

Anti-corruption, Rent-seeking and Business Performance—Evidence from Chinese Listed Companies

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Abstract: Taking the exogenous events of the anti-corruption campaign carried out at the end of 2012 as an opportunity, this paper focuses on the influence of the anti-corruption governance work of the 18th National Congress on the economic consequences of rent-seeking enterprises, and makes an empirical test based on the A-share listed companies from 2007 to 2017. This paper finds that : (1) there is a significant positive correlation between rent-seeking and firm performance; (2) Further research on the influence path shows that rent-seeking behavior can improve the manipulative performance of the firm, but has no effect on the true performance; (3) Anti-corruption will weaken the positive relationship between rent-seeking and business performance; (4) Anti-corruption will crowd out the influence of rent-seeking on manipulation performance, but will not crowd out the true performance of enterprises, and can promote the true performance of enterprises. This study shows that anti-corruption is an important external governance factor, which will restrain non-productive behaviors of enterprises and promote the development of enterprises.

Keywords: anti-corruption; rent-seeking; business performance; true performance; manipulation performance

1. Introduction

With the deepening of the deep structural contradiction and problems between supply and demand, deepening the "supply-side structural reform" has become a major strategic decision to promote the high-quality development of Chinese economy, and the key of which is to trueize the effective allocation of resources. At the present stage, Chinese government officials still control a large number of resources needed by enterprises, so it is still common for enterprises to obtain resources through rent-seeking ^[1]. Rent-seeking behavior not only worsens market competition, but also is not conducive to the construction of an innovative atmosphere and exacerbates social and economic contradictions. Therefore, the study on the inhibition of rent-seeking of enterprises is of great significance to promote the new round of economic transformation and upgrading of the country.

Currently, it is generally believed that rent-seeking can improve the efficiency of government departments, Avoid the unreasonable government regulation, enter the government regulation industry, obtain financing convenience, tax rate preference and financial subsidies ^[2], overcome the resource limitations of enterprises. It is conducive to the improvement of business performance. However, the current research does not further consider the classification of the composition of business performance, and fails to clarify the specific mechanism and influence path of rent-seeking on business performance, leading to the above conclusions supporting the view of "corruption efficiency theory". Therefore, this paper will fill the gap in the research on the economic consequences of rent-seeking from the perspective of the classification of business performance composition.

In the final analysis, the reason why rent-seeking is more common in the period of social transition is that the political transparency is low, some government officials have corrupt thoughts and behaviors, and the system is not perfect, which provides the space for enterprises to carry out rent-seeking activities. With the development of the anti-corruption of the 18th National Congress, the rent-seeking activities of enterprises have a strong impact. On the one hand, the cost of corruption continues to rise, reducing the incentive for officials to commit corruption. On the other hand, the ideological truem of government officials has been enhanced, weakening the awareness of corruption ^[3]. Current academic

research on anti-corruption governance focuses on optimizing corporate governance^[4] And improving the market environment^[5], the economic consequences of rent-seeking behavior only focus on weakening the business performance of enterprises^[6], lack of further discussion on the underlying mechanisms and pathways. At the same time, in the context of ongoing anti-corruption, what is the impact of rent-seeking on the capital market? These are new questions that have yet to unfold in academia. Therefore, on the basis of existing studies, based on the quasi-natural experiment of anti-corruption of the 18th National Congress, this paper explores the impact and consequences of rent-seeking of enterprises from the perspective of business performance and capital market respectively, and further explores the role and influence path of anti-corruption on rent-seeking performance of the 18th National Congress through a classified study of the composition of business performance.

2. Theoretical analysis and research hypothesis

2.1. Rent-seeking and business performance

First, rent-seeking can obtain more financial subsidies for enterprises, help enterprises make up for the shortage of cash, and at the same time send a positive signal to the outside society, obtain low interest and long-term financing, and promote the improvement of enterprise performance. Second, rent-seeking can provide a "political umbrella" for enterprises to protect their property rights and endorse their production, operation and development [7], so as to ensure that enterprises can cope with the uncertainties of political environment and other factors and improve their performance. Third, rent-seeking can improve the service efficiency and execution of government officials, free enterprises from bureaucratic delays, expand existing sales channels and approaches, further promote the process of enterprises to explore new markets [8], and improve business performance. Therefore, the following hypotheses are proposed:

H1: Rent-seeking will lead to the improvement of business performance.

2.2. The consequences of rent-seeking from the perspective of Classified performance

The reported performance of an enterprise is often a whitewashed indicator, which is affected by the enterprise's operating ability and the quality of accounting information, and cannot reflect the true performance of the enterprise. Therefore, based on previous studies, this paper divides business performance into true performance and manipulated performance [2].

Manipulation of performance refers to the performance of an enterprise's operational accruals, which affects the quality of the enterprise's accounting information. Managers tend to whitewash the performance of statements for reasons such as their own salary, demonstrating management ability and attracting investors' needs. Therefore, enterprise managers gradually transfer resources and energy from the productive field to the accumulation of political capital, and use the scarce resources obtained from rent-seeking activities in non-productive fields [9], so as to improve the manipulation performance of enterprises.

The true performance is the part of the company's business performance that excludes the manipulation of performance, and excludes those factors that affect the business performance and are related to politics, which is a more "clean" existence [2], which reflect the true operating condition of the enterprise. Therefore, the improvement of true performance of enterprises depends on productive activities. As the first driving force for stable improvement and development of business performance of enterprises [10]. Innovation is an important way to improve true performance. However, the scarce resources obtained by enterprises through rent-seeking focus on non-productive activities, crowding out activities that can bring true wealth, such as R&D and innovation. Therefore, this paper argues that rent-seeking has no impact on true performance. Therefore, the following hypotheses are proposed:

H2a: Rent-seeking has no impact on the true performance of the firm.

H2b: Rent-seeking can enhance corporate performance manipulation.

2.3. The moderating effect of anti-corruption

Deterrence and punishment effect: there has been zero tolerance for corruption since the 18th CPC National Congress. In the face of efficient and multi-form supervision, corrupt officials are faced with huge psychological and economic burden [11], and the high risk of helping enterprises to seek rent is

beyond their tolerance. For companies, it costs more to maintain relationships than ever before. In other words, the rent-seeking investment with the same cost will get less resources and preferential treatment after the anti-corruption work is vigorously carried out, which will directly lead to the reduction of enterprises' economic benefits.

Institutional regulation effect, the 18th National Congress promoted the construction of the legal system and standardized the business environment. On the one hand, the allocation of resources in the market tends to be precise and efficient, and the information is transparent, which squeezes out the power and space of the government allocation mechanism, and leads to the decrease of the rent-seeking profits of enterprises. On the other hand, the standardized market environment can timely and effectively alleviate the resource dilemma and financing constraints of enterprises. At the same time, in an orderly market environment, the cost of rent-seeking is much greater than the profit of enterprise innovation, which encourages entrepreneurs to withdraw from unproductive activities and put resources into innovation. However, due to the long return cycle of innovation investment, it cannot be translated into business performance in the short term.

Political persuasion effect: Corruption has the characteristics of stubbornness, infectivity and concealment. In order to eradicate corruption completely, it is necessary to form internal moral constraints on government officials. The anti-corruption work of the 18th National Congress advocates both "rule of law" and "rule of virtue", so that individuals can truly recognize the system and rules from their hearts [3]. From the perspective of government officials, the continuous internalization of moral quality will promote their flow and allocation of resources tend to be effective and reasonable. From the perspective of enterprise managers, living in the social atmosphere of anti-corruption and advocating integrity, they will choose to invest limited resources into productive activities and reduce investment in short-term projects, which will lead to a temporary decline in business performance. Therefore, the following hypothesis is proposed in this paper:

H3: Anti-corruption will inhibit the positive effect of rent-seeking behavior on business performance.

2.4. The moderating effect of anti-corruption from the perspective of classified performance

For performance manipulation, on the one hand, anti-corruption cuts off the way for enterprises to obtain scarce resources through rent-seeking [6], leading to insufficient conditions and resources for rent-seeking enterprises to beautify their performance, reducing the space for enterprises to manipulate their performance in annual reports, resulting in a decline in their performance manipulation. On the other hand, anti-corruption has improved the business environment in various regions. Under this circumstance, the cost of enterprise innovation is far less than the income of seeking rent, and the motivation of enterprises to whitewash their performance is weakened. Therefore, this paper believes that the anti-corruption will reduce the promotion effect of rent-seeking on performance manipulation.

As for the true performance, under the background of continuous anti-corruption work, enterprises can withdraw from rent-seeking activities and invest the resources originally used for rent-seeking into productive activities such as innovation, which will improve the business performance from a longer perspective. Therefore, this paper speculates that anti-corruption has no effect on the relationship between rent-seeking and true performance of enterprises in the short term, but it can provide support for the improvement of true performance of enterprises in the long run.

To sum up, the performance obtained by earnings management through rent-seeking is an unsustainable and unstable false "prosperity", the corporate wealth has not really increased. In the context of anti-corruption, rent-seeking channels are cut off, resulting in a decline in the performance of corporate manipulation. And because of the long return cycle of innovation, the true performance of enterprises will not be affected in the short term. Therefore, this paper proposes the following hypothesis:

H4a: Anti-corruption has no impact on the relationship between rent-seeking and the true performance of enterprises.

H4b: Anti-corruption will squeeze out the influence of rent-seeking on corporate performance manipulation.

3. Empirical research Design

3.1. Sample Description

Considering the impact of the change of China's accounting policies in 2006, this paper selects the listed companies from 2007 to 2017 as the samples, and makes the following treatment for the initial samples: eliminate the data missing samples, carry out 1% dntail treatment for the continuous variables, and finally obtain a total of 3443 listed enterprises and 25,684 non-balanced panel data of observed values. The sample financial data in this paper are all from CSMAR database.

3.2. Measure of variable

3.2.1. Anti-corruption

Based on the method of Lei Xintu and Wang Honghua (2019), this paper uses the dummy variable Post to distinguish the time window before and after the event. The 18th CPC National Congress was held in November 2012, near the end of the 2012 fiscal year, so 2007-2012 was defined as the pre-event time window, and Post was assigned as 0; 2013-2017 is defined as the post-event time window, and Post is assigned a value of 1.

3.2.2. Business performance

This paper adopts the practice of Du Xingqiang et al. [2] to reflect the business performance of enterprises with return on total assets (Roa).

In order to identify the difference between the influence of anti-corruption work on true performance and manipulated performance, this paper divides business performance into true performance and manipulated performance. For manipulating performance measurement (Da), this paper uses Du Xingqiang et al. [2] for reference and adopts the modified Jones model to calculate manipulative accruals. For true performance measures (Tpe), return on total assets excluding manipulative accruals (Da) is used to measure.

3.2.3. Rent-seeking

This paper adopts the index of "excess management expense" constructed by Du Xingqiang et al. [2] The specific calculation steps are as follows:

$$Ae_{i,t} = a_1 Lnrev_{i,t} + a_2 Lev_{i,t} + a_3 Growth_{i,t} + a_4 Boardsize_{i,t} + a_5 Staff_{i,t} + a_6 Big4_{i,t} + a_7 Age_{i,t} + a_8 Magin_{i,t} + a_9 Hhi_{i,t} + \mu_{i,t} + \varphi_{i,t} + \varepsilon \quad (1)$$

$$\bar{Ae}_{i,t} = a_1 Lnrev_{i,t} + a_2 Lev_{i,t} + a_3 Growth_{i,t} + a_4 Boardsize_{i,t} + a_5 Staff_{i,t} + a_6 Big4_{i,t} + a_7 Age_{i,t} + a_8 Magin_{i,t} + a_9 Hhi_{i,t} + \mu_{i,t} + \varphi_{i,t} \quad (2)$$

$$Rent_{i,t} = Ae_{i,t} - \bar{Ae}_{i,t} \quad (3)$$

Table 1: Main variables

variables	measure
Roa	Ratio of net profit to total enterprise assets
Tpe	Corporate results that strip out politics
Da	The manipulative part of business performance
Rend	Excess management expense
Post	In 2012 and before, 0, otherwise 1
Size	The natural log of the firm's assets at the end of the year
Lnrev	The natural log of the firm's operating revenue
Lev	Ratio of total assets to total liabilities
Boardsize	Number of Board Members
Big4	Auditors from the "Big Four" take 1, otherwise take 0
Opcash	Operating cash flow ratio
Ppe	Proportion of fixed assets

Formula (1) is the actual overhead prediction model, where Ae is the overhead ratio, Lnrev is the natural logarithm of operating revenue, Lev is the asset-liability ratio, Growth is the growth rate of operating revenue, Boardsize is the size of the board of directors, Staff is the number of employees, Big4 represents the Big Four audit firms, Age is the years of listing, Magin is the operating profit margin, Hhi is the equity concentration of the top 5 shareholders, μ and φ are the industry effect and

time effect respectively. Formula (2) estimates the parameters according to Formula (1) and calculates the expected management cost. Formula (3) deducts the actual management cost A_e and the expected management cost to get the excess management cost, namely the rent-seeking cost $Rent$.

The main variables in this paper are described in Table 1.

4. Empirical research Design

4.1. Descriptive statistics and basic tests

4.1.1. Descriptive statistics

Table 2 shows descriptive statistics of key variables, in which the mean value of business performance (Roa) is 0.05 and the standard deviation is 0.08. The mean value of Tpe is 0.05, and the standard deviation is 0.12. The mean of the firm's manipulated performance (Da) is 0.00 and the standard deviation is 0.10. The mean value of rent-seeking behavior is -0.02 and the standard deviation is 0.17. It can be seen from the table that the operating conditions and levels of different enterprises present great differences. Descriptive statistics of other control variables are shown in Table 2.

Table 2: Descriptive statistics of variables

variable	mean	std	minimum	maximum
Roa	0.05	0.08	-0.20	0.40
Tpe	0.05	0.12	-0.31	0.56
Da	0.00	0.10	-0.34	0.38
$Rent$	-0.02	0.17	-0.55	0.41
$Post$	0.56	0.50	0.00	1.00

4.1.2. Correlation test

Table 3 shows Pearson correlation test among key variables. It can be seen that there is a significant positive correlation between business performance (Roa) and rent-seeking ($Rent$). Meanwhile, corporate rent-seeking ($Rent$) has a high positive correlation with corporate performance manipulation (Da), but a weak correlation with corporate true performance (Tpe).

Table 3: Pearson correlation test of variables

variable	Roa	Tpe	Da	$Rent$	$Post$
Roa	1				
Tpe	0.46***	1			
Da	0.27***	-0.69***	1		
$Rent$	0.12***	0.01*	0.07***	1	
$Post$	-0.03***	-0.00	-0.01**	0.05***	1

4.2. Test of empirical results

4.2.1. Anti-corruption, rent-seeking and business performance

Table 4: Regression analysis results of rent-seeking and business performance

independent variable	dependent variable: Roa_t	dependent variable: Tpe_t	dependent variable: Da_t
	$M1$	$M2$	$M3$
$Rent_{t-1}$	0.02* (1.66)	-0.01 (-0.37)	0.02** (1.96)
Controls	control	control	control
Annual effect	control	control	control
fixed effect	control	control	control

Note: ***, ** and * in this paper represent the significance level of 1%, 5% and 10% respectively, the same below.

Table 4 shows the impact test of rent-seeking on business performance. As shown in the results of $M1$, there is a significant positive correlation between rent-seeking ($Rent$) and business performance (Roa), indicating that the higher the rent-seeking level, the higher the business performance. $H1$ can be verified. From the results of $M2$ and $M3$, it can be seen that rent-seeking ($Rent$) does not have a

significant impact on the firm's true performance (Tpe), but it can significantly promote the firm's manipulation performance (Da), which supports H2a and H2b.

Table 5 shows the impact test of anti-corruption on rent-seeking performance of enterprises. M4 is the regression result model after the anti-corruption of the 18th CPC National Congress is included in the analysis framework. The results show that the main effect coefficients of corporate rent-seeking (Rent) and the anti-corruption (Post) are still significantly positive, indicating that both rent-seeking and the anti-corruption have positive effects on the business performance of enterprises. H1 is verified. Meanwhile, the interaction term (Rent×Post) between the anti-corruption and the rent-seeking of enterprises is significantly negative, that is, the anti-corruption will inhibit the promoting effect of rent-seeking on the business performance of enterprises. H3 has been verified.

M5 and M6 mainly test the difference of the influence of anti-corruption and rent-seeking on the true performance and manipulation performance of enterprises. For example, the M5 regression results show that the coefficient of corporate rent-seeking (Rent) on corporate true performance (Tpe) is not significant, while the coefficient of anti-corruption (Post) is significantly positive. Meanwhile, the interaction term (Rent×Post) of anti-corruption and rent-seeking is not significant. For example, the regression results of M6 show that the main effect coefficient of corporate rent-seeking (Rent) is significantly positive, while the main effect of anti-corruption (Post) is not significant, indicating that rent-seeking will increase corporate manipulation performance. Meanwhile, the interaction term (Rent×Post) between anti-corruption and rent-seeking is significantly negative. In other words, the anti-corruption will restrain the promotion of rent-seeking to the performance manipulation of enterprises. To sum up, it is verified that the 18th National Congress will squeeze out rent-seeking to promote the performance manipulation of enterprises, but will not squeeze out the true performance of enterprises, but will increase the true performance of enterprises. Assume that H4a and H4b are verified.

Table 5: Regression analysis results of anti-corruption, rent-seeking and business performance

Independent variable	dependent variable: Roa_t	dependent variable:	
	M4	Tpe_t	dependent variable: Da_t
	M4	M5	M6
$Rent_{t-1}$	0.05*** (2.89)	0.00 (0.09)	0.04** (2.16)
$Post_{t-1}$	0.04*** (11.57)	0.04*** (7.80)	0.00 (0.98)
$Rent_{t-1} \times Post_{t-1}$	-0.05*** (-5.81)	-0.02 (-1.55)	-0.04*** (-2.83)
Controls	control	control	control
Annual effect	control	control	control
fixed effect	control	control	control

4.2.2. Heterogeneity analysis based on market environment classification

The marketization level is conducive to correcting the resource mismatch caused by the visible hand of the government and reducing the space for corruption. Therefore, the market environment may be an important external factor affecting the effectiveness of anti-corruption governance at the 18th National Congress. In this paper, according to the "China by Province Marketization Index Report" from 2008 to 2016, companies are divided into two groups according to the province where they are located: good market environment and bad market environment.

In Table 6, M7 and M8 are regression results of the impact of anti-corruption and rent-seeking on business performance under excellent and poor market environments, respectively. M7 shows that the Rent×Post coefficient is significantly negative, while the coefficient is not significant in M8. This indicates that the marketization process weakens the distortion degree of the government's resource allocation, reduces the rent-seeking efficiency of enterprises, and improves the anti-corruption governance effect. M9 and M10 respectively show the regression results of the influence of anti-corruption and rent-seeking on true performance under good market environment and bad market environment. Among them, the Rent×Post coefficient is not significant, which is consistent with the above research conclusions, that is, no matter the degree of marketization, anti-corruption has no significant crowding out effect on the true performance of enterprises, but will significantly increase the true performance of enterprises. M11 and M12 are regression results of the influences of anti-corruption and rent-seeking on manipulation performance under excellent and poor market environments, respectively. M11 shows that the Rent×Post coefficient is significantly negative, while

M12 is not. This indicates that the marketization process will improve the effectiveness of the government's anti-corruption governance, especially for the non-market performance manipulation of enterprises.

Table 6: Influence of market environment on performance of anti-corruption and rent-seeking

Independent variable	dependent variable: Roa_t		dependent variable: Tpe_t		dependent variable: Da_t	
	Excellent environment	Poor environment	Excellent environment	Poor environment	Excellent environment	Poor environment
	M7	M8	M9	M10	M11	M12
$Rent_{t-1}$	0.05*** (2.75)	0.02 (0.82)	-0.01 (-0.47)	0.05 (0.95)	0.05*** (2.60)	-0.01 (-0.18)
$Post_{t-1}$	0.04*** (9.78)	0.04*** (5.97)	0.04*** (6.75)	0.04*** (3.63)	0.00 (0.22)	0.02* (1.68)
$Rent_{t-1} \times Post_{t-1}$	-0.06*** (-5.89)	-0.03 (-1.42)	-0.02 (-1.47)	-0.03 (-0.73)	-0.04*** (-2.74)	-0.03 (-0.95)
Controls	control	control	control	control	control	control
Annual effect	control	control	control	control	control	control
fixed effect	control	control	control	control	control	control

4.2.3. Further analysis : capital market and anti-corruption

According to the "bad news hiding" hypothesis proposed by Jin and Myers [12], the management tends to disclose the good news and hide the bad news. As the hoarding of bad news reaches its peak, it will be released intensively, resulting in stock price crash. And corruption helps to suppress the influence of rent-seeking behavior on corporate performance manipulation, which may reduce the room for management to hide bad news and thus reduce the risk of a company's stock price crash.

Therefore, this part further tests whether the capital market can identify the effect of anti-corruption governance from the perspective of stock price crash risk. Stock price crash is an important index of abnormal stock price fluctuation, which is mainly measured based on stock price, stock index return rate and its volatility. Using DeFond et al. [13] for reference, this paper measures the stock price crash risk of company by using the negative return skew coefficient (NCSKEW) of company-specific weekly return rate after excluding the market return rate.

M13 in Table 7 report the test of the impact of anti-corruption and rent-seeking on the risk of stock price crash. The test results show that rent-seeking in enterprises will increase the risk of stock price crash, while anti-corruption will inhibit the risk of stock price crash. At the same time, the $Rent \times Post$ coefficient is significantly negative, indicating that anti-corruption will reduce the risk of management earnings manipulation and stock price crash by inhibiting the non-productive rent-seeking manipulation performance, indicating that the effect of anti-corruption will be properly reflected by the capital market. M14 and M15 further consider the impact of market environment on anti-corruption and stock price crash risk. Wherein, model M14 is the regression result of the superior group in the market environment, and model M15 is the regression result of the inferior group in the market environment. It is found that the $Rent \times Post$ coefficient is significantly negative in the samples with good market environment, but has no significant effect on the samples with bad market environment. It shows that the marketization level will improve the effect of the government's anti-corruption.

Table 7: Anti-corruption, rent-seeking on stock price crash risk impact test

Independent variable	dependent variable: $Ncskew_t$		
	Full sample M13	Excellent environment M14	Poor environment M15
$Rent_{t-1}$	0.10 (0.97)	0.04 (0.39)	0.26 (0.92)
$Post_{t-1}$	-0.46*** (-14.46)	-0.51*** (-14.41)	-0.31*** (-4.31)
$Rent_{t-1} \times Post_{t-1}$	-0.36*** (-4.61)	-0.39*** (-4.71)	-0.30 (-1.50)
Controls	control	control	control
Annual effect	control	control	control
fixed effect	control	control	control

5. Conclusion and Implication

5.1. Conclusion of the Study

The results of this paper show that: (1) The rent-seeking is positively correlated with the business performance; (2) Rent-seeking has a positive effect on manipulation performance, but has no significant effect on true performance; (3) Anti-corruption will weaken the positive relationship between rent-seeking and business performance; (4) Anti-corruption has a crowding out effect on the relationship between rent-seeking and performance manipulation, but does not have a crowding out effect on rent-seeking and true performance; (5) An excellent market environment strengthens the effect of anti-corruption governance and helps to reduce the risk of stock price crash. All the hypotheses were verified.

5.2. Policy and management implications

(1) This paper finds that rent-seeking improves business performance, but it mainly improves manipulative performance rather than true performance. Rent-seeking can not create social wealth, but will cause efficiency loss. Therefore, enterprise leaders should reasonably allocate resources, concentrate on productive activities and increase R&D investment to maintain the vitality of the healthy development of enterprises. (2) This paper provides strong evidence for the correctness and effectiveness of anti-corruption work. We must unswervingly fight against corruption, foster a favorable environment and foster a clean work style. (3) The heterogeneity test of market environment in this paper shows that the regional anti-corruption governance work with higher marketization level has stronger governance effect. Therefore, each region should improve the marketization level as the focus of work.

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