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WINDFALLS OF EMPERORS' SOJOURNS: STOCK MARKET REACTIONS TO CHINESE FIRMS HOSTING HIGH-RANKING GOVERNMENT OFFICIALS

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Research summary: *We contribute to the corporate political activity (CPA) literature by showing that investors value companies that host visits of high-ranking government officials (President and Premier). We argue that investors may value host official visits for two reasons: (1) the signal received about possibility of firm accessing government-controlled resources via promotion or protection; and (2) the certification effect from such high-powered visitors elevating the firm's reputation and legitimacy. Results from an event study analysis of 84 high-ranking government official visits in China from 2003 to 2011 indicate that investors responded positively to host firms as reflected by stock market performance. Furthermore, the greatest positive reactions accrued to firms experiencing weaker prior period financial performance and to firms that are privately compared to state-controlled.*

Managerial summary: *Do visits by high-ranking government officials influence firm stock market performance? Studying a sample of Chinese public firms that hosted 84 visits by the Chinese President and the Premier from 2003 to 2011, we find that investors reacted positively to such visits compared with a group of non-host firms from the same industry and with similar financial performance and size. In addition, firms with weaker prior financial performance and private firms benefit the most from hosting such visits. Our findings imply that hosting visits of high-ranking government officials can signal future government-controlled resource inflows and boost host firms' reputation and legitimacy.*

INTRODUCTION

Most of the corporate political activity (CPA) literature assumes that senior managers make conscious decisions to enter their companies into the policy arena (Hillman and Hitt, 1999; Hillman, Keim, and Schuler, 2004; Lux, Crook, and Woehr, 2011). Companies may choose to negotiate directly with government officials, such as through lobbying, to attempt to shape the public policies to complement their own assets and capabilities (Oliver and Holzinger, 2008), support business strategies (Holburn and Vanden Bergh, 2013), and to pursue advantages over rivals (Bonardi, Holburn, and Vanden Bergh, 2006). Firms may decide to use CPA to maintain organizational effectiveness (Pfeffer and Salancik, 1978) when facing uncertainties

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about access to government-controlled resources such as contracts and subsidies, and to mitigate the effects of burdensome regulations (Birnbaum, 1985; Fremeth and Richter, 2011). Firms may opt to practice CPA to cultivate good relations and trust with government officials, which might pay off in the future (Milyo, 2014; Mizruchi, 1992). The common assumption across these perspectives about CPA is one of strategic choices: When operating in jurisdictions with strong formal institutions (North, 1990), many firms will consciously engage government officials positioned to craft rules and direct resources that might benefit them.

This study examines one form of CPA in which the choice of engagement is less clearly unidirectional: the practice of firms hosting visits of senior-level central government officials. We argue that visits represent an emergent CPA strategy (Mintzberg and Waters, 1985), where a confluence of firm political activities practiced over time and across levels of government positions the firm to receive a visit. This new focus contributes to the CPA literature because it does not represent a deliberate effort to influence politicians, seek subsidies, or pursue regulatory change, but pertains instead to an activity that flows from pre-existing relationships (Hillman and Hitt, 1999) between the firm's managers and the government officials. For such visits, the relationships between firms' managers and government officials (and their staffs) are complex in that the firm generally has relationships with government officials from different levels of the government (i.e., local governments and local chapters of the political party) that pre-date the visit of the higher ranking official. Thus, while the consensus of the experts is that this particular form of CPA—the visit—is ultimately requested on the firm by senior government officials, it is unlikely that the invitation is offered without prior relationships between the firm's managers and officials at some levels of government.

For this study, we seek to understand whether third-party investors value the firms' hosting visits, and if so, what information might visits convey such that investors bid up the host firms' stock prices. Starting from the assumption that third parties face information asymmetry (Connelly *et al.,* 2011; Spence, 1973) about certain aspects of the firm that creates uncertainty about the firm's future value, the visit offers information to such third parties. First, the visit might signal the resources that the government is able to direct in the future to the visited firm or its sector. Government-controlled resources, such as subsidies, taxes, and regulations, might be promotional in nature, aimed at promoting the firm's products or services in domestic or international markets or protectionist, aimed at shielding weak firms or firms in distressed sectors from market conditions. Second, the visit might act as a form of certification (Shane and Foo, 1999) by government officials about the company, in which the host firm's interaction with the President or the Premier—both high status exchange partners—elevates the firm's reputation (Rindova *et al.,* 2005) and legitimacy (Deephouse and Carter, 2005). Both of these pathways also assume that high-ranking government officials desire to visit companies with commercial activities congruent with their preferred public policies.

The context of our study, China, is particularly relevant to investigate the influence of high-level official visits on firm evaluation by investors. Specifically, we focus on the stock market effects of Chinese companies that hosted visits of the two senior-most central government of China, President Hu Jintao and Premier Wen Jiabao, during the period 2003–2011. Both collectively possessed enormous substantive and symbolic power through their positions as head of state and head of the government and as primary leaders (i.e., General Secretary, Politburo members) of the Chinese Communist Party (CCP) (Kuhn, 2002). The visits of high-ranking officials may result in offers of general praise and support about the economy or the sector, a collective outcome. For example, during a visit to several high tech companies and industrial parks in Shanghai in January of 2010, President Hu in a public speech emphasized the importance of research as a driver of sound and fast economic growth and social development (China View, 2010). Yet, visits may also signal the importance of only the host firm. For example, during his 2008 visit, Premier Wen publicly praised Baosteel's R&D activities and product advances in its silicon steel products (Baosteel, 2008), a high-profile endorsement for the company from an industry lagging behind its international rivals in product quality and production efficiency (Ernst & Young, 2013). Though it may lag important global competitors, the firm provides necessary employment opportunities. In a country where the capital market is less developed and public firms' disclosure is lacking, hosting visits may help investors reduce information asymmetry and

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better evaluate host firms' possibilities of receiving future government-controlled resources as well as certifying the firm's reputation and legitimacy.

The results of our analysis of 84 government official visits hosted by Chinese firms listed on the Shanghai Stock Exchange from 2003 to 2011 show that, on average, firms witnessed statistically significant positive abnormal market returns by hosting the President's and Premier's visits, outperforming a matched-set of non-host firms. The main result supports predictions that such visits convey valuable information to investors about expectations for future government-controlled resources and provide a boost to host firm's reputation and legitimacy.

Additionally, we consider several firm-level contingencies that may be related to investors' perceptions about the firm's access to government supplied resources and the certification effect about the firm's reputation and legitimacy, including profitability, ownership type (private ownership versus state-owned enterprise, SOE), top management's political connections, and the institutional development in the location of the host firm. The results of the analysis of these contingency factors indicate that less profitable firms and privately controlled firms (not SOEs) witnessed higher levels of positive abnormal market returns. Compared with otherwise similar SOEs, less profitable and private firms may be less flexible in accessing financial resources and the visit may signal that the government will provide some sort of promotional or protective assistance because they typically receive less state support such as access to credits and other subsidies and experience more bureaucratic or regulatory burdens (Jia, 2014). For firms facing challenges to their reputation, such as those with weaker profitability (Fombrun and Shanley, 1990), and less socio-political legitimacy, such as being private rather than state-controlled, visits may signal to investors that the firm will continue to be a viable entity, a form of social validation (Rao, 1994).

Our study contributes to the scholarly literature about CPA in three important ways. First, we examine company site visits, a form of CPA that allows a firm's managers to make intimate contacts with high-level officials. We argue that visits represent an emergent form of CPA, emanating from the firm's long history of complex relations with government officials. Second, this article considers the payoffs of emergent CPA in a context of an authoritarian state where firms face policy uncertainties due to power discrepancies and lack due process vis-á-vis government actors. This advances the CPA literature because it suggests that under such conditions hosting high-profile government officials conveys information to third parties (i.e., investors) about expectations about the firm's future access to government-controlled resources as well as its reputation and legitimacy. Third, this article joins the emerging set of studies that examines private (as opposed to collective) CPA in China (Jia, 2014; Jia, Shi, and Wang, 2012; Kennedy, 2005; Li and Zhang, 2007) and other emerging countries (Henisz, 2000). With the rapid ascendance of emerging economy firms in the global economy, it is important for scholars to shed light on how firm-government interactions in these settings can influence firm value creation.

INFORMATIONAL EFFECTS OF HOSTING VISITS

Before discussing the effects of visits on host firms, we briefly describe what we are able to observe about these visits by senior Chinese government officials (Additional supporting information about visits is available from the online version of this article in Appendices S1 and S2). Visits of senior government officials garner extensive media coverage and may be considered as public relations events (Kennedy, 2005: 50). From reading Chinese news accounts (Appendix provides a summary of 10 visits), we observed that the President and the Premier were inclined to visit firms that appeared to represent exemplars of particular government policies. For example, on July 27, 2004, President Hu visited Shanghai International Port Group to support the government policy of "Scientific Outlook on Development." During his October 22, 2005, visit to NARI Technology Co., Ltd., Premier Wen emphasized the importance of "Scientific Outlook on Development" and "Sustainable Development" policies to the company's growth. News accounts recounted that the President and Premier also visited firms facing harsh external conditions. For instance, during his visit to Sino-Platinum Co., Ltd. on July 26, 2009, President Hu encouraged the firm to capitalize on its own strengths to overcome the economic challenges triggered by the global financial crisis. In October 2009, promoting economic reform policies during the global financial crisis, President Hu visited SHINVA, the first medical equipment manufacturing firm owned by the

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CCP, and encouraged its top managers and employees to strengthen their technology and service innovations.

For this study, we have interviewed several experts in Chinese business-government relations and none of them could identify a set of rules or a protocol that governed such visits. Nothing official is published about hosting visits. These experts speculate that the choice of a visit ultimately comes from the office of the senior government officials, but involves a complex and long series of interactions between the company's managers and various government officials across different levels of government, plus potentially nongovernment social interactions (e.g., born in the same city, common schooling, and common military service), such that the company becomes a target for such a visit. While companies are ultimately chosen by the government officials, the managers at the hosting companies may have taken prior actions to improve their chance of hosting visits. In contrast to determinant conceptions of CPA strategy, we argue that hosting visits represents an emergent (Mintzberg and Waters, 1985) CPA strategy, in which a visit emerges after a series of moves and events between company officers and many government officials. Certain actions and events may seem minor and seemingly inconsequential at the time, but end up resulting in a significant outcome such as a visit (Allison, 1971).

The question for this study is what financial benefits flow to a company practicing this particular form of CPA, especially since hosting a visit is more public and entails many direct (i.e., planning, security, logistics, public relations, etc.) and indirect (i.e., lost time due to planning the visit) costs that other forms of CPA do not.[1] The dominant assumption underscoring much of the CPA literature is that managers consciously choose to engage their firms in political activities. Oliver and Holzinger (2008) write, "Strategic political management refers to the set of strategic actions that firms *plan and enact* for the purpose of maximizing economic returns from the political environment" (p. 496. Emphasis added). The CPA literature commonly asserts that firms undertake a rational cost-benefit calculation to direct CPA (i.e., lobbying a legislative member or joining an industry coalition in producing a "white paper" about an issue) toward issues that look to be most advantageous to the firm (Bonardi, Hillman, and Keim, 2005; Henisz and Zelner, 2012; Hillman and Hitt, 1999). Firms may also choose to undertake CPA to imitate others (Gray and Lowery, 1996) and to cement social relations between their managers and government officials (Mizruchi, 1992), presumably when the benefits exceed the costs. A contribution of our study is that net benefits may also flow to firms that host visits of powerful political leaders, even when the deliberate nature of strategic choice is obfuscated.

Due to information asymmetry, investors face the challenge of evaluating the quality of firms. This is particularly true in China where public firms' disclosure is limited and shareholder activism is rare (Allen, Qian, and Qian, 2005). High information asymmetry between firms and investors lead investors to rely on other information cues to make investment decisions. We posit that hosting visits by top government officials appears to affect expectations about firm performance through two pathways: (1) signals about future flows of government-controlled resources; and (2) certification effect about the reputation and legitimacy of the host. We discuss successively both pathways.

Future resource flows from the government could take two forms: promotion and protection. In promotion, the visit might signal that the government sees the firm as necessary for carrying out important public policies, such as being a leading performer in a sector of the economy favored by the government. As such, the visit indicates that the government may be willing to promote such a firm or its sector in the future, such as with access to credit and other funds, tax incentives, government purchases, or favorable regulations. For example, in August 2007, Premier Wen visited the Xinjiang Tianye Co., Ltd., a manufacturer of drip irrigation technology that was named as a priority project of China's Western Development Program. The Premier commended the firm for its excellent contributions to energy and water conservation, such as outlined in the government's 11th Five Year Plan (2006–2010). The government also provided financial and policy support, such as the State Council's approval of the classification of drip irrigation products as agricultural

[1] Although from a different context, we interviewed the president of a company in the United States who hosted a visit by U.S. President Obama. He shared with us many details about he and his senior staff spending several long and intense days prior to the visit with Secret Service agents as well as the President's staff about minute details of the visit (i.e., exact route President would walk, where a stage would be set for a speech, where President would stop to shake workers' hands, etc.). The firm had to pay some of these expenses. Also, during the day prior to and of the visit, production in the plant was significantly reduced.

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products, which enjoy tax-free treatment. If these visits are made to high-performing firms, additionally it may signal that the government is less willing in the future to attempt to confiscate the firm's resources, such as through taxes, forced ownership changes (i.e., giving the state an equity stake or board position), or divestiture of certain assets.

Another form of expected government-controlled resources might be via protection. Certain firms and sectors of the economy serve important public functions, such as providing employment, fostering regional development (i.e., a large mine in a remotely populated region), and enhancing national security (Gilpin, 1987). However, during the period of the study, the commercial prospects for some of these firms were dire. The visit may show that the government is willing to "prop up" such ailing firms or firms in ailing sectors, including some larger and well-known SOEs. For instance, during his visit to Wuhan Iron and Steel Group Corp. in 2009, Premier Wen discussed the overcapacity problem in the steel and iron industry, and suggested that it was imperative to eliminate outdated capacity and make every effort to reduce cost on the basis of scientific management. On April 20, 2007, Premier Wen inspected Jiangxi Copper Corporation, a company providing important social benefits through employment, and urged the firm to accelerate the pace of transforming traditional industries with advanced technology. The visit of the high-ranking politician shows that the he is willing to stake his own reputation on such a public event. The visit may assuage investors who face uncertainty in evaluating whether the government will be willing to support firms with resources and favorable regulations.

The second path linking hosting a visit to investors' reaction is via certification. The certification literature considers the effect of a company's affiliation with prominent others, such as in this case, high-ranking senior government officials, on third parties such as investors. Although a large segment of the certification literature suggests that it is a process in which a central institutional actor with authority and status formally acknowledges that a venture meets a particular standard (Rao, 1994; Sine, David, and Mitsuhashi, 2007: 578), another segment suggests it is the association itself with such critical actors that represents an endorsement or certification (Kleer, 2010; Meuleman and De Maeseneire, 2012). We focus on this latter body of literature where certification is created by status association. Status association has been especially important in the literature on entrepreneurial or small firms that lack legitimacy. For example, drawing on arguments from liabilities of newness and certification literatures, Söderblom *et al.* (2015: 1501) find that receiving a government subsidy provides an endorsement for new ventures creating legitimacy for their business model and enabling them to receive more capital and enhance survival. Stuart, Hoang, and Hybels (1999) report that newer firms entering into cooperative relationships with higher status partners enjoy the certification of legitimacy because such relationships "act as endorsements that influence perceptions of the quality of young organizations when unambiguous measures of quality do not exist or cannot be observed" (p. 315).

Certification signals to investors and others firm's attributes that are unobservable and may contribute to its future performance and ability to continue as a "going concern" (King, Lenox, and Terlaak, 2005; Rindova *et al.,* 2005). A firm's associations with "long-lived players," such as senior officials in a one-party authoritarian government like China, in a policymaking process that is "far from transparent" (Kennedy, 2005: 52), represent a valuable firm resource that is revealed to third parties, at least in part, through visits (Chemmanur and Paeglis, 2005). In emerging economies, a firm's relationships with political actors contribute importantly toward competitive advantage (Peng and Luo, 2000). Kennedy writes that business involvement in policymaking in China is typically nonconfrontational and involves "sharing views" and "exchanging ideas" (2005: 51). The assumption is that the visibility and prominence of the visit conveys important information about the firm's relationship with the powerful politicians from company insiders to less informed investing outsiders.

We offer two examples about how visits by the President and the Premier may certify a firm's innovative capability. On August 11, 2005, Premier Wen inspected Sany Group, a private multinational heavy machinery manufacturing firm, and praised the firm's strong innovation and entrepreneurship as well as product competitiveness. On August 22, 2005, President Hu inspected Fiberhome Technologies Group, an information technology and telecommunications company, and commended the firm's extraordinary efforts to self-develop core technology and independent innovation capability.

Certification by authoritative institutional actors might affect the general impression that is

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formed about the firm's reputation and legitimacy. Reputation refers to the perceptions by external stakeholders about the firm's dispositions to behave in a particular manner (Basdeo *et al.,* 2006), ability to deliver along key dimensions of performance (Rindova and Fombrun, 1999) and to create value (Rindova, Pollock, and Hayward, 2006: 54). Hosting a visit puts a firm in contact with the most prominent member of the national government, a high-status exchange partner (Rhee and Haunschild, 2006), raising the firm's social prominence, a key component of organizational reputation (Rindova *et al.,* 2005). Shane and Foo (1999: 144) argue that certification by powerful institutional actors is one of the most important mechanisms for firms to gain "socio-political legitimacy," defined as the extent to which a firm conforms to recognized principles and standards (Aldrich and Fiol, 1994). If a firm is perceived by third parties to have political and social capital, it may be able to enhance stakeholder cooperation and reduce stakeholder conflict, both of which are beneficial (Henisz, Dorobantu, and Nartey, 2014). In sum, the certification function of hosting visits communicates externally about unobserved firm attributes, and impressions about its reputation and legitimacy, all of which are associated with future value.

The presence of the Chinese President or Premier at company sites acts to reduce information asymmetries of investors about the firm's expectations of receipt of government-controlled resources as well as elevate the firm's reputation and socio-political legitimacy via the certification effect. These pathways reduce the information search costs and increase investors' confidence, leading to a decrease in the firm's costs of obtaining capital (Bosch and Steffen, 2011; Chemmanur and Paeglis, 2005; Sine *et al.,* 2007; Söderblom *et al.,* 2015) and also may increase perceptions about the firm's socio-political stability (Bertoni and Lugo, 2014). As such, investors are expected to respond favorably to firms hosting such visits.

Hypothesis 1: Firms hosting high-ranking government officials experience positive abnormal stock market reactions surrounding visit dates.

Contingency factors

Our central hypothesis that firms benefit from hosting visits of high-ranking government officials does not differentiate across the types of firms that might enjoy financial gains from such an activity. However, firms differ considerably in what is known by investors about their access to government-controlled resources. Firms also differ in their reputation and socio-political legitimacy. Drawing on studies that show firm-level characteristics affect the ability of firms to cope with external uncertainties (Casciaro and Piskorski, 2005), we posit that companies vary in how hosting visits affects financial performance. In this section, we introduce four *firm-level factors* that influence the types of firms expected to benefit most from visits of high-ranking government officials: (1) prior financial performance, (2) private ownership (in contrast to SOE), (3) top management teams' political connections, and (4) location characteristics of the host firm. Each of these variables represents key contextual situations in China.

Prior financial performance

Firms that have experienced disappointing financial returns may witness higher levels of abnormal market returns on a visit by high-ranking central government officials than firms with stronger financial performance. Weaker performers generate less income than stronger performers to buffer against hostile elements of the external environment. Weaker performers may also face more difficulties in finding capital. The visit may signal that the government is willing to provide certain resources, a protectionist role. Furthermore, weak financial performance has been associated with negative reputation (Fombrun and Shanley, 1990). For poor performers, the visit reassures investors about the firm's reputation and legitimacy. In another context, Bertoni and Lugo (2014) demonstrate that sovereign wealth funds were more likely than other institutional investors to commit resources to distressed firms so that they became economically viable—as such, other investors received a certification effect from sovereign wealth fund participation. As a result of resource concerns and damage to reputation and legitimacy related to their performance, poorly performing firms are expected to experience a larger effect on their value from hosting than firms with stronger prior performance.

Hypothesis 2: The positive relationship between hosting high-ranking government officials and

DOI: 10.1002/smj

stock market reactions will be stronger when host firms have weaker prior financial performance.

Private firms

China's economic transition led to the emergence of diverse ownership types for business enterprises (Jefferson and Su, 2006). Prior to the economic reforms in 1978, the Chinese economy was dominated by SOEs and collectively owned enterprises (Peng, Tan, and Tong, 2004). Since the reforms, the Chinese economy witnessed a surge of privately owned firms, shareholding corporations, and foreign invested firms (Steinfeld, 2010).

Privately controlled firms generally have two disadvantages compared to SOEs. First, private firms typically receive less state support (i.e., state-controlled credit, subsidies, grants) and experience more bureaucratic and regulatory burdens. Second, privately owned firms may have less legitimacy given the historical focus of SOEs on joint social welfare and profit orientation (Ahlstrom and Bruton, 2001). As such, we predict that privately controlled firms—those controlled by nongovernment entities, Chinese citizens, or foreign investors—benefit from visits more than SOEs. Investors may already assume that SOEs enjoy important government-controlled resources, which will keep them viable. In contrast, investors may not fully see that private firms possess such resources and overall view them as more volatile than SOEs. Likewise, comparable SOEs may be seen as more legitimate than private firms; as such, hosting a visit may improve a private firm's reputation and legitimacy, also valued by stakeholders (Barnett, 2007).

Hypothesis 3: The positive relationship between hosting high-ranking government officials and stock market reactions will be stronger when host firms are private firms.

Top managers' political connections

Some top managers of Chinese companies have direct personal connections to government officials through their prior experience of working in government organizations. Such political connections are particularly valuable in the Chinese business context (Chen, Chen, and Xin, 2004; Li and Zhang, 2007; You and Du, 2012), although the relationship is complex. On the one hand, some studies find that as senior managers and directors have more political connections, their firms will enjoy superior financial performance (Li and Atuahene-Gima, 2001; Li and Zhang, 2007; Peng and Luo, 2000). On the other hand, other studies report that Chinese firms with extensive political connections innovate less (White *et al.,* 2008), retain fewer business experts on their boards (Fan, Wong, and Zhang, 2007), and realize worse financial performance (Nee, Opper, and Wong, 2007) than firms with fewer political connections.

Despite the ambiguity, we argue that firms with fewer political connections will benefit from visits by senior government officials more than firms with many political connections. Hosting visits provides an opportunity for firms with fewer connections to have a direct pathway to key political decision makers who control extensive resources. By fostering information exchange and relationship building government official's visits also help to lower the *ex ante* and *ex post* political exchange costs (Henisz and Zelner, 2005) for firms without previously personal ties to the government through their top managers. Hosting a visit puts a firm in contact with high-status public officials (Rhee and Haunschild, 2006), raising the firm's social prominence that is part of organizational reputation (Rindova *et al.,* 2005). Firms without many top-manager ties to the government may especially enjoy the reputational benefits of hosting a visit.

Hypothesis 4: The positive relationship between hosting high-ranking government officials and stock market reactions will be stronger when the percentage of top managers with political connections is lower.

Location (institutional development)

The quality of local institutions plays an important role in the scope and cost of transactions (North, 1990). Within China, institutional quality varies substantially across regions (Xu, 2011). Where regional quality is strong, we expect that the discipline of the market pressures firms to strive to remain competitive. Several studies about Chinese firms offer support; such as, where regional institutions are strong, firms emphasize customer needs (Davies and Walters, 2004), invest in R&D and intellectual property (Zhou, 2014), and reinvest profits into the business (Cull and Xu, 2005) more so than their counterparts located in provinces with

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less developed formal institutions. In contrast, firms located in regions with weak formal institutions are less likely to be disciplined by markets (Chang and Wu, 2014) and may be less competitive than firms from more developed regions (Witt and Lewin, 2007). Firms may face higher levels of meddling by government officials in institutionally weak regions compared to stronger regions (Doh *et al.,* 2003).

A visit by senior government officials to a company located in a less developed region may communicate important information to investors. Since the rule of law is less developed in these regions, the state faces weaker constraints in exercising its power and thus firms (and other interests) are more dependent on their relationships with these state political actors than in more institutionally developed regions. Thus, a visit to a company in a less institutionally developed region signals that the firm needs political connections to access state-controlled resources. Companies operating in less developed regions may also be seen as less reputable and have lower socio-political legitimacy *ceteris paribus* than companies in more developed regions (Shi, Sun, and Peng, 2012). As such, we predict the expected resources and reputation and legitimacy effects of a government official visit to companies in less institutionally developed regions may be greater than for companies located in higher institutionally developed regions.

Hypothesis 5: The positive relationship between hosting high-ranking government officials and stock market reactions will be stronger when host firms are located in less institutionally developed provinces.

METHODOLOGY

Data

Our sample includes firms listed on the Shanghai Stock Exchange during the period 2003–2011. Firms listed on this stock exchange are larger, more prominent, and well known than nonlisted companies. During this timeframe, the Chinese government was led by President Hu and Premier Wen. We use the following criteria to select our sample firms. First, we consider a focal firm to be one that has hosted visits by the President or the Premier. We focus on the two top-level *central government* officials for three reasons. Foremost, as we mentioned previously, the President and the Premier are the two most powerful political leaders in China and their visits received great attention from the media and investors. Second, visits by these two high-level central government officials, though brief, are rare and can be secretive in their planning. In addition, the details of such officials' schedules may not be released publicly beforehand. Thus, the market may not have much information about these events until they actually occur. Third, the visits of local government officials to firms are quite commonplace and therefore are not expected to send a valid signal of future resource flows to or bestow a strong certification effect on hosting companies. Additionally, we exclude "Special Treatment" (ST) firms because its designation means a firm is in dire financial condition and may be delisted (Peng, Wei, and Yang, 2011).

We follow three steps to collect the visit dates. First, we search company websites of all the firms belonging to the Shanghai Stock A Share Index. Because visits by high level national government officials usually attest to the company's achievements, Chinese companies almost always advertise such visits through their company websites. In this sense, we assume that companies willingly reveal information about the visits. We use the date of the visit as our event dates. In no cases did we find that a visit was publicized before the date of the visit. To rule out confounding events, we check whether other extraordinary events occurred at the focal firm around the visit dates (McWilliams and Siegel, 1997). Specifically, we exclude five visits to firms located in natural disaster-stricken regions immediately after the 2008 Sichuan earthquake. We also exclude two firms that hosted official visits that occurred just after their initial public offerings because we are unable to collect prior stock price data necessary to calculate cumulative abnormal returns. Through these steps, we collect 84 visit events by President Hu and Premier Wen.

The source of our data on daily stock prices is the China Stock Market Trading Database (CSMAR). Firm financial and other data are also collected from CSMAR. We collected lower-level officials visit data and top managers' political background information from company websites and other sources.

Variables

Our dependent variable, *Cumulative abnormal return* (CAR) for each firm, is calculated through

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the event study methodology, explained in detail below.

We use four independent variables to test the second order hypotheses. To measure firm *Prior financial performance*, we use return on assets (ROA) lagged one year prior to the visit. *Private firm* is a dummy variable that is coded as 1 if a firm's controlling shareholder is not the Chinese central or local government, and 0 otherwise. *Percentage of top managers with political connections* is measured as the percentage of top managers with political connections. We deem a top manager having political connections if he or she has worked in the government (Fan *et al.,* 2007). We consider the level of *Institutional development* of the province where the focal firm is headquartered, using data from the NERI Index (Fan and Wang, 2011). More institutionally developed provinces receive higher NERI Index scores.[2]

We include the following firm-level control variables. We control for *Firm size* and *Firm age*. Firm size is measured by taking the logarithm of total assets of the focal firm. Firm age is measured as the number of years between the establishment year and the visit year. Larger and older firms may have higher levels of socio-political legitimacy as well as more resources available for a range of political activities (Kennedy, 2005; Wang and Qian, 2011) than smaller and younger firms (Peng and Luo, 2000). We control for *Debt ratio* (total long-term debt divided by total assets) because firms with high leverage are in a more urgent need of resources and legitimacy potentially produced by visits. We control for *R&D intensity* as the ratio of the number of R&D personnel divided by the total number of employees (Scherer, 1965) because R&D intensive firms are often associated with a high level of information asymmetry. We control for *Stock return volatility* as firms with high stock return volatility may experience larger CARs in the presence of visits. Stock return volatility is measured as the standard deviation of prior year's monthly stock returns. We also include the following variables related to firm governance. We control for *Ownership concentration*, measured as the Herfindahl index of the top 10 owners, because ownership concentration influences investors' evaluation of a firm (Wruck, 1989). We control for *Board independence* and *CEO duality* because these two variables are related to firm governance quality (Dalton *et al.,* 2007), which in turn, influences investors' evaluation of a firm.

Furthermore, we include the following variables to rule out alternative explanations. We control for *Industry concentration*, measured by using the common four-firm concentration ratio (Shepherd, 1990) for each industry based on the China Securities Regulatory Commission (CSRC) industry classification, because it may be related to the returns from CPA (Esty and Caves, 1983) and partial out industry-related effects. We control for *Gross domestic growth rate* for the province where a firm is located because the economic condition of the province where a firm is located may affect investors' sentiments. We also control for a firm's political capital by counting the *Accumulative number of visit officials* (provincial, ministerial, and municipal-level political leaders) in a year. Because this variable is highly skewed, we take the natural log of the variable plus one. We control for *Change in firm visibility* because visits by high-level officials can increase firm visibility which in turn can influence stock price. To create this measure, we conduct keyword searches, using Baidu, the most widely used search engine in China, on news about both treatment and control firms before and after a visit date. For instance, if a company hosted a visit on June 20, 2006, we count the number of search hits (with company name as search term) from June 20, 2006, to June 26, 2006—defined as post-visit firm visibility. We also count the number of search hits from June 6, 2006, to June 13, 2006—defined as pre-visit firm visibility. We exclude the period of June 13, 2006, to June 20, 2006—the week immediately prior to visits because this period could be contaminated by potential leakage about these visits. We use the difference between post-visit firm visibility and pre-visit firm visibility to measure the change in firm visibility. The value of change in firm visibility is highly skewed and can be negative. To address skewness, we identify the minimum value of change in firm visibility and take the natural logarithm of (change in firm visibility + |minimum value of change in firm visibility| + 1).

Empirical strategy

The most straightforward strategy to test Hypothesis 1 is to examine whether firms hosting official visits experience positive stock returns compared with the situation in the absence of such visits (i.e., the counterfactual). To test Hypotheses 2–5, we

[2] Three visits occurred abroad. Our results are largely consistent if we exclude these three visits from our analyses.

could investigate whether factors proposed in these hypotheses influence the variation of CARs among host firms. Yet, unobservable firm characteristics and events may drive whether a firm receives a visit and stock market reactions. For instance, favorable industry events may coincide with the official's visit, yielding positive stock market reactions and confounding the visit's influence. To attenuate biases arising from unobservable firm characteristics and events, we identify host firms' comparable peers and compare stock market performance of hosts with that of peers.

We form a matched sample of control companies that did not receive visits from high-ranking government officials. We first exactly match on CSRC industry classifications and visit years. We then match on a propensity score estimated based on firm size (the natural log of total assets), firm performance (ROA), and firm value (Tobin's q). We use a logit regression to estimate the propensity score. We conduct *t*-tests to verify whether non-host (control) firms and host (treatment) firms differ from each other along firm size, firm performance, and firm value. Results from *t*-tests indicate that host and non-host firms do not significantly differ from each other along our matching criteria.

To investigate the change in the value of the firm resulting from the visits by high-ranking government officials, we adopt the event study methodology in Brown and Warner (1985), and McWilliams and Siegel (1997). Event studies are oftentimes used to evaluate firm-specific outcomes from political events (Hillman, Zardkoohi, and Bierman, 1999; Milyo, 2014) and in strategy studies using Chinese stock market data (Gaur, Malhotra, and Zhu, 2013). We select an event window of (0, +1), meaning that we consider the day of the event and the next day. We believe that a two-day event window can capture the market reaction to the official's visits while minimizing the potential for confounding events that may occur during the window.

The estimation window is (-210, -11), which covers 200 trading days for each firm between 210 and 10 days prior to the event, with at least 30-day's stock return data available. The abnormal return for the portfolio, AR_t, on day t is estimated by:

$$AR_t = R_t - \left[\alpha + \beta \times R_{mt}\right]$$

where R_t is the daily stock return and R_{mt} is the daily total-value-weighted congregated market returns on day *t*. Abnormal returns are residuals from the standard market model as previously specified.

Cumulative abnormal returns, CAR_t, for the portfolio between (0, +1) are calculated by summing abnormal returns:

$$CAR\,[0+1] = \Sigma AR\,[0,+1]$$

We have 84 cases in our sample of officials' visits. Following the same procedure, we calculate CARs for non-host firms based on the host firms' visit dates.

To ameliorate biases from unobservable firm characteristics and events, we follow Heckman (1979) and Lennox, Francis, and Wang (2012), and include a control for treatment in regressions used to test our hypotheses. Specifically, we first run a standard probit regression with whether a firm received a visit as dependent variable. In the first-stage probit regression, we include all the variables used to predict CARs. To ensure identification of the model, we need an instrumental variable that influences whether a firm receives a visit, but does not influence CARs (Lennox *et al.,* 2012). Our instrument is based on a quasi-natural experiment introduced by the 2005 Split-Share Structure Reform (Liao, Liu, and Wang, 2014). A characteristic of the Chinese capital market before the Reform was a split-share structure where almost 70 percent of listed firms' outstanding shares were nontradable shares and mainly held by stockholders, including controlling shareholders, whereas the remaining shares were tradable and mostly held by domestic individuals and institutional investors (Liao *et al.,* 2014). In 2005, the CSRC introduced the Split-Share Structure Reform to convert nontradable shares into tradable shares. Participation in the Split-Share Structure Reform was mandatory.

Specifically, the instrument is a pre-reform dummy that receives a value of 1 for firms that went through the 2005 Split-Share Structure Reform for years 2003–2005, and a value of 0 otherwise. This instrument is relevant because the government may have the need to understand firms that would go through the Reform and choose to visit these firms. Because the Reform was at the discretion of the Chinese government and individual firms had no direct control over the Reform, our instrument can be perceived as exogenous to firms' CARs. Based on the first-stage regression, we calculate the treatment correction (Greene, 2012; Heckman, 1979; Lennox *et al.,*

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2012) and include it as a control in the second-stage regressions.

RESULTS

Table 1 includes descriptive statistics for both host and non-host firms. The correlation between host firms (versus non-host firms) and CAR is 22 percent and statistically significant.

Table 2 shows the differences in CAR between host (treatment) and non-host (control) firms. The CAR for treatment firms is 0.9 percent, whereas the CAR for control firms is -0.5 percent and the difference is statistically significant based on *t*-test ($t = 2.89$), consistent with Hypothesis 1. In addition, we find that host firms' CARs are statistically different from 0 as its confidence interval does not include 0 ($t = 2.60$), but non-host firms' CARs are not statistically different from 0 as its confidence interval includes 0 ($t = -1.46$).

In addition, Figure 1 plots the average CARs for the host and non-host firms from day (-7) to day (+14). We do not find a significant difference for the average CARs prior to day (0) (i.e., CAR[-7,-1]), and the difference shows up at day (0) as 0.93 percent (i.e., CAR[-7,0]), grows thereafter and reaches 2.89 percent at day (+11) (i.e., CAR[-7,+11]). Figure 1 also indicates that control (non-host) firms appear to be hurt by not hosting official visits. We speculate that investors may increase their holdings in host firms and reduce their holdings in non-host firms, resulting in a crowding out effect.

Table 3 reports results used to test our hypotheses. Model 1 is the first-stage probit regression used to predict whether a firm receives a visit within a firm year. The coefficient estimate of pre-reform dummy is positive and statistically significant ($\beta = 0.548$, $p = 0.043$).

To test our hypotheses, we use pooled ordinary least squares (OLS) regressions as some companies in our sample have hosted multiple visits by high-level officials during the 2003–2011 period. We cluster standard errors by firms to address potential residual correlation of the same firm (Petersen, 2009). Model 2 in Table 3 introduces *Host firm*, a dummy variable that receives a value of 1 if a firm receives a visit, and 0 otherwise. Model 2 includes the treatment correction calculated from the first-stage probit regression. Results from Model 2 show that the coefficient estimate of *Host firm* ($\beta = 0.015$) is positive and associated with a *p*-value of 0.002, lending support to Hypothesis 1. In terms of economic significance, the CARs of host firms are 1.5 percent higher than that of non-host (control) firms.

Models 3–7 are used to test Hypotheses 2–5. Hypothesis 2 predicts that the positive stock market reaction that host firms witness should be stronger for firms with weaker prior financial performance. In Model 3, the coefficient estimate of *Host firm* × *Firm performance* is negative and statistically significant ($\beta = -0.151$, $p = 0.014$), supporting Hypothesis 2.

Hypothesis 3 predicts the positive stock market reaction that host firms experience should be stronger if the firms are privately owned. In Model 4, the coefficient estimate of *Host firm* × *Private firm* is positive and statistically significant ($\beta = 0.026$, $p = 0.043$), supporting Hypothesis 3.

Hypothesis 4 proposes that the positive stock market reaction that host firms realize should be stronger if the firms' top managers are less politically connected. In Model 5, the coefficient of *Host firm* × *Political connection* is negative but statistically not significant ($\beta = -0.043$, $p = 0.451$), failing to support Hypothesis 4.

Hypothesis 5 predicts that the positive stock market reaction that host firms experience should be more salient for firms located in institutionally less developed provinces. Model 6 shows that the coefficient estimate of *Host firm* × *Institutional development* is negative but statistically not significant ($\beta = -0.004$, $p = 0.152$), failing to support Hypothesis 5.

Model 7 is the saturated model with all the interaction terms, and we continue to find that the coefficient estimates of *Host firm* × *Firm performance* and *Host firm* × *Private firm* are statistically significant in the hypothesized directions.

Model 8 compares CAR variations only among the 84 host firms. Consistent with Hypotheses 2 and 3, we find that the coefficient estimate of *Firm performance* is negative and statistically significant ($\beta = -0.149$, $p = 0.064$, two-tailed test) and that of *Private firm* is positive and statistically significant ($\beta = 0.036$, $p = 0.002$).

DISCUSSION

We set out to examine the value to Chinese publicly traded companies that received visits

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Table 1. Descriptive statistics

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1 CAR	0.002	0.031	1.000																	
2 Host firm	0.500	0.501	0.219	1.000																
3 Firm size (Log)	23.294	1.816	0.032	0.034	1.000															
4 Firm age	10.714	4.807	−0.098	−0.142	−0.243	1.000														
5 Debt ratio	0.078	0.104	0.087	−0.030	0.241	0.146	1.000													
6 R&D intensity	0.139	0.146	0.181	0.177	−0.071	−0.068	−0.148	1.000												
7 Stock return volatility	0.142	0.060	0.058	0.065	0.065	0.277	0.062	0.002	1.000											
8 Ownership concentration	0.542	0.312	0.072	−0.098	0.465	−0.390	0.159	0.060	−0.035	1.000										
9 Board independence	0.550	0.715	0.014	−0.145	0.073	0.023	0.066	0.060	−0.040	−0.013	1.000									
10 CEO duality	0.083	0.277	−0.007	0.129	−0.180	0.198	−0.063	−0.043	0.163	−0.268	−0.080	1.000								
11 Industry concentration	0.410	0.234	0.076	0.093	0.372	−0.276	−0.014	−0.001	0.024	0.107	−0.066	−0.069	1.000							
12 Accumulative visit officials (Log)	1.665	2.078	−0.051	0.180	0.279	−0.003	0.039	−0.101	0.054	−0.070	0.102	0.001	0.237	1.000						
13 Firm visibility change (Log)	3.839	0.374	0.153	−0.131	0.113	−0.100	0.091	−0.057	−0.078	0.058	0.183	−0.126	0.074	0.129	1.000					
14 GDP growth rate	0.154	0.063	−0.002	0.079	−0.296	−0.014	0.059	−0.094	−0.289	−0.157	0.056	0.141	−0.317	0.005	0.069	1.000				
15 Firm performance	0.060	0.069	0.032	0.173	0.196	−0.194	−0.057	−0.061	0.011	0.161	−0.032	0.037	0.249	0.033	−0.033	−0.067	1.000			
16 Private firms	0.256	0.438	0.124	−0.041	−0.240	0.285	−0.010	−0.117	0.132	−0.282	0.356	0.317	−0.198	−0.026	−0.038	0.211	0.052	1.000		
17 TMT political connections	0.030	0.066	0.125	−0.005	−0.003	−0.041	−0.105	−0.128	0.042	−0.057	−0.094	0.027	0.098	−0.100	0.036	−0.084	−0.050	0.013	1.000	
18 Institutional development	8.646	1.780	0.017	−0.085	0.255	−0.030	−0.327	0.175	0.063	0.068	−0.036	0.038	0.160	−0.141	0.044	−0.241	−0.091	−0.046	0.120	1.000

Absolute value of correlations greater than 0.13 significant at $p < 0.05$ at two-tailed tests.

Table 2. Matching results: differences in CAR between host and non-host firms

Treatment	N	Mean	S.D.	[95% confidence interval]	*t*-statistics
0	84	−0.005	0.030	[-0.011, 0.002]	−1.460
1	84	0.009	0.031	[0.002, 0.016]	2.600
Difference		***0.014***			
t-statistics		***2.890***			

of high-ranking central government officials. Examining 84 visits over the period 2003–2011 by President Hu and Premier Wen, we show that host firms experienced significant and positive stock market gains. On average, the valuation of host companies rose 0.9 percent. The host firms also outperformed the matched firms within the 14-day window, suggesting that visits may crowd out investment to non-hosting competitors. It seems evident that hosting the visits of the President and Premier functions to improve investors' evaluation of firms.

We offer two pathways as to how visits might influence the evaluation of the hosts by third parties: (1) expectations about the firm's receipt of government-controlled resources; and (2) certification about the firm's reputation and legitimacy. Based on assumptions about information asymmetries about firms by third parties, such as investors, and government officials having policy preferences that might be served in part by firms, a visit conveys valuable information. The first pathway is the visit may indicate that the government is willing to offer resources at a future date to the visited firm. For example, Tebian Electric Apparatus Company (TBEA), a large electric equipment and solar equipment company, received several visits from high-ranking central government officials between 2006 and 2010, including hosting Premier Wen in 2007. During this period, TBEA received shares of two large scale government power projects (TBEA, 2009), demonstration of promotion via government-controlled resources. Visits also might indicate that government-controlled resources will flow to protect a host firm. For example, on January 27, 2007, President Hu visited Jilin Sino-Microelectronics Co., Ltd., and stressed both the importance of enhancing independent innovation capability and that local governments should seize opportunities created by national policies of revitalizing the old industrial base in the Northeast China. Subsequently, in 2009, the company enjoyed preferential tax policies from the local government.

Additionally, conducting nonrandom post hoc analysis, we collected data from the footnotes of annual reports on all kinds of subsidies that firms received from the government during the two years after the visits. We find that host firms on average received a subsidy of RMB 912 million Yuan and comparable non-host firms on average received a subsidy of RMB 271 million Yuan, and the difference is statistically significant ($t = 2.2$). This finding appears consistent with the resource flows argument, suggesting that resources flow to firms after the visits and providing some evidence regarding actual effect size.

The second pathway that a visit might influence investors' reactions is through the certification effect. The certification effect of the firm's association with powerful and prestigious government officials, high-status exchange partners (Rhee and Haunschild, 2006), raises a firm' social prominence, which feeds into its reputation and socio-political legitimacy. Reputation refers to the perceptions by external stakeholders about the firm's dispositions to behave in a particular manner (Basdeo *et al.,* 2006) and its ability to deliver along key dimensions of performance (Rindova and Fombrun, 1999) and create value (Rindova *et al.,* 2006). Socio-political legitimacy describes that match of a firm's activities to recognized principles and standards (Aldrich and Fiol, 1994). The initial analysis shows that investors positively value the firms that host such visits. For example, in a visit to KPC Pharmaceuticals in October 2004, Premier Wen praised the firm for its investments in production equipment and quality control processes that allowed it to produce medicines of the highest quality.

The results from the secondary analysis predominantly support the dual pathways about hosting's effect on investor valuation. First, firms with weaker financial performance received a positive financial boost from government official visits.

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Table 3. Officials' visits and stock market reactions

Variable	Model 1 Probit	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
		OLS						
Constant	−0.191	−0.071	−0.062	−0.067	−0.074	−0.089	−0.074	0.017
	[0.945]	[0.129]	[0.173]	[0.159]	[0.123]	[0.065]	[0.120]	[0.820]
Firm size	0.126	−0.000	−0.001	−0.001	−0.000	−0.000	−0.001	−0.005
	[0.173]	[0.848]	[0.792]	[0.682]	[0.831]	[0.882]	[0.638]	[0.182]
Firm age	−0.060	−0.000	−0.000	−0.000	−0.000	−0.001	−0.000	0.001
	[0.040]	[0.469]	[0.543]	[0.721]	[0.486]	[0.320]	[0.650]	[0.630]
Debt ratio	0.470	0.037	0.035	0.038	0.038	0.036	0.035	0.014
	[0.716]	[0.216]	[0.244]	[0.202]	[0.211]	[0.233]	[0.243]	[0.765]
R&D intensity	3.090	0.040	0.030	0.045	0.039	0.038	0.033	−0.000
	[0.001]	[0.018]	[0.079]	[0.008]	[0.019]	[0.026]	[0.058]	[0.992]
Stock return volatility	4.858	0.017	0.019	0.002	0.020	0.018	0.008	−0.006
	[0.040]	[0.662]	[0.612]	[0.961]	[0.599]	[0.643]	[0.824]	[0.914]
Ownership concentration	−0.988	0.010	0.010	0.015	0.010	0.007	0.012	0.048
	[0.027]	[0.213]	[0.202]	[0.099]	[0.203]	[0.393]	[0.175]	[0.010]
Board independence	−0.384	−0.003	−0.002	−0.001	−0.003	−0.003	−0.000	0.011
	[0.031]	[0.428]	[0.475]	[0.873]	[0.458]	[0.430]	[0.996]	[0.162]
CEO duality	0.781	−0.005	−0.007	−0.012	−0.005	−0.006	−0.014	−0.020
	[0.097]	[0.512]	[0.415]	[0.151]	[0.561]	[0.462]	[0.105]	[0.143]
Industry concentration	−0.424	0.009	0.008	0.012	0.008	0.010	0.011	0.013
	[0.468]	[0.402]	[0.446]	[0.288]	[0.445]	[0.358]	[0.326]	[0.467]
Accumulative visits officials (Log)	0.120	−0.001	−0.001	−0.001	−0.001	−0.001	−0.001	−0.002
	[0.049]	[0.317]	[0.325]	[0.288]	[0.299]	[0.286]	[0.248]	[0.352]
Firm visibility change (Log)	−0.755	0.017	0.015	0.018	0.018	0.017	0.016	0.027
	[0.146]	[0.001]	[0.003]	[0.000]	[0.001]	[0.001]	[0.002]	[0.001]
GDP growth rate	3.252	−0.007	−0.016	0.001	−0.007	−0.006	−0.007	−0.046
	[0.140]	[0.863]	[0.682]	[0.977]	[0.878]	[0.894]	[0.871]	[0.449]
Firm performance	3.453	−0.014	0.062	−0.013	−0.013	−0.013	0.071	−0.149
	[0.054]	[0.695]	[0.122]	[0.713]	[0.721]	[0.730]	[0.077]	[0.064]
Private firm	−0.093	0.018	0.017	0.005	0.017	0.018	0.004	0.036
	[0.762]	[0.013]	[0.014]	[0.568]	[0.014]	[0.011]	[0.625]	[0.002]
TMT political connections	1.437	0.065	0.065	0.067	0.085	0.061	0.080	0.029
	[0.401]	[0.039]	[0.020]	[0.016]	[0.024]	[0.039]	[0.006]	[0.531]
Institutional development	−0.072	−0.000	−0.000	0.000	−0.000	0.002	0.002	0.000
	[0.336]	[0.894]	[0.979]	[0.995]	[0.915]	[0.412]	[0.364]	[0.928]
Pre-reform	0.548							
	[0.043]							
Selection correction		−0.007	−0.010	−0.009	−0.007	−0.005	−0.011	−0.044
		[0.281]	[0.099]	[0.184]	[0.274]	[0.409]	[0.095]	[0.058]
Host firm		0.015	0.025	0.009	0.016	0.047	0.049	
		[0.002]	[0.000]	[0.072]	[0.003]	[0.050]	[0.057]	
Host firm × Firm performance			−0.152				−0.164	
			[0.014]				[0.007]	
Host firm × Private firm				0.026			0.026	
				[0.043]			[0.047]	
Host firmx Political connection					−0.043		−0.034	
					[0.451]		[0.479]	
Host firm × Institutional development						−0.004	−0.003	
						[0.152]	[0.219]	
Observations	168	168	168	168	168	168	168	84
R-squared		0.204	0.226	0.228	0.206	0.214	0.261	0.320
Pseudo R-squared	0.207							

P-values reported in brackets. Standard errors clustered by firms. Two-tailed tests.

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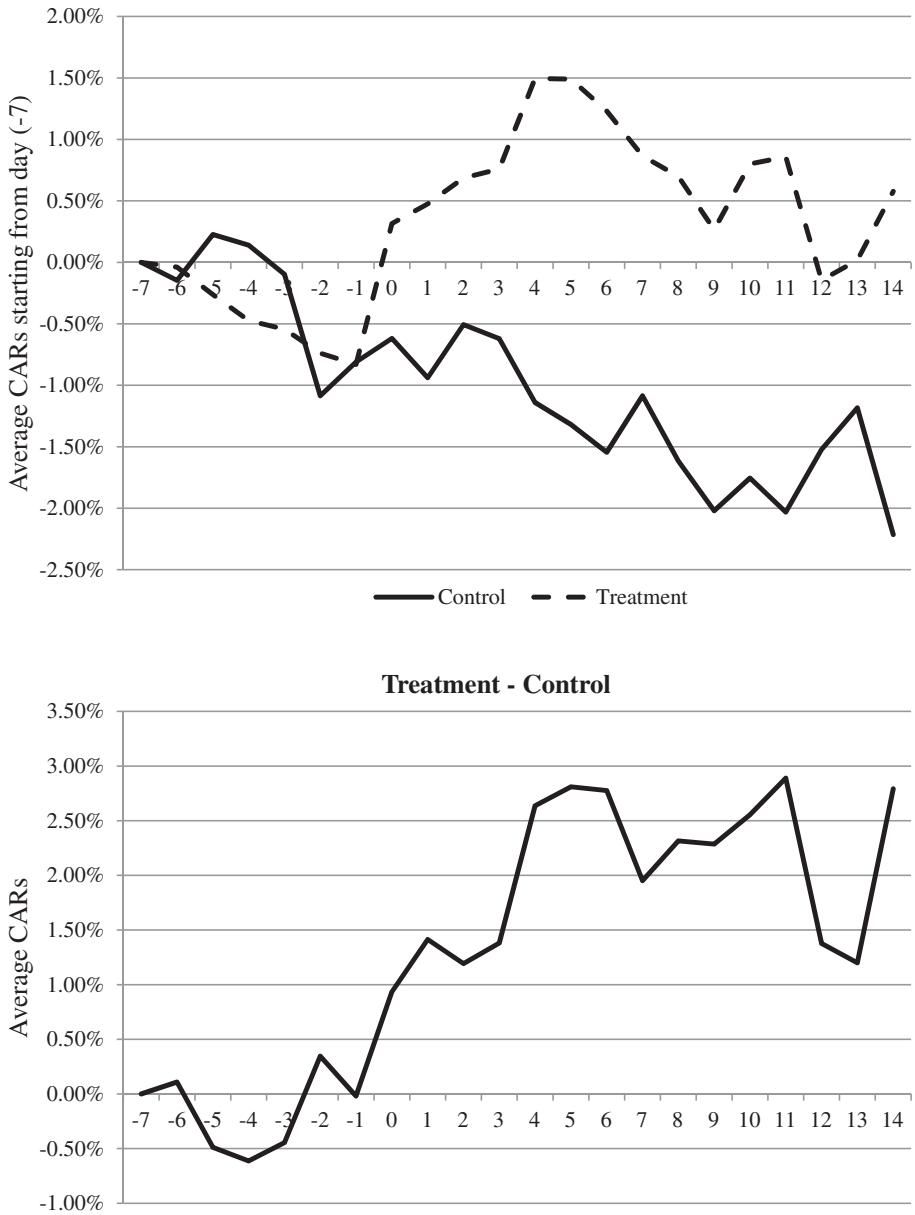

Figure 1. Plotting average CARs of host and non-host firms. Treatment group: firms (84) that hosted a visit of the President or Premier. Control group: non-host firms (84) that are matched to each host firm. Day 0 is the day of the visit

It appears that the visits of these high-ranking officials signal to investors that the government has positive preferences toward such firms and will free up resources, lowering the uncertainty. As financially weaker firms suffer from lower reputations, visits might certify leaders' confidence, raising the host firm's reputation and legitimacy. Private firms also more than SOEs from hosting visits. Visits indicate that private firms have access to government-controlled resources that complement their market strategies, something that private firms generally are disadvantaged compared to SOEs. Visits also create publicity that appears to elevate the reputation of private firms more than SOEs. Shareholders have been seen to value a private firm's reputation and legitimacy (Barnett, 2007).

However, our results fail to support Hypotheses 4 and 5, which stated that stock market reactions are

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expected to be greater for firms with fewer top managers' political connections and for firms located in institutionally less developed provinces. This may imply that the signal of future resource flows and the certification effect of hosting high-ranking government official visits were sufficiently great to be enjoyed by all the hosts regardless of their prior political connections or where they are based.

Limitations and future research

As with most empirical investigations, we did not have all of the data that we desired. It would have been ideal to include the visits by government officials to Chinese companies without publicly listed shares. Also, we limited our visits to those by the top two officials from the central government. In doing so, we neglected the visits by other central government officials as well as the more numerous visits by officials from provincial and municipal governments, although we controlled for such visits. With the exception of SOEs, we did not examine other mechanisms that the state uses to control firms. We also did not have data about the costs of hosting visits. It could be that firms face significant direct and indirect costs, plus *ex post* opportunity costs (i.e., being forced to conduct politically desired but uneconomic business activities) connected with hosting visits. The political context of China, that is, authoritarian, opaque, single party, may not generalize well to other countries, although examining a country with substantial centralized control, such as in Russia and Saudi Arabia, should enhance the importance of CPA on firm performance.

Future researchers might examine additional political activities that Chinese firms use to engage government officials. Other activities include firm participation in trade associations, firm direct lobbying (Kennedy, 2005), participation in the People's Congress and People's Consultative Conference (Jia, 2014), and corporate social responsibility (Henisz *et al.,* 2014). Last, although we undertake efforts to mitigate endogeneity concerns (e.g., matching sample and inclusion of a treatment correction control), these econometric methods rely on their specific assumptions. Future research may use natural experiments (e.g., Fisman, 2001) to empirically tease out how hosting official visits may influence investors' perceptions.

CONCLUSION

Hosting visits of high-ranking government officials, an emergent CPA strategy, appears to be valuable for firms. Our examination confirms that firms hosting visits of the President and Premier experienced significant financial gains over similar non-host firms. Furthermore, the firms that benefited the most were those with weaker prior period profits and those with private (not state) ownership. Overall, we argue that firms' performance is expected to improve based on two effects of hosting visits. First, hosting a visit signals that the government might be willing to furnish resources benefiting the host or its sector. For example, the government might be willing to release resources to promote the sector, such as favorable financing for investments in the government's preferred technologies or policies to push the firm's (and sector's) products into domestic and international markets. The government might also be willing to protect ailing firms; for example, provide grants to continue production in areas favored by senior government officials or enact regulations to limit competition. Second, hosting a visit may certify the reputation and the legitimacy of host firms. Because of the status association with high profile actors, certification improves the impression formed by third parties about the firm's reputation and legitimacy. The potential to receive government-controlled resources, and enhance reputation and legitimacy makes hosting visits a valuable strategy for the host firms.

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SUPPORTING INFORMATION

Additional supporting information may be found in the online version of this article:

Appendix S1. 84 Visits to Chinese Companies.*
Appendix S2. Visits* 2003–2011 by Frequency by Sector.

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APPENDIX: Visit examples and suggested type of information

Company	Visit date	Official	Type	Event
Mongolia North Hauler Joint Stock Co., Ltd.	June 4, 2006	Premier Wen	Promotion	Premier Wen was delighted to observe that these traditional enterprises took advantage of advanced technology, transformed traditional industry, and improved technical skills and competitiveness
Yonyou Network Technology Co., Ltd.	December 27, 2008	Premier Wen	Promotion	Premier Wen commented that the software industry was a sunrise industry and encouraged the firm to strengthen existing innovative capability
CRRC Co. Ltd.	June 12, 2009	Premier Wen	Promotion	Premier Wen expressed his hope that the company should seize the unprecedented opportunity in the locomotive industry to become a world leader
Jilin Sino-Microelectronics Co., Ltd	January 27, 2007	President Hu	Protection	President Hu stressed that the firm should take advantage of the strong science and technology capability in the old industrial base, and capitalize on talents at universities and research institutes to build up a market-oriented technological innovation system
Jiangxi Copper Co., Ltd.	April 20, 2007	Premier Wen	Protection	Premier Wen urged the company to accelerate the pace of transforming traditional industries with advanced technology, with an emphasis on resource integration and intensive processing to enhance value creation
Wuhan Iron and Steel Group	March30, 2009	Premier Wen	Protection	Premier Wen discussed the overcapability problem of the iron and steel industry and urged the firm to eliminate overcapacity by means of market, laws, and environment protection, and make every effort to reduce cost on the basis of scientific management
Fiberhome Telecommunication Technologies Co., Ltd.	August 22, 2005	President Hu	Certification	President Hu praised the firm's core technology and independent innovation capability to a high degree
Zhongxin Pharmaceutical Group	October 1, 2005	President Hu	Certification	President Hu affirmed the firm's adoption of new technology and equipment with high automation
KPC Pharmaceuticals, Inc.	October 6, 2004	Premier Wen	Certification	Premier Wen was impressed with the company's achievements and commented, "With such equipment and strict processes, your medicines can be produced with high quality"
Sany Group	August 11, 2005	Premier Wen	Certification	Premier Wen praised the firm for its strong innovation and entrepreneurship as well as product competitiveness

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