TOP MANAGEMENT TURNOVER, FIRM PERFORMANCE AND CORPORATE GOVERNANCE IN POLITICAL ECONOMY: EVIDENCE FROM CHINA’S LISTED STATE-OWNED ENTERPRISES

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ABSTRACT

This dissertation investigates the corporate control mechanism and usefulness of accounting information for control mechanism in the political economy by examining the linkage of management turnover, firm performance and corporate governance in China’s state-owned enterprises (SOEs).

The first essay investigates the relationship between top management turnover, firm performance, and government control interests in China’s listed SOEs. Firstly, this study evidences an inverse relationship between top management turnover and various accounting measures of firm performance in China’s SOEs. This finding implies that an effective method of corporate control, based on accounting information, exists in China’s SOE. This effective performance-based turnover is induced by government interests for economic performance rather than external market pressure in market economy argued by prior studies. Secondly, this study investigates how government control interests influence turnover-performance relationship by examining SOE characteristics such as the concentration or jurisdictional level of government ownership, the market power or in a strategic industry. The results suggest that government control interests or involvement have important implications on the method of corporate control and that a highly involved government owner may enhance a tight corporate control.

The second essay studies the corporate control mechanism designed by the government in a political economy by investigating the replacement and appointment of management in China’s state-owned enterprises. Firstly, this study finds that the state owner is more likely to remove incumbent top executives and appoint a politically-connected executive when a SOE encounters economic distress
such as poor ROA, earnings loss, high financial risk, or political distress such as regulation violation. Further, it examines the likelihood of appointing a politically-connected executive in a poor-performing SOE with characteristics such as the concentration or jurisdictional level of government ownership, the market power or in a strategic industry. Finally, this study finds that the political top executives improve firm performance following their appointments, initiating modification of internal governance structures and mitigating manager’s discretion behavior. All these findings support the arguments that state owner (government) considers political executives helpful to improve firm performance and control agency problems. Meanwhile, the post-appointment consequences suggest that political executives serve as a disciplinary or monitoring mechanism substituting for external market control, instead of being only a form of bail-out.

The findings in this dissertation contribute to the literature by examining corporate control mechanism and the usefulness of accounting information in a distinguished context and provide more understanding of the value of political institutions.
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