Political Connections, Controlling Shareholders and Post-IPO Performance of China's Listed Companies*

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Abstract

We examine how political connections influence long term performance of the Chinese firms listed in the stock market. Developing Fan et al. (2007), our paper and investigates the effects of political connections on corporate performance under different types of controlling shareholders. We find that political connections actually bring about better performance of family-controlled firms in the long term, although the effects of political connections on corporate performance are insignificant in government-controlled firms. Furthermore, political connections in family-controlled firms are associated with better access to bank loans, tax rebates and government subsidies. We argue that political connections are not only the substitute for investor protections, but also even be a channel for government patronage under poor institutional environment.

JEL Classification: G12; G23; G28

Keywords: Political Connections; Long Term Post-IPO Performance; Investor Protection; Government Patronage

1. Introduction

The Chinese society is featured with Guanxi and the economy is centered with its strong government (Gold, Guthrie and Wank, 2002). Indeed, political connections are not unusual in the

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Chinese firms, including those listed in the stock market. The government shareholder tends to appoint its former officials to the firms under its control. For example, Yun Gongmin, the board president of Huadian Power International Co. Ltd, was the former vice governor of Inner Mogolia province from 1997 to 2001 and the former vice general secretary of the communist party in Shanxi province from 2003 to 2006. In contrast, the family-controlled firms also tend to connect to the government. Political connections are set up with gaining the membership of the congresses or with recruiting the retired government officials to be the board. For example, Nan Cunhui, the president of CHINT Electrics Co., Ltd, became a member of the National Congress in 2008. Do political connections benefit or damage corporate value in China? Do political connections play different roles in the firms with different controlling shareholders? If so, then why? Investigating the long-term performance of the firms listed in the Chinese stock market, this paper attempts to shed lights on understanding the relationship between political connections and corporate value under different types of controlling shareholders.

It has been a focal point in the literature to study the impacts of political connections on corporate value. Fisman (2001), Johnson and Mitten (2003), and Faccio (2006) find that political connection can increase the value of the firm. Bai et al. (2006), Li et al. (2006), and Chen et al. (2011) argue that political connections can be considered as an alternative mechanism for investor protections. Khwaja and Mian (2005) and Leuz and Oberholzer (2005) point out that firms with political connections can obtain preferential financing. Faccio (2006) and Adhikari et al. (2006) show that a good relationship with government can bring tax relief to the firm. Faccio et al. (2006) find that political connections are associated with government supports.

However, Shleifer and Vishny (1998) and Faccio et al. (2006) argue that political connection may damage firm value. In the seminal study of Fan, Wong and Zhang (2007), it is found that these Chinese firms with politically connected CEOs significantly underperform those without politically connected CEOs, in terms of three-year post-IPO stock returns. The destruction of value by political connections is also evidenced by poorer growth of three-year post-IPO earnings and sales as well as returns on sales. The above findings of Fan et al. (2007) are based on the empirical analyses of the 790 Chinese firms listed during the period from 1993 to 2001.

【Insert Figure 1-Figure 3 about here】

In this paper, we examine the three-year post-IPO performance of the firms listed on the

Shanghai or Shenzhen Stock Exchanges during the period from 2001 to 2008, as there are many family-controlled firms to get listed in the Chinese stock market during this period and we need to use the three-year share data. Therefore, our sample is composed both of government-controlled and of family-controlled firms, different from Fan et al. (2007). Furthermore, our data covers not only CEOs, but also board members. Following Faccio (2006), we further build up the database of political connections, including not only the former government officials as in Fan et al. (2007), but also the members of the congresses and the government consulting body etc as in Li et al. (2006) and Li et al. (2008). With this comprehensive dataset of the Chinese public listed firms, we find that political connections of family-controlled firms significantly bring about better long term performance after listing, but there is no significant relationship between political connections and long term stock returns in government-controlled firms. These findings support the hypothesis of investor protection for family-controlled firms, but not the hypothesis of social burdens for government-controlled firms. We argue that government ownership can replace the influence of political connections on corporate behaviors, and thus political connections of senior executives may not significantly increase the burdens of the government-controlled firms. Examining the hypothesis of government patronage, we further find that political connections are associated with easier access to bank loans, longer term loans, higher tax rebates, and more government subsidies in family-controlled firms.

This paper makes the following contributions to the literature. First, our paper develops Fan et al. (2007) with recent data and family-controlled firms. We argue that the decision-making power of the general manager in China's listed firms is quite different from that of CEO in Anglo-American companies. On the basis of China's "Company Law", the president or the chairman of the board is the de facto top leader of the firm with usually holding the post both of the company's legal representative and of the general secretary of communist party committee in the firm. The board president tends to have greater administrative power than the general manager in many cases. A more comprehensive study is thus demanded after Fan et al. (2007). Furthermore, in the light of positive effect of political connection of family-controlled firms on corporate value (Chen et al., 2011; Li et al., 2008), we take property right into account in our analysis of the relationship between political connections and corporate performance. Based on the above aspects, our paper sheds some new lights on the effects of political connection on long term performance

with fresh evidences. Second, we discuss the complexity of social burdens on values of the government-controlled firms to enrich the literature of Lin et al. (1998) and Lin and Tan (1999). Our paper proposes the substitute effect of government ownership for political connections, which not only enrich the literature of political connections, but also brings together the literature of government ownership and that of political connections. Third, we develop the hypotheses of investor protection and government patronage with concrete empirical evidences, which support Allen et al. (2005), Bai et al. (2006), Li et al. (2006), and Chen et al. (2011). We argue that the Chinese market is twisted by the helping hand from the government, but the preferential treatment of the government is not only for the government-controlled firms, but also for some family-controlled firms if they are well politically connected.

The rest of this paper is organized as follows. Section 2 reviews the literature and develops the research hypotheses. Section 3 defines the sample, variables, and empirical models employed. Section 4 examines the relationship between political connections and post-IPO long term performance with different controlling shareholders. Section 5 further examines how political connections can help to improve the stock returns in family-controlled firms. Section 6 presents our robustness tests. Section 7 concludes.

2. Hypotheses of political connections

There has been a growing stream of literature on the determinants, valuation, and consequences of political connection in both developed and emerging economies(e.g. Roberts, 1990; Fisman, 2001; Shleifer and Vishny, 1994; Faccio, 2006; Faccio et al., 2006; Boubakri et al., 2008; Chaney et al., 2011; Duchin and Sosyur, 2012; Kim et al., 2012), but the effects of political connections on firm value remain undecided. Faccio (2006) finds that share prices significantly rise up in a company when its owner gains a political post or sets up formal political connections. However, Faccio et al. (2006) and Boubakri et al. (2008) argue that politically connected firms financially perform worse than their non-connected peers.

In the study of political connections in China (e.g. Li et al., 2006; Fan et al., 2007; Li et al., 2008; Fan et al., 2008; Sun et al., 2011), Li et al. (2008) find that the memberships of communist party for the senior executives have a positive effect on the performance of private firms. Chen et

al. (2011) find that political connections have a positive effect on the performance of private firms. Studying the firms listed in the Shanghai or Shenzhen Stock Exchanges from 1993 to 2001, Fan et al. (2007), however, show that the accounting and stock performance of firms run by politically connected CEOs are worse than their unconnected counterparts in the newly privatized firms. Indeed, Ritter (1991) suggests that post-IPO long term performance is a good indicator of corporate performance, but there are sufficient studies of political connections on post IPO performance in the Chinese firms yet.

In this paper, we propose three testable hypotheses of social burdens, investor protection and government patronage to examine the effects of political connections in the Chinese firms.

2.2.1. Effect of social burdens

Some public listed firms were the former state-owned enterprises (SOEs) and the government remains as the controlling shareholder. The government has the utility function to pursue the goal of social welfare maximization instead of corporate value and therefore the firms under its control are pushed to share the burdens of the society. Lin et al. (1998) argue that, if a firm is controlled by the government shareholder, it has to bear the policy burdens, such as employment, social pension, and social stability. Li and Liang (1998) find that some firms with the government as their controlling shareholder retain redundant employees and invest in non-profitable social projects, which result in financial losses of the firms. Shleifer and Vishny (1994) argue that the government actually works through politicians and bureaucrats, who tend to pursue their personal goals. Chen et al. (2005) and Li and Zhou (2005) show that the promotion of the Chinese provincial-level officials' is significantly related to local economic performance. It means that the firms politically connected to or owned by the government may have to contribute to the local infrastructure constructions and other social work in order to improve the local economic performance, which serves for the interests of the local officials. Chang and Wong (2004) further find that the control over the management team by the communist party committee in a listed firm is detrimental to its profitability. Hung et al. (2012) argue that even going for listing is under the political considerations. Political connections may help the career development of the managers, but it consequently requires the firms to bear more social burdens at the cost of firm value. We

therefore have the following hypothesis of social burdens.

Hypothesis 1: political connections of government-controlled firms are negatively associated with post-IPO long term performance.

2.2.2. Effect of investor protection

Besides the social burdens, political connection may help family-controlled firms to stay away from the grabbing hand of the government and may assist family-controlled firms to compete against government-controlled firms as a fair play. That is, when the enforcement of rule of law is weak, political connections can be a substitute of investor protection. Indeed, La Porta et al. (1997 and 2002) argue that the countries with poorer investor protections have smaller and narrower capital markets and the firms in countries with better protection of minority shareholders are valued higher. Rule of man tends to result in poor investor protection. The Chinese economy is so far featured with weak legal system, poor enforcement of law and high entry barriers. Allen et al. (2005) argue that the firms with family ownership face predatory behaviors of local governments in China, like arbitrary charges of service fees and apportion of social works. The family-controlled firms therefore go in quest of informal mechanisms of investor protection, like political connections. Xin and Pearce (1996) find that, compared with other firms, the private firms more extensively use gift-giving to build up political connections. Li et al. (2006) and Chen et al. (2011) further show that private firms are more likely to establish political connections in regions where the market-oriented institutions are weaker, which is defined as heavier government intervention, more informal taxes and weaker legal enforcement. Li et al. (2008) find that if the firm owners have the membership of communist party, it helps to increase corporate profitability in the areas with poor investor protection. Bai et al. (2006) argue that political participation is an informal substitute for the formal protection of private property. That is, if a firm is owned or controlled by the shareholder who is politically connected, the government tends to reduce its political intervention and the magnitude of wealth grabbing is reduced. In addition, political connection can also help to bring fair competitions into being between government-controlled firms and family-controlled firms. Otherwise, the family-controlled firms are subject to high entry barriers and tend to be more difficult in obtaining the license. Hu and Shi (2009) and Deng et al.

(2012) argue that political connections facilitate private firms to implement the strategy of diversification, especially entering into the industries heavily regulated by the government, since new entries to other industries often require the tedious administrative approval by the government. We therefore have the following hypothesis of investor protection.

Hypothesis 2: political connections of family-controlled firms have a positive impact on post-IPO long term performance.

2.2.3. Effect of government patronage

Besides investor protection, we suggest that political connection can help private enterprises to gain financial resources, such as bank loan, tax rebates, and government subsidies in an economy with weak legal enforcement. Khwaja and Mian (2005) and Leuz and Oberholzer (2005) find that politically connected firms have easier accesses to bank loans. Li et al. (2008) show that the membership of Communist Party helps private entrepreneurs to obtain loans from banks or other state institutions. Fan et al. (2008) also suggest that the firms connected to corrupt bureaucrats enjoy advantages in access to bank loans, particularly to the long term loans, but this debt advantage is lost if the connected bureaucrats are charged for corruption and get arrested. Political connections may also help to reduce tax burdens. Faccio (2006) find that politically connected firms have higher asset-liability ratio and lower taxes than non-connected ones. Adhikari et al. (2006) suggest that tax-rate of politically-connected firms is lower in Malaysia. Wu et al. (2012) also find that private firms with politically connected managers enjoy tax benefits. Political connections may further help firms to obtain government subsidies. Faccio et al. (2006) suggest that during the financial distresses, the politically connected firms can get more financial aides from the government than non-connected firms. The firms with political connections tend to be bailed out by the government. However, Johnson and Mitten (2003) find that if the government lost the capabilities in providing preferential treatments during the economic crises, the politically-connected firms suffer more than their counterparts. Chan et al. (2012) argue that there are no financing constraints in the politically-connected firms with the supports from the government. We therefore have the following hypothesis of government patronage.

Hypothesis 3: political connections help family-controlled firms to obtain preferential

treatments from the government.

3. Sample, variables, and models

3.1. Sample

We study the share price data and financial data from January 2004 to December 2011 for the firms in China's stock market. That is, our sample includes the firms listed onto Shanghai or Shenzhen Stock Exchanges during the period from January 2001 to December 2008. Choosing this sample period is based on the fact that the data of political connections in the IPO prospectuses before 2001 is not well standardized. With the recent data, our sample can trace back the listing dates to the end of 2008 to study the three-year performance. Our sample only retains the firms whose ultimate controlling owners are local governments, the central government, individuals, or families.[2] As a result, our final sample consists of 561 companies.

Our database includes the financial data, market data, the data of ultimate controlling owners and the data of political connections of all board members. Annual financial data and monthly market microstructure data are taken from CSMAR database and WIND database, respectively. Ultimate controlling owner data, government subsidy data and political connection data of senior executives are manually collected. Required by the Chinese regulations body CSRC, there are sections of the "directors, supervisions and senior management personnel", "the controlling shareholder of the company, the ultimate owner, other promoters, and the shareholders holding more than 5% shares" in the IPO prospectus released after 2001. Different from USA, there are many studies to show that the Chinese independent non-executive directors do not play a significant role in corporate governance (Clarke, 2006; Chen et al., 2011) and the independent directors are therefore excluded in the reported tables, but we include these independent directors in our robustness examination.

【Insert Table 1 about here】

Table 1 reports the distribution of political connections in different years for the president, both

[2] For the purpose of comparison with Fan et al. (2007), these firms in the financial industry are involved to perform empirical analyses. However, the results of this paper hold when these firms are taken out from our sample.

the president and the general manager, and the directors of board, respectively[3]. With identifying the ultimate controlling owners, our sample is divided into government-controlled firms and family-controlled firms. As in the last row of table 1, there are 40.1% firms with the politically-connected board president in the total sample. If these board chairmen served in the central government, local governments or military or they are former or current members of NPC (National People's Congress) or of CPPCC (Chinese People's Political Consultative Conference), we take them as being politically connected. If taking the general managers into account, there are 46.2% firms to be politically connected. If taking the non-independent directors into account, there are 62.2% firms having political connections. As in the subsample of government-controlled firms, there are more board chairmen, general managers and non-independent directors to be politically connected, with the ratios of 41.0%, 46.4% and 65.4%, respectively. The proportions of connected chairmen, managers and directors in family-controlled firms are slightly lower than government-controlled firms, with the ratios of 39.0%, 45.9% and 58.2%, respectively.

Table 1 reports that political connections are not usual in both government-controlled and family-controlled firms. These political connections are established in different ways. Senior executives or board members of government-controlled firms are often directly or indirectly appointed by the government. Compared with government-controlled firms, political connections of family-controlled firm come either from the manipulated elections into the local or national people congress (NPC) or the government consulting body (CPPCC) or from appointing the former government officials into the firm.

3.2. Variables

【Insert Table 2 about here】

3.2.1 Dependent variables

Following Fan et al. (2007) and Chen et al. (2011), we measure share performance with the abnormal market-adjusted returns (CAR) and buy-and-hold returns (BHAR) of 12-month,

[3] The number of IPO firms in 2005 and 2008 is rare because, during the split share structure reform in 2005-2006 and the financial crisis in 2008, the CSRC implemented the rigid regulations of IPO to maintain stock market steady.

24-month and 36-month after being listed into the stock markets. The CAR and BHAR are adjusted by the equally weighted indices of Shanghai and Shenzhen Stock Exchanges in all our analysis. If the adjustment changes to the value weighted indices, all our results remain almost the same. Table 2 presents the definitions of variables.

Our paper also examines corporate performance with accounting indicators, measured with earnings growth, sales growth, and the change in return on asset (ROA). However, Aharony et al. (2000) and Fan et al. (2007) argue that there are financial packaging and earning managements in China. To reduce the effect of accounting manipulations, we therefore adjust the above three accounting measures with the corresponding industry median value. Under the industrial classification follows the Guidelines of the Listed Company Industry Classification issued by the China Securities Regulatory Commission in 2001, our sampled companies are classified into 21 industrial sectors.

Following Khwaja and Mian (2005), Fan et al. (2008), Faccio et al. (2006), and Adhikari et al. (2006), we further examine the data of post-IPO three-year loan sizes, loan maturity, effective tax rates, and government subsidies. The real tax burden is approximated by effect tax rates. As a proxy of real tax burden of the firm, the variables of real effective tax rates capture tax preference, tax base preference, and tax mount preference. Porcanol (1986), Stickney and McGee (1982), and Shevlin (1987) suggest different methods to calculate the real effective tax rate and we correspondingly work out the variables of TAX1, TAX2 and TAX3 in table 2. In addition, because value-added taxes included in government subsidy are drawn up by central government, local government cannot enjoy a big discretion space. Thus, we have value-added taxes removed from government subsidy adjusted by firm income and total assets, respectively.

3.2.2. Political connection

In the literature, political connections are often approximated by the political backgrounds of senior executives or/and board members. Chen et al. (2011) take the ratio of the number of politically connected directors to the total number of all the directors in the board as political connection. However, the numbers of political connections do not matter much, but it does matter whether the firm has the connection and how effective the connection. Fan et al. (2007) define the

political connections as whether the firm chief executive officer (CEO) has the political background. However, there are not CEOs in China's standard corporate management, but the general managers. Well, the board president of the government-controlled firms tends to be the Secretary of the Communist Party in the government-controlled firms and the decision power normally stays with the party. In the family-controlled firms, the boss takes to the role of the board president instead of the general manager and the boss tends to make the decision with its large sizes of shares. Actually, the board president tends to get involved in the day-to-day operations and management of the firm, as the representative of the legal person. Therefore, it is in need to examine whether the political backgrounds of board chairmen influence corporate performance. Besides it, our paper also examines the impact of political connections with the data of the general managers and the directors of board in the robustness tests.

3.2.3. Other variables

The choice of control variables follows Fan et al. (2007) to use the following variables, including *Leverage* (financial leverage), *Stateshare* (the percentage of state share), *Lnasset* (the natural log of total assets), *Market_Book* (the market-to-book ratio) and *Regulated* (industry dummy variable).

3.3. Models

The relationship between political connections and post-IPO long term performance is examined by the following model.

$$CARi / Finances = \alpha_0 + \beta_1 POL + \beta_2 Leverage + \beta_3 Stateshare + \beta_4 Lnasset + \beta_5 Market\_Book + \beta_6 Regulated + \varepsilon, \quad (1)$$

where *CARi* (i=12, 24, 36) represents the 12, 24, and 36-month cumulative abnormal equally weighted adjusted returns[4], respectively. *Finances* refer to financial indicators, including earnings growth (ΔReturn), sales growth (ΔSALE), the change of ROA, the total loan *Total_Loan*, the loan maturity *Loan_Term*, the real effective tax-rate *TAX1-TAX3*, and government subsidy

[4] The conclusion of this paper holds when CARs are scaled by value weighted market return of Shanghai and Shenzhen stock exchanges.

Subsidy1-Subsidy4. *POL* is the abbreviation of political connections.

In Section 5, we examine how different controlling shareholders influence the relationship between political connection and post-IPO long term performance by the following model.

$$CAR36 = \alpha_0 + \beta_1 POL + \beta_2 Private + \beta_3 POL * Private + \beta_4 Leverage + \beta_5 Stateshare + \beta_6 Lnasset + \beta_7 Market\_Book + \beta_8 Regulated + \varepsilon, \quad (2)$$

where the property right dummy variable *Private* takes 1 if the ultimate control owner is an individual or family, and 0 otherwise. Shleifer (1998) argues that "private ownership should generally be preferred to public ownership when the incentives to innovate and to contain costs must be strong." Using various net-income-based measures, Dewenter and Malatesta (2001) show that government-owned firms are significantly less profitable than privately owned firms. Jefferson and Su (2006) provide the evidence that the transformation of state-owned enterprises into shareholding companies contributes to overall increases in both productivity and innovation activities. Thus, we shall expect that the property dummy variable *Private* is positively correlated with the firm value.

*POL*Private* represents interaction term between the dummy of political connection and the dummy of property right. This interaction term help to examine whether political connections are beneficial to protect private property right. If political connections brings about investor protections, we shall expect the regression coefficient of *POL*Private* to be positive.

Furthermore, we adopt the following model to examine whether political connection can substitute for poor institutional environment.

$$CAR36 = \alpha_0 + \beta_1 POL + \beta_2 Institution + \beta_3 POL * Institution + \beta_4 Leverage + \beta_5 Stateshare + \beta_6 Lnasset + \beta_7 Market\_Book + \beta_8 Regulated + \varepsilon, \quad (3)$$

where *Institution* represents institutional dummy variables, including the marketization index *Index_Mar*, the government intervention index *Index_Gov* and the legal environment index *Index_Law*. Following the literature of Chen et al.(2011) and Fan et al. (2013), the marketization level *Index_Mar* is calculated with total marketization score, the government intervention level *Index_Gov* is calculated with the relation score between the government and firms, and the legal institution level *Index_Law* is calculated with the score of intermediary organizations and legal institutions developed by Fan et al. (2010). *POL*Institution* represents the interaction term

between the dummy of political connection dummy and the institution dummy, which helps to examine the effects of political connection on post-IPO performance in poor institutional regions. If political connections can improve the value of family-controlled firms under the poor institutional settings, the sign of the variable of *POL*Institution* shall be expected to be positive.

4. Political Connection and Long Term Performance

In this section, we show the charts of share returns, report the descriptive statistics, and then perform econometric analysis to examine the relationship between political connections and post-IPO long term performance.

4.1. Data description

【Insert Figure 1, Figure 2 and Figure 3 about here】

The above three figures are drawn on the post-IPO cumulative abnormal returns (CARs) adjusted by equally-weighted market return from 1 month to 36 months for all the sampled firms, for the firms with political connections and for the firms without political connections. Figure 1 represents the CARs of all the sampled firms, figure 2 represents the government-controlled firms and figure 3 represents the family-controlled firms.

In Figure 1, during the period from 1 month to 36 months, we find that the CAR of all the sampled firms decreases by about 13%, that the CAR of politically connected firms decreases by almost 8%, and that the CAR of non-connected firms decreases by about 17%. Generally speaking, the long term performance of politically-connected firms is superior to non-connected firms, which is significantly different from Fan et al. (2007). In Figure 2, we find that the long term returns of government-controlled firms drop by almost 15%, in which the three-year CAR of politically connected firms decrease by almost 19% and the three-year returns of non-connected firms decrease by nearly 13%. In Figure 3, we find that the three-year returns of family-controlled firms decrease by about 10%, but the politically-connected firms increase by about 5% and the firms without political connections decrease by about 20%.

These figures clearly show that the average long term returns of politically-connected firms are better than those of non-connected ones in the whole sample, but it is mainly driven by the

family-controlled firms and the influence of political connections in government-controlled firms is not very clear. Corporate performance is influenced not only by political connections, but also by the nature of property rights owned by controlling shareholders. Next, we analyze our data with descriptive statistics and econometric regressions.

【Insert Table 3 about here】

Table 3 reports the 12-month, 24-month and 36-month CARs of listed firms after IPO. In Panel A, the CAR reduces from -0.11 in one year to -0.13 in three years. Comparing the means of performance measures, we find that the CARs of politically connected firms are all higher than those of non-connected ones and CAR12 and CAR24 are significant at 5% level, which is different from Fan et al. (2007). Our findings are confirmed with the accounting performance measures and earnings growth, sales growth and the change of ROA of politically connected firms are all higher than those of non-connected ones, although the difference of sales growth is significant with student-t test. In the medians and the Wilcoxon signed-ranks test for the median difference, the results are consistent to the above discussions of means.

Panel B presents the stock- and accounting-based performance of the government-controlled firms. In line with Figure 2, the means of CAR decreases from -0.095 to -0.152 over time. One- and two-year CARs of politically connected firms are higher than those of non-connected firms, although this difference is not significant with student-t test. However, the mean of three-year CAR of connected firms is -0.168, even lower than that of non-connected ones. As far as accounting measures to be concerned, sales growth and the change of ROA of politically connected firms are higher than those of non-connected ones, but the earnings growth of politically connected companies is lower than that of non-connected ones. Confirmed with the median tests, there is not a pattern for the difference between connected firms and non-connected ones in the subsample of government-controlled firms.

Panel C examines the subsample of family-controlled companies. The mean CAR gradually increases from -0.129 to -0.106. In the student-t tests for the mean difference, the one, two and three-year CARs of politically connected firms are significantly higher than those of non-connected ones. The means of earnings growth, sales growth and the change of ROA of the president's politically-connected firms are also significantly higher than non-connected ones at 10%, 1%, and 5% levels, respectively. It is suggested that political connection can enhance the

value of family-controlled firms, which is consistent with Hypothesis 2.

In the descriptive statistics, Table 3 shows that political connections are significantly associated with better performance in family-controlled firms, but no significant effects in government-controlled firms. It also shows that the positive relationship between political connections and corporate performance in the full sample is driven by the nature of property rights under the controlling shareholder as a family.

4.2. Regressions

The positive relationship between political connections and corporate performance after IPO may come from other factors, which we need to control for in the multiple regressions.

【Table 4 inserts about here】

Table 4 reports the results of OLS regressions using 12-month, 24-month, and 36-month CARs as dependent variables. In the total sample, we find that the regression coefficients of political connection on the CARs are significantly positive and gradually increase from 0.088 in CAR12 to 0.121 in CAR36. Consistent with Panel A in Table 3 and Figure 1, it shows that political connections can significantly enhance the value of the firm. With a different dataset, Fan et al. (2007), however, find that the coefficients of the CEO's political connection are significantly negative, decreasing from -0.069 in CAR12 to -0.153 in CAR36. The dataset of Fan et al. (2007) are mainly newly partially privatized firms listed onto the stock exchanges during the period from 1993 to 2001. We therefore further separate our whole sample into government-controlled and family-controlled subsamples, by whether the ultimate owner of the firm is a government or a family. Keeping different from Fan et al (2007), we find that political connections of government-controlled firms do not significantly affect the value of the firms listed onto the stock exchanges from 2001 to 2008. Our hypothesis 1 is not well supported. Hypothesis 1 is based on the disadvantages for political connections to bring into the government-controlled firms, but there are also advantages. Political connections may bring not only social burdens but also policy benefits to the connected firms, as the Chinese government not only has a grabbing hand but also a helping hand (Shleifer and Vishny, 1998; Tian and Estrin, 2008). This may come from the fact that the pros of political connection can somehow offset the cons of political connection in

government-controlled firms, which makes the coefficients of political connections insignificant. We also find that the coefficients of political dummy variables gradually decrease from 0.072 to 0.01, which suggests that political connections play a smaller role when the government-controlled firms are more market oriented with a longer period after listing into the stock market. In the family-controlled firms, political connections have significantly positive effects on corporate value, CAR12 significant at 1% levels, CAR24 10% and CAR36 1%. The coefficients of political connection gradually increase from 0.102 to 0.224, which suggests that positive effects of political connection become larger with longer periods on the stock market and consequently getting more established. Hypothesis 2 is well supported. Consistent with the literature (e.g., Fisman, 2001; Faccio, 2006; Chen et al, 2011), political connections can improve corporate value with investor protection. The regression result of industry dummy variable *Regulated* is consistent with Fan et al. (2007), which suggests that the entrance into regulatory industries is beneficial to increase the value of family-controlled firms.

【Insert Table 5 about here】

We report the empirical results of political connection of accounting performance measures in table 5. In the whole sample, political connections significantly improve the growth of sales by 0.915, but there are not significant effects of political connections on any accounting measures used in government-controlled firms and the hypothesis of social burdens is not supported, either. However, political connections of family-controlled firms significantly positively influence all the accounting indicators, including earnings growth, sales growth, and the change of returns on asset, which suggests that political connections increase the value of private listed firms. This result is consistent with CAR regressions in table 4 and supports Hypothesis 2.

Table 4 and table 5 show that political connections significantly enhance the value of family-controlled firms, but cannot significantly influence the value of government-controlled firms. Given the complexity of government behaviors, our findings do not support the hypothesis of social burdens, different from Fan et al. (2007), but somehow support the hypothesis of investor protection. How do political connections work as investor protection specifically?

5. Investor protection and political connections

In order to better understand the investor protection effect of political connection, we regress equation 2 in section 3.3 to examine whether political connection can provide investor protection with different controlling shareholders.

【Insert Table 6 about here】

Table 6 reports the regression results whether political connection can protect property right from the government intervention, and POL*Private is our major concern. To compare with other regressions, we replicate the regression result of column 3 in table 4 in column 1 in table 6. Column 2 shows that the dummy of private does not have a positive effect on post-IPO long term performance. Comparing with government-controlled firms, the controlling stakes of a family do not significantly increase the corporate value in the firms listed on the Chinese stock market, which is inconsistent with Shleifer (1998) and Dewenter and Malatesta (2001). Given the absence of strong market-enhancing institutions, the weak enforcement of law, fragile property rights and a strong government, the family ownership is perhaps subject to expropriation. The regression results of political connection and property dummy in column 3 are similar to those in columns 1 and 2. Columns 4-7 focus on the results of the interaction term POL*Private. The result implies that political connection and private dummy are not correlated with post-IPO performance, but the interaction term POL*Private is significantly positive, which suggests that political connection can help to protect property right and enhance the firm value. This finding, in line with our expectation, confirms the results of Li et al. (2006) and Chen et al. (2011). Columns 8 and 9 examine the effects of private dummy on 36-month long term returns in non-connected firms. All the coefficients of private dummy variables are not significantly associated with long term returns, showing that the family controlling shareholder solely does not enhance firm value. However, in columns 10 and 11, the dummy of private in politically connected firms is significantly related to post-IPO long term performance. Columns 8-11 show that, owing to the existence of government encroachment and fragile institutions of investor protection, private property right does not always bring about value enhancement.

As suggested by Che and Qian (1998), private property right cannot function well because of government predation under the institutional settings of China. In this paper, we find that political connections help to protect private property right from government interference, and improve the value of family-controlled firms. However, how does the political connection protect private

property right, specifically? Whether can political connection be a substitute for poor institutional environment[5] to avoid the government predation or not? We further employ equation 3 to re-test the conclusions of Bai et al. (2006), Li et al. (2006), and Chen (2011). Table 7 describes the data, and the empirical results are displayed in Table 8.

【Insert Table 7 and Table 8 about here】

Table 7 describes the data of political connection on post-IPO performance in different institutional settings. In the poor institution environment, the firms with political connection significantly perform better than those without, which is consistent with the notion that political connection can be substituted for poor institutions to protect private property right from government infringement.

Table 8 reports the empirical results of model (3). Columns (1)-(3) show that the interaction term between political connection dummy and the marketization dummy is significantly positive to long term performance, from which we can deduce that political connection can substitute for poor marketization level to increase the firm value. The coefficient of *POL*Index_Mar* in Column (4) is positive but not significant. Overall, in the lower maketization regions, political connection is beneficial to enhance the value of family-controlled firms. Columns (5)-(8) display that the interaction term between political connection and government intervention has a significantly positive coefficient, which implies that political connections can protect private property right against government intervention to increase the firm value. Columns (9)-(12) indicate that the interaction term between political connection and legal institution has a significantly positive impact on post-IPO long term performance, which deduces that political connection can replace poor legal institutions. In general, political connection can be viewed as an alternative mechanism to protect private firms from the government erosion, which is consistent with our expectation and data description in Table 8.

Besides adopting the above-mentioned law index and government intervention index compiled by Fan et al. (2010) as legal institution level and government intervention level, we further examine the above conclusions using Intellectual Property sub-indices developed by Fan et al. (2010) as legal institution level and the investigation report of World Bank (2006) to measure

[5] The poor institutional environment is lower marketizaion level, bigger government intervention degree, and lower legal institution level, and otherwise the sound institutional environment.

government intervention level. The results do not change essentially. In short, in the poor institution environment, political connection can increase the value of private firms significantly. These findings support the argument that political connection provides significant benefits that help to overcome state and market failures in a transition economy.

Consistent with Allen et al. (2005), Bai et al. (2006), Li et al. (2008), and Chen et al. (2011), our findings confirm that there are the effect of investor protection brought by political connections. Well, do political connections provide more benefits than investor protection in family-controlled firms? We need to investigate further.

6. Government patronage mechanisms and political connections

This section examines whether political connections bring about preferential treatments to the family-controlled firms with political connections and what the specific mechanisms are. We find that political connections bring about more bank loan and low effective tax rate in family-controlled firms.

Khwaja and Mian (2005) suggest that political connections can bring more loans and longer loan maturity, undertake lower real effective tax-rate (Faccio, 2006; Wu et al., 2012), and gain more government subsidy(Johnson and Mitten, 2003; Faccio et al., 2006). Thus, we use model (1) to test the relationship between political connection and bank loan, effective tax-rate, and government subsidy in family-controlled firms. The regression results are reported in Table 6, where dummy variables that proxy for industry and year effects are included but not reported, and columns 1-9 adopt robust OLS estimation method.

【Table 9 inserts about here】

Columns 1 and 2 in table 9 report the regression results of political connection on bank loans. Consistent with Khwaja and Mian (2005), column 1 displays that political connections have a positive impact on total loans at 10% level, which indicates political connection is conductive to help private listed firms obtain more bank loans. Column 2 shows that political connection is positively relative to loan maturity which is consistent with Fan et al. (2008). Columns 1 and 2 suggest that political connections can alleviate financing constraints of family-controlled firms. To some extent, family-controlled companies still some unfair treatment on loans from the

government-controlled banks in China. Political ties between the government and the family-controlled firms may help the firm to obtain bank loans to ease the financing constraints.

Columns 3-5 report the regression results of political connection on real effective tax-rate. It can be seen that political connection has a significantly negative impact on tax-rate, which implies that political connection reduces the real effective tax-rate of private firms. This result is consistent with Faccio (2006), Adhikari et al. (2006), and Wu et al. (2012).

Columns 6-9 report the regression results of political connection on government subsidies. As can be seen from Columns 6-9 in table 9, political connections have a significant and positive effect on government subsidies. The results are consistent with Faccio et al. (2006) and Johnson and Mitten (2003), which indicate that political connections can help the private firms obtain more government subsidies.

Overall, political connection helps family-controlled firms get more bank loans, longer loan maturity, lower effective tax-rate, and more government subsidies, which verifies government patronage effect of political connection.

7. Robustness Tests

The above analysis finds that political connection can significantly improve the value of private firms, but do not significantly influence the value of government-controlled firms. To show the robustness of our findings, we re-examine the effect of the political connection on post-IPO performance with buy-and-hold abnormal return (BHAR) instead of CAR. The results display that political connection has significantly positive effects on BHAR24 and BHAR36. Overall, political connection increases the value of private firms. Meantime, we replace the accounting-based measures by ROA1-ROA3, ROE1-ROE3 and Sale1-Sale3 to re-test model (1). The results remain unchanged.

We are concerned about potential endogeneity issues in the relationship between political connection and long term performance. Political connection may be effected by the unemployment rate, per capita GDP and budget deficit (Fan et al., 2007). Following Fan et al. (2007), we adopt a two-stage least square (2SLS) method to control the endogeneity of political connection. On the first stage, we regress political connection dummy on external factors, such as the unemployment

rate, per capita GDP, and the budget deficit, and characteristic variables of the firm, such as *Leverage*, *Lnasset*, *Market_Book*, *Stateshare* as well as *Regulated*. On the second stage, we replace political connection by the predicted value of political connection to re-test the association between political connection and post-IPO performance. The results show that, political connection is correlated with lower per capita GDP and *Regulated* dummy. However, on the second stage, political connection has a positive impact on CAR12, and a significantly positive effect on CAR24 and CAR36 in family-controlled firms, but no significant influence in government-controlled enterprises. Consistent with the findings in Table 4, the results hold when the endogeneity issues considered. Additionally, Durbin-Wu-Hausman (DWH) test is also adopted to control the endogeneity problem of political connection, and our conclusions remain consistent. Thus, the endogeneity issues of political connection, even if exist, cannot essentially affect the conclusions of this study.

Besides determining political connection by the political relationship of the president, we also define political connection as the political ties of the chairmen/the general managers and the directors of the board to retest the conclusions. The results show that political connections of the chairmen/the general managers and the directors of the board significantly positively affect long term returns in family-controlled firms, but have an insignificant effect in government-controlled ones. The conclusions are in line with the findings in Table 4. In addition, we further divide political connection of the chairmen into former government official dummy *POL_GOV_FORMER*, the incumbent government official dummy *POL_GOV_CURR*, and the current or former deputies of CPPCC or NPC *POL_NPC_CPPCC*. We find that *POL_GOV_FORMER* significantly improve 2- and 3-year value of private listed firms, and *POL_NPC_CPPCC* has a significantly positive impact on 1- and 2-year long term returns. Overall, *POL_GOV_FORMER* and *POL_NPC_CPPCC* are beneficial to improve the value of family-controlled firms. As opposed to the private listed firms, three dummies of political connection cannot affect the value of government-controlled firms. However, the incumbent government official dummy reduces the value of government-controlled firms. The possible reason might be that our sample includes only ten firms whose chairmen are incumbent government officials, which may make the regression result unreliable.

7. Conclusion

Examining the firms listed onto Shanghai or Shenzhen Stock Exchanges, this paper investigates the relationship between political connections and post-IPO long term performance. We show that political connections can improve the value of family-controlled firms, but cannot significantly influence the value of government-controlled companies. We find that political connection can be a substitute for poor institution environment to protect private property right from the government intervention, which verifies investor protection effect of political connection. Analyzing the specific mechanisms of political connections, we find that political connections can help them get government patronages, such as more bank loans, longer term loans, lower real effective tax-rate, and more government subsidies.

With the recent dataset and a more comprehensive approach, our paper develops Fan et al. (2007). To a large extent, our paper confirms Bai et al. (2006), Li et al. (2006), and Chen et al. (2011), and provides the empirical evidence to the argument of Allen et al. (2005). In a transition economy, like China, where the legal enforcement is weak and the government intervention is heavy, political connections have different influences on the value of government-controlled and family-controlled firms. As for government-controlled companies, both the "grabbing hand" and "helping hand" of the government coexist (Tian and Estrin, 2008). It brings about the fact that political connection does not exert a significant influence on the value of government-controlled firms with our latest dataset. However, in family-controlled firms, the value enhancement of the "helping hand" is larger than the value reduction of the "grabbing hand", if these firms can successfully build up political connections. We show that the literature of political connections have to work with the literature of ownership.

Our results also show that, under the poor institutions of investor protection in China, the higher value of family firms may come from government patronage, investor protection, and less social burdens, but not necessarily the promotion of firm efficiency. In other words, political rent seeking of family-controlled firms may bring about its higher valuation.

The complex relationship between governments and firms hinders China's economic reform, but political connections should not be a key factor to improve corporate value in a developed economy.

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Table 1 The sample

This sample presents information on the sample of initial public offering (IPO) firms by year of IPO in China during 2001-2008. We divide the whole sample into Government-controlled firms whose ultimate control owner is central government, local government and family-controlled firms whose ultimate control owner is private or family. This paper reports the number and the percentage of politically connected firms, whose chairmen, chairmen/general managers, or directors of the board have working experiences of central government, local government or military, or are former or current deputies to NPC (National People's Congress) or members of CPPCC (Chinese People's Political Consultative Conference).

		Total sample				Government-controlled firms				Family-controlled firms			
		N	President	President and general manager	Board	N	President	President and general manager	Board	N	President	President and general manager	Board
2001	Number	69	40	42	54	61	33	34	47	8	7	8	7
	Ratio (%)		57.97	60.87	78.26		54.10	55.74	77.05		87.50	100.00	87.50
2002	Number	66	23	28	40	56	22	26	36	10	1	2	4
	Ratio (%)		34.85	42.42	60.61		39.29	49.43	64.29		10.00	20.00	40.00
2003	Number	64	22	27	37	44	14	17	25	20	8	10	12
	Ratio (%)		34.38	42.19	57.81		31.82	39.64	56.82		40.00	50.00	60.00
2004	Number	94	37	42	56	50	17	20	28	44	20	22	28
	Ratio (%)		39.36	44.68	59.57		34.00	40.00	56.00		45.45	50.00	62.64
2005	Number	11	4	5	6	4	2	3	2	7	2	2	4
	Ratio (%)		36.36	45.45	54.55		50.00	75.00	50.00		28.57	28.57	57.14
2006	Number	60	25	27	37	31	13	14	19	29	12	13	18
	Ratio (%)		41.67	45.00	61.67		41.94	45.16	61.29		41.38	44.83	62.07
2007	Number	121	45	54	74	50	20	24	35	71	25	30	39
	Ratio (%)		37.19	44.63	61.16		40.00	48.00	70.00		35.21	42.25	54.93
2008	Number	76	29	34	45	19	8	8	14	57	21	26	31
	Ratio (%)		38.16	44.74	59.21		42.11	42.11	73.68		36.84	45.64	54.39
Total	Number	561	225	259	349	315	129	146	206	246	96	113	143
	Ratio (%)		40.11	46.17	62.21		40.95	46.35	65.40		39.02	45.93	58.16

Table 2 Definitions of variables

Variable name	Variable definition
CARi	The i months cumulative abnormal stock return from 2nd month after IPO, adjusted by equally weighted return of Shanghai and Shenzhen stock Exchange, i=12、24、36.
Earn	Earnings growth. The variable is the percentage of the average earnings over 3 years prior to IPO to 3 years after IPO, where earnings are scaled by industry median.
SALE	Sales growth. The variable is the percentage of average sales over three years prior to the IPO to the three years after the IPO, where sales are scaled by industry median.
ROA	The change in return on asset. ROA adjusted by industry median is calculated as the change in net earning divided by asset.
ROAi	ROAi adjusted by industry median value is calculated as the change of the i year ROA after IPO minus the three year ROA average value previous to IPO, i=1, 2, 3.
ROEi	ROEi adjusted by industry median value is calculated as the change of the i year ROA after IPO minus the three year ROA average value previous to IPO, i=1, 2, 3.
SALEi	The sales growth SALEi is the percentage of the i year sales prior to the IPO to the three years after the IPO, where sales are scaled by industry median values, i=1, 2, 3.
POL	Political dummy equals 1 if the president has working experiences serving government or military, or is a former or current member of NPC or CPPCC, and 0 otherwise.
POL_GOV_FORMER	Former government official dummy. Dummy variable equals 1 if the president is former an official of government or military, and 0 otherwise.
POL_GOV_CURR	Incumbent government official dummy. Dummy variable equals 1 if the president is an current official of government or military, and 0 otherwise.
POL_NPC_CPPCC	NPC and CPPCC dummy. Dummy variable equals 1 if the president was or is deputy to NPC or a member of CPPCC, and 0 otherwise.
Leverage	Financial leverage ratio. The current Year debt-to-asset ratio of a firm.
Stateshare	The percentage of state shareholding.
Lnasset	Natural log of total assets.
Market_Book	Market-to-equity ratio measured as market value over book value in IPO Year end
Regulated	Regulatory industry dummy. Regulated equals 1 if the firm is in heavily sector (natural resources, public utilities, or finance and real estate),and 0 otherwise.
Total_Loan ,Loan_Term	Total_Loan is measured as the long term bank loan plus short term loan divided by total assets. Loan_Term is calculated by long term bank loan over total assets
TAXi	Real effective tax-rate, i=1, 2, 3. TAX1 is calculated as income tax expense less deferred income tax expense, and divided by EBIT. TAX2 is defined as income tax expense divided by adjusted pre-tax accounting income. TAX3 is measured as income tax expense minus deferred income tax expense, and divided by adjusted pre-tax accounting income. We calculate adjusted pre-tax accounting income as pre-tax income minus the difference between deferred income tax expense and applicable tax-rate.
Subsidyi	Government subsidy, i=1, 2, 3, 4. Subsidy1 and Subsidy3 are calculated by government subsidy divided by total income and total asset, respectively. Subsidy2 and subsidy4 are calculated by government subsidy minus added-value tax divided by total income and total asset, respectively.
Private, POL*Private	Private equals 1 if the ultimate control owner is private person or family, and 0 otherwise. Pol*private is the interaction term of political connection with property dummy.
Index_Mar	Marketization dummy. Index_Mar equals one if marketization index is lower than the median value of the marketization index, zero otherwise.
POL*Index_Mar	The interaction term between politically connected dummy and marketization dummy。
Index_Gov	Government intervention dummy. Index_Gov equals 1 if government intervention index is higher than median value of government intervention index, 0 otherwise.
POL*Index_Gov	The interaction term between political connection dummy and government intervention dummy.
Index_Law	Legal system dummy. Index_Law equals one if legal index is lower than the median value of the legal system index, zero otherwise.
POL*Index_Law	The interaction term between political connection dummy and the legal system dummy.

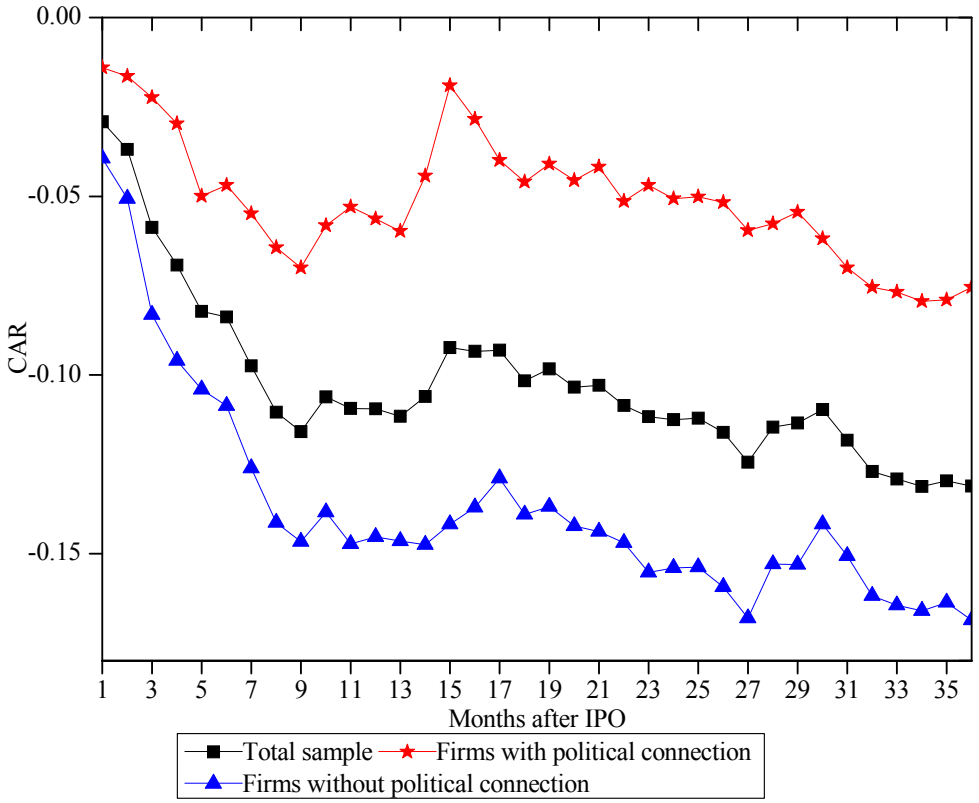

Figure 1 Total sample

Figure 1 describes mean post-IPO cumulative abnormal returns (CARs) adjusted by equally-weighted market return from 1 month to 36 months after IPO of 561 firms in China during 2001-2008, sorted by whether their chairmen are former or current government bureaucrats, deputies to NPC or members of CPPCC.

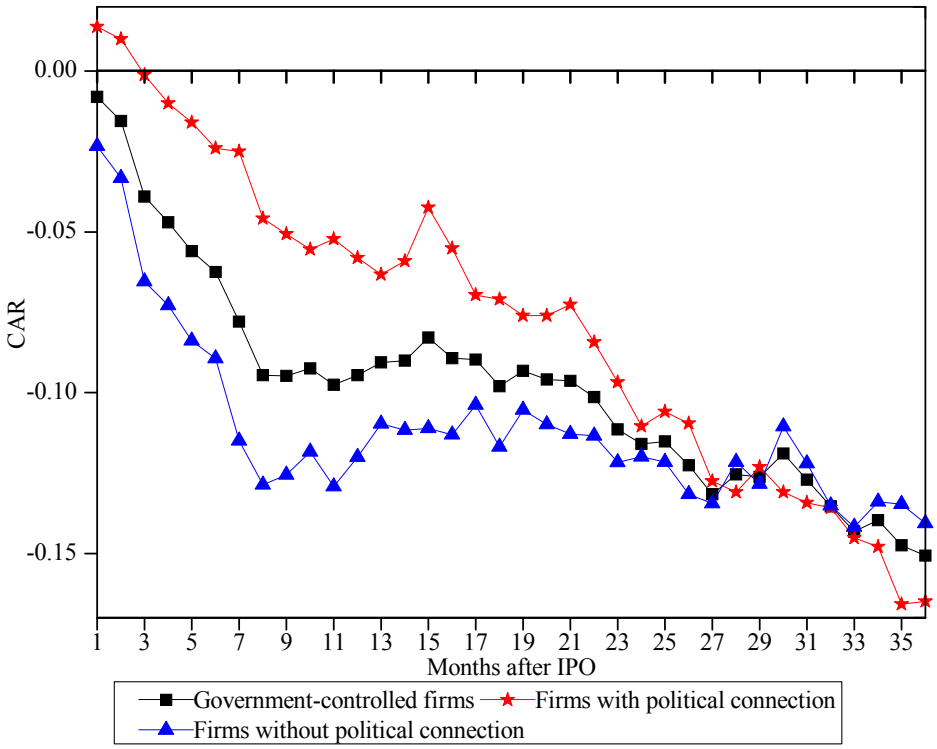

Figure 2 Government-controlled firms

Figure 2 depicts mean post-IPO cumulative abnormal returns (CARs) adjusted by equally-weighted market return from 1 month to 36 months after IPO of 315 government-controlled firms in China during 2001-2008, sorted by whether their chairmen are former or current government bureaucrats, deputies to NPC or members of CPPCC.

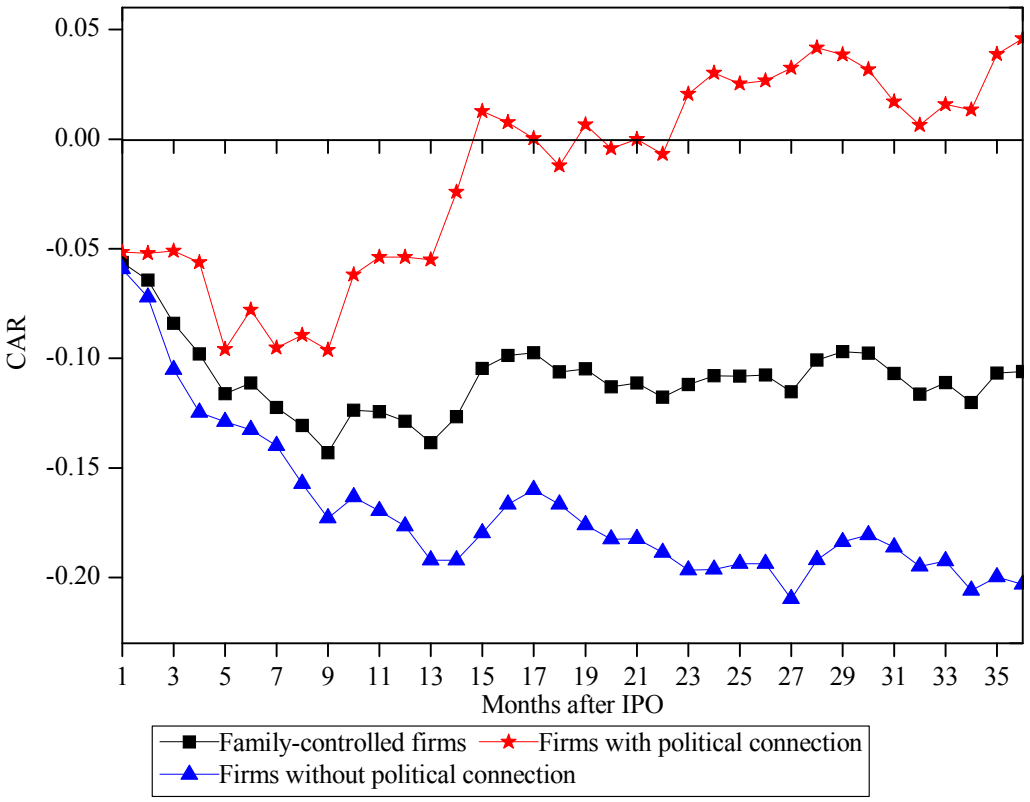

Figure 3 family-controlled firms

Figure 3 describes mean post-IPO cumulative abnormal returns (CARs) adjusted by equally-weighted market return from 1 month to 36 months after IPO of 246 family-controlled firms in China during 2001-2008, sorted by whether their chairmen are former or current government bureaucrats, deputies to NPC or members of CPPCC.

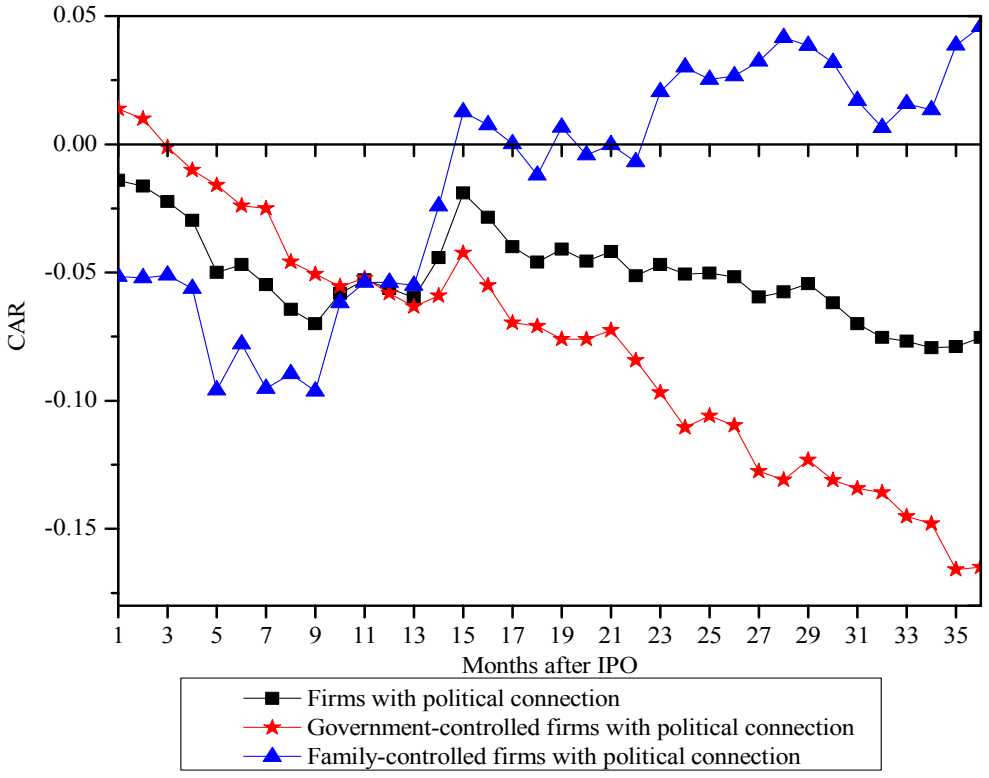

Figure 4 Politically-connected firms

Figure 4 describes mean post-IPO cumulative abnormal returns (CARs) adjusted by equally-weighted market return from 1 month to 36 months after IPO of 336 politically-connected firms in China during 2001-2008, sorted

by types of property right.

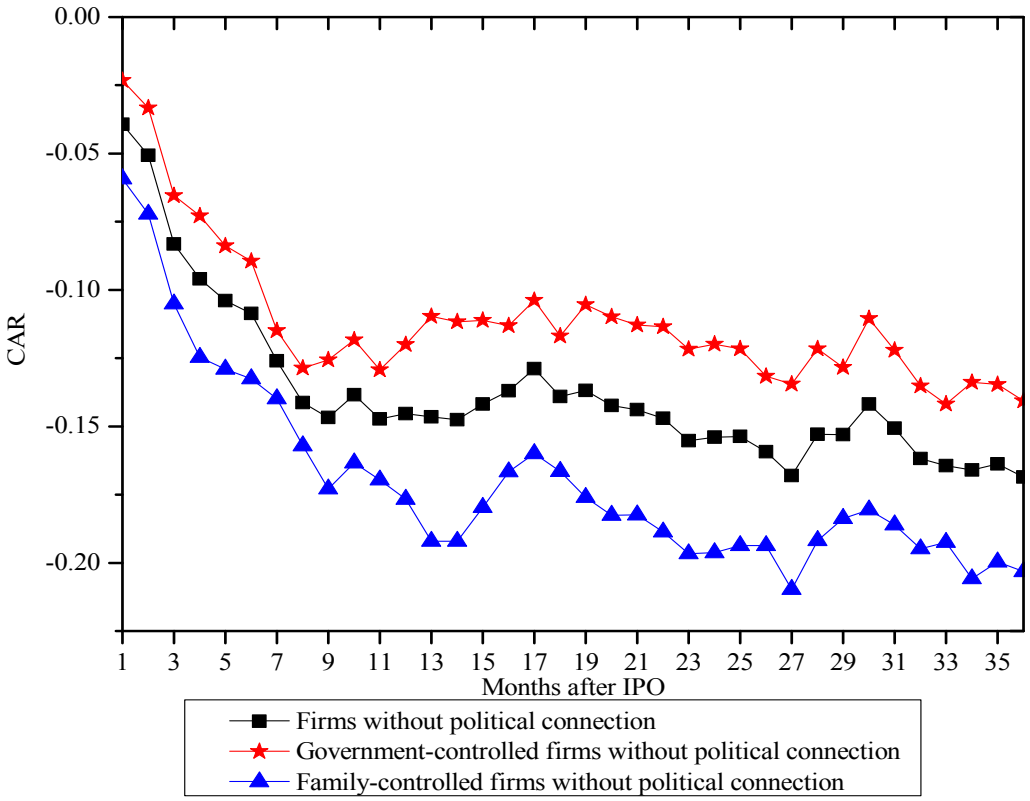

Figure 5 Non-connected firms

Figure 5 describes mean post-IPO cumulative abnormal returns (CARs) adjusted by equally-weighted market return from 1 month to 36 months after IPO of 224 non-connected firms in China during 2001-2008, sorted by types of property right.

Table 3 Mean and median statistics of post-IPO performance measure

This paper presents the mean and median values of stock and accounting performance measures of IPO firms during 2001-2008. We divide the whole sample into government-controlled and family-controlled firms sort by types of the ultimate control owner. The paper also reports the statistics of two subsamples of firms sorted by whether their chairmen are former or current government bureaucrats, members of NPC or CPPCC. Stock performance measures are the 12-, 24-, 36-month CARs adjusted by equally-weighted market return from 2nd month after the IPO month. The accounting performance measures are earnings growth, sales growth, and the change in return on asset (ROA). Panel A, Panel B, and Panel C report total sample, government-controlled and family-controlled firms, respectively. Test statistics for difference in means and medians are provided. ***, **, * denote significant at the 1%, 5%, and 10% levels, respectively.

Performance measure	Mean				Median			
	Total sample	President is politically connected	President is not politically connected	Difference in mean	Total sample	President is politically connected	President is not politically connected	Difference in median
Panel A: Total sample								
CAR12	-0.110	-0.057	-0.145	2.491**	-0.093	-0.062	-0.115	1.969**
CAR24	-0.113	-0.051	-0.154	2.352**	-0.116	-0.086	-0.153	1.910*
CAR36	-0.132	-0.076	-0.169	1.646	-0.169	-0.123	-0.178	1.259
Earn	1.388	1.844	1.080	0.960	0.007	0.161	-0.049	0.932
SALE	0.239	0.923	-0.204	3.356***	0.103	0.343	0.063	2.865***
ROA	0.040	0.053	0.031	0.888	0.000	0.008	-0.002	0.836
Panel B: Government-controlled firms								
CAR12	-0.095	-0.059	-0.120	1.440	-0.084	-0.068	-0.111	0.801
CAR24	-0.117	-0.112	-0.120	0.147	-0.144	-0.116	-0.155	0.247
CAR36	-0.152	-0.168	-0.141	0.384	-0.195	-0.276	-0.174	0.682
Earn	1.426	1.140	1.623	-0.501	-0.036	0.001	-0.051	0.085
SALE	0.337	0.942	-0.051	2.177**	0.238	0.555	0.238	1.96*
ROA	0.041	0.094	0.050	-0.068	-0.002	0.000	-0.003	0.020
Panel C: Family-controlled firms								
CAR12	-0.129	-0.054	-0.177	2.034**	-0.096	-0.041	-0.143	1.938*
CAR24	-0.108	0.030	-0.196	3.118***	-0.092	0.016	-0.132	2.639***
CAR36	-0.106	0.046	-0.203	2.824***	-0.132	0.030	-0.182	2.638***
Earn	1.330	2.978	0.245	1.996*	0.105	0.419	0.048	1.550
SALE	0.094	0.896	-0.433	2.715***	-0.129	0.007	-0.211	2.443**
ROA	0.037	0.090	0.001	2.109**	0.005	0.019	0.002	1.536

Table 4 Regression results of the effects of political connection on the post-IPO stock performance

The dependent variables reported in this table are the 12-, 24-, 36-month cumulative abnormal returns (CARs) adjusted by equally-weighted market return from the second month after the IPO month. Monthly returns are used to calculate the CARs. The independent variables are a dummy variable *POL* equal to 1 if the president is politically connected (zero otherwise), financial Leverage ratio *Leverage*, the percentage ownership of government *Stateshare*, the natural log of total assets *Lnasset*, the Market to book equity ratio *Market_Book*, and a dummy variable *Regulated* equal to one if the firm is in a heavily regulated sector (natural resources, public utilities, or finance and real estate). The regressions adopt ordinary least square methods. Robust t-statistics are provided in parentheses. ***, **, * denote significant at the 1%, 5%, and 10% levels, respectively.

	Total sample			Government-controlled firms			Family-controlled firms		
	CAR12	CAR24	CAR36	CAR12	CAR24	CAR36	CAR12	CAR24	CAR36
POL	**0.088****	**0.115****	**0.121****	**0.072**	**0.024**	**0.010**	**0.102***	**0.206*****	**0.224****
	(2.47)	***(2.55)***	***(2.08)***	***(1.64)***	***(0.43)***	***(0.13)***	***(1.72)***	***(2.80)***	***(2.58)***
Leverage	0.015**	0.017**	0.020**	0.018**	0.007	-0.001	0.015	0.026**	0.036**
	(2.34)	*(2.54)*	*(2.26)*	*(2.27)*	*(0.66)*	*(-0.05)*	*(1.59)*	*(2.48)*	*(2.38)*
Stateshare	0.034	0.018	0.001	0.056	0.046	0.028	-0.617***	-0.571**	-0.781***
	(0.97)	*(0.45)*	*(0.02)*	*(1.36)*	*(1.00)*	*(0.34)*	*(-2.73)*	*(-2.19)*	*(-2.91)*
Lnasset	-0.002	-0.022	-0.055***	0.001	-0.012	-0.042*	-0.015	-0.032	-0.087
	(-0.13)	*(-1.43)*	*(-2.68)*	*(0.07)*	*(-0.75)*	*(-1.88)*	*(-0.32)*	*(-0.63)*	*(-1.37)*
Market_Book	-0.002	-0.009	0.003	0.009	-0.018	-0.011	-0.011	0.003	0.022
	(-0.26)	*(-1.12)*	*(0.35)*	*(0.97)*	*(-1.63)*	*(-0.80)*	*(-0.84)*	*(0.25)*	*(1.57)*
Regulated	0.071*	0.048	0.094	0.021	-0.025	-0.017	0.162**	0.222**	0.359***
	(1.74)	*(1.01)*	*(1.42)*	*(0.45)*	*(-0.45)*	*(-0.22)*	*(2.01)*	*(2.44)*	*(3.18)*
Intercept	-0.187	0.247	0.862**	-0.278	0.159	0.777*	0.125	0.334	1.320
	(-0.68)	*(0.78)*	*(2.01)*	*(-0.94)*	*(0.47)*	*(1.66)*	*(0.12)*	*(0.31)*	*(0.98)*
N	561	561	560	315	315	314	246	246	246
adj. R^2	0.020	0.019	0.025	0.011	-0.000	0.001	0.041	0.069	0.101
F	2.849	3.185	3.003	1.600	1.164	1.114	3.700	4.835	6.369
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

Table 5 Regression results of the effects of political connection on post-IPO accounting performance of IPO firms during 2001-2008

The dependent variables reported in this table are earnings growth, sales growth, and the change in return on asset (ROA). The earnings (sales) growth is the percentage of the average earnings (sales) over three years prior to the IPO to the three years after the IPO, where earnings (sales) are scaled by industry median. ROA adjusted by industry median is calculated as the change in net earning divided by asset. The independent variables are a dummy variable *POL* equal to 1 if the president is politically connected (zero otherwise), financial Leverage ratio *Leverage*, the percentage ownership of government *Stateshare*, the natural log of total assets *Lnasset*, the Market to book equity ratio *Market_Book*, and a dummy variable *Regulated* equal to one if the firm is in a heavily regulated sector (natural resources, public utilities, or finance and real estate). The regressions adopt ordinary least square methods. Robust t-statistics are provided in parentheses. ***, **, * denote significant at the 1%, 5%, and 10% levels, respectively.

	Total sample			Government-controlled firms			Family-controlled firms		
	Earn	SALE	ROA	Earn	SALE	ROA	Earn	SALE	ROA
POL	**0.740**	**0.915*****	**0.022**	**-0.587**	**0.715**	**-0.023**	**1.991****	**0.994****	**0.096****
	(0.89)	***(2.70)***	***(0.87)***	***(-0.58)***	***(1.53)***	***(-0.73)***	***(2.08)***	***(2.45)***	***(2.07)***
Leverage	-0.207**	0.048	-0.009***	-0.239	0.041	-0.008	-0.175	-0.192**	0.051
	(-1.99)	*(1.41)*	*(-2.75)*	*(-1.26)*	*(0.57)*	*(-1.36)*	*(-2.48)*	*(1.60)*	*(-2.52)*
Stateshare	0.796	-0.898*	0.044	1.507	-1.255**	0.075	1.824	0.579	0.088
	(0.64)	*(-1.66)*	*(0.93)*	*(1.14)*	*(-2.26)*	*(1.44)*	*(0.65)*	*(0.73)*	*(0.64)*
Lnasset	0.209	0.465***	0.009*	0.250	0.439***	0.012**	0.633	0.640	0.029
	(1.36)	*(4.08)*	*(1.70)*	*(1.55)*	*(4.40)*	*(2.19)*	*(1.16)*	*(1.26)*	*(1.10)*
Market_Book	-0.096	-0.145*	0.001	0.075	-0.157	0.007	-0.180	-0.108	-0.009
	(-0.59)	*(-1.78)*	*(0.19)*	*(0.34)*	*(-1.17)*	*(0.85)*	*(-1.17)*	*(-1.42)*	*(-1.16)*
Regulated	-0.643	0.530	-0.033	-0.459	0.613	-0.033	-0.789	0.081	-0.039
	(-0.66)	*(1.33)*	*(-1.08)*	*(-0.40)*	*(1.23)*	*(-0.95)*	*(-0.58)*	*(0.15)*	*(-0.59)*
Intercept	-2.298	-9.241***	-0.139	-3.846	-8.300***	-0.237*	-11.351	-13.138	-0.515
	(-0.70)	*(-3.91)*	*(-1.22)*	*(-1.04)*	*(-3.77)*	*(-1.87)*	*(-1.00)*	*(-1.26)*	*(-0.94)*
N	485	470	485	296	281	296	189	189	189
adj. R^2	-0.000	0.050	0.010	-0.005	0.047	0.015	0.024	0.037	0.023
F	2.125	6.828	3.170	1.420	5.518	2.288	2.356	3.057	2.339
	（1）	（2）	（3）	（4）	（5）	（6）	（7）	（8）	（9）

Table 6 Regression results of the effects of property rights on the relationship between political connection and post-IPO long term performance

The dependent variable reported in this table is the 36-month cumulative abnormal returns (CARs) adjusted by equally-weighted market return from the second month after the IPO month. Monthly returns are used to calculate the CARs measures. The independent variables are a dummy variable *POL* equal to 1 if the president is politically connected (zero otherwise), the property right dummy variable equal to one if the ultimate owner of the firm is private person or family (zero otherwise), financial Leverage ratio *Leverage*, the percentage ownership of government *Stateshare*, the natural log of total assets *Lnasset*, the Market to book equity ratio *Market_Book*, and a dummy variable *Regulated* equal to one if the firm is in a heavily regulated sector (natural resources, public utilities, or finance and real estate). The regressions adopt ordinary least square methods. Robust t-statistics are provided in parentheses. ***, **, * denote significant at the 1%, 5%, and 10% levels, respectively.

	Total sample							Non-connected firms		Politically-connected firms	
POL	**0.121****		**0.121****		**0.042**		**0.018**				
	(2.08)		***(2.14)***		***(0.59)***		***(0.24)***				
Private		**0.007**	**0.005**			**-0.092**	**-0.086**	**-0.062**	**-0.034**	**0.214****	**0.242****
		(0.09)	***(0.06)***			***(-1.13)***	***(-0.99)***	***(-0.91)***	***(-0.37)***	***(2.30)***	***(2.07)***
POL***Private**				**0.210*****	**0.175***	**0.249*****	**0.231****				
				(2.74)	***(1.81)***	***(2.97)***	***(2.06)***				
Leverage	0.020**	0.020**	0.020**	0.020**	0.020**	0.020**	0.020**		0.049***		0.021
	(2.26)	*(2.22)*	*(2.24)*	*(2.21)*	*(2.22)*	*(2.22)*	*(2.22)*		*(2.88)*		*(0.88)*
Stateshare	0.001	-0.004	0.005	0.055	0.048	-0.001	0.000		0.071		0.245
	(0.02)	*(-0.05)*	*(0.06)*	*(0.76)*	*(0.65)*	*(-0.01)*	*(0.00)*		*(0.71)*		*(1.33)*
Lnasset	-0.055***	-0.048**	-0.055***	-0.045**	-0.048**	-0.049**	-0.050**		-0.025		-0.048**
	(-2.68)	*(-2.45)*	*(-2.76)*	*(-2.35)*	*(-2.42)*	*(-2.51)*	*(-2.51)*		*(-0.81)*		*(-2.03)*
Market_Book	0.003	0.003	0.003	0.002	0.002	0.003	0.003		0.009		-0.008
	(0.35)	*(0.23)*	*(0.30)*	*(0.18)*	*(0.22)*	*(0.29)*	*(0.29)*		*(0.70)*		*(-0.46)*
Regulated	0.094	0.103	0.095	0.101	0.099	0.092	0.091		0.133		0.021
	(1.42)	*(1.58)*	*(1.45)*	*(1.57)*	*(1.52)*	*(1.41)*	*(1.40)*		*(1.62)*		*(0.21)*
Intercept	0.862**	0.769*	0.854**	0.657	0.706*	0.785*	0.797*	-0.141***	0.097	-0.168***	0.702
	(2.01)	*(1.79)*	*(1.99)*	*(1.60)*	*(1.69)*	*(1.84)*	*(1.86)*	*(-3.28)*	*(0.14)*	*(-2.82)*	*(1.29)*
N	560	560	560	560	560	560	560	336	336	224	224
adj. R^2	0.025	0.017	0.023	0.030	0.029	0.030	0.029	-0.000	0.025	0.019	0.034
F	3.003	2.568	2.870	3.857	3.352	3.489	3.055	0.829	2.459	5.271	2.870
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)

Table 7 Mean and median value statistics of 36-month CARs of family-controlled firms in different institutional environment

This table presents the mean and median values of 36-month CARs of family-controlled firms led by politically connected chairmen in different marketization, different government intervention degree, or different legal system. The sound institutional environment is higher marketizaion level, smaller government intervention degree, or higher legal institution level, and the poor institutional environment otherwise. Test statistics for difference in means and medians are provided. ***, **, * denote significant at the 1%, 5%, and 10% levels, respectively.

		Marketization (Institution=Index_Mar)			Government intervention (Institution=Index_Gov)			Legal system (Institution=Index_Law)		
		President is politically connected	President is not politically connected	Difference in mean (median)	President is politically connected	President is not politically connected	Difference in mean (median)	President is politically connected	President is not politically connected	Difference in mean (median)
Sound institutional environment	Mean	**-0.010**	**-0.200**	**2.348****	**-0.020**	**-0.207**	**2.237****	**-0.025**	**-0.198**	**2.067****
	Median	**0.026**	**-0.182**	**2.318****	**-0.037**	**-0.195**	**2.154****	**-0.037**	**-0.184**	**1.983****
Poor institutional environment	Mean	**0.378**	**-0.144**	**2.110****	**0.304**	**-0.086**	**2.119****	**0.283**	**-0.193**	**2.581*****
	Median	**0.607**	**-0.138**	**1.643**	**0.395**	**-0.074**	**2.241****	**0.395**	**-0.150**	**2.241****

Table 8 Regression results of the effects of institutional environment on political connection and 36-month CAR in family-controlled firms in different institutional environment

The dependent variable in this table is the 36-month cumulative abnormal returns (CARs) adjusted by equally-weighted market return from the second month after the IPO month. The independent variables are a dummy variable *POL* equal to 1 if the president is politically connected (zero otherwise), the institutional dummy variable *Institution* characterized by marketization index Index_Mar, government intervention index Index_Gov and law index Index_Law developed by Fan et al. (2010), the interaction term between political connected dummy and the institutional dummy *POL*Institution*, financial Leverage ratio *Leverage*, the percentage ownership of government *Stateshare*, the natural log of total assets *Lnasset*, the Market to book equity ratio *Market_Book*, and a dummy variable *Regulated* equal to one if the firm is in a heavily regulated sector (natural resources, public utilities, or finance and real estate). The regressions adopt ordinary least square methods. Robust t-statistics are provided in parentheses. ***, **, * denote significant at the 1%, 5%, and 10% levels, respectively.

	Marketization (Institution=Index_Mar)				Government intervention (Institution=Index_Gov)				Legal system (Institution=Index_Law)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
POL			0.206**	0.212**			0.185**	0.174*			0.182*	0.163*
			(2.29)	*(2.35)*			*(2.02)*	*(1.87)*			*(1.96)*	*(1.86)*
Institution		0.105		0.180		0.091		0.156		0.016		0.081
		(0.69)		*(1.18)*		*(0.81)*		*(1.48)*		*(0.14)*		*(0.63)*
POL*Institution	**0.471*****	**0.370***	**0.338***	**0.160**	**0.539*****	**0.452*****	**0.423*****	**0.282****	**0.480*****	**0.464*****	**0.362****	**0.305***
	(2.81)	***(1.69)***	***(1.88)***	***(0.68)***	***(3.97)***	***(2.70)***	***(2.81)***	***(2.07)***	***(3.72)***	***(2.84)***	***(2.50)***	***(1.65)***
Leverage	0.038**	0.039**	0.037**	0.037**	0.038**	0.038**	0.037**	0.035*	0.039**	0.039**	0.037**	0.035**
	(2.36)	*(2.35)*	*(2.40)*	*(2.40)*	*(2.34)*	*(2.34)*	*(2.38)*	*(1.85)*	*(2.36)*	*(2.35)*	*(2.39)*	*(2.43)*
Stateshare	-0.846***	-0.873***	-0.791***	-0.835***	-0.831***	-0.845***	-0.785***	-0.808***	-0.792**	-0.829***	-0.782***	-0.799***
	(-3.56)	*(-3.65)*	*(-2.98)*	*(-3.15)*	*(-3.44)*	*(-3.58)*	*(-2.96)*	*(-2.50)*	*(-3.44)*	*(-3.44)*	*(-2.97)*	*(-3.15)*
Lnasset	-0.067	-0.066	-0.082	-0.081	-0.089	-0.089	-0.098	-0.101	-0.080	-0.080	-0.090	-0.093
	(-1.03)	*(-1.01)*	*(-1.29)*	*(-1.26)*	*(-1.37)*	*(-1.35)*	*(-1.53)*	*(-1.50)*	*(-1.23)*	*(-1.22)*	*(-1.41)*	*(-1.58)*
Market_Book	0.020	0.020	0.020	0.021	0.023	0.023	0.023	0.021	0.021	0.021	0.022	0.020
	(1.36)	*(1.37)*	*(1.43)*	*(1.45)*	*(1.62)*	*(1.57)*	*(1.62)*	*(1.27)*	*(1.49)*	*(1.48)*	*(1.52)*	*(1.47)*
Regulated	0.386***	0.385***	0.358***	0.356***	0.406***	0.408***	0.376***	0.356***	0.405***	0.406***	0.376***	0.355***
	(3.43)	*(3.42)*	*(3.17)*	*(3.15)*	*(3.63)*	*(3.64)*	*(3.35)*	*(3.55)*	*(3.62)*	*(3.62)*	*(3.33)*	*(3.42)*
Intercept	0.986	0.955	1.228	1.183	1.414	1.400	1.535	1.603	1.226	1.224	1.381	1.453
	(0.72)	*(0.69)*	*(0.91)*	*(0.87)*	*(1.02)*	*(1.01)*	*(1.13)*	*(1.10)*	*(0.89)*	*(0.89)*	*(1.02)*	*(1.17)*
N	246	246	246	246	246	246	246	246	246	246	246	246
adj. R^2	0.085	0.082	0.102	0.100	0.098	0.095	0.110	0.109	0.097	0.093	0.109	0.109
F	6.695	5.812	6.626	5.856	7.285	6.350	7.211	6.451	7.227	6.197	7.030	6.300

Table 9 Regression results of the effects of political connection on bank loan and real effective tax-rate of family-controlled firms in China

The dependent variables in this table are the total bank loan *Total_Loan*, the loan term *Loan_Term*, real effective tax-rate *TAX1-TAX3,* and government subsidy *subsidy1-subsidy4*. *Total_Loan* is measured as the long term loan plus short term loan divided by total assets. Loan_Term is calculated by long term loan over total assets. *TAX1* is calculated as income tax expense less deferred income tax expense, and then divided by earnings before interest and tax (EBIT). We calculate *TAX2* as income tax expense divided by adjusted pre-tax accounting income. And *TAX3* is measured as income tax expense minus deferred income tax expense, and then divided by the adjusted pre-tax accounting income. We calculate adjusted pre-tax accounting income as pre-tax income minus the difference between the deferred income tax expense and the applicable tax-rate. We calculate *Subsidy1* and *Subsidy3* as government subsidy divided by total income and total asset, respectively. *Subsidy2* and *subsidy4* are calculated by government subsidy minus added-value tax divided by total income and total asset, respectively. The independent variables are a dummy variable *POL* equal to 1 if the president is politically connected (zero otherwise), financial Leverage ratio *Leverage*, the percentage ownership of government *Stateshare*, the natural log of total assets *Lnasset*, the Market to book equity ratio *Market_Book*, and a dummy variable *Regulated* equal to one if the firm is in a heavily regulated sector (natural resources, public utilities, or finance and real estate). Dummy variables that proxy for industry and year effects are also included in the model but not supported. Due to the presence of severe data missing, the population of the sample in columns (3)-(5) is 195,202, and 202, respectively. Columns (1)-(9) adopt robust ordinary least square methods. Robust t-statistics are provided in parentheses. ***, **, * denote significant at the 1%, 5%, and 10% levels, respectively.

	Loan		TAX			Subsidy			
	Total_Loan	Loan_Term	TAX1	TAX2	TAX3	Subsidy1	Subsidy2	Subsidy3	Subsidy4
POL	**0.015***	**0.006***	**-0.037****	**-0.031***	**-0.028****	**0.152*****	**0.094*****	**0.075****	**0.062****
	(1.65)	***(1.72)***	***(-2.40)***	***(-1.77)***	***(-2.00)***	***(3.21)***	***(2.64)***	***(2.43)***	***(2.41)***
Leverage	-0.013***	-0.002**	-0.002	0.003	-0.005	-0.006	-0.003	-0.008*	-0.005
	(-6.89)	*(-2.48)*	*(-0.39)*	*(0.62)*	*(-1.33)*	*(-0.90)*	*(-0.58)*	*(-1.87)*	*(-1.31)*
Stateshare	0.206***	0.043***	-0.085	-0.042	-0.071	0.120	-0.085	0.038	-0.106
	(6.09)	*(2.92)*	*(-1.36)*	*(-0.60)*	*(-1.24)*	*(0.54)*	*(-0.50)*	*(0.26)*	*(-0.88)*
Lnasset	-0.000	0.000	0.008	-0.002	-0.022*	-0.043	-0.032	-0.031	-0.021
	(-0.02)	*(0.02)*	*(0.53)*	*(-0.12)*	*(-1.67)*	*(-1.05)*	*(-1.03)*	*(-1.18)*	*(-0.94)*
Market_Book	-0.007***	-0.001	-0.002	-0.000	-0.003	0.021**	0.021***	0.006	0.014**
	(-3.41)	*(-1.19)*	*(-0.75)*	*(-0.01)*	*(-1.08)*	*(2.07)*	*(2.70)*	*(0.91)*	*(2.46)*
Regulated	0.014	0.138***	0.151	0.049	-0.231**	0.052	0.261	-0.054	0.212
	(0.70)	*(5.11)*	*(1.54)*	*(0.40)*	*(-2.33)*	*(0.16)*	*(0.88)*	*(-0.25)*	*(1.01)*
Industry & Year	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Intercept	0.262*	0.009	0.138	0.313	0.778**	0.769	0.204	0.730	0.150
	(1.77)	*(0.13)*	*(0.42)*	*(0.82)*	*(2.53)*	*(0.85)*	*(0.29)*	*(1.24)*	*(0.30)*
N	702	723	195	202	202	681	680	681	680
adj. R2	0.229	0.374	0.414	0.078	0.213	0.184	0.222	0.160	0.226
F	8.699	14.090	6.700	1.683	3.181	5.948	7.247	5.171	7.390

Appendix A Robustness regression results of the effects of institutional environment on political connection and 36-month CAR in family-controlled firms in different institutional environment

The dependent variable in this table is the 36-month cumulative abnormal returns (CARs) adjusted by equally-weighted market return from the second month after the IPO month. The independent variables are a dummy variable *POL* equal to 1 if the president is politically connected (zero otherwise), the institutional dummy variable *Institution* characterized by government intervention index *Index_Gov* following Work Bank (2006) and property protection index *Index_Law* developed by Fan et al. (2010), the interaction term between political connected dummy and the institutional dummy *POL*Institution*, financial Leverage ratio *Leverage*, the percentage ownership of government *Stateshare*, the natural log of total assets *Lnasset*, the Market to book equity ratio *Market_Book*, and a dummy variable *Regulated* equal to one if the firm is in a heavily regulated sector (natural resources, public utilities, or finance and real estate). The regressions adopt ordinary least square methods. Robust t-statistics are provided in parentheses. ***, **, * denote significant at the 1%, 5%, and 10% levels, respectively.

	Legal system (Institution=Index_Law)				Government intervention (Institution=Index_Gov)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
POL			0.155*	0.199**			0.125*	0.218**
			(1.88)	*(2.10)*			*(1.69)*	*(2.30)*
Institution		-0.056		0.020		0.131		0.240**
		(-0.34)		*(0.12)*		*(1.36)*		*(2.11)*
POL*Institution	**0.341****	**0.394***	**0.258***	**0.191**	**0.380*****	**0.280***	**0.316****	**0.012**
	(2.43)	***(1.90)***	***(1.77)***	***(0.84)***	***(2.60)***	***(1.87)***	***(2.16)***	***(0.06)***
Leverage	0.035**	0.035**	0.030**	0.035**	0.035**	0.026**	0.026**	0.035**
	(2.25)	*(2.23)*	*(2.38)*	*(2.32)*	*(2.25)*	*(1.99)*	*(2.39)*	*(2.38)*
Stateshare	-0.899***	-0.888***	-0.803***	-0.828***	-0.909***	-0.871***	-0.791***	-0.882***
	(-3.47)	*(-3.34)*	*(-3.11)*	*(-2.93)*	*(-3.46)*	*(-2.74)*	*(-3.26)*	*(-3.18)*
Lnasset	-0.079	-0.081	-0.088	-0.088	-0.073	-0.069	-0.082*	-0.078
	(-1.20)	*(-1.25)*	*(-1.61)*	*(-1.38)*	*(-1.12)*	*(-1.33)*	*(-1.69)*	*(-1.21)*
Market_Book	0.019	0.019	0.018	0.020	0.020	0.018	0.018	0.021
	(1.29)	*(1.27)*	*(1.34)*	*(1.41)*	*(1.36)*	*(1.37)*	*(1.44)*	*(1.45)*
Regulated	0.388***	0.392***	0.309***	0.359***	0.396***	0.291***	0.275***	0.357***
	(3.44)	*(3.44)*	*(3.20)*	*(3.13)*	*(3.53)*	*(2.91)*	*(3.20)*	*(3.16)*
Intercept	1.230	1.290	1.401	1.360	1.101	1.062	1.301	1.118
	(0.89)	*(0.94)*	*(1.21)*	*(1.00)*	*(0.81)*	*(0.96)*	*(1.26)*	*(0.82)*
N	246	246	246	246	246	246	246	246
adj. R^2	0.087	0.084	0.102	0.098	0.089	0.088	0.105	0.106
F	5.952	5.047	6.103	5.173	6.014	5.524	6.211	5.625

Appendix B Regression results of the effects of political connection on post-IPO long term performance

The dependent variables reported in this table are the 12-, 24-, 36-month buy-and-hold returns (BHARs) adjusted by equally-weighted market return from the second month after the IPO month. Monthly returns are used to calculate the BHARs measures. The independent variables are a dummy variable *POL* equal to 1 if the president is politically connected (zero otherwise), financial Leverage ratio *Leverage*, the percentage ownership of government *Stateshare*, the natural log of total assets *Lnasset*, the Market to book equity ratio *Market_Book*, and a dummy variable *Regulated* equal to one if the firm is in a heavily regulated sector (natural resources, public utilities, or finance and real estate). The regressions adopt ordinary least square methods. Robust t-statistics are provided in parentheses. ***, **, * denote significant at the 1%, 5%, and 10% levels, respectively.

	Total sample			Government-controlled firms			Family-controlled firms		
	BHAR12	BHAR24	BHAR36	BHAR12	BHAR24	BHAR36	BHAR12	BHAR24	BHAR36
POL	**0.168*****	**0.183*****	**0.391****	**0.180****	**0.015**	**0.091**	**0.147**	**0.369*****	**0.702****
	(2.60)	***(2.70)***	***(2.38)***	***(2.21)***	***(0.22)***	***(0.58)***	***(1.41)***	***(2.97)***	***(2.22)***
Leverage	0.025***	0.016*	0.026	0.027**	0.007	-0.009	0.028**	0.026*	0.065**
	(2.95)	*(1.66)*	*(1.40)*	*(2.53)*	*(0.49)*	*(-0.42)*	*(2.19)*	*(1.77)*	*(2.19)*
Stateshare	0.090	0.040	0.055	0.083	0.028	0.165	-0.909*	-0.406	-1.269*
	(1.35)	*(0.64)*	*(0.40)*	*(1.24)*	*(0.65)*	*(1.59)*	*(-1.96)*	*(-1.08)*	*(-1.89)*
Lnasset	-0.007	-0.026	-0.078**	-0.013	-0.018	-0.067*	0.013	0.020	0.082
	(-0.29)	*(-1.52)*	*(-2.11)*	*(-0.49)*	*(-1.03)*	*(-1.71)*	*(0.16)*	*(0.24)*	*(0.34)*
Market_Book	-0.017	-0.022**	0.002	-0.001	-0.034***	-0.012	-0.027	-0.002	0.029
	(-1.44)	*(-2.19)*	*(0.09)*	*(-0.04)*	*(-3.47)*	*(-0.57)*	*(-1.48)*	*(-0.11)*	*(0.74)*
Regulated	0.098	0.011	0.194	0.045	-0.066	0.021	0.172	0.172	0.605
	(1.29)	*(0.17)*	*(1.10)*	*(0.50)*	*(-1.03)*	*(0.13)*	*(1.21)*	*(1.19)*	*(1.44)*
Intercept	-0.207	0.324	0.971	-0.111	0.345	1.007	-0.582	-0.833	-2.704
	(-0.40)	*(0.88)*	*(1.24)*	*(-0.20)*	*(0.92)*	*(1.21)*	*(-0.35)*	*(-0.47)*	*(-0.53)*
N	561	561	560	315	315	314	246	246	246
adj. R^2	0.021	0.015	0.008	0.010	0.019	-0.007	0.028	0.031	0.027
F	4.177	3.385	2.742	2.429	3.150	1.046	3.157	2.880	3.717
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

Appendix C Robust regression results of the effects of political connection on accounting performance measure

The dependent variables reported in this table are the change in return on asset *ROAi*, the change in return on net asset *ROEi*, and sale growth *SALEi* (i=1, 2, 3). *ROAi* (*ROEi*) adjusted by industry median value is calculated as the change of the i year ROA after IPO minus the three year ROA average value previous to IPO. The sale growth SALEi is the percentage of the i year earnings prior to the IPO to the three years after the IPO, where earnings (sales) are scaled by industry median values. The independent variables are a dummy variable *POL* equal to 1 if the president is politically connected (zero otherwise), financial Leverage ratio *Leverage*, the percentage ownership of government *Stateshare*, the natural log of total assets *Lnasset*, the Market to book equity ratio *Market_Book*, and a dummy variable *Regulated* equal to one if the firm is in a heavily regulated sector (natural resources, public utilities, or finance and real estate). To spare the possessed space of this table, the results of control variables are not reported. The regressions adopt ordinary least square methods. Robust t-statistics are provided in parentheses. ***, **, * denote significant at the 1%, 5%, and 10% levels, respectively.

	Total sample			Government-controlled firms			Family-controlled firms		
Panel A: ROA									
	ROA1	ROA2	ROA3	ROA1	ROA2	ROA3	ROA1	ROA2	ROA3
POL	**0.011*****	**0.008***	**0.004**	**0.009***	**0.005**	**0.005**	**0.012****	**0.012****	**0.003**
	(2.97)	***(1.88)***	***(0.85)***	***(1.82)***	***(0.80)***	***(0.77)***	***(2.31)***	***(2.11)***	***(0.37)***
adj. R2	0.119	0.125	0.086	0.091	0.053	0.028	0.156	0.162	0.048
F	12.472	12.044	7.677	6.203	3.781	2.310	9.397	10.661	3.653
Panel B: ROE									
	ROE1	ROE2	ROE3	ROE1	ROE2	ROE3	ROE1	ROE2	ROE3
POL	**0.029*****	**0.023****	**0.019***	**0.031****	**0.023***	**0.024***	**0.025****	**0.023****	**0.008**
	(3.37)	***(2.54)***	***(1.91)***	***(2.51)***	***(1.76)***	***(1.82)***	***(2.24)***	***(1.97)***	***(0.58)***
adj. R2	0.111	0.115	0.106	0.112	0.075	0.055	0.097	0.090	0.030
F	8.762	8.379	6.720	5.382	3.588	3.204	5.818	5.375	1.686
Panel C: SALE									
	SALE1	SALE2	SALE3	SALE1	SALE2	SALE3	SALE1	SALE2	SALE3
POL	**0.272***	**0.490****	**0.967*****	**0.248**	**0.440**	**0.776***	**0.302**	**0.564***	**1.262****
	(1.83)	***(2.12)***	***(2.81)***	***(1.20)***	***(1.38)***	***(1.69)***	***(1.41)***	***(1.65)***	***(2.40)***
adj. R^2	0.032	0.052	0.060	0.042	0.049	0.051	-0.003	0.035	0.053
F	4.047	5.998	5.999	3.173	3.555	3.493	0.869	2.474	2.754
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

Appendix D Robust tests of endogeneity of political connection

The dependent variable in this table is the 12-, 24- 36-month cumulative abnormal returns (CARs) adjusted by equally-weighted market return from the second month after the IPO month. The independent variables are a dummy variable *POL* equal to 1 if the president is politically connected (zero otherwise), the institutional dummy variable *Institution* characterized by government intervention index *Index_Gov* following Work Bank (2006) and property protection index *Index_Law* developed by Fan et al. (2010), the interaction term between political connected dummy and the institutional dummy *POL*Institution*, financial Leverage ratio *Leverage*, the percentage ownership of government *Stateshare*, the natural log of total assets *Lnasset*, the Market to book equity ratio *Market_Book*, and a dummy variable *Regulated* equal to one if the firm is in a heavily regulated sector (natural resources, public utilities, or finance and real estate). This table reports the regression results of the effects of political connection of chairmen and directors of the board on post-IPO long term performance. Regressions utilize two-stage least squares method (2SLS). Instrumental variables are the unemployment rate, per capita GDP, and budget deficit. On the first stage, we regress political connection dummy on external factors, such as unemployment dummy, per capita GDP, and the budget deficit dummy, and the characteristic variables of the firm, such as Leverage, Lnasset, Market_Book, Stateshare as well as Regulated. On the second stage, we replace political connection by the predicted value of political connection to examine the relationship between political connection and post-IPO performance. To cut down the possessed space of the table, the results of control variables are not reported. Panel A and Panel B report the regression results of robustness tests of endogeneity of political connection of chairmen and directors of the board, respectively. Robust t-statistics are provided in parentheses. ***, **, * denote significant at the 1%, 5%, and 10% levels, respectively.

	Total sample			Government-controlled firms			Family-controlled firms		
	CAR12	CAR24	CAR36	CAR12	CAR24	CAR36	CAR12	CAR24	CAR36
Panel A:Political connection of the chairmen									
POL	**-0.028**	**0.098**	**-0.343**	**-0.270**	**-0.383**	**-0.683**	**0.644****	**0.643***	**0.610**
	(-0.08)	***(0.25)***	***(-0.65)***	***(-0.83)***	***(-0.97)***	***(-1.20)***	***(1.97)***	***(1.83)***	***(1.49)***
adj. R^2	0.001	0.019	.	.	.	.	.	.	0.025
F	1.778	2.147	2.141	1.113	1.355	1.231	3.010	3.467	4.340
Panel B:Political connection of board members									
POL	**-0.066**	**-0.009**	**-0.257**	**-0.201**	**-0.336**	**-0.436**	**0.726***	**0.780***	**0.693**
	(-0.24)	***(-0.03)***	***(-0.66)***	***(-0.81)***	***(-1.09)***	***(-1.10)***	***(1.91)***	***(1.82)***	***(1.60)***
adj. R^2	-0.010	0.006	.	.	.	.	.	.	.
F	1.768	2.076	2.151	1.151	1.532	1.353	2.760	3.083	4.426
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

Appendix E Robustness tests of the substitutes for political connection

The dependent variables in this table are the 12-, 24- 36-month CARs adjusted by equally-weighted market return from the second month after the IPO month. The independent variables are a dummy variable *POL* equal to 1 if the president and the general manager or board members are politically connected (zero otherwise), financial Leverage ratio *Leverage*, the percentage ownership of government *Stateshare*, the natural log of total assets *Lnasset*, the Market to book equity ratio *Market_Book*, and a dummy variable *Regulated* equal to one if the firm is in a heavily regulated sector (natural resources, public utilities, or finance and real estate). To spare the possessed space of this table, results of control variables are not reported. The regressions adopt ordinary least square methods. Panel A and Panel B report results of the effects of political connection of president/general manager and board members on long term performance. Panel C reports the results of politically connected president decomposed into the former bureaucrat dummy *POL _GOV_FORMER*, the current bureaucrat dummy *POL _GOV_CURR*, and the current or former deputies of CPPCC or NPC *POL_NPC_CPPCC*. To compress the table space, the regression results of control variables are not provided. Robust t-statistics are provided in parentheses. ***, **, * denote significant at the 1%, 5%, and 10% levels, respectively.

	Total sample			Government-controlled firms			Family-controlled firms		
	CAR12	CAR24	CAR36	CAR12	CAR24	CAR36	CAR12	CAR24	CAR36
Panel A: Political connection of chairmen and general managers									
POL	**0.069***	**0.096****	**0.097***	**0.040**	**0.002**	**-0.026**	**0.099***	**0.190*****	**0.212****
	(1.94)	***(2.18)***	***(1.72)***	***(0.93)***	***(0.03)***	***(-0.35)***	***(1.70)***	***(2.70)***	***(2.54)***
adj. R^2	0.016	0.016	0.022	0.005	-0.001	0.001	0.040	0.066	0.100
F	2.436	2.865	2.747	1.308	1.173	1.188	3.658	4.451	6.263
Panel B:Political connection of directors of the board									
POL	**0.061***	**0.079****	**0.071**	**0.055**	**0.026**	**0.022**	**0.062**	**0.145****	**0.133****
	(1.76)	***(2.26)***	***(1.22)***	***(1.64)***	***(0.51)***	***(0.33)***	***(1.13)***	***(2.13)***	***(1.97)***
adj. R^2	0.014	0.013	0.019	0.008	-0.000	0.001	0.033	0.054	0.085
Chi2	16.070	13.824	17.563	8.452	6.417	6.530	23.323	29.641	40.886
Panel C:The decomposition of politically connected chairmen									
POL _GOV_FORMER	**0.048**	**0.095***	**0.139***	**0.063**	**0.036**	**0.061**	**0.037**	**0.238***	**0.303****
	(1.14)	***(1.67)***	***(1.91)***	***(1.30)***	***(0.58)***	***(0.71)***	***(0.43)***	***(1.95)***	***(2.29)***
POL _GOV_CURR	**0.118**	**0.013**	**-0.160**	**0.131**	**-0.093**	**-0.423*****	**0.117**	**0.107**	**0.150**
	(1.08)	***(0.08)***	***(-0.64)***	***(0.92)***	***(-0.75)***	***(-2.97)***	***(0.71)***	***(0.33)***	***(0.27)***
POL _NPC_CPPCC	**0.092****	**0.124****	**0.096**	**0.053**	**0.022**	**-0.023**	**0.108***	**0.160****	**0.125**
	(2.32)	***(2.37)***	***(1.42)***	***(1.03)***	***(0.33)***	***(-0.23)***	***(1.71)***	***(2.07)***	***(1.39)***
adj. R^2	0.020	0.021	0.024	0.008	-0.006	0.005	0.037	0.076	0.104
F	2.699	2.676	2.572	1.355	0.979	2.650	3.103	3.581	4.731
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)