for political promotion. The results indicate that executives' political connections do not affect corporate risk-taking. However, the interaction between an executive's political connections, the firm's political rank, and the age of the executive is found to affect the level of corporate risk-taking.

The remainder of this paper proceeds as follows. Section 2 discusses China's institutional background, and develops hypotheses. Section 3 describes the data and method. Section 4 reports empirical results. Section 5 concludes the paper.

2. Institutional background and hypotheses

China's program for reforming state-owned enterprises (SOEs) began in the 1980s. A significant chapter in this reform was the establishment of the Shanghai and Shenzhen Stock Exchanges in the early 1990s. The majority of the firms listed on China's stock markets are the result of the corporatization of SOEs. China's central and local governments remain the controlling shareholders in these firms, whether directly or indirectly (Chen, Firth, Gao, & Rui, 2006).

A large number of partially privatized listed Chinese companies are still affiliated with mother organizations that are directly owned by the central government and overseen by the State-owned Assets Supervision and Administration Commission (SASAC). In 2007, the SASAC was responsible for supervising the 151 biggest SOEs in China, thereby ensuring the state's absolute control over key industries such as the military, electricity generation, petroleum and petrochemical production, telecommunications, coal, civil aviation, and shipping and transportation. In the same year, the SASAC oversaw RMB14.6 trillion (US\$1.8 trillion) in total assets, with a net equity of RMB5.1 trillion (US\$629 billion) (Du, Tang, & Young, 2010).

Due to the crucial role they play in China's economy, the largest SOEs are ranked using a system similar to that used to rank the various government agencies. The current rank of a company is probably inherited, depending on whether its predecessor was a ministry or a department of a ministry before its transformation into a company in the early years of the economic reforms. A company's political rank has important implications for its relationship with the government, and determines how much government support (in the form of easy access to bank loans or tax benefits, for example) it is permitted to receive, especially when in trouble. As a result, *ceteris paribus*, the managers of a company with a higher political rank may be more willing to take significant risks, yet more likely to incur substantial costs for society at large if they make the wrong decisions.

Corporate risk-taking in Chinese government-affiliated listed companies is also significantly influenced by the personal characteristics of senior managers, the economic compensation such managers receive and the extent of their ownership of their respective firms (e.g., Jianakoplos & Bernasek, 2006). The board chairperson of a Chinese listed company is its highest-ranking manager. Like the senior managers of Western firms, the board chairpersons and chief executives of

government-affiliated listed companies in China often exhibit high levels of professional ambition. Consequently, they may focus on attaining exceptional short-term performance figures through excessive risk-taking, because firm-level profitability is always the highest priority in their personnel assessment (Park, Li, & Tse, 2006). This incentive is stronger among younger board chairpersons who manage firms with a higher political status, because they are keenly aware of the additional government support associated with their firms' political ranking. The board chairpersons of these firms know that their pursuit of risky projects will bring them enormous benefits if successful, and that they will bear little responsibility if unsuccessful, due to their firms' government protection. As documented by Tian and Estrin (2008), government protection brings a variety of significant benefits. The government provides tremendous support for politically well-connected firms, and protects them against the effects of economic downturns, including investment failures. Furthermore, central government affiliation offers strong political incentives to the highest-ranking executives of these firms; anecdotal evidence suggests that such executives may care more about their political agendas than their economic compensation. Younger board chairpersons, with a greater potential for political promotion, may be even more motivated by the political incentives arising from central-government affiliation. This cost-benefit analysis may in turn incentivize them to take on riskier investment projects in the hope of higher short-term returns and increased opportunities for political promotion. In contrast, board chairpersons near the retirement age are more conservative and consequently less motivated by economic considerations or political agendas, irrespective of the government's provision of additional support to their firms in the case of operational failure.

The following hypotheses are developed from the above argument.

H1. Among Chinese central government affiliated firms, a higher political ranking is associated with a greater willingness to take significant risks, *ceteris paribus*.

H2. The above relationship between firms' political ranking and corporate risk-taking is stronger in firms with younger board chairpersons.

A substantial significant number of China's highest-ranking company managers are politically well-connected, as they are either former or current government bureaucrats (Du et al., 2010; Fan et al., 2007). Managers with political connections may have a greater incentive to take risks, as they can count on a certain degree of additional government support (e.g., easy access to bank loans) if an investment project fails; conversely, however, their experience as governmental officials may make them more conservative and thus more risk-averse. The relationship between a manager's political connections and his/her inclination to take risks is also likely to be affected by the manager's age. The empirical approach to the relationship between political connection and risk-taking in central government affiliated firms distinguishes the current research from previous studies on the consequences of Chinese firms' political connections (e.g., Fan et al., 2007; Li et al., 2008; Piotroski, Wong, & Zhang, 2008; Qian & Xu, 1993).

3. Sample and method

Based on the list of central government affiliated enterprises (CGAEs) published by the SASAC in 2010, this study formed a sample of 169 CGAEs that control 155 listed companies. Information on the firms' basic financial indicators and the characteristics of their board chairpersons was obtained from the Chinese Stock Market and Accounting Research database. Other data on the political ranking of the firms' mother organizations are collected from the SASAC, and data regarding the political connections of board chairpersons are coded from the companies' annual reports. The sample covers the period from 2001 to 2006.

The primary regression model is as follows:

$$RISK = \beta_0 + \beta_1 AGE + \beta_2 FIRM RANK + \beta_3 Control + error. \quad (1)$$

Estimating firm risk is plagued with difficulties, and a variety of risk measures have been used in the literature; as yet, there is no consensus on which measure is the most effective (Low, 2009). In this study, the focus is on the operational dimension of firms' risk-taking behavior. The measure of risk-taking behavior in firm operations, *RISK*, is based on the variation in corporate earnings (EBITDA) scaled by total assets. The deviation of each firm's EBITDA/Assets is computed from the sample average for each of four consecutive years of firm observations during the 2001–2006 period. The standard deviation of this measure is then set as the value of *RISK*. To test robustness, the firms' idiosyncratic volatility (IDIORISK), industry-adjusted cash flow based risk (RISK-IND), and industry-adjusted idiosyncratic volatility (IDIORISK-IND) are used as alternative dependent variables. As a given firm may appear more than once in the sample, treating the sample as a panel and using the bootstrapping technique in the tests are necessary.

The age of the selected board chairperson (*AGE*) and the political rank of the listed company's mother organization (*FIRM RANK*) are key independent variables. The mother organizations of the CGAEs are categorized according to two political ranks: "ministry level" and "department level." Therefore, *FIRM RANK* is a dummy variable with the value of one if the company's mother organization has the higher political rank ("ministry level"), and zero if it has the lower rank ("department level"). The board chairpersons of listed companies with high-ranking mother organizations tend to have a greater potential for promotion and a greater political incentive to take risks.

This study uses a set of three control variables to evaluate the characteristics of the board chairpersons. As an individual's educational background may affect his/her risk preference, the variable *EDUCATION* (measured by five dummy variables, PHD, MASTR, BACHELOR, DIPLOMA, and OTHER) is included in the regressions. *CHAIRSHARE* is the board chairperson's ownership stake in the firm, which captures his/her economic incentive. Two measures of *CHAIRSHARE* are considered: *CHAIRSHARE1* calculates the board chairperson's ownership as a fraction of the total number of shares; and *CHAIRSHARE2* reflects the board chairperson's ownership as a percentage of the number of tradable shares. The variable *TENURE* indicates the length of the board chairperson's tenure, in years. Executives with greater experience and knowledge of the firm may make different risk decisions on the firm's behalf. The variable *TURNOVER* is a dummy indicating whether CEO turnover occurred in the given year. This variable is included to capture the effects of the events surrounding the replacement of one CEO with another.

John et al. (2008) and Li et al. (2008) point out that firm characteristics may affect corporate risk-taking. This study adopts eight control variables to measure firm characteristics. *EARNINGS* denotes corporate earnings, defined as the ratio of EBITDA to total assets. *ES* is a measure of earnings smoothing due to managerial incentives, calculated as the ratio of the firm-level standard deviations of operating income and operating cash flow, where both variables are scaled by lagged total assets. *LARGEST* reflects the total cash-flow rights of the largest shareholder in the company on record. *LNTA* is firm size, measured by the natural logarithm of total assets. *D/E* denotes book leverage, defined as the ratio of book debt to total assets. *AH* is a dummy variable that equals one if the firm issues A shares on the mainland Chinese stock markets and H shares on the Hong Kong stock markets, and zero otherwise. *GROWTH* is the growth rate of a firm's total sales. The eighth variable, *FIRMAGE*, denotes the number of years for which a firm has been listed on the stock market. In addition, the dummy variables *YEAR EFFECTS* and *INDUSTRY EFFECTS* are included to control for time- and industry-related fixed effects, respectively (Panel A of Table 1).

This study adopts two robustness tests addressing the nonlinearity of an individual's age, based on Model (1). First, the square term of

AGE, *AGE-SQ*, is added to Model (1). Second, three subsamples are formed from the 25th and 75th percentiles of *AGE* and the test version of Model (1), respectively. The age distribution of the board chairpersons appears in Panel B of Table 1. To accommodate industry-year differences in risk-taking behavior, average values for cash flow based risk in each industry and each year appear in Panel C of Table 1.

The data analyses include responding to whether or not board chairpersons' political connections affect their corporate risk-taking behavior, especially when their political connections interact with their political incentives. Following Fan et al. (2007), this study defines each board chairperson's political connections (*PC*) in terms of his/her work experience. The dummy variable *PC* has a value of one if the board chairperson is or was a government bureaucrat, and zero otherwise. This study uses the following models to test the hypotheses:

$$RISK = \beta_0 + \beta_1 AGE + \beta_2 FIRM RANK + \beta_3 PC + \beta_4 Control + error \quad (2)$$

and

$$RISK = \beta_0 + \beta_1 AGE + \beta_2 FIRM RANK + \beta_3 PC + \beta_4 FIRM RANK * PC + \beta_5 Control + error. \quad (3)$$

To investigate the interactive effects of *FIRM RANK* and *PC* in more detail, this study provides four dummy variables: *HIGHRANK * PC*, *HIGHRANK * NPC*, *LOWRANK * PC*, and *LOWRANK * NPC*. *HIGHRANK* means that a listed company's mother organization is ranked at the higher level (i.e., *FIRM RANK* = 1), while *LOWRANK* indicates the lower rank (i.e., *FIRM RANK* = 0). *PC* signifies that a board chairperson has political connections (i.e., *PC* = 1), while *NPC* indicates the opposite (i.e., *PC* = 0). This study also considers the nonlinear effects of a board chairperson's age using three subsamples constructed from the 25th and 75th percentiles of the variable *AGE*.

4. Empirical analysis

Table 2 presents descriptive analyses of the full sample and two subsamples based on the ranking of the CGAEs' mother organizations. The average corporate risk over the sample period is 0.14 for the full sample. On average, listed companies with higher-ranking mother organizations appear to take slightly more corporate risk (0.15) than companies with lower-ranking mother organizations (0.13), although the difference is not statistically significant. The average age of the board chairpersons is 51.1 years, which is not affected by *FIRM RANK*. The mother organizations of 60.8% of the CGAEs are ranked at the higher level. 26.5% of the full sample of board chairpersons have political connections, of which 29.3% belong to firms with lower-ranking mother organizations and 24.7% belong to firms with higher-ranking organizations. This difference is significant at the 10% level.

Of the full sample, 3.5% of the board chairpersons have Ph.D. degrees, 15% have Master's degrees, 13% have Bachelor's degrees, and 3% have diplomas. On average, the board chairpersons hold 0.003% of the total number of company shares, and 0.007% of the tradable shares. The average ownership percentages held by the board chairpersons in the two subsamples categorized by *FIRM RANK* are not significantly different. The average tenure of the board chairpersons in the sample is 1.544 years, and the mean values of *TENURE* in the two subsamples are not significantly different. 20.2% of the companies in the sample experienced board chairperson turnover in the period under study. On average, the largest shareholder owns 49.2% of his/her firm's shares, and the firms have a 24.8% leverage. Only 7% of the companies issue both A and H shares. The companies have been listed on the stock market for an average of 5.5 years. The variables *EARNINGS*, *LNTA*, *D/E*, *AH*, and *FIRMAGE* in the two subsamples categorized by *FIRM RANK* have significantly different mean values. Table 3 is the correlation table, and to save space, the results are not repeated here.

Table 1
Sample information.

Panel A. Variable definition	
Variable	Definition
RISK	The risk-taking behaviors of firm operations based on the variation of corporate earnings scaled by total assets
RISK-IND	RISK adjusted by industry average
AGE	Age of a board chair
FIRMRANK	The political rank of a listed company's mother organization affiliated with the central government
PC	Measure of political connection, which has a value of one if a board chair is, or was, a government bureaucrat, and zero otherwise
PHD, MASTR, BACHELOR, and DIPLOMA	Dummies indicating the education level of a board chair
CHAIRSHARE1	Board chair's ownership as a fraction of the total number of shares
CHAIRSHARE2	Board chair's ownership as a percentage of the number of tradable shares
EARNINGS	Corporate earnings defined as the ratio of EBITDA to total asset
ES	A measure of earnings smoothing due to managerial incentives, calculated as the ratio of firm-level standard deviations of operating income and operating cash flow, where both variables are scaled by lagged total assets
TENURE	The number of days of a board chair's tenure
TURNOVER	A dummy indicating whether board chair turnover occurred in a year
LARGEST	Total cash flow rights of the largest shareholder on record with the company
LNTA	Firm size, measured by the natural logarithm of total assets
D/E	Book leverage defined as the ratio of book debt to total assets
AH	A dummy variable that equals one if the firm issues A shares on the mainland Chinese stock markets and H shares on the Hong Kong stock market, and zero otherwise
GROWTH	Growth rate of a firm's total sales
FIRMAGE	The number of years a firm has been listed on the stock market

Panel B. Distribution of board chairs' ages and political ranks

The variable AGE refers to the age of a board chair. FIRMRANK is a dummy variable which indicates the political rank of a listed company's mother organization affiliated with the central government. It has the value of one if a company's mother organization has the higher political rank (the "ministry level"), and zero if it has the lower rank (the "department level").

	AGE			FIRMRANK		
	Mean	S.D.	N	Mean	S.D.	N
Age between 30 and 40 (30 < age ≤ 40)	38.50	2.11	58	0.50	0.50	58
Age between 40 and 50 (40 < age ≤ 50)	45.64	2.87	488	0.63	0.49	488
Age between 50 and 60 (50 < age ≤ 60)	55.59	2.96	466	0.63	0.48	466
Age between 60 and 70 (60 < age ≤ 70)	62.45	1.669	119	0.56	0.50	119

Panel C. Mean values of RISK in industry-year sub-samples

	2001	2002	2003	2004	2005	2006
1. Agriculture/fishing/forestry	0.010	0.030	0.046	0.062	0.056	0.577
2. Mining/metallurgy	0.019	0.010	0.014	0.022	0.048	0.692
3. Manufacturing	0.033	0.035	0.047	0.049	0.053	0.552
4. Utilities/energy	0.052	0.045	0.046	0.042	0.047	0.658
5. Architectural services/construction	0.025	0.019	0.025	0.035	0.032	0.662
6. Transportation/logistic/distribution	0.040	0.043	0.038	0.045	0.061	0.606
7. Information technology	0.039	0.038	0.042	0.046	0.048	0.564
8. Wholesale/retail	0.017	0.022	0.024	0.031	0.035	0.579
9. Finance/insurance	0.042	0.042	0.040	0.041	0.041	0.519
10. Real estate	0.085	0.082	0.085	0.081	0.076	0.554
11. Social services	0.031	0.029	0.035	0.033	0.033	0.495
12. Media/culture	0.065	0.072	0.070	0.071	0.072	0.532
13. Comprehensive	0.010	0.030	0.046	0.062	0.056	0.577

Table 4 presents the results of Model 1 for the full sample. Tests 1–3 are based on the dependent variable *RISK*, and tests 4–6 are robustness tests based on the alternative dependent variables *RISK-IND*, *IDIORISK*, and *IDIORISK-IND*, respectively. The difference between test 1 and test 2 is that the latter includes more control variables. The average variance inflation factors (VIFs) calculated for test 2 is 3.75, which is much lower than 10, indicating that multi-collinearity is not a concern. Test 3 is a panel regression with bootstrapping. The findings are very robust, and indicate that the age of the board chairperson does not influence firms' risk-taking, but that the ranking of the listed companies' mother organizations does. The board chairpersons of listed companies belonging to higher-ranking mother organizations tend to be willing to take significantly more risks, with a coefficient of 0.018 and a *t*-value of 2.55. The economic significance of this result indicates that a standard-deviation increase of 1 in *FIRMRANK* causes a 3.77% change in *RISK*. In addition, the results suggest that economic incentives affect the board chairpersons' corporate risk-taking. *CHAIRSHARE1* is significantly and positively associated with the dependent variable *RISK*. For instance,

a standard-deviation increase of 1 in *CHAIRSHARE1* causes a 4.31% increase in *RISK*. Consistent with the findings of John et al. (2008), firm size (*LNTA*) associates negatively with corporate risk. In addition, the coefficient on earnings smoothing (*ES*) is positive, indicating that a higher level of earnings smoothing associates with less volatile accounting returns. The measure of earnings smoothness, *ES*, has a lower value if the propensity for earnings smoothing is higher. However, in contrast with John et al. (2008), the results suggest that ownership concentration decreases corporate risk-taking in this sample of Chinese firms. Double cross validation was performed by randomly splitting the dataset into training and tested subsamples repeatedly with 200 repetitions. The results appear in Table 5. The *R*² and coefficients change little and the results suggest that the regression model has satisfactory predictive fit.

The study also tests model 1 using subsamples categorized by the age of the board chairpersons (*AGE*). The findings appear in Table 6. Tests 1–3 are based on the dependent variable *RISK*, and tests 4–6 are based on the alternative dependent variable *RISK-IND*. Tests 1 and 4 are based on the subsample of firms whose board chairpersons are

Table 2
Descriptive statistics.

	Full sample					FIRM RANK = 0					FIRM RANK = 1					Compare mean t-test
	Mean	S.D.	N	Min	Max	Mean	S.D.	N	Min	Max	Mean	S.D.	N	Min	Max	
RISK	0.143	0.233	1057	0.000	1.406	0.132	0.222	396	0.000	1.096	0.150	0.240	661	0.001	1.406	-1.176
AGE	51.141	7.110	1131	31	68	51.145	7.321	436	31	67	51.140	6.980	695	36	68	0.011
FIRM RANK	0.608	0.488	1414	0	1	0	0	554	0	0	1	0	860	1	1	-
PC	0.265	0.441	831	0	1	0.293	0.456	321	0	1	0.247	0.432	510	0	1	1.456*
PHD	0.035	0.185	1326	0	1	0.046	0.211	517	0	1	0.028	0.166	809	0	1	1.729**
MASTER	0.151	0.358	1326	0	1	0.139	0.347	517	0	1	0.158	0.365	809	0	1	-0.940
BACHELOR	0.130	0.336	1326	0	1	0.095	0.293	517	0	1	0.152	0.359	809	0	1	-3.035***
DIPLOMA	0.027	0.163	1326	0	1	0.027	0.162	517	0	1	0.027	0.163	809	0	1	-0.013
CHAIRSHARE1	0.000	0.000	987	0	0.008	0.000	0.000	372	0	0.008	0.000	0.000	615	0	0.001	0.178
CHAIRSHARE2	0.000	0.000	987	0	0.014	0.000	0.000	372	0	0.014	0.000	0.000	615	0	0.003	0.028
TENURE	1.544	1.078	1110	0	9.548	1.494	0.924	433	0	5.000	1.576	1.197	677	0	9.548	-1.235
TURNOVER	0.202	0.402	1265	0	1	0.185	0.388	498	0	1	0.214	0.410	767	0	1	-1.258
EARNINGS	0.081	0.076	986	0.454	0.926	0.071	0.069	371	0.371	0.286	0.087	0.080	615	0.454	0.926	-3.272****
ES	0.895	1.584	987	0.001	35.327	0.958	1.286	372	0.010	10.031	0.858	1.739	615	0.001	35.327	0.962
LARGEST	0.492	0.152	1048	0.087	0.850	0.489	0.145	400	0.087	0.750	0.494	0.157	648	0.112	0.850	-0.463
LNTA	21.588	1.205	1047	19.178	27.111	21.359	0.822	400	19.480	23.734	21.730	1.372	647	19.178	27.111	-4.899****
D/E	0.248	0.563	1135	-1.360	7.448	0.174	0.311	437	0	2.810	0.294	-0.670	698	-1.360	7.448	-3.524****
AH	0.070	0.255	987	0	1	0.032	0.177	372	0	1	0.093	0.290	615	0	1	-3.628****
GROWTH	0.257	0.634	987	0.951	14.465	0.276	0.875	372	0.951	14.465	0.246	0.427	615	0.785	5.162	0.729
FIRMAGE	5.544	3.283	1017	0	16	5.150	3.219	387	0	14	5.786	3.302	630	0	16	-3.010****

* Significant at 10%.
 ** Significant at 5%.
 *** Significant at 1%.
 **** Significant at 0.1%.

45 years old or younger (25th percentile). Tests 2 and 5 are based on the subsample of firms whose board chairpersons are between 45 and 57 years old. Tests 3 and 6 are based on the subsample of firms whose board chairpersons are 57 years old or above (75th percentile).

The effects of the political rank of the mother organization on corporate risk diminish as the age of the board chairperson increases. In the first (youngest) group of board chairpersons, the higher level of firm rank increases risk-taking behavior by 3.3%, and this effect is highly significant at the 1% level. In the second age group, this positive effect is reduced to 2.5%, and it is only significant at the 10% level. However, the findings for the third subsample suggest that such political incentives do not significantly affect the corporate risk-taking of board chairpersons who are close to retirement age. In short, these findings indicate that greater political incentives do increase corporate risk-taking among board chairpersons. However, economic incentives only affect the levels of corporate risk taken by the members of the youngest group and the close-to-retirement group. One possible explanation for this is that young board chairpersons are still at an early stage in the process of building their personal wealth, whereas their more senior counterparts are more eager to make money in the last few years of their careers to

pay for their retirement. Therefore, the results for these two subsamples indicate that the ownership stake of the board chairperson significantly increases corporate risk-taking.

The study includes analyses of the political connections of the board chairpersons, the interactions between political connections and other key variables, using Models 2 and 3. Table 7 presents the results of these models for the full sample; Panels A and B of Table 8 present the results for the age-based subsamples. In Table 7, tests 1 and 2 are based on the dependent variable RISK, tests 3 and 4 are based on RISK-IND, tests 5 and 6 are based on IDIORISK, and tests 7 and 8 are based on IDIORISK-IND. Panels A and B of Table 8 are based on RISK and RISK-IND, respectively.

The results of tests 1 and 2 appear in Table 7 and indicate that the interaction between the political ranking of mother organizations and the political connections of board chairpersons does not affect corporate risk-taking. However, the results again suggest that a higher-ranking mother organization is associated with increased corporate risk. To confirm this result, the models include three of the four dummy variables constructed from the political rank of the mother organization (FIRM RANK) and the board chairperson's political connections (PC).

Table 3
Correlation table.

	RISK	AGE	FIRM RANK	CHAIRSHARE1	EARNINGS	ES	LARGEST	LNTA	D/E	AH	GROWTH	TENURE	TURNOVER	FIRMAGE	PC
RISK	1.00														
AGE	-0.04	1.00													
FIRM RANK	0.04	0.00	1.00												
CHAIRSHARE1	0.10*	-0.01	-0.01	1.00											
EARNINGS	0.05	0.12*	0.10*	-0.01	1.00										
ES	0.01	-0.01	-0.03	-0.03	0.02	1.00									
LARGEST	-0.17*	0.11*	0.01	-0.05	0.11*	-0.01	1.00								
LNTA	0.05	0.19*	0.15*	-0.06	0.27*	-0.02	0.06*	1.00							
D/E	0.08*	0.10*	0.10*	-0.03	0.04	-0.02	-0.07*	0.37*	1.00						
AH	0.01	0.12*	0.11*	-0.02	0.08*	0.05	0.00	0.43*	0.16*	1.00					
GROWTH	-0.02	0.00	-0.02	-0.03	0.14*	0.00	0.00	0.04	0.06*	-0.01	1.00				
TENURE	-0.04	0.15*	0.04	0.05	0.01	-0.05	0.03	-0.01	-0.02	-0.03	-0.04	1.00			
TURNOVER	-0.01	-0.21	0.04	-0.04	-0.11*	0.08*	-0.01	0.00	0.02	-0.02	0.03	-0.37*	1.00		
FIRMAGE	0.20*	-0.09	0.09*	-0.05	-0.07*	-0.01	-0.20*	0.07*	0.02	0.07*	-0.03	-0.01	0.05	1.00	
PC	-0.01	0.08*	-0.05	0.04	0.04	-0.04	-0.05	0.16*	0.21*	0.09*	-0.07	0.00	-0.05	-0.03	1.00

* Indicates a significance level of .05 or better. Values of the correlation coefficients are computed to two decimal places to save space.

Table 4
Baseline tests.

	Test 1	Test 2	Test 3	Test 4	Test 5	Test 6
AGE	0.000 (0.34)	0.001 (1.20)	0.000 (1.37)	0.001 (1.2)	−0.000 (−0.08)	−0.000 (−0.08)
FIRMRANK	0.017 (2.4**)	0.018 (2.55*)	0.032 (2.45**)	0.018 (2.55**)	0.000 (1.65*)	0.000 (1.65*)
PHD		0.019 (1.16)	0.018 (1.76*)	0.019 (1.16)	−0.000 (−1.09)	−0.000 (−1.09)
MASTER		0.009 (0.94)	0.016 (1.97**)	0.009 (0.94)	0.000 (0.6)	0.000 (0.6)
BACHLOR		0.008 (0.77)	0.011 (1.27)	0.008 (0.77)	0.000 (0.76)	0.000 (0.76)
DIPLOMA		0.001 (0.03****)	−0.011 (−0.88)	0.001 (0.03)	−0.000 (−2.01**)	−0.000 (−2.01**)
CHAIRSHARE1	39.557 (3.42***)	37.964 (3.42**)	31.786 (1.91*)	37.964 (3.42****)	−0.048 (−2.51**)	−0.048 (−2.51**)
EARNINGS	0.126 (2.57**)	0.080 (1.65**)	0.135 (2.34**)	0.080 (1.65*)	−0.000 (−0.94)	−0.000 (−0.94)
ES	0.004 (1.94*)	0.005 (2.39**)	0.004 (0.80)	0.005 (2.39**)	0.000 (1.77*)	0.000 (1.77*)
LARGEST	−0.041 (−1.81*)	−0.051 (−2.23****)	−0.082 (−3.27****)	−0.051 (−2.23**)	−0.000 (−1.56)	−0.000 (−1.56)
LNTA	−0.015 (−4.24***)	−0.013 (−3.44)	−0.025 (−2.61****)	−0.013 (−3.44****)	−0.000 (−5.6****)	−0.000 (−5.6****)
D/E		−0.007 (−0.76)	0.010 (0.91)	−0.007 (−0.76)	−0.000 (−0.56)	−0.000 (−0.57)
AH	0.032 (2.17**)	0.023 (1.56)	0.045 (2.26**)	0.023 (1.56)	0.000 (2.43**)	0.000 (2.43**)
GROWTH	0.000 (0.02)	0.002 (0.51)	0.001 (0.73)	0.002 (0.51)	0.000 (1.96*)	0.000 (1.95*)
TENURE		−0.001 (−0.31)	−0.003 (−1.00)	−0.001 (−0.31)	−0.000 (−0.21)	−0.000 (−0.21)
TURNOVER		0.007 (0.8)	−0.003 (−1.13)	0.007 (0.8)	−0.000 (−0.2)	−0.000 (−0.2)
FIRMGAGE		−0.002 (−1.41)	−0.006 (−1.78)	−0.002 (−1.41)	−0.000 (−0.77)	−0.000 (−0.77)
INDUSTRY	Yes	Yes	Yes	Yes	Yes	Yes
YEAR	Yes	Yes	Yes	Yes	Yes	Yes
CONSTANT	0.87 (10.22***)	0.833 (9.45****)	1.125 (6.73****)	0.691 (7.83****)	0.001 (9.29****)	0.001 (7.41****)
N	887	807	807	807	792	792
F value	146.54	95.32****		96.82****	25.44****	24.60****
Adjusted R-square	0.8042	0.7943		0.7969	0.5049	0.4961
Overall R-square			0.7937			
Root MSE	0.0952	0.0896		0.0896	0.00015	0.00015

Note: *t* values and *z* values are in parentheses.

- * Significant at 10%.
- ** Significant at 5%.
- *** Significant at 1%.
- **** Significant at 0.1%.

The findings indicate that of the firms whose board chairpersons do not have political connections, those with higher-ranking mother organizations tend to take more risks. However, a higher-ranking mother organization increases the level of corporate risk taken by firms with politically connected board chairpersons. Firms with higher-ranking mother organizations and non-politically connected board chairpersons take more corporate risk than those with lower-ranking mother organizations and politically connected board chairpersons. In addition, the results suggest that the age of board chairpersons is positively associated with corporate risk. However, the coefficient is only marginally significant (at the 10% level), and its economic significance is minimal compared to that of *FIRMRANK*.

The results of tests 1–3 in Panel A of Table 8 confirm that a positive association exists between the political rank of a firm's mother organization and the firm's corporate risk only when the board chairperson is 45 years old or younger. Without considering the interactions between the political ranks of mother organizations and the political connections of board chairpersons, the results also confirm that the latter factor does not independently affect corporate risk-taking. However, when these interactions are considered (tests 4–6 reported in Panel A of Table 8), firms in the young age group subsample with higher-ranking mother organizations and politically connected board chairpersons tend to take more risk, but this effect is only significant at the 10% level. This level of economic significance indicates that a standard-deviation increase of 1 in *FIRMRANK* * *PC* causes a 7.86% change in *RISK*. At the same time, in isolation, the political connections of board chairpersons lower the level of corporate risk, which means that current

government officials are more likely to be conservative. The economic significance of this result indicates that a standard-deviation increase of 1 in *PC* causes a 10.06% change in *RISK*. All of these results are confirmed by those based on the *RISK-IND* variable (Panel B of Table 8).

As all of the firms in the sample are CGAEs, their highest-ranking managers are directly appointed by China's central government. Their selection is quite a complicated political process, and the executives themselves have no choice regarding the position in which they are placed. Therefore, endogeneity should not pose a significant problem in this study. Nevertheless, well-connected managers may be more likely to be placed in companies with more growth opportunities. Sample selection with respect to systematic differences between politically connected and non-connected firms may cause bias. This study uses propensity score matching to ensure the validity of the empirical findings. Specifically, the tests compare the relative risk-taking of firm pairs with high and low ranks, matched by firm-level characteristics such as firm earnings, size, book leverage, firm age, and growth rate. The results indicate that the estimated parameter for *FIRMRANK* is still positive and statistically significant.

This study focuses on the association between political incentives and corporate risk-taking. The results do not suggest conclusions regarding the consequences of managers' risk-taking because estimating an optimal level of risk is difficult. Risk-taking may be a source of firm growth, especially in a rapidly growing market like China. Clearly, however, excessive risk-taking motivated by managers' political ambitions can be harmful to firms. Both kinds of risk-taking—beneficial and harmful—may occur within CGAEs. As a preliminary test of whether

Table 5
Results from cross validation with 200 repetitions.

	(1) Original sample	(2) Training sample	(3) Test sample	(2)–(3)	(1)–(2) + (3)
R-squared	0.8097	0.8262	0.7706	0.0556	0.7541
rss/n – MSE using n in denominator	0.0088	0.0082	0.0106	−0.0024	0.0112
Slope of model regression dep. var. on fitted values	1.0000	1.0000	0.9638	0.0362	0.9638
Constant of model regression dep. var. on fitted values	0.0000	0.0000	0.0044	−0.0044	0.0044

Table 6
Tests using subsamples.

	Test 1		Test 2		Test 3		Test 4		Test 5		Test 6	
	AGE ≤ 45		45 < AGE < 57		AGE ≥ 57		AGE ≤ 45		45 < AGE < 57		AGE ≥ 57	
	Coef.	t	Coef.	t	Coef.	t	Coef.	t	Coef.	t	Coef.	t
AGE	-0.001	-0.62	0.002	0.93	0.001	0.23	-0.001	-0.62	0.002	0.93	0.001	0.23
FIRMRANK	0.033	2.85***	0.025	1.79*	-0.010	-0.98	0.033	2.85***	0.025	1.79*	-0.010	-0.98
CHAIRSHARE1	34.978	4.0***	117.603	1.0	97.657	2.84***	34.978	4.0***	117.603	1	97.657	2.84***
EARNINGS	0.067	1.18	-0.054	-0.48	0.105	1.24	0.067	1.18	-0.054	-0.48	0.105	1.24
ES	-0.000	-0.09	0.006	1.99**	0.011	1.96*	-0.000	-0.09	0.006	1.99**	0.011	1.96*
LARGEST	-0.074	-2.00**	-0.069	-1.57	-0.026	-0.74	-0.074	-2.0**	-0.069	-1.57	-0.026	-0.74
LNTA	-0.031	-4.63***	-0.009	-1.21	-0.008	-1.66*	-0.031	-4.63***	-0.009	-1.21	-0.008	-1.66*
AH	0.050	1.64	0.016	0.55	0.039	2.13**	0.050	1.64	0.016	0.55	0.039	2.13**
GROWTH	0.005	0.29	0.003	0.47	0.013	1.18	0.005	0.29	0.003	0.47	0.013	1.18
INDUSTRY	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
YEAR	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
CONSTANT	1.232	8.23***	0.653	3.37***	0.737	4.53***	1.090	7.28***	0.512	2.64***	0.595	3.66***
N	216		371		220		216		371		220	
F value	54.41***		35.08***		35.10***		55.39***		35.57***		35.55***	
Adjusted R ²	0.8883		0.7467		0.8329		0.8901		0.7494		0.8347	
Root MSE	0.06502		0.1112		0.06056		0.06502		0.1112		0.06056	

Note: Eight other variables (PHD, MASTER, BACHLOR, DIPLOMA, D/E, TENURE, TURNOVER, FIRMAGE) are included in the regression models as control variables and their coefficients are not reported in the table to save space. Excluding these control variables does not change the main regression results.

- * Significant at 10%.
- ** Significant at 5%.
- *** Significant at 1%.
- **** Significant at 0.1%.

high levels of risk-taking necessarily injure (or benefit) shareholders' interests, this study follows Low (2009) and constructs matched samples of high-ranking and low-ranking CGAEs. The results of *t*-tests comparing the means of the two subsamples show a slightly lower average buy-and-hold annual stock return among the high-ranking firms than among the firms with a low ranking. However, this difference is statistically insignificant. These results are unchanged when the tests use different time windows (one to five years) to measure stock returns. Additional tests provide further evidence of the labor-market outcomes of risk-taking behavior, indicating that a firm's risk-taking in a given

year has no statistically significant effect on board chairperson turnover in subsequent years. However, caution is necessary when interpreting these results, as the current study only covers a six-year period, and the market environment of China's CGAEs is changing rapidly as a result of national economic reforms.

5. Conclusions

Following the 2007–2008 global financial crisis, which was triggered by the implementation of risky business models by major banks

Table 7
Baseline tests with political connections.

	Test 1	Test 2	Test 3	Test 4	Test 5	Test 6	Test 7	Test 8
AGE	0.001 (1.67*)	0.001 (1.68*)	0.001 (1.67*)	0.001 (1.68*)	0.000 (0.83)	0.000 (0.85)	0.000 (0.83)	0.000 (0.85)
FIRMRANK	0.019 (2.59**)	0.015 (1.82*)	0.019 (2.59**)	0.015 (1.82*)	0.000 (2.22**)	0.000 (2.41**)	0.000 (2.22**)	0.000 (2.41**)
PC	-0.009 (-1.16)	-0.018 (-1.45)	-0.009 (-1.16)	-0.018 (-1.45)	0.000 (0.11)	0.000 (0.83)	0.000 (0.11)	0.000 (0.83)
FIRMRANK * PC		0.015 (0.92)		0.015 (0.92)		-0.000 (-0.97)		-0.000 (-0.97)
CHAIRSHARE1	37.800 (3.69***)	38.610 (3.76***)	37.800 (3.69***)	38.610 (3.76***)	-0.043 (-2.15**)	-0.045 (-2.22**)	-0.043 (-2.15**)	-0.045 (-2.22**)
EARNINGS	0.009 (0.16)	0.007 (0.12)	0.009 (0.16)	0.007 (0.12)	-0.000 (-1.26)	-0.000 (-1.23)	-0.000 (-1.26)	-0.000 (-1.23)
ES	-0.000 (-0.15)	-0.000 (-0.17)	-0.000 (-0.15)	-0.000 (-0.17)	0.000 (1.7*)	0.000 (1.73*)	0.000 (1.7*)	0.000 (1.74*)
LARGEST	-0.059 (-2.52**)	-0.060 (-2.58***)	-0.059 (-2.52**)	-0.060 (-2.58***)	-0.000 (-1.08)	-0.000 (-1.01)	-0.000 (-1.08)	-0.000 (-1.01)
LNTA	-0.013 (-3.37***)	-0.013 (-3.4***)	-0.013 (-3.37***)	-0.013 (-3.4***)	-0.000 (-5.37***)	-0.000 (-5.34***)	-0.000 (-5.37***)	-0.000 (-5.33***)
AH	0.029 (2.03**)	0.028 (1.97**)	0.029 (2.03**)	0.028 (1.97**)	0.000 (2.5*)	0.000 (2.56**)	0.000 (2.5**)	0.000 (2.55**)
GROWTH	0.004 (0.47)	0.003 (0.45)	0.004 (0.47)	0.003 (0.45)	0.000 (1.75*)	0.000 (1.77*)	0.000 (1.75*)	0.000 (1.77*)
FIRMAGE	-0.004 (-3.29***)	-0.004 (-3.28***)	-0.004 (-3.29***)	-0.004 (-3.28***)	-0.000 (-0.73)	-0.000 (-0.73)	-0.000 (-0.73)	-0.000 (-0.73)
INDUSTRY	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
YEAR	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
CONSTANT	0.859 (9.19***)	0.866 (9.23***)	0.717 (7.66***)	0.723 (7.71***)	0.001 (7.52***)	0.001 (-0.73***)	0.001 (6.03***)	0.001 (5.92***)
N	645	645	645	645	634	634	634	634
F value	107.09***	104.02***	108.43***	105.33***	18.93***	18.41***	18.07***	17.58***
Adjusted R ²	0.8485	0.8485	0.8501	0.8501	0.4905	0.4905	0.4783	0.4783
Root MSE	0.08104	0.08105	0.08104	0.08105	0.00016	0.00016	0.00016	0.00016

Note: Seven other variables (PHD, MASTER, BACHLOR, DIPLOMA, D/E, TENURE, TURNOVER) are included in the regression models as control variables and their coefficients are not reported in the table to save space. Excluding these control variables does not change the main regressions results.

- * Significant at 10%.
- ** Significant at 5%.
- *** Significant at 1%.
- **** Significant at 0.1%.

Table 8
Tests using subsamples with political connections.

	Test 1		Test 2		Test 3		Test 4		Test 5		Test 6	
	AGE ≤ 45		45 < AGE < 57		AGE ≥ 57		AGE ≤ 45		45 < AGE < 57		AGE ≥ 57	
	Coef.	t	Coef.	t	Coef.	t	Coef.	t	Coef.	t	Coef.	t
Panel A. Dependent variable: RISK												
PC	−0.019	−1.36	0.018	1.31	−0.018	−1.21	−0.053	−2.15**	−0.010	−0.46	0.016	0.6
FIRMRANK	0.035	2.46**	0.017	1.3	−0.014	−0.87	0.022	1.4	0.006	0.43	0.001	0.07
FIRMRANK * PC							0.052	1.67*	0.047	1.65	−0.058	−1.5
AGE	−0.003	−0.98	0.002	0.96	0.001	0.28	−0.002	−0.6	0.002	1.02	0.000	0.09
CHAIRSHARE1	35.215	3.88****	152.254	1.51	151.308	2.8***	38.464	4.17****	157.224	1.56	148.297	2.76***
EARNINGS	−0.082	−0.92	−0.012	−0.12	0.124	1.01	−0.079	−0.89	−0.023	−0.21	0.148	1.21
ES	−0.007	−1.22	0.002	0.82	0.014	1.36	−0.008	−1.41	0.002	0.88	0.015	1.42
LARGEST	−0.093	−2.29**	−0.072	−1.78*	−0.048	−0.96	−0.092	−2.26	−0.088	−2.11**	−0.060	−1.19
LNTA	−0.026	−3.39****	−0.014	−2.11**	−0.008	−1.13	−0.028	−3.62****	−0.016	−2.36**	−0.009	−1.27
AH	0.026	0.72	0.025	1.03	0.046	1.9*	0.024	0.67	0.028	1.13	0.047	1.93*
TENURE	0.012	1.78*	−0.002	−0.32	−0.007	−1.18	0.012	1.71*	−0.002	−0.32	−0.006	−1.15
FIRIMAGE	−0.001	−0.55	−0.005	−2.45	−0.006	−1.91*	−0.001	−0.66	−0.005	−2.41**	−0.007	−2.21**
INDUSTRY	Yes	Yes	Yes	Yes	Yes	Yes						
YEAR	Yes	Yes	Yes	Yes	Yes	Yes						
CONSTANT	1.222	7.13****	0.862	4.77****	0.748	3.18****	1.237	7.25****	0.911	4.99****	0.820	3.43****
N	180	309	156	180	309	156						
F value	50.77****	47.22****	27.07****	49.96****	46.20****	26.56****						
Adjusted R ²	0.9017	0.8320	0.8391	0.9029	0.8330	0.8407						
Panel B. Dependent variable: RISK-IND												
PC	−0.019	−1.36	0.018	1.31	−0.018	−1.21	−0.053	−2.15**	−0.010	−0.46	0.016	0.6
FIRMRANK	0.035	2.46**	0.017	1.3	−0.014	−0.87	0.022	1.4	0.006	0.43	0.001	0.07
FIRMRANK * PC							0.052	1.67*	0.047	1.65	−0.058	−1.5
AGE	−0.003	−0.98	0.002	0.96	0.001	0.28	−0.002	−0.6	0.002	1.02	0.000	0.09
CHAIRSHARE1	35.215	3.88****	152.254	1.51	151.308	2.8***	38.464	4.17****	157.224	1.56	148.297	2.76***
EARNINGS	−0.082	−0.92	−0.012	−0.12	0.124	1.01	−0.079	−0.89	−0.023	−0.21	0.148	1.21
ES	−0.007	−1.22	0.002	0.82	0.014	1.36	−0.008	−1.41	0.002	0.88	0.015	1.42
LARGEST	−0.093	−2.29**	−0.072	−1.78*	−0.048	−0.96	−0.092	−2.26**	−0.088	−2.11**	−0.060	−1.19
LNTA	−0.026	−3.39****	−0.014	−2.11**	−0.008	−1.13	−0.028	−3.62****	−0.016	−2.36**	−0.009	−1.27
AH	0.026	0.72	0.025	1.03	0.046	1.9*	0.024	0.67	0.028	1.13	0.047	1.93*
TENURE	0.012	1.78*	−0.002	−0.32	−0.007	−1.18	0.012	1.71*	−0.002	−0.32	−0.006	−1.15
FIRIMAGE	−0.001	−0.55	−0.005	−2.45**	−0.006	−1.91*	−0.001	−0.66	−0.005	−2.41**	−0.007	−2.21**
INDUSTRY	Yes	Yes	Yes	Yes	Yes	Yes						
YEAR	Yes	Yes	Yes	Yes	Yes	Yes						
CONSTANT	1.080	6.3****	0.715	3.96****	0.602	2.55**	1.095	6.41****	0.764	4.18****	0.673	2.81****
N	180	309	156	180	309	156						
F value	51.25****	47.81****	27.39****	50.43****	46.77	26.88						
Adjusted R ²	0.9026	0.8338	0.8407	0.9037	0.8348	0.8423						

Note: Seven other variables (PHD, MASTER, BACHLOR, DIPLOMA, D/E, GROWTH, TURNOVER) are included in the regression models as control variables and their coefficients are not reported in the table to save space. Excluding these control variables does not change the main regressions results.

- * Significant at 10%.
- ** Significant at 5%.
- *** Significant at 1%.
- **** Significant at 0.1%.

worldwide, the question of risk-taking has once again received substantial attention from academics and practitioners. This study is intended to examine the relationships between corporate risk-taking, firms' political ranking, and the incentives of firms' senior managers, using a novel sample of Chinese firms. The empirical results confirm that personal characteristics of high-ranking executives influence corporate risk-taking behavior; specifically their political incentives and political connections. The findings are robust to various model specifications and different subsamples.

The study here is one of the first to emphasize firms' political ranking and senior managers' incentives as potential determinants of corporate risk-taking behavior. Taking risks may help senior executives to advance their political agendas, but will threaten firms' stakeholder value if such behavior is not properly managed. In future studies of corporate risk-taking, it would be interesting to determine whether managers' economic incentives interact with their political motivations. This study controls for executives' ownership in empirical tests, but incentive-based compensation may also affect the risk-taking behavior of these individuals. Little evidence is available about the use of such compensation schemes by the government-affiliated firms in this

sample, but future studies could incorporate this factor when such information becomes available.

References

- Chen, G., Firth, M., Gao, D., & Rui, O. (2006). Ownership structure, corporate governance, and fraud: Evidence from China. *Journal of Corporate Finance*, 12, 424–448.
- Chen, Y., & Ma, Y. (2011). Revisiting the risk-taking effect of executive stock options on firm performance. *Journal of Business Research*, 64(6), 640–648.
- Du, F., Tang, G., & Young, M. (2010). *Dysfunctional behavior and subjective performance evaluation: Evidence from Chinese state-owned enterprises*. Working Paper. University of Southern California.
- Fan, J.P.H., Wong, T.J., & Zhang, T. (2007). Politically connected CEOs, corporate governance, and post-IPO performance of China's newly partially privatized firms. *Journal of Financial Economics*, 84, 330–357.
- Garrett, R., Cavin, J., & Slevin, D. (2009). Market responsiveness, top management risk taking, and the role of strategic learning as determinants of market pioneering. *Journal of Business Research*, 62(8), 782–788.
- Jianakoplos, N., & Bernasek, A. (2006). Financial risk taking by age and birth cohort. *Southern Economic Journal*, 72(4), 981–1001.
- John, K., Litov, L., & Yeung, B. (2008). Corporate governance and risk-taking. *Journal of Finance*, 63(4), 1679–1728.
- Lee, D. (1994). The impact of firms' risk-taking attitudes on advertising budgets. *Journal of Business Research*, 31, 247–256.

- Li, H., Meng, L., Wang, Q., & Zhou, L. (2008). Political connections, financing and firm performance: Evidence from Chinese private firms. *Journal of Development Economics*, 87, 283–299.
- Low, A. (2009). Managerial risk-taking behavior and equity-based compensation. *Journal of Financial Economics*, 92, 470–490.
- Park, S., Li, S., & Tse, D. (2006). Market liberalization and firm performance during China's economic transition. *Journal of International Business Studies*, 37(1), 127–147.
- Piotroski, J., Wong, T.J., & Zhang, T. (2008). *Political incentives to suppress negative financial information: Evidence from state-controlled Chinese firms*. Working Paper. Stanford University.
- Qian, Y., & Xu, C. (1993). The M-reform hierarchy and China's economic reform. *European Economic Review*, 37, 541–548.
- Tian, L., & Estrin, S. (2008). Retained state shareholding in Chinese PLCs: Does government ownership always reduce corporate value? *Journal of Comparative Economics*, 36(1), 74–89.