

2014

BioTechnology

An Indian Journal

FULL PAPER

BTAIJ, 10(23), 2014 [14064-14072]

Political connections, over-investment and equity governance effect

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ABSTRACT

Based on the rent-seeking as research perspective in this paper, explored the relationship between political connections and over-investment, analyzed the effect that equity governance restrained over-investment. The empirical results showed that over-investment under political connections was a way of achieving interest demands between private enterprises and local government. Political connection strength and political connection hierarchy contributed to over-investment. The fundamental goal of large shareholders to establish political connections was to implement own maximized interests. In order to obtain exceeding profit, private enterprises implemented over-investment to meet investment demand of local governments with political connections. Exceeding profit conformed to the maximizing interests of major shareholders, the equity governance had incentive effect on over-investment with political connections. General meeting of shareholders and circulating shares had constraint effect on over-investment, Equity balance degree restricted over-investment. The research conclusions of this paper enriched and deepened theory research on equity governance affected over-investment.

KEYWORDS

Political Connections; Over-investment; Equity Governance.



INTRODUCTION

Domestic and foreign scholars have studied how equity governance influencing over-investment, they mainly discussed restricted effect on equity governance inhibited over-investment under agency and asymmetric information problem, and obtained fruitful achievement. Over-investment under agency problem and asymmetric information problem often led to damage of shareholder interests. Shareholders have strong motivation to intervene over-investment behavior. When over-investment under political connections made private enterprises and large shareholders receive exceeding profit, whether equity governance inhibits over-investment under political connections,

For the problem fewer scholars deeply analyze it. In view of this, this built theoretical analysis framework incorporating political connections, over-investment and equity governance, studies the effect on equity governance inhibiting over-investment.

LITERATURE REVIEW

Political connections influencing over-investment

Political connections is one of the important factors causing enterprise over-investment, domestic and foreign scholars have unfolded a lot of research on the relationship between political connections and over-investment. Shleifer and Vishny (1994) indicated interest target was differences between politicians and entrepreneurs, politicians achieved political capital goals by increasing employment and improving public welfare etc, this led to those companies keeping closely relationship with politicians to shoulder political goals, which prompted enterprises with political connections to implement more fixed asset investment and diversified investment, this investment caused business behavior to deviate from economic rationality^[1].

Boubakri, Jean-Claude Cosset Walid Saffar confirmed enterprise performance with political connections was lower than enterprise performance with no political connections, the possible reason was company executives with political connections blindly made enterprises enter not familiar industry or over-investment^[2].

Claessens, S.E Feijen and L.Laeven (2008) took the company in Brazil as a sample, defined political donations as political connections, firm with political connections could obtain more credit resources by government departments, this promoted enterprises to conduct a large-scale investment, but on the whole investment efficiency of enterprises with political connections were poor, this showed that firm value and operating performance of enterprises with political connections were poor^[3].

Zhang Zhao Guo, Zeng Mu and Liu Yong Li (2011) took listed companies in China from 2005 to 2009 as the sample to analyze how political connections affected over-investment, the study conclusion showed firms with political connections were inclined to over-investment^[4].

Li Chuan Xian, Gan Sheng Dao and He Yi Chuang (2013) used listed private enterprises in China from 2008 to 2010 as research sample, the empirical results showed that over-investment degree with political connections was more serious than enterprises without political connections, and the higher political connections was more serious over-investment^[5].

Zhao Yan (2014) used listed companies in China from 2007 to 2012 as the sample, the empirical results showed political connections and its dynamic change promoted private enterprise over-investment^[6]. Many research literatures had examined that it was positive related between political connections and over-investment from the empirical point of view by analyzing existing research literature, but these literatures have been lack of theoretical analysis for political connections influencing over-investment, and these literatures have been lack of equity governance restricting over-investment caused by political connections.

Equity governance and over-investment

Domestic and foreign scholars have studied how ownership structure has influenced inefficient investment. Many scholars analyzed how ownership structure, equity balance degree, equity properties, ownership concentration influenced over-investment caused by agency problem and asymmetric information problem.

Berle and Means (1932) earliest studied ownership concentration and inefficient investment behavior, company internal supervision is weakened in corporate governance of extremely dispersed equity and small shareholders hitchhiked motivation. This formed company governance of managers control type, deputy had strong motives to implement over-investment in order to get more interest on power, income and status^[7].

Jensen and Meckling (1976) thought over-investment caused managers expanding dominated resources was one of agency behavior^[8].

Gergen and Renneboog (2001) examined results showed the larger ownership ratio of industrial company shareholders was the higher level of over-investment.

Pindada and Torre (2002) empirical showed effective supervision from large shareholders and consistency with the interests of managers and large shareholders could alleviate the interest conflict between managers and shareholders, this could restrict over-investment; managers with defensive motivation and personal interests increased investment, managers often over-investment; Controlling shareholders often implemented over-investment in order to private benefits of control^[10].

On equity balance degree and enterprise over-investment, foreign scholars of research conclusions did not reached a consensus. Whether equity balance could generate governance effect, on the whole these research conclusion is divided into two kinds of views, a view is that equity balance can produce a positive treatment effect, more representative of the scholars are Volpin (2002)^[11] etc,

Among them, Bennedsen and Wolfenzon (2000) thought balance among large shareholders restricted tunneling behavior of controlling shareholders^[12].

As for whether equity balance governed over-investment, at present domestic research conclusion is not unified. An Ling, Liu Xing, Bai Yi Xin (2008) thought equity balance could restrict over-investment caused by large shareholders^[13]. Zhang Xu Hui, Ye Yong and Li Ming (2012)^[14] used listed companies in China on 2010 as sample, empirical results showed the second largest shareholder was difficult to play a supervisory role in absolute controlling shareholder, Institutional investors was the second largest shareholder, institutional investors could not relieve over-investment, the second largest shareholder could relieve over-investment in the high debt group, the second largest shareholder could encourage over-investment in the low debt group, in short the second largest shareholder could not play a governance role to over-investment.

Through analysis of present literature on equity structure and over-investment, many domestic and foreign scholars believed equity structure was a important factor influencing over-investment, but equity structure generated different effect,

Especially the inhibition effect of equity governance did not obtain consensus on over-investment, in future the governance effect on equity structure inhibiting over-investment need to deepen analysis, especially effect on equity structure restricted over-investment caused different factors need to systematically analyze.

RESEARCH HYPOTHESIS

Political connections and over-investment

In the context of transition economies, enterprises are difficult to obtain the main resources from the market transaction, a considerable part of an important resources are allocated by government, the market rule is to play a role in the framework of institutional rules. While the implement of the actual rule is influenced by old regime, related management behavior of governments represents behavior of the different levels of government functional departments and different levels of officials, enterprises need to resolve the constraints and impact from officials. It is the two kind of strength from environmental regulation and market that led to political connections of private enterprise, political connections is a reaction way of private enterprises in order to resolve government allocating resources, political connections also is the seeking-rent channel of private enterprises to government departments or government officials. After private enterprises established political connections with local governments, private enterprises may have opportunity to influence government policy formation and implementation, so as to provide a stable and favorable system environment, political connections of private enterprises changes the dependence on external resources. However, because government and private enterprises possess each other required resources, political connections changed the relationship between local government and private enterprises. Specifically, private enterprises can obtain cheap land, preferential credit support, financial subsidies etc. Tangible and intangible resources, governments intervene and confine operating activities by administrative power, and promote private enterprises to expand the scale of investment, in order to achieve the development of the local economy and accumulate political capital goals. Private enterprises actively undertake policy tasks and help government departments achieve political goals, in order to maintain and consolidate political connection status and strength, which results in over-investment, especially over-investment is more serious, political connection degree is higher. Therefore, over-investment under political connections is bidirectional rent seeking ways and win-win cooperation game between private enterprises and local governments, they mutually exchange resources in order to achieve their goals and meet their own demands. H1. Strength of political connections is positively related to over-investment of private enterprises.

Over-investment and equity governance effect

Ownership concentration is a quantitative indicators due to different shareholding ratio shown dispersed equity or concentrated equity. The dispersed ownership refers to more decentralized shareholding ration, any shareholder behavior can have a substantial impact on enterprises. It is separation between ownership and managerial authority of enterprise, management is in the dominant position in the enterprise management and nomination of directors, managers actually have control of company, the power of each shareholder is weak, each shareholder is difficult to supervision for operators, this results in the lack of effective supervision. Ownership concentration refers to ownership often concentrating in one or a few large shareholders, large shareholders have the ability to control the board of directors, they also have the ability and motivation to supervise the managers, the largest shareholder often control operation and decision-making power, the shareholding proportion of the largest shareholder is higher, its controlling shareholder status is more stable, the controlling shareholders have more right in the investment decision, the controlling shareholders have ability to manipulate corporate investment decisions, especially company operators are also holding shareholders, small shareholders will become very difficult to supervision on managers. Simultaneously, because controlling shareholders obtain the absolute control power, the general manager of the company is usually appointed directly by the shareholders, the shareholders of the general assembly also exist in name, the board also tend to be overhead.

Ownership of Chinese listed private companies is generally More concentrated, the control of large shareholders is the main characteristics of Chinese private listed companies. In our country, the system is not perfect and the market mechanism is not sound, large shareholders and executives of private listed corporation often build political connections with local government for their own self-interest, political connections often have a direct impact on shareholder in the core of governance structure, which makes political connections become corporate governance factors, political connections leads to private enterprise management decision and investment decision contained by government departments and officials interests. These private enterprises of strong bargaining power meet political investment of local government and officials with political

connections as a link, private enterprises actively expand the scale of investment, then the investment rarely take the enterprise value maximization as goal, but they undertake policy tasks and improve performance of local government officials, this often leads to over-investment. Private enterprises could demand all kinds of scarce resources and obtain all kinds of economic interests. In this process, over-investment under political connections becomes a rent-seeking cost and political cost of gaining rent-seeking interests to local governments and officials. After over-investment of private enterprises, the effect of various resources which private enterprises obtain is sufficient to offset loss of efficiency from over-investment, and over-investment also can consolidate and enhance the degree of political connections. H2. Ownership concentration is positively related with over-investment under political connections, The proportion of the first shareholder is positively related with over-investment under political connections, The proportion of top three shareholders is positively related with over-investment under political connections.

Ownership balance is a ownership arrangement mode of several large shareholders mutually supervising, it also is a kind of internal governance mechanism of company. Ownership balance is defined as the ratio of summation from second to the fifth largest shareholding ratio dividing the proportion of the first shareholder ratio. Ownership balance reduces governance effect by balancing equity effect and compromising effect. When a company does not have a distinct advantage to the controlling shareholder, then the main decision-making and behavior could be implemented under achieving agreement by several large shareholders, several large shareholders exist in partaking balance and control, no large shareholders can independently control the company decision, multiple large shareholders tend to pass mutual supervision to weaken the ability of controlling shareholders to seek private benefits of control, other large shareholders can effectively play the supervision role of the first major shareholders, equity distribution of major shareholders is more balanced, balance is more effective. This kind of equity structure has a certain concentration, it is conducive to the company governance. It also determines optimal equity balance degree between improved fairness and efficiency loss.

In China, equity concentration of private enterprises is often very high, usually the shareholding ratio of the first shareholder is higher than the summation of the second to fifth shareholders equity ratio, it is typical Pyramid control structure. The effect of equity balance is generally not ideal. Equity balance structure could improve the governance efficiency of private enterprises.

When the major shareholders establish political connections with local government and officials in order to personal or business interests, private enterprises exist in dependence of resource with governments, private enterprises often implement over-investment in order to meet political connections, the over-investment is not to increase the enterprise value, it damages the enterprise value. But this over-investment may help private enterprises obtain various resources. Local government provides various resources to private enterprises, these resources may compensate the efficiency loss caused over-investment, the finally combined results increase private enterprise value. Over-investment increases the comprehensive income of private enterprises, over-investment does not damage the economic interests of other shareholders, other shareholders are generally less curb over-investment behavior under political connections. H3. Equity balance degree is positively related with over-investment under political connections.

Usually, in order to prevent the board or managers of the investment decision to damage other shareholder interests, the shareholders of the general assembly implements specialized deliberation of major investment projects. The general meeting of shareholders has the right to use voting to determine the maximum investment amount authorized the board of directors, according to the general meeting of shareholders authorized the maximum investment amount, board of directors implements purchasing assets, technical innovation, production and construction, the additional investment projects. In addition, board of directors oversight and review investment program and investment projects by manager layer proposing, board of directors ensures the decision right of investment program. Private enterprises establishing political connections with local government, private enterprises may obtain various resources and scale effect because private enterprises meet political investment, but this leads to resource dependence and no innovation situation in the long term, it brings about unsustainable growth of private enterprises. Therefore, the general meeting of shareholders usually examines and reviews investment programs from strategic height, the general meeting of shareholders usually constraints over-investment under political connections. H4. the general meeting of shareholders is negatively related with over-investment under political connections.

SAMPLE, VARIABLES AND MODEL

Variable definitions

According to definition methods of political connections from Fisman(2001)^[15] and Chen etc (2005)^[16], this article defining political connections method as follows: corporation chairman, vice chairman, general manager and deputy general manager undertaked leadership positions or worked in government departments, the party committees, NPC deputies and CPPCC members at all levels.

In line with method of political connections intensity from Fan etc (2007)^[17], corporation chairman assigns 3, vice chairman assigns 1, general manager assigns 2, deputy general manager assigns 1. And administrative level is subdivided into 5. The first category is the NPC deputies, CPPCC members, provincial and ministerial officials at all levels, and assigns 5. The second category is the provincial People Congress, the provincial CPPCC members, the Department Director officials, assigns 4. The third category is the city People Congress, the city CPPCC members and the level of officials, assigns 3. Fourth category is the county People Congress and CPPCC members, county level officials, assigns 2. Fifth category is officials

under the section level and possessing experience in politics, assigns 1. Then Political connections index is designed as follows.

$$pollindex = p_1 \times N_j + p_2 \times N_j + p_3 \times N_j$$

$$j = 1, 2, 3, 4, 5$$

N_j respectively represents administrative level.

p_i respectively represents corporation chairman, general manager, deputy general manager, and vice chairman.

Sample

Our sample firms are selected from private companies listed on the Shanghai or Shenzhen Stock Exchange between 2004-2012. Samples are selected according to the following standards: first, samples established political connections for two years; second, excluding listed financial companies and B Shares listed companies; third, excluding the sample period is ST and PT companies; fourth, eliminating abnormal data or lack Indicators of companies. So there were 1691 samples. Finally, this paper chooses the 1691 samples as the research sample.

The data of political connections between 2004 and 2012 was obtained by collecting and sorting out the executive resume data from CSMAR with handwork. The financial data in 2004-2012 are from CSMAR. Data processing utilizes Excel 2010, statistical analysis exploits Stata10.0.

Models

There is an extensive literature that has estimated over-investment (Richardson, 2006; etc)^[18]. The empirical tests are divided into seven parts. In the first part, we use this literature to estimate expected investment of private enterprises by using the following model (1).

$$\begin{aligned} Invest_{new,t} = & \alpha_0 + \alpha_1 Invest_{t-1} + \alpha_2 cash_{t-1} + \\ & \alpha_3 leverage_{t-1} + \alpha_4 eps_{t-1} + \alpha_5 growth_{t-1} + \\ & \alpha_6 TinQ_{t-1} + \alpha_7 size_{t-1} + \alpha_8 age_{t-1} + \\ & \alpha_9 \sum industry + \varepsilon_{it} \end{aligned} \quad (1)$$

$Invest_{new,t}$ indicates expected investment, explained variable.

$Invest_{t-1}$ indicates last year's investment level, defined as " (Building of fixed assets, intangible assets and long-term assets) / beginning total assets", showing control variable.

$cash_{t-1}$ indicates last year's monetary funds, defined as "beginning of monetary capital / early total assets", showing control variable.

$leverage_{t-1}$ indicates the level of the previous year's debt, defined as "total liabilities/beginning total assets", showing control variable.

eps_{t-1} represents last year's earnings per share, defined as "net profit / total number of shares", showing control variable.

$growth_{t-1}$ indicates last year's investment opportunities, defined as "(at the end of this year operating income – at the beginning of the year operating income) / beginning of the year operating income", showing explained variable.

$TinQ_{t-1}$ indicates last year's investment opportunities, defined as "the market value / Ending total assets", showing explained variable.

$size_{t-1}$ indicates last year's company size, defined as "the natural logarithm of the total assets of the beginning", showing control variable.

age_{t-1} indicates last year's enterprise age, defined as "IPO until the end of the year", showing control variable.

Industry indicates dummy variables, manufacturing industry assigned 1, otherwise 0.

T indicates this year, T-1 indicates last year.

$OverInv_t$ indicates over-investment, defined as "positive residual from the model".

In the second part of the empirical testing, There is an extensive literature that has verified how political connections strength influenced over-investment^{[4][5][19][20]}. We examined how political connections strength influenced over-investment. by utilizing the following model (2).

$$\begin{aligned} OverInv_t = & \gamma_0 + \gamma_1 pindex_{t-1} + \\ & \gamma_2 leverage_{t-1} + \gamma_3 TinQ_{t-1} + \gamma_4 size_{t-1} \\ & + \gamma_5 age_{t-1} + \gamma_6 industry + \zeta_{it} \end{aligned} \quad (2)$$

$pindex_{t-1}$ indicates political connections strength,shows explanatory variable.

In the third part of the empirical testing,we examined how equity government influences over-investment under political connections by utilizing the following model(3).

$$\begin{aligned} \text{Overinvest}_t = & \beta_0 + \beta_1 \text{cash}_{t-1} + \beta_2 \text{leverage}_{t-1} \\ & + \beta_3 \text{gqzl}_{t-1} + \beta_4 \text{TinQ}_{t-1} + \beta_5 \text{size}_{t-1} + \beta_6 \text{age}_{t-1} \\ & + \beta_7 \text{eps}_{t-1} + \beta_8 \sum \text{industry} + \beta_9 \text{poll}_{t-2} + \varepsilon_{it} \end{aligned} \tag{3}$$

$gqzl_{t-1}$ is explanatory variables,indicates the equity governance level last year, $gqzl_{t-1}$ is respectively defined as “the proportion of the first shareholder,the summation of top three shareholders proportion,the summation of top five shareholders proportion,the square of the first shareholder proportion, the summation of top three shareholders proportion square, the summation of top five shareholders proportion square,the number of shareholders meeting,equity balancing degree”.

Among them, $dydbl_{t-1}$ evinces the proportion of the first shareholder,defined as “the share of the first shareholder dividing the total capital ratio”. $qsdbl_{t-1}$ represents the summation of top three shareholders proportion,defined as “the shareholding proportion of top three shareholders is summed”. $qwdbl_{t-1}$ indicates the summation of top five shareholders proportion,defined as “the shareholding proportion of top five shareholders is summed”. $gqzhd_{t-1}$ states the number of shareholders meeting,defined as “shareholders' general meeting is convened the number”. $gqzhd_{t-1}$ means equity balancing degree,defined as “the summation of second to fourth shareholders proportion dividing the proportion of the first shareholder”.

EMPIRICAL RESULTS

Data description

TABLE 1 presents the descriptive statistics for the variables.

The maximum value of $gddhcs_{t-1}$ is 9, the minimum value of $gddhcs_{t-1}$ is 1,the mean value of $gddhcs_{t-1}$ is 2.823, The shareholders' meeting times of the companies in over-investment sample exist in large differences. The maximum value of $dydbl_{t-1}$ is80.6, the minimum value of $dydbl_{t-1}$ is6.14,the mean value of $dydbl_{t-1}$ is35.975,this indicates the proportion of the first major shareholder in over-investment sample exists in conspicuous difference. The maximum value of $gqzhd_{t-1}$ is80.775, the minimum value of $gqzhd_{t-1}$ is 0.284,the mean value of $gqzhd_{t-1}$ is4.693,this indicates that equity balancing degree in over-investment sample exists in illustrious difference.

TABLE 1 : Descriptive statistics(N=961)

variable	mean	maximum value	minimum value	standard deviation
$gddhcs_{t-1}$	2.823	9	1	1.346
$dydbl_{t-1}$	35.975	80.6	6.14	14.49
$qsdbl_{t-1}$	50.769	90.31	15.53	13.228
$qwdbl_{t-1}$	55.642	91.42	17.22	13.391
$qsdpf5_{t-1}$	0.169	0.658	0.008	0.112
$qwdpf5_{t-1}$	0.171	0.658	0.012	0.111
$ltgbl_{t-1}$	0.485	1	0.08	0.208
$gqzhd_{t-1}$	4.693	80.775	0.284	8.454

Results hypothesis H1

This section mainly discusses the results of a regression analysis to test hypothesis 1. The correlation analysis results reported in TABLE 2.

In TABLE 2,model(1) reported the result of the expected investment,the positive residual of the expected investment indicates over-investment of private enterprises with political connections. The number of positive residual in the total sample is 961,it is 58.8% of the overall sample 1691,then we take the 961 private enterprises with positive residual as the sample of over-investment, further researching the relationship between political connections and over-investment.

The results reported in TABLE 2,model(2) examines the relationship between political connections and over-investment. the coefficient of political connections strength is 0.002,and it is significant at the 10% level,this shows that political connections strength is positively related with over-investment. Hypothesis 1 was tested.

TABLE 2 : Empirical test results between political connections and Over-investment of private enterprises

variable	model(1)	model(2)
Constant	0.177*** (6.42)	0.32** (2.87)
<i>cash</i> _{<i>t</i>-1}	-0.026*** (4.05)	
<i>Invest</i> _{<i>t</i>-1}	0.209*** (14.55)	
<i>size</i> _{<i>t</i>-1}	-0.008** (-2.68)	-0.03* (-2.42)
<i>age</i> _{<i>t</i>-1}	-0.002*** (-6.62)	0.005*** (3.45)
<i>leverage</i> _{<i>t</i>-1}	-0.008** (-2.97)	-0.05* (-2.68)
<i>eps</i> _{<i>t</i>-1}	-0.065*** (-9.93)	
<i>ting</i> _{<i>t</i>-1}	0.021*** (5.59)	0.03*** (3.75)
<i>growth</i> _{<i>t</i>-1}	0.0122*** (7.68)	
<i>pindex</i> _{<i>t</i>-1}		0.002* (2.02)
<i>industry</i>	controlled	controlled
<i>ad</i> - <i>R</i> ²	0.3954	0.2201
Obs	1691	961

*,** and *** indicate two-tailed significance at the 10%,5% and 1% level respectively.

Results Hypothesis H2,H3 and H4

This section mainly discusses the results of a regression analysis to test hypothesis 2,3,4. The correlation analysis results reported in TABLE 3.

The results reported in TABLE 3, model(3) examines the relationship between equity balance and over-investment under political connections. The coefficient of $dydbl_{t-1}$ is 0.001, and it is significant at the 10% level, this indicates the first major shareholder is positively related with over-investment under political connections. The coefficient of $qsdbl_{t-1}$ is 0.002, and it is significant at the 5% level, this indicates the summation of top three shareholders proportion is positively related with over-investment under political connections. So, ownership concentration is positively related with over-investment under political connections.

Hypothesis 2 was tested.

The coefficient of $gqzhd_{t-1}$ is -0.004, and it is significant at the 1% level, this indicates equity balancing degree is negatively related with over-investment under political connections.

Hypothesis 3 was tested.

The coefficient of $gddhcs_{t-1}$ is -0.01, and it is significant at the 5% level, this indicates the number of shareholder meeting is negatively related with over-investment under political connections.

Hypothesis 4 was tested.

Robustness tests

We argue the relationship between equity balance and over-investment under political connections, the results in TABLE 2 and TABLE 3 support the hypothesis. scilicet, political connections positively influences over-investment, equity concentration also positively impacts on over-investment, equity balancing degree and the number of shareholder meeting negatively influence over-investment. In order to test and verify the reliability of the above conclusions, we implement robustness tests by following methods. First, we again choose private enterprises established political connections of one year as research sample. Then, we again apply model (1), model(2) and model(3) to confirm the above hypothesis. The robustness test results are reported in TABLE 4. In short, the robustness test results in TABLE 4 are similar to the main results reported in TABLE 2 and in TABLE 3.

TABLE 3 : Empirical test results between equity balance and Over-investment under political connections

variable	model(3)			
<i>constant</i>	3.24*** (7.5)	1.99*** (7.7)	2.16*** (9.3)	3.14*** (7.5)
<i>cash</i> _{t-1}	0.16*** (4.6)	0.09** (2.8)	0.09** (2.8)	0.16*** (4.5)
<i>eps</i> _{t-1}	-0.05*** (-3.1)	-0.03** (-2.2)	-0.04** (-2.4)	-0.04** (-2.8)
<i>leverage</i> _{t-1}	-0.35*** (-5.6)	-0.23*** (-3.9)	-0.3*** (-4.4)	-0.35*** (-6.0)
<i>TinQ</i> _{t-1}		0.02*** (3.8)	0.02*** (3.5)	
<i>dydbl</i> _{t-1}	0.001* (1.9)			
<i>qsdbl</i> _{t-1}		0.002** (2.3)		
<i>gqzhd</i> _{t-1}			-0.004** (-3.4)	
<i>gddhcs</i> _{t-1}				-0.01** (-2.5)
<i>size</i> _{t-1}	-0.32*** (-6.8)	-1.98*** (-7.4)	-0.21** (-8.1)	-0.31*** (-6.7)
<i>industry</i>	controlled	controlled	controlled	controlled
<i>poll</i> _{t-2}	controlled	controlled	controlled	controlled
<i>ad-R</i> ²	0.68	0.65	0.65	0.66
Obs	961	961	961	961

*,** and *** indicate two-tailed significance at the 10%,5% and 1% level respectively.

TABLE 4 : Robustness tests between equity balance and over-investment under political connections

variable	model(2)	model(3)		
Constant	0.40*** (3.6)	0.02*** (3.7)	3.4*** (7.2)	4.2*** (6.4)
<i>cash</i> _{t-1}		0.09* (1.9)	0.05** (3.1)	0.27*** (3.9)
<i>size</i> _{t-1}	-0.03* (-2.3)	0.01*** (4.3)		
<i>age</i> _{t-1}	0.004** (2.7)	0.002** (2.1)		
<i>leverage</i> _{t-1}	-0.09** (-3.2)	-0.08*** (-4.5)	-0.35*** (-3.9)	-0.28*** (-5.1)
<i>eps</i> _{t-1}			-0.02** (-3.2)	-0.03** (-3.4)
<i>TinQ</i> _{t-1}		0.04*** (7.2)	0.02*** (2.9)	
<i>growth</i> _{t-1}				
<i>pindex</i> _{t-1}	0.002* (1.7)			
<i>qsdbl</i> _{t-1}		0.001** (2.7)		
<i>gqzhd</i> _{t-1}			-0.003** (-4.1)	
<i>gddhcs</i> _{t-1}				-0.01** (-3.1)
<i>industry</i>	controlled	controlled	Controlled	Controlled
<i>ad - R</i> ²	0.25	0.317	0.58	0.56
Obs	817	812	813	814

CONCLUSIONS

This paper takes private listed corporation in the Shanghai and Shenzhen A shares between 2004 and 2012 years as research sample, examines how political connections impacts on over-investment, analyzes how equity governance influences over-investment under political connections. The conclusions of this paper are as follows: first, over-investment under political connections is a behavior of resource exchange and interest transportation between private enterprises and local government based cooperative game, the strength of political connections has positive effect on over-investment under political connections; second, private enterprise's equity concentration did not inhibit over-investment under political connections, it promotes over-investment; third, equity balancing degree has the inhibitory effect on over-investment, this indicates over-investment under political connections can bring the resource effect and excess return to private enterprises in the short term, but over-investment corrodes the private enterprise's innovation ability and sustainable development capacity in the long run, over-investment under political connections easily leads to the survival and development to depend on relationships and resources; Fourth, shareholders' meeting times has restricted effect on over-investment under political connections, this indicates can inhibit over-investment under political connections from overall situation and long-term of private enterprises on behalf of the majority shareholders.

ACKNOWLEDGEMENT

This paper belongs to the project of the "Fujian Province Social Science Planning Projects", No.2014B103; Study on evaluation index system of county government performance under the modernization of national governance;

This paper also belongs to the project of the "The young scientific talents cultivation fund project of Fujian Jiangxia University", No.JXS2014001; Investment and Financing behavior of private enterprises under the new economic normality.

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