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Article

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Political connections, media monitoring and long-term loans[☆]



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ABSTRACT

We analyze data on Chinese non-state-listed firms and find that it is easier for firms with political connections to obtain long-term loans with extended debt maturities than it is for firms without political connections. Our investigation indicates that this phenomenon is significantly less common with increased media monitoring. [Houston et al. \(2011\)](#) find strong evidence that the state ownership of media is associated with higher levels of bank corruption in China, but our study shows that, to a certain extent, media monitoring can curb corruption.

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1. Introduction

Some researchers have found that non-state-owned firms with political connections can secure preferential access to financing and tax breaks (e.g. [Johnson and Mitton, 2003](#); [Claessens et al., 2008](#); [Li et al., 2008](#); [Luo and Zhen, 2008](#); [Wang and Wang, 2013](#); [Yu and Pan, 2008](#)). Yet there are also disadvantages to firms setting

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up political connections. Some empirical studies have shown that political connections may improve or reduce firm value and performance (Liu et al., 2010). For example, Fisman (2001), Johnson and Mitton (2003), and Faccio and Parsley (2009) find that political connections can improve firm performance and value. However, other studies come to the opposite conclusion, such as Fan et al. (2007), who find that the accounting and market performance of firms with political connections are significantly lower than those of other firms after initial public offerings (IPOs), due to a lack of managerial capabilities. Thus, further study is clearly needed to determine why these empirical results diverge and to identify the internal mechanisms of political connections that affect firms.

There are at least two theories that can explain the existence and mechanisms of political connections. First, reputation theory emphasizes the importance of relationships, using a reputation enhancement argument that suggests that the political connections of firm executives serve as an alternative channel for establishing firm reputation when quality disclosure is absent (Sun et al., 2005; Yu and Pan, 2008). Second, rent-seeking theory also explains political connections by arguing that firms use them to engage in activities that influence the government's approval decisions and government officials then show partiality to firms whose executives promise these officials personal favors. In other words, the approval decision process is influenced by officials' desire to seek rents (e.g., Fan et al., 2007).

Which theory more effectively explains the existence and mechanisms of political connections in the Chinese stock market? In this study, we attempt to answer this question from a media monitoring perspective. Based on the extant research, we investigate how media monitoring affects the relationship between political connections and long-term loans. We anticipate that firms with political connections can more easily obtain long-term loans with extended debt maturities. On the surface, the phenomenon can be explained by both theories, so determining which is more significant requires deeper study. If the reputation theory is more significant, then we would expect the relationship between political connections and long-term loans to be reinforced by improved media monitoring, because firms' reputations can be strengthened by media exposure. If the rent-seeking theory is more significant, we expect the relationship to be reduced by improved media monitoring because most rent-seeking behavior is unlawful and irrational, and thus the role of political connections should be weakened by media exposure.

Using data for Chinese non-state-owned listed firms from 2006 to 2012, we find that firms with political connections have easier access to long-term loans with extended debt maturities. This result suggests that political connections facilitate firms' financing. We also find that the relationship between political connections and long-term loans is significantly reduced with improved media monitoring. Overall, our findings support the rent-seeking theory.

This study contributes to the literature in several ways. First, previous studies have not distinguished between these two theories, such that research based on one cannot exclude the other. This study differentiates between these two theories and analyzes which is better suited to the Chinese stock market. Second, the role of the media in China is highly suspect due to a higher degree of government intervention. Houston et al. (2011) note a strong correlation between state-funded media and banking corruption. According to their study, it is difficult for the Chinese media to play a role in suppressing corruption, but we observe that it can play an important role in inhibiting rent-seeking, which can be explained by the market-oriented media reform of recent years. Our empirical evidence therefore provides some support for the role of the media in China, which subsequent studies can further investigate.

2. Institutional background, theoretical analysis and hypothesis development

2.1. Institutional background

Due to ideological factors and compared with state-owned firms, non-state-owned firms face unfair market conditions, also known as "tilted playing field" problems. The constraints on non-state-owned firm development mainly include legal obstacles, government intervention or administration and financing difficulties (Bai et al., 2003). Another problem for non-state-owned listed firms is related to stock market development. The Chinese stock market is a burgeoning traditional planned economy and socialist market economic system pursuing state-owned enterprise (SOE) reform. The central and local governments have rapidly recognized the

stock market's potential to facilitate SOE reform. In the early 1990s, the stock market's SOE reform burden was the result of the SOEs general inefficiency, which led to the stock-issuing system and the complication of SOE reforms. This indicates that SOEs inevitably dominate the Chinese stock market. Although non-SOEs can list through mergers and acquisitions (M&A) and management buyout (MBO) markets, SOEs still dominate the stock market because the M&A and MBO markets are largely controlled by governments and SOEs. Thus, the majority of Chinese listed firms are ultimately under government control (Liu et al., 2003). Hence, non-state-owned listed firms naturally face tilted playing field problems such as those listed below.

First, there are several legal and administrative barriers for non-state-owned listed firms. According to Chen et al. (2008), the proportion of non-state-owned listed firms is less than 20% in high-barrier industries such as automotive, marine and road and rail transportation—far below the proportion of SOEs. The proportion of non-state-owned listed firms in moderate- and low-barrier industries is about 30–50% and/or exceeds that of SOEs, respectively. These results reflect the ubiquity of barriers, such as legal and administrative, for non-state-owned listed firms in high-barrier industries.

Second, non-state-owned listed firms in China are developing serious financing difficulties in that they are unable to gain adequate external financing in the stock market or from the banking system, the latter of which exhibits credit discrimination. Banks, especially those that are state-owned, prefer to provide loans to SOEs rather than to non-state-owned listed firms. In the past 10 years, while non-state-owned firms contribution to Chinese GDP exceeded 70%, they obtained less than 20% of the bank loans (Lu and Yao, 2004). On the stock market, in the early 1990s, non-state-owned firms could not easily achieve listing directly through IPOs due to the stock market's burden in serving the SOE reform. Given the reform, some non-state-owned firms had to initially list through the takeover market or buy shell resources¹ from SOEs, but the quality of such resources was typically low because SOEs and governments preferred not to sell high-quality shell resources (Wang et al., 2001). These details explain why non-state-owned listed firms profitability is generally not as good as that of SOEs, despite the former's superior system design, corporate government and ownership structure. Gaining a low-quality shell does not solve non-state-owned listed firms financing problems, and neither does equity refinancing, according to Chen et al. (2008), due to low benefits and government intervention.

Given non-state-owned listed firms tilted playing field problems, they should use the following measures to avoid constraints. First, they should seek political connections to avoid the negative effects of laws and governmental regulations (Fan et al., 2007). Second, they should solve their financing difficulties through political connections and the leakage effect to seek informal financial support (Lu and Yao, 2004; Yu and Pan, 2008).

2.2. Theoretical analysis and hypothesis development

The two theories considered in this study—reputation and rent-seeking—are used to analyze the relationship between political connections and long-term loans.

Based on reputation theory, Sun et al. (2005) suggest that firms' political connections are important aspects of their reputations that are likely to prompt government intervention. Moreover, while it may help firms avoid trouble, government intervention is not always to a firm's benefit, nor does it line up with the firm's social goals or official interests (Shleifer and Vishny, 1994). La Porta et al. (2002) demonstrate that firms with political connections easily gain government subsidies when they are not facing difficulties in their business operations.

Against the background of the public property system, political connections affect firms long-term loans and debt maturities in the following ways. First, firms with political connections can easily acquire long-term loans because they can use subsidies to reduce the possibility of default. Likewise, banks prefer to give them loans because the possibility of default is relatively low.

Second, firms with political connections can directly influence bank lending decisions and gain more long-term loans to avoid the uncertainty inherent in the rotation of officials (Sun et al., 2005). Thus, our first hypothesis is:

¹ Shell resources refer to listed firms that are small in size or exhibit poor performance or operational difficulties.

Hypothesis 1. Non-state-owned listed firms with political connections are more likely to gain long-term loans and have longer debt maturities than non-state-owned listed firms without political connections.

Similarly, the rent-seeking theory also supports H1, but unlike the reputation theory, it stresses that managers should establish and use political connections to gain excess profits, which is commonly regarded as a non-productive activity and as unfair social behavior. Rent-seeking behavior leads to government intervention and non-state-owned listed firms with political connections can gain more long-term loans through their rent-seeking for governments or banks, especially state-owned banks.

Although H1 is supported by both theories, the reputation theory emphasizes political connections as a positive reaction to market and legal failures, and as an effective alternative to the formal system. In contrast, the rent-seeking theory suggests that firms with political connections are likely to take advantage of government intervention and slip through policies, such that there is a close relation between political connections and corruption.

We address which theory more effectively explains political connections and their functional mechanisms by distinguishing between them from a media supervision perspective. First, we introduce the background of media monitoring in the Chinese stock market. In recent years, the media as an important external governance mechanism has received widespread attention for its influence over the stock market in China. The following are the most important characteristics of media monitoring in the Chinese stock market.

First, the influence of state-owned media is significantly higher than that of other media (Yang and Ling, 2011) because the four major securities newspapers—regarded as the most influential—are state-owned.

Second, most media, especially state-owned media, involve multi-tasking—the presence of which creates a mixture of administration and marketing. Media coverage not only needs to obey government control requirements, but also has to adapt to the market's development while meeting readers needs.

Third, the depth and breadth of media reports are improving as the stock market develops.

Although the media in China must operate under government controls, they can still pursue their own utility maximization for market purposes, typically by exhibiting a preference for inflammatory news, social hot spots and contentious phenomena. The media's behavior has been reported as influencing corporations and corporate governance (Dyck et al., 2008; Miller, 2006; Houston et al., 2011; Li and Shen, 2010; Yang and Zhao, 2012). According to Dyck et al. (2008), the media influences corporate governance through supervision or reputation mechanisms. Under the supervision mechanism, the media reveals improper behavior with the aid of administrative and external supervision and internal governance that ultimately constrain firms' misconduct (Li and Shen, 2010). Under the reputation mechanism, the media influences managers' reputations, which is considered an important governance function. Managers considering future employment and wages actively respond to media reports that might affect their reputations.

If the rent-seeking theory more effectively explains the presence and function of political connections, then we would expect media monitoring to reduce the role played by political connections due to the close relation between corruption and rent-seeking behavior. As a non-productive activity, rent-seeking should decrease as media coverage increases.²

Hypothesis 2a. The relationship between political connections and long-term loans decreases as media coverage increases.

In contrast, if political connections are better explained by reputation theory, then we can draw an alternative hypothesis to H2a, because a firm's political relationships are seen as its reputation. The behavior of establishing and using political relationships is, in essence, market oriented. We argue that such behavior is not restricted by media coverage.

Hypothesis 2b. The relationship between political connections and long-term loans is not significantly reduced by increased media coverage.

² According to Dyck et al. (2008) and Miller (2006), media coverage is considered to be a proxy variable for media monitoring.

3. Data and research design

3.1. Data

We draw our sample from A-share non-state-owned listed firms in the 2006–2012 period, during which the numbers of non-financial listed companies provided by the WIND database were 1420, 1521, 1575, 1721, 2072, 2301 and 2422, respectively. On this basis, after deleting those in the growth enterprises market (GEM), those that were state-owned and those missing the main variable, our final sample is comprised of 5215 firms that met the data requirements for our hypotheses testing. The observations by year are 500, 562, 619, 673, 846, 978 and 1037, respectively. The data in this study consist of political connections that were manually collected by reading annual reports (the definitions for political connections appear in Table 1) and the media monitoring or coverage details and other financial data, which were manually collected from the WIND database. The WIND database includes everyday news reports on Chinese listed firms from more than 100 important newspapers. According to Yang and Zhao (2012), the data on media monitoring or coverage in the WIND database mainly cover the financial media reports of Chinese listed firms.

3.2. Research design

We use the following model to test H1:

$$\text{Bank}_{i,t} = \alpha + \beta_1 \text{ZG}_{i,t} + \beta_2 \text{ROA}_{i,t} + \beta_3 \text{Grow}_{i,t} + \beta_4 \text{Liq}_{i,t} + \beta_5 \text{TobinQ}_{i,t} + \beta_6 \text{Tangible}_{i,t} + \beta_7 \text{Size}_{i,t} + \varepsilon \quad (1)$$

where subscript i is the sample firm, subscript t is the year in the sample period and Bank is a dependent variable comprising Bank1 and Bank2. According to Yu and Pan (2008), the first dependent variable is Bank1, which equals long-term loans. Sun et al. (2005) argue that the second dependent variable is Bank2, which equals debt maturities.

ZG is an independent variable that measures political relations, and comprises ZG1, ZG2, ZG3 and ZG4, which are calculated as follows. ZG1 equals 1 if the chairman or the CEO of the firm is a current or former government official, and 0 otherwise. ZG2 equals 1 if the chairman or the CEO of the firm is a current or former government official, or a current or former National People's Congress (NPC) official or the Chinese People's Political Consultative (CPPC) official, and 0 otherwise. ZG3 equals 3, 2 or 1 if the chairman or the

Table 1
Variable definitions.

Variable	Definition
BANK1	Long-term loans divided by total assets
BANK2	Long-term loans divided by the sum of long-term loans, short-term loans and short-term accounts payable
ZG1	ZG1 equals 1 if the chairman or the CEO of the firm is a current or former government official, and 0 otherwise
ZG2	ZG2 equals 1 if the chairman or the CEO of the firm is a current or former government official, or National People's Congress (NPC) official or Chinese People's Political Consultative (CPPC) official, and 0 otherwise
ZG3	ZG3 equals 3, 2 or 1 if the chairman or the CEO of the firm is a current or former central, provincial or city and county government official, respectively, and 0 otherwise
ZG4	ZG4 equals 3, 2 and 1 if the chairman or the CEO of the firm is a current or former central, provincial or city and county government official (including NPC and CPPC officials), respectively, and 0 otherwise
MC	LN(the number of media coverage + 1)
MCZG1	The interaction between MC and ZG1
MCZG2	The interaction between MC and ZG2
MCZG3	The interaction between MC and ZG3
MCZG4	The interaction between MC and ZG4
ROA	Return on assets
Grow	Sales growth
Liq	Liquidity ratio
TobinQ	Tobin's Q ratio
Tangible	The sum of fixed assets and accumulated depreciation divided by total assets
Size	Ln(total assets)

Table 2
Descriptive statistics for political connections.

	ZG1	ZG2	ZG3	ZG4
Mean	0.187	0.452	0.280	0.838
Median	0	0	0	0
Standard deviation	0.390	0.498	0.655	1.068
Max	1	1	3	3
Min	0	0	0	0
N	5215	5215	5215	5215

Table 3
Descriptive statistics for other variables.

Sample	Bank1	Bank2	MC	ROA	Grow	Liq	TobinQ	Tangible	Size
ZG1 = 0	0.038	0.178	3.552	7.215	19.589	2.605	2.556	0.226	21.188
	0.000	0.035	3.479	6.740	13.640	1.530	1.979	0.200	21.129
	0.068	0.257	0.783	8.284	49.061	3.357	1.958	0.155	1.019
	4242	3618	4242	4242	4242	4242	4242	4242	4242
ZG1 = 1	0.045	0.215	3.486	6.735	20.152	2.517	2.615	0.215	21.126
	0.000	0.061	3.401	6.180	11.950	1.590	1.957	0.188	21.129
	0.075	0.281	0.780	8.967	58.025	3.146	2.066	0.161	1.001
	973	838	973	973	973	973	973	973	973
Total sample	0.039	0.185	3.539	7.125	19.694	2.589	2.567	0.224	21.176
	0.000	0.040	3.466	6.650	13.360	1.540	1.977	0.198	21.129
	0.070	0.262	0.783	8.417	50.848	3.318	1.978	0.156	1.016
	5215	4456	5215	5215	5215	5215	5215	5215	5215
T	-2.785***	-3.327***	2.374**	1.603	-0.315	0.748	-0.838	2.128**	1.725*
Z	-2.16**	-2.728***	2.261**	2.017**	1.447	0.143	-0.161	2.792***	1.265

Note: The *T* statistic is for mean tests between the groups ZG1 = 0 and ZG1 = 1; the *Z* statistic is for Wilcoxon tests between the groups ZG1 = 0 and ZG1 = 1.

* Significance at the 10% level (two-sided).

** Significance at the 5% level (two-sided).

*** Significance at the 1% level (two-sided).

CEO of the firm is a current or former central, provincial or city and county government official, respectively, and 0 otherwise. ZG4 equals 3, 2 or 1 if the chairman or the CEO of the firm is a current or former central, provincial or city and county government official (including NPC or CPPC officials), respectively, and 0 otherwise. This design facilitates our ability to quantize political relations.

If the regression coefficients of ZG1, ZG2, ZG3 and ZG4 are significantly positive in model (1), then H1 is supported.

In model (1), we choose control variables according to Sun et al. (2005) and Lu et al. (2008). The specific definitions of the control variables are shown in Table 1.

We use the following model to test H2:

$$\text{Bank}_{i,t} = \alpha + \beta_1 \text{ZG}_{i,t} + \beta_2 \text{MC}_{i,t} + \beta_3 \text{MCZG}_{i,t} + \beta_4 \text{ROA}_{i,t} + \beta_5 \text{Grow}_{i,t} + \beta_6 \text{Liq}_{i,t} + \beta_7 \text{TobinQ}_{i,t} + \beta_8 \text{Size}_{i,t} + \varepsilon \quad (2)$$

where subscript *i* is the sample firm, subscript *t* is the year in the sample period, Bank's definition is identical to that in model (1), MC is an independent variable reflecting media monitoring following Dyck et al. (2008) and Core et al. (2008) and MCZG1, MCZG2, MCZG3 and MCZG4 represent interactions between MC and ZG1, ZG2, ZG3 and ZG4, respectively. The control variables in models (1) and (2) are identical.

If H2a (H2b) is supported, the regression coefficients of MCZG1, MCZG2, MCZG3 and MCZG4 should be significantly negative (positive) in model (2).

Table 4
Regression results for model (1).

Variable	The explanatory variable is Bank1				The explanatory variable is Bank2			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	-0.404 ^{***} (0.0000)	-0.398 ^{***} (0.0000)	-0.402 ^{***} (0.0000)	-0.394 ^{***} (0.0000)	-1.465 ^{***} (0.0000)	-1.434 ^{***} (0.0000)	-1.458 ^{***} (0.0000)	-1.419 ^{***} (0.0000)
ZG1	0.0083 ^{**} (0.0438)				0.0409 ^{***} (0.0058)			
ZG2		0.0050 [*] (0.0618)				0.0224 (0.3243)		
ZG3			0.0038 (0.1103)				0.0212 ^{**} (0.0183)	
ZG4				0.0021 [*] (0.0538)				0.0086 ^{**} (0.0453)
ROA	-0.0004 [*] (0.0814)	-0.0004 [*] (0.0669)	-0.0004 [*] (0.0864)	-0.0004 [*] (0.0710)	0.0002 (0.8194)	0.0001 (0.8645)	0.0002 (0.8063)	0.0001 (0.8608)
Grow	0.0001 ^{**} (0.0356)	0.0001 ^{**} (0.0329)	0.0001 ^{**} (0.0350)	0.0001 ^{**} (0.0312)	0.0002 (0.1030)	0.0002 (0.1009)	0.0002 (0.1004)	0.0002 [*] (0.0946)
Liq	-0.0016 ^{***} (0.0000)	-0.0016 ^{***} (0.0000)	-0.0016 ^{***} (0.0000)	-0.0016 ^{***} (0.0000)	0.0195 ^{***} (0.0000)	0.0191 ^{***} (0.0000)	0.0195 ^{***} (0.0000)	0.0192 ^{***} (0.0000)
TobinQ	-0.0000 (0.9994)	0.0000 (0.9692)	-0.0000 (0.9755)	-0.0000 (0.9885)	0.0042 (0.2156)	0.0042 (0.2318)	0.0040 (0.2419)	0.0040 (0.2659)
Tangible	0.0383 ^{**} (0.0211)	0.0377 ^{**} (0.0230)	0.0383 ^{**} (0.0215)	0.0376 ^{**} (0.0236)	0.0422 (0.4107)	0.0387 (0.4487)	0.0428 (0.4065)	0.0387 (0.4497)
Size	0.0207 ^{***} (0.0000)	0.0204 ^{***} (0.0000)	0.0206 ^{***} (0.0000)	0.0202 ^{***} (0.0000)	0.0743 ^{***} (0.0000)	0.0728 ^{***} (0.0000)	0.0740 ^{***} (0.0000)	0.0722 ^{***} (0.0000)
Industry	Control	Control	Control	Control	Control	Control	Control	Control
N	5215	5215	5215	5215	4456	4456	4456	4456
Adj. R-sq	0.114	0.113	0.113	0.113	0.102	0.100	0.101	0.099

Note: The reported *p*-statistics in parentheses are two-way clustered at the firm and year levels.

* Significance at the 10% level (two-sided).

** Significance at the 5% level (two-sided).

*** Significance at the 1% level (two-sided).

We also use subsample regressions to test H2a and H2b. Based on the media coverage median, our sample can be divided into two groups: high (higher than the sample's median) and low media coverage.

If H2a is supported, the relationship between political connections and long-term loans and extended debt maturities should be stronger (weaker) in the low (high) media coverage subsample. If H2b is supported, the relationship between political connections and long-term loans and extended debt maturities should be weaker (stronger) in the low (high) media coverage subsample.

3.3. Descriptive statistics

Table 2 provides the descriptive statistics for political connections: 18.7% of the firms had a chairman or CEO that was a current or former government official—45.27% when NPC and CPPC officials are included. This suggests that having political connections is fairly popular.

Table 3, which provides the descriptive statistics of the other variables, shows that non-state-owned listed firms with political connections have significantly more long-term loans and longer debt maturities than those without political connections, in addition to lower MC and better performance (ROA). All of the continuous variables are winsorized at the 1st and 99th percentiles.

4. Empirical analysis

Table 4 reports the regression results of model (1). After controlling for other factors, the results show that politically connected firms have access to extended debt maturities and more long-term loans. The regression

Table 5
Regression results for model (2).

Variable	The explanatory variable is Bank1				The explanatory variable is Bank2			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	-0.441*** (0.000)	-0.446*** (0.000)	-0.442*** (0.000)	-0.441*** (0.000)	-1.420*** (0.000)	-1.458*** (0.000)	-1.422*** (0.000)	-1.459*** (0.000)
ZG1	0.010 (0.311)				0.048 (0.244)			
ZG2		0.019** (0.017)				0.112*** (0.001)		
ZG3			0.011* (0.073)				0.054** (0.029)	
ZG4				0.008** (0.023)				0.061*** (0.000)
Mc	-0.002 (0.261)	-0.000 (0.853)	-0.001 (0.386)	-0.001 (0.606)	0.009 (0.129)	0.019*** (0.005)	0.011* (0.062)	0.020*** (0.002)
MCZG1	-0.002 (0.380)				-0.010 (0.408)			
MCZG2		-0.004* (0.079)				-0.027*** (0.002)		
MCZG3			-0.003* (0.071)				-0.013* (0.051)	
MCZG4				-0.002 (0.107)				-0.015*** (0.000)
ROA	-0.000 (0.358)	-0.000 (0.342)	-0.000 (0.354)	-0.000 (0.353)	0.001** (0.029)	0.001** (0.031)	0.001** (0.030)	0.001** (0.030)
Grow	0.000*** (0.003)	0.000*** (0.003)	0.000*** (0.002)	0.000*** (0.002)	0.000 (0.137)	0.000 (0.138)	0.000 (0.128)	0.000 (0.128)
Liq	-0.001** (0.037)	-0.001** (0.026)	-0.001** (0.036)	-0.001** (0.025)	0.024*** (0.000)	0.024*** (0.000)	0.024*** (0.000)	0.024*** (0.000)
TobinQ	-0.001 (0.193)	-0.001 (0.185)	-0.001 (0.200)	-0.001 (0.156)	0.000 (0.919)	0.000 (0.925)	0.000 (0.922)	0.000 (0.984)
Tangible	0.083*** (0.000)	0.083*** (0.000)	0.083*** (0.000)	0.083*** (0.000)	0.233*** (0.000)	0.232*** (0.000)	0.232*** (0.000)	0.232*** (0.000)
Size	0.022*** (0.000)	0.022*** (0.000)	0.022*** (0.000)	0.022*** (0.000)	0.067*** (0.000)	0.067*** (0.000)	0.067*** (0.000)	0.067*** (0.000)
Industry	Control	Control	Control	Control	Control	Control	Control	Control
N	5215	5215	5215	5215	4456	4456	4456	4456
Adj. R-sq	0.233	0.235	0.234	0.235	0.228	0.230	0.228	0.230

Note: The reported *p*-statistics in parentheses are two-way clustered at the firm and year levels.

* Significance at the 10% level (two-sided).

** Significance at the 5% level (two-sided).

*** Significance at the 1% level (two-sided).

results in columns (1)–(8) of Table 4, in which the explanatory variables are Bank1 and Bank2, show that the ZG (including ZG1, ZG2, ZG3 and ZG4) coefficients are positive at the 10% significance level, with the exception of columns (3) and (6). However, the results in Table 4 can be used to support the reputation theory; specifically, that firms with political connections tend to be regarded as having good reputations and thus banks are willing to provide them with more long-term loans. The results can also be used to support the rent-seeking theory; specifically, that firms with political connections gain more long-term loans and extended debt maturities through rent-seeking.

Two methods are used to test H2. The first is model (2), and the relevant regression results are shown in Table 5. The regression coefficients of ZG1, ZG2, ZG3 and ZG4 are positive, which indicate that politically connected firms get more long-term loans and extended debt maturities. The coefficients of MCZG1, MCZG2, MCZG3 and MCZG4 are negative and nearly all pass the significance test.

The second method is subsample regressions based on the median of MC. If MC is greater (less) than the median, it is in the group with strong (weak) media monitoring. Then, we perform regressions using model (1)

Table 6
Subsample regression results for model (1).

Variable	The explanatory variable is Bank1								The explanatory variable is Bank2							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Constant	-0.332*** (0.000)	-0.495*** (0.000)	-0.332*** (0.000)	-0.493*** (0.000)	-0.331*** (0.000)	-0.494*** (0.000)	-0.329*** (0.000)	-0.489*** (0.000)	-1.187*** (0.000)	-1.533*** (0.000)	-1.190*** (0.000)	-1.530*** (0.000)	-1.185*** (0.000)	-1.527*** (0.000)	-1.172*** (0.000)	-1.540*** (0.000)
ZG1	0.007** (0.024)	-0.003 (0.311)							0.029** (0.019)	0.001 (0.925)						
ZG2			0.005** (0.044)	0.005** (0.048)							0.027** (0.011)	0.004 (0.711)				
ZG3					0.004** (0.014)	-0.003* (0.090)							0.022*** (0.003)	-0.005 (0.491)		
ZG4							0.002* (0.064)	0.002* (0.067)							0.016*** (0.002)	-0.002 (0.633)
ROA	-0.000 (0.970)	-0.000* (0.070)	-0.000 (0.923)	-0.000* (0.064)	-0.000 (0.990)	-0.000* (0.066)	-0.000 (0.928)	-0.000* (0.068)	0.000 (0.471)	0.001** (0.040)	0.000 (0.504)	0.001** (0.040)	0.001 (0.436)	0.001** (0.041)	0.000 (0.484)	0.001** (0.040)
Grow	0.000*** (0.001)	0.000 (0.227)	0.000*** (0.001)	0.000 (0.234)	0.000*** (0.001)	0.000 (0.224)	0.000*** (0.001)	0.000 (0.235)	0.000** (0.025)	-0.000 (0.668)	0.000** (0.022)	-0.000 (0.661)	0.000** (0.023)	-0.000 (0.674)	0.000** (0.020)	-0.000 (0.677)
Liq	-0.001* (0.071)	-0.000 (0.637)	-0.001* (0.057)	-0.000 (0.595)	-0.001* (0.068)	-0.000 (0.611)	-0.001* (0.054)	-0.000 (0.623)	0.020*** (0.000)	0.039*** (0.000)	0.020*** (0.000)	0.039*** (0.000)	0.020*** (0.000)	0.039*** (0.000)	0.019*** (0.000)	0.039*** (0.000)
TobinQ	-0.000 (0.888)	-0.002* (0.068)	-0.000 (0.886)	-0.002* (0.051)	-0.000 (0.840)	-0.002* (0.073)	-0.000 (0.849)	-0.002** (0.046)	0.005 (0.160)	-0.008** (0.035)	0.005 (0.174)	-0.008** (0.035)	0.005 (0.183)	-0.007** (0.038)	0.005 (0.207)	-0.007** (0.038)
Tangible	0.085*** (0.000)	0.077*** (0.000)	0.085*** (0.000)	0.077*** (0.000)	0.085*** (0.000)	0.076*** (0.000)	0.084*** (0.000)	0.077*** (0.000)	0.277*** (0.000)	0.207*** (0.000)	0.278*** (0.000)	0.207*** (0.000)	0.278*** (0.000)	0.207*** (0.000)	0.278*** (0.000)	0.207*** (0.000)
Size	0.017*** (0.000)	0.024*** (0.000)	0.017*** (0.000)	0.023*** (0.000)	0.017*** (0.000)	0.024*** (0.000)	0.017*** (0.000)	0.023*** (0.000)	0.060*** (0.000)	0.072*** (0.000)	0.060*** (0.000)	0.071*** (0.000)	0.060*** (0.000)	0.071*** (0.000)	0.059*** (0.000)	0.072*** (0.000)
Industry	Control	Control	Control	Control	Control	Control	Control	Control	Control	Control	Control	Control	Control	Control	Control	Control
N	2655	2560	2655	2560	2655	2560	2655	2560	2192	2264	2192	2264	2192	2264	2192	2264
Adj. R-sq	0.174	0.285	0.174	0.285	0.174	0.285	0.173	0.285	0.184	0.272	0.185	0.272	0.185	0.272	0.186	0.272

Note: The reported *p*-statistics in parentheses are two-way clustered at the firm and year levels.

Columns (1), (3), (5), (7), (9), (11), (13) and (15) are the results for the low media coverage group (coverage is lower than the median) and the others are the results for the high media coverage group.

* Significance at the 10% level (two-sided).

** Significance at the 5% level (two-sided).

*** Significance at the 1% level (two-sided).

Table 7
Regression results for model (1) (using lagged variables).

Variable	The explanatory variable is Bank1				The explanatory variable is Bank2			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	-0.344*** (0.000)	-0.337*** (0.000)	-0.343*** (0.000)	-0.326*** (0.000)	-1.125*** (0.000)	-1.084*** (0.000)	-1.119*** (0.000)	-1.044*** (0.000)
ZG1_lag	0.006 (0.125)				0.041** (0.015)			
ZG2_lag		0.010*** (0.007)				0.041*** (0.004)		
ZG3_lag			0.004 (0.167)				0.024** (0.016)	
ZG4_lag				0.006*** (0.003)				0.021*** (0.005)
ROA_lag	-0.000 (0.643)	-0.000 (0.601)	-0.000 (0.657)	-0.000 (0.616)	0.002* (0.075)	0.002* (0.074)	0.002* (0.073)	0.002* (0.072)
Grow_lag	-0.000 (0.792)	-0.000 (0.776)	-0.000 (0.797)	-0.000 (0.778)	-0.000 (0.143)	-0.000 (0.122)	-0.000 (0.148)	-0.000 (0.124)
Liq_lag	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	0.006** (0.024)	0.006** (0.025)	0.006** (0.026)	0.006** (0.026)
TobinQ_lag	-0.001 (0.663)	-0.001 (0.613)	-0.001 (0.650)	-0.001 (0.541)	0.000 (0.975)	-0.000 (0.972)	0.000 (1.000)	-0.001 (0.911)
Tangible_lag	0.024 (0.144)	0.023 (0.154)	0.024 (0.144)	0.023 (0.151)	-0.030 (0.589)	-0.035 (0.515)	-0.028 (0.613)	-0.034 (0.527)
Size_lag	0.018*** (0.000)	0.018*** (0.000)	0.018*** (0.000)	0.017*** (0.000)	0.061*** (0.000)	0.059*** (0.000)	0.061*** (0.000)	0.057*** (0.000)
Industry	Control	Control	Control	Control	Control	Control	Control	Control
N	4175	4175	4175	4175	3586	3586	3586	3586
Adj. R-sq	0.086	0.089	0.086	0.091	0.061	0.063	0.061	0.064

Note: The reported *p*-statistics in parentheses are two-way clustered at the firm and year levels.

“_lag” indicates a lagged variable.

* Significance at the 10% level (two-sided).

** Significance at the 5% level (two-sided).

*** Significance at the 1% level (two-sided).

for the different groups. Table 6 provides the relevant regression results, which indicate that in the weak media monitoring group (columns (1), (3), (5), (7), (9), (11), (13) and (15)), the regression coefficients of ZG1, ZG2, ZG3 and ZG4 are significantly positive. Comparing the results between the groups (columns (1) vs (2), (3) vs (4), (5) vs (6), (7) vs (8), (9) vs (10), (11) vs (12), (13) vs (14) and (15) vs (16)), we find the regression coefficients of ZG in the weak media monitoring group are nearly all significantly higher than in the strong media monitoring group.

The results in Tables 5 and 6 verify H2a. Using political connections to obtain long-term loans should be understood as rent-seeking behavior. Given that rent-seeking behavior can be unreasonable or even illegal, in a strong media monitoring environment, the use of political connections to obtain long-term loans is significantly reduced.

5. Robustness tests

5.1. Variables

Following Fan et al. (2007), we consider whether only the CEO of the firm is a current or former government official and the conclusions are not substantially changed.

We summarize the current or ex-government bureaucrat situations of both the CEO and chairman to obtain new ZG1, ZG2, ZG3 and ZG4 variables. For example, ZG1 equals 2 if both the CEO and the chairman are current or former government officials. Similarly, ZG4 equals 5 if the CEO of the firm is a current or for-

Table 8
Regression results for model (2) (using lagged variables).

Variable	The explanatory variable is Bank1				The explanatory variable is Bank2			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	0.409*** (0.000)	0.412*** (0.000)	0.410*** (0.000)	0.407*** (0.000)	1.228*** (0.000)	1.262*** (0.000)	1.232*** (0.000)	1.276*** (0.000)
ZG1_lag					0.060 (0.209)			
ZG2_lag		0.013 (0.159)				0.100*** (0.008)		
ZG3_lag			0.009 (0.212)				0.063** (0.028)	
ZG4_lag				0.008* (0.062)				0.073*** (0.000)
Mc_lag	-0.001 (0.497)	-0.001 (0.698)	-0.001 (0.642)	-0.001 (0.597)	0.013** (0.043)	0.019*** (0.009)	0.015** (0.021)	0.022*** (0.002)
MCZG1_lag	-0.002* (0.092)				-0.015 (0.282)			
MCZG2_lag		-0.002* (0.085)				-0.024** (0.022)		
MCZG3_lag			-0.003* (0.077)				-0.016** (0.046)	
MCZG4_lag				-0.001 (0.249)				-0.017*** (0.000)
ROA_lag	0.000 (0.407)	0.000 (0.407)	0.000 (0.411)	0.000 (0.392)	0.002*** (0.000)	0.002*** (0.000)	0.002*** (0.000)	0.002*** (0.000)
Grow_lag	-0.000 (0.437)	-0.000 (0.424)	-0.000 (0.451)	-0.000 (0.428)	-0.000** (0.044)	-0.000** (0.041)	-0.000** (0.049)	-0.000** (0.044)
Liq_lag	0.001*** (0.003)	0.001*** (0.003)	0.001*** (0.003)	0.001*** (0.003)	0.010*** (0.000)	0.010*** (0.000)	0.010*** (0.000)	0.010*** (0.000)
TobinQ_lag	0.000 (0.822)	0.000 (0.872)	0.000 (0.808)	0.000 (0.969)	0.005 (0.111)	0.005 (0.118)	0.005 (0.111)	0.004 (0.135)
Tangible_lag	0.071*** (0.000)	0.072*** (0.000)	0.071*** (0.000)	0.072*** (0.000)	0.172*** (0.000)	0.172*** (0.000)	0.173*** (0.000)	0.173*** (0.000)
Size_lag	0.021*** (0.000)	0.020*** (0.000)	0.021*** (0.000)	0.020*** (0.000)	0.058*** (0.000)	0.059*** (0.000)	0.058*** (0.000)	0.059*** (0.000)
Industry	Control	Control	Control	Control	Control	Control	Control	Control
N	4175	4175	4175	4175	3586	3586	3586	3586
Adj. R-sq	0.215	0.216	0.215	0.217	0.216	0.217	0.216	0.219

Note: The reported *p*-statistics in parentheses are two-way clustered at the firm and year levels.

“_lag” indicates a lagged variable.

* Significance at the 10% level (two-sided).

** Significance at the 5% level (two-sided).

*** Significance at the 1% level (two-sided).

mer central government official and the chairman of the firm is a current or former provincial government official. We rebuild ZG1, ZG2, ZG3 and ZG4 and then test H1 and H2, and the conclusions are not substantially changed.

We also control for other variables such as the level of regional markets and earnings management, with no substantial changes.

5.2. Endogeneity

We address the possibility of an endogeneity problem in two ways. First, we adopt lagged variables to perform regressions using models (1) and (2). Obviously, a firm’s long-term loans in the present year do not affect the political connections of the previous year. The regression results reported in Table 7 are consistent with

Table 9
Regression results for model (1) (using instrumental variables).

Variable	The explanatory variable is Bank1		The explanatory variable is Bank2	
	(1)	(2)	(3)	(4)
Constant	-0.4441*** (0.0000)	-0.1336 (0.4383)	-1.6607*** (0.0000)	-0.0303 (0.9606)
ZG1	0.1096 (0.1602)		0.5412* (0.0608)	
ZG2		0.5420* (0.0709)		2.8686** (0.0200)
ROA	-0.0002 (0.2427)	-0.0005** (0.0362)	0.0008 (0.3201)	-0.0005 (0.5453)
Grow	0.0001* (0.0514)	0.0002*** (0.0033)	0.0002 (0.1485)	0.0007*** (0.0013)
Liq	-0.0013*** (0.0000)	-0.0055** (0.0272)	0.0210*** (0.0000)	-0.0008 (0.9369)
TobinQ	-0.0002 (0.8344)	0.0020 (0.1533)	0.0033 (0.3376)	0.0148** (0.0125)
Tangible	0.0483*** (0.0042)	0.0601*** (0.0024)	0.0923* (0.0907)	0.1596** (0.0171)
Size	0.0215*** (0.0000)	-0.0036 (0.8122)	0.0783*** (0.0000)	-0.0546 (0.3192)
Industry	Control	Control	Control	Control
N	5215	5215	4456	4456
Adj. R-sq	0.113	0.113	0.100	0.101

Note: The reported *p*-statistics in parentheses are two-way clustered at the firm and year levels.

* Significance at the 10% level (two-sided).

** Significance at the 5% level (two-sided).

*** Significance at the 1% level (two-sided).

those in Table 4. The regression coefficients of ZG1_lag, ZG2_lag, ZG3_lag and ZG4_lag are significantly positive at the 10% significance level, with the exception of columns (1) and (3).

The regression results reported in Table 8 are also consistent with those in Table 5. The regression coefficients of MCZG1_lag, MCZG2_lag, MCZG3_lag and MCZG4_lag) are negative and nearly all pass the significance test.

Second, we perform a two-stage regression based on instrumental variables. According to Sun et al. (2005), the institutional environment can affect a firm's political connections and access to long-term loans and debt maturities (Sun et al., 2005; Yu and Pan, 2008). Thus, we use a regional marketization index as an instrumental variable for political connections, and while we expect it to affect long-term loans and debt maturities, it is exogenous, such that long-term loans and debt maturities do not affect the regional marketization level.

Following Hung et al. (2012), we perform an analysis using a two-stage regression. We begin by estimating a first-stage model and regressing the endogenous political connections variables (including ZG1 and ZG2) on our instruments and controls. The explanatory variable is ZG1 (ZG2) and the regression variables include the regional marketization index and the other control variables of model (1). We then use the predicted value of ZG1 (ZG2) from the first stage as the instrumental variable for this variable in the second stage. Table 9 shows the results and hypothesis 1 is still supported.

6. Conclusion

This study uses a media supervision perspective to extend the research on political connections. We find that firms with political connections are more likely to gain long-term loans with extended debt maturities, relative to other non-state-owned listed firms. The results suggest that it is popular for firms with political connections to use them to access debt financing. We further find that this behavior decreases with increasing media coverage, indicating that media monitoring restricts the use of political connections to a certain degree.

This research also has theoretical significance. Both the reputation and rent-seeking theories can be used to analyze political connections, and despite their apparent differences, previous research has not managed to distinguish between them. Our study shows that the rent-seeking theory is more suitable for explaining the presence and functional mechanisms of political connections. That is, it is more reasonable to consider firms' political relations as rent-seeking behavior than as a reputation effect in the Chinese stock market.

In addition, this research has practical significance. In China, the media's role is highly suspect due to the degree of government intervention. Houston et al. (2011) argue that the Chinese media should not play an important role in curbing corruption, but we show that, to a certain extent, media monitoring can curb corruption.

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