Politicians and the IPO Decision:
The impact of impending political promotions on IPO activity in China

Joseph D. Piotroski[*]
Stanford University

Tianyu Zhang
The Chinese University of Hong Kong

August 2012

[*] Corresponding author. Email: jpiotros@stanford.edu The authors would like to thank Ray Ball, Anne Beyer, Luzi Hail, Bin Ke, Charles Lee, Zach Wang, Joseph Weber, T.J. Wong, Donghui Wu, George Yong Yang, Jerry Zimmerman and workshop participants at the Chinese University of Hong Kong's Inaugural Conference on China Institutions, Governance and Accounting and the 2012 Stanford Accounting Summer Camp for helpful suggestions and comments on this project. The authors would like to acknowledge the financial support of the Chinese University of Hong Kong's Center for Institutions and Governance. Piotroski would like to acknowledge the financial support of Stanford University Graduate School of Business' Global Research Center. The authors would like to thank Gang Zhao for research assistance.

Politicians and the IPO Decision

The impact of impending political promotions on IPO activity in China

Abstract: This paper examines the impact that the political promotion process has on initial public offering decisions in China. In a setting where politicians are rewarded for capital market development, where firms rely on political connections for access to capital, where rent-seeking behavior is rampant, and where the objectives of the State may not be to maximize capital market efficiency, we document that the rate of exchange-eligible firms engaging in an IPO temporarily increases in advance of impending political promotion events. This effect holds for both state-owned and non-state-owned entities. For state-owned firms, the effect is strongest in those provinces where the politicians are more likely to be rewarded for market development activity, with these promotion-period offerings underperforming at the same rate as non-promotion period state-firm IPOs. For non-state-owned firms, the temporary increase in IPO activity appears to be (rationally) opportunistic in nature, with the effect stronger around events more likely to disrupt the firms' political connections. Promotion period IPOs underperform non- promotion periods IPOs in terms of both future financial performance and long-run stock returns, experience larger IPO underpricing, have controlling shareholders who retain a larger fraction of the company, and are more likely to divert proceeds away from their intended use after the offering. Together, our evidence suggests that IPO activity in China is influenced by political incentives arising from the career concerns of local politicians and the relationships they form with entities under their control.

Politicians and the IPO Decision:

The impact of impending political promotions on IPO activity in China

The last three decades have witnessed a wave of privatization and market development activity as former communist and socialist states (e.g., Former Soviet States), transitional economies (e.g., China) and other emerging markets (e.g., Brazil) implemented reforms designed to foster capital market growth and to encourage private sector activity. Because state controlled entities tend to be wrought with inefficiencies (e.g., Shleifer and Vishny, 1994), the privatization of state assets is viewed as one mechanism for improving and achieving long-term economic growth (see Megginson and Netter (2001) for a summary of prior research). Similarly, the development of external capital markets (and underlying improvements in legal and regulatory protections) can help entrepreneurs, family firms, and SMEs gain access to scarce capital and capitalize on future investment opportunities. However, the introduction of external capital markets and subsequent listing activity has not always been smooth, with the process frequently tainted by inefficiencies, conflicting incentives, countervailing political objectives and corruption.

Using novel datasets of non-public industrial firms and key provincial-level promotion events in China, we examine whether incentives arising from impending provincial-level political promotions have an impact on initial public offering (IPO) decisions. We exploit a setting where politicians are rewarded for capital market activity, where firms rely on political connections for access to capital, where rent-seeking behavior is rampant, and where the State's objective may not be to maximize capital market or economic efficiency. We focus on high-level, provincial promotion events that are visible and anticipated by economic agents in the province. These impending promotions create a tournament-like contest for personal advancement within the provincial political and communist party structure, with local politicians motivated to improve their economic credentials and reputations. These promotions are also expected to disrupt existing relationships between local politicians and local firms; the anticipated loss of valuable political connections will shift incentives of firms to engage in an IPO in advance of the promotion events. Because of the planned, well-orchestrated nature of political transitions in China, there exists a time

window over which promotion-induced incentives arise and both politicians and affected firms can make promotion-influenced decisions.

We find that the political promotion process influences the IPO decisions of Chinese firms. Unlike prior studies documenting incentives for politicians to delay privatization activity because of the expected loss of control benefits (e.g., Jones, Megginson, Nash, and Netter, 1999; Dinc and Gupta, 2011), we find that the rate of IPO activity of state-owned firms temporarily increases in the period directly preceding an impending provincial level promotion event. This promotion effect is stronger in provinces that have been granted preferential market development policies by the central government, consistent with incentives arising from the career-concern of local politicians being stronger in settings where politicians are evaluated on and rewarded for tangible market development activity. In terms of quality, promotion-period IPOs are indistinguishable from state firms listed during non-promotion periods. In general, the post-IPO stock price performance of state-owned firms underperforms the broader China market (by approximately 29% over the subsequent three years), and these firms have weaker financial performance and experience greater underpricing than comparable offerings by non-state-owned firms. The combined evidence supports arguments that the State and local politicians list assets under their control to achieve objectives other than economic efficiency or value maximization.

We also find that the rate of IPO activity of non-state-owned firms increases in advance of the impending political promotion event. This temporary increase exists across all provinces, but is significantly stronger in advance of promotion events that are more likely to disrupt the firm's network of political connections (i.e., promoted politician leaves the province or his successor is appointed from outside the province). Given the importance of political connections to gain access to both external capital and investment opportunities in China, the pattern of IPO activity is consistent with non-state-firms opportunistically raising capital before the disruption of a valuable political connection. Evidence on the post-IPO performance of promotion-period offerings supports this rationally opportunistic explanation. Promotion-period IPOs underperform non-promotion period IPOs in terms of both post-IPO fundamentals (i.e., return on assets, growth in sales, growth in earnings) and long-run stock returns, and

promotion-period IPO firms are significantly more likely to divert IPO proceeds away from the use outlined in the firm's prospectus. Additionally, non-state-owned firms listing in advance of political promotion events experience greater IPO underpricing and their controlling shareholders relinquish a smaller number of shares than firms engaging in an offering outside these promotion periods, consistent with minority shareholders price protecting themselves and controlling shareholders of non-state owned firms engaging in less dilutive offerings because of the suboptimal timing of the event. The combined evidence suggests that non-state-owned firms engaging in an IPO in advance of political promotions are of lower quality and prematurely accessed the capital markets.

Together, the evidence suggests that capital market development, in the form of IPO activity, is affected by political incentives arising from the career concerns and paths of local politicians and from the relationships they formed with entities under their control. These results have profound implications for capital market development and resource allocation activity in China and the broader set of emerging market economies. First, when politician's performance is evaluated on the basis of market development activity and listing activity can be influenced by political intervention, the politician will use the market mechanism to enhance his/her career prospects and/or to achieve an important government objective. Second, if economic activity is either formally or informally influenced by political factors and government intervention (e.g., corruption, cronyism, via political connections), the decision of non-state-owned firms to access public markets will be shaped by their beliefs about their ability to gain access through both official and unofficial channels. The economic consequences of these factors are firms raising capital either prematurely or in the absence of credible investment opportunities, thereby distorting the allocation of scare capital from an economic efficiency perspective.

The remainder of the paper is organized as follows. Section 1 discusses the IPO and political promotion processes in China. Section 2 outlines our research design and discusses our data. Section 3 presents our primary empirical results. Section 4 documents the characteristics and economic consequences of promotion period IPOs. Section 5 presents additional analyses and robustness tests. Section 6 concludes.

Section 1: Background and motivation

1.1 Background on the relation between political incentives and capital market development activity

Government policies and administrative decisions reflect a complex tradeoff between social, economic and political objectives. Unfortunately, the incentives and actions of politicians are frequently not aligned with either social welfare or economic wealth maximization, but instead reflect the desire to accumulate personal wealth, to retain or acquire power, to reward supporters and to advance government objectives (e.g., Lindbeck, 1976; North, 1990; Olson, 1993; Shleifer and Vishny, 1994; LaPorta, Lopez-de-Silanes, and Shleifer, 2002; Rajan and Zingales, 2003). These personal incentives are capable of influencing the form and nature of capital market development activities and adversely impacting economic performance, especially as it relates to firms and assets under the politician's direct control. For example, Wurgler (2000) shows that firms operating in economies with strong government ownership of assets and financial resources engage in less efficient investment behavior, especially as it relates to the divestiture of underperforming assets, while Chari and Gupta (2008) show that the presence of a strong, state-owned incumbent firm creates incentives for local politicians to limit foreign direct investment (and hence foreign competition) in the incumbent firm's industry.[1]

In the context of privatization decisions, the expected loss of private benefits of control can serve as a constraint on the sale of state assets. Using data from India, Dinc and Gupta (2011) show that in spite of pro-development government policies, incumbent politicians are reluctant to privatize state assets when they are facing strong political competition. This friction arises because the control of state assets improves the electability of the incumbent politicians through the use of the entity's resources to reward supporters (e.g., patronage), to create jobs (e.g., curb social / economic unrest and minimize dissatisfaction in the electorate), and to finance the politician's campaign. From an economic

[1] More generally, state-owned entities consistently underperform non-state-owned entities and privatized / partially privatized companies across a range of settings and time periods, including China (e.g., Megginson, Nash, and van Randenborgh, 1994; Gupta, 2005; Allen, Qian and Qian, 2005). This observed underperformance reflects numerous factors, including operating inefficiencies arising from state ownership (e.g., "management gap;" bureaucrat / inefficient decision-making), frictions arising from the government's control over key resources, State objectives other than value maximization (e.g., full employment considerations, subsidization of strategic industries), and the politician's incentive to maximize private control benefits at the expense of firm value or broader efficiency.

development perspective, this delay is costly to the state, as both full and partial privatization has been shown to improve the performance of state assets (e.g., Megginson, Nash, and van Randenborgh, 1994; Gupta, 2005). Moreover, when privatization (or partial privatization) occurs, the listed SOEs frequently utilize share structures that allow for the local politicians to retain de facto control over these companies' economic resources (e.g., Jones, Megginson, Nash and Netter, 1999; Bortolotti and Faccio, 2008). However, sufficiently strong political incentives, such as the desire to engage in rent-seeking behavior, to expand political power, or to improve career prospects, could accelerate the pace of listing state assets.[2] Because partial privatization via an IPO can bring a larger capital base under the control of local politicians, the IPO of a state firm increases the power of the local official and affords an opportunity to extract wealth from non-State minority shareholders. Additionally, politicians and bureaucrats benefit from advancement within government hierarchy (e.g., in the China context, advancement within the Communist Party and government hierarchy); to the extent that politicians are rewarded for embracing market development activities, they may attempt to increase their career prospects and acquire greater political power by accelerating the privatization of state assets.

More generally, local politicians influence market development activity through numerous regulatory, administrative and soft channels. Weak institutions and market imperfections create opportunities for political forces to impact the operating, investment, and capital raising activities of firms under their control and supervision (e.g., Shleifer and Vishny 1994, 1997; Rajan and Zingales, 2003). In response to these pressures, firms operating in highly politicized environments seek to establish strong political connections to minimize these frictions and/or maximize political benefits (e.g., Fisman, 2001), with the end result being firm-level decisions frequently tilted towards achieving political objectives and maximizing private benefits and away from economic efficiency. For example, access to external capital is a politicized process in China. Anecdotal evidence suggests that it is very difficult for non-state-owned entities to receive loans from the country's four state-owned banks; absent strong connections, family and

[2] Not all politicians have an incentive to delay privatization or inhibit market development activity. The quick sale of state assets in Russia and Eastern Europe following the collapse of the USSR reflected political decisions driven by the desire to accumulate personal wealth (via corruption) and to consolidate political power (via cronyism; e.g., the oligarchs) in the post-USSR era. However, even in these cases, the timing of sale and listing decisions are driven by the rent-seeking tendencies of politicians.

entrepreneurial firms are reliant on other forms of financing, including raising capital via the public markets and the so-called "gray market." Access to public markets is also frequently dependent on the existence of strong political connections (Chen and Yuan, 2004; Du, 2011; Piotroski, Wong and Wu, 2012). Given the importance of such political connections, the timing of private firms' capital raising and investment decisions are expected to reflect political forces beyond traditional incentives to engage in an initial public offering.[3]

As a key component of economic development, well-functioning external capital markets have the ability to allocate capital to its best use. However, as highlighted above, the incentives and decisions of politicians and firms are shaped by factors other than economic efficiency and/or value maximization. In this paper, we examine whether the political promotion process in China influences IPO activity in a setting whether economic agents are sensitive to political incentives.

1.2 Initial public offering process in China

In order to engage in an initial public offering, domestic Chinese firms must file an application package with the Chinese Securities Regulatory Commission (CRSC) for approval.[4] This package contains both financial and non-financial information, and is used by the Issuance Examination Committee of the CSRC to determine whether the applicant meets the regulator's listing criteria and is therefore eligible to engage in an IPO. The listing criteria were enacted and subsequently revised by the CSRC to ensure that only healthy firms can gain access to China's capital markets. Specifically, all applicant companies must meet the following historical financial performance criteria to be eligible for an initial public offering on one of China's two stock exchanges:

1) Cumulative net profit in the three years prior to the IPO must exceed RMB 30 million and the company cannot report a net loss in any of the three years;

[3] See Ritter and Welch (2002) for a summary of the traditional IPO literature.
[4] This application package mainly includes the following documents: prospectus, statement by sponsoring firm/ underwriter, statement by auditor, statement by lawyer, specified use of proceeds from offering, financial statement and other important files, such as significant contracts of the company.

2) Cumulative revenue in the three years prior to the IPO of at least RMB 300 million; or the cumulated cash flow from operation in three years prior to the IPO of at RMB 50 million;

3) Intangible assets cannot account for more than 20% of total assets[5];

4) Net assets in the year before the IPO of at least RMB 30 million.

In addition to these financial performance requirements, firms are subject to other non-financial requirements, such as the existence of a functioning corporate governance system and no record of illegal behavior or financial scandals.[6]

If the Issuance Examination Committee approves the IPO application, the firm then processes the offering and applies for a listing with the relevant stock exchange. The stock exchange reviews the application to ascertain compliance with exchange rules. Exchange approval, by all accounts, is essentially a "rubber stamp;" exchange rules mirror CSRC requirements, and the CSRC has the ultimate authority to approve or deny an IPO and exchange listing.

Existing research has established that these listing criteria, and the CSRC's examination of applications, have been effective at screening out low quality firms relative to the period preceding the enactment of these performance requirements (e.g., Chen and Yuan, 2004). However, because of the CSRC's bright-line requirements, firms frequently engage in earnings management to meet these financial performance benchmarks (e.g., Aharony, Lee and Wong, 2000). The combined evidence suggests that although many low quality candidate firms are screened out at the application stage, some low quality firms reach the market via the application of bright-line rules and subjective screening procedures.[7]

[5] Intangible assets are assumed to be zero if this data item is missing for the firm in the NBS database.

[6] Prior to 2006, IPO candidate firms were required to meet the listing rules enacted under the "Company Law". The "Company Law" required that the company "should have continuous years profitability and ability to pay dividend" and "the expected ROE cannot be lower than interest rate for bank savings". The only empirically implementable standard based on all these statements is to impose a requirement of positive profit between 2001 and 2005, which is not as strict as the current CSRC requirement. An application of the "Company Law" standard during that time period would identify a set of additional firms that are not eligible for an IPO under current requirements. In this study, we use the CSRC's screening rules effective 2006 over our entire sample period (2001-2008). By implementing the current requirements, we guarantee that all our sample firms are eligible for an IPO during our sample period; the cost is we eliminate some firms eligible for IPO between 2001 and 2005 from our sample. This cost seems low given that we do not observe any industrial firms from this incremental set of exchange eligible firms engaging in an IPO between 2001 and 2005. As a robustness test, we apply the identifiable financial listing criteria for each corresponding period; all result in the paper are robust to this alternative specification.

[7] The CSRC retains discretion and uses judgment during the application process. For example, firms with suspicious related party transactions and excessive levels of non-operating income are more likely to be denied approval by the CSRC in spite of meeting the strict financial requirements.

Finally, political factors impact the IPO process in China. First, IPOs are controlled as a scarce resource by the central government. Government quotas are used to regulate the IPO market and to achieve broader objectives, such as to foster market development, to improve the quality of candidate firms, or to reward politicians. These quotas are typically imposed at either the provincial or municipal level, and were more prevalent during the early stages of market development. Administratively, local firms need the support and approval of local politician(s) and party committee(s) to apply for an IPO. Absent this nomination, an application will not be reviewed by the CSRC. Lastly, political connections have an important bearing on whether a firm is granted regulatory approval to raise public capital. Chen and Yuan (2004) and Du (2011) shows that the likelihood of a firm receiving approval to engage in a seasoned equity offering/rights issue or to issue public bonds is influenced by the strength of the firm's political connections, while Piotroski, Wong, and Wu (2012) find that the likelihood of receiving approval for an equity offering, and the speed at which that approval is granted, is influenced by the politically connectivity of the firm's underwriter. The implication is that politicians and connected firms possess explicit and implicit mechanisms by which they can influence the IPO listing process.

1.3 Political promotion process and IPO decisions in China

Our primary tests examine stock exchange listing activity in advance of observed provincial-level promotion events. High-level political promotions in China are well-orchestrated events; they are typically planned by the central government at least one year in advance in order to ensure both the smooth transition of power and the stability of the assets under the politicians' control. Chosen politicians are typically aware of their "candidacy." Because of this planning, high-level promotion events are both visible to and anticipated by other economic agents in the province, including local politicians, local party officials, and the managers of firms under the supervision of the promoted politician. As a result, incentives arising from the impending political transition are concentrated in the affected province in the period directly preceding the actual promotion event. This political promotion process has the potential to impact IPO decisions through several channels. These channels are not

mutually exclusive, but instead, act in concert to increase the likelihood that both state-owned and non-state-owned firms in the affected politician's province will engage in an IPO in advance of these impending promotion events.

First, the career concerns of politicians in the affected province create incentives to accelerate listing activity at all levels of government in advance of the promotion events. The most obvious link relates to the career prospects of the "targeted" provincial official. To the extent that capital market development activity is rewarded, the high-ranking provincial politician has an incentive to list a greater number of firms under his control and supervision on the stock exchange.[8] This heightened activity can be used to signal the politicians' quality and to solidify his economic performance credentials in advance of the announcement. Additionally, the anticipated departure of a high-ranking provincial politician creates a tournament-like contest for personal political advancement within the affected province (i.e., the entire province receives a treatment effect). Once it become apparent to political subordinates that a senior position in the province will be vacated, lower level officials compete to fill the vacancy. This competition will percolate through the local government and party committee structure, as individuals at each level of government compete for advancement and political recognition, essentially "incentivizing" most political agents in the province. Because local politicians exert significant control over local firms, the local politician's career concerns can also create incentives for heightened IPO activity in advance of the impending provincial promotion event. Finally, the central government also has an incentive to facilitate IPO listing activity in advance of the promotion event. Observable IPO activity can be used to enhance the reputation and credibility of their preferred candidate. Because access to the IPO market is effectively controlled by the central government, well-placed political sponsors can use their authority to temporarily increase the flow of listings from assets under the control of the chosen politician.

Second, political turnover in the province is expected to disrupt the firms' political connections. As discussed earlier, political connections facilitate access to external capital markets in China. These

[8] Prior research on the determinants of political turnover in China's provinces finds that promotion/demotion decisions are a function of the economic performance of the province and the political connectivity of the local official (Li and Zhou, 2005; Chen, Li, and Zhou, 2005).

connections also grant firms preferential access to investment opportunities, government contracts, scare resources, and shorten bureaucratic procedures. The reshuffling of politicians in the province has the potential to sever (or significantly disrupt) the firm's political connections, and as such, it may be beneficial for the firm to raise external capital to fund future growth options while the firm's connections are strong (i.e., preferential access to an exchange listing). Similarly, the firm may chose to exercise growth options while it has preferential access to investment opportunities, business licenses, and other politically controlled resources. These motives for engaging in an IPO are relevant for both state and non-state-owned firms, but are especially important for non-state-owned entities given their difficulty obtaining loans from state banks. The economic implication is that promotion-induced IPO firms are raising capital earlier than anticipated.

Third, both firms and politicians may wish to raise equity capital to engage in rent seeking behavior before the politician departs. By engaging in an IPO, the politician can guide investment activity towards personally-favored projects, extract the IPO proceeds through the use of related party transactions or loans, and/or reward supporters and cronies with underpriced offerings and favorable transactions while still in a position of direct control. Similarly, non-state-owned firms may also choose to engage in an IPO before the promotion in order to engage in or accommodate rent-seeking activity before the politician leaves office. Motivation for such an offering could be to take advantage of preferential access to local investment opportunities or to solidify relationships before a local politician's departure. The economic implication is that the firm is raising unneeded capital and the proceeds are either being invested in negative NPV projects or being expropriated from the minority shareholders. This activity has the potential to be mutually beneficial for both the controlling shareholders and politicians, even if it is value destructive to the firm as a whole and inefficient from a capital allocation perspective.

Section 2: Data, Sample and Descriptive Statistics

This paper examines the impact that impending provincial-level political promotion events have the listing decisions of Chinese firms over the period 2001 to 2008. China is natural setting for this analysis for several reasons. First, the economy is a hybrid of central planning and market-based activities, with significant variation in government policy and economic objectives across China's provinces. Second, political forces explicitly and implicitly shape the incentives and decisions of economic agents. Politicians directly control the activity of state-owned firms and indirectly control the behavior of private firms through soft channels (e.g., regulation, licenses, social and political networks). Third, political forces have a significant impact on capital market activity; politicians and bureaucrats have considerable influence over the regulatory and capital allocation process, and firms seeking debt and equity capital benefit from political connections. Fourth, the rapid development of China's economy allows for the examination of the decisions of both state-owned and non-state-owned companies. Fifth, local politicians are rewarded for market development activity, and provincial-level political promotion events capable shifting the incentives of politicians and affected firms are observable. Lastly, data collected by Chinese regulators allow for the identification of a population of eligible IPO candidates each year, allowing us to empirically examine IPO decisions over this sample period.

2.1 Data on provincial level political promotions

To create a sample of political promotion events capable of shifting economic incentives in a province, we identify all provincial turnover events involving the transfer, re-assignment or promotion of either the provincial party secretary or the provincial governor to a position with more political power. These promotion events are visible and anticipated by economic agents in the province. Because the party secretary and governor are the top two positions in a province, these promotions create a tournament-like contest for personal advancement within the provincial political and communist party structure; thus, all politicized agents in the province have an incentive to window-dress economic performance in advance of these events. These promotions also sever (or at least materially alter) existing relationships between local politicians and local firms. Given that political connections confer valuable

economic benefits to the affiliated firm and politicians, the anticipated loss of this connection is expected to shift incentives in advance of these promotion events. Because of the planned nature of political transitions in China, politicians and affected firms have a well-defined window over which these incentives arise and promotion-influenced decisions can be made. Data on these political promotion events are hand-collected by searching information published in the "Chinese Personnel Database" and "China VIPs" from China Information Bank and supplemented by Google web searches.

Table 1 presents the distribution of the 48 provincial-level promotion events, by region and by calendar year, which occurred during our sample period in China.[9] These promotion events are not strictly clustered in time, with each calendar year being associated with at least 2 promotion events. Calendar years 2002, 2003 and 2007 are associated with the greatest number of promotion events (9, 8 and 14, respectively); two of these years correspond to meetings of the National Congress of the Chinese Communist Party (2002 and 2007), while the remaining year immediately follows the once-a-decade change in top party leadership (2003). Additionally, promotions are not clustered in a few specific provinces; instead, 25 of China's 31 provinces experienced at least one promotion case over the eight-year sample period; the exceptions are Tianjin, Hebei, Guangxi, Ningxia, Xinjiang and Xizang province.[10] Hainan province experienced the most promotions (4) in our sample period. The most common scenarios involve the promotion of a provincial politician to a central government ministry-level position (48% of cases) and the elevation of a provincial governor to provincial party secretary (42% of cases).

Although promotion events in our sample are observed ex post, our research design is predicated upon these events altering incentives before the events occur.[11] These incentives will arise if political promotions are either known or anticipated by economic agents in the province prior to the actual promotion event occurring. This critical research design condition is fulfilled because of the planned,

[9] We exclude four provincial-level promotion events from our sample where the tenure of the promoted official is less than one year in their current position. In these four cases (Zehjiang (2003), Qinghai (2004), Shanghai (2007) and Sichuan (2007)), the short tenure period reflects a transitory appointment that does not afford the politician sufficient time to develop strong relations and/or materially impact the IPO process. Together, these 52 provincial-level promotion events (sample plus four excluded promotions) constitute the entire population of the type of turnover events defined in our study over the period 2001 to 2008.

[10] All results are robust to the exclusion of these six provinces from our tests.

[11] Forecasting political outcomes and government policy is valuable in most settings, with impending political events impacting real economic decisions. For example, Julio and Yook (2012) document that uncertainty about impending political elections dampens corporate investing activity. We expect incentives arising from impending political events to be especially important in highly politicized and relationship-based economies.

well-orchestrated, consensus-building nature of the political process in China. We examine listing activity over a short window that corresponds to the period of time in which the promotion has likely been approved (i.e., incentives created) but not implemented. We classify a province-year observation as being associated with an impending political promotion if the year either directly precedes or includes the year of the turnover event (i.e., the indicator variable $Promotion_{jt}$ equals one, zero otherwise). We expect a firm-year observation to be potentially influenced by the promotion event if the firm-year either precedes or includes the year of such a promotion and the firm is domiciled in the affected province.

2.2 Data on exchange listing eligible firms

One of the principal difficulties in examining the determinants of IPO decisions is the lack of pre-offering data for non-listed firms (e.g., Pagano, Panetta, and Zingales, 1998; Ritter and Welch, 2002). Our research design critically depends upon our ability to identify a sample of non-public firms that are qualified to engage in an IPO on China's stock exchanges. To identify this sample, we use of a unique database of non-public industrial companies compiled by China's National Bureau of Statistics (NBS). In China, all industrial companies with sales of more than RMB 5 million are required to report their financial data to the NBS via a standardized set of financial forms. The database covers the eleven-year period 1998-2008 and includes financial information on 161,970 to 412,163 non-public firms each year. Table 2, panel A presents the distribution of these firm-year observations.

Firms included in the NBS database account for approximately 90% of the gross industrial productivity of China over the sample period.[12] From a research design perspective, this dataset is expected to capture nearly all exchange-eligible industrial firms, because companies not required to report to the NBS will likely not meet the CSRC's financial performance requirements (most notably, total revenue of RMB 300 million over the last three years).

We use the following selection procedures to identify the sample of firms financially eligible to engage in an IPO transaction in a given year (hereafter referred to as "exchange eligible firms"). First, we

[12] Source: Hua Mai Information, Inc.

identify each firm's ownership type. The NBS database provides the registration information of the covered firms. This registration information indicates the legal domicile of the firm and an identification of the firm's ownership type (i.e., state-owned entity or non-state-owned entity). For those firms where state/non-state ownership is not clearly specified in the NBS database (e.g., firm identified as a collectively owned enterprise, share holding joint venture, collectively joint venture, limited liability corporation, or shareholding company), we examine the share capital contributed by state and non-state owners (as reported to the NBS), and define the entity as state-owned if the state's share capital ownership in the offering firm is greater than 50%. Due to the missing values of share capital, we lose 1.55% firm-year observations from the NBS database.[13] Second, we identify those firm-year observations where the firm meets the CSRC's historical financial performance criteria for an exchange listing, as outlined in Section 1.3. Accounting and financial data for our sample of exchange-eligible industrial firm-year observations are drawn from the NBS database. The application of these listing requirements results in a final sample of 28,152 firms-year observations where the underlying non-public industrial firm was financially eligible to engage in an IPO at the start of the calendar year.[14]

Finally, we identify 440 exchange-eligible firms in the NBS database that engaged in an initial public offering on one of China's two domestic stock exchanges (i.e., Shanghai Stock Exchange and Shenzhen Stock Exchange) over our sample period. Exchange listing dates are identified through the China Securities Market and Accounting Research's (CSMAR) IPO database and the websites of the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Post-IPO accounting and stock price data for firms that list on a Chinese stock exchange are also gathered through the CSMAR database. An IPO is classified as a "promotion period" IPO if the offering occurred either in year of or the year directly

[13] The state's share capital is not disclosed in 2008. We use the firm's registration and ownership type in earlier years to determine each firm's ownership type in 2008. The use of pre-2008 share capital data to classify firms results in the loss of 8.02% of total NBS firm observations in 2008.

[14] In addition to these financial requirements, there are also other non-financial requirements, such as a well-functioning corporate governance system and no record of illegal behavior / financial scandal. Anecdotal evidence suggests these non-financial requirements are not as critical as financial requirements. We do not apply the non-financial requirements when identifying firms qualified for IPO due the unavailability of this qualitative data. Prior research highlights the central role that the CSRC's financial requirements have gaining IPO approval (e.g., Chen and Yuan, 2004; Aharony, Lee and Wong, 2000); as such, excluding the non-financial requirements is expected to have an immaterial impact on our sample selection process.

preceding the political promotion event. Our sample of 440 IPOs reflect 75.3% of all IPOs that occurred on China's stock exchanges over the sample period.[15]

2.3 Descriptive statistics on exchange-eligible firm-year observations

Table 2, panel A presents descriptive evidence on the distribution of the NSB data and our final sample of 28,152 exchange-eligible firm-year observations over the period 2001 to 2008. Corresponding to the overall growth in China's economy, the number of total industrial firms included in the NBS database (first set of columns) increases over this period. The number of exchange-eligible firms (second set of columns) quadruples over this eight-year period, rising from 1,629 firms in 2001 to 6,881 firms in 2008, with the fraction of NBS reporting firms that were eligible for an exchange listing rising from 0.96% to 1.67% over the period. The total fraction of NBS-reporting industrial firms owned by state steadily decreased from 38.75% to 3.37% over the period 1998 to 2008, and non-state-owned firms comprise a steadily larger share of all exchange-eligible firms over this same period (62.1% to 88.0%). These ownership trends are consistent with China's economic growth being driven by an expansion of the private sector (e.g., Allen, Qian, and Qian, 2005).

Table 2, panel A also presents descriptive evidence on IPO frequency for China's exchange-eligible industrial firms. Descriptively, 3.80% of all state-owned firm-years and 1.03% of all non-state-owned firm-years are associated with an initial public offering over our sample period. These averages might indicate a selection bias / preference for the State sector in China during our sample period; however, that inference is time dependent. Consistent with the general evolution in the ownership of China's industrial firms, IPO activity has been transitioning from state-owned to non-state-owned entities, with the state's share of offerings falling from approximately 82 percent at the start of our sample period to approximately 21 percent by 2008.[16] Finally, the abnormally low level of IPO activity in 2005 reflects

[15] These 440 firms account for 23.4% of total IPO proceeds raised by domestic Chinese firms over the sample period. These industrial firms' fraction of total proceeds raised is lower than their faction of total number of offerings due the IPOs of several large Chinese banks in 2006 and 2007 (e.g., China Construction Bank, ICBC, Bank of China).

[16] The evolution in the type of firms' engaging in IPOs in the industrial sector mirrors the broader trend towards private firms listing on China's exchanges in recent years, including the recent opening of the GEM market on the Shenzhen Stock Exchange in October 2009 to accommodate offerings by small, entrepreneurial firms.

the impact of several regulatory actions that slowed the flow of IPOs to the market that year, including the implementation of non-tradable share reforms and regulatory intervention in the brokerage industry (see Piotroski, Wong and Wu (2012) for further details).

Table 2, panel B documents the distribution of exchange-eligible firm-year observations and IPO activity across provinces over our sample period. This data shows that IPO activity is not concentrated in a few developed provinces - fourteen provinces were associated with at least ten IPO offerings, and all but two of China's provinces (Hainan and Xizang) had at least one locally domiciled industrial firm engage in an IPO over our sample period. The largest number of IPOs among non-state-owned entities occurred in provinces with strong private sectors (Zhejiang, Guangdong and Jiangsui, with 59, 52, and 29 IPOs, respectively). Anhui province hosted the largest number of IPOs by state-owned firms (17), followed by Beijing, Jiangsu and Shandong (15 each).

Table 3 presents descriptive evidence on the financial characteristics of exchange-eligible industrial firms. Because of the application of the CSRC's listing requirements, exchange-eligible firms are large and profitable. Conditional upon ownership type, state-owned firms are larger, more levered, less profitable, more labor intensive, have lower sales growth and lower levels of free cash flow than non-state-owned firms. Finally, we document that 37.1% of all exchange-eligible firm-years are associated with a provincial-level promotion event; these exposures are 35.0% and 37.5% for state-owned and non-state-owned firm-years respectively.

Section 3: Empirical results

3.1 Multivariate analysis: Relation between political promotions and IPO activity

Our primary empirical tests examine whether IPO listing decisions are influenced by the costs and benefits (and resultant incentives) arising from the imminent promotion of a provincial politician. Following Dinc and Gupta's (2011) analysis of privatization decisions in India, we utilize a Cox proportional hazard model to assess the effect of political promotions on the IPO decisions of Chinese firms. Methodologically, the model estimates the probability that an exchange-eligible non-public firm

will engage in an IPO in a year t given that the firm has not done so in year t-1. Specifically, we model the hazard rate for IPO activity as:

$$h(t)=h_0(t)\exp(\alpha + \beta_1 Promotion_{jt} + \beta_2 Growth\ in\ GDP_{jt} + \beta_3 Per\ Capita\ GDP_{jt} + \beta_4 Firm\ Size_{ijt} + \beta_5 Labor\ Intensity_{ijt} + \beta_6 Return\ on\ Sales_{ijt} + \beta_7 Leverage_{ijt} + \beta_8 Sales\ Growth_{ijt} + \beta_9 Free\ Cash\ Flow_{ijt} + \beta_{10} Industry\ MTB_{it} + \beta_{11} SOE_{ijt} + \text{Annual Indicators} + \text{Industry Indicators} + \varepsilon_{ijt}) \quad (1)$$

The indicator variable $Promotion_{jt}$ equals one if year t corresponds to the year prior to or the year of a political promotion event in province j, zero otherwise. The variables $Growth\ in\ GDP_{jt}$, and $Per\ Capita\ GDP_{jt}$ are annual measures of provincial-level economic performance and wealth, respectively. The variables firm size ($Firm\ Size_{ijt}$), labor intensity ($Labor\ Intensity_{ijt}$), return on sales ($Return\ on\ Sales_{ijt}$), financial leverage ($Leverage_{ijt}$), growth in sales ($Sales\ Growth_{ijt}$) and an indicator variable for state ownership (SOE_{ijt}) capture firm-level incentives to engage in an IPO. The median industry market-to-book ratio ($Industry\ MTB_{it}$), measured at the beginning of the year, captures incentives arising from current market valuations and expected growth opportunities. All firm-level variables are lagged by one year to avoid the effect of an IPO on their measurement; industry market-to-book ratios and provincial-level GDP variables are measured contemporaneously to the IPO decision. See the Appendix for the definition and data sources of our independent variables.[17]

In this model, $h_0(t)$ is the baseline hazard, which is obtained by setting all explanatory variables to zero. The function exp(.) is the relative hazard, which is a function of the impending promotion and the other expected determinants of IPO activity. Because we use a hazard model specification (as opposed to a panel research design specification), firm-year observations for IPO firms are dropped from our cross-sectional sample once the company goes public. Following Dinc and Gupta (2011), we report the estimated coefficients (rather than hazard ratio) from the model. All estimations include year and industry fixed effects; standard errors are clustered at firm level.[18,19]

[17] The indictor variable for state-ownership (SOE_{ijt}) is only included in estimations using the full sample of data to control for differences in hazard rates between state-owned and non-state-owned firms.
[18] Annual indicator variables are included in the model to capture inter-temporal differences in the baseline rate of offerings arising from differences in market sentiment, economic conditions, regulatory shocks, etc. across time periods.
[19] We separate firms into five broad industry classifications based upon one-digit industry codes. The five broad industry classifications are: (0) Raw materials, chemicals, and extractive activities; (1) Agriculture, food and beverage, and agricultural-

Table 4 presents coefficients from various estimations of the hazard model presented in Equation (1). The first, second and third set of columns present estimations using the full sample, state-owned firms sample, and non-state-owned firms sample, respectively. The first estimation for each sample presents baseline relations; the second estimation documents the incremental effect of impending political promotions on IPO activity. These estimations document several key determinants of IPO activity in China. First, profitable firms with strong historical revenue growth are more likely to engage in an IPO. Second, small firms, firms with high leverage, and firms with labor-intensive operations are more likely to engage in an IPO. Small, levered firms have less financial flexibility and are more financial constrained than large, unlevered firms; similarly, firms with large workforces relative to the scale of their operations have less financial flexibility due to their high fixed-cost structure. Third, firms with strong free cash flow are less likely to engage in an IPO, as these firms can finance future growth opportunities through internally generated capital. The negative association between both firm size and FCF and IPO activity is also consistent with politicians and controlling shareholders being reticent to privatize and list firms over which they can extract significant control benefits.

Fourth, the sensitivity of IPO activity to sales growth and free cash flow is stronger for non-state-owned firms than state-owned entities. These differences suggest that the IPO decisions of non-state-owned firms are relatively more sensitive to the presence/absence of future growth opportunities and the need to raise external capital to fund future growth. In contrast, the weaker relations for state-owned firms suggest that raising external capital to fund investment opportunities is not a primary motive for many state-owned firms to engage in an IPO, consistent with the State using IPOs to accomplish other objectives than financing future investment opportunities. Additionally, we observe that sensitivity of IPO activity to labor intensity is weaker among state-owned firms. The relative reticence of politicians to privatize labor-intensive firms is consistent with politicians retaining control over firms from which they can extract significant political benefits, such as using state-owned firms to meet full employment targets, to engage in patronage, and to confer benefits on political cronies (e.g., Dinc and Gupta, 2011).

---

based manufacturing; (2) Manufacturing - consumer products; (3) Manufacturing; (4) Manufacturing – high technology.

Fifth, we find a negative association between the frequency of IPO activity and the wealth and growth of the province; this negative association is likely an artifact of wealthy provinces having greater depth of IPO candidates and hence lower hazard rates, ceteris paribus. This effect is concentrated among the sample of state-owned firms. Additionally, consistent with Pagano, Panetta and Zingales (1998), we find current market conditions and investment opportunities, as proxied by industry market-to-book ratios, influence IPO decisions.

Finally, after controlling for these other determinants of the IPO decision, we document a significant positive association between the presence of an impending political promotion ($Promotion_{jt}$) and IPO activity in the affected province. As predicted, this positive effect exists among both state-owned and non-state-owned firms, consistent with the impact of promotion period incentives mapping into firms' IPO decisions through both direct and indirect channels. Additionally, the inclusion of the promotion event into the specification does not alter any of the baseline relations, suggesting that this variable is capturing a time period specific incentive to engage in an IPO.

3.2 Relation conditional upon the province's economic orientation and political objectives

Our second set of estimations examines the relation between IPO activity and impending political promotions conditional upon prevailing provincial-level incentives for market development activity. Specifically, we estimate the following hazard model across our samples of exchange-eligible firms:

$$\begin{aligned} h(t)=h_0(t)\exp(\alpha &+ \beta_1 Promotion_{jt} + \beta_2 Market\ Development_j + \beta_3 Promotion_{jt} * Market\ Development_j \\ &+ \beta_4 Growth\ in\ GDP_{jt} + \beta_5 Per\ Capita\ GDP_{jt} + \beta_6 Firm\ Size_{ijt} + \beta_7 Labor\ Intensity_{ijt} \\ &+ \beta_8 Return\ on\ Sales_{ijt} + \beta_9 Leverage_{ijt} + \beta_{10} Asset\ Growth_{ijt} + \beta_{11} Free\ Cash\ Flow_{ijt} \\ &+ \beta_{12} Industry\ MTB_{ijt} + \beta_{13} SOE_{ijt} + \text{Annual Indicators} + \text{Industry Indicators} + \varepsilon_{ijt}) \end{aligned} \quad (2)$$

The variable $Market\ Development_j$ measures the extent to which the province has been granted preferential pro-market development exemptions by the central government. $Market\ Development_j$ is a policy-based (i.e., input-based) measure of each province's institutional environment and economic objectives and is designed to capture prevailing political incentives, while avoiding the confounding

effects associated with alternative, output-based measures of the strength of the province's market orientation. To minimize issues of reversal causality, *Market Development*$_j$ is measured before the start of our sample period; as such, the variable should capture the prevailing political incentive structure induced by local institutional arrangements and policy objectives, as well as the extent of market development in the province, independent of contemporaneous economic performance.[20] All other explanatory variables in the model are as defined earlier. Table 5 presents coefficients from various estimations of this model.

We find that non-state-owned firms are unconditionally more likely to engage in an IPO in provinces with stronger institutions and a market-oriented economy, as captured by the positive association with *Market Development*$_j$. This positive association is consistent with the broader set of research documenting that strong institutional arrangements which support the existence of well-functioning, market-oriented environments will jointly generate both a demand for and a supply of diffusely held, publicly-traded securities (e.g., LaPorta et al., 1997; 1998; 1999). In contrast, pro-market development policies do not influence the listing rates of state-owned firms; this evidence is consistent with state firms continuing to rely on state bank financing in these settings, with politicians hesitancy to lose control of valuable assets in these provinces, and with state-owned firm's IPO decisions reflecting factors beyond general capital market / market development factors. After controlling for the orientation of provincial institutions (estimation 1), we continue to document a higher frequency of IPO activity in advance of impending political promotion events; the positive relations confirm that the observed promotion effect is not the result of omitted market institutions or differences in economic policies and market orientation across provinces.

[20] For robustness, we also utilize a second measure of the extent of market development and provincial incentives. This second measure, *Financial Market*$_j$, captures the development of province's financial markets, which is measured by the amount of informal payments made (as a percentage of total revenue) to obtain bank loans in province j. *Financial Market*$_j$ is based on a 2005 survey by World Bank in 120 cities (among 12,400 firms) from various provinces in China. The amount of informal payments required to obtain bank loans reflects the relative difficulty, or cost, for entrepreneurs to get bank loans, inversely capturing the degree development in the province's formal financial markets. We multiply the original value by negative one, such that higher values for this variable indicate higher levels of development of financial market in the region. An earlier version of the survey has been used in Cull and Xu (2005) and Ayyagari et al (2010). Inferences using this activity-based measure of market development are qualitatively similar to those reported in Table 5.

Focusing on the impact of prevailing political objectives in our setting, we find that the interaction between promotion activity and provincial factors differs across our sample of state-owned and non-state-owned firms (estimation 2). For state-owned firms, the influence of political promotion events on IPO activity is increasing in the strength of the province's market-oriented policies. Because local politicians are more likely to be evaluated and rewarded on the basis of market development activities in deregulated settings, their incentive to demonstrate strong market performance will be greater. This positive interaction suggests a direct link between the career concerns of local politicians and the IPO decisions of state firms under the politician's control.

In contrast, the response of non-state-owned firms to impending provincial-level political promotion events is insensitive to prevailing economic policies and strength of market institutions in the province. Because non-state-owned firms are reliant on government approvals and political connections to access capital regardless of underlying province's market orientation, the anticipated loss of political connections is costly to firms in all provinces. As a result, these impending promotion events produce a fairly uniform response across provinces, with non-state-owned firms listing with greater frequency in these promotion periods regardless of these provincial characteristics.

3.3 Relation conditional upon expected disruption of political connections

The impact of the impending political promotions on IPO activity should vary based upon the expected degree to which valuable political connections are disrupted. Greater disruption should generate stronger incentives to capitalize on these relationships before the promotion event, ceteris paribus. We exploit four characteristics of the promotion event that are correlated with the expected amount of disruption arising from the promotion: whether the promoted politician remains in the province, whether the politician's successor is elevated from within or outside the province, and the length of tenure of the promoted official in his current position.

The removal of the promoted politician from the province is likely to have a greater impact on existing political relationships than if the politician is promoted from governor to party secretary in the

current province. To test for this effect, we identify the position the promoted official assumes, and create an indicator variable $Remain_{jt}$ that equals one if the promoted official remains in the province (i.e., promoted from provincial governor to party chairman in the same province), zero otherwise (i.e., promoted to either the central government or another province). Similarly, the promotion of a long-serving politician is likely to have a more significant impact on existing political relationships. We measure the tenure of the promoted official ($Tenure_{jt}$) as the log of the number of years the politician has served in his current position.

Existing political connections are also expected to experience a greater degree of disruption if the successor politician is from outside the province. In those instances, firms will need to re-establish connections with the new politician and the political subordinates and cronies who accompany him. In contrast, an internal promotion will result in a more stable political hierarchy, and as a result, generate fewer disruptions to the firms' political networks. Moreover, an internal promotion is expected to create stronger promotion tournament effects in the province (if the internal / external choice is known in advance). We identify the personal details of the successor politician, and create an indicator variable $Internal_{jt}$ that equals one if the promoted official is from the affected province, zero otherwise.

Table 6 presents select coefficients from re-estimations of our hazard model after including these promotion characteristics. Consistent with the preceding arguments, these estimations document that the association between the impending political promotion and IPO activity is significantly weaker in those instances where the expected disruption to political connections is expected to be smaller. This effect is primarily concentrated among non-state-owned firms. In contrast, among state firms, the choice of an internal successor actually increases the strength of the promotion effect, suggesting that among state-owned firms, career concerns have a much greater influence on IPO decisions than the anticipated loss of political connections. Finally, the departure of a long-serving politician increases the sensitivity of IPO decisions to the political promotion event for both state-owned and non-state-owned firms.

The observed variation in the sensitivity of IPO decisions to impending political promotion events is consistent with three non-mutually exclusive explanations for these relations: (1) firms under the

direct or indirect control of local politicians are prematurely brought to market to improve the career prospects of the targeted politician and/ or local politicians competing for advancement during these promotion periods, (2) firms optimally choose to engage in an IPO in advance of the promotion in order to take advantage of a soon to be lost connections (such as access to capital or investment opportunities), and (3) firms are listing shares to maximize private control benefits or to facilitate rent-seeking behavior (e.g., tunneling) before an incumbent local politician leaves his current position. Regardless of the underlying motive, our cross-sectional evidence demonstrates how the political promotion process influences the listing decisions of both state-owned and non-state-owned entities in China.

Section 4. Characteristics and economic consequences of promotion-period offerings

The preceding section documents that both state-owned and non-state-owned firms engage in IPOs at a heightened rate in periods preceding provincial-level political promotions; this section seeks to shed light on the nature and economic consequences of this behavior. To the extent that promotion-period IPOs are "opportunistically" rational (i.e., reflect a shift in the cost/benefit structure of engaging in an IPO in advance of the promotion), we would expect the types of firm engaging in promotion-period offerings, the structure of their offerings, and those firms' post IPO performance to be systematically different than offerings occurring outside promotion periods.

4.1 Economic characteristics of promotion-period IPO firms

Table 7 presents descriptive statistics on the financial characteristics of the firms that engaged in an initial public offering, conditional upon whether the offering occurred in advance of a provincial political promotion event. For the full sample of IPO events, we observe that promotion period IPO firms tend to be more levered, have lower historical investment rates, have lower free cash flow and are more likely to receive government subsidies than firms engaging in an offering outside of these promotion periods. Conditional upon ownership type, we observe that the free cash flow, investment rate and subsidy differences are more pronounced among state owned firms, suggesting that promotion-period IPO

firms have less need for external capital. Among non-state-owned firms, promotion period IPO firms are less profitable, are more levered, and have more free cash flow than non-state-owned firms engaging in an offering outside these promotion periods. Together, the descriptive evidence suggests that promotion-period IPOs could consist of lower quality firms than non-promotion period offerings.

4.2 Post-IPO financial and stock return performance

If promotion period IPOs are economically inefficient absent of the promotion period incentives (i.e., listing decision is "opportunistic"), then promotion period IPO firms are expected to underperform non-promotion-period IPO firms. This section provides evidence on the post-IPO performance of offering firms conditional upon the timing of the offering.

Table 8 documents offering firms' financial performance in the three years following the IPO, as captured by three financial accounting performance measures: return on assets, revenue growth and earnings growth. Three-year return on assets (ROA) is the average annual ROA realization for the firm following the IPO (i.e., years t+1 to t+3), where ROA is measured as the firm earnings before interest and taxes scaled by beginning total assets. For the three-year growth in revenue and growth in earnings, we compare the firm's average performance in the three years following the IPO (+1,+3) against the firm's average historical realization in the three year's prior to the offering (-3,-1). We include control variables in our multivariate tests to control for potential differences in firm characteristics after the IPO, including firm size (*Firm Size (Post)*$_{ijt}$), offer size (*Scaled Proceeds*$_{ijt}$), growth options (*Market-to-Book*$_{ijt}$), change in leverage (Δ*Leverage*$_{ijt}$) and the firm's age (*Age*$_{ijt}$).

Consistent with prior research documenting that state-controlled firms underperform their non-state-owned peers, we observe that post-IPO earnings performance (ROA and earnings growth) for state-owned firms is lower than the offering performance of non-state-owned firms, regardless of the timing of the offering (e.g., average ROA of 4.5% versus 6.0%, respectively). For state-owned companies, we observe that the post-IPO financial performance characteristics of the offering firms do not vary significantly across promotion time periods. In contrast, after controlling for post-offering characteristics,

non-state-owned firms engaged in promotion-period IPOs experience significantly lower ROA realizations, revenue growth and earnings growth following the IPO than firms whose offering occurred outside these promotion period.[21]

Table 9 documents post-IPO stock return performance conditional upon whether the offering occurred in advance of a political promotion event. We estimate each offering firm's buy-and-hold stock return over the subsequent 12, 24 and 36 months (excluding the month of the offering), minus the corresponding value-weighted return for the Chinese market for that period.[22] Several interesting results emerge. First, for the full sample of IPO events, we find that promotion period IPO firms unconditionally underperform non-promotion-period offerings by nearly 19.1% over the next twelve months (panel A), with this underperformance remaining statistically and economically significant over the entire three-year post-IPO horizon after controlling for various firm and offering characteristics (i.e., firm size, market-to-book ratio, leverage, and firm age, see panel B). Second, consistent with their relative accounting performance, state-owned entities systematically underperform non-state-firms in the three-year period following the IPO (average three-year market-adjusted return of -28% versus -4%, respectively). Additionally, the extent that state-firm IPOs underperform the market over the subsequent three years is similar across promotion periods (market-adjusted returns of -29.2% and -27.1% for promotion and non-promotion period IPOs, respectively). This pattern of systematic underperformance of state-owned companies, irrespective of the timing of the offering, is consistent with State offerings occurring for reasons other than value creation (e.g., political agendas, reputation building, rent-seeking incentives, etc). The forces and incentives surrounding China's political promotion process is an example of such a factor that drives IPO activity among China's state-owned companies.

Third, among non-state-owned firms, only promotion-induced IPOs generate reliably negative post-IPO market-adjusted returns. The relative strength of this promotion effect among non-state-owned firms suggests that absent political incentives, the offering of non-state-owned firms are optimally timed

[21] Analyses using accounting data to measure firm performance in China are subject to the numerous caveats about the quality of the reported data. Existing research shows that financial reporting practices in China are weak, with accounting realizations distorted by earnings management, non-operating activities and related party transactions (e.g., propping). See Piotroski and Wong (2012) for a detailed discussion of this issue.

[22] Data on the equal-weighted return to the China market are gathered through CSMAR.

to capitalize on growth opportunities to maximize firm value; in contrast, the post-IPO financial and stock return performance of non-state-firms choosing to engage in an IPO in advance of imminent political promotions indicates that these offering firms are, on average, lower quality candidates, consistent with these IPOs being opportunistic in nature.

4.3 Pricing and structure of IPO

Although promotion-period listing decisions are likely rational given the costs and benefits arising from the politician's imminent departure, such an IPO imposes costs on the firm that would not be borne absent the political promotion event. Because of these costs and resultant inefficiencies, the pricing and the structure of the IPO should be dependent on the time period of the offering. Specifically, if promotion period IPOs consist of lower quality firms, minority shareholders will seek to price protect themselves, and as a result, these offerings should be associated with greater underpricing (Rock, 1986). We also expect promotion-period firms to engage in less dilutive offerings because of the suboptimal timing of the offering vis-à-vis the firm's current external financing needs and investment opportunities; as such, we expect the controlling shareholder of a promotion-period IPO firm to retain larger share of the company.

Table 10 documents IPO underpricing conditional upon the timing of the offering. $Underpricing_{ijt}$ is defined as the one day raw return to the offering firm's stock on the first day of trading (e.g., Rock, 1986; Fan, Wong and Zhang, 2007). Because IPO's occurring between November 2001 and December 2008 were subject to maximum pricing constraints (i.e, capped by a CSRC prescribed P/E ratio), we examine IPO underpricing using both the full sample of IPOs and for a sub-sample of IPOs where the offer price was not subject to these pricing constraints.[23] Our multivariate tests document that promotion-period IPO firms experience a greater first day price jump than non-promotion period offerings; coefficients from the full sample estimations imply an average incremental underpricing of

[23] Our subsample of uncapped IPOs consist of 319 firms who (1) engaged in an IPO before November 1st, 2001, or (2) engaged in an offering after November 1st, 2001 but whose offering price was below the maximum P/E ratio prescribed during the offer period. Between November 2001 and December 2005, offerings were capped at a P/E ratio of 20; between January 2006 and December 2008, offerings were capped at a P/E ratio of 30.

27.4% for promotion-period offers relative to non-promotion period offerings (and 47.0% for uncapped offerings). Consistent with our long-term performance results, this relative difference in underpricing around promotion period offerings only exists among non-state-owned firms. Evidence of greater underpricing for these non-state-firms is additional market-based evidence that lower quality firms are engaging in IPOs in advance of political promotions. Interestingly, state-firms experience larger underpricing in general, but no difference conditional upon the timing of the offering; this overall level of underpricing for state-owned firms, and the lack of incremental underpricing in advance of political promotions, offers additional support that all state-firm offerings are designed to achieve objectives independent of strict value creation and economic efficiency, and that investors (at least partially) price protect themselves accordingly.

Table 11 presents evidence on the percentage of shares retained by the controlling shareholder following the IPO. We find that the controlling shareholders of non-state-owned firms listing in advance of political promotion events relinquish a smaller number of shares than other non-state-owned offerings. Combined with the underpricing evidence documented in Table 10, the results suggest that the owners of non-state-owned firms minimize the costs arising from an engaging in promotion-motivated offering. In contrast, our tests fail to document any difference in shareholdings by the state following promotion period IPOs; however, this lack of difference may reflect the fact that the State tends to retain a larger percentage of shares regardless of the timing of the offering (46.4%) relative to non-state owners (who retain approximately 37.6%).[24] Such higher average retention rates by the State are consistent with local politicians structuring the offering to minimizing the expected loss of control arising from sales of new shares.[25]

The combined evidence for state-owned firms supports an interpretation that the State lists assets to achieve objectives other than capital market development, economic efficiency and value maximization. State-owned firms engaging in an IPO, regardless of timing, underperform the broader China market, and

[24] Untabulated specifications that examine the underpricing and ownership relations simultaneously yield similar inferences.
[25] These results are based upon the value of contributed share capital. These ownership percentages do not reflect differences in effective ownership arising from different classes of shares or the relative voting rights attached to the newly issued shares.

have weaker financial performance, experience greater underpricing and retain more control over the listed company than comparable non-state-owned firms engaging in an IPO. Our study shows that China's political promotion process is a factor that generates incentives for state-owned companies to engage in an IPO and/or for politicians to promote an IPO of a state firm under his control.

For non-state-owned firms, the combined evidence supports an opportunistic motive for engaging in an IPO in advance of imminent political promotion events. The firms engaging in such an offering are of lower quality, as measured by post-IPO financial performance, stock price performance, and the characteristics of the offering. The evidence is consistent with the imminent promotion event shifting the incentives to engage in an offering, most likely to capitalize on established political relationships before they are lost.

Section 5: Further evidence and robustness tests

5.1 Analysis of use of IPO proceeds

To the extent that promotion period IPOs are hastily arranged in response to shifting incentives, we expect these offering firms to have less clearly formulated investment plans than non-promotion period IPO firms; as a result, these firms are likely to change the use of the proceeds after the offering. Similarly, to the extent these promotion period IPOs are designed to facilitate expropriation or rent-seeking behavior, we would expect the newly raised capital to be diverted away from its stated use after the offering. In this spirit, we examine whether promotion-period IPO firms are more likely to switch the use of proceeds away from the use identified in the firm's IPO prospectus after the offering occurs. For each offering, we document the stated use of IPO proceeds in the prospectus and then track whether (1) the firm discloses / announces a new use of those proceeds or (2) the firm's financial statements indicate the funds are diverted to alternative use over the subsequent three years.

Table 12 documents the likelihood that the offering firm subsequently diverts the IPO proceeds away from their stated intended use, conditional upon the timing of the offering. We find that firms engaging in promotion-period IPOs are significantly more likely to switch the intended use of proceeds

after the IPO, with this diversion stronger among non-state-owned firm. These results are consistent with promotion period IPO decisions being influenced by incentives arising from the expected loss of political connections, and as a result, the investment plan filed at the time of the offering was either not well formulated or designed to obfuscate the intentions of the firm.

5.2 Analysis of provincial-level political demotion events

A concern about the current research design is that the association between provincial promotions and IPO activity reflects reverse causality; politicians from strong provinces are more likely to be promoted. Prior research on the determinants of political turnover in China's provinces finds that promotion / demotion decisions are a function of the economic performance of the province and the political connectivity of the local official.[26] For example, Li and Zhou (2005) and Chen, Li, and Zhou (2005) find that the promotion of provincial-level politicians is positively associated with the economic performance of the province (as measured by growth in GDP) and the politician's connectedness with the central government.[27] To the extent that IPO activity is a credible signal used to evaluate the performance of local politicians or confers a career-related benefit to the politician in terms of enhanced reputation, visibility or prestige, a positive association between promotions and IPO activity could be the result of reverse causality. Although our current hazard specifications control for both provincial-level performance and strength of market institutions, and the types of firms listing during these promotion periods appear to be of lower quality, such a performance-based interpretation cannot be ruled out.

To explore these arguments, we identify an analogous sample of 11 provincial-level political demotion events over our sample period. Unlike political promotions, demotions of high-ranking politicians in China are correlated with poor economic performance in the province. Such performance-

[26] Whiting (2000) argues that the fiscal reforms of the early 1980s placed the responsibility for local revenue generation on the shoulders of the local officials, as local governments were required to be largely self-financing. This fiscal imperative was reinforced by a cadre evaluation system that linked official's salaries and career advancement to successful revenue generation. Yang (2003) argues that cadre promotion is one of the most effective mechanism by which higher authorities control their subordinates, with both official (fiscal performance, seniority) and unofficial (guanxi) factors affecting the promotion of local cadre.

[27] In contrast, the findings in Shih, Adolph and Liu (2012) suggest that the political promotion system in China serves the immediate needs of regimes and their leaders rather than all-encompassing goals such as economic growth.

related political demotions occur with greater swiftness than political promotions, and are a greater surprise to outsiders. To the extent that the incumbent politician is likely aware of his relative performance and poor standing within the political hierarchy, the politician will have an incentive to either begin actively window-dressing performance or capitalize on their current position (i.e., engage in rent-seeking behavior while still in control of state assets). The key attribute of this setting is that the performance of State assets under the politician's direct control is likely to be poor, so absent a politically-driven incentive, a positive (performance-driven) relation between the political event and IPO activity would not be expected.

We re-estimate equation (1) after including an indicator variable $Demotion_{jt}$ that equals one if the province is associated with the demotion of the provincial party-secretary or provincial governor in year t or t-1, zero otherwise. Table 13 presents select coefficient from various estimations of that model. Consistent with political forces impacting IPO activity, we observe that periods preceding a political demotion are associated with an increased rate of IPO activity among state-owned firms (i.e., those assets under the direct control of the incumbent politician). In contrast, because demotions tend to occur quickly and are unexpected to most individuals outside the party and political hierarchy, the demotion events have no impact on the IPO decisions of non-state-owned firms.

5.3 Robustness test: Expected disruption of political networks

Our research design is predicated on the assumption that economic agents in the province are responding to promotion-induced incentives in advance of the observable event. To test the importance of that economic assumption, we examine the effects of the promotion event conditional upon the degree to which economic agents are able to anticipate the promotion. We proxy for this difference in expectations based upon whether or not the promotion event occurs in conjunction with a National Congress of the Chinese Communist Party. The National Congress is the most important event in China with respect to the determination of Party leadership, political objectives, and economic policy. During this Congress, key central government and party positions are confirmed and the transition of power

occurs. In the broad spectrum of political activities, the National Congress is the most anticipated and choreographed event, with the Party placing special emphasis on unity and harmony. High-level provincial promotion events occurring in conjunction with the National Congress are likely to be more planned, and hence more anticipated by economic agents in the province, relative to promotion events occurring outside these Congress periods. We create the indicator variable $Congress_{jt}$ that equals one if the promotion event occurred in a year of a National Congress (2002 and 2007), zero otherwise, and re-estimate our hazard model after including this variable. Untabulated results document that the impact of an impending political promotion event on the rate of IPO activity is significantly stronger during these National Congress periods. The promotion effect is concentrated among non-state-owned firms, consistent with these firms being more affected by the anticipated loss of valuable political connections.

5.4 Other robustness tests

As noted earlier, our provincial-level promotion variable could be proxying for institutions or environments associated with strong economic performance. To that end, we have re-estimate our primary results after including numerous variables used in prior research to capture these potentially omitted institutional factors; these variables include a measure of the legal system, property rights protection, measures of marketization, and trade openness. All of our inferences are robust to the inclusion of these alternative measures. Our results are also robust to the exclusion of firm-year observations from the six provinces without a promotion or the two provinces without an initial public offering during our sample period.

Section 6: Conclusions

In this paper, we provide evidence that incentives arising from impending provincial-level promotion events impact the initial public offering decisions of exchange-eligible industrial firms in China. These results contribute to the existing literature in several ways. First, with respect to state-owned entities, we document that the career prospects of local politicians can actually accelerate partial

privatization activity when the politician is rewarded on the basis of market development activity. Prior research notes that the decision of the State to list assets on exchange is frequently driven by objectives other than capital market development or value maximization; these political promotion incentives represent one such set of factors that shape the IPO decisions of state firms independent of economic efficiency. These inferences have broad implications across all settings where the politicians control state assets.

Second, we provide evidence suggesting that firms anticipating the loss of valuable political connections will opportunistically capitalize on the connection before the politician's departure. Although this incentive is rational from the perspective of the listing firm and controlling shareholder, the premature access to capital has the potential to impose a cost on the economy, as evidenced by the poor performance of these firms following the promotion-induced offering. Our evidence suggests the political promotion process and the career paths of local politicians will have an acute impact on firm-level decisions in relationship-based economies, and that such relations need to be understood when making investment decisions. More generally, our paper adds to a growing literature on the impact that local political processes have on corporate decisions globally (e.g., Julio and Yook, 2012).

Lastly, the paper sheds additional light on the growth behind China's capital market over the last decade. Whereas much as been written about the development of China's markets, our evidence suggests that even in spite of a rapid transition from a planned economy to a market-based economy and the development of the country's legal and market institutions, political forces continue to influence and distort capital market development and the allocation of capital. Such distortion is expected to continue so long as the capital markets and politicians are linked, and raises questions about the quality of firms raising capital around politically-sensitive events.

References

Ayyagari, M., Demirguc-Kunt, A., Maksimovic, V., 2010. Formal versus Informal Finance: Evidence from China. Review of Financial Studies 23(8): 3048-3097.

Aharony, J., Lee, J., Wong, T.J., 2000. Financial packaging of IPO firms in China. Journal of Accounting Research 38 (1), 103-126.

Allen, F., Qian, J., Qian, M., 2005. Law, Finance and Economic Growth in China. Journal of Financial Economics 77 (1), 57-116.

Bortolotti, B., Faccio, M., 2009. Government control of privatized firms. The Review of Financial Studies 22 (8), 2907-2939.

Chari, A., Gupta, N., 2008. Incumbents and protectionism: The political economy of foreign entry liberalization. Journal of Financial Economics 88, 633-656.

Chen, K., Yuan, H., 2004. Earnings management and capital resource allocation: Evidence from China's accounting-based regulation of rights issues. The Accounting Review 79 (3), 645-665.

Chen, Y. Li, H., Zhou, L., 2005. Relative performance evaluation and the turnover provincial leaders in China. Economic Letters. 88(3), 421-425.

Cull, R., Xu, L., 2005. Institutions, ownership, andfinance: the determinants of profit reinvestment among Chinese firms. Journal of Financial Economics 77: 117–146.

Demruger, S., Sachs, J.D., Woo, W.T., Bao, S., Chang, G., 2002. Geography, economic policy and regional development in China. Asian Economic Papers, 146-197

Dinc, I.S., Gupta, N., 2011. The decision to privatize: Finance and politics. The Journal of Finance 66 (1), 241-269.

Du, F., 2011. Political connections and access to bond capital: Reputation or collusion? Working paper, University of Southern California.

Fan, J.P.H., Wong, T.J., Zhang, T., 2007. Politically connected CEOs, corporate governance and post-IPO performance of China's newly partially privatized firms. Journal of Financial Economics 84 (2), 265-290.

Fisman, R., 2001. Estimating the value of political connections. American Economic Review 91 (4), 1095-1102.

Gupta, N., 2005. Partial privatization and firm performance. The Journal of Finance 60, 987-1015.

Jones, S., Megginson, W., Nash, R., Netter, J., 1999. Share issue privatizations as means to political and economic ends. Journal of Financial Economics 53, 217-253.

Julio, B., Yook, Y., 2012. Political uncertainty and corporate investment cycles. The Journal of Finance 67 (1), 45-83.

LaPorta, R., Lopez-de-Silanes, R., Shleifer, A., Vishny, R., 1997. Legal determinants of external capital. The Journal of Finance 52, 1131-50.

LaPorta, R., Lopez-de-Silanes, R., Shleifer, A., Vishny, R., 1998. Law and finance. Journal of Political Economy 106, 1113-55.

LaPorta, R., Lopez-de-Silanes, R., Shleifer, A., Vishny, R., 1999. Corporate ownership around the world. The Journal of Finance 54, 471-517.

Li, H., Zhou, L., 2005. Political turnover and economic performance: the incentive role of personnel control in China. Journal of Public Economics 89 (9-10), 1743-1762.

Lindbeck, A., 1976. Stabilization policies in open economies with endogenous politicians. American Economic Review 66, 1-19.

Megginson, W., Nash, R., van Randenborgh, M., 1994. The financial and operating performance of newly privatized firms: An international empirical analysis. The Journal of Finance 49, 403-452.

Megginson, W., Netter, J., 2001. From state to market: A survey of empirical studies on privatization. Journal of Economic Literature 39, 321-389.

North, D., 1990. Institutions, Institutional Change and Economic Performance. Cambridge: Cambridge University Press.

Olson, M., 1993. Dictatorship, democracy and development. American Economic Review 87, 567-573.

Pagano, M., Panetta, F., Zingales, L., 1998. Why do companies go public? An empirical analysis. The Journal of Finance 53, 27-64.

Piotroski, J., Wong, T.J., 2012. Institutions and the Information Environment of Chinese Listed Firms. Capitalizing China. Joseph Fan and Randall Morck, eds. University of Chicago Press.

Piotroski, J., Wong, T.J., Wu, D., 2012. Government intervention and the development of China's financial intermediaries: Efficiency or political opportunism? Working paper, Stanford University (June).

Protti, E., 1995. Credible Privatization. American Economic Review 85, 847-859.

Rajan, R., Zingales, L., 2003. The Great Reversals: The politics of financial development in the 20th century. Journal of Financial Economics 69, 5-50.

Ritter, J., Welch, I., 2002. A review of IPO activity, pricing and allocations. The Journal of Finance 57, 1795-1828.

Rock, K., 1986. Why new issues are underpriced. Journal of Financial Economics 15, 187-212.

Shih, V., Adolph, C., Liu, M., 2012. Getting ahead in the communist party: explaining the advancement of central committee members in China. American Political Science Review, 106 (1), 166-186.

Shleifer, A., Vishny, R., 1993. Corruption. Quarterly Journal of Economics 108, 599-618.

Shleifer, A., Vishny, R., 1994. Politicians and Firms. Quarterly Journal of Economics 109, 995-1025.

Whiting, S.H., 2000. Power and Wealth in Rural China: The political economy of institutional change. Cambridge University Press. Cambridge, UK.

World Bank, 2006. China Governance, Investment Climate, and Harmonious Society: Competitiveness Enhancements for 120 Cities in China.

Wurgler, J., 2000. Financial markets and the allocation of capital. Journal of Financial Economics 58: 187-214

Yang, Z., 2003. Local Governments and Politics in China: Challenge from below. M.E. Sharpe, Inc.

Appendix 1
Definition of Variables

Variable	Description	Sources
Promotion	Indicator variable equal to one if the firm year falls in the period of one year before and the year of political promotion of the party secretary or governor of the province where the company is registered.	Hand collected
Demotion	Indicator variable equal to one if the firm year falls in the period of one year before and the year of political demotion of the party secretary or governor of the province where the company is registered.	Hand collected
Remain	An indicator variable equal to one if the politician is promoted from provincial governor to party secretary in the same province.	Hand collected
Internal	An indicator variable equal to one if the promoted politician's successor is elevated from the affected province.	Hand collected
Tenure	The log of the number of years the politician served in his current position.	Hand collected
Firm Size	Logarithm value of total assets at the fiscal year end.	National Bureau of Statistics (NBS)
Labor intensity	Logarithm value of one plus the ratio of the number of employees at the fiscal year end to total sales (in million RMB).	NBS
Return on Sales	The return on sales, measured as net income divided by total revenue during the fiscal year.	NBS
Leverage	The ratio of the firm's total liabilities to total assets at the fiscal year end.	NBS
Asset Growth	Percentage change in total assets over the fiscal year.	NBS
Sales Growth	Percentage change in total revenue over the fiscal year.	NBS
Free Cash Flow	Free cash flow scaled by total assets at the fiscal year end, where free cash flow is measured as cash flow from operations minus capital expenditures during the fiscal year.	NBS
Industry MTB	The industry median market-to-book ratio for publicly-listed Chinese firms in the same three-digit industry classification as the firm at the start of the fiscal year.	CSMAR
SOE	An indicator variable equal to one if the firm is a state-owned entity.	
Subsidies	The amount of subsidy income received by the firm divided by total revenue in the fiscal year.	NBS
Growth in GDP	Percentage of annual growth in GDP for each province.	NBS
Per Capita GDP	The GDP per Capita for each province.	NBS
Market Development	The amount of preferential treatments and exemptions granted to a region by the central government to set up special economic zones during 1978 to 1998.	Demruger et al. (2002)
Financial market	The informal payment to get bank loans indicates the difficulty for entrepreneurs to get bank loans, indicating the development of formal financial market. We take negative of the original value for purpose that the higher value for this variable indicates higher development of financial market in the region.	World Bank (2006)
Return on assets	Three year average return on asset realization, where return on assets is defined as earnings before interest and taxes (EBIT) in the fiscal year divided by end of year total assets.	China Securities Market and Accounting Research (CSMAR)
3yr growth in Sales	The difference in average sales in three years prior to IPO and three years IPO scaled by the average sales in three years prior to IPO.	CSMAR
3yr growth in Earnings	The difference in average EBIT in three years prior to IPO and three years IPO scaled by the average EBIT in three years prior to IPO.	CSMAR
CAR12	The cumulative market-adjusted return in 12 months after IPO with the first month excluded.	CSMAR
CAR24	The cumulative market-adjusted return in 24 months after IPO with the first month excluded.	CSMAR
CAR36	The cumulative market-adjusted return in 36 months after IPO with the first month excluded.	CSMAR
Ownership	The percentage ownership retained by the largest shareholder following	

	the IPO.	
Underpricing	The one-day raw return to the firm's stock on the first day of trading.	CSMAR
Market-to-Book	The natural log of one plus the ratio of market value of equity to book value of equity at the end of IPO year.	CSMAR
Age	The age of the company at year of IPO.	CSMAR
Proceeds	The natural logarithm of the proceeds raised by the IPO.	CSMAR
Days	The logarithm of the number of days between the date IPO and listing.	CSMAR
Shanghai Exchange	An indicator variable equal to one if the IPO occurs on the Shanghai Stock Exchange, and zero otherwise.	CSMAR
Switch	An indicator variable equal to one if the firm changed the use of its IPO proceeds within three years of the offering from the intended use outlined in the firm's prospectus.	Hand-Collected

Table 1
Distribution of provincial-level political promotions by region and year

This panel presents the distribution of political promotion events in China by province and year over the sample period 2001 to 2008. These provincial promotion events capture political turnover involving the transfer, re-assignment or promotion of either the provincial party secretary or provincial governor to a position with more political power. Political promotions where the politician has a tenure of less than one year in the current position are not included in the sample.

Region	2001	2002	2003	2004	2005	2006	2007	2008	Total
Beijing		1	1				1		3
Tianjin									0
Shanghai		1	1						2
Chongqing		1							1
Hebei									0
Shanxi					2		1		3
Neimeng								1	1
Liaoning				1			2		3
Jilin						1			1
Heilong			1						1
Jiangsu		1					1	1	3
Zhejiang		1					1		2
Anhui							2		2
Fujian		1		1					2
Jiangxi							1		1
Shandong		1	1				1		3
Henan			1						1
Hubei	1						2		3
Hunan	1		1			1			3
Guangdong		1					1		2
Guangxi									0
Hainan	1		1			1	1		4
Sichuan		1							1
Guizhou	1								1
Yunnan	1								1
Shannxi						1			1
Gansu	1					1			2
Qinghai			1						1
Ningxia									0
Xinjiang									0
Xizang									0
Total	6	9	8	2	2	5	14	2	48

Table 2
Sample of exchange-eligible domestic Chinese industrial firms and related IPO activity

Panel A presents our sample of exchange-eligible and IPO firms as drawn from China's National Bureau of Statistics (NBS) database over the period 1998 to 2008. The NBS database contains financial and registration information on all domestic industrial companies operating in China with annual sales above RMB 5 million. The first set of columns documents the number of industrial firms included in the NBS database in a specific calendar year. The second set of columns documents the number of non-public industrial firms that are eligible for an exchange-listing at the start of the respective calendar year over the sample period of 2001 to 2008. Exchange-eligible firms are identified by applying the CSRC's historical financial listing requirements to the population of NBS reporting firms each year. The third column documents the number of exchange-eligible firms that engaged in an initial public offering (IPO) in a given calendar year. For each category, firms are classified on the basis of corporate ownership (state-owned versus non-state-owned). Panel B documents the distribution of exchange-eligible firms and IPO events across China's provinces over our sample period.

Panel A: Sample of NBS firm-years, exchange-eligible firm-years, and IPO activity

	Firm-years in NBS Database				Firms Satisfying CSRC Listing Requirements				Actual IPO Activity among Firms Satisfying CSRC Listing Requirements				
Year	Total # of Firms	Total # of State-owned (State) Firms	Total # of Non-State Firms	% State-owned Firms	Total # of Exchange Eligible Firms	% of Total NBS Firms	Total # of Exchange Eligible State Firms	Total # of Exchange Eligible Non-State Firms	Total # of Exchange Eligible State Firms that IPO	% of Exchange Eligible State Firms	Total # of Exchange Eligible Non-State Firms that IPO	% of Exchange Eligible Non-State Firms	% of IPOs involving State Firms
1998	165,030	63,944	100,351	38.75%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
1999	161,970	58,716	102,908	36.25%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2000	162,821	50,530	111,965	31.03%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2001	168,965	41,714	126,802	24.69%	1,629	0.96%	618	1,011	40	6.47%	9	0.89%	81.63%
2002	181,498	36,926	144,224	20.35%	1,970	1.09%	652	1,318	40	6.13%	12	0.91%	76.92%
2003	196,165	30,071	165,686	15.33%	2,329	1.19%	653	1,676	31	4.75%	16	0.95%	65.96%
2004	279,013	32,033	246,439	11.48%	2,421	0.87%	560	1,861	34	6.07%	45	2.42%	43.04%
2005	271,785	22,494	248,787	8.28%	2,873	1.06%	545	2,328	6	1.10%	6	0.26%	50.00%
2006	301,903	19,975	281,413	6.62%	3,772	1.25%	640	3,132	16	2.50%	31	0.99%	34.04%
2007	336,695	15,342	321,168	4.56%	6,277	1.86%	929	5,348	25	2.69%	63	1.18%	28.41%
2008	412,163	13,887	365,317	3.37%	6,881	1.67%	826	6,055	14	1.69%	52	0.86%	21.21%
Total	2,638,008	385,632	2,215,060	14.62%	28,152	1.07%	5,423	22,729	206	3.80%	234	1.03%	46.82%

Table 2 (Continued)
Sample of exchange-eligible domestic Chinese industrial firms and related IPO activity

Panel B: Distribution of NBS exchange-eligible firm-years and IPO activity across China's provinces

Province	Total Sample of Exchange Eligible Firm-Years			State-Owned Firms			Non-State-Owned Firms		
	# of firms	# of IPO	Percentage	# of firms	# of IPO	Percentage	# of firms	# of IPO	Percentage
Beijing	894	21	2.35%	209	15	7.18%	685	6	0.88%
Tianjin	772	7	0.91%	91	6	6.59%	681	1	0.15%
Shanghai	2,854	17	0.60%	238	8	3.36%	2,616	9	0.34%
Chongqing	339	3	0.88%	118	1	0.85%	221	2	0.90%
Hebei	1,161	10	0.86%	390	7	1.79%	771	3	0.39%
Shanxi	400	7	1.75%	150	6	4.00%	250	1	0.40%
Neimeng	331	4	1.21%	79	4	5.06%	252	0	0.00%
Liaoning	1,246	6	0.48%	204	3	1.47%	1,042	3	0.29%
Jilin	331	6	1.81%	85	5	5.88%	246	1	0.41%
Heilongjiang	432	1	0.23%	123	1	0.81%	309	0	0.00%
Jiangsu	3,526	44	1.25%	491	15	3.05%	3,035	29	0.96%
Zhejiang	2,918	65	2.23%	298	6	2.01%	2,620	59	2.25%
Anhui	505	24	4.75%	177	17	9.60%	328	7	2.13%
Fujian	1,273	20	1.57%	188	8	4.26%	1,085	12	1.11%
Jiangxi	303	11	3.63%	100	8	8.00%	203	3	1.48%
Shandong	1,777	32	1.80%	347	15	4.32%	1,430	17	1.19%
Henan	1,031	15	1.45%	326	10	3.07%	705	5	0.71%
Hubei	626	10	1.60%	149	6	4.03%	477	4	0.84%
Hunan	409	15	3.67%	139	13	9.35%	270	2	0.74%
Guangdong	2,940	60	2.04%	348	8	2.30%	2,592	52	2.01%
Guangxi	392	7	1.79%	131	3	2.29%	261	4	1.53%
Hainan	13	0	0.00%	4	0	0.00%	9	0	0.00%
Sichuan	2,345	17	0.72%	444	7	1.58%	1,901	10	0.53%
Guizhou	169	8	4.73%	101	7	6.93%	68	1	1.47%
Yunnan	414	6	1.45%	162	6	3.70%	252	0	0.00%
Shaanxi	350	7	2.00%	169	7	4.14%	181	0	0.00%
Gansu	129	5	3.88%	64	3	4.69%	65	2	3.08%
Qinghai	37	2	5.41%	11	2	18.18%	26	0	0.00%
Ningxia	74	1	1.35%	21	1	4.76%	53	0	0.00%
Xinjiang	152	9	5.92%	65	8	12.31%	87	1	1.15%
Xizang	9	0	0.00%	1	0	0.00%	8	0	0.00%
Total	28,152	440	1.56%	5,423	206	3.80%	22,729	234	1.03%

Table 3
Descriptive statistics on sample of exchange-eligible Chinese industrial firms

Panel A presents descriptive statistics on our sample of 28,152 exchange-eligible firm-year observations drawn from China's National Bureau of Statistics (NBS) database on Chinese industrial companies. *Firm size* is natural logarithm of the firm's total assets, *Labor Intensity* is the natural logarithm of one plus the ratio of the firm's total number of employees to total sales (in million RMB), *Return on sales* is net income scaled by total revenue, *Leverage* is the ratio of the firm's total debt to total assets, *Sales Growth* is one-year growth in total revenue, and *Free Cash Flow* is the firm's cash flow from operations minus capital expenditures scaled by total assets. All variables are measured at the end of the preceding year, and defined in the Appendix. The superscript a (b) indicates that the difference in mean (median) realizations between state-owned firms and non-state-owned firms is significant at the one percent level of significance using a t-test of means (signed-rank wilcoxon test). Panel B presents spearman correlations between these firm level characteristics and three provincial attributes, *Growth in GDP*, *Per Capita GDP*, and the extent the province has been granted pro-market development policies by the central government (*Market Development*). Two-sided p-values are presented in parentheses.

Panel A: Descriptive statistics

	Pooled Sample (n=28,152)		State-Owned Firms (n=5,423)		Non-State-Owned Firms (n=22,729)	
	Mean	Median	Mean	Median	Mean	Median
Promotion	0.370	0.000	0.350	0.000	0.375[a]	0.000[b]
Firm Size	1,143.26	452.18	2,292.26	939.55	869.11[a]	393.45[b]
Labor Intensity	2.598	1.822	3.480	2.509	2.387[a]	1.702[b]
Return on Sales	0.105	0.083	0.103	0.074	0.106[a]	0.085[b]
Leverage	0.482	0.497	0.516	0.538	0.474[a]	0.487[b]
Sales Growth	0.173	0.159	0.154	0.142	0.178[a]	0.163[b]
Free Cash Flow	0.129	0.108	0.108	0.090	0.134[a]	0.112[b]

Panel B: Correlation matrix

	1	2	3	4	5	6	7	8	9	10
1. Promotion	1.000									
	-									
2. Growth in GDP	-0.127	1.000								
	(0.000)	-								
3. Per Capita GDP	0.068	0.154	1.000							
	(0.000)	*(0.000)*	-							
4. Firm Size	-0.003	-0.001	-0.106	1.000						
	(0.618)	*(0.895)*	*(0.000)*	-						
5. Labor Intensity	0.007	-0.102	-0.272	-0.124	1.000					
	(0.237)	*(0.000)*	*(0.000)*	*(0.000)*	-					
6. Return on Sales	-0.028	-0.004	0.000	-0.073	-0.003	1.000				
	(0.000)	*(0.473)*	*(0.948)*	*(0.000)*	*(0.580)*	-				
7. Leverage	0.011	0.029	-0.050	0.303	-0.020	-0.360	1.000			
	(0.070)	*(0.000)*	*(0.000)*	*(0.000)*	*(0.001)*	*(0.000)*	-			
8. Sales Growth	-0.016	0.076	0.006	0.054	-0.174	0.019	0.112	1.000		
	(0.007)	*(0.000)*	*(0.329)*	*(0.000)*	*(0.000)*	*(0.001)*	*(0.000)*	-		
9. Free Cash Flow	-0.025	0.013	0.036	-0.176	-0.100	0.235	-0.108	-0.127	1.000	
	(0.000)	*(0.029)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	-	
10. SOE	-0.020	-0.084	-0.267	0.272	0.158	-0.017	0.085	-0.037	-0.059	1.000
	(0.001)	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.006)*	*(0.000)*	*(0.000)*	*(0.000)*	-
11. Market Development	0.124	-0.093	0.455	-0.096	-0.077	-0.011	-0.058	-0.045	0.031	-0.168
	(0.000)	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.079)*	*(0.000)*	*(0.000)*	*(0.000)*	*(0.000)*

Table 4
Impact of impending political promotions on IPO activity

This table presents select coefficients from various estimations of the following hazard model for the IPO listing decisions for a sample of exchange eligible firm-year observations drawn over the sample period 2001 to 2008:

$$h(t)=h_0(t)\exp(\alpha + \beta_1 Promotion_{jt} + \beta_2 Growth\ in\ GDP_{jt} + \beta_3 Per\ Capita\ GDP_{jt} + \beta_4 Firm\ Size_{ijt} + \beta_5 Labor\ Intensity_{ijt} + \beta_6 Return\ on\ Sales_{ijt} + \beta_7 Leverage_{ijt} + \beta_8 Sales\ Growth_{ijt} + \beta_9 Free\ Cash\ Flow_{ijt} + \beta_{10} Industry\ MTB_{it} + \beta_{11} SOE_{ijt} + \text{Annual Indicators} + \text{Industry Indicators} + \varepsilon_{ijt})$$

In this model, the dependent variable is the firm's decision to engage in an IPO in year t. The indicator variable $Promotion_{jt}$ equals one if year t corresponds to the year prior to or the year of a political promotion event in province j, zero otherwise. $Growth\ in\ GDP_{jt}$ and $Per\ Capita\ GDP_{jt}$ measure the growth in and level of province j's gross domestic product in year t, respectively. $Firm\ size_{ijt}$ is natural logarithm of the firm's total assets, $Labor\ Intensity_{ijt}$ is the natural logarithm of one plus the ratio of the firm's total number of employees to total sales (in million RMB), $Return\ on\ sales_{ijt}$ is net income scaled by total revenue, $Leverage_{ijt}$ is the ratio of the firm's total debt to total assets, $Sales\ Growth_{ijt}$ in the one-year growth in total assets, and $Free\ Cash\ Flow_{ijt}$ is the firm's cash flow from operations minus capital expenditures scaled by total assets in year t. SOE_{ijt} is an indicator variable equal to one if the firm is a state-owned entity. $Industry\ MTB_{it}$ is the industry median market-to-book ratio for firm i at the beginning of year t. All firm-level independent variables are measured at the end of the preceding year. All models include an array of annual and industrial fixed effects. Standard errors are clustered at the firm level. The superscripts ***, **, * denote statistical significance at the one, five and ten percent level, respectively, using a two-tailed test.

	Full Sample (n=28,152)		State-Owned Firms (n=5,423)		Non-State-Owned Firms (n=22,729)	
	(1)	(2)	(1)	(2)	(1)	(2)
Promotion		0.501***		0.314**		0.555***
		(4.832)		(2.194)		(3.594)
Growth in GDP	-5.871***	-5.814***	-7.160***	-6.822***	-1.376	-1.972
	(-4.474)	(-4.477)	(-4.279)	(-4.064)	(-0.677)	(-0.943)
Per Capita GDP	-0.295***	-0.373***	-0.451***	-0.503***	-0.083	-0.180
	(-3.425)	(-4.279)	(-3.150)	(-3.542)	(-0.683)	(-1.367)
Firm Size	-0.700***	-0.704***	-0.809***	-0.815***	-0.640***	-0.637***
	(-10.342)	(-10.524)	(-8.567)	(-8.797)	(-6.959)	(-6.966)
Labor Intensity	0.383***	0.369***	0.239***	0.231***	0.382***	0.374***
	(7.104)	(6.803)	(2.881)	(2.761)	(5.572)	(5.434)
Return on Sales	6.070***	6.178***	5.145***	5.216***	6.809***	6.857***
	(13.018)	(13.247)	(7.588)	(7.676)	(10.750)	(10.744)
Leverage	3.284***	3.302***	2.684***	2.719***	3.617***	3.589***
	(13.402)	(13.281)	(7.557)	(7.554)	(10.861)	(10.670)
Sales Growth	1.305***	1.265***	0.898***	0.881***	1.594***	1.555***
	(7.203)	(6.998)	(3.573)	(3.525)	(6.049)	(5.882)
Free Cash Flow	-1.357***	-1.368***	-0.970**	-0.968**	-1.630***	-1.623***
	(-4.800)	(-4.788)	(-2.278)	(-2.251)	(-4.120)	(-4.096)
Industry MTB	0.360**	0.310*	0.259	0.234	0.307	0.284
	(2.059)	(1.791)	(1.093)	(0.995)	(1.113)	(1.046)
SOE	1.280***	1.284***				
	(13.031)	(13.131)				
Annual Indicators	Included	Included	Included	Included	Included	Included
Industry Indicators	Included	Included	Included	Included	Included	Included
Wald Chi-Squared	1085	1109	453.2	454.3	403.9	415.3
(p-value)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Pseudo R-squared	0.0947	0.0972	0.0887	0.0900	0.0811	0.0842

Table 5
Impact of impending political promotions and IPO activity conditional upon prevailing provincial-level economic objectives

This table presents select coefficients from various estimations of the following hazard model for the IPO listing decisions for a sample of exchange eligible firm-year observations drawn over the sample period 2001 to 2008:

$$h(t)=h_0(t)\exp(\alpha + \beta_1 Promotion_{jt} + \beta_2\, Promotion_{jt} * Market\ Development_j + \beta_3 Market\ Development_j + \beta_4 Growth\ in\ GDP_{jt} + \beta_5 Per\ Capita\ GDP_{jt} + \beta_6 Firm\ Size_{ijt} + \beta_7 Labor\ Intensity_{ijt} + \beta_8 Return\ on\ Sales_{ijt} + \beta_9 Leverage_{ijt} + \beta_{10} Sales\ Growth_{ijt} + \beta_{11} Free\ Cash\ Flow_{ijt} + \beta_{13} Industry\ MTB_{it} + \beta_{13} SOE_{ijt} + \text{Annual Indicators} + \text{Industry Indicators} + \varepsilon_{ijt})$$

In this model, the dependent variable is the firm's decision to engage in an IPO in year t. The indicator variable $Promotion_{jt}$ equals one if year t corresponds to the year prior to or the year of a political promotion event in province j, zero otherwise. $Market\ Development_j$ measures the amount of preferential treatments and exemptions granted to province j by the central government to set up special economic zones. $Growth\ in\ GDP_{jt}$ and $Per\ Capita\ GDP_{jt}$ measure the growth in and level of province j's gross domestic product in year t, respectively $Firm\ size_{ijt}$ is natural logarithm of the firm's total assets, $Labor\ Intensity_{ijt}$ is the natural logarithm of one plus the ratio of the firm's total number of employees to total sales (in million RMB), $Return\ on\ sales_{ijt}$ is net income scaled by total revenue, $Leverage_{ijt}$ is the ratio of the firm's total debt to total assets, $Sales\ Growth_{ijt}$ in the one-year growth in total assets, and $Free\ Cash\ Flow_{ijt}$ is the firm's cash flow from operations minus capital expenditures scaled by total assets in year t. SOE_{ijt} is an indicator variable equal to one if the firm is a state-owned entity. $Industry\ MTB_{it}$ is the industry median market-to-book ratio for firm i at the beginning of year t. All firm-level independent variables are measured at the end of the preceding year. All models include an array of annual and industrial fixed effects. Standard errors are clustered at the firm level. The superscripts ***,**,* denote statistical significance at the one, five and ten percent level, respectively, using a two-tailed test.

	Full Sample (n=28,152)		State-Owned Firms (n=5,423)		Non-State-Owned Firms (n=22,729)	
	(1)	(2)	(1)	(2)	(1)	(2)
Promotion	0.493***	0.295	0.320**	-0.026	0.529***	0.700**
	(4.746)	(1.621)	(2.232)	(-0.110)	(3.416)	(2.368)
Promotion*Mkt Devel.	-	0.148	-	0.346*	-	-0.107
	-	(1.372)	-	(1.911)	-	(-0.685)
Market Development	0.181***	0.106	-0.172	-0.353**	0.330***	0.382***
	(2.720)	(1.221)	(-1.491)	(-2.244)	(3.702)	(3.388)
Growth in GDP	-5.185***	-5.582***	-7.335***	-7.845***	-0.585	-0.259
	(-3.987)	(-4.103)	(-4.284)	(-4.416)	(-0.291)	(-0.128)
Per Capita GDP	-0.516***	-0.495***	-0.370**	-0.337**	-0.403**	-0.417**
	(-4.685)	(-4.477)	(-2.261)	(-2.050)	(-2.495)	(-2.552)
Firm Size	-0.692***	-0.693***	-0.828***	-0.836***	-0.619***	-0.621***
	(-10.313)	(-10.320)	(-8.990)	(-9.067)	(-6.746)	(-6.765)
Labor Intensity	0.364***	0.363***	0.222***	0.221***	0.348***	0.349***
	(6.731)	(6.727)	(2.651)	(2.629)	(5.067)	(5.081)
Return on Sales	6.150***	6.136***	5.158***	5.171***	6.681***	6.715***
	(13.373)	(13.353)	(7.473)	(7.497)	(10.418)	(10.418)
Leverage	3.301***	3.307***	2.715***	2.747***	3.578***	3.588***
	(13.335)	(13.379)	(7.533)	(7.672)	(10.626)	(10.668)
Sales Growth	1.298***	1.292***	0.826***	0.818***	1.551***	1.560***
	(7.175)	(7.120)	(3.213)	(3.127)	(5.898)	(5.922)
Free Cash Flow	-1.346***	-1.330***	-0.981**	-0.975**	-1.564***	-1.583***
	(-4.732)	(-4.676)	(-2.282)	(-2.260)	(-3.961)	(-3.995)
Industry MTB	0.297*	0.294*	0.254	0.230	0.291	0.288
	(1.719)	(1.702)	(1.072)	(0.961)	(1.066)	(1.052)
SOE	1.307***	1.309***	-	-	-	-
	(13.498)	(13.507)	-	-	-	-
Annual Indicators	Included	Included	Included	Included	Included	Included
Industry Indicators	Included	Included	Included	Included	Included	Included
Wald Chi-Squared	1,142.0	1,143.0	456.2	447.4	434.5	434.0
(p-value)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Pseudo R-squared	0.0981	0.0983	0.0906	0.0916	0.0874	0.0875

Table 6
Impact of impending political promotions and IPO activity conditional upon the expected disruption in political connections

This table presents select coefficients from various estimations of the following hazard model for the IPO listing decisions for a sample of exchange eligible firm-year observations drawn over the sample period 2001 to 2008:

$$h(t)=h_0(t)\exp(\alpha + \beta_1 Promotion_{jt} + \beta_2\, Promotion_{jt}{*}Expected\ Disruption_{jt} + \beta_3 Growth\ in\ GDP_{jt} + \beta_4 Per\ Capita\ GDP_{jt} + \beta_5 Firm\ Size_{ijt} + \beta_6 Labor\ Intensity_{ijt} + \beta_7 Return\ on\ Sales_{ijt} + \beta_8 Leverage_{ijt} + \beta_9 Sales\ Growth_{ijt} + \beta_{10} Free\ Cash\ Flow_{ijt} + \beta_{11} Industry\ MTB_{it} + \beta_{12} SOE_{ijt} + \text{Annual Indicators} + \text{Industry Indicators} + \varepsilon_{ijt})$$

In this model, the dependent variable is the firm's decision to engage in an IPO in year t. The indicator variable $Promotion_{jt}$ equals one if year t corresponds to the year prior to or the year of a political promotion event in province j, zero otherwise. The variable $Expected\ Disruption_{jt}$ reflects one of three empirical proxies for the expected impact that the promotion event has on political connections: whether the promoted politician remains in the province ($Remain_{jt}$), whether the politician's successor is elevated from within or outside the province ($Internal_{jt}$), and the length of tenure of the promoted official in his current position ($Tenure_{jt}$). The indicator variable $Remain_{jt}$ equals one if the politician is promoted from provincial governor to party secretary in the same province, zero otherwise. The indicator variable $Internal_{jt}$ equals one if the politician's successor is elevated from the affected province, zero otherwise. $Tenure_{jt}$ is the log of the number of year's the politician served in his current position. $Growth\ in\ GDP_{jt}$ and $Per\ Capita\ GDP_{jt}$ measure the growth in and level of province j's gross domestic product in year t, respectively $Firm\ size_{ijt}$ is natural logarithm of the firm's total assets, $Labor\ Intensity_{ijt}$ is the natural logarithm of one plus the ratio of the firm's total number of employees to total sales (in million RMB), $Return\ on\ sales_{ijt}$ is net income scaled by total revenue, $Leverage_{ijt}$ is the ratio of the firm's total debt to total assets, $Sales\ Growth_{ijt}$ in the one-year growth in total assets, and $Free\ Cash\ Flow_{ijt}$ is the firm's cash flow from operations minus capital expenditures scaled by total assets in year t. SOE_{ijt} is an indicator variable equal to one if the firm is a state-owned entity. $Industry\ MTB_{it}$ is the industry median market-to-book ratio for firm i at the beginning of year t. All firm-level independent variables are measured at the end of the preceding year. All models include an array of annual and industrial fixed effects. Standard errors are clustered at the firm level. The superscripts ***, **, * denote statistical significance at the one, five and ten percent level, respectively, using a two-tailed test.

	Full Sample (n=28,152)	State-Owned Firms (n=5,423)	Non-State-Owned Firms (n=22,729)
Panel A: Departure of politician			
Promotion	0.694***	0.375**	0.855***
	(5.933)	(2.310)	(4.516)
Promotion*Remain	-0.511***	-0.164	-0.744***
	(-3.152)	(-0.712)	(-3.118)
Panel B: Internal vs. External Successor			
Promotion	0.531***	0.203	0.640***
	(4.959)	(1.271)	(4.255)
Promotion*Internal	-0.199	0.518**	-0.988***
	(-1.073)	(2.112)	(-2.664)
Panel C: Length of tenure in office			
Promotion	-0.815*	-0.813	-1.014
	(-1.753)	(-1.273)	(-1.278)
Promotion*Tenure	0.820***	0.745*	0.938**
	(2.991)	(1.842)	(2.127)

Table 7
Pre-offering financial characteristics of promotion and non-promotion period IPO firms

This table presents descriptive statistics on our sample of 440 Chinese domestic industrial firms which engaged in an initial public offering over the period 2001 to 2008, conditional upon whether the timing of the offering occurred in the year preceding a provincial-level political promotion event. *Firm size* is natural logarithm of the firm's total assets, *Return on sales* is net income scaled by total revenue, *Leverage* is the ratio of the firm's total debt to total assets, *Cash Flow Operations* is the firm's operating cash flow scaled by total assets, *Investment* is the firm's level of capital expenditures scaled by total assets, *Free Cash Flow* is the firm's cash flow from operations minus capital expenditures scaled by total assets, *Sales Growth* is one-year growth in total revenue, and *Subsidies* is the total amount of subsidy income received by the firm scaled by total revenue. All variables are measured in the year before the initial public offering, and defined in the Appendix. Data on government subsidies is only available for 264 IPO firms (114 state-owned; 150 non-state-owned firms). Panels A, B and C present this evidence for the full sample of IPOs, sample of state-owned firms and sample of non-state-owned firms, respectively. The superscripts ***,**,* indicates that the difference in mean (median) realizations between promotion period and non-promotion period IPO firms are significantly different from each other at the one, five and ten percent level of significance, respectively, using a t-test of means (signed rank wilcoxon test).

	Promotion Period IPOs		Non-Promotion Period IPOs		Difference (Promotion- NonPromotion)	
	Mean	Median	Mean	Median	Mean	Median
Panel A: Full Sample						
Firm Size	13.099	12.931	13.140	12.942	-0.041	-0.011
Return on Sales	0.133	0.110	0.137	0.113	-0.005	-0.003
Leverage	0.552	0.565	0.529	0.551	0.023**	0.014*
Cash Flow Operations	0.146	0.102	0.162	0.104	-0.016	-0.002
Investment	0.007	0.000	0.020	0.000	-0.013**	0.000
Free Cash Flow	0.114	0.080	0.091	0.085	0.023**	-0.005
Sales Growth	0.245	0.220	0.218	0.183	0.027	0.036
Subsidies	0.009	0.000	0.005	0.000	0.004*	0.000
Number of IPOs	185		255			
Panel B: State-Owned Firms						
Firm Size	13.389	13.316	13.394	13.174	-0.005	0.143
Return on Sales	0.134	0.106	0.128	0.100	0.006	0.006
Leverage	0.557	0.577	0.542	0.576	0.015	0.000
Cash Flow Operations	0.165	0.106	0.174	0.099	-0.009	0.007
Investment	-0.002	0.000	0.016	0.000	-0.018**	0.000
Free Cash Flow	0.122	0.080	0.080	0.083	0.042**	-0.002
Sales Growth	0.204	0.186	0.202	0.166	0.002	0.021
Subsidies	0.010	0.000	0.003	0.000	0.007*	0.000
Number of IPOs	77		129			
Panel C: Non-State-Owned Firms						
Firm Size	12.892	12.749	12.881	12.775	0.012	-0.026*
Return on Sales	0.132	0.115	0.147	0.126	-0.015*	-0.010**
Leverage	0.548	0.552	0.515	0.526	0.033**	0.027**
Cash Flow Operations	0.133	0.098	0.151	0.120	-0.018	-0.022
Investment	0.013	0.000	0.024	0.000	-0.010	0.000
Free Cash Flow	0.108	0.082	0.102	0.089	0.006	-0.007*
Sales Growth	0.274	0.264	0.235	0.189	0.039	0.074
Subsidies	0.009	0.000	0.007	0.000	0.002	0.000
Number of IPOs	108		126			

Table 8
Post-IPO financial performance of Chinese IPOs conditional upon the offering's proximity to impending political promotion event

This table presents evidence on the post-IPO performance of Chinese industrial IPOs conditional upon the timing of the offering. Panel A presents mean performance statistics. Panel B presents select coefficients from various estimations of the following cross-sectional model:

$$\textit{Firm Performance}_{ijt} = \alpha + \beta_1 \textit{Promotion}_{jt} + \beta_2 \textit{Firm Size}_{ijt} + \beta_3 \textit{Scaled Proceeds}_{ijt} + \beta_4 \Delta \textit{Leverage}_{ijt} + \beta_5 \textit{Market-to-Book}_{ijt} + \beta_6 \textit{Age}_{ijt} + \text{Annual Indicators} + \text{Industry Indicators} + \varepsilon_{ijt}$$

In this model, the dependent variable captures a measure of firm performance following the firm's initial public offering. These measures include the three year average return on assets, three year growth in revenue, and three year growth in earnings. The indicator variable $Promotion_{jt}$ equals one if year t corresponds to the year prior to or the year of a political promotion event in province j, zero otherwise. *Firm size* is natural logarithm of the firm's total assets, *Scaled Proceeds* is the ratio of proceeds raised in the IPO scaled by total assets prior to the offering, *Market-to-Book* is the natural logarithm of plus the ratio of the firm's market value of equity scaled by book value of equity, Δ*Leverage* is the ratio of the change in the firm's total debt to total assets around the IPO, and *Age* is the natural logarithm of the number of years since the firm was incorporated. All independent variables are measured at the end of the year of the offering (i.e., post-IPO). All variables are defined in the appendix. All models include an array of annual and industrial fixed effects. The superscripts ***,**,* denote statistical significance at the one, five and ten percent level, respectively, using a two-tailed test.

Panel A: Future financial performance conditional upon timing of IPO

	All IPOs (n=440)			State-Owned IPOs (n=206)			Non-State-Owned IPOs (n=234)		
	3 year Return on Assets	3 year Sales Growth	3 year Earnings Growth	3 year Return on Assets	3 year Sales Growth	3 year Earnings Growth	3 year Return on Assets	3 year Sales Growth	3 year Earnings Growth
Non-Promotion Period	0.053	1.653	0.942	0.044	1.607	0.799	0.062	1.700	1.087
Promotion Period	0.055	1.538	0.912	0.047	1.490	0.822	0.059	1.574	0.976
Difference (P-NP)	0.002	-0.115	-0.03	0.003	-0.117	0.023	-0.003	-0.126	-0.111
(t-statistic)	(0.54)	(-0.88)	(-0.15)	(0.69)	(-0.61)	(0.06)	(-0.47)	(-0.72)	(-0.63)

Panel B: Multivariate analysis of future financial performance

	All IPOs (n=440)			State-Owned IPOs (n=206)			Non-State-Owned IPOs (n=234)		
	3 year Return on Assets	3 year Sales Growth	3 year Earnings Growth	3 year Return on Assets	3 year Sales Growth	3 year Earnings Growth	3 year Return on Assets	3 year Sales Growth	3 year Earnings Growth
Promotion	-0.004	-0.349***	-0.383*	-0.002	-0.285	-0.194	-0.010**	-0.401**	-0.558**
	(-1.292)	(-2.643)	(-1.851)	(-0.439)	(-1.473)	(-0.568)	(-2.232)	(-2.070)	(-2.108)
Firm Size (Post)	0.015***	0.078	0.513***	0.018***	0.093	0.647***	0.015***	0.002	0.324
	(6.468)	(0.861)	(3.606)	6.154	(0.803)	(3.159)	(3.906)	(0.013)	(1.379)
Scaled Proceeds	0.036***	0.908***	1.584***	0.026***	0.582*	1.065*	0.049***	1.203***	1.936***
	(6.367)	(4.014)	(4.457)	2.994	(1.705)	(1.768)	(6.811)	(3.780)	(4.451)
ΔLeverage	-0.125***	2.250***	0.419	-0.114***	2.512***	0.973	-0.132***	2.467***	0.472
	(-10.083)	(4.533)	(0.538)	-6.406	(3.523)	(0.773)	(-7.958)	(3.358)	(0.470)
Market-to-Book	0.001	0.387***	0.393***	0.004*	0.430***	0.553***	-0.002	0.376***	0.300***
	(0.725)	(6.483)	(4.197)	1.880	(4.595)	(3.351)	(-1.224)	(4.578)	(2.673)
Age	0.005	0.154	0.155	0.009*	0.172	0.033	0.000	0.107	0.233
	(1.498)	(1.166)	(0.746)	1.681	(0.768)	(0.085)	(0.033)	(0.624)	(0.996)
Constant	-0.254***	-2.354	-12.599***	-0.322***	-2.314	-14.844***	-0.295***	-2.557	-10.654**
	(-5.002)	(-1.153)	(-3.929)	-4.767	(-0.856)	(-3.113)	(-3.616)	(-0.707)	(-2.154)
Annual Indicators	Included	Included	Included	Included	Included	Included	Included	Included	Included
Industry Indicators	Included	Included	Included	Included	Included	Included	Included	Included	Included
Adjusted R^2	0.274	0.156	0.099	0.290	0.166	0.118	0.336	0.160	0.0939

Table 9
Post-IPO stock price performance of Chinese IPOs conditional upon the offering's proximity to impending political promotion event

This table presents evidence on the post-IPO performance of Chinese industrial IPOs conditional upon the timing of the offering. Panel A presents mean long-run market-adjusted return. Panel B presents select coefficients from various estimations of the following cross-sectional model:

$$\text{Market-adjusted Returns}_{ijt} = \alpha + \beta_1 Promotion_{jt} + \beta_2 Firm\ Size_{ijt} + \beta_3 Market\text{-}to\text{-}Book_{ijt} + \beta_4 Leverage_{ijt} + \beta_5 Age_{ijt}$$
$$+ \text{Annual Indicators} + \text{Industry Indicators} + \varepsilon_{ijt}$$

In this model, the dependent variable captures one, two and three year market-adjusted stock return performance following the firm's initial public offering, conditional upon whether the firm's IPO occurred in the year preceding a provincial level political promotion event. The indicator variable $Promotion_{jt}$ equals one if year t corresponds to the year prior to or the year of a political promotion event in province j, zero otherwise. *Firm size* is natural logarithm of the firm's total assets, *Market-to-Book* is the ratio of the firm's market value of equity scaled by book value of equity, *Leverage* is the ratio of the firm's total debt to total assets, and *Age* is the natural logarithm of the number of years since the firm was incorporated. All independent variables are measured at the end of the year of the offering (i.e., post-IPO). All variables are defined in the appendix. All models include an array of annual and industrial fixed effects. The superscripts ***, **, * denote statistical significance at the one, five and ten percent level, respectively, using a two-tailed test.

Panel A: Market-adjusted return conditional upon timing of IPO

	All IPOs (n=440)			State-Owned IPOs (n=206)			Non-State-Owned IPOs (n=234)		
	CAR12	CAR24	CAR36	CAR12	CAR24	CAR36	CAR12	CAR24	CAR36
Non-Promotion Period	-0.097	-0.096	-0.152	-0.164	-0.217	-0.271	-0.028	0.028	-0.030
Promotion Period IPOs	-0.288	-0.240	-0.147	-0.241	-0.298	-0.292	-0.321	-0.199	-0.044
Difference	-0.191***	-0.144***	0.005	-0.077	-0.081	-0.021	-0.293***	-0.227***	-0.014
(t-statistic)	(-5.02)	(-2.84)	(-0.07)	(-1.57)	(-1.25)	(-0.24)	(-5.22)	(-3.03)	(-0.15)

Panel B: Multivariate analysis of future return performance

	All IPOs (n=440)			State-Owned IPOs (n=206)			Non-State-Owned IPOs (n=234)		
	CAR12	CAR24	CAR36	CAR12	CAR24	CAR36	CAR12	CAR24	CAR36
Promotion	-0.113***	-0.143***	-0.155**	-0.091*	-0.083	-0.041	-0.143**	-0.211**	-0.257**
	(-2.821)	(-2.613)	(-2.183)	(-1.873)	(-1.238)	(-0.455)	(-2.098)	(-2.399)	(-2.320)
Firm Size (Post)	0.069***	0.091***	0.087**	0.087***	0.123***	0.128***	0.049	0.052	0.026
	(3.492)	(3.364)	(2.468)	(3.925)	(3.992)	(3.131)	(1.323)	(1.100)	(0.427)
Market-to-Book	0.247***	0.220**	0.088	0.275***	0.193	-0.020	0.239**	0.313**	0.250
	(3.688)	(2.405)	(0.744)	(3.037)	(1.540)	(-0.118)	(2.334)	(2.376)	(1.502)
Leverage (Post)	-0.375***	-0.510***	-0.732***	-0.327**	-0.523**	-0.515*	-0.340	-0.340	-0.735**
	(-2.805)	(-2.798)	(-3.089)	(-2.002)	(-2.315)	(-1.722)	(-1.570)	(-1.224)	(-2.093)
Age	-0.001	0.020	0.029	0.016	0.058	-0.006	-0.014	-0.021	0.019
	(-0.022)	(0.388)	(0.428)	(0.304)	(0.783)	(-0.059)	(-0.264)	(-0.296)	(0.220)
Annual Indicators	Included	Included	Included	Included	Included	Included	Included	Included	Included
Industry Indicators	Included	Included	Included	Included	Included	Included	Included	Included	Included
Adjusted R^2	0.241	0.174	0.116	0.237	0.132	0.0899	0.251	0.256	0.213

Table 10
IPO Underpricing conditional upon the offering's proximity to impending political promotion

This table presents select coefficients from various estimations of the following cross-sectional model:

$$Underpricing_{ijt} = \alpha + \beta_1 Promotion_{jt} + \beta_2 Proceeds_{ijt} + \beta_3 Days_{ijt} + \beta_4 Ownership_{ijt} + \beta_5 Shanghai\ Exchange_{ijt} + \text{Annual Indicators} + \text{Industry Indicators} + \varepsilon_{ijt}$$

The dependent variable, $Underpricing_{ijt}$, is the first day raw return to the security. The indicator variable $Promotion_{jt}$ equals one if year t corresponds to the year prior to or the year of a political promotion event in province j, zero otherwise. $Proceeds_{ijt}$ is the natural logarithm of the proceeds raised by the IPO, $Days_{ijt}$ is the logarithm of the number of days between the IPO and the exchange listing, $Ownership_{ijt}$ is the percentage ownership retained by the largest shareholder following the IPO, and $Shanghai\ Exchange_{ijt}$ is an indicator variable equal to one if the firm listed on the Shanghai Stock Exchange. All variables are defined in the appendix. All models include an array of annual and industrial fixed effects. The superscripts ***, **, * denote statistical significance at the one, five and ten percent level, respectively, using a two-tailed test. Significance of differences in median realizations based upon Signed-rank wilcoxon test.

Panel A: IPO Underpricing

	All IPOs (n=440)		State-Owned IPOs (n=206)		Non-State-Owned IPOs (n=234)	
	Mean	Median	Mean	Median	Mean	Median
Non-Promotion Period	1.080	0.833	1.186	0.902	0.971	0.704
Promotion Period	1.386	1.214	1.141	1.023	1.561	1.399
Difference (P-NP)	0.306***	0.381***	-0.045	0.121	0.590***	0.695***
(t-statistic)	(3.435)	(4.840)	(-0.360)	(1.074)	(4.740)	(5.538)

Panel B: Multivariate analysis of IPO underpricing

	All IPOs			Non-Capped IPOs		
	All IPOs (n=440)	State-Owned IPOs (n=206)	Non-State-Owned IPOs (n=234)	All IPOs (n=319)	State-Owned IPOs (n=125)	Non-State-Owned IPOs (n=194)
Promotion	0.274***	-0.030	0.568***	0.470***	0.149	0.687***
	(3.184)	(-0.252)	(4.395)	(4.480)	(1.007)	(4.652)
Proceeds	-0.410***	-0.331***	-0.560***	-0.311***	-0.173**	-0.555***
	(-6.856)	(-4.705)	(-5.077)	(-4.333)	(-2.106)	(-4.453)
Days	0.304	-0.210	0.495	0.054	-0.737	0.551
	(1.083)	(-0.555)	(1.120)	(0.163)	(-1.593)	(1.097)
Ownership	-0.348*	-0.801***	0.076	-0.100	-0.713**	0.232
	(-1.878)	(-3.113)	(0.291)	(-0.431)	(-2.049)	(0.752)
Shanghai Exchange	-0.395***	-0.329**	-0.464**	-0.486***	-0.571***	-0.336
	(-3.586)	(-2.093)	(-2.531)	(-3.633)	(-3.261)	(-1.378)
Constant	6.841***	7.433***	7.485***	5.361***	5.913***	6.935***
	(7.944)	(6.753)	(4.995)	(5.117)	(4.277)	(4.173)
Annual Indicators	Included	Included	Included	Included	Included	Included
Industry Indicators	Included	Included	Included	Included	Included	Included
Adjusted R^2	0.249	0.227	0.304	0.255	0.169	0.303

Table 11
Ownership retained by largest shareholder conditional upon the offering's proximity to impending political promotion

This table presents select coefficients from various estimations of the following cross-sectional model:

$$Ownership_{ijt} = \alpha + \beta_1 Promotion_{jt} + \beta_2 Firm\ Size_{ijt} + \beta_3 Sales\ Growth_{ijt} + \beta_4 Leverage_{ijt} + \beta_5 Age_{ijt} + \beta_6 Shanghai\ Exchange_{ijt} + \beta_5 Underpricing_{ijt} + \text{Annual Indicators} + \text{Industry Indicators} + \varepsilon_{ijt}$$

The dependent variable, $Ownership_{ijt}$, is the percentage of ownership retained by the controlling shareholder following the IPO. The indicator variable $Promotion_{jt}$ equals one if year t corresponds to the year prior to or the year of a political promotion event in province j, zero otherwise. *Firm size* is natural logarithm of the firm's total assets, *Sales Growth* is one-year growth in total revenue, *Leverage* is the ratio of the firm's total debt to total assets, *Age* is the natural logarithm of the number of years since the firm was incorporated, $Shanghai\ Exchange_{ijt}$ is an indicator variable equal to one if the firm listed on the Shanghai Stock Exchange and *Underpricing* in the first day raw return to the company's security. All firm-level characteristics variables, except IPO venue and underpricing, are measured at the end of the year before the offering. All variables are defined in the appendix. All models include an array of annual and industrial fixed effects. The superscripts ***,**,* denote statistical significance at the one, five and ten percent level, respectively, using a two-tailed test.

Panel A: Post IPO ownership

	All IPOs (n=440)		State-Owned IPOs (n=206)		Non-State-Owned IPOs (n=234)	
	Mean	Median	Mean	Median	Mean	Median
Non-Promotion Period	0.418	0.418	0.474	0.488	0.362	0.367
Promotion Period	0.419	0.415	0.463	0.462	0.389	0.394
Difference (P-NP)	0.001	-0.003	-0.011	-0.026	0.027	0.027
(t-statistic)	(0.09)	(-0.04)	(-0.51)	(-0.49)	(1.61)	(1.55)

Panel B: Multivariate analysis of post-IPO ownership

	All IPOs (n=440)	State-Owned IPOs (n=206)	Non-State-Owned IPOs (n=234)
Promotion	-0.007	-0.028	0.043*
	(-0.437)	(-1.241)	(1.819)
Firm Size	0.040***	0.018	0.047***
	(3.417)	(1.126)	(2.672)
Sales Growth	-0.025	-0.063*	0.009
	(-0.999)	(-1.694)	(0.268)
Leverage	0.050	0.090	-0.025
	(0.861)	(1.082)	(-0.311)
Age	-0.049***	-0.098***	-0.004
	(-3.343)	(-4.239)	(-0.197)
Shanghai Exchange	0.052**	0.063*	-0.021
	(2.210)	(1.724)	(-0.628)
Underpricing	-0.002	-0.023*	0.006
	(-0.255)	(-1.730)	(0.568)
Constant	0.008	0.422*	-0.450*
	(0.049)	(1.952)	(-1.856)
Annual Indicators	Included	Included	Included
Industry Indicators	Included	Included	Included
Adjusted R^2	0.121	0.147	0.0570

Table 12
Post-IPO use of proceeds conditional upon timing of the IPO

This table presents select coefficients from various estimations of the following cross-sectional logistic model:

$$Prob(Switch_{ijt}=1) = \text{Logit}(\alpha + \beta_1 Promotion_{jt} + \beta_2 Firm\ Size_{ijt} + \beta_3 Market\text{-}to\text{-}Book_{ijt} + \beta_4 Leverage_{ijt} + \text{Annual Indicators} + \text{Industry Indicators} + \varepsilon_{ijt})$$

The dependent variable, $Switch_{ijt}$, is an indicator variable equal one if the company switched the intended use of proceeds specified in offering prospectus within three years after the IPO, zero otherwise. The indicator variable $Promotion_{jt}$ equals one if year t corresponds to the year prior to or the year of a political promotion event in province j, zero otherwise. *Firm size* is natural logarithm of the firm's total assets, *Market-to-Book* is the ratio of the firm's market value of equity scaled by book value of equity, *Leverage* is the ratio of the firm's total debt to total assets, and *Age* is the natural logarithm of the number of years since the firm was incorporated. All independent variables are measured at the end of the year of the offering (i.e., post-IPO). All variables are defined in the appendix. All models include an array of annual and industrial fixed effects. The superscripts ***, **, * denote statistical significance at the one, five and ten percent level, respectively, using a two-tailed test.

Panel A: Percentage of firms who switch the intended use of IPO proceeds after the IPO

	All IPOs (n=440)	State-Owned IPOs (n=206)	Non-State-Owned IPOs (n=234)
Non-Promotion Period	0.537	0.481	0.591
Promotion Period	0.632	0.571	0.676
Difference (P-NP)	0.095*	0.090	0.085
(Chi-Squared)	(3.98)	(1.59)	(1.63)

Panel B: Multivariate analysis of post-IPO use of proceeds

	All IPOs (n=440)	State-Owned IPOs (n=206)	Non-State-Owned IPOs (n=234)
Promotion	0.548**	0.487	0.789**
	(2.277)	(1.321)	(2.029)
Size (Post)	-0.538	-0.776	0.145
	(-1.115)	(-1.149)	(0.144)
Market-to-book	-0.119	-0.195	-0.124
	(-1.483)	(-1.458)	(-1.144)
Leverage	0.947	0.771	0.116
	(0.761)	(0.409)	(0.053)
Age	-0.065	-0.088	0.008
	(-0.286)	(-0.222)	(0.027)
Proceeds	0.008	0.057	-0.375
	(0.015)	(0.077)	(-0.388)
GDP Growth	-1.425	-5.854*	1.193
	(-0.704)	(-1.683)	(0.408)
Market Development	-0.145	-0.147	-0.160
	(-1.102)	(-0.642)	(-0.872)
Constant	11.696**	17.013**	14.430
	(2.300)	(2.439)	(0.013)
Annual Indicators	Included	Included	Included
Industry Indicators	Included	Included	Included
Pseudo R-squared	0.0484	0.0938	0.0639

Table 13
Impact of impending political demotions on IPO activity

This table presents select coefficients from various estimations of the following hazard model for the IPO listing decisions for a sample of exchange eligible firm-year observations drawn over the sample period 2001 to 2008:

$$h(t)=h_0(t)\exp(\alpha + \beta_1 Promotion_{jt} + \beta_2 Demotion_{jt} + \beta_3 Growth\ in\ GDP_{jt} + \beta_4 Per\ Capita\ GDP_{jt} + \beta_5 Firm\ Size_{ijt}$$
$$+ \beta_6 Labor\ Intensity_{ijt} + \beta_7 Return\ on\ Sales_{ijt} + \beta_8 Leverage_{ijt} + \beta_9 Sales\ Growth_{ijt} + \beta_{10} Free\ Cash\ Flow_{ijt}$$
$$+ \beta_{11} Industry\ MTB_{it} + \beta_{12} SOE_{ijt} + \text{Annual Indicators} + \text{Industry Indicators} + \varepsilon_{ijt})$$

In this model, the dependent variable is the firm's decision to engage in an IPO in year t. The indicator variable $Promotion_{jt}$ equals one if year t corresponds to the year prior to or the year of a political promotion event in province j, zero otherwise. The indicator variable $Demotion_{jt}$ equals one if year t corresponds to the year prior to or the year of a political demotion event in province j, zero otherwise $Growth\ in\ GDP_{jt}$ and $Per\ Capita\ GDP_{jt}$ measure the growth in and level of province j's gross domestic product in year t, respectively $Firm\ size_{ijt}$ is natural logarithm of the firm's total assets, $Labor\ Intensity_{ijt}$ is the natural logarithm of one plus the ratio of the firm's total number of employees to total sales (in million RMB), $Return\ on\ sales_{ijt}$ is net income scaled by total revenue, $Leverage_{ijt}$ is the ratio of the firm's total debt to total assets, $Sales\ Growth_{ijt}$ in the one-year growth in total assets, and $Free\ Cash\ Flow_{ijt}$ is the firm's cash flow from operations minus capital expenditures scaled by total assets in year t. SOE_{ijt} is an indicator variable equal to one if the firm is a state-owned entity. $Industry\ MTB_{it}$ is the industry median market-to-book ratio for firm i at the beginning of year t. All firm-level independent variables are measured at the end of the preceding year. All models include an array of annual and industrial fixed effects. Standard errors are clustered at the firm level. The superscripts ***,**,* denote statistical significance at the one, five and ten percent level, respectively, using a two-tailed test.

	Full Sample (n=28,152)	State-Owned Firms (n=5,423)	Non-State-Owned Firms (n=22,729)
Promotion	0.522***	0.362**	0.554***
	(4.999)	(2.483)	(3.560)
Demotion	0.360**	0.451**	-0.028
	(2.034)	(2.175)	(-0.074)
Growth in GDP	-5.730***	-6.558***	-1.971
	(-4.431)	(-3.935)	(-0.943)
Per Capita GDP	-0.361***	-0.486***	-0.181
	(-4.100)	(-3.365)	(-1.367)
Firm Size	-0.701***	-0.813***	-0.637***
	(-10.502)	(-8.761)	(-6.966)
Labor Intensity	0.366***	0.222***	0.374***
	(6.726)	(2.644)	(5.433)
Return on Sales	6.214***	5.331***	6.858***
	(13.347)	(7.833)	(10.723)
Leverage	3.302***	2.714***	3.589***
	(13.219)	(7.434)	(10.678)
Sales Growth	1.245***	0.857***	1.556***
	(6.886)	(3.457)	(5.878)
Free Cash Flow	-1.390***	-1.023**	-1.622***
	(-4.833)	(-2.346)	(-4.095)
Industry MTB	0.298*	0.200	0.284
	(1.720)	(0.843)	(1.045)
SOE	1.280***	-	-
	(13.074)	-	-
Annual Indicators	Included	Included	Included
Industry Indicators	Included	Included	Included
Wald Chi-Squared	1,156	506.2	414.9
(p-value)	(0.000)	(0.000)	(0.000)
Pseudo R-squared	0.0977	0.0914	0.0842