In the Shadows of Government: Political Turnovers and Firm Perk Expenses*

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Abstract

This paper shows that following the turnover of the party secretary or mayor of a city in China, firms headquartered in that city significantly increase their "perk spending" (e.g., travel expenses, business entertainment expenses, overseas training expenses, board meeting expenses, company car expenses, and meeting expenses), even after controlling for local economic conditions. Using the age and tenure of incumbents as instruments, our evidence supports the interpretation that firms increase their perk spending to build up relations with local governments. We also find that the perk expenses increase more when the demand to build relation is stronger (e.g., when the incoming official is from a different city, or is young), when the firm is less connected politically (e.g., private firms, or firms whose leadership lacks political experiences). This effect is weaker after the 18th National Congress of the Chinese Communist Party, or after an arrest of local politicians for corruption cases. Our evidence also shows that firms with more perk expenses receive more future benefits, such as government subsidy and access to financing, but do not have better future performances. Finally, local political turnover in a city tends to be followed by changes of chairmen or CEOs of state-owned firms in that city, but only for those controlled by the local government rather than private firms or those controlled by the central government. However, the chairmen or CEOs who have connections with local government officials are less likely to be replaced.

Keywords: Government, Political turnover, Perk.

JEL Classification Numbers: G30; G38

1. Introduction

It has been well recognized that for firms in emerging markets, the relationship with government plays a critical role. Politically connected firms may enjoy benefits such as preferential access to external financing, lower financing costs, government contracts and bailouts, tax benefits, government subsidies, favorable policies and legislative conditions, and thus enhance its operations and increase its value (Fisman, 2001; Faccio, 2006; Faccio et al., 2006; Bunkanwanicha and Wiwattanakantang, 2009). However, much less is known about how firms "invest" in their relations with their governments. This may be partly due to the difficulty in measuring relationship building. Our paper attempts to fill this gap by examining how firms invest in the relationships with their local governments in China after turnovers of local politicians in a large hand collected panel dataset.

We conjecture that after political turnovers, firms might use "perk spending" to invest in the connections with their local governments. After political turnovers, firms may face the risk of losing existing political connections and being adversely affected by new government policies introduced by new local government officials. This gives them extra incentive to build up relations. Moreover, it is relatively easy for firms to disguise relation-building expenses as productivity-related perk spending. For example, Cai et al. (2011) argue that Chinese executives commonly use perks, such as meals, entertainment, and travel (ETC), to network with government officials, suppliers, clients, and creditors. Therefore, our overarching hypothesis is that firms would increase their perk spending to invest in political connections after major personnel changes in their local governments.

China's capital market provides an ideal setup for testing our hypothesis. First, China is a relational economy. *Guanxi* is crucial for firms to do business when their contracts and property rights are not protected by formal institutions (Xin and Pearce, 1996; Tsang, 1998). Among the different kinds of *guanxi*, political connections are among the most important (Liu et al. (2013), and Piotroski and Zhang (2014)). Second, perk expenses are disclosed by Chinese publicly listed firms, making the measurement possible. Third, there are frequent political turnovers in local Chinese governments because the central government has a policy of appointing new political leaders in each city every several years to empower

career politicians and prevent local officials from building up too much power. In our sample period 2003-2014, there are 1050 city government official turnovers, with significant variations across regions and over time.

We document that, when a party secretary, or a mayor, of a city takes office, the publicly-listed firms in that city increases their "perk spending", e.g., travel expenses, business entertainment expenses, overseas training expenses, board meeting expenses, company car expenses, and meeting expenses. Note that this result is after controlling for local economic conditions such as local GDP and population growth. That is, the increase in perk spending does not appear to be due to the change in local economic environment after a new mayor or secretary takes office. This effect is significant economically. In the year after a new mayor or secretary is appointed, on average, a local firm in the city increases its perk spending by about 2.98 million RMB.

Although this result is consistent with our hypothesis, it could also be driven by omitted variables that affect both political turnovers and perk spending. To address this concern, we construct instrumental variables based on the officials' age and tenure in the previous year. The idea is that the likelihood for an official to leave his or her current position increases with his or her age and the number of years since the appointment to the current position. There is no obvious reason why officials' age and tenure directly affect future perk spending. Our evidence based on these instruments suggests that political turnovers cause an increase in perk spending by local firms.

We are fully aware that our evidence is circumstantial. We find that firms increase their perk spending after political turnovers, but we do not have direct evidence that the increased perk spending is used for building up relations with local governments. Hence, to shed further light on our interpretation, we examine the cross-sectional and time series variations of the effect on perk spending. In particular, we find that perk spending increases more when the incentive to build relation with the local government is stronger. For example, when the new official is from a different city, local firms presumably have fewer connections with the incoming official and need to invest more to build up their relations. When the incoming official is young, the relation is perhaps more valuable, since the official is expected to be in power for longer and is more likely to be promoted, leading to more perk spending. For firms whose

senior management has no political experience, or for private firms, we also find stronger increases in perk spending. Moreover, we find that the perk spending appears to respond less to political turnovers when it is more costly for officials to accept perks from local firms. For example, after the 18th National Congress of the Chinese Communist Party, the unprecedented anticorruption campaign might have made officials more reluctant to accept perks due to the elevated risk of being disciplined. Similarly, after a recent arrest of a local politician in a city, the incoming officials would become more reluctance to accept perks. These variations in perk spending lend further support to our interpretation that the increase in perk spending is to build up relations with local governments.

What do firms get in return from their perk spending? We find that firms with more perk expenses get more future benefits from the government in the form of government subsidy or access to financing, especially long term financing. This effect is also stronger after political turnovers. However, we do not have evidence that firms with more perk expenses have better future performance.

Another important aspect of relationship building is perhaps through personnel changes, e.g., replacing senior management by people with connections to the new local government officials. On this front, we have two main results. First, we find that local political turnovers tend to be followed by more changes of chairmen or CEOs for firms in that city. This result is primarily driven by the changes at firms that local politicians can influence, such as state-owned enterprises controlled by the city. This relation disappears when we conduct the tests on private firms or on SOEs controlled by the central government. Second, consistent with the interpretation that appointed CEOs or chairmen are likely to be "friends" of current local government officials, we find that as long as those officials are still in office, their friends are less likely to be replaced.

Our paper contributes to the literature on how firms build up relations with their governments. Prior literature finds that firms can build political connections through a wide range of means including hiring executives with prior political experiences and/or government affiliations (Fan et al., 2007; Akey, 2015), contributing to electoral campaigns (Claessens et al., 2008; Cooper et al., 2009; Ovtchinnikov and Pantaleoni, 2012; Akey, 2015), lobbying (Borisov et al., 2016), and corporate investment (Bertrand et al., 2003; Aggarwal et al., 2012; Liu et al., 2013). Our paper differs from theirs in that we examine how firm

perk spending is used as a means to build political networks with governments and how such perk spending affects firm performance. Furthermore, we find another important aspect of relationship building is perhaps through personnel changes: local political turnovers tend to be followed by more changes of chairmen or CEOs for firms in that city.

Our study adds to the literature that examines the effects of political turnovers on corporate decisions, such as investments (e.g., Julio and Yook, 2012; An et al., 2016), tax avoidance (Chen et al., 2015), and cash holding (Xu et al, 2016). Our evidence suggests that firms respond to political turnovers by increasing perk spending to building up connections to local governments.

The existing literature has two opposite views on the role of perk spending. One view is that perks are a way for executives to misappropriate some of the surplus the firm generates (Jensen and Meckling, 1976; Jensen, 1986; Yermack, 2006). In contrast, the other one is that perks are offered to incentivize executives to enhance managerial productivity and hence lead to optimal incentive contracts (Fama, 1980; Rajan and Wulf, 2006; Marino and Zábojník, 2008). We add to these studies by providing another role played by perks: building networks with government officials.

The rest of the paper is organized as follows. Our main hypothesis is developed in Section 2. Section 3 presents the data, empirical design. Our empirical results are reported in Section 4. Section 5 performs additional analysis and Section 6 concludes.

2. Institutional background and hypothesis development

2.1. Institutional background

There are five levels of government hierarchy in China: the central government, local government at the provincial level, the city level, the county level, and the town level. Our analysis focuses on the city level. According to the 2014 *China City Statistical Yearbook*, there are about 290 cities across 31 provinces and four centrally administrated cities (Beijing, Shanghai, Tianjin, and Chongqing). The top two leaders at the city level are the city's Communist Party Secretary and the mayor, reflecting the dual presence of the Communist Party and the government at each level of China's political hierarchy (Li and Zhou, 2005).

City official turnover is under the control by the Organization Department of the Provincial Party Committee. Typically, a city official's term is five years[1] and his turnover occurs around the meetings of the National People's Congress of the People's Republic of China. However, many city officials do not complete the five-year terms and leave for other positions. For example, in the first year of a term, an official has around 20% chance of leaving his position. This conditional probability increases steadily. In the fifth year, for example, an official has a 60% chance of leaving his position.

2.2. Hypothesis

Given the importance of political connections in the Chinese economy, it is natural to expect that firms may find it valuable to invest in the relation with their local governments. Our overarching hypothesis is that firms would increase their investment in political connections after major personnel changes in their local governments. First, firms may want to increase their investment in relations after political turnovers because this is the time when they may need to establish new connections rather than simply maintaining their existing ones. Moreover, connections with new leaders are more valuable since they are expected to be in power for longer. Finally, new officials might make new policies that alter the business environment where firms operate (Gulen and Ion, 2016). Thus, firms also face the risk of getting adverse impact from a new government policy. Hence, firms may be more eager to build connections with local governments after new officials take office.

Given the opaque nature of the investment in government relations, we attempt to measure it indirectly. Adithipyangkul et al. (2011) and Cai et al. (2011) argue that Chinese executives commonly use perks, such as meals, entertainment, and travel (ETC), to network with government officials, suppliers, clients, and creditors. These networking activities help executives build their relational capital to facilitate their firms' activities. Yeung and Tung (1996) suggest that the buildup and maintenance of *guanxi* requires perk spending. Moreover, the compensation of Chinese officials is generally low relative to that

[1] Regarding city officials' tenure, the Organization Department of the Central Committee of the Communist Party of China issued the "Provisional Regulations on Terms of Cadres of the Party and Government" in August 2006, which states that mayors and officials at the county level and above should serve five-year terms and that these terms should be relatively stable. An added regulation also stipulates that cadres may not serve in the same position for more than two terms (Article 6) and may not serve in positions of the same rank for more than 15 years (Article 7).

in other countries and relative to private industry in China.[2] Officials might be motivated to seek alternative compensation in monetary and non-monetary forms. Perk expense of local firms may be a convenient way for officials to extract due to their opaque nature. These illegitimate expenses are commonly reimbursed as management expenses in Chinese accounting practice (Cai et al., 2011). Vast anecdote evidence shows that this is a common practice in China.[3]

3. Data

Our sample consists of listed firms that disclose managerial perk data in Shanghai and Shenzhen Stock Exchange in China from 2003 to 2014. Our sample starts in 2003 because there were few firms that disclosed their perk expenses before 2003. We manually collect perk expense data from firms' annual reports. The rest of the financial data are from the *China Stock Market and Accounting Research* (CSMAR) database. Macro-economic statistics at the provincial and city levels are from the *National Bureau of Statistics* (NBS). We also manually collect the information on the executives from the firms' prospectuses and annual reports.

To measure local political turnovers, we manually collect the detailed information on mayors and city level CPC secretaries such as their names, positions, tenure terms, ages, and résumés from city government official websites. These résumés also contain detailed personal information such as education and work experience prior to their current positions. If the information is not available on the official website, we then manually search the information through Baidu (www.baidu.com), China's most popular search engine. We then merge officials' personal data with firm-level perk spending and financial data by matching the province, city, and fiscal year. We classify a firm into a city according to the location of its corporate headquarter.

[2] On April 29, 2013, the *International Business Times* reported that Xi Jinping, China's president, made US$19,000 a year (compared to US President Barack Obama's US$400,000 a year).

[3] (1) Car expenses: Due to the regulation of prohibiting government cars to be used for private purposes, government officials tend to use cars provided by firms. See *China Enterprise News*, April 9, 2013. http://news.163.com/13/0409/07/8S0KPDP20001124J.html; (2) Travel expenses: 3 AVON senior Chinese executives were suspected of supporting government officials' oversea travelling, which was classified as travelling costs in the firm's balance sheet. See http://news.163.com/10/0414/07/647DQROL000146BD.html; (3) Business entertainment expenses: The entertainment expenses, including eat and drink, for government officials are usually paid by firms. see http://news.163.com/15/0513/18/APH1K5DS00014JB5.html.

We exclude firms in the financial industry. Our sample has 7,935 firm-year observations. To mitigate the effect of outliers, we winsorize continuous variables at the 1% level in both tails. In our analyses, the sample size may vary due to missing values in some key variables in different regression models.

3.1. Political Turnover

To measure the major personnel change in a city, we construct a dummy variable $Induction_{c,t}$, which is 1 if a new mayor or Community Party secretary takes office in city *c* between July 1 of year *t-1* and June 30 of year *t*, and 0 otherwise. That is, if an official takes office between January 1 and June 30 in year *t*, we treat year *t* as his first year in power. If an official takes office between July 1 and December 31 in year *t*, then we treat year *t*+1 as his first year in power.

3.2. Perk Spending

In China, the disclosure of perk spending is not mandatory in the annual reports. In "Foot-notes to Financial Statements", firms voluntarily disclose the content of "other cash flows related to operating activities", from which we identify possible items related to perk spending.

We follow Adithipyangkul et al. (2011), Gul et al. (2011) and Xu et al. (2014) to calculate the overall perk spending. Specifically, we construct our main measure, *Perk6*, by aggregating the following six items: travel expenses, business entertainment expenses, overseas training expenses, board meeting expenses, company car expenses, and meeting expenses. Then, we obtain *Ln_Perk*, *Perk_Rev* and *Perk_Asset*, where *Ln_Perk* is the logarithm of *Perk6*; *Perk_Rev* and *Perk_Asset* are *Perk6* normalized by revenue and assets, respectively. After merging perk spending with political turnover, we can use three subscripts to describe the perk spending. For example, $Perk6_{i,c,t}$ refers to the perk spending of firm *i*, whose headquarter is in city *c*, during year *t*.

As robust checks, we also constructed two alternative measures of the aggregate perk spending. Following Cai et al. (2011), we calculate *ETC* as the sum of three items: travel expenses, business entertainment expenses, and company car expenses. Following Chen et al. (2016), we construct the perk spending measure, *Perk8*, as the sum of *Perk6* and two other items, work-related expenses and communication expenses.

Table 1 presents summary statistics for our sample. One average, firm perk spending is about 0.736% of the firm revenue, and the standard deviation is 1.122%, suggesting that there is significant cross-sectional variation across firms. Firms at the 75% quantile (0.803%) have nearly 4 times more perk spending than those at the 25% quantile. The average perk size is about RMB 16.774 million per firm–year in our sample, with an inter-quartile range of about RMB 3.010 million to RMB 14.175 million.

The mean of *Induction* is 0.370, which indicates that about 37% of firm-year observations in our sample period experience at least one major personnel change in their local city governments. In Table 2, we report the correlation matrix of the main variables, with Spearman (Pearson) correlations reported in the upper-right (bottom-left) part of the matrix. We can see that political turnover and perk spending are positively correlated. Specifically, the Spearman correlation between *Induction* and *Perk6_Rev* is approximately 0.045, which is highly significant at the 1% level.

4. Political Turnover and Perk Spending

4.1. Panel regressions

To examine the effect of political turnover on perk spending, we first run the following panel regression:

$$Perk_{i,c,t} = \alpha + \beta \times Induction_{c,t} + C \times M_{i,c,t} + \varepsilon_{i,c,t} \qquad (1)$$

where $Perk_{i,c,t}$ is a measure of perk spending of firm *i*, which is headquartered in city *c*, in year *t*. $Induction_{c,t}$ is the dummy variable, which is one if there is a change of mayor or party secretary in city *c* during year t; and $M_{i,c,t}$ includes a list of firm-level, CEO-level and regional-level control variables.

Firm-level control variables include the following. $FirmSize_{i,c,t}$ is the natural log value of the book value of total assets of firm *i*, which is headquartered in city *c*, in year *t*. $Leverage_{i,c,t}$ is the debt to asset ratio, and $ROA_{i,c,t}$ is the net income divided by total assets. $Dual_{i,c,t}$ is one if the board chairman has a dual role and zero otherwise. $Indir_{i,c,t}$ is the independence of the board, measured as the ratio of the number of independent directors over the total number of directors on the board. $SOE_{i,c,t}$ is one if the firm is a state-owned enterprises and zero otherwise. $Insholdper_{i,c,t}$ is the percentage of the shares owned by institutions. $DirHolding_{i,c,t}$ is the percentage of the shares owned by the board directors. $Analysts_{i,c,t}$ is the

logarithm of the number of analysts following the firm. The second set of control variables is about CEO characteristics. $Male\_Ceo_{i,c,t}$ is one if the CEO of firm *i* in year *t* is a male, and zero otherwise. $Age\_Ceo_{i,c,t}$ is the age of CEO of firm *i* in year *t*. $Salary\_Ceo_{i,c,t}$ is the natural logarithm of the annual salary of the CEO of firm *i* in year *t*. The third set of control variables is about the region. $GDP\_Growth_{c,t}$ is the GDP growth of city *c* in year *t*. $Pop\_Growth_{c,t}$ is the population growth rate of city *c* in year *t*.

After controlling for observables that affect a firm's perk spending for its normal business activities, a positive coefficient β can be viewed as the excess perk spending after a major personnel change in the local government. That is, the excess perk spending cannot be attributed to usual business activities. This is consistent with our hypothesis that after the major personnel change in the local government, firms increase their investment in building relations with the government, and this extra cost shows up in the annual reports as higher than usual spending on travel expenses, business entertainment expenses etc.

The regression results are reported in Table 3. In column (1), the coefficient of *Induction* is 0.057 (*t*=2.80). This is consistent with our hypothesis that after the turnover of the party secretary or mayor of a city in China, firms headquartered in that city significantly increase their "perk spending". The economic magnitude of this increase is also significant. The average revenue is our sample is RMB 5,235 million. Hence, our estimate implies that during the first year after a major personnel change in a local city government, an average firm that is headquartered in this city has an excess RMB 2.98 million (=5,235×0.057%) perk spending that cannot be attributed to usual business activities.

Columns (2)-(5) report regression results based on alternative measures of perk spending: *ETC_Rev*, *Perk8_Rev*, *Ln_Perk6*, and *Perk6_Asset*. For all specifications, the coefficients of *Induction* are positive and significant at the 1% to 10% level, suggesting that perk spending increases after political turnovers. We also rerun the regression using a sub-sample without firms in the four major cities of Beijing, Shanghai, Tianjin, and Chongqing. The results, reported in column (6), remain similar. The coefficient of *Induction* is 0.068 (t=3.12).[4]

[4] We also construct a subsample, where each city has more than 4 listed firms. Then, we include city-fixed effects and rerun the regressions in Table 3. The coefficient of *Induction* is positive in all specifications, and is statistically significant in 4 of the 6 specifications. These results are reported in the Online Appendix.

We conduct a number of placebo tests. Specifically, we rerun the regression in (1) of Table 3 by replacing its dependent variable by $Perk6\_Rev_{i,c,t+j}$ for $j = -2, -1, 1, 2$. That is, we now examine if the perk spending increases during the two years before a political turnover, or in the second and third years after a political turnover. Table 4 reports the regression results. It shows that the coefficient of *Induction* is insignificant for all cases. Hence, our evidence suggests that only in the first year after a new mayor or party secretory takes office, do firms headquartered in this city significantly increase their perk spending.

4.2. Instrumental variables

Our prior evidence is consistent with the hypothesis that firms increase their perk spending to establish connections after a political turnover in their local city governments. However, one can imagine that omitted variables might cause both political turnovers and perk spending. In this section, we try to address this concern using instrumental variables.

Our instruments are dummy variables, which are designed to predict the likelihood for an official to leave his current position. The idea is that an official is more likely to leave his current position if he is older, or he has been at the current position longer. Specially, we set $D\_Age_{c,t}$ to one if the age of the mayor (or the party secretary) of city *c* is greater than or equal to the median age when a city mayor (or party secretary) leaves his position, and zero otherwise. Similarly, we use "tenure" to refer to the number of years an official has been in office since his appointment, or latest reappointment, at the current position. We set $D\_Tenure_{c,t}$ to one if the tenure of the mayor (or the party secretary) of city *c* is greater than or equal to the median tenure when a city mayor (or party secretary) leaves his position, and zero otherwise.

Appendix C shows that these two instruments are positively related to the hazard rate for an official to leave his current position. But it is not obvious why an official's age and tenure can directly affect perk spending for reasons other than building up connections.[5] Hence, we use both instruments to run the following regressions.

[5] One intuitive story is that when an official anticipates that he will soon leave his position, he may try to extract more perks before losing his power. However, this story is inconsistent with the evidence is Table 4, which shows that perk spending tends to be slightly lower during the couples of years before an official leaves office.

First stage: $Induction_{c,t} = a + b \times IV_{c,t-1} + C \times M_{i,c,t} + \varepsilon_{c,t}$ (2)

Second stage: $Perk6\_rev_{i,c,t} = \alpha + \beta \times Exp\_Induction_{c,t} + C \times M_{i,c,t} + \varepsilon_{i,c,t}$ (3)

where $IV_{c,t-1}$ denotes instrument variable in year t-1, $Exp\_Induction_{c,t}$ is to the projected value of $Induction_{c,t}$ obtained from the first-stage regression. $M_{i,c,t}$ stacks the list of control variables as in the regressions in Table 3. The results of the first- and second-stage are reported in Table 5.

Column (1) shows that the coefficient of $D\_Age_{c,t-1}$ is 0.361 (t=2.40). Hence, this instrument is highly relevant for political turnover, i.e., a city official is more likely to leave his position if he is older. Column (2) reports the second-stage results. The coefficient of $Exp\_Induction$ is 0.087 (t=2.23). That is, consistent with our hypothesis, political turnover increases perk spending. Columns (3) and (4) report the results based on the instrument $D\_Tenure_{c,t-1}$ and columns (5) and (6) report the results based on both instruments. The results remain similar in both cases.

4.2. Cross-sectional and time series variations

The above results suggest that major personnel changes in a city's government causes an increases in perk spending by firms in that city. However, we acknowledge that our evidence is circumstantial for the interpretation that the perk spending increase is due to the investment in building up relations with local governments. Nevertheless, it is not clear how the local political turnover should increase the perk spending through normal economic activities after controlling for local GDP and population growth. If the increase in perk spending is merely a response to the change in the local economic environment, this change has to be something that is not reflected in the local GDP or population growth.

To further evaluate our interpretation, we examine the cross-sectional and time-series variations of the effect on perk spending. Under our interpretation that the perk spending is used to build relations with local governments, we should expect the effect to be stronger when firms' incentive to build relations is stronger or when officials' incentive to accept perks is stronger. In the following, we examine three types of variations.

First, the variation is due to the differences across the appointed officials. For instance, if the newly-appointed official is from a different city, it is more likely that fewer firms have existing connections with new official, and hence the incentive to build relations is stronger. To test this, we construct a dummy variable, $Local_{c,t}$, which is 1 if the newly-appointed mayor or party secretary of city *c* in year *t* was working in the city before the appointment, and 0 otherwise. We augment the regression in Table 3 by including an interaction term *Induction*×*Local*. The results are reported in column one of Table 6. Consistent with our hypothesis, the interaction coefficient is -0.036 (t=1.9). Note that the coefficient of *Induction* is 0.072 (t=2.48). These estimates imply that if the appointee is local, its effect on perk spending is weakened by half. Similarly, the effect is expected to be weaker if the new official is older perhaps because the connection is less valuable since the new official is not expected to be in power for long, and is less likely to be further promoted. We create a dummy variable *Old*, which is 1 if the appointee is older than 59. As shown in column (2), the coefficient of the interaction term *Induction*×*Old* is -0.040 (*t*=3.03). The coefficient of *Induction* is 0.051 (t=2.52). Hence, for old appointees, the effect on perk spending is weakened by almost 80%.

Second, the variation can also be due to the differences across firms. For example, if a firm is generally more politically connected, the change in local officials is likely to have a smaller interruption of its connections. Hence, its adjustment in perk spending should be smaller than less connected firms. We use three variables as proxies for a firm's political connection. First, we define a dummy variable $PC_{i,c,t}$, which is one if the chairman or CEO of firm *i* is a former government official, i.e., a member of the Committee of the Chinese People's Political Consultative Conference, or a member of the National Congress of Communist Party of China; and zero otherwise. The idea is that if the chairman or CEO of a firm used to be a politician, a change in local politician should be a smaller interruption to the firm's political connection. Hence, its perk spending would respond less. The second variable is $SOE_{i,c,t}$, which is one if firm *i* is a state-owned enterprise and zero otherwise. The third variable is $Large_{i,c,t}$, which is one if asset value of firm *i* is larger than the median asset value of the firms in the same industry in year *t*, and zero otherwise. The idea is that state-owned enterprises and larger firms are better connected, and hence political turnovers should have a smaller effect on their perk spending. Consistent with our conjecture,

columns (3)-(5) show that the interaction coefficients of *Induction* with the three proxies are all significantly negative. Quantitatively, the effect is quite large. For state-owned enterprises, for example, the effect on perk spending is reduced by around 80%.

Finally, the variation can be due to the changes in the cost of investing in political connections. For example, after the 18th National Congress of the Chinese Communist Party, the unprecedented anticorruption campaign might have made officials more reluctant to accept perks due to the elevated risk of being disciplined. Hence, we expected the effect of the personnel changes on perk spending to be weakened after the meeting. To test this, we define a dummy variable $Post_t$, which is one if it is after 2012. Column (6) shows that the coefficient of *Induction* is 0.071 (t=2.80) and the interaction coefficient of *Induction*×*Post* is -0.045 (*t*=2.40). That is, after the 18th Nation Congress, the effect of political turnover on perk spending is reduced by around 60%. Similarly, after a recent arrest of a local politician in a city, the incoming officials would become more reluctance to accept perks. To test this, we manually collected information of arrested city officials, and there are totally 79 cases of arrested officials in our sample period. Then we define a dummy variable $Arrest_{c,t}$, which is one if there was an arrest of a local official in city *c* in year *t-1*. Column (7) shows that the coefficient of *Induction* is 0.040 (t=2.32) and the interaction coefficient of *Induction*×*Arrest* is -0.061 (*t*=1.75). That is, a recent arrest reduces the effect on perk spending. This effect is so strong that the total induction effect on perk spending becomes negative.

These cross-sectional and time-series variations in perk spending lend further support to our interpretation that the increase in perk spending is to build up relations with local governments.

4.2. Perk spending and firm performance

Do firms benefit from their perk spending? One hypothesis is that the government may directly provide subsidy. To examine this, we construct $Subsidy\_Rev_{i,t}$, which is the government subsidy (including fiscal subsidy, tax returns and tax reduction) to firm *i* divided by its sales in year *t*. If the subsidy is not disclosed, we set *Subsidy_Rev* to 0. Then, we regress it on *Perk_Rev* and control for the subsidy in the previous year and the set of control variables in our main test in Table 3. As shown in column (1) of Table 7, the coefficient of *Perk_Rev* is 0.012 (t=1.83). This is consistent with our conjecture that firms build up

their connections to their local governments through perk spending, and in return they get more subsidy. We then include the interaction term *Induction*×*Perk6_Rev* in the regression. As shown in column (2), the interaction coefficient is 0.11 (t=1.90) while the coefficient of *Perk6_Rev* is 0.006 (t=1.25), that is, the effect of perk spending on subsidy is mostly during political turnovers.

Moreover, the government can help a firm to obtain bank loans, especially long term loans. Hence, we construct $Leverage_{i,c,t}$, the ratio of firm *i*'s total liabilities in year *t* to its lagged total assets in year *t-1*, and $LongTerm_{i,c,t}$ is firm *i*'s long-term loan divided by its lagged total liabilities in year *t-1*. We then run similar regressions. As shown in columns (3) through (6), perk spending is positively associated with higher debt ratio, especially the long-term debt ratio, and this association is stronger during political turnovers.

The above evidence suggests that firms with higher perk spending receive more future government subsidy and have better access to finance. A natural question is whether they also have better future performances. To examine this, we regress future firm performance measures such as $ROA_{i,c,t+1}$ and $ROE_{i,c,t+1}$ on $Perk6\_Rev_{i,c,t}$. We include the same set of control variables and year-, industry-, and province-fixed effects as in our earlier regressions. The results are reported in Table 8. As shown in columns (1) and (2), the coefficient of $Perk6\_Rev_{i,c,t}$ is insignificant. In columns (3) and (4), we include the interaction term *Induction*×*Perk6_Rev* in our regressions. In both cases, the interaction coefficients are still insignificant. That is, we do not have evidence that firms with higher perk spending have better future performance.

5. Political turnover and firm management turnover

Our results so far suggest that perk spending is one way for firms to build up connections with politicians. In this section, we examine another type of government relationship building: top manager turnovers. In China, the government retains the ultimate decision right on the appointment of SOEs' CEOs and chairmen (Fan et al., 2007). The appointments of CEOs and chairmen are carried out by the Organization Department of the CCP in the government where the SOEs belong. Many of these senior managers in SOEs are typically quasi-government officials rather than professional managers. Their promotion and

demotions are likely to be less associated with operating performance and more related to political considerations such as loyalty in carrying out policy mandates and connections with powerful politicians. Thus, their career paths often overlap with local or central government officials (Wong, 2014). Hence, we hypothesize that local political turnovers will lead to the changes of chairmen or CEOs for local SOEs in that city.

To test this hypothesis, we construct a dummy variable, $Turnover\_Chairman_{i,c,t}$, which is 1 when the chairman of firm *i* located in city *c* leaves office in year *t*, and 0 otherwise. Similarly, we define a dummy variable $Turnover\_CEO_{i,c,t}$ for CEO turnovers. Then we regress these two dummy variables in year *t+1* on $Induction_{c,t}$. We control for *Firmsize*, *Leverage*, *ROA*, as well as the characteristics of top managers, including *Tenure* and *Age* in the regressions. As the impact of managers' tenure and age on their turnover may be non-linear, we also add their square terms in the regressions. We also include a control variable $ST_{i,c,t}$, which is 1 if firm *i* is a "ST or PT firm", and 0 otherwise. [6]

The results are shown in Table 9. Panel A reports the results for turnovers for CEOs. The regressions in columns (1)-(3) are for the samples of non-SOEs, SOEs owned by the central government, and SOEs owned by provincial governments, respectively. For these three samples, the coefficient of *Induction* is insignificant. In contrast, for the sample of SOEs owned by city governments, the coefficient of *Induction* is 0.333 (t=2.67), suggesting that a change in leadership of a city government increases the probability of CEO changes in the firms headquartered in that city. The results for chairman turnovers, reported in Panel B, are similar. The coefficient of *Induction* is insignificant for non-SOE and central SOE samples, but is significant for provincial- and city-SOE samples.

One interpretation of the above results is that newly appointed city officials replace chairmen and CEOs of local SOEs by their "friends." This interpretation implies that during the tenure of an official, the chairmen and CEOs, who are "friends" of the official, are less likely to be replaced. Since the friend

[6] In 1998, the China Securities Regulatory Commission introduced the *ST* and *PT* designation policy to the Chinese stock market. Under the China Securities Regulatory Commission's guideline, a firm can become an *ST* (*PT*) firm if it experiences a net loss for two (three) consecutive years. Such firms will receive stricter scrutiny from regulators, including a narrower daily price fluctuation range (5% versus 10% for normal stocks) and mandatory audited semi-annual financial reports. When a firm is denoted as a ST or PT firm, their managers are more likely to be changed.

network is not observable, we test this prediction indirectly. Specifically, we construct a dummy variable $Friend_{i,c,t}$ for CEO or chairman *i* in year *t* as follows. The dummy variable is set to be 1 if the city official who "appointed" CEO *i (*or chairman *i)* is still in office in year *t*. That is, if manager *i* is appointed when official *j* is in office, we view *i* as a friend of *j*. The hypothesis is that if *j* is still in office, *i* is less likely to be replaced.

To test this hypothesis, we regress $Turnover\_CEO_{i,c,t+1}$ on $Friend_{i,t}$. The results are reported in Panel A of Table 10. Consistent with our hypothesis, it shows that if a CEO of a city-SOE or a provincial SOE is a friend of city officials, he is less likely to be removed during the tenure of those officials. In contrast, this result does not hold for non-SOEs and SOEs owned by central government. The results on the turnovers of Chairmen, reported in Panel B, are very similar.

In summary, these results are consistent with the interpretation that, after political turnovers, firms build up their connections to their local governments partly through appointing chairmen and CEOs with connections to the newly-appointed officials.

6. Conclusion

We have shown that following the turnover of the party secretary or mayor of a city in China, firms headquartered in that city significantly increase their "perk spending" (e.g., travel expenses, business entertainment expenses, overseas training expenses, board meeting expenses, company car expenses, and meeting expenses). Using the age and tenure of incumbents as instruments, our evidence supports the interpretation that the perk spending increase is due to local political turnover. Moreover, we also find that the perk expenses increase more when the demand to build relation is stronger, e.g., when the incoming official is from a different city, or is young; when the firm is less connected. This effect is weaker when officials are expected to be reluctant to accept perks, for example, after the 18th National Congress of the Chinese Communist Party, or after an arrest of local politicians for corruption cases. Our evidence also shows that firms with more perk expenses receive more future benefits such as government subsidy and access to financing, but do not have performance. Finally, local political turnover in a city tends to be followed by changes of chairmen or CEOs of state-owned firms in that city, but only for those controlled

by the local government rather than private firms or those controlled by the central government. However, those chairmen or CEOs connected with city officials are less likely to be replaced.

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Appendix A: Variable definitions

Variables	Definitions	Source
Dependent Variables		
Perk6	The amount of six expense categories related to perk consumption in millions of RMB. The *Perk6* includes: traveling expenses, business entertainment expenses, overseas training expenses, board meeting expenses, company car expenses, and meeting expenses.	Manual collection
Perk6_Rev	The ratio of *Perk6* to revenue * 100.	Manual collection
ETC_Rev	The ratio of *ETC* to revenue * 100. The *ETC* includes: traveling expenses, business entertainment expenses, company car expenses.	Manual collection
Perk8_Rev	The ratio of *Perk8* to revenue * 100. The *Perk8* includes administrative expenses and communication expenses besides of those in *Perk6*.	Manual collection
Ln_Perk6	The natural log value of *Perks6* related to perk consumption	Manual collection
Perk6_Asset	The ratio of *Perks6* to lagged assets * 100.	Manual collection
Political Turnover Variables		
Induction	A dummy variable that equals 1 when a local government official (mayor or secretary) in the firm's location takes office and 0 otherwise.	Manual collection
Post	A dummy variable that is if it is after 2012, and zero otherwise.	Manual collection
Arrest	A dummy variable that is one if there was an arrest in the previous year and zero otherwise.	Manual collection
Performance and Channel Variables		
Subsidy_Rev	The government subsidy divided by sales. If the *Subsidy* is not disclosed, then we set *Subsidy* equals 0.	Manual collection
LongTerm	Long-term loan divided by lagged liabilities.	CSMAR
Top managers' Turnover Variables		
Turnover_Topmanager	A dummy variable that equals 1 when the top manager (CEO or Chairman) leaves office and 0 otherwise.	Manual collection
Friend	A dummy variable, which is one if the mayor or party secretary who "appointed" the CEO or chairman is still in office, and zero otherwise.	Manual collection
Instrumental variables		
$D\_Age_{c,t}$	A dummy variable, which is one if the age of the mayor (or the party secretary) of city *c* is greater than or equal to the median age when a city mayor (or party secretary) leaves his position, and zero otherwise.	Manual collection
$D\_Tenure_{c,t}$	A dummy variable, which is one if the tenure of the mayor (or the party secretary) of city *c* is greater than or equal to the median tenure when a city mayor (or party secretary) leaves his position, and zero otherwise.	Manual collection

Other Variables		
FirmSize	The natural logarithm of the book value of total assets.	CSMAR
Leverage	The ratio of a firm's total liabilities to lagged total assets.	CSMAR
ROA	The ratio of a firm's net income and total assets.	CSMAR
ROE	The ratio of a firm's net income and equity value.	CSMAR
Dual	An indicator variable equal to one if the CEO also holds the position of the chair of the board and 0 otherwise.	CSMAR
Indir	Independence of the board, measured as the ratio of the number of independent directors over the total number of directors on the board.	CSMAR
SOE	An indicator variable equal to one if the firm is state-controlled and 0 otherwise.	CSMAR
Insholdper	Institutional ownership.	CSMAR
DirHolding	Directors' shareholding percentage on the board.	CSMAR
Analysts	Logarithm of the number of analysts following the firm.	CSMAR
Male_Topmanager	An indicator variable equal to one if the top manager (CEO or Chairman) is male and 0 otherwise.	CSMAR
Salary_Topmanager	Natural logarithm of annual salary of the top manager (CEO or Chairman).	CSMAR
Age_Topmanager	Age of top manager (CEO or Chairman).	CSMAR
GDP_Growth	City-level GDP growth for the city in which the firm is located.	CEI
Pop_Growth	The population growth rate of the city in which the firm is located.	CEI
PC	Political connection of the executives, PC takes one if the CEO or Chairman is a former government official, a former military officer, a member of the Committee of the Chinese People's Political Consultative Conference, or a member of the National Congress; zero otherwise.	CSMAR
Post	Anticorruption regulation, which equals 1 if the sample period is after the eight-point regulation that was adopted in December 2012 and 0 otherwise.	The Website of Commission for Discipline Inspection of CPC
Age_Official	The nature log of city officials' age.	Manual collection
Tenure	The period of time when top managers hold the position.	CSMAR

Appendix B: Types of Induction

This table presents the distribution of four types of our main variable, *Induction*, by city-year over the sample period 2003–2014. *Induction_Mayor* is a dummy variable that equals 1 when a mayor in the firm's location takes office and 0 otherwise. *Induction_Secretary* is a dummy variable that equals 1 when a party secretary in the firm's location takes office and 0 otherwise. *Induction_ Mayor and Secretary* is a dummy variable that equals 1 when both mayor and party secretary in the firm's location takes office at the same year and 0 otherwise. *Induction* is a dummy variable that equals 1 when a mayor or party secretary in the firm's location takes office and 0 otherwise. In the main test, we use *Induction* as our main variable.

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Mayor	(*N*)	57	30	28	39	51	54	20	26	71	90	82	33	581
	(%)	52.29%	23.08%	20.14%	26.90%	36.96%	37.76%	13.25%	11.98%	32.13%	40.54%	37.44%	15.00%	28.29%
Secretary	(*N*)	44	21	31	34	40	58	19	27	62	73	87	28	524
	(%)	40.37%	16.15%	22.30%	23.45%	28.99%	40.56%	12.58%	12.44%	28.05%	32.88%	39.73%	12.73%	25.51%
Mayor and Secretary	(*N*)	34	11	15	20	23	37	11	11	35	44	52	14	307
	(%)	31.19%	8.46%	10.79%	13.79%	16.67%	25.87%	7.28%	5.07%	15.84%	19.82%	23.74%	6.36%	14.95%
Mayor or Secretary	(*N*)	67	40	44	53	68	75	28	42	98	119	117	47	798
	(%)	61.47%	30.77%	31.65%	36.55%	49.28%	52.45%	18.54%	19.35%	44.34%	53.60%	53.42%	21.36%	38.85%
Total	(*N*)	109	130	139	145	138	143	151	217	221	222	219	220	2054

Appendix C: Survival analysis of officials' leaving office

We first plot the hazard rate using the Kaplan-Meier method, a nonparametric approach that estimates a survival function without covariates and computes the hazard rate (1-conditional survival probability), as shown in Panel A. Next, we examine whether age and latest tenure of officials will impact conditional probability of officials' leaving office by taking into account other city level feature that could potentially affect the probability at a given time, such as *GDP_growth* and *Pop_growth*. The dependent variable is the hazard ratio for cox regression, as shown in Panel B.

Panel A: Departure curves using the Kaplan-Meier method

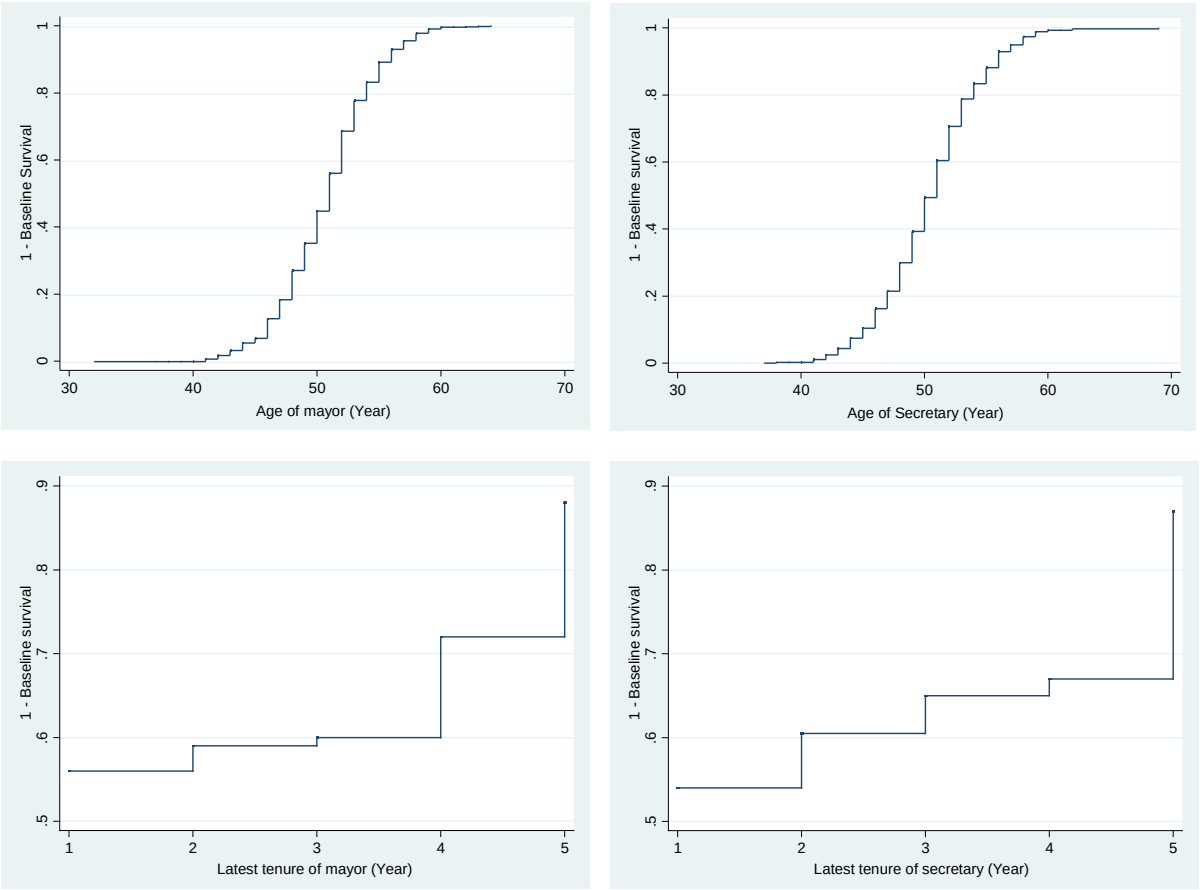

Figure 1: Departure curves of local officials

Panel B: Cox proportional hazard model

Dep. Var=	*Replace_Mayor*$_{c,t}$	*Replace_Secretary*$_{c,t}$
	(1)	(2)
Age_Mayor$_{c,t}$	0.038***	
	(3.35)	
Tenure_Latest_Mayor$_{c,t}$	0.561***	
	(16.9)	
Age_Secretary$_{c,t}$		0.040***
		(2.96)
Tenure_Latest_Secretary$_{c,t}$		0.526***
		(14.9)
GDP_growth$_{c,t}$	1.998***	2.555***
	(3.06)	(3.33)
Pop_growth$_{c,t}$	-0.013	-0.036***
	(-1.14)	(-2.86)
Fixed effect	YR	YR
Observations	1867	1702
Prob > chi2	0.0513	0.0494

Table 1: Descriptive statistics

This table presents the descriptive statistics of main variables in the sample period from 2003 to 2014. All variables are as defined in the Appendix A.

Variable	Obs.	Mean	STD	10%	25%	Median	75%	90%
Perk6_Rev (%)	7935	0.736	1.122	0.103	0.202	0.399	0.803	1.515
ETC_Rev (%)	7935	0.669	0.986	0.091	0.188	0.375	0.746	1.387
Perk8_Rev (%)	6316	1.043	1.295	0.179	0.347	0.658	1.216	2.169
Perk6(Million RMB)	7935	16.774	64.198	1.352	3.010	6.400	14.175	31.448
Perk6_Asset (%)	7935	0.380	0.450	0.061	0.118	0.240	0.461	0.806
Induction	7935	0.370	0.483	0.000	0.000	0.000	1.000	1.000
Same City	7935	0.510	0.500	0.000	0.000	1.000	1.000	1.000
Soe	7935	0.523	0.499	0.000	0.000	1.000	1.000	1.000
PC	7935	0.174	0.379	0.000	0.000	0.000	0.000	1.000
Ros	5716	0.134	1.887	0.031	0.080	0.140	0.240	0.352
Growth1_Earning	5716	-0.279	1.158	-1.702	-0.533	-0.302	1.289	1.989
Growth3_Earning	3572	0.402	1.981	-2.384	-0.505	0.209	1.123	2.722
Subsidy_Rev	5716	0.588	0.823	0.000	0.024	0.216	0.602	1.276
Lev	5716	0.474	0.198	0.188	0.318	0.474	0.614	0.731
Lloan_Debt	5716	0.103	0.147	0.000	0.000	0.023	0.148	0.318
Hold_Finan	5716	0.116	0.141	0.000	0.000	0.110	0.164	0.271
FirmSize	7935	21.882	1.108	20.584	21.085	21.751	22.544	23.413
Leverage	7935	0.464	0.198	0.188	0.316	0.474	0.615	0.729
ROA	7935	0.040	0.052	0.002	0.013	0.034	0.064	0.103
Dual	7935	0.188	0.391	0.000	0.000	0.000	0.000	1.000
Indir	7935	0.364	0.049	0.333	0.333	0.333	0.385	0.429
Insholdper	7935	0.176	0.186	0.007	0.031	0.107	0.266	0.467
DirHolding	7935	8.495	7.324	0.000	0.000	9.998	15.127	18.252
Analysts	7935	2.190	1.794	0.000	0.000	2.398	3.761	4.533
Male_CEO	7935	0.941	0.235	1.000	1.000	1.000	1.000	1.000
Salary_CEO	7935	12.901	0.858	11.812	12.429	12.953	13.430	13.862
Age_CEO	7935	48.087	6.375	40.000	44.000	48.000	52.000	56.000
GDP_Growth	7935	0.132	0.054	0.072	0.091	0.113	0.169	0.214
Pop_Growth	7935	0.009	0.018	0.001	0.003	0.005	0.009	0.022
Relation	5626	0.691	0.466	0.000	0.000	1.000	1.000	1.000

Table 2: The correlation coefficients of the main variables

This table presents the correlation coefficients of the main variables. The upper-fight part (bottom-left part) presents the Spearman (Pearson) correlation matrix. All variables are defined in the Appendix A. *, **, and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively.

Variable	*Perk6_Rev*	*ETC_Rev*	*Perk8_Rev*	*Ln_Perk6*	*Perk6_Asset*	*Induction*
Perk6_Rev	1.000	0.977***	0.810***	0.310***	0.762***	0.045***
ETC_Rev	0.973***	1.000	0.796***	0.297***	0.750***	0.049***
Perk8_Rev	0.815***	0.810***	1.000	0.071***	0.530***	0.020*
Ln_Perk6	0.235***	0.225***	0.027**	1.000	0.492***	0.036***
Perk6_Asset	0.697***	0.670***	0.509***	0.430***	1.000	0.074***
Induction	0.024**	0.029**	0.015*	0.039***	0.039***	1.000

Table 3: The impact of political turnover on perks

This table presents the regression results of the impact of political turnover on perk spending. The dependent variables are *Perk6_Rev*$_{i,c,}$ *ETC_Rev*$_{i,c,t}$, *Perk8_Rev*$_{i,c,t}$, *Ln_Perk6*$_{i,c,t}$, and *Perk6_Asset*$_{i,c,t}$ in columns (1) through (5), respectively. In column (6), the dependent variables are *Perk6_Rev*$_{i,c,}$ and the sample does not include observations on "major 4" cities (Beijing, Shanghai, Tianjin, and Chongqing). Year-, industry-, and provincial-fixed effects (IYP) are included in all regressions. All variables are as defined in the Appendix A. The t-statistics reported in parentheses are based on standard errors clustered by city. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Dep. Var=	*Perk6_Rev*$_{i,c,t}$	*ETC_Rev*$_{i,c,t}$	*Perk8_Rev*$_{i,c,t}$	*Ln_Perk6*$_{i,c,t}$	*Perk6_Asset*$_{i,c,t}$	*W.O. major 4 cities*
	(1)	(2)	(3)	(4)	(5)	(6)
Induction$_{c,t}$	0.057***	0.056***	0.061***	0.118***	0.013*	0.068***
	(2.80)	(2.90)	(2.80)	(3.09)	(1.83)	(3.12)
FirmSize$_{i,c,t}$	-0.202***	-0.183***	-0.282***	0.557***	-0.133***	-0.221***
	(-7.23)	(-7.25)	(-7.85)	(15.2)	(-14.1)	(-6.62)
Leverage$_{i,c,t}$	-0.374**	-0.304**	-0.617***	0.585***	0.260***	-0.307*
	(-2.20)	(-2.10)	(-3.66)	(4.70)	(5.10)	(-1.71)
ROA$_{i,c,t}$	-2.693***	-2.348***	-2.360***	0.451	0.525***	-2.804***
	(-6.49)	(-6.56)	(-4.40)	(0.91)	(3.87)	(-5.84)
Dual$_{i,c,t}$	0.014	0.020	-0.026	-0.006	-0.004	-0.001
	(0.22)	(0.34)	(-0.45)	(-0.10)	(-0.15)	(-0.018)
Indir$_{i,c,t}$	0.781**	0.510**	0.651	0.326	0.171	0.591*
	(2.39)	(2.03)	(1.44)	(0.69)	(1.53)	(1.78)
SOE$_{i,c,t}$	-0.243***	-0.187***	-0.290***	0.086	-0.029	-0.193***
	(-3.93)	(-3.40)	(-4.13)	(1.46)	(-1.37)	(-3.25)
Insholdper$_{i,c,t}$	0.402***	0.370***	0.324***	-0.054	0.064*	0.430***
	(4.36)	(4.38)	(2.64)	(-0.53)	(1.80)	(3.59)
DirHolding$_{i,c,t}$	-0.010***	-0.008***	-0.009**	0.001	-0.001	-0.006*
	(-2.79)	(-2.60)	(-2.38)	(0.28)	(-0.53)	(-1.72)
Analysts$_{i,c,t}$	0.011	0.013	-0.008	0.043***	0.015***	0.004
	(0.80)	(1.03)	(-0.50)	(2.76)	(2.61)	(0.24)
Male_CEO$_{i,c,t}$	0.162**	0.145**	0.082	0.266***	0.097***	0.163**
	(2.27)	(2.58)	(0.72)	(2.77)	(4.38)	(2.17)
Salary_CEO$_{i,c,t}$	0.136***	0.105***	0.061*	0.205***	0.075***	0.112***
	(3.94)	(3.54)	(1.73)	(6.10)	(5.63)	(3.12)
Age_CEO$_{i,c,t}$	-0.007***	-0.007***	-0.008**	-0.003	-0.003***	-0.008***
	(-2.95)	(-2.99)	(-2.27)	(-0.77)	(-2.94)	(-2.60)
GDP_Growth$_{c,t}$	0.452	0.617	0.622	0.309	0.220	0.505
	(0.54)	(0.87)	(0.81)	(0.35)	(0.70)	(0.50)
Pop_Growth$_{c,t}$	-0.272	-0.243	1.693**	0.005	-0.069	-0.997
	(-0.41)	(-0.38)	(2.30)	(0.76)	(-0.21)	(-1.00)
Constant	5.135***	4.796***	8.772***	2.128***	2.642***	4.865***
	(6.61)	(6.90)	(9.60)	(6.23)	(10.1)	(5.09)
Fixed effect	IYP	IYP	IYP	IYP	IYP	IYP
N	7935	7935	6316	7935	7935	6631
Adj. R^2	0.224	0.217	0.232	0.316	0.325	0.229

Table 4: Placebo tests

This table reports the results of placebo tests. Specifically, we rerun the regression in column (1) of Table 3 by replacing the dependent variable by $Perk6\_Rev_{i,c,t+j}$ for $j = -2, -1, 1, 2$. All variables are as defined in the Appendix A. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Dep. Var= $Perk6\_Rev_{i,c,t+j}$	$j = -2$	$j = -1$	$j = 1$	$j = 2$
	(3)	(1)	(2)	(4)
$Induction_{c,t}$	-0.005	-0.003	-0.019	-0.001
	(-0.48)	(-0.30)	(-1.64)	(-0.12)
$FirmSize_{i,c,t}$	-0.122***	-0.128***	-0.132***	-0.135***
	(-9.93)	(-11.6)	(-11.2)	(-9.88)
$Leverage_{i,c,t}$	0.185***	0.249***	0.258***	0.262***
	(3.04)	(4.43)	(4.28)	(3.53)
$ROA_{i,c,t}$	0.477***	0.521***	0.469***	0.582***
	(2.75)	(3.30)	(2.62)	(2.75)
$Dual_{i,c,t}$	-0.001	-0.008	-0.001	0.012
	(-0.043)	(-0.30)	(-0.043)	(0.32)
$Indir_{i,c,t}$	0.174	0.231*	0.247*	0.342*
	(1.08)	(1.70)	(1.67)	(1.95)
$SOE_{i,c,t}$	-0.029	-0.026	-0.028	-0.017
	(-1.29)	(-1.22)	(-1.12)	(-0.64)
$Insholdper_{i,c,t}$	0.047	0.070*	0.059	0.065
	(1.12)	(1.81)	(1.36)	(1.29)
$DirHolding_{i,c,t}$	-0.000	-0.000	-0.001	-0.001
	(-0.23)	(-0.27)	(-0.58)	(-0.43)
$Analysts_{i,c,t}$	0.019***	0.017***	0.016**	0.018**
	(2.92)	(2.86)	(2.43)	(2.06)
$Male\_CEO_{i,c,t}$	0.105***	0.099***	0.097***	0.093***
	(4.34)	(4.13)	(3.88)	(3.23)
$Salary\_CEO_{i,c,t}$	0.084***	0.083***	0.092***	0.099***
	(5.49)	(5.55)	(5.18)	(4.92)
$Age\_CEO_{i,c,t}$	-0.003***	-0.003***	-0.004***	-0.004***
	(-3.01)	(-3.09)	(-3.20)	(-3.11)
$GDP\_Growth_{c,t}$	-0.520	-0.160	0.260	0.062
	(-1.37)	(-0.51)	(0.76)	(0.16)
$Pop\_Growth_{c.t}$	0.000	0.000	-0.000	-0.001
	(0.028)	(0.14)	(-0.18)	(-0.34)
Constant	2.369***	2.492***	2.059***	2.035***
	(6.67)	(7.62)	(5.60)	(4.76)
Fixed effect	IYP	IYP	IYP	IYP
N	4432	6126	5862	4191
Adj. R^2	0.366	0.344	0.329	0.336

Table 5: Two-stage IV specification

This table presents the results of the following two-stage regressions.

First stage: $Induction_{c,t} = a + b \times IV_{c,t-1} + C \times M_{i,c,t} + \varepsilon_{c,t}$

Second stage: $Perk6\_rev_{i,c,t} = \alpha + \beta \times Exp\_Induction_{c,t} + C \times M_{i,c,t} + \delta_{i,c,t}$

where $IV_{C,t-1}$ denotes the instrumental variable in the first stage. One instrumental variable is $D\_Age_{c,t}$, which is one if the age of the mayor (or the party secretary) of city *c* is greater than or equal to the median age when a city mayor (or party secretary) leaves his position, and zero otherwise. The other instrument is $D\_Tenure_{c,t}$. "Tenure" refers to the number of years an official has been in office since his appointment, or last reappointment, at the current position. $D\_Tenure_{c,t}$ is one if the tenure of the mayor (or the party secretary) of city *c* is greater than or equal to the median tenure when a city mayor (or party secretary) leaves his position, and zero otherwise. $Exp\_Induction_{c,t}$ is the projected value of $Induction_{c,t}$ obtained from the first-stage regression. $M_{i,c,t}$ includes the list of control variables as in Table 3 . We further control for year, industry, and provincial fixed effects and cluster the standard errors at the city level in all regressions. All variables are as defined in the Appendix A. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Stage 1	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**
	Induction$_{c,t}$	*Perk6_Rev*$_{i.c,t}$	*Induction*$_{c,t}$	*Perk6_Rev*$_{i.c,t}$	*Induction*$_{c,t}$	*Perk6_Rev*$_{i.c,t}$
	(1)	(2)	(3)	(4)	(5)	(6)
D_Age$_{c,t}$	0.361**				0.178*	
	(2.40)				(1.79)	
D_Tenure$_{c,t}$			0.363***		0.345***	
			(4.08)		(4.13)	
Exp_Induction$_{c.t}$		0.087**		0.136*		0.132**
		(2.23)		(1.84)		(2.10)
FirmSize$_{i,c,t}$	0.036	-0.173***	0.038*	-0.174***	0.040*	-0.173***
	(1.52)	(-10.7)	(1.72)	(-10.7)	(1.75)	(-10.7)
Leverage$_{i,c,t}$	-0.271**	-0.471***	-0.286***	-0.461***	-0.289***	-0.461***
	(-2.49)	(-4.86)	(-2.62)	(-4.86)	(-2.66)	(-4.85)
ROA$_{i,c,t}$	0.423	-2.865***	0.387	-2.888***	0.409	-2.911***
	(1.07)	(-6.70)	(1.01)	(-6.82)	(1.04)	(-6.91)
Dual$_{i,c,t}$	-0.061	-0.088**	-0.066	-0.087**	-0.074	-0.085**
	(-1.42)	(-2.53)	(-1.42)	(-2.52)	(-1.51)	(-2.47)
Indir$_{i,c,t}$	0.738**	0.758***	0.795**	0.723***	0.774**	0.708***
	(2.11)	(2.86)	(2.16)	(2.88)	(2.12)	(2.83)
SOE$_{i,c,t}$	0.083**	-0.220***	0.077*	-0.226***	0.075*	-0.224***
	(2.11)	(-6.42)	(1.85)	(-6.68)	(1.85)	(-6.66)
Insholdper$_{i,c,t}$	-0.046	0.328***	-0.057	0.331***	-0.058	0.330***
	(-0.41)	(4.65)	(-0.53)	(4.70)	(-0.54)	(4.69)
DirHolding$_{i,c,t}$	0.002	-0.009***	0.004	-0.009***	0.004	-0.009***
	(0.91)	(-4.04)	(1.55)	(-4.11)	(1.46)	(-4.07)
Analysts$_{i,c,t}$	-0.028**	0.024***	-0.030**	0.024***	-0.031**	0.024***
	(-1.98)	(2.77)	(-2.04)	(2.79)	(-2.10)	(2.79)
Male_CEO$_{i,c,t}$	0.013	0.148***	0.021	0.148***	0.024	0.145***
	(0.20)	(2.90)	(0.28)	(2.89)	(0.33)	(2.86)
Salary_CEO$_{i,c,t}$	-0.000	0.084***	-0.002	0.088***	0.001	0.086***
	(-0.018)	(4.08)	(-0.071)	(4.25)	(0.029)	(4.21)
GDP_Growth$_{c,t}$	-0.652	-0.039	-0.594	-0.009	-0.628	-0.019
	(-0.56)	(-0.16)	(-0.45)	(-0.038)	(-0.46)	(-0.080)
Pop_Growth$_{c.t}$	-0.077***	0.001	-0.066**	0.002	-0.065**	0.003
	(-2.80)	(0.27)	(-2.45)	(0.93)	(-2.46)	(0.98)
Constant	-0.453	3.673***	0.267	3.614***	0.390	3.624***
	(-0.93)	(8.56)	(0.53)	(8.62)	(0.75)	(8.65)
Fixed effect	IYP	IYP	IYP	IYP	IYP	IYP
N	5374	5374	5374	5374	5374	5374
Adj. R^2	0.114	0.191	0.206	0.196	0.207	0.196
Weak IV *F*	191.332***		219.021***		252.10***	
Hansen J statistic					0.362	
Chi-sq(1) P-val					0.5477	

Table 6: The incentives to build up political connections

This table reports the results from regressions that extend the regression (1) in Table 3 by including an interaction term $Induction_{c,t} \times D_{i,c,t}$, where $D_{i,c,t}$ is a dummy variable. In column (1), $D_{i,c,t}$ is one if the newly-appointed official is from city *c*, and zero otherwise. In column (2), $D_{i,c,t}$ is one if the newly-appointed official is older than 59, and zero otherwise. In column (3), $D_{i,c,t}$ is one if the CEO or chairman of firm *i* is a former government official, a member of the Committee of the Chinese People's Political Consultative Conference, or a member of the National Congress of Communist Party of China, and zero otherwise. In column (4), $D_{i,c,t}$ is one if firm *i* is a state-owned enterprise, and zero otherwise. In column (5), $D_{i,c,t}$ is one if firm *i*'s total assets is larger than the median of asset value of firms in the same industry in year *t*, and zero otherwise. In column (6), $D_{i,c,t}$ is one if *t* is after 2012, and zero otherwise. In column (7), $D_{i,c,t}$ is one if there was an arrest of government official in city *c* in year *t-1*, and zero otherwise. All other variables are defined in Appendix A. Year-, industry-, and provincial-fixed effects are included in all regressions. The t-statistics reported in parentheses are based on standard errors clustered by city. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Dep. Var=$Perk6\_Rev_{i,c,t}$	Official Origins is same city	Official age >=59	PC	SOE	Big firm	Post meeting	*Arrest*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
$Induction_{c,t}$	0.072**	0.070**	0.069***	0.098***	0.135**	0.071***	0.040**
	(2.48)	(2.50)	(3.50)	(2.80)	(2.54)	(2.80)	(2.32)
$Induction_{c,t} \times D_{i,c,t}$	-0.036*	-0.034**	-0.016*	-0.081**	-0.060*	-0.045**	-0.061*
	(-1.90)	(-2.27)	(-1.74)	(-1.98)	(-1.79)	(-2.40)	(-1.75)
$D_{i,c,t}$	-0.004	-0.069	-0.025	-0.157***	-0.014		0.083
	(-0.90)	(-0.89)	(-0.60)	(-2.73)	(-0.15)		(1.31)
$FirmSize_{i,c,t}$	-0.183***	-0.185***	-0.164***	-0.184***	-0.182***	-0.183***	-0.159***
	(-7.26)	(-6.00)	(-6.89)	(-7.25)	(-4.61)	(-7.26)	(-5.17)
$Leverage_{i,c,t}$	-0.304**	-0.413**	-0.339***	-0.302**	-0.414**	-0.304**	-0.347**
	(-2.10)	(-2.29)	(-2.73)	(-2.09)	(-2.26)	(-2.10)	(-2.06)
$ROA_{i,c,t}$	-2.346***	-2.855***	-2.131***	-2.351***	-2.857***	-2.349***	-2.128***
	(-6.54)	(-6.36)	(-5.55)	(-6.57)	(-6.32)	(-6.55)	(-4.50)
$Dual_{i,c,t}$	0.019	-0.063	0.017	0.020	-0.064	0.020	0.008
	(0.33)	(-1.13)	(0.35)	(0.34)	(-1.15)	(0.34)	(0.15)
$Indir_{i,c,t}$	0.508**	0.674*	0.392	0.510**	0.669*	0.510**	0.647
	(2.02)	(1.80)	(1.45)	(2.04)	(1.81)	(2.03)	(1.43)
$SOE_{i,c,t}$	-0.187***	-0.230***	-0.164***	0.000	-0.230***	-0.187***	-0.151**
	(-3.40)	(-3.07)	(-3.45)	(0.00)	(-3.07)	(-3.40)	(-2.19)
$Insholdper_{i,c,t}$	0.368***	0.316***	0.320***	0.370***	0.316***	0.370***	0.398***
	(4.39)	(3.44)	(4.18)	(4.38)	(3.45)	(4.38)	(4.16)
$DirHolding_{i,c,t}$	-0.008***	-0.007*	-0.009***	-0.009***	-0.007*	-0.008***	-0.004
	(-2.61)	(-1.82)	(-3.17)	(-2.61)	(-1.85)	(-2.60)	(-1.05)
$Analysts_{i,c,t}$	0.013	0.027*	0.012	0.013	0.027*	0.013	0.013
	(1.04)	(1.78)	(0.95)	(1.04)	(1.77)	(1.03)	(0.54)
$Male\_CEO_{i,c,t}$	0.144**	0.122	0.120**	0.146**	0.123	0.145**	0.144**
	(2.56)	(1.41)	(2.32)	(2.60)	(1.39)	(2.57)	(2.29)
$Salary\_CEO_{i,c,t}$	0.105***	0.116***	0.091***	0.105***	0.116***	0.105***	0.114***
	(3.54)	(3.17)	(3.18)	(3.56)	(3.18)	(3.54)	(2.97)
$Age\_CEO_{i,c,t}$	-0.007***	-0.004	-0.006**	-0.007***	-0.004	-0.007***	-0.005**
	(-2.98)	(-1.66)	(-2.47)	(-2.98)	(-1.65)	(-2.99)	(-2.03)
$GDP\_Growth_{c,t}$	0.633	-0.193	-0.023	0.606	-0.181	0.603	-0.168
	(0.90)	(-0.53)	(-0.03)	(0.86)	(-0.49)	(0.85)	(-0.49)
$Pop\_Growth_{c,t}$	-0.251	0.002	-0.260	-0.253	0.002	-0.236	0.002
	(-0.39)	(0.32)	(-0.43)	(-0.40)	(0.29)	(-0.37)	(0.39)
Constant	4.798***	4.699***	4.110***	4.787***	4.016***	4.793***	3.573***
	(6.91)	(7.46)	(7.16)	(6.91)	(5.64)	(6.90)	(5.64)
Fixed effect	IYP	IYP	IYP	IYP	IYP	IYP	IYP
N	7935	7935	7233	7935	7935	7935	7935
Adj. R^2	0.217	0.227	0.203	0.217	0.227	0.217	0.240

Table 7: Benefits from perk spending

This table presents the regression results on the effects of perk spending on government subsidy and access to financing. $Subsidy\_Rev_{i,c,t}$ is the ratio of firm *i*'s government subsidy to revenue in year *t*, where the government subsidy includes fiscal subsidy, tax returns and tax reduction. $Leverage_{i,c,t}$ is the ratio of firm *i*'s total liability to total asset in year *t*. $LongTerm_{i,c,t}$ is firm *i*'s long-term loan in year *t* divided by the total liabilities in year *t-1*. All other variables are defined in Appendix A. Year-, industry-, and provincial-fixed effects are included in all regressions. The t-statistics reported in parentheses are based on standard errors clustered by city. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Depend Var=	$Subsidy\_Rev_{i,c,t+1}$	$Subsidy\_Rev_{i,c,t+1}$	$Leverage_{i,c,t+1}$	$Leverage_{i,c,t+1}$	$LongTerm_{i,c,t+1}$	$LongTerm_{i,c,t+1}$
	(1)	(2)	(3)	(4)	(5)	(6)
$Perk6\_Rev_{i.c.t}$	0.012*	0.006	0.015***	0.012*	0.004*	0.002***
	(1.83)	(1.25)	(2.80)	(1.83)	(1.82)	(2.63)
$Perk6\_Rev_{i.c.t} \times Induction_{i.c.t}$		0.011*		0.007*		0.005***
		(1.90)		(1.72)		(2.63)
$Induction_{i,c,t}$		0.030		0.009		0.004
		(1.07)		(1.57)		(1.27)
$Depend_{i.c.t}$	0.648***	0.648***	0.768***	0.769***	0.763***	0.762***
	(19.0)	(19.1)	(7.16)	(7.16)	(51.9)	(52.0)
$FirmSize_{i.c.t}$	-0.041***	-0.041***	-0.009**	-0.009**	0.006***	0.006***
	(-2.98)	(-2.99)	(-2.48)	(-2.48)	(3.36)	(3.37)
$Leverage_{i.c.t}$	0.043	0.044			0.012**	0.012**
	(0.80)	(0.83)			(2.35)	(2.36)
$Dual_{i.c.t}$	-0.037	-0.037	0.007	0.007	0.002	0.002
	(-1.62)	(-1.61)	(0.89)	(0.88)	(0.85)	(0.84)
$Indir_{i,c,t}$	-0.132	-0.140	0.075	0.074	0.016	0.016
	(-0.91)	(-0.97)	(1.31)	(1.29)	(0.78)	(0.76)
$SOE_{i,c,t}$	0.063***	0.061***	0.005	0.005	-0.002	-0.003
	(2.90)	(2.85)	(0.74)	(0.71)	(-0.91)	(-0.95)
$Insholdper_{i.c.t}$	-0.012	-0.012	0.033***	0.033***	-0.003	-0.003
	(-0.20)	(-0.20)	(3.18)	(3.17)	(-0.53)	(-0.54)
$DirHolding_{i,c,t}$	0.003*	0.002*	0.000	0.000	-0.000*	-0.000*
	(1.93)	(1.89)	(0.57)	(0.54)	(-1.89)	(-1.94)
$Analysts_{i.c.t}$	0.007	0.007	0.008***	0.008***	-0.000	-0.000
	(0.94)	(0.90)	(5.12)	(5.06)	(-0.58)	(-0.60)
$Male\_CEO_{i,c,t}$	0.047	0.047	-0.016	-0.016	-0.008	-0.008
	(1.28)	(1.28)	(-1.29)	(-1.31)	(-1.44)	(-1.46)
$Salary\_CEO_{i,c,t}$	0.024*	0.024*	0.003	0.003	-0.000	-0.000
	(1.88)	(1.96)	(0.89)	(0.90)	(-0.030)	(-0.012)
$Age\_CEO_{i,c,t}$	-0.001	-0.001	-0.001**	-0.001**	-0.000	-0.000
	(-0.39)	(-0.35)	(-2.01)	(-1.98)	(-0.70)	(-0.68)
$GDP\_Growth_{c,t}$	0.213	0.226	0.019	0.019	-0.022	-0.022
	(1.13)	(1.20)	(0.47)	(0.47)	(-0.86)	(-0.86)
$Pop\_Growth_{c,t}$	-0.001	-0.001	0.001***	0.001***	0.000	0.000
	(-0.65)	(-0.46)	(3.29)	(3.35)	(1.49)	(1.52)
Constant	0.419	0.384	0.206**	0.202**	-0.114***	-0.117***
	(1.65)	(1.50)	(2.03)	(1.99)	(-2.83)	(-2.88)
Fixed effect	IYP	IYP	IYP	IYP	IYP	IYP
N	5716	5716	5716	5716	5716	5716
Adj. R^2	0.460	0.461	0.557	0.557	0.638	0.639

Table 8: The impact of perk spending on firm performance

This table presents the results from regressions, where the dependent variables are $ROA_{i,c,t+1}$ and $ROE_{i,c,t+1}$. $Depend_{i,c,t}$ refers to the dependent variable at year *t*. i.e., $Depend_{i,c,t}$ is $ROA_{i,c,t}$ in column (1), and $ROE_{i,c,t}$ in column (2). All other variables are defined in Appendix A. Year-, industry-, and provincial-fixed effects are included in all regressions. The t-statistics reported in parentheses are based on standard errors clustered by city. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Depend Var=	$ROA_{i,c,t+1}$	$ROE_{i,c,t+1}$	$ROA_{i,c,t+1}$	$ROE_{i,c,t+1}$
	(1)	(2)	(3)	(4)
$Perk_{i,c,t}$	0.003	0.019	0.002	0.025
	(0.35)	(0.93)	(1.35)	(1.15)
$Induction_{c,t}$			0.005***	-0.017
			(2.81)	(-0.61)
$Perk_{i,c,t} \times Induction_{c,t}$			0.001	0.015
			(1.07)	(0.84)
$Depend_{i,c,t}$	0.546***	0.055***	0.546***	0.055***
	(27.5)	(5.75)	(27.3)	(5.75)
$FirmSize_{i,c,t}$	-0.006***	-0.003	-0.006***	-0.003
	(-7.05)	(-0.58)	(-7.07)	(-0.59)
$Leverage_{i,c,t}$	-0.017***	-0.094*	-0.017***	-0.094*
	(-4.02)	(-1.72)	(-4.02)	(-1.69)
$Dual_{i,c,t}$	-0.000	-0.007	-0.001	-0.007
	(-0.31)	(-0.65)	(-0.32)	(-0.64)
$Indir_{i,c,t}$	0.008	0.042	0.007	0.044
	(0.60)	(0.53)	(0.54)	(0.57)
$SOE_{i,c,t}$	-0.001	0.003	-0.001	0.004
	(-0.89)	(0.38)	(-1.01)	(0.43)
$Insholdper_{i,c,t}$	0.011***	0.037*	0.011***	0.038*
	(4.02)	(1.87)	(4.01)	(1.87)
$DirHolding_{i,c,t}$	0.000	-0.001	0.000	-0.001
	(1.37)	(-0.74)	(1.31)	(-0.74)
$Analysts_{i,c,t}$	0.004***	0.020***	0.004***	0.020***
	(6.97)	(5.32)	(6.98)	(5.33)
$Male\_Ceo_{i,c,t}$	-0.001	-0.007	-0.001	-0.006
	(-0.45)	(-0.65)	(-0.46)	(-0.62)
$Salary\_Ceo_{i,c,t}$	0.006***	0.017	0.006***	0.017
	(5.96)	(1.17)	(6.04)	(1.18)
$Age\_Ceo_{i,c,t}$	-0.000**	-0.003*	-0.000*	-0.003
	(-1.98)	(-1.68)	(-1.94)	(-1.64)
$GDP\_Growth_{c,t}$	0.026**	-0.557	0.025**	-0.556
	(2.31)	(-0.96)	(2.29)	(-0.95)
$Pop\_Growth_{c,t}$	-0.000	-0.000	-0.000	-0.000
	(-0.57)	(-0.17)	(-0.35)	(-0.26)
Constant	0.040*	0.157	0.037	0.162
	(1.71)	(0.68)	(1.60)	(0.69)
Fixed effect	IYP	IYP	IYP	IYP
N	5716	5716	5716	5716
Adj. R^2	0.364	0.027	0.364	0.027

Table 9: The impact of official turnover on top manager turnover

This table presents the results of the impact of official turnover on top manager turnover over the sample period 1993–2014. *Turnover_CEO*$_{i,c,t}$ is a dummy variable that equals 1 when the CEO of firm *i* is replaced in year *t*, and 0 otherwise. *Turnover_Chairman*$_{i,c,t}$ is a dummy variable that equals 1 when the chairman of firm *i* is replaced in year *t*, and 0 otherwise. The regression in (1) is based on the sample of non-SOEs. The regressions in (2) through (4) are based on the sample of SOEs controlled by the central government, by the provincial government, and by the city government, respectively. All other variables are defined in Appendix A. Year-, industry-, and provincial-fixed effects are included in all regressions. The t-statistics reported in parentheses are based on standard errors clustered by city. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Dependent variable: ***Turnover_CEO***$_{i,c,t}$

	(1)	(2)	(3)	(4)
	Non SOE	Central SOE	Provincial SOE	City SOE
Induction$_{c,t}$	-0.055	0.005	-0.072	0.333***
	(-0.75)	(0.036)	(-0.46)	(2.67)
Firmsize$_{i,c,t}$	-0.034	0.010	-0.003	-0.071
	(-0.75)	(0.24)	(-0.044)	(-0.92)
Leverage$_{i,c,t}$	0.125	0.275	-0.133	-0.257
	(0.53)	(0.83)	(-0.29)	(-0.59)
ROA$_{i,c,t}$	-1.846***	-0.654	-3.728***	-3.729***
	(-3.40)	(-0.56)	(-4.15)	(-3.64)
Tenure_CEO$_{i,c,t}$	0.015	0.182***	0.130**	0.031
	(0.41)	(3.68)	(2.05)	(0.54)
Age_CEO$_{i,c,t}$	-0.021	-0.073	-0.348**	-0.010
	(-0.66)	(-1.05)	(-2.42)	(-0.19)
Tenure_CEO_Square$_{i,c,t}$	-0.006*	-0.015***	-0.012*	-0.004
	(-1.90)	(-2.94)	(-1.76)	(-0.99)
Age_CEO_Square$_{i,c,t}$	0.000	0.001	0.004**	0.000
	(0.71)	(1.21)	(2.51)	(0.44)
ST$_{i,c,t}$	0.228*	0.358**	0.259	0.298
	(1.77)	(1.99)	(1.21)	(1.28)
Constant	2.590**	2.021	8.148*	1.305
	(2.04)	(1.03)	(1.85)	(0.55)
Fixed effect	IYP	IYP	IYP	IYP
N	4438	1679	1985	1806
Adj. R^2	0.099	0.058	0.059	0.054

Panel B: Dependent variable: *Turnover_Chairman*$_{i,c,t}$

	(1) Non SOE	(2) Central SOE	(3) Provincial SOE	(4) City SOE
Induction$_{c,t}$	0.003	-0.112	0.227*	0.077**
	(0.13)	(-0.79)	(1.72)	(2.28)
Firmsize$_{i,c,t}$	0.017	-0.184***	-0.048	-0.028
	(0.47)	(-3.12)	(-0.66)	(-0.31)
Leverage$_{i,c,t}$	0.190	0.560	-0.121	0.225
	(0.68)	(1.62)	(-0.33)	(0.43)
ROA$_{i,c,t}$	-2.019***	-2.449**	-3.443***	-2.620*
	(-2.89)	(-2.38)	(-3.15)	(-1.92)
Tenure_Chairman$_{i,c,t}$	0.021	0.040	0.156***	0.014
	(0.51)	(0.85)	(3.08)	(0.18)
Age_Chairman$_{i,c,t}$	-0.040	-0.068	-0.334***	0.040
	(-1.09)	(-0.81)	(-3.32)	(0.51)
Tenure_Chairman_Square$_{i,c,t}$	-0.004	-0.009*	-0.010***	-0.002
	(-1.24)	(-1.93)	(-2.80)	(-0.24)
Age_Chairman_Square$_{i,c,t}$	0.000	0.001	0.003***	-0.000
	(1.22)	(1.20)	(3.42)	(-0.28)
ST$_{i,c,t}$	0.398***	0.262	0.293	0.696***
	(3.42)	(1.34)	(0.99)	(3.28)
Constant	1.842*	6.854***	10.151***	-0.658
	(1.80)	(3.18)	(3.40)	(-0.21)
Fixed effect	IYP	IYP	IYP	IYP
N	3182	1652	1803	1423
Adj. R^2	0.130	0.0728	0.0748	0.0757

Table 10: The impact of top manager's network on top manager turnover

This table presents the impact of top manager's network on top manager turnover over the sample period 1993–2014. $Turnover\_CEO_{i,c,t}$ is a dummy variable that equals 1 when the CEO of firm *i* is replaced in year *t*, and 0 otherwise. $Turnover\_Chairman_{i,c,t}$ is a dummy variable that equals 1 when the chairman of firm *i* is replaced in year *t*, and 0 otherwise. The regression in (1) is based on the sample of non-SOEs. The regressions in (2) through (4) are based on the sample of SOEs controlled by the central government, by the provincial government, and by the city government, respectively. For Panel A, $Friend_{i,c,t}$ is a dummy variable, which is one if the CEO of firm *i* is a protégé of the current mayor or party secretary of city *c*, that is, the mayor or party secretary in the year when the CEO was appointed is still in power. Similarly, $Friend_{i,c,t}$ is defined for chairmen in Panel B. All other variables are defined in Appendix A. Year-, industry-, and provincial-fixed effects are included in all regressions. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Dependent variable: $Turnover\_CEO_{i,c,t}$

	(1)	(2)	(3)	(4)
	Non SOE	Central SOE	Provincial SOE	City SOE
$Friend_{i,c,t}$	0.133	-0.043	-0.254**	-0.149*
	(1.49)	(-0.97)	(-2.34)	(-1.81)
$Firmsize_{i,c,t}$	0.150**	-0.168**	-0.420**	-0.184
	(2.35)	(-1.99)	(-2.03)	(-0.92)
$Leverage_{i,c,t}$	-0.412	-0.496	3.643***	-2.318**
	(-1.06)	(-0.48)	(2.84)	(-2.15)
$ROA_{i,c,t}$	-2.885**	-3.506	2.137	-2.359
	(-2.44)	(-1.29)	(0.76)	(-0.81)
$Tenure\_CEO_{i,c,t}$	0.056	0.425**	0.463	0.226**
	(1.24)	(2.08)	(1.64)	(2.42)
$Age\_CEO_{i,c,t}$	-0.023	0.345	-0.164	0.136
	(-0.56)	(0.90)	(-0.44)	(0.47)
$Tenure\_CEO\_Square_{i,c,t}$	-0.002	-0.014	-0.024	-0.014**
	(-0.69)	(-0.76)	(-0.89)	(-2.14)
$Age\_CEO\_Square_{i,c,t}$	0.000	-0.003	0.002	-0.001
	(0.58)	(-0.87)	(0.53)	(-0.44)
$ST_{i,c,t}$	0.610***	0.730	1.055*	0.223
	(2.75)	(1.26)	(1.74)	(0.62)
Constant	-2.740	-5.612	8.401	3.362
	(-1.45)	(-0.61)	(0.83)	(0.41)
Fixed effect	IYP	IYP	IYP	IYP
N	3979	1862	2050	1849
Adj. R^2	0.111	0.167	0.218	0.149

Panel B: Dependent variable: *Turnover_Chairman*$_{i,c,t}$

	(1)	(2)	(3)	(4)
	Non SOE	Central SOE	Provincial SOE	City SOE
Friend$_{i,c,t}$	0.041	-0.032	-0.303***	-0.283**
	(0.58)	(-0.28)	(-2.87)	(-2.08)
Firmsize$_{i,c,t}$	0.072**	-0.092	-0.014	0.011
	(2.10)	(-1.30)	(-0.16)	(0.12)
Leverage$_{i,c,t}$	0.088	0.375	0.324	-1.751***
	(0.41)	(1.10)	(0.74)	(-3.73)
ROA$_{i,c,t}$	-2.608***	-5.278***	-4.304***	-1.671
	(-3.29)	(-5.17)	(-3.49)	(-1.21)
Tenure_Chairman$_{i,c,t}$	0.047	0.054	0.113	0.101
	(0.99)	(0.70)	(1.44)	(1.10)
Age_Chairman$_{i,c,t}$	-0.008	-0.048	-0.629***	-0.045
	(-0.17)	(-0.49)	(-3.73)	(-0.39)
Tenure_Chairman_Square$_{i,c,t}$	-0.005	-0.006	-0.010**	-0.007
	(-1.41)	(-1.00)	(-2.11)	(-1.01)
Age_Chairman_Square$_{i,c,t}$	0.000	0.001	0.006***	0.001
	(0.13)	(0.86)	(4.09)	(0.60)
ST$_{i,c,t}$	0.716***	0.223	0.771***	0.529**
	(6.89)	(0.91)	(3.41)	(2.19)
Constant	-1.297	1.531	14.665***	1.025
	(-1.06)	(0.59)	(3.63)	(0.29)
Fixed effect	IYP	IYP	IYP	IYP
N	3691	1723	1873	1448
Adj. R^2	0.077	0.065	0.095	0.076