Political Leadership and Governance Structure

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Abstract

This paper examines how changes in local political leadership affects firms' governance structure. Using a novel dataset, I document that following the appointment of a new city-level Chinese Communist Party (CCP) secretary, local firms increase the fraction of directors who share a common birthplace with the appointee. This appears to be a channel through which Chinese firms establish political connections. Firms with a higher percentage of birthplace-connected directors exhibit higher abnormal returns around secretary appointments. These firms enjoy superior accounting performances and attract institutional fund flows. I reject an alternative hypothesis that these directors are appointed to company boards on the "orders" of the politician, rather than actively recruited by firms. Evidence suggest that firms do not consider the sharing of a common *jiguan* (ancestral home) to be a valid form of political connection.

JEL Classification: P26, D7, G1, G3

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1 Introduction

US President Donald Trump's collection of remarks since the beginning of the China-US trade war is a sobering reminder of the seismic effects politics has on the private sector. On August 23, 2019, Trump tweeted "...American companies are hereby ordered to immediately start looking for an alternative to China..." Within five minutes of this tweet, the Dow Jones Industrial Average plummeted 223 points, and plunged another 150 points five minutes later.

There are many aspects to the dynamics between politics and economics. There are large bodies of literature that examine political uncertainty's effects on firms, political capital's effects on governance, and benefits of political connection.[1]

This paper contributes to the literature by documenting comovement between local political leadership and firms' governance structure. More specifically, firms' replace directors who share a common birthplace with the *departing* local political leader with those who share a common birthplace with the *incoming* local political leader. I show that this is a channel through which Chinese firms establish political connections.[2] Findings

[1]Political uncertainty's effects on firms are discussed in papers such as Julio and Yook (2012), Bhattacharya, Hsu, Tian, and Xu (2017), Jens (2017), and Bonaime, Gulen, and Ion (2018). Political capital's effects on governance are discussed in papers such as Andonov, Hochberg, and Rauh (2018) and Cao, Pan, Qian, and Tian (2017). Benefits of political connection are examined in papers such as Fisman (2001), Faccio (2006), Faccio, Masulis, and McConnell (2006), Johnson and Mitton (2003), Schwert (2018), Duchin and Sosyura (2012), Goldman, Rocholl, and So (2009, 2013), Child, Massoud, Schabus, and Zhou (2020), Houston, Jiang, Lin, and Ma (2014), and Zhou (2019).

[2]*Laoxiang* (or townsmen) is an important part of the Chinese culture and is discussed in more details in Section 2. Local political leadership is defined as the Chinese Communist Party (CCP) secretary of the firm's headquarter city. The CCP secretary is the most senior political role and most powerful person in each administrative region. In comparison, the vice-secretary almost always serves as the local head of government, such as the mayor of a city or governor of a province.

show that firms engage in the hiring of directors who share a common birthplace with the incoming local CCP secretary in the years following his/her appointment. Furthermore, firms with higher degrees of political connections through common birthplaces are perceived more favorably by markets in the form of higher abnormal stock returns around secretary appointment dates. They also experience superior performance (as shown by their higher ROA, ROE, and asset turnover) and attract institutional fund flows.

I adopt a Chinese setting in this paper as its political environment and system provide a clean identification. First, China's local political leadership changes are unpredictable. In the US, virtually all state governor elections are predictable contests (i.e., polling data is widely available) between at most two candidates that take place every four years.[3] In contrast, China's province- and city-level CCP secretaries do not have fixed terms; they could be replaced at anytime, with dozens, if not hundreds, of potential candidates. Additionally, the notion that special interest groups, whether it be business or otherwise, is able to influence changes in key CCP personnel is implausible.[4] As such, changes to China's local political leadership offer a clean identification to study this paper's research question.

Unlike most Western countries, China operates as a single-party state. There are no elections or political contributions, thus precluding researchers from using campaign

[3]Vermont and New Hampshire's governors have two-year terms.

[4]One piece of anecdotal evidence is Zhang Lichang's tenure as Tianjin's CCP secretary between 1997 and 2007, during which the city's growth rate was the lowest among large urban centers in China and corruption was prevalent with many scandals breaking out. In 2004, over one thousand Tianjin residents waved banners outside China Banking Regulatory Commission's office in Beijing, demanding Zhang's removal. Despite Zhang's unpopularity, he only resigned in 2007 over health concerns. Some Tianjin residents reacted to the news of his death in 2008 by setting off fireworks.

contributions as a measure of political connection. Previous papers that study political connection in China generally follow Fan, Wong, and Zhang's (2007) identification strategy – a firms is defined to be politically connected if at least one of its directors currently or formerly served in the central government (i.e., National People's Congress or People's Political Consultative Conference), local government, or the military. Using a novel dataset, I add to the literature by identifying a new and non-mutually exclusive channel of connection.

Political connection is arguably more important in China than it is in the US or Europe (in other words, the state has greater influence on firm performance). For instance, similar to public equity issuances in the US, where the SEC approval is required, all IPOs and SEOs must be approved by the China Securities Regulatory Commission (CSRC). However, unlike the SEC's approval processes, there exist few "hard rules" (e.g., must meet certain accounting ratios) surrounding China's public equity issuance processes and requirements. Instead, the rules are vague (e.g., internal controls measures must be adequate) and allow for rejection at the discretion of the CSRC. The fact that IPOs in the US may be cleared by the SEC within a matter of weeks contrasts strongly with Chinese IPO approval's seven-step process that often takes two to three years, and has an uncertain outcome (Liu, Stambaugh, and Yuan, 2019). Incidentally, previous studies have found that political connection enhances Chinese firms' access to the primary equity market (Piotroski and Zhang, 2014; Liu, Tang, and Tian, 2013; and Brockman, Firth, He, Mao, and Rui, 2019).

I examine changes in local CCP secretaries of Shanghai, Shenzhen, Hangzhou, and

Tianjin – four of the largest local economies in China – between 2003 and 2016. At end of 2016, Shanghai, Shenzhen, Hangzhou, and Tianjin were respectively ranked first, fourth, tenth, and fifth by local GDP, and are collectively headquarters to over 20 percent of all listed firms in China. These four cities are geographically diverse and have dissimilar local cultures and dialects. For example, Shanghai and Shenzhen are 1500 kilometers apart. Shanghai's dialect, known as *Hu*, is a variety of the *Wu* dialect. In comparison, Shenzhen's dialect is Cantonese.

Between 2003 and 2016, Shanghai's CCP secretary changed three times. After Chen Liangyu's (born in Shanghai) departure from the position, Yu Zhengsheng's (born in Shaanxi) was appointed at the end of 2007.[5] In 2013, Yu was succeeded by Han Zhen (born in Shanghai), who served until the end of 2017. Shenzhen's CCP secretary also changed four times over the same years. Li Hongzhong (born in Liaoning) succeeded Huang Liman (born in Liaoning) in 2005. Liu Yupu (born in Shandong) then served for two years starting in 2008, before Wang Rong's (born in Jiangsu) five-year tenure from 2010 to 2014. Ma Xingrui (born in Heilongjiang) took over from Wang in 2015.

Over the same period, Hangzhou's CCP secretary changed three times. Huang Kunming (born in Fujian) was appointed to the position following Wang Guoping's departure in 2010. Huang was succeeded by Gong Zheng's (born in Jiangsu) two-year tenure starting in 2014, before Zhao Yide (born in Zhejiang) took over the role in 2016. Similarly, Tianjin also had three changes between 2003 and 2016. Zhang Gaoli's (born in Fujian) six-year spell as CCP secretary of Tianjin began in 2007, following his predecessor Zhang

[5]Xi Jinping briefly served as the CCP secretary of Shanghai for six months during 2007.

Lichang (born in Hebei) retirement earlier in the same year. Sun Chunlan (born in Liaoning) was appointed to the position in 2013, before Huang Xingguo (born in Zhejiang) took over in 2015.

Excluding Xi's short tenure in 2007, Shanghai had two instances of change to its CCP secretary's birthplace. Shenzhen, Hangzhou, and Tianjin each had three changes to their CCP secretaries' birthplaces. These changes allow me to test for my hypothesis – that firms establish political connections through the hiring of directors who share a common birthplace with their local CCP secretary (i.e., birthplace-connected) – over eleven independent events.

Consistent with my hypothesis, I find that firms headquartered in the four cities increase their percentage of directors who are birthplace-connected with the newly-appointed local CCP secretary by between two and seven percentage points (25% and 160%) in the three years following appointment (two years if the secretary's tenure was only two years). For example, Shanghai-based firms increase the fraction of Shanghai-born directors by approximately 6.9 percentage points (50%) in the three-years following Han Zhen's appointment. This is the second-smallest relative increase among the eleven appointments, with the smallest being a 25% increase in Zhejiang-born directors among Hangzhou-based firms in the one year following Zhao Yide's appointment.[6] However, it is unsurprising as Shanghai-based firms already had a large percentage of Shanghai-born directors prior to Han's appointment. In contrast, the same firms increased their fraction of Shaanxi-born directors by three percentage points (160%) following Yu Zhengshen's

[6] Although Zhao Yide's tenured as CCP secretary of Hangzhou lasted until 2018, data availability limits my observations to the end of 2016.

appointment. This is because Shanghai-based firms had very few Shaanxi-born directors prior to Yu's appointment, therefore individual hires lead to much larger relative increases. I also find that some firms start recruiting birthplace-connected directors in the year prior to appointments, suggesting that these firms may possess insider information related to changes in key local CCP personnel. Excluding the year leading up to each appointment in my regression analyses increases the economic significance of my findings.

The appointments of key CCP personnel are *ex-ante* largely unknown. In other words, in the vast majority of instances, most people are unable to anticipate who their next local CCP secretary will be. This provides the opportunity to examine whether markets perceive political connections established through common birthplaces favorably, as some firms would suddenly find themselves to have a strong political connection when the new local CCP secretary is appointed. Examining firms' cumulative abnormal returns (CARs) around each of the eleven appointment announcements, I find that firms with a higher percentage of birthplace-connected directors are viewed favorably by markets (i.e., exhibit higher CARs), after accounting for industry effects. More specifically, a one decile increase in the percentage of birthplace-connected directors translates to a CAR increase of up to 0.42 percentage points over a three-day window and 0.67 over an eleven-day window. These translate to a difference of around four and six percentage points in three- and eleven-day CARs around appointment announcements, respectively, between firms in the top and bottom deciles of birthplace-connected firms.

To examine whether political connections established through common birthplaces translate to real benefits, I test whether the lagged percentage of birthplace-connected

directors affects next period's accounting performance. Results indicate that a one decile increase in the percentage of birthplace-connected directors translates to 0.15, 0.25, and 0.69 percentage points increases in ROA, ROE, and asset turnover, respectively.

Furthermore, I document evidence suggesting that investors recognize the importance of common birthplace connectedness. Private institutional investors (e.g., mutual funds and qualified foreign institutional investors) increase their holdings in firms with a higher percentage of birthplace-directors. For instance, I find that a one decile increase in the percentage of birthplace-connected directors leads to mutual and hedge funds increasing their equity ownership in the firm by between 0.22 and 0.25 percentage points in the following year.

In a falsification test, I rule out an alternative explanation that directors who share a common birthplace with the CCP secretary are appointed (under the "order" of the incoming local CCP secretary) to company boards, by splitting my sample into state-owned enterprises (SOEs) and non-SOEs. One can imagine that it would be easier for the incoming CCP secretary to place his friends and associates on SOE boards compared to on non-SOE boards. Therefore, results should be stronger for SOEs if connected directors are indeed appointed by incoming CCP secretaries rather than recruited by firms. However, results indicate that across all eleven occasions of local CCP secretary birthplace changes, SOEs engage in the hiring of birthplace-connected directors to a significantly lesser extent compared to that of non-SOEs. Furthermore, on seven of the eleven occasions, I find no evidence to suggest that SOEs engage in director birthplace-connection tactics (i.e., no increase in the percentage of birthplace-connected directors following appointment of

new local CCP secretary). These provide support for the notion that firms actively seek political connections through common birthplaces.

2 Background and Setup

2.1 Importance of Birthplace

Birthplace is an important part of one's identity in Chinese culture. This can be seen by the common existence of *Tongxiang Hui* (or Townsmen Association) both in China and abroad, many of which are supported or established by the Chinese government. *Tongxiang Hui* are commonly structured at the province or city level to facilitate collaboration among those from the same area. The requirements for joining *Tongxiang Hui* differ slightly from association to association. Common requirements are (i) being born in the province/area and/or (ii) fluent in the local dialect.

Another illustration of the importance of birthplace in China is *Juntong* – the military intelligence agency of the Republic of China. *Juntong* was founded in 1938 by Dai Li – born in Jiangshan County. Under Dai, *Juntong*'s leadership consisted of almost exclusively Jiangshan-born individuals, most notably "One Dai Three Mao" – four individuals who controlled *Juntong* (later known as *Baomiju*) between 1938 until its disbandment in 1955. Between 1912 and 1949, there were 65 Jiangshan-born generals, of which 23 worked in *Juntong*.[7]

[7] Jiangshan News, 2011. 民国时期江山县（现江山市）国民党将军名录 [*List of Jiangshan County's Generals During the Republic of China Era*]. Retrived from http://jsnews.zjol.com.cn.

2.2 Data

My sample consists of all publicly listed firms headquartered in Shanghai, Shenzhen, Hangzhou, and Tianjin – four of the largest local economies in China between 2003 and 2016. Table 1 presents the cities' CCP secretaries over my sample period. Excluding Xi's short tenure, we see that the birthplaces of Shanghai's CCP secretaries changed from Shanghai to Shaanxi and back to Shanghai. For Shenzhen, this changed from Liaoning to Shandong to Jiangsu and finally to Heilongjiang. Similar to Shenzhen, Hangzhou and Tianjin's CCP secretaries each had three birthplace changes – Zhejiang to Fujian to Jiangsu to Zhejiang for Hangzhou and Hebei to Fujian to Liaoning to Zhejiang for Tianjin.

Data on firms' financial statements are obtained from *Financial Statements of Chinese Firms* (CNFS). Stock price and equity market capitalization data are from *Securities Prices of Chinese Public Firms* (CNSP). Data on institutional investors' ownership in firms are from *Institutional Ownership Research Database* (IORD). Company headquarter location data is from Wind. All continuous variables are winsorized at the 1 and 99 percent levels. Descriptive statistics are presented in Table 2. Financial observables, as well as board size, are broadly similar across the four cities.

The term "director" in this paper broadly includes senior executives (i.e., C-suite officers), board of directors, and members of the supervisory committee.[8] Director infor-

[8]Companies in China are required, by law, to have a supervisory committee. The purpose supervisors is to monitor the company's financial performance, the actions of directors and executives, and ensure that company bylaws are being followed. The role of supervisors are usually filled by large shareholders and/or employee representatives. Supervisors cannot sit on the company board or be a member of the senior executive team. My results remain similar after excluding members of the supervisory committee.

mation come from two sources. First, names of directors are from *Individual Characteristics of Listed Company Executives Database* (ICED).[9] Second, I complement this using a proprietary dataset provided by China's Ministry of Public Security containing birthplaces of identified company directors over my sample period.

3 Empirical Analyses

3.1 Connections through Common Birthplaces

To test the hypothesis that firms attempt to establish political connections through the hiring of directors who share a common birthplace with their local CCP secretary, I first plot the percentage of directors who share the same birthplace with each of the eleven secretary appointees. The four panels of Figure 1 correspond to each of the four cities – Shanghai (top-left), Shenzhen (top-right), Hangzhou (bottom-left), and Tianjin (bottom-right). They plot the percentages of directors who share a common birthplace with the local CCP secretary. For example, in the top-left panel we see a clear decrease in the percentage of Shanghai-born directors following the departure of Chen Liangyu (born in Shanghai). The opposite is true following the appointment of Han Zhen (born in Shanghai). Similarly, the percentage of Shaanxi-born directors are higher during years when Yu Zhengsheng (born in Shaanxi) was the CCP secretary of Shanghai than during years when he was not.

[9] CNFS, CNSP, IORD, and ICED are all databases within the Chinese Research Data Services Platform (CNRDS).

All four panels of Figure 1 follow a similar pattern – the percentage of directors from a certain province is higher when the local CCP secretary was born in the same province than it is when the secretary was born in a difference province. Take Hangzhou as another example – the percentage of Fujian-born directors was higher between 2010 and 2013, when Huang Kunming (born in Fujian) was the city's CCP secretary, compared to other years. One interesting observation across all four panels is that the percentage of birthplace-connected (with the incoming CCP secretary) directors start to increase *prior to* appointments. For example, we observe an increase in the percentage of Shanghai-born directors among Shanghai-based firms in 2012 – a year before Han Zhen's appointment. This suggest that some firms have private information regarding key local CCP personnel changes. The fact that decreases in the percentage of birthplace-connected directors (with the incumbent) starts prior to departures also supports the private information explanation.[10]

To formally test my hypothesis, for each of the eleven appointees, I compared the percentage of birthplace-connected directors in the three years following their appointments to that in the three years prior to their appointments.[11] More specifically, for each local CCP secretary appointee j,

$$CON_{j,i,t} = \alpha_{j,i} + \beta_1 Post_{j,t} + \gamma' X_{j,i,t-1} + \varepsilon_{j,i,t}, \tag{1}$$

[10]Unlike in most Western countries, where elections results are known months in advance of actual personnel changes (e.g., Trump won the 2016 election on November 8, 2016, but assumed office on January 20, 2017), China's local CCP secretary personnel changes are most commonly recorded on the announcement date. That is, there is no "lag" between appointment announcement and assuming office.

[11]I use two years of data for those who only served for two years. Zhao Yide served for three years from 2016 to 2018, but I only use one year of post-appointment data due to limitations on data availability.

where i and t index firm and year, respectively. *CON* is the percentage of directors who share a common birthplace with the appointee in question. *Post* is an indicator variable that equals to one for years after the appointment and zero otherwise. X is a vector of controls including book-to-market, leverage, and the natural logarithmic transformation of total assets. Sample is restricted to Shanghai-based firms for Yu Zhengsheng and Han Zhen's appointments, Shenzhen-based firms for Liu Yupu, Wang Rong, and Ma Xingrui's appointments, Hangzhou-based firms for Huang Kunming, Gong Zheng, and Zhao Yide's appointments, and Tianjin-based firms for Zhang Gaoli, Sun Chunlan, and Huang Xingguo's appointments. If firms do attempt to establish political connection through the hiring of directors who share a common birthplace with their local CCP secretary, then we would expect β_1 to be positive.

Results of equation (1) are presented in Panels A (without controls) and B (with controls) of Table 3. We see that the percentage of directors who share a common birthplace with each of the eleven local CCP secretaries increases significantly following their respective appointments. For example, column 2 indicates that among Shanghai-based firms, the percentage of Shanghai-born directors are almost seven percentage points higher in the three years after Han Zhen (born in Shanghai) assumed office compared to that in the three years prior, representing a 50% increase in relative terms. This is perhaps unsurprising as Shanghai-based firms had relative high percentages of locally-born director even prior to Han's appointment. In contrast, the same firms increased their percentage of Shaanxi-born directors by almost three percentage points (160%) following Yu Zhengshen's (born in Shaanxi) appointment (column 1). This is because Shanghai-based

firms had very few Shaanxi-born directors prior to Yu's appointment – only 1.83% of directors among Shanghai-based firms were born in Shaanxi – therefore individual hires lead to much large relative increases. Similar patterns are found across all eleven CCP secretary appointments. That is, firms increase their percentage of directors who share a common birthplace with their local CCP secretary in the two to three years following his/her appointment. Our coefficient of interest in Panels A and B are similar in economic magnitude, suggesting that this behavior is not driven by firm characteristics.

Given the apparent information leakage surrounding local CCP secretary appointments (as shown in Figure 1), I re-examine equation (1) after excluding the year leading up to each appointment. Unsurprisingly, the coefficient of interest presented in Panel C of Table 3 are of greater economic significance compared to those in Panels A and B in ten of the eleven columns.[12] Using Han Zhen's appointment as our example, we see that column 2 now suggests the percentage of Shanghai-born director among Shanghai-based firms is more than ten percentage points (Panels A and B suggests between 6.3 and 6.9 percentage points) higher during his tenure as Shanghai's CCP secretary compared to before his appointment. In general, Panels A and B indicate that firms increase the percentage of directors who share a common birthplace with their local CCP secretary by between 1.7 and 6.9 percentage points in the two to three years following each appointment. This range increases to between 2.7 and 10.3 percentage points when the year leading up each appointment is excluded.

[12]The exception is Yu Zhengsheng's appointment as Shanghai's CCP secretary in late 2007 following Xi Jinping's short stint in the same position. Xi's atypically short tenure (only six months), and thereby Yu's appointment, may have surprised many firms.

Results in Figure 1 and Table 3 provide strong evidence consistent with my hypothesis, suggesting that firms attempt to establish political connections through the hiring of directors who share a common birthplace with their local CCP secretary.

3.2 Market Reaction

Many studies find that politically connected firms enjoy higher CARs around the establishment of their connections (e.g., Fisman, 2001; Faccio, 2006; Acemoglu, Hassan, and Tahoun, 2017; Child et al., 2020).[13] The nature of China's political system means that local CCP secretary appointments are opaque and unpredictable. This means that a firm may find itself to have a high degree of political connectedness with the incoming local CCP secretary, through birthplace-connected directors, when appointments are announced. For example, a firm with a high percentage of Shanghai-born directors would find itself to be strongly connected when Han Zhen (born in Shanghai) was appointed as the CCP secretary of Shanghai.[14] As such, if the sharing of a common birthplace between directors and local CCP secretary is a channel of political connection through which firms derive value, then one would expect favorable market reaction toward firms with a high percentage of birthplace-connected directors (with the incoming CCP secretary) around appointment announcements.

[13] Fisman (2001) finds that losing politically connection results in lower CARs for firms that were previously politically connected.

[14] It is worth noting that I am not suggesting that firms automatically become politically connected by having a higher percentage of directors who share a common birthplace with the local CCP secretary. Rather, having more birthplace-connected directors translates to greater potential for higher degrees of political connectedness.

I adopt an event study methodology to test this hypothesis. Formally, for each local CCP secretary appointee j,

$$CAR_{j,i,k} = \alpha_{j,k} + \beta_1 CON^{10}_{j,i,k} + \gamma' X_{j,i,k} + \varepsilon_{j,i,k}, \tag{2}$$

where i and k index firm and industry, respectively. CON^{10} is the decile portfolio ranking of firms based on their percentage of directors who share the same birthplace with the *incoming* local CCP secretary in the year prior to each appointment. This is done to reduce noise at the individual firm level. Two CAR windows are selected – [-1, 1] and [-5, 5]. CARs are estimated using the market model with an estimation window of 255 trading days that ends 46 trading days prior to each event day (i.e., appointment announcement). Industry dummies are based on CSCR's 2012 classification.

Results presented in Table 4 is consistent with markets perceiving firms with a higher percentage of directors who share the same birthplace with the newly appointed local CCP secretary more favorably. For instance, column 2 of Panel A suggests that a one decile increase in the percentage of Shanghai-born directors results in a 0.23 percentage point increase in CAR over the [-1, 1] window around Han Zhen's (born in Shanghai) appointment on November 20, 2012. We continue to find statistically significant positive market reaction when sample size becomes relatively small. For example, in columns 6, 9, 10, and 11 (where sample sizes are no larger than 40), we find significant positive market reaction over the [-1, 1] window for three of the four appointments. Furthermore, the economic magnitude of the coefficient of interest is also similar to that in other columns.

Similar results are found across all appointments and across both windows. Untabulated results show that results are qualitatively similar when (i) sorting firms into quintile portfolios (i.e., coefficient of interest is roughly twice the magnitude of when sorting into decile portfolios) and (ii) using longer event windows (e.g., [-10, 10]). These finding provide strong evidence to suggest that connections through common birthplaces is perceived favorably by markets.

3.3 Firm Performance

Having documented markets' favorable reactions to firms with a higher percentage of directors who share a common birthplace with the newly appointed local CCP secretary, it is natural to subsequently examine whether these firms enjoy any *real* benefits, on top of financial ones. Previous studies have found that politically connected firms in China enjoy real benefits such as superior performance (Li, Meng, Wang, and Zhou, 2008; Xu, Yuan, Jiang, and Chan, 2015), easier access to the primary capital market (Piotroski and Zhang, 2014; Liu et al., 2013; Brockman et al., 2019), and easier access to bank loans (Li et al., 2008).

I examine firms' ROA, ROE, and asset turnover to see if connections through common birthplaces bring measurable benefits to firms. More specifically, I test the pooled model

$$R_{i,t} = \alpha_i + \beta_1 CON^{10}_{i,t-1} + \gamma' X_{i,t-1} + \delta_t + \varepsilon_{i,t}, \tag{3}$$

where i and t index firm and year, respectively. R is one of the three performance measures – ROA, ROE, and asset turnover. CON^{10} is the portfolio rank of firms sorted into decile portfolios based on their previous year-end's percentage of directors who share a common birthplace with the *current* local CCP secretary. For instance, for 2013's Shanghai-based firms (when Han Zhen was the CCP secretary), CON^{10} is the portfolio decile ranking based on their percentage of SH-born directors in 2012.

Table 5 presents evidence consistent with the hypothesis that higher degrees of birthplace-connectedness lead to superior performance. After controlling for firm characteristics, as well as firm and year fixed effects, ROA, ROE, and asset turnover respectively increase by 0.15, 0.25, and 0.69 percentage points per decile increase in the percentage of birthplace-connected directors (columns 2, 4, and 6). These findings confirms existing empirical evidence documented in the literature, albeit via a new definition of political connectedness. They provide evidence supporting the notion that political connection with the firm's headquarter city's CCP secretary may be established through directors who share a common birthplace with the secretary.

3.4 Institutional Ownership

Institutional investors are generally considered to be "smarter" than retail investors (Gruber, 1996; Zheng, 1999; Keswani and Stolin, 2008; Frazzini and Lamont, 2008; Barber, Lee, Liu, and Odean, 2008). As such, it is reasonable to expect institutional investors to recognize the value of political connections through common birthplaces and increase

their holdings in firms with a higher percentage of birthplace-connected directors.

Institutional investors of different types are likely to have different objective functions, and thus invest differently. In this paper, I identify four major categories of institutional investors applicable to China – mutual and hedge funds (M&H), insurance companies, qualified foreign institutional investors (QFII), and state-controlled funds.[15]

To test this hypothesis, I modify equation 3 by replacing the dependent variable with institutional holdings. Table 6 shows that mutual and hedge funds and QFII participants' fund flows follow the percentage of birthplace-connected director. That is, these investors increase their holdings in a firm when its percentage of birthplace-connected directors increases. For example, column 2 suggests that mutual and hedge funds increase their ownership in firms by 0.22 percentage points per decile increase in the percentage of birthplace-connected directors.

Insurance companies' lack of reaction to changes in firms' percentage of birthplace-connected directors is perhaps unsurprising, it may be attributable to their lack of "skin in the game". Conventional wisdom suggests that insurance companies invests primarily in fixed income assets and engage in immunization strategies, such as matching durations of investment assets and claim liabilities. Henebry and Diamond (1998) find that the percentage of investment assets allocated to common equity among US life insurance companies had been declining steadily from just six percent in 1988 to three percent by

[15]The QFII program was introduced in 2002 to allow licensed foreign investors participate in Chinese stock exchanges. Prior to this, foreign investors were not permitted to trade CNY-denominated A shares. State-controlled funds, such as the Shanghai Municipal Investment Corporation (aka Shanghai Chengtou), are funds operated by central- and local-level government agencies.

1995. Consistent with their observation, I find that on average, less than one percent of common equity in Chinese firms were held by insurance companies. As such, insurance companies' lack of large stakes in firms may explain their inaction toward changes in firms' percentage of birthplace-connected directors.

State-owned institutional investors also do not react to changes in firms' political connectedness. There are several potential explanations for this. First, managers of state-owned funds are likely to be politically well-connected themselves, thereby substituting the need for investing in politically connected firms. Second, the primary objective of Chinese state-controlled funds is often not profit maximization, but social-stability oriented, such as ensuring market stability and maintaining control of strategically important industries and businesses. Finally, state-controlled institutional investors may not be as efficient as their private counterparts, and neglecting birthplace-connectedness is one aspect of this inefficiency.

Overall, evidence supporting the hypothesis that institutional investors, particularly those that are private, recognize the importance of and benefits from having a high percentage of directors who share a common birthplace with local CCP secretaries. As such, these investors increase their ownership of firms that have a higher percentage of birthplace-connected directors.

4 Robustness and Falsification Tests

4.1 Appointing vs. Seeking Directors

One plausible alternative explanation of the observed phenomenon documented in this paper is that incoming CCP secretaries "appoint" their friends and associates, with whom they share a common birthplace, to sit on boards of local firms, rather than firms seeking these directors to establish political connections. Incoming CCP secretaries could be engaging in such conducts to favor their personal friends and associates.

To address this concern, I re-examine equation (1) after introducing an indicator variable, *SOE*, that equals to one if the firm is an SOE and zero otherwise. More specifically, for each local CCP secretary appointee j,

$$CON_{j,i,t} = \alpha_{j,i} + \beta_1 Post_{j,t} + \beta_2 Post_{j,t} SOE_{i,t} + \gamma' X_{j,i,t-1} + \varepsilon_{j,i,t}, \tag{4}$$

where i and t index firm and year, respectively. *CON*, *Post*, and X share the same definition as in equation (1). One can imagine that it would be easier for the incoming CCP secretary to place his friends on SOE boards compared to non-SOE boards. Therefore, if results are driven by "orders" from incoming CCP secretaries, rather than firms seeking political connections, then we should expect to observe stronger effects for SOEs compared to non-SOEs. As such, we would expect β_2 to be positive.

Table 7 presents results of equation (4). The coefficient of the interaction term is

significant and *negative* across all columns, suggesting at the very least that SOEs increase their percentage of directors who share a common birthplace with the incoming local CCP secretary to a lesser extent than non-SOEs do. I also formally test the null hypothesis that $\beta_1 + \beta_2 = 0$. The F-test fails to reject the null for seven of the eleven appointments, thereby suggesting that SOEs do not appears to engage in such director hiring strategy at all. These results indicate that it is unlikely that birthplace-connected directors are "appointed", rather than recruited by firms themselves.

4.2 Birthplace vs. Jiguan (Ancestral Home)

Jiguan, or ancestral home, has always played a significant role in one's sense of identity in China. Officially, jiguan is defined as the residence of one's paternal grandfather at the time of one's birth; but it is more often loosely defined as where one's ancestors are from. As such, we would expect jiguan and birthplace to be highly correlated – indeed 70 percent of this paper's sample of directors exhibit an overlap between their birthplace and jiguan.

The high percentage of overlap between birthplace and jiguan makes it difficult to distinguish which one (or both) is driving our results. However, two cases offer some evidence supporting the notion that it is birthplace-, rather than jiguan-connections, that firms attempt to establish. First, we look at Ma Xingrui – the CCP secretary of Shenzhen between 2015 and 2016. Ma was born in Heilongjiang, but his jiguan is Shandong. The top-right panel of Figure 1 shows that following his appointment, the percentage of

Heilongjiang-born directors more than double, whereas the percentage of Shandong-born directors do not change.

Second, we turn our attention to Sun Chunlan – the CCP secretary of Tianjin between 2013 and 2014. Similar to Ma, Sun's birthplace differs from her jiguan. She was born in Liaoning, but her is Hebei. From the bottom-right panel of Figure 1, we observe that during her tenure, approximately 13 percent of directors amongst Tianjin-based firms were born in Liaoning. This is much higher than the nine percentage during other years. In contrast, there is little change in the percentage of Hebei-born directors following her appointment. Collectively, these two cases indicate that it is the sharing of a common birthplace, rather than jiguan, between directors and firms' local CCP secretary that increase firms' political connectedness.

5 Conclusion

In the paper, I document a new channel of political connection in China – firms hiring directors who share a common birthplace with their headquarter city's CCP secretary. Exploiting eleven exogenous changes in Shanghai, Shenzhen, Hangzhou, and Tianjin's CCP secretaries between 2003 and 2016, I find that firms increase their percentage of directors who are birthplace-connected with each incoming local CCP secretary by between two and seven percentage points (25% and 160% in relative terms) in the two to three years following appointments.

Potential political connections that may be established through this channel is recognized by market participants. On the day of CCP secretary appointments, markets view firms with a high percentage of birthplace-connected directors favorably – a difference of four and six percentage points in three- and eleven-day CARs around appointment announcements, respectively, between firms in the top and bottom deciles of birthplace-connected firms.

Additionally, I establish that this is a channel of connection that leads to real benefits. Consistent with previous studies on politically connected (through different channels) Chinese firms, I find that connections through common birthplaces lead to superior ROA, ROE, and asset turnover. Whether these are results of political favoritism or information efficiency remains an open question.

Another piece of evidence in support of the notion that common birthplace is a genuine channel of political connection that creates value for firms is that private institutional investors, such as mutual and hedge funds, increase their holdings in firms with higher percentages of birthplace-connected directors. This suggest that "smart money" recognizes the importance of birthplace-connections, as well as the benefits that they bring.

I rule out an alternative explanation that directors who share a common birthplace with their local CCP secretary are appointed to company boards on the "orders" of politicians. To test this, I split my sample into SOEs and non-SOEs, with the idea that were local CCP leadership to place directors on company board, they are more likely to place them

on SOE's board given the nature of the ownership. Results suggest that across all eleven appointments, SOEs alter their board composition, in terms of birthplace of directors, to establish political connections through common birthplaces to a much lesser extent than non-SOEs do. Furthermore, I fail to reject the hypothesis that SOEs do not engage in this birthplace-connection strategy for seven of the eleven CCP secretary changes. These results indicate that it is the non-SEOs that are actively seeking political connections through the hiring of birthplace-connected directors, rather than politicians appointing these directors to company boards.

Establishing political connection through the sharing of a common birthplace between directors and local CCP secretaries may be a product of China's distinctive culture. It would be interesting to see if the same is true for other countries. Nonetheless, given China's status as the world's second largest economy, we should not neglect understanding how Chinese firms operate under the country's unique ecopolitical environment.

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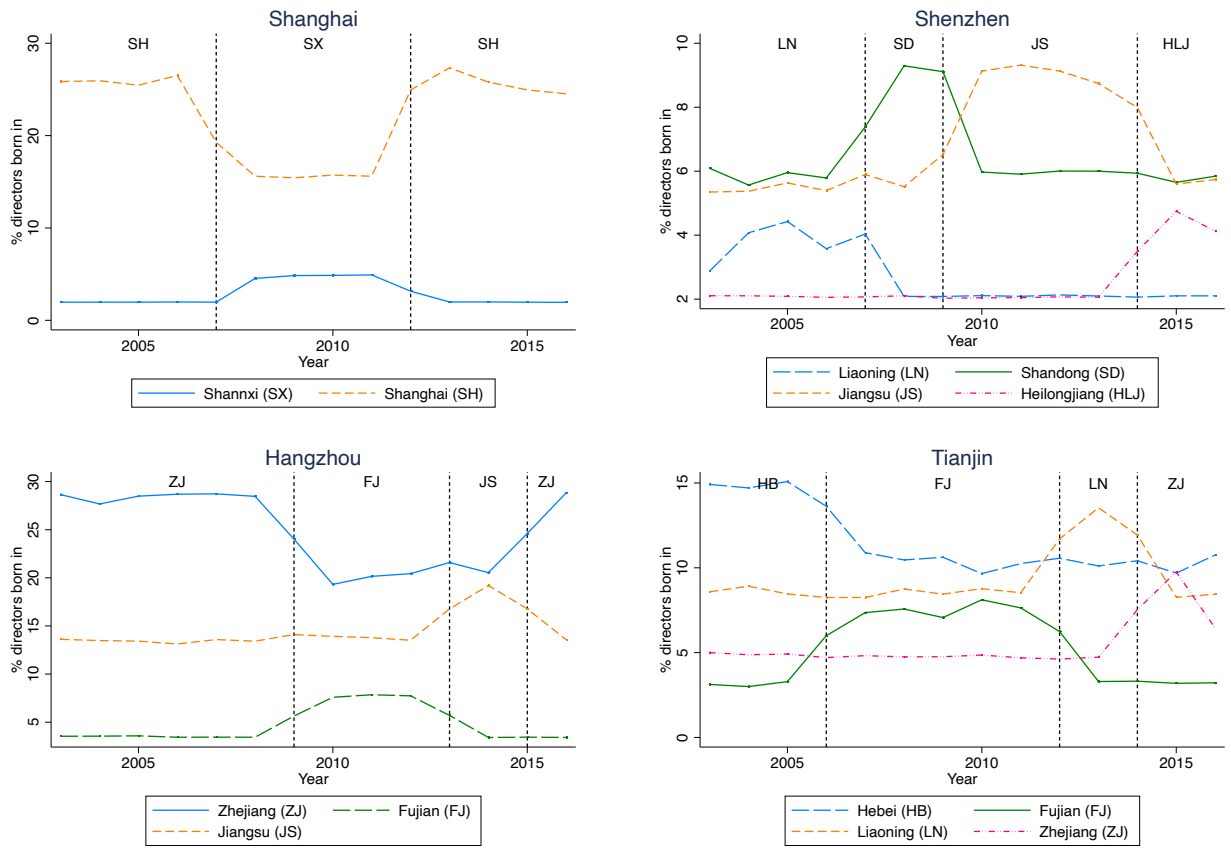

Fig. 1: Percentage of directors who share a common birthplace with local CCP secretaries between 2003 and 2016. Each dotted lines represent the appointment of a new local CCP secretary. Birthplace of each newly-appointed secretary is abbreviated and shown at the top of their respective dotted line. The top-left, top-right, bottom-left, and bottom-right panels include firms headquartered in Shanghai, Shenzhen, Hangzhou, and Tianjin, respectively.

Table 1
CCP secretary of Shanghai (SH), Shenzhen (SZ), Hangzhou (HZ), and Tianjin (TJ) between 2003 and 2016. Birthplace is given as *province (abbreviation)*. Shanghai, Beijing, Tianjin, and Chongqing are the four directly-administered municipalities in China, and do not belong to any province.

	Shanghai (SH)		Shenzhen (SZ)		Hangzhou (HZ)		Tianjin (TJ)	
Year	Name	Birthplace	Name	Birthplace	Name	Birthplace	Name	Birthplace
2003	Chen Liangyu	Shanghai (SH)	Huang Liman	Liaoning (LN)	Wang Guoping	Zhejiang (ZJ)	Zhang Lichang	Hebei (HB)
2004	Chen Liangyu	Shanghai (SH)	Huang Liman	Liaoning (LN)	Wang Guoping	Zhejiang (ZJ)	Zhang Lichang	Hebei (HB)
2005	Chen Liangyu	Shanghai (SH)	Li Hongzhong	Liaoning (LN)	Wang Guoping	Zhejiang (ZJ)	Zhang Lichang	Hebei (HB)
2006	Chen Liangyu	Shanghai (SH)	Li Hongzhong	Liaoning (LN)	Wang Guoping	Zhejiang (ZJ)	Zhang Lichang	Hebei (HB)
2007	Chen Liangyu	Shanghai (SH)	Li Hongzhong	Liaoning (LN)	Wang Guoping	Zhejiang (ZJ)	Zhang Gaoli	Fujian (FJ)
2008	Yu Zhengsheng	Shaanxi (SX)	Liu Yupu	Shandong (SD)	Wang Guoping	Zhejiang (ZJ)	Zhang Gaoli	Fujian (FJ)
2009	Yu Zhengsheng	Shaanxi (SX)	Liu Yupu	Shandong (SD)	Wang Guoping	Zhejiang (ZJ)	Zhang Gaoli	Fujian (FJ)
2010	Yu Zhengsheng	Shaanxi (SX)	Wang Rong	Jiangsu (JS)	Huang Kunming	Fujian (FJ)	Zhang Gaoli	Fujian (FJ)
2011	Yu Zhengsheng	Shaanxi (SX)	Wang Rong	Jiangsu (JS)	Huang Kunming	Fujian (FJ)	Zhang Gaoli	Fujian (FJ)
2012	Yu Zhengsheng	Shaanxi (SX)	Wang Rong	Jiangsu (JS)	Huang Kunming	Fujian (FJ)	Zhang Gaoli	Fujian (FJ)
2013	Han Zhen	Shanghai (SH)	Wang Rong	Jiangsu (JS)	Huang Kunming	Fujian (FJ)	Sun Chunlan	Liaoning (LN)
2014	Han Zhen	Shanghai (SH)	Wang Rong	Jiangsu (JS)	Gong Zheng	Jiangsu (JS)	Sun Chunlan	Liaoning (LN)
2015	Han Zhen	Shanghai (SH)	Ma Xingrui	Heilongjiang (HLJ)	Gong Zheng	Jiangsu (JS)	Huang Xingguo	Zhejiang (ZJ)
2016	Han Zhen	Shanghai (SH)	Ma Xingrui	Heilongjiang (HLJ)	Zhao Yide	Zhejiang (ZJ)	Huang Xingguo	Zhejiang (ZJ)

Table 2
Descriptive statistics. Firms-years are split by headquarter location (Shanghai, Shenzhen, Hangzhou, and Tianjin). Sample period is between 2003 and 2016.

	Mean	S.D.	p25	p50	p75
Panel A: Shanghai (N = 2049)					
Num. of Directors	15.56	4.84	12.00	15.00	18.00
ROA	3.98	6.35	1.43	3.72	6.67
ROE	7.29	14.37	3.22	7.67	12.51
Revenue (CNY Bn)	8.40	20.91	0.66	1.54	4.96
Assets (CNY Bn)	20.50	75.59	1.24	2.86	8.23
B/M	0.40	0.27	0.20	0.33	0.54
Leverage	0.30	0.10	0.24	0.32	0.38
Panel B: Shenzhen (N = 1632)					
Num. of Directors	16.27	5.32	13.00	15.00	19.00
ROA	3.87	6.15	1.43	3.90	6.75
ROE	7.41	14.37	3.37	7.72	13.14
Revenue (CNY Bn)	6.68	17.75	0.53	1.33	3.33
Assets (CNY Bn)	24.02	93.82	1.19	2.55	7.02
B/M	0.36	0.25	0.18	0.30	0.47
Leverage	0.30	0.12	0.22	0.32	0.39
Panel C: Hangzhou (N = 696)					
Num. of Directors	15.44	4.66	12.00	15.00	18.00
ROA	4.93	6.72	1.60	4.74	7.96
ROE	8.46	14.33	3.82	8.88	13.75
Revenue (CNY Bn)	4.19	8.98	0.68	1.71	3.79
Assets (CNY Bn)	5.26	9.96	1.25	2.68	5.21
B/M	0.36	0.24	0.18	0.30	0.49
Leverage	0.30	0.11	0.22	0.31	0.39
Panel D: Tianjin (N = 487)					
Num. of Directors	16.10	4.65	13.00	16.00	18.00
ROA	2.56	6.60	0.77	2.78	5.33
ROE	5.26	17.54	1.92	6.41	11.20
Revenue (CNY Bn)	5.79	13.97	0.59	1.12	3.47
Assets (CNY Bn)	10.72	24.41	1.41	3.29	8.36
B/M	0.39	0.27	0.19	0.34	0.53
Leverage	0.33	0.10	0.29	0.34	0.40

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 3

Firm-year panel regressions showing that **after a new local CCP secretary is appointed, firms increase their percentage of directors who share a common birthplace with their new local CCP secretary.** The dependent variable is the percentage of directors born in the same province as the incoming party secretary. Shanghai had two changes in local CCP secretary over my sample period; Shenzhen, Hangzhou, and Tianjin each had three. In Panels A and B, for each change, I use three years of data either side of the appointment (for those who served for less than three years, I use up to their tenure number of years). Panel C excludes the one year leading up to each announcement. *Post* is a dummy that equals to one for years after the appointment announcement is made and zero otherwise. Standard errors are clustered by firm and in parentheses.

Sample:	Shanghai		Shenzhen			Hangzhou			Tianjin		
Secretary (Birthplace):	Yu (SX)	Han (SH)	Liu (SD)	Wang (JS)	Ma (HLJ)	Huang (FJ)	Gong (JS)	Zhao (ZJ)	Zhang (FJ)	Sun (LN)	Huang (ZJ)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Panel A: No Controls											
Post	2.79***	6.34***	2.61***	3.04***	1.88***	3.46***	3.34***	5.57***	3.41***	3.02***	2.38***
	(0.14)	(0.62)	(0.70)	(0.70)	(0.23)	(0.22)	(0.42)	(0.70)	(0.27)	(0.49)	(0.31)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	795	1063	384	671	930	286	368	321	150	174	193
Adjusted R^2	0.426	0.128	0.139	0.150	0.144	0.533	0.114	0.182	0.439	0.188	0.112
Panel B: With Controls											
Post	2.77***	6.90***	2.77***	2.97***	1.69***	3.26***	3.83***	5.51***	2.81***	2.86***	1.48***
	(0.15)	(0.77)	(0.74)	(0.77)	(0.31)	(0.26)	(0.70)	(1.05)	(0.38)	(0.57)	(0.40)
B/M	-0.13	7.91***	0.75	2.11	-1.59*	-1.16	3.15	2.68	-1.73	3.72**	-6.87***
	(0.26)	(2.67)	(1.34)	(1.62)	(0.82)	(0.79)	(2.01)	(3.97)	(1.02)	(1.69)	(1.53)
Leverage	-2.44	-3.70	-10.68	9.62	-3.98*	-0.12	7.21	-12.23	7.47	9.86*	-1.51
	(1.57)	(8.02)	(9.52)	(10.22)	(2.29)	(2.71)	(5.39)	(9.57)	(6.04)	(5.25)	(3.58)
Log(Assets)	0.02	0.53	-0.34	-0.46	0.04	0.61*	-0.07	1.14	0.67	1.21	1.53***
	(0.18)	(0.83)	(1.03)	(1.32)	(0.25)	(0.32)	(1.21)	(1.61)	(0.56)	(1.00)	(0.35)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	795	1063	384	671	930	286	368	321	150	174	193
Adjusted R^2	0.425	0.139	0.140	0.150	0.149	0.540	0.121	0.186	0.458	0.226	0.227
Panel C: Excl. Lead-Up Year											
Post	2.72***	10.26***	3.80***	3.48***	2.91***	4.30***	6.52***	7.57***	4.60***	4.00***	2.68***
	(0.19)	(0.80)	(0.86)	(0.88)	(0.39)	(0.26)	(0.93)	(1.11)	(0.39)	(0.55)	(0.41)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	667	881	314	577	747	246	292	241	126	138	156
Adjusted R^2	0.374	0.223	0.159	0.139	0.204	0.663	0.268	0.398	0.624	0.471	0.357

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 4

Cross-sectional regressions showing that **markets perceive firms with a higher percentage of birthplace-connected directors more favorably around the announcements of local CCP secretary appointments.** The dependent variables in Panels A and B are CARs over [-1, 1] and [-5, 5] windows, respectively. CARs are calculated using the market model using an estimation window of 255 trading days, ending 46 trading days prior to the event day. CON^{10} is the portfolio rank of firms sorted into decile portfolios based on their previous year-end's percentage of directors who share a common birthplace with the *incoming* local CCP secretary. Industry classification is based on China Securities Regulatory Commission's (CSRS) 2012 classification. Standard errors are clustered by industry and in parentheses.

Sample:	Shanghai		Shenzhen			Hangzhou			Tianjin		
Secretary (Birthplace):	Yu (SX)	Han (SH)	Liu (SD)	Wang (JS)	Ma (HLJ)	Huang (FJ)	Gong (JS)	Zhao (ZJ)	Zhang (FJ)	Sun (LN)	Huang (ZJ)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Panel A: CAR [-1, 1]											
CON^{10}	0.36***	0.23***	0.21**	0.33***	0.28***	0.26***	0.24***	0.26**	0.27	0.42**	0.41***
	(0.04)	(0.03)	(0.08)	(0.09)	(0.05)	(0.08)	(0.06)	(0.09)	(0.22)	(0.12)	(0.09)
B/M	-1.50*	0.39	-0.17	0.42	0.65	2.83	-1.20	-1.93*	-3.15	-2.13***	1.04
	(0.72)	(0.65)	(1.31)	(2.06)	(1.28)	(2.92)	(1.58)	(0.95)	(1.88)	(0.36)	(0.63)
Leverage	1.33	0.41	-2.54	1.62	-0.45	-3.50	5.70**	-6.07	5.64	-2.70	5.90*
	(2.87)	(3.37)	(2.19)	(1.38)	(1.68)	(4.18)	(1.93)	(3.35)	(5.77)	(1.84)	(2.52)
Log(Assets)	0.10	-0.02	-0.04	0.01	0.09	0.11	-0.39	0.25	0.48	0.40	-0.49
	(0.11)	(0.18)	(0.22)	(0.20)	(0.15)	(0.48)	(0.22)	(0.18)	(0.93)	(0.56)	(0.42)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	135	182	70	94	183	40	76	80	24	36	37
Adjusted R^2	0.309	0.167	0.253	0.277	0.197	0.412	0.308	0.276	0.497	0.381	0.500
Panel B: CAR [-5, 5]											
CON^{10}	0.55***	0.31***	0.20	0.40***	0.28***	0.19	0.27***	0.52***	0.41	0.67***	0.35
	(0.07)	(0.07)	(0.12)	(0.12)	(0.08)	(0.20)	(0.07)	(0.10)	(0.52)	(0.18)	(0.23)
B/M	-2.05*	0.74	-2.33	1.09	-0.32	6.11	-2.96*	-0.32	-7.53*	-3.85**	0.13
	(1.10)	(1.31)	(3.47)	(1.83)	(3.19)	(5.68)	(1.43)	(3.85)	(3.28)	(1.47)	(4.92)
Leverage	2.69	2.31	2.43	3.43	2.71	-12.53	-5.50	2.97	13.23	-0.38	0.85
	(6.59)	(5.23)	(3.72)	(2.83)	(2.19)	(7.13)	(4.73)	(3.16)	(7.11)	(3.09)	(8.37)
Log(Assets)	0.24	0.07	-0.17	-0.30	0.17	0.13	-0.41	-0.36	1.03	0.31	-0.82
	(0.22)	(0.37)	(0.41)	(0.29)	(0.32)	(0.79)	(0.44)	(0.59)	(2.04)	(0.37)	(1.11)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	135	182	70	94	183	40	76	80	24	36	37
Adjusted R^2	0.299	0.132	0.177	0.188	0.081	0.344	0.226	0.273	0.748	0.347	0.289

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 5
Firm-year panel regressions showing that **firms with a higher percentage of birthplace-connected directors enjoy superior accounting performance in the following year.** Dependent variables are ROA, ROE, and asset turnover. CON^{10} is the portfolio rank of firms sorted into decile portfolios based on their previous year-end's percentage of directors who share a common birthplace with the *current* local CCP secretary. Standard errors are clustered by firm and in parentheses.

Dependent Variable:	ROA (%)		ROE (%)		Sales/Assets (%)	
	(1)	(2)	(3)	(4)	(5)	(6)
CON^{10}	0.15***	0.15***	0.25**	0.25**	0.69**	0.66**
	(0.05)	(0.05)	(0.10)	(0.10)	(0.32)	(0.32)
B/M		-4.89***		-9.95***		-3.37
		(0.94)		(2.07)		(6.49)
Leverage		-32.19***		-29.69***		31.53
		(2.67)		(8.04)		(19.55)
Log(Assets)		2.41***		4.39***		-5.71
		(0.39)		(0.96)		(3.88)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
N	4226	4226	4226	4226	4226	4226
Adjusted R^2	0.337	0.420	0.178	0.203	0.796	0.797

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 6
Firm-year panel regressions showing that **institutional investors increase their holding in firms with a higher percentage of birthplace-connected directors.** The dependent variable is equity ownership in percentage points. Institutional investors are grouped into categories. *M&H* are mutual and hedge funds; *Insurance* includes all insurance companies; *QFII* represents qualified foreign institutional investors; and *State* includes state-controlled or operated funds (e.g., various municipal city funds). CON^{10} is the portfolio rank of firms sorted into decile portfolios based on their previous year-end's percentage of directors who share a common birthplace with the local CCP secretary. Data availability limits sample period to between 2005 and 2016. Standard errors are clustered by firm and in parentheses.

Investor Type:	M&H		Insurance		QFII		State	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
CON^{10}	0.25***	0.22***	0.03	0.03	0.01**	0.01**	-0.07	-0.06
	(0.08)	(0.07)	(0.02)	(0.02)	(0.01)	(0.01)	(0.05)	(0.05)
B/M		-19.55***		0.71		-0.71***		-0.17
		(1.63)		(0.93)		(0.19)		(1.72)
Leverage		-18.30***		-1.35*		-0.74*		0.81
		(3.22)		(0.73)		(0.42)		(5.56)
Log(Assets)		2.67***		0.31**		0.02		1.92**
		(0.43)		(0.12)		(0.04)		(0.82)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	4136	4136	4136	4136	4136	4136	4136	4136
Adjusted R^2	0.449	0.512	0.319	0.324	0.135	0.147	0.913	0.915

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 7

Firm-year panel regressions showing that **after a new local CCP secretary is appointed, SOE firms increase their percentage of directors who share a common birthplace with their new local CCP secretary *less so* than non-SOE firms do.** The dependent variable is the percentage of directors born in the same province as the incoming CCP secretary. Shanghai had two changes in local CCP secretary over my sample period; Shenzhen, Hangzhou, and Tianjin each had three. For each change, I use three years of data either side of the appointment (for those who served for less than three years, I use up to their tenure number of years). *Post* is a dummy that equals to one for years after the appointment announcement is made and zero otherwise. *SOE* is a dummy that equals to one for state-owned enterprises and zero otherwise. Standard errors are clustered by firm and in parentheses. F-statistics are shown for F-tests.

Sample:	Shanghai		Shenzhen			Hangzhou			Tianjin		
Secretary (Birthplace):	Yu (SX)	Han (SH)	Liu (SD)	Wang (JS)	Ma (HLJ)	Huang (FJ)	Gong (JS)	Zhao (ZJ)	Zhang (FJ)	Sun (LN)	Huang (ZJ)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Post	3.38***	9.76***	4.69***	5.62***	2.74***	3.19***	5.19***	8.22***	3.82***	3.85***	3.08***
	(0.14)	(0.80)	(1.04)	(1.01)	(0.32)	(0.32)	(0.77)	(1.07)	(0.52)	(0.38)	(0.27)
Post × SOE	-1.69***	-8.14***	-3.59***	-5.16***	-3.10***	-0.93*	-2.71***	-4.31***	-1.89**	-1.31*	-1.52***
	(0.26)	(1.21)	(1.32)	(1.25)	(0.39)	(0.50)	(0.86)	(1.15)	(0.69)	(0.76)	(0.55)
B/M	-0.28	7.45***	0.50	2.38	-1.91***	-1.11	2.20	3.21	-2.36**	2.69	-3.13***
	(0.26)	(2.42)	(1.41)	(1.50)	(0.69)	(0.81)	(1.90)	(3.60)	(0.93)	(1.90)	(1.05)
Leverage	-2.48*	-5.39	-9.87	12.81	-5.06**	-0.37	4.05	-10.38	5.76	4.61	-4.92**
	(1.36)	(7.47)	(8.82)	(9.73)	(2.09)	(3.66)	(4.99)	(7.51)	(6.37)	(4.22)	(2.22)
Log(Assets)	0.03	0.38	-0.43	-0.93	0.03	0.68**	-0.66	1.57	1.04*	-0.19	1.25***
	(0.16)	(0.83)	(0.97)	(1.25)	(0.23)	(0.26)	(0.91)	(1.13)	(0.55)	(0.49)	(0.24)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	795	1063	384	671	930	286	368	321	150	174	193
Adjusted R^2	0.463	0.177	0.172	0.179	0.240	0.467	0.126	0.343	0.496	0.231	0.399
F-test: Post + Post × SOE = 0	52.15***	2.20	1.63	0.27	1.26	70.21***	9.15***	2.50	19.57***	0.50	0.02

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$