

# The impact of Social Policy Burden on the Change of Registration Address: Concerning on Excessive Employee Rate

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**Abstract.** Using the data of A-share listed companies in China from 2004 to 2019, this paper empirically investigates the relationship between social policy burden and the change of registration address of firms. We find that the heavier the social policy burden caused by the close relationship between enterprises and local government, the more reluctant the enterprises are to change their registration address. Therefore, there is still a long way to go to create an institutional environment for fair economic competition and common development in different regions.

**Keywords:** Social policy burden, Registration address, Local government.

## 1. Introduction

Using the big data to understand the relationship between government and enterprise is a vital topic under the background of the continuous rise of big data. The registration address is the address information registered on the company's business license. According to the company law of China, the registered address shall be the same as the office location, and the change registration shall be handled in real time in case of change. The change of registration address needs to go through relevant formalities in the Administration for Industry and Commerce of the jurisdiction. Because cross regional change will directly lead to the reallocation of capital resources among different regions, it has attracted great attention from the theoretical and practical circles. The statistical results show that from 2004 to 2019, a total of 449 listed companies in China's A-share market changed their registration addresses.

Under the political and economic system, enterprises are not only an important economic entity, but also social and political. In addition, because of the historical problems left over from the past system reform, enterprises in China have a heavy policy burden (Lin, 2004). For example, employment is an important reference index for economic development and social stability. The employment pressure of the government will naturally be transferred to enterprises. Enterprises take the initiative to solve the social burden of employment, which will be transformed into the problem of redundancy of target enterprises (Shifter, 1994). Under the encouragement of the fiscal decentralization system and the political Championship plug, local governments still have the motivation to intervene in enterprises. With the decentralization of the central government, local governments have assumed political and economic responsibilities such as employment, welfare and social stability. The government will internalize its social objectives into enterprises, which makes enterprises have the governance characteristics of insider control under government intervention. Government intervention and the self-interest motivation of enterprise managers are the causes of social policy burden. That is, bearing the social policy burden will bring a certain degree of policy preference to enterprises, and the government will give special support to enterprises to a certain extent, so as to establish a mutually beneficial relationship with them. For

example, government subsidies are the resource support provided by local governments for enterprises under flexible financial rights.

Therefore, an in-depth study of this problem can not only enrich the existing understanding of the social policy burden of enterprises, but also have a certain practical significance for the solution of the problems of "capacity cutting, structural adjusting and cost deducting" in the reform of state-owned enterprises and supply side reform.

## 2. Literature View and hypothesis development

Historically, local government has a significant impact on society, continues to affect business decisions in modern days. A number of research investigate how the behavior of local government affects the operation of micro enterprises: for example, the political turnover of local government will cause the instability of institutional environment and economic environment, which will affect the investment behavior of enterprises (Jens, 2017; Rooney, 2021). At present, China's central restraint mechanism for local governments is incomplete. Local governments have economic discretion and can independently decide whether to provide support and to what extent, resulting in the autonomy and fuzziness of government subsidy standards (QIAN, 1998). The development of local economy is also related to the performance evaluation and promotion of local officials (Li and Zhou, 2005). Therefore, in China, it has become a common phenomenon for local governments to intervene in the production and operation of enterprises (Tan, 2016; Papava, 2010). The intervention from the local government makes enterprises bear a kind of extra burden outside their daily business activities, which has been termed as policy burden.

The empirical researches on policy burden currently focus on the social policy burden, which refers to the burden formed by enterprises due to the bear of social functions such as employee redundancy (Lin, 2000). Under the system of political tournaments and regular assessment, officials have the motivation to implement short-term behavior (Zhou, 2007), that is, to intervene in enterprise management and promote regional economic development. In order to promote local employment rate, local governments will intervene the firms through political connection with the enterprise and let them help achieve political goals (Shleifer and Vishny, 1998).

From the enterprises, they also have the motivation to bear policy burden. The rent-seeking theory points out that government intervention in the economy will inevitably produce rent. In order to obtain economic resources, enterprises will perform political behavior, which refers to a rent-seeking behavior that attempts to seek benefits (Mitnick, 1993), to make connections with government officials for rent-seeking. Wu (2008) found that compared with private enterprises without political ties, private enterprises with political ties are more likely to obtain government support. The game model between government and enterprises constructed by An (2009) also shows that when there is rent-seeking, the government will be revived by enterprises. The purpose of initiatively bearing the policy burden is to create public-policy results that can have a positive impact on the enterprises' own survival and development (Keim, 1988). In the case of weak property rights protection, private enterprises will also actively participate in politics and form a good relationship with the government, hoping that the government can provide them with a good protection mechanism (Luo, 2009). Empirical studies also show that private enterprises' attitude towards social policy burden is affected by their own development scale. Some private enterprises will establish government enterprise relations by taking the initiative to bear the social policy burden, or passively accept the social policy burden (Bu, 2017). In addition, empirical studies have shown that both state-owned enterprises and private enterprises will receive support and government subsidies from the local government because they bear social policy burdens, especially excessive employment (Yu, 2020). In other words, if the company help the local government achieve the political assessment objectives and bear the corresponding social policy burden to a certain extent, it will get the government subsidy and support from the local government.

According to the regulations of the people's Republic of China on the administration of company registration, the registered address of a listed company is the location of the company's office. Listed companies need to complete the change of relevant documents such as business license and tax registration certificate through the vote of the general meeting of shareholders and the approval of relevant institutions such as the Administration for Industry and Commerce and the Taxation Bureau, and announce the change information. Empirical studies have paid attention to the purpose and economic consequences of the change of enterprise registration address(He, 2016), that the registration change of Listed Companies in China is to obtain government support and government subsidies, and has played a significant role in improving business conditions and improving enterprise performance.

Under the dual incentives of legal environment and promotion system, local governments in China generally intervene in the enterprises under their jurisdiction to make them bear social policy burden, especially employment rates. The rent-seeking theory also points out that when the local government intervenes in enterprises, rent will be generated, and enterprises will also perform political behavior to maintain a good relationship with the governments to actively or passively bear the social policy burden. In exchange, local governments provide these enterprises with support and additional financial resources. The main purpose of registration change of listed companies is to obtain government subsidies and government support, which can be achieved through alternative behavior. By bearing the policy burden from the local government, firms directly obtain beneficial public-policy results and save the cost of changing the address of registration. Therefore, this paper speculates that when enterprises have been able to obtain government support and government subsidies through social policy burden, they will not easily change their registration addresses. Thus, the following hypothesis is put forward:

H1: The social policy burden reduces the willingness of enterprises to change their registration address.

### 3. Research Design

#### 3.1 Sample selection and data sources

The initial sample of this paper is the data sets of Chinese A-share listed companies from 2004 to 2019. After further excluding the financial and insurance companies and the samples with missing data, the final samples involved in the regression are 27,564 firm-year observations. Among them, 449 A-share listed companies with registered address change, a total of 5,111 annual observations. In this paper, except that the change of registration address data is manually sorted out by the annual report, other data are from Guotai'an CSMAR database. In order to avoid the influence of extreme values, this paper winsorize the observed values of 1% on the upper and lower sides of all continuous variables.

#### 3.2 Variable definition and model construction

In order to test the hypothesis, we use the existing research for reference to construct the following model:

$$Treat = a_0 + a_1 ExEmp_{i,t} + a_2 Size + a_3 Lev + a_4 Nature + a_5 Growth + \sum year + \sum industry + \varepsilon_{i,t} \quad (1)$$

Where, Treat represents whether the address of registration has changed. The enterprise with the address of registration changed is assigned a value of 1, otherwise 0. Size is the natural logarithm of the company's total assets at the end of the year, Lev is the financial leverage, nature is the enterprise ownership, state ownership is recorded as 1, otherwise 0. Growth is the growth rate of the enterprise's net profit. Industry and annual variables are controlled at the same time. This paper also controls the industry and year fixed effects.

Referring to the existing research (Liao, 2009), this paper uses the excessive employee rate of the firm in the current year to measure the social policy burden:

$$\text{ExEmp\_S} = (\text{Emp}_{\text{firm}} - \text{Sales}_{\text{firm}} \times \frac{\text{Emp}_{\text{ind}}}{\text{Sales}_{\text{ind}}}) / \text{Emp}_{\text{firm}} \quad (2)$$

$$\text{ExEmp\_A} = (\text{Emp}_{\text{firm}} - \text{Assets}_{\text{firm}} \times \frac{\text{Emp}_{\text{ind}}}{\text{Assets}_{\text{ind}}}) / \text{Emp}_{\text{firm}} \quad (3)$$

ExEmp\_S is the excess employee rate, Emp\_firm is the number of employees in the enterprise, Sales\_firm is the sales revenue of the enterprise, Assets\_firm is the total assets of the enterprise in the current year, Emp\_ind is the average number of employees in the company's industry, Sales\_ind is the average sales revenue of the company's industry, Assets\_ind is the average total assets of the company's industry.

## 4. Empirical Results

### 4.1 Descriptive statistics and Pearson correlation coefficient

As shown in Table I, the average value of Treat is 0.185, indicating that 18.5% of the companies in the sample have changed their address of registration, and the average value of nature is 0.454, accounting for the same proportion of Chinese enterprises and non-state-owned enterprises in the sample.

Table 2 reports the Pearson correlation analysis of the main variables. As shown in Table II, Treat are negatively correlated with ExEmp\_A and ExEmp\_S. According to Pearson correlation coefficient analysis, the coefficients between all variables are less than 0.65, which implies the data can be analyzed in the next step. The paper further tests the variance expansion factor between variables, and finds no phenomenon that the VIF value exceeds 10, indicating that there is no multicollinearity between variables, that is, the subsequent research is credible.

### 4.2 Main Results

Table III reports the regression results of model (1) (2). The explained variables of columns (1) to (2) are all change of address of registration (Treat). The independent variable in column (1) is the excess employee rate (ExEmp\_A) calculated based on sales revenue, and the independent variable in column (2) is the excess employee rate (ExEmp\_S) calculated based on total assets, so as to test whether the social policy burden weakens the enterprise's behavior of changing the address of registration. The results show that the coefficient of excess employee rate is significantly negative at the level of 1%, indicating that the excess employee rate increases by 1 unit, and the possibility of change of registered address decreases by 5% and 2%. The result of columns (1) and (2) shows that after the control of other firm level variables and industry and annual fixed effects, the coefficient of ExEmp\_S and ExEmp\_A is still significantly negative at the level of 1%. To some extent, it shows that with the increase of social policy burden of listed companies, the possibility of change of registration address is reduced. According to the above theoretical derivation, when the social policy burden of the company increases, the more likely it is to receive financial or non-financial support from the local government. For the purpose of rent-seeking, the enterprise will not easily change the registered address. This supports the research hypothesis.

### 4.3 Robust test

The PSM method is used to control the possible impact of the change of registration on the company's self-selection behavior on the research results of this paper. In the first stage regression of PSM method, the following OLS regression model (model 1) is used to calculate the propensity score for 1:1 pairing:

$$Treat = \alpha_0 + \alpha_1 Size + \alpha_2 Lev + \alpha_3 Nature + \alpha_4 Number + \alpha_5 Growth + \varepsilon_{i,t} \quad (4)$$

The regression results are shown in the table IV. In columns 1 and 2, The coefficient of ExEmp\_A and ExEmp\_S are still significant at the level of 1%, which shows that the results of this paper are robust.

Table 1. Descriptive statistics

Variables	Statistical Indicators				
	Obs	Mean	Std. Dev.	Min	Max
Treat	27564	0.185	0.389	0	1
ExEmp_A	27564	-0.284	1.576	-10.106	0.885
ExEmp_S	27564	-0.334	2.026	-13.525	0.941
Size	27563	22.036	1.333	10.842	28.636
Lev	27564	1.462	1.143	0.494	8.608
Nature	27564	0.454	0.498	0	1

## 5. Conclusion

The change of registration address directly affects the development of listed companies, and eventually leads to the reallocation of capital resources. Under the government's regular assessment and political tournament mode, local government will generally intervene in the enterprises under its jurisdiction, and will control the company through political connection with the enterprises to help them achieve political goals. Taking the social policy burden as the starting point, the results of this paper show that the social policy burden significantly reduces the willingness of listed companies to change their address of registration. This paper effectively uses 15 years' data of firms to link the government behavior with the enterprise's behavior of changing the address of registration; At the same time, it provides a reference for the government's policy preferences and burden distribution in different regions. Only by reasonably allocating government resources in different regions, can we prevent the imbalance of enterprise distribution among regions and promote the balanced development of regional economy.

Table 2. Pearson correlation coefficient

Variables	Treat	ExEmp_A	ExEmp_S	Size	Lev	Nature	Growth
Treat	1						
ExEmp_A	-0.072** *	1					
ExEmp_S	-0.058** *	0.626***	1				
Size	0.029***	-0.132***	-0.209** *	1			
Lev	0.047***	0.017***	-0.033** *	0.082***	1		
Nature	0.114***	-0.087***	-0.109** *	0.273***	0.127***	1	
Growth	0.014**	-0.037***	-0.024** *	0.044***	-0.126** *	-0.00500	1

Table 3. Main Results

Variables	(1)	(2)
	Treat	Treat
ExEmp_A	-0.050***	
	(-5.51)	
ExEmp_S		-0.021***
		(-2.87)
Size	-0.023*	-0.021
	(-1.66)	(-1.51)
Lev	0.070***	0.067***
	(5.44)	(5.22)
nature	0.408***	0.407***
	(11.26)	(11.26)
Growth	0.020**	0.021**
	(2.31)	(2.40)
Industry	Controlled	Controlled
Year	Controlled	Controlled
Constant	-1.275***	-1.267***
	(-4.02)	(-3.97)
Observations	27,462	27,462

<sup>a</sup>. z-statistics in parentheses

<sup>b</sup>. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

<sup>c</sup>. This table presents the results of estimating social policy burden on the change of registration address.

<sup>d</sup>. Superscripts \*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% levels, respectively, using a one-tailed test when a prediction is indicated and a two-tailed test otherwise.

Table 4. The results of regression after PSM

Variables	(1)	(2)
	Treat	Treat
ExEmp_A	-0.073***	
	(-5.98)	
ExEmp_S		-0.053***
		(-5.36)
Size	-0.027*	-0.032**
	(-1.76)	(-2.13)
Lev	0.013	0.009
	(0.82)	(0.53)
nature	0.095**	0.096**
	(2.17)	(2.21)
Growth	-0.000	-0.000
	(-0.60)	(-0.60)
Industry	0.659**	0.800**
Year	(2.01)	(2.41)
Constant	-0.073***	
	(-5.98)	
Observations	9,398	9,398

a. z-statistics in parentheses

b. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

c. Superscripts \*\*, \*\*, and \* indicate significance at the 1%, 5%, and 10% levels, respectively, using a one-tailed test when a prediction is indicated and a two-tailed test otherwise.

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