



Decentralization, Rent-seeking and Corporate Performance

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By 2010–2013 years of experience in China A-share listed companies, we found rent-seeking behavior of enterprises has had two major effects: creative production inhibitory effect and relational resources favoritism effect. The former hinders the improvement of enterprise performance, while the latter promote the upgrading of performance. Overall, the former positive effect on corporate performance is more than the latter negative effect on corporate performance. Further decentralization, strengthening social management to enhance the level of public services is fundamentally reducing rent-seeking phenomenon, and improving enterprise performance.

1. Introduction

Along with the gradual decline of the traditional comparative advantage of China, the first round of the reform of the bonus and dividend system gradually disappeared, the Chinese economy has entered a new normal. Under the new situation, a new round of reform and opening up, we need to pay more attention to the transformation of government functions, through further decentralization to prevent rent-seeking behavior to release the reform of bonus. Transaction cost of rent seeking is an important factor to affect the allocation of resources (Coase (1937)), and to some extent explain the gap of wealth in the world. The cost of rent seeking behavior is very serious. China is in a critical period of transition, the enterprise through the local government officials obtains the key resources, resulting in rent-seeking behavior is more common.

Through the relevant facts, we draw four conclusions. Firstly, the degree of rent-seeking behavior in the industry and the regional differences. Secondly, the rent-seeking behavior reduces the enterprise's innovation R&D investment and innovation performance. Thirdly, the rent-seeking behavior can ease the tax burden and financing constraints, and weaken its negative effect on the performance of enterprises. Finally, further decentralization can indeed reduce the rent-seeking behavior of enterprises.

2. Factual description and theoretical hypothesis

China is in a critical period of economic transition, local governments still play an important role in the allocation of resources, and enterprises often need to rent to the local government to obtain the key resources, management rights and privileges. We sort out the A shares of the listing corporation of the rent data from 2010 to 2013. According to industry classification, we find that the rent-seeking behavior of the third industry is the most obvious, especially the financial industry, information transmission, software and information technology services, and the average rent of the financial industry is reached 4%.

In accordance with the classification of provinces, there are different degrees of rent-seeking in different provinces in China. The more serious the rent-seeking behavior of the provinces is the place where government intervention is strong but the government efficiency is low.

2.1 Creative production inhibitory effect of rent-seeking

From the perspective of the whole society, economic activities are divided into productive activities and non-productive activities. If rent seeking activities in the economic activities can get more benefits through less cost, then the enterprise will tend to choose the rent-seeking activities rather than the search for profit activities (Baumol (1996)). However, the rent-seeking income has uncertainty, at the same time, the rent-seeking

According to the previous research literature. In the model, we use total assets return rate (ROA), net assets yield (ROE), Tobin Q and market value as the performance index of the enterprise. These indicators can well reflect the different aspects of a company's profitability, can objectively reflect the level of corporate performance. This paper mainly uses the logarithm of labor productivity as the main performance index, and the total assets return rate (ROA) for testing.

Considering the impact of Decentralization for rent-seeking, the intermediate is interpreted as variables including two variables: tax burden as the ratio of the total tax revenue and business income, and financing constraints as the reciprocal of interest coverage ratio. Rent seeking behavior as explanatory variable is measured by the cost of rent seeking which include business reception expenses and travel expenses. The reason why we choose their expenses as explanatory is that this part of the expenses in our country's enterprise production process, is indeed a kind of universal phenomenon, and occupy a certain proportion; on the other hand, this part of the expenses is the most likely to be the source of the rent-seeking expenses in the enterprise management. In order to illustrate the role of decentralization of rent-seeking behavior we use local government governance environment index that contains two important aspects: reducing the intervention index and government efficiency index to measure the degree of decentralization. Meantime, we need to control the variables which impact on enterprise performance, such as fixed capital stock per capital, middle per capital investment, per capital salary, enterprise life and ownership concentration.

Table 1 reflects the relationship between the 2010 - 2013 A listing corporation rent seeking, creative production activities and enterprise performance. Model (1) and model (2) demonstrate the relationship between rent-seeking behavior and labor productivity, and it can be found that the rent-seeking behavior of enterprises is negatively related to labor productivity. Model (3) and model (4) demonstrate the relationship between rent-seeking behavior and total return on assets, and it can be found that the rent-seeking behavior of the enterprise is negatively related to the total return on assets. Model (5) and model (6) demonstrate the relationship between rent-seeking behavior and the creative production of enterprises, and the rent-seeking behavior of the enterprise has the inhibitory effect on the enterprise.

Table 1: Rent seeking, creative production inhibitory effect and enterprise performance

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---------------------------------|-----------------------|-----------------------|----------------------|-----------------------|-----------------------|----------------------|
| Rent seeking | -22.25*** (-28.08) | | -265.0*** (-8.84) | | -2.196*** (-5.58) | -8.201*** (-3.46) |
| Provinces industry average | | -12.30*** (-11.42) | | -228.6*** (-3.72) | | |
| Fixed capital stock per capital | 0.0727*** (7.77) | 0.0550*** (7.21) | -0.0342 (-0.10) | -5.587*** (-12.84) | -0.0161*** (-4.12) | 0.159*** (6.13) |
| Middle per capital investment | 0.413*** (45.16) | 0.476*** (63.97) | -0.559 (-1.62) | -0.0740 (-0.17) | 0.00385 (0.88) | -0.0567** (-2.15) |
| Per capital salary | 0.434*** (28.89) | 0.384*** (31.14) | 1.494*** (2.63) | 7.675*** (10.91) | 0.00916 (1.35) | -0.0466 (-1.11) |
| Ownership concentration | 0.00227*** (3.69) | 0.00395** (7.82) | 0.274*** (11.78) | 0.242*** (8.38) | 0.000429* (1.87) | 0.00571*** (3.47) |
| Enterprise life | -0.161** (-2.04) | -0.190*** (-3.03) | -2.356 (-0.79) | -2.096 (-0.58) | 0.00960 (0.37) | 1.404*** (6.86) |
| Constant term | 2.097*** (9.43) | 1.929*** (10.81) | -2.251 (-0.27) | 3.365 (0.33) | 0.239*** (3.26) | 4.807*** (8.29) |
| Individual effect | YES | YES | YES | YES | YES | YES |
| Time effect | YES | YES | YES | YES | YES | YES |
| F | 1118.72 | 1500.21 | 41.17 | 38.87 | 18.48 | 101.28 |
| R ² | 0.8253 | 0.8325 | 0.0453 | 0.0242 | 0.0392 | 0.0208 |
| N | 5193 | 8713 | 5193 | 8713 | 3558 | 5039 |

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 2 reflects the relationship between the 2010 - 2013 A listing corporation rent seeking, relational resources favoritism effect and enterprise performance. The model (1) describes the relationship between enterprise performance (labor productivity) and its main influencing factors. It can be found that per capital fixed assets, per capital labor remuneration, per capital labor remuneration and stock ownership concentration are positively related to corporate performance, while the age of the enterprise has a negative correlation with corporate performance. After adding the rent-seeking behavior of the enterprise, we find that the rent-seeking behavior is not conducive to the improvement of enterprise performance in the case of the main influence factors from model (2). Further adding the local financing environment and the tax burden, it is found that when a region of the financing environment is more constrained and the tax burden is more serious, rent-seeking behavior will hinder the growth of enterprise performance from model (3). The model (4) and model (5) verify the relationship between tax burden environment, financing environment and enterprise rent-seeking behavior respectively. It can be seen that the rent seeking behavior plays a role in promoting enterprise performance improvement when a region's financing environment is relatively restrained and the tax burden is more serious. This shows that the rent-seeking behavior of the enterprise has a relational resource.

Table 2: Rent seeking, relational resources favouritism effect and enterprise performance

| | (1) | (2) | (3) | (4) | (5) |
|------------------------------------|----------------------|-----------------------|-----------------------|----------------------|----------------------|
| Fixed capital stock per capital | 0.0637*** (8.45) | 0.0727*** (7.77) | 0.0784*** (8.40) | 0.0790*** (8.46) | 0.0793*** (8.50) |
| Middle per capital investment | 0.484*** (65.51) | 0.413*** (45.16) | 0.415*** (45.74) | 0.415*** (45.77) | 0.417*** (45.90) |
| Per capital salary | 0.372*** (30.20) | 0.434*** (28.89) | 0.424*** (28.38) | 0.424*** (28.36) | 0.421*** (28.21) |
| Ownership concentration | 0.00449*** (8.95) | 0.00227*** (3.69) | 0.00285*** (4.65) | 0.00287*** (4.70) | 0.00294*** (4.82) |
| Enterprise life | -0.151** (-2.48) | -0.161** (-2.04) | -0.128* (-1.65) | -0.125 (-1.62) | -0.123 (-1.59) |
| Rent seeking | | -22.25*** (-28.08) | -23.77*** (-29.04) | -32.06*** (-7.56) | -34.27*** (-7.96) |
| Financing environment | | | -0.192*** (-3.53) | -0.190*** (-3.51) | -0.284*** (-4.48) |
| Tax environment | | | -2.318*** (-2.97) | -2.987*** (-3.52) | -3.063*** (-3.61) |
| Financing environment*Rent seeking | | | | 99.12** (1.99) | 89.37* (1.79) |
| Financing environment*Rent seeking | | | | | 10.28*** (2.86) |
| Constant term | 1.683*** (9.68) | 2.097*** (9.43) | 2.219*** (9.75) | 2.265*** (9.90) | 2.284*** (9.99) |
| Individual effect | YES | YES | YES | YES | YES |
| Time effect | YES | YES | YES | YES | YES |
| F | 1679.79 | 1118.72 | 935.06 | 858.18 | 794.38 |
| R ² | 0.8411 | 0.8253 | 0.8271 | 0.8271 | 0.8271 |
| N | 8981 | 5193 | 5098 | 5098 | 5098 |

Table 3 reports the relationship between decentralization and rent-seeking behavior. The results show that when the local decentralization degree continuously strengthened, it can reduce the burden of enterprises and ease the financing constraints of enterprises, however rent seeking behavior for tax alone is negative, and local decentralization index related to the cross term is positive, suggesting that local government decentralization weakened the impact that enterprises through rent-seeking behavior to ease the tax burden and ease the financing constraints of enterprises.

Table 3: Decentralization and rent-seeking behavior

| | (1) | (2) | (3) | (4) | (5) | (6) |
|------------------------------------|----------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Rent seeking | -8.273*** (-3.98) | -10.58*** (-6.01) | -5.470* (-1.80) | -1.682* (-1.84) | -1.389** (-2.17) | -3.726* (-1.91) |
| Decentralization | -0.0900 (-1.17) | | | -0.150*** (-3.41) | | |
| Government efficiency | | -0.0305 (-0.63) | | | -0.0878** (-2.70) | |
| Reduce intervention | | | -0.0530 (-1.00) | | | -0.162*** (-3.89) |
| Decentralization*Rent seeking | 2.794*** (3.99) | | | 0.567* (1.84) | | |
| Government efficiency*Rent seeking | | 3.941*** (6.02) | | | 0.517** (2.17) | |
| Reduce intervention*Rent seeking | | | 1.598* (1.81) | | | 1.083* (1.91) |
| Fixed capital stock per capital | 0.00798 (0.85) | 0.00854 (0.91) | 0.00660 (0.70) | 0.0698*** (11.55) | 0.0709*** (11.76) | 0.0697*** (11.55) |
| Middle per capital investment | -0.0758*** (-8.25) | -0.0744*** (-8.11) | -0.0765*** (-8.30) | 0.0101* (1.67) | 0.00976 (1.62) | 0.00982 (1.63) |
| Per capital salary | 0.0961** (6.43) | 0.0955** (6.42) | 0.0983** (6.57) | -0.0843** (-7.39) | -0.0864** (-7.59) | -0.0849* (-7.48) |
| Ownership concentration | -0.00242* ** (-3.95) | -0.00224** * (-3.65) | -0.00257** * (-4.18) | -0.00531* ** (-13.74) | -0.00532 *** (-13.76) | -0.0053 3*** (-13.79) |
| Enterprise life | -0.0912 (-0.90) | -0.0922 (-0.91) | -0.0865 (-0.85) | 0.0268 (1.26) | 0.0264 (1.23) | 0.0254 (1.19) |
| Constant term | 0.830** (2.14) | 0.612* (1.90) | 0.727** (2.10) | 0.925*** (5.97) | 0.701*** (6.07) | 1.020*** (6.31) |
| Individual effect | YES | YES | YES | YES | YES | YES |
| Time effect | YES | YES | YES | YES | YES | YES |
| F | 1392.75 | 1405.32 | 1384.39 | 479.89 | 476.27 | 483.31 |
| R ² | 0.7811 | 0.7837 | 0.7817 | 0.1699 | 0.1688 | 0.1696 |
| N | 4004 | 4004 | 4004 | 2791 | 2791 | 2791 |

4. Conclusions

Through the research of this paper, we can find that the rent-seeking behavior of Chinese enterprises is not conducive to the improvement of enterprise performance, especially for the creative production activities have a huge inhibitory effect. However, when the enterprise is faced with a heavier tax burden or strong financing constraints, the enterprise will choose the way of resource allocation through rent-seeking, thus forming relational resources favoritism effect. As a result of rent seeking uncertainty, the negative effect on corporate performance is more than the latter positive effect on corporate performance. Further decentralization can effectively improve resource allocation efficiency at the same time, it also weakens the rent-seeking behavior for the allocation of resources effect.

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