The Political Association Gap Between Chairman and CEO and Corporate Risk Taking

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Abstract: This paper takes Shanghai and Shenzhen A-share listed manufacturing companies from 2016 to 2019 as research samples, substitutes the data into the Stata to remove the vacancy value, and then uses the command to reduce the tail by 1%. Firstly, the data of each variable is analyzed through descriptive analysis, and then takes the political correlation gap between CEO and director as the independent variable, the level of enterprise risk-taking as the dependent variable, and the enterprise scale EBIT, listing years and annual income growth rate are used as control variables, and the annual variables are controlled. A univariate regression model is constructed. The panel data is defined by Stata. The results show that the political correlation distance between CEO and chairman significantly reduces the risk-taking level of enterprises; In terms of demographic characteristics, gender differences promote the reduction of political connection gap on enterprise risk-taking. This paper enriches and expands the research on enterprise risk-taking and executive heterogeneity, which is of great practical significance for the introduction of talents.

1 INTRODUCTION

At present, our country capital market development is not yet mature, the enterprise when making investment decisions are more or less always faced with a certain amount of uncertainty, enterprise risk bearing level in managers when making investment decisions on the choice of investment projects (Yu, Li, Pan 2013), the higher expected returns, enterprises are facing the uncertainty of the risk is higher. A certain degree of risk taking can accelerate capital accumulation, improve enterprises' enthusiasm for innovation and innovation investment, increase shareholders' wealth, and improve enterprise performance (Li, Yu 2012).

Therefore, in order to obtain profits, enterprises voluntarily choose some high-risk investment projects, which is the driving force of economic growth.

In two separate companies at present, few scholars from the perspective of executives and the differences of the board of directors to study, and the chairman and CEO at the core of shareholders and management members, both background characteristics is very important to corporate governance, the background characteristics of synergy, if we can have a significant similarity between the corporate governance has a positive meaning, of course, Differences in background characteristics will also have different effects on the company. The vertical pairing characteristics of chairman and general manager are negatively correlated with corporate performance. The difference between the values of chairman and general manager is positively correlated with the R&D intensity of the company (Wang, Gu, Zhang 2019).

This paper provides a new idea for the study of enterprise risk from the perspective of vertical characteristics of chairman and CEO, enriching the influencing factors of enterprise risk taking.

Focusing on corporate risk-taking, this paper enriches the impact of TMS characteristics on corporate governance, and empirically examines the role of gender differences in the relationship between political relevance and corporate risk-taking.

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2 THEORETICAL ANALYSIS AND RESEARCH HYPOTHESIS

The high-level ladder theory holds that the decision-making of top managers is influenced by their psychological structure and tenure, and their psychological structure and cognitive ability are evolved under a unique background and based on experience (HAMBRICK, MASON 1994, Li, Wang 2019).

The influence of the political connection gap between chairman and CEO on corporate risk taking can be analyzed from the following aspects:

First, enterprise resources may affect the ability of entrepreneur management degrees of freedom, if there is no sufficient resources, so executives in ability and motivation of strategies will be constrained (Finkelstein, Hambrick & Cannella 2009), executives political association for enterprise to bring the high quality resources, the higher the political association level means that the can bring more resources, more convenient, An enterprise's demand for resource acquisition can influence the composition of the board of directors and the dual role of THE CEO, and then determine the strategic dominance of the board of directors and the CEO (Zhou, Luo, Yu 2015). Therefore, the political connection gap will lead to the unequal discourse power of the chairman and CEO in resource allocation in venture investment, which further leads to excessive investment and blind investment. From the perspective of heterogeneity, the political association as a function of background will affect managers' cognitive structure and value orientation, and the values of the difference, the greater the risk preference of executive team are more diversified (Wang, Gu 2019), is not conducive to both agree in high-risk investment, management when making decisions, the opinions of decision-making compromise tends to risk aversion; According to the principal-agent theory, as the tenure of CEOS is limited, it is very likely that short-term risk aversion will occur and investment projects with positive net present value will be abandoned (He, Yu, Yang 2019) due to the consideration of personal reputation in the industry and company performance during the tenure. As the board of directors represents the rights of owners, the interests of the two are in conflict to some extent. The gap in political connection will exacerbate the differences and conflicts between the two. Existing studies have shown that the concurrent role of directors and managers has a positive impact on the level of enterprise risk taking.

Based on this, this paper proposes the following assumptions:

H1: The greater the gap between the political association between chairman and CEO, the lower the level of corporate risk taking.

According to psychological analysis, men and women have different risk preferences. Compared with men, women are more conservative and care more about the consequences of decisions. Men tend to take risks and be radical in decisions, while women tend to be conservative and steady (Wang, Yang 2010, Yuan 2017). Therefore, in the case of the same gender, the chairman and CEO are more likely to reach an agreement on risk decision-making, while the gender difference increases the differences between the two due to the gap in political association, further inhibiting the level of enterprise risk taking.

Therefore, this paper proposes the following hypotheses:

H2: In the case of gender difference, the political connection gap between chairman and CEO has a more significant impact on corporate risk taking.

3 RESEARCH DESIGN

(I) Data sources and screening

The initial samples of this paper are a-share manufacturing companies listed in Shanghai and Shenzhen from 2016 to 2019. As this paper studies the political relationship gap between chairman and CEO, companies with two concurrent positions are excluded.

According to the convention, the data should be processed as follows :(1) ST type abnormal business enterprises should be eliminated;(2) Samples with missing data are removed. Finally, 1755 sample observation values from 585 companies meeting the conditions were obtained, and the continuous variables were treated with 1% and 99% tail reduction.

Among them, the data of chairman and CEO are from The Database of Guotai 'an; the data of political association are manually sorted according to the annual report disclosed by Juchao and combined with websites such as Sina Finance; and the data of enterprise risk taking is from the WIND database.

(2) Variable selection and model design

1. Explained variable: Enterprise risk-taking.

In previous studies, the measurement indicators of enterprise risk taking include: profit volatility (John et al.2008, Facco et al.2011, yu minggui et al. 2013); Enterprise R&D expenditure (Overseas returnee executive Coles et al., 2006). The increase of enterprise risk means the increase of uncertainty of future cash inflow (Yu Minggui et al.). In this paper, the volatility of enterprise profit is used as the measurement index of enterprise risk taking. First, it is necessary to adjust the annual ROA (profit before interest and tax/total assets at the end of the year) of each company with the average value of all listed companies in the whole industry. To be specific, the ROA of each company is subtracted from the average value of the industry, and the difference is named ROA_ADJ. Then, three years is taken as an observation period. The standard deviation of ROA of each listed company after industry adjustment during the observation period was calculated to measure the Risk level of the enterprise. Formula is:

$$\boldsymbol{Risk} = \sqrt{\frac{1}{N-1}\sum_{n=1}^{N}\left(\mathbf{ROA\_ADJ} - \frac{1}{N}\sum_{n=1}^{N}\boldsymbol{ROA\_ADJ}\right)^2}$$

2. Explanatory variable: political correlation gap (PCD).

In the previous studies on political correlation, the measurement index mainly takes two forms: dummy variable method and assignment method.

Because this article needs to be calculated, chairman and CEO of specific political correlation distance, so first assignment method is used to define the chairman and CEO of political association, concrete is divided into 6: served as the central unit 5, the provincial units of 4, municipal units 3, county, district units to 2, the villages and towns and the following is 1, no political association of 0.

In the case of the same person serving in more than one institution, the highest institution was taken to calculate the difference between the two, and the absolute value was taken as the specific political correlation distance.

In addition, the non-zero values are all one, and zero is not changed, as a measure of whether there is a political correlation gap.

3. Control variables

Referring to a large number of previous studies on enterprise risk taking, this paper sets the following control variables: Roa (profit before interest and tax); SIZE equals the natural logarithm of the company's total assets at the end of the period. LEV, capital structure, is equal to the ratio of ending total liabilities to ending total assets; AGE is the number of years a company has been listed, which is equal to the natural log of the number of years a company has been listed plus one. Ownership means that Ownership is equal to the shareholding ratio of the largest shareholder at the end of the year; Growth refers to the Growth of the enterprise, which is equal to the annual Growth rate of the enterprise's operating revenue.

In order to verify the hypothesis in this paper, the following model is set according to Yu Minggui et al. (2013):

$$\boldsymbol{Risk} = \boldsymbol{\beta_0} + \boldsymbol{\beta_1 PCD} + \boldsymbol{\beta_2 X} + \sum \boldsymbol{Year} + \boldsymbol{\varepsilon}$$

4 EMPIRICAL RESULTS AND ANALYSIS

(1) Descriptive analysis

According to the final data results, in China's listed manufacturing industry, the proportion of companies with political association distance between CEO and chairman is 46.23%, which indicates that more than half of the companies have the same level of political association between chairman and CEO. The maximum value of enterprise risk taking is 0.44, and the minimum value is 0.0005. It can be seen that different manufacturing companies have relatively large differences in risk taking. From the perspective of ownership structure, the average shareholding ratio of the first shareholder is 0.31, which shows that the equity of listed manufacturing companies in China is still highly concentrated. From the perspective of company size, the maximum value of the processed data on the total assets of the company is 25.47 and the minimum value is 20.01. It can be seen that there is an obvious gap in the size of the design sample companies in this research. In terms of the company's capital structure, the maximum value is 0.838, and the minimum value is 0.009. It can be seen that the asset-liability ratio of listed manufacturing companies in China has a significant difference, and its average value is 0.34, which is very similar to previous research literature (Yu Minggui et al., 2013) and is at a The table shows the regression analysis of political relationship distance and enterprise risk taking.

(2) Distance between enterprise risk taking and political association

After adding all control variables and annual dummy variables, the regression coefficient is -0.0062, and is significantly negative at 5% level, indicating that the political correlation gap between CEO and chairman can significantly reduce the level of risk-taking of enterprises, that is, companies are more prone to give up those projects with high return and high risk when facing investment decisions. Hypothesis H1 is supported.

To political level correlation distance and the enterprise risk for regression, test results show that in the control variables and the annual virtual variables, regression coefficient is 0.0022, and a significant at 1% level is negative, it further proves the hypothesis H1, ask clear political relevance gap, the greater the inhibition of risk bearing level of the enterprise, the .

Table 1: Results of regression analysis.

VARIABLES	(1)	(2)	(3)	(4)
PCD	-0.002***		-0.002**	-0.005*
	(-3.01)		(-2.07)	(-1.69)
PCD1		-0.006**		
		(-2.38)		
growth	-0.003	-0.001		
	(-0.16)	(-0.18)		
leverage	-0.008	-0.009	-0.014*	-0.034
	(-1.40)	(-1.49)	(-1.80)	(-1.40)
roa	0.020*	0.020	-0.003	-0.092
	(0.70)	(0.70)	(-0.09)	(-1.00)
ownership	0.012	0.000	0.010*	-0.000
	(0.49)	(0.49)	(0.86)	(-0.09)
size	0.003**	0.003**	0.002	0.017***
	(2.53)	(2.50)	(1.34)	(3.46)
age			0.002	-0.007
			(0.88)	(-0.92)
Constant	-0.025	-0.025	-0.024	-0.290***
	(-1.10)	(-1.08)	(-0.64)	(-2.85)
Year	YES	YES	YES	YES
Adj R-squared	0.14	0.12	0.053	0.19

more significant, Hypothesis H1 is further supported.

Gender differences, political association gaps and corporate risk-taking. Companies were divided into two groups according to whether there was a gender difference, and the group test showed that the regression coefficient of PCD was -0.0051 and significant at the 10% level when there was a gender difference.

In the case of no gender differences, PCD coefficient is 0.0023, the 5% significance level, the above results showed that the gender differences will increase the risk of political correlation distance to the enterprise to undertake inhibition, gender differences will increase the chairman and CEO differences and contradictions, also disadvantageous to the enterprises choose the net present value as the orthometric risk project.

Let's say H2 is true. reasonable level (3) Robustness test.

To test reliability research conclusion in this paper, the practice of related research, this paper, replace the enterprise risk measuring method, measured by ROA of poor after industry adjustment, the regression results confirmed that political correlation distance (PCD) and associated levels (PCDD) and enterprise risk exposures in 5% and 1% respectively with significant negative abnormal level.

5 CONCLUSIONS AND PROSPECTS

Taking gem listed companies as the research object, this paper empiricistically studies the vertical pairing characteristics between chairman and CEO based on the high-ladder team theory:

The influence of political correlation difference on the level of enterprise risk taking, and the direction of gender difference in the role of the two, and finally found that political correlation difference significantly inhibited the level of enterprise risk taking, and gender difference positively promoted this effect. The results remained significant when other measures were used to measure risk-taking. Companies should pay attention to the political connections between the chairman and the CEO when hiring executives to take into account the level of risk-taking at the company.

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