

Political Uncertainty and Corporate Risk-taking: Evidence from the Listed Companies in China

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Abstract: *This study draws from resource dependence theory to investigate the impact of political uncertainty on corporate risk-taking in China. The sample of this study is the 1,740 non-financial listed companies from the period of 2012-2024, and the panel data analysis approach is used for hypothesis testing. By using the hand-collected official turnover data at municipal-level city governments, the results show that: (1) political uncertainty has a significantly negative effect on corporate risk-taking, that is, when firms are present in the context of political uncertainty, their risk-taking tend to become lower; (2) political ties reduces this negative effect, that is, both state ownership ties and managerial political ties are positively moderate the negative effect of political uncertainty on corporate risk-taking. The findings of the study deepen our understanding of the economic consequences of political uncertainty on corporate risk-related decision-making and offer valuable perspectives for corporate risk management strategies.*

Keywords: Political uncertainty; Political ties; Risk-taking; Government officials; China

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1. Introduction

Politician turnover, as an important dimension of the institutional environment, has become extremely prevalent in the field of corporate strategic risk management research. Building on Julio & Yook (2012), politician turnover has been widely seen as a signal that triggers political uncertainty. Most of existing researches have investigated the impact of political uncertainty, especially from the event of the national and gubernatorial elections in Western countries, on the economic development and firm outcome worldwide (e.g., Akhtari, Moreira, & Trucco, 2022; Ben-Nasr, Bouslimi, Ebrahim, & Zhong, 2020), while the evidence on how political uncertainty affects corporate risk-taking remains scarce, especially in a country with one-party ruling like China, where political uncertainty is often related to the official turnover in the local government levels (Niu & Zhou, 2023).

The Chinese central government adopts a model with political centralisation and fiscal decentralisation to manage the country (Xu, 2011). On the one hand, the central government has the ultimate authority to promote or demote local government officials. On the other hand, it also authorises local governments with substantial autonomy and equips them with effective tools to allocate economic resources independently and are responsible for economic development in their regions. As Wu (2023) mentioned, although China is not a federal country constitutionally, local governments in China are more powerful on a series of social economic issues than their counterparts in federal countries around the world due to they are responsible for much wider regional matters than latter simply fiscal issues. By establishing a GDP-based official promotion evaluation system, the central government successfully created a competition among the local officials, which is widely believed to have greatly contributed to China's economic success during the past four decades (Breznitz & Murphree, 2011).

Typically, one term for an official in the Chinese local government is 5 years by law. However, local government officials in China are generally appointed by upper-level government officials rather than being elected by local voters (An, Chen, Luo, & Zhang, 2016). To ensure the effectiveness of the personnel control and incentive system, especially to make the promise of promotion convincing, the turnover rate of local officials was kept at a high level (Yao & Zhang, 2015). In fact, most local officials do not complete

their initial five-year terms and leave for other positions due to various public and undisclosed reasons (Xu, Chen, Xu, & Chan, 2016). When the local government leadership changes, the regional economic environment and policy will also change to some extent, which will undoubtedly have an impact on the risk-related decision-making of firms in the region. As the tenure for a local official is largely unpredictable, managing political uncertainty is a priority task for most local market participants (Qian, Wang, Zhang, & Zhong, 2024).

Resource dependence theory emphasised that the perceived environmental uncertainty can deeply influence a corporation's strategic decision and risk-taking (Coşkun & Öztürk, 2024). Official turnover is an important factor that can effectively influence the corporate's external environment (Yu, Nahm, & Song, 2022) and thus, corporate risk-taking in the context of political uncertainty may also be affected. To fill this gap in the literature, this paper is framed with corporate external environmental uncertainty and treats official turnover as a source of political uncertainty to explore its effect on corporate risk-taking and the moderating roles of heterogeneous political ties on this relationship. Using a balanced panel dataset of Chinese non-financial listed companies for the period from 2012 to 2024, the objective of this study is to investigate the impact of Chinese local government official turnover on corporate risk-taking. We found a negative association, which suggests that firms may take less risks when they are present in the context of political uncertainty. This finding remains robust across several robustness and endogeneity tests, including using alternative dependent and independent variables, removing the election years effect, and instrumental variable estimations. Moreover, heterogeneity analysis also indicates that the heterogeneous political ties (i.e., the state ownership ties and managerial political ties) may weaken this effect, which suggests that the state ownership ties and managerial political ties all positively moderate this relationship.

Our study contributes to the literature in the following ways. First, this paper provides the empirical results about the official turnover in the Chinese local government level and its influence on corporate risk-taking, which contributes to the literature on political uncertainty and corporate risk-taking via calling for more studies to examine the firm-level effects of political uncertainty. Second, this paper also enriches the current research on heterogeneous political ties, such as ownership ties and managerial

ties. At present, research in this field pays little attention to examining the moderating role of different types of political ties. Thus, this paper extends and enriches the dominant research. Finally, this paper examines the effect of official turnover in China's institutional political environment, which is a critical but underdeveloped area. This paper not only extends the current knowledge about political uncertainty and its economic implications in the Chinese context, but also examines the boundaries of the main effects in developing countries by heterogeneous political ties.

The remaining paper is organised as follows. Section 2 presents the theory discussion and hypothesis development. Research designs are discussed in Section 3. Section 4 presents empirical results and Section 5 summarises the study.

2. Literature Review and Hypothesis Development

2.1 Political uncertainty and corporate risk-taking

Political uncertainty affects corporate risk-taking mainly through the two main channels in China. First, political turnover directly influences the top managers' decision-making regarding resource allocation and strategic adjustments, which subsequently shapes their corporations' risk-taking. Within China's governmental hierarchy, the performance evaluation of lower-level officials by upper-level superiors is largely based on their adherence to assigned tasks and goals, with local economic development outcomes playing a critical role in determining their prospects for political career advancement (Cao, Dong, Hou, Liu, & Qian, 2019). When these local officials pursue their social and political objectives, they frequently exercise power to support those specific or potential business programs that will benefit their further political achievement. If local officials are promoted or replaced, however, these policies that they have implemented may be changed or even abolished during their successors' terms, resulting in increased policy uncertainty in the region (Hu & Kong, 2021). Previous studies (e.g., Cheng, Yao, & Meng, 2023; Wang & Luo, 2019) have confirmed that frequent officials' change disrupts the allocation of resources and induces uncertainties, which is damaging to economic development. Therefore, when political turnover occurs, firms located in the affected jurisdictions may inevitably postpone making operational decisions and

thereby affect their risk-taking until part or all of the policy risk is resolved.

Second, political turnover also disrupts or dismantles the firm's existing political connections, which affects the top managers' operational decisions. Prior research across various countries (e.g., Wong, Ooi, & Hooy, 2022; Wong & Hooy, 2018) have demonstrated that political connections significantly enhance firm operations, providing access to critical resources and increasing firm value. Similarly, political connections also play a vital role in facilitating business activities in China (e.g., Li, Wei, Cao, & Chen, 2022; Bai, Hsieh, & Song, 2020). Given China's unique socioeconomic structure, which blends market mechanisms with centralised government planning, political actors and officeholders exert substantial influence over the economic and business operations. Firms often need to cultivate and maintain a close relationship with local government officials in order to secure favourable policies, regulatory advantages, and economic benefits (Pham, 2019). This reliance on political connections creates an environment where firms must closely monitor and adapt to changes in political uncertainty to protect their interests. Consequently, when political turnover occurs, top managers tend to adopt a cautious approach, delaying expansion plans and conserving resources until they can establish relationships with incoming leaders or gain clarity on their policy priorities (Pan, Zhang, & Zhang, 2022). This strategic hesitation, driven by the need to navigate political uncertainty, often leads to a reduction in corporate risk-taking.

According to the above discussion, we hypothesise:

Hypothesis 1: Political uncertainty is negatively related to corporate risk-taking.

2.2 The moderating role of state ownership ties

In China, the government maintains its controlling influence over state-owned enterprises (SOEs) through equity holdings (Jiang & Kim, 2020). This control makes SOEs particularly susceptible to political uncertainty. Unlike the private-owned enterprises (POEs), SOEs are not only subject to general political influences but also experience direct intervention in their operational and personnel decisions by local government officials, especially in the case of SOEs established and managed by local governments (Guo, Pan, & Tian, 2021). Consequently, the stringent oversight and control exerted by the government continuously shape the overall operations and

decision-making processes of SOEs, making them more exposed to political risks than POEs. As highlighted by Brahma, Zhang, Boateng, & Nwafor (2023), political uncertainty exerts a significant impact on SOEs due to their having stronger political ties with the government. Therefore, it is reasonable to conclude that the effect of political uncertainty on corporate risk-taking should be more pronounced in SOEs compared to their non-SOEs counterparts.

In stark contrast, several studies present opposing perspectives. As such, the findings of Chaudhry & Veld (2023) and Ni (2019) highlight that the adverse effects of political uncertainty are more pronounced on POEs than on SOEs. Huang, Liu Ma and Xu (2024) provide evidence of the soothing effect of political connections on policy uncertainty, thereby giving SOEs advantages when hedging against uncertainty than their unaffiliated peers due to preferential government treatment. Moreover, the institutional connections held by SOEs are also more stable than the personal connections that POEs usually build with local government officials (Li, Shao, Tao, & Yuan, 2022). When political turnover occurs, POEs often face the risk of losing their established political connections, thereby exposing them to heightened political uncertainty. In comparison, SOEs, bolstered by their symbiotic relationship with the government, are less susceptible to such disruptions and can continue their operations with minimal interference (Cardinale, 2022). Thus, POEs always tend to exhibit greater sensitivity to changes in local leadership, amplifying the impact of political uncertainty on their risk-taking

According to the above discussion, we hypothesise:

Hypothesis 2: State ownership ties attenuate the relationship between political uncertainty and corporate risk-taking.

2.3 The moderating role of managerial political ties

In previous research, managerial political ties may also be considered a valuable resource (Brahma et al., 2023), because they offer opportunities to build connections with powerful government officials and help their own firms to obtain more critical information about the political process. Thus, firms with managerial political ties may invest substantial resources in relationship building and maintenance in order to gain rewards from the government (Park & Luo, 2001). Even in the context of local government

official turnover, managerial political ties may help firms obtain some necessary resources or useful information and thus, promote firms' performance development and encourage firms to take more risks. In other words, investing in managerial political ties can serve as another way to protect property rights, which helps firms to resist the influence of political encroachment and uncertainty and improves their risk-taking capacity (Zhang, Bai, & O'Kane, 2022). In contrast, firms without managerial political ties may not be able to influence the new local government officials or attempt to change policies when the new local officials implement a new policy that is bad for the firm, because their top executives may not be familiar with the local government system and cannot build political connections with new officials as quickly (Li & Zhou, 2005). As such, those firms may not be able to reduce the effect of political uncertainty and thus reduce their risk-taking due to a lack of information exchange channels with the government.

According to the above discussion, we hypothesise:

Hypothesis 3: Managerial political ties attenuate the relationship between political uncertainty and corporate risk-taking.

3. Research Design

3.1 Data sources and sample selection

The research period of this study is set from 2012 to 2024, a total of 13 years for each sample. The year 2012 is taken as the starting point because this year marks the beginning of the term of office of the new Chinese central government headed by Xi Jinping as President. The new administration term subsequently announced a series of reform policies, which were regarded by investors and the public as the beginning of a largely anti-corruption storm and political turnover (Lin, Morck, Yeung, Zhao, 2023). The year 2024 was the latest available data at the time this study commenced.

In this study, we use the local official turnover data on the municipal-level city governments. Compared with data at the national and provincial levels, data at the municipal level can provide deeper and more robust evidence on our research question. In each municipal-level city government, there are two main leaders (Wu, Li, & Li, 2020), namely: the secretary of the

Communist Party of China municipal committee (hereafter, CPC secretary) and the mayor. The CPC secretary essentially acts as the highest-ranking official in the local government, who is responsible for local economic affairs and policy formulation. The mayor would be more focused on running daily government affairs and implementing policies. Hence, the dual administrative structure means that both turnover of CPC secretaries and turnover of city mayors may affect corporate's operational decision-making.

The data collection is divided into three stages in this study. First, we manually collected the firm-level financial information for all companies that were listed on either the Shanghai or Shenzhen Stock Exchange from 2012 to 2024. The sources from the China Stock Market Accounting Research (CSMAR) database and each company released annual reports on their official websites. Following An et al. (2016), our initial sample meets the following five principles:

- 1) Excluding the listed finance and insurance companies (i.e., SIC codes 6000-6999) from our research sample. There are significant differences in the financial statements' structure and the major accounting items compared with other industries;
- 2) Excluding the listed companies treated by *ST (delisting risk warning special treatment), ST (other special treatment), suspension or termination. There are continued losses or other abnormal financial standing in those companies, which may disturb the accuracy of the regression results;
- 3) Excluding the listed companies with changed registered cities;
- 4) Excluding listed companies with uncompleted financial data.
- 5) Excluding the listed companies listed after 2012.

Second, because these selected sample firms are located in 214 municipal-level cities based on their registered address, we manually collected the resumes of both mayors and CPC secretaries of these cities from city government official websites, press releases, and other public announcements to form the data on local government official turnover. Third, we combine the local government official turnover data and macroeconomic data with firm-level information by matching the city and year.

After excluding observations that lack available data on our main variables, our final sample includes 1,470 firms with 19,110 firm-year observations distributed in 214 cities. The sample size covers approximately

two-thirds of Chinese municipal-level cities and all four centrally administrated cities. We exclude Hainan, Tibet, Taiwan, Hong Kong, and Macau but include all other provincial-level administrative regions in our sample because these regions lack data or have different local political systems from other regions.

3.2 Variable Measurements

3.2.1 Dependent variables

The dependent variable is corporate risk-taking. In this paper, we adopted two different methods to measure corporate risk-taking.

First, we use the R&D expenditure (*RISK1*), which is a widely adopted indicator for measuring the corporates' investment risk in the literature (e.g., Serfling, 2014). The *RISK1* equals the ratio of total R&D expenses to total assets.

Second, we also use the financial leverage (debt) (*RISK2*) as an alternative dependent variable, which is also a widely adopted indicator for measuring the corporates' financial risk in the literature (e.g., Lv & Bai, 2018). The *RISK2* equals the ratio of total debts to total assets.

3.2.2 Independent variables

The independent variable is political uncertainty. Following An et al. (2016), we constructed a dummy variable, i.e., *Turnover*, to capture the official changes at the municipal-level city governments. The establishing variables are as follows:

- 1) *Turnover_{it}* is a dummy variable, which equals to 1 if either a CPC secretary or a mayor is replaced in a city where firm *i* is located at year *t*, and 0 otherwise.

In order to conduct further robustness tests, we specifically divided the *Turnover* into two different types, as follows:

- 2) *Turnover_Mayor_{it}* is a dummy variable, which equals to 1 if a mayor is replaced in a city where firm *i* is located at year *t*, and 0 otherwise.
- 3) *Turnover_CPC secretary_{it}* is a dummy variable, which equals to 1 if a CPC secretary (i.e., Secretary of the CPC municipal committee) is replaced in a city where firm *i* is located at year *t*, and 0 otherwise.

3.2.3 Control variables

We control for certain characteristics that prior studies indicate are relevant to corporate risk-taking at the firm-financial, individual, and local macroeconomic levels (Lv & Bai, 2018; An et al., 2016). The firm-financial controls include: firm size ($Size_{it}$), profitability (ROA_{it}), cash flow ($Slack_{it}$), asset of tangibility ($Tangibility_{it}$), and market to book (MTB_{it}). The firm-individual controls induce: the ownership of the largest shareholder ($Top1_{it}$) and firm age (Age_{it}). At the regional macroeconomic level, we control the GDP growth rate ($GDP\ Growth_{it}$) at the municipal-level cities. All continuous variables are winsorized at 1% at both tails. We provide detailed definitions of these variables in Appendix A.

3.3 Regression Models

This paper conducts panel regressions and estimates firm and year fixed effects to check the hypotheses. The estimation models are presented as follows:

Baseline model:

$$RISK_{it} = \alpha_0 + \beta_1 Turnover_{it} + Controls + Firm_{it} + Year_{it} + \varepsilon_{it}$$

Moderating model:

$$RISK_{it} = \alpha_0 + \beta_1 Turnover_{it} + \beta_2 PT_{it} + \beta_3 (Turnover_{it} \times PT_{it}) + Controls \\ + Firm_{it} + Year_{it} + \varepsilon_{it}$$

Where α denotes the intercept, β_i is the regression coefficients to be estimated, and ε is the error term. The dependent variable is $RISK_{it}$, denotes corporate risk-taking.

In addition to the independent variable, moderating variables, and control variables mentioned above. *Controls* are a set of control variables, *Firm* indicates firm fixed effects, and *Year* indicates year fixed effects.

4. Empirical Results

4.1 Descriptive statistics and correlation

Table 1 reports the distribution for official turnover in our 214-sample municipal-level cities from 2012-2024. Averaged across all years, the CPC secretaries change in 30.87% of sample cities, the mayors change in 31.34% of sample cities, and the percentage of changes in either CPC secretaries or mayors is 45.25%. The three highest turnover rates occurred in 2012, 2017, and 2022, which were election years both the central and local levels of China.

Table 1: Distribution of political turnover by year.

Year	City	CPC secretary		Mayor		CPC Secretary or Mayor	
	N	N	Percentage	N	Percentage	N	Percentage
2012	214	83	38.7850%	88	41.1214%	124	57.9439%
2013	214	65	30.3738%	75	35.0467%	98	45.7943%
2014	214	31	14.4859%	33	15.4205%	48	22.4299%
2015	214	73	34.1121%	63	29.4392%	110	51.4018%
2016	214	70	32.7102%	75	35.0467%	103	48.1308%
2017	214	98	45.7943%	101	47.1962%	139	64.9532%
2018	214	80	37.3831%	68	31.7757%	122	57.0093%
2019	214	33	15.4205%	41	19.1588%	62	28.9719%
2020	214	56	26.1682%	61	28.5046%	87	39.2523%
2021	214	67	31.3084%	64	29.9065%	94	43.9252%
2022	214	88	41.1214%	95	44.3925%	129	60.2803%
2023	214	55	25.7009%	61	28.5046%	87	40.6542%
2024	214	60	28.0373%	47	21.9626%	59	27.5700%
Average	214	66	30.8770%	67	31.3443%	97	45.2551%

Note(s): This table tabulates the distribution of 214 municipal-level city government official turnover by year 2012-2024.

Descriptive statistics for the continuous variables used in our analysis are presented in Panel A of Table 2. As shown in the table, the mean of *RISK1* is 3.0210, with a 0 min and 45.5510 max. It indicates that corporate risk-taking varied widely over the sample.

On average, our sample firms have 23.1440 logged assets, a ROA ratio of 0.0530, and a ratio of the largest shareholder in percentage is 36.9970. The summary statistics of dummy variables are described in Panel B of Table 2. Among 1410 sample companies, 57.96% of them are non-SOEs and 42.04% of them are SOEs. Moreover, among 1410 sample companies, 160 (10.90%) sample firms' CEO or chairperson served as a former (current) government official (i.e., politically-linked companies (PLCs)). During the sample period from 2012 to 2024, there were 1731 official changes in 214 sample municipal-level cities, including 872 mayor changes with a proportion of 31.34% and 859 CPC secretary changes with a proportion of 30.88%. And among 2782 year-city-official observations, either mayor or CPC secretary, the officials in municipal-level city governments are replaced 1259 times, accounting for 45.26%.

Table 2: Summary statistics

Panel A: Descriptive statistics for the continuous variables						
Variable	Obs	Mean	S.D.	Min	Median	Max
RISK1	19,110	3.0210	3.0510	0.0000	2.6680	45.5510
RISK2	19,110	0.5080	0.2920	0.0420	0.5020	0.8850
Size	19,110	23.1440	2.2270	20.0420	22.9300	26.7680
ROA	19,110	0.0530	0.0660	-0.2870	0.0480	0.2430
Slack	19,110	0.2486	0.2183	0.0000	0.2200	0.5326
Tangibility	19,110	0.2200	0.3120	0.0000	0.1720	9.2520
MTB	19,110	3.5496	2.8013	1.9041	2.9766	13.0679
Top1	19,110	36.9970	16.0450	3.1970	35.5300	90.0900
Age	19,110	14.1592	6.5971	1.0000	14.0000	22.0000
GDP Growth	19,110	0.1024	0.0359	0.0464	0.0962	0.1700

Panel B: Descriptive statistics for the dummy variables			
Variable	Dummy variable = 0	Dummy variable = 1	N
PT1	852 (57.96%)	618 (42.04%)	1,470
PT2	1,310(89.10%)	160(10.90%)	1,470
Turnover	1,523 (54.74%)	1,259 (45.26%)	2,782
Turnover-Mayor	1,910 (68.66%)	872 (31.34%)	2,782
Turnover-CPC secretary	1,923 (69.12%)	859 (30.88%)	2,782

Note(s): Panel A of this table presents the descriptive statistics for continuous variables used in the analysis; Panel B of this table reports the descriptive statistics for the dummy variables in the analysis. All variables are defined in Appendix A.

This paper applied Pearson correlation to continuous variables. Table 3 presents the Pearson correlation coefficients of all continuous variables. All correlations between dependent, independent, moderating and control variables are relatively low (Value < 0.5), which indicates that there is no collinearity issue. We further conduct a variance inflation factor (VIF) analysis. Table 4 shows the VIF for the main variables used in this study. All the VIF values were lower than 5, and the mean of them was 1.8451. Thus, the multicollinearity of the main variables is not a serious problem.

Table 3: Pearson correlation matrix

	1	2	3	4	5	6
1 RISK1	1.0000					
2 Turnover	0.0190	1.0000				
3 PT1	0.0141	0.0325	1.0000			
4 PT2	0.2890	0.1475	0.3720	1.0000		
5 Size	0.0412	0.0357	0.0742	0.1028	1.0000	
6 ROA	0.0224	-0.0232	-0.0250	0.0425	0.3625	1.0000
7 Slack	-0.2197	0.2294	0.0308	0.1680	0.0226	0.3215
8 Tangibility	0.2032	0.2479	0.2087	-0.0259	0.0314	-0.1201
9 MTB	0.0027	0.0114	0.0287	0.0036	0.0074	0.0287
10 Top1	0.0874	0.2458	0.0063	0.0412	0.0216	0.0257
11 Age	-0.0832	0.3307	0.0326	0.3046	0.4746	0.3120
12 GDP Growth	0.0192	0.2264	0.0458	0.0952	0.0442	0.0734
	7	8	9	10	11	12
1 RISK1						
2 Turnover						
3 PT1						
4 PT2						
5 Size						
6 ROA						
7 Slack	1.0000					
8 Tangibility	0.2261	1.0000				
9 MTB	0.1245	0.0478	1.0000			
10 Top1	0.0623	0.3420	0.0996	1.0000		
11 Age	0.0268	0.0113	0.0883	0.2451	1.0000	
12 GDP Growth	0.0311	0.0658	0.0312	0.0751	0.0825	1.0000

Note(s): This table presents the correlation coefficients on the main variables defined in Appendix A.

Table 4: Variance inflation factor (VIF) analysis

Variable	
Size	2.3814
ROA	1.7822
Slack	2.2031
Tangibility	2.3360
MTB	2.7450
Top1	2.3120
Age	1.5275
GDP Growth	1.0215
Turnover	1.6347
PT1	1.1024
PT2	1.0256
Mean VIFs	1.8451

Note(s): This table reports the results of VIF analysis for the main variables defined in Appendix A.

4.2 Baseline regression results

Table 5 reports the panel regression results of the baseline model. The main parameter of interest is $Turnover_{it}(\beta_1)$, which captures the relationship between political uncertainty and corporate risk-taking. In column (1), we include no control variables, the coefficient on β_1 is negative and significant at the 5% level. The result continues to hold when we include all control variables in column (2). In column (2), the estimated β_1 is negative and statistically significant at 1% level (coefficient $\beta = -0.6790$). These findings support our H1, indicating that political uncertainty is negatively related to corporate risk-taking. In other words, political uncertainty leads firms to significantly decrease their risk-taking in political turnover years relative to non-political turnover years.

Regarding the control variables, consistent with the literature (Chen, 2022; An et al., 2016), corporate risk-taking is significantly positively associated with $Slack_{it}$ and MTB_{it} , indicates that firms with more free cash flows and growth opportunities are more willing to take risks, but is negatively related to Age_{it} . In addition, we find a significantly negative coefficient on $Size_{it}$, show large firms are likely to be riskier than small firms, consistent with the “too big to fail” perspective under which moral hazard encourages larger firms to take more risks (Zhang, Yuan, Li, Chen, & Luo, 2024). The coefficient of ROA_{it} is positive and significant at 1% level, which

suggests that greater profitability is related to a higher risk-taking level; it is in line with the results of Liu & Zheng (2024) and Chen (2022). Finally, the coefficients of $Tangibility_{it}$ and $Top1_{it}$ are negative significantly at the 1% level and 5%, respectively, which indicates that firms with greater tangible assets and higher equity concentration are more risk-averse.

Table 5: Relationship between political uncertainty and corporate risk-taking

Variable	RISK1	RISK1
	(1)	(2)
	Fixed effect	Fixed effect
Turnover	-0.4216** (0.0207)	-0.6790*** (0.0089)
Size		-0.0141** (0.0473)
ROA		0.2030*** (0.0044)
Slack		0.0036* (0.0762)
Tangibility		-0.0410*** (0.0095)
MTB		0.0038** (0.0462)
Top1		-0.0200** (0.0431)
Age		-0.0450 (0.1720)
GDP Growth		-0.0400 (0.1920)
Constant	-0.0856*** 0.0085	-0.1437*** 0.0023
Firm fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
Observations	19110	19110
R^2	0.5120	0.6180
Hausman Test		19.95**

Note(s): This table reports the baseline results of the impact of political uncertainty on corporate risk-taking. The dependent variable is $RISK1$, and the independent variable is $Turnover$. Figures in parentheses are the values of the p-value. ***, ** and * denote statistical significance at 1%, 5% and 10% levels, respectively. All variables are defined in Appendix A.

4.3 Robustness checks

In this section, we conduct a set of tests to reinforce the consistency and reliability of the baseline results. Our tests using specifications and measures of explanatory variables and dependent variables, and removing the election-year effect.

4.3.1 Alternative measure of the dependent variable

Table 6 reports the results of re-estimating the baseline model by using an alternative dependent variable for robustness. In this table, we estimate the model by using $RISK2_{it}$ as the dependent variable, as defined earlier. And examine the coefficient on the variable of interest, $Turnover_{it}(\beta_1)$. We find that the coefficient estimates for β_1 , is -0.0860 and consistently negative related to $RISK2$ at the 1% significance level. Obviously, this result is as strong as the β_1 in Table 6. As such, we can conclude that H1 is accepted.

Table 6: Alternative dependent variable analysis

Variable	RISK2
Turnover	-0.0860*** (0.0045)
Control	Yes
Firm fixed effect	Yes
Year fixed effect	Yes
Observations	19110
R^2	0.5310

Note(s): This table reports the robustness results using an alternative dependent variable. In this table, we use $RISK2$ as an alternative dependent variable; the independent variable is $Turnover$. $Controls$ is a set of control variables. Figures in parentheses are the values of p-value. ***, ** and * denote statistical significance at 1%, 5% and 10% levels, respectively. All variables are defined in Appendix A.

4.3.2 Alternative measures of the independent variable

In this section, we also use specifications of political uncertainty for robustness. To examine different effects of CPC secretaries and mayors, we re-regress the baseline model in terms of different explanatory variables, namely $Turnover-Mayor$ and $Turnover-CPC\ secretary$, as defined earlier. We

expect that the parameter of interest, β_1 , remains significantly negative in the new estimations. The test results are reported in Table 7.

From the table, we can see the coefficient estimation for β_1 is significantly negative when using different political turnover variables, which confirms the negative relationship between political turnover and corporate risk-taking. In addition, the coefficient on *Turnover_Mayor_{it}* in column (1) is -0.0241 and significance at 10% level; the coefficient on *Turnove_CPC secretary_{it}* in column (2) is -0.5080 and significance at 1% level. These results evidence that the turnover of CPC secretaries has a greater influence on local firms than the turnover of mayors. In other words, firms significantly reduce their risk-taking when the CPC secretaries are replaced, while the mayoral turnovers do not have such an effect.

Table 7: Alternative dependent variable analysis

Variable	(1) RISK1	(2) RISK1
Turnover-Mayor	-0.0241* (0.0742)	
Turnover-CPC secretary		-0.5080*** (0.0062)
Control	Yes	Yes
Firm fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
Observations	19110	19110
R ²	0.6180	0.0590

Note(s): This table reports the robustness results using alternative independent variables. In column (1), we use *Turnover-Mayor* (A dummy variable that takes a value of one in year t if there is a change of the mayor in a city, or zero otherwise) as an alternative dependent variable. In column (2), we use *Turnover-CPC secretary* (A dummy variable that takes a value of one in year t if there is a change of the secretary of the Communist Party of China municipal committee in a city, or zero otherwise) as an alternative dependent variable. In all columns, the dependent variable is *RISK1*. *Controls* is a set of control variables. Figures in parentheses are the values of p-value. ***, ** and * denote statistical significance at 1%, 5% and 10% levels, respectively. All variables are defined in Appendix A.

4.4 Endogeneity

Our baseline results are consistent with the view that political uncertainty decreases corporate risk-taking. However, the results are difficult to interpret

if there is an endogeneity issue. To address the potential endogeneity concerns, including omitted variables and simultaneity bias, we first use the two-stage least squares (2SLS) approach with instrumental variables (IV). Referring to Pan et al. (2022) and An et al. (2016), we designate the official's age (*Age2*) as the instrumental variable, which is defined as the maximum age of the mayor and CPC secretary of the municipal-level city in the preceding year. The reason for choosing this variable is the likelihood of replacement increases with the advancing age of officials. And selecting the maximum value aligns with the logic defining our key independent variable. Moreover, the official's age, being a physiological attribute, does not directly influence corporate risk-taking. Table 8 reports the regression results of the IV approach for political uncertainty on corporate risk-taking. We first regress *Turnover* on IV and the control variables used in the baseline model. The coefficient of the *Age2* is statistically significant, which suggests the IV is not weak. In the second-stage regression, we replace *Turnover* by its predicted value from the first-stage regression. The results reported in column (2) show the coefficient on *Instrumented_Turnover* remains significantly negative, confirming that political uncertainty has a causal effect on corporate risk-taking.

Table 8: Regression results using instrumental variable estimations

Variable	First stage	Second stage
	<i>Turnover_{it}</i>	<i>RISK1_{it}</i>
<i>Instrumented_Turnover_{it}</i>		-0.1440*** (0.0087)
<i>Age2_{it-1}</i>	0.0110*** (0.0045)	
Controls	Yes	Yes
Firm fixed effect	Yes	Yes
Year fixed effect	Yes	Yes
Observations	19110	19110
<i>R</i> ²	0.3150	0.6800

Note(s): This table presents the results for the impact of political uncertainty on corporate risk-taking using the instrumental variable estimations. We use the maximum age of the mayor and the secretary of the Communist Party of China municipal committee as the instrumental variable in the first stage of the two-square least squares estimation. In the second stage, we replace *Turnover* with its predicted value from the first stage. Figures in parentheses are the values of p-value. ***, ** and * denote statistical significance at 1%, 5% and 10% levels, respectively. All variables are defined in Appendix A.

4.5 Heterogeneity analysis

In the analyses so far, we document a negative effect of political uncertainty on corporate risk-taking. In this section, thus, we return to focus on the potential drivers behind the relationship between political uncertainty and corporate risk-taking and examine H2 and H3.

4.5.1 The moderating role of state ownership ties

In this section, we examine H2 to test whether the state ownership ties attenuate the relationship between political uncertainty and corporate risk-taking. To conduct the analysis, the moderating variable of *PTI* is used in our moderating model. The regression results are shown in Table 9. The estimates on the full sample are reported in column (1), and the estimates on the subsamples split by the ownership are reposted in columns (2) and (3). In this stable, we consistently find that the coefficient on $Turnover_{it}$ is negative and statistically significant, which strengthens the baseline model result. Moreover, as reported in column (1), the coefficient on the interaction term $Turnover \times PTI_{it}$ is 0.0389 and significantly positive at 5% level, which implies that the state ownership ties effectively weaken the effect of political uncertainty on corporate risk-taking. The results displayed in the subsamples (columns (2) and (3)), where the coefficient estimate for β_1 is more significantly negative for POEs than SOEs, also confirms this finding. Thus, our H2 is supported. Specifically, the impact of political uncertainty is stronger for POEs, indicating that POEs' risk-taking are more sensitive to local government official turnover than SOEs.

Table 9: SOEs vs POEs

Variable	RISK1	RISK1	RISK1
	(1) Full sample	(2) SOEs	(3) POEs
Turnover	-0.5033** (0.0342)	-0.0112* (0.0810)	-0.4182*** (0.0079)
PTI	0.0531*** (0.0170)		
Turnover×PTI	0.0389** (0.0462)		
Control	Yes	Yes	Yes
Firm fixed effect	Yes	Yes	Yes

Variable	RISK1	RISK1	RISK1
	(1) Full sample	(2) SOEs	(3) POEs
Observations	19110	8034	11076
R^2	0.3880	0.2590	0.3940

Note(s): This table reports the results of the moderating effect of the state-owned ownership ties on the relationship between political uncertainty and corporate risk-taking. Column (1) adds the moderating variable of *PT1*. *PT1* is a dummy variable that takes the value of one if a firm is state-owned and zero otherwise. Columns (2) and (3) report the results of the subsample of SOEs and the subsample of POEs, respectively. In all columns, the dependent variable is *RISK1*, and the main explanatory variable is *Turnover*. Figures in parentheses are the values of p-value. ***, ** and * denote statistical significance at 1%, 5% and 10% levels, respectively. All variables are defined in Appendix A.

4.5.2 The moderating role of managerial political ties

In this section, we examine H3 to test whether the managerial political ties attenuate the relationship between political uncertainty and corporate risk-taking. To conduct the analysis, the moderating variable of *PT2* is used in our moderating model. The regression results are shown in Table 10. Again, the estimates on the full sample are reported in column (1), and the estimates on the subsamples split by whether the firm's CEO or chairperson serves as a former (current) government official (i.e., politically-linked companies, PLCs) are reported in columns (2) and (3). In this stable, we consistently find that the coefficient on $Turnover_{it}$ is negative and statistically significant, which strengthens the baseline model result. Moreover, as reported in column (1), the coefficient on the interaction term $Turnover \times PT2_{it}$ is 0.0620 and significantly positive at 5% level, which implies that the managerial political ties effectively weaken the effect of political uncertainty on corporate risk-taking. The results displayed in the subsamples (columns (2) and (3)), where the coefficient estimate for β_1 is more significantly negative for non-PLCs than PLCs, also confirm this finding. Thus, our H3 is supported. Specifically, the impact of political uncertainty is stronger for the firms without managerial political ties, indicating that the risk-taking of non-politically linked firms are more sensitive to local government official turnover than politically linked firms.

Table 10: Politically-linked vs Non-politically-linked

Variable	RISK1	RISK1	RISK1
	(1) Full sample	(2) PLCs	(3) Non-PLCs
Turnover	-0.2090** (0.0376)	-0.0125* (0.0624)	-0.1833** (0.0339)
PT2	0.3130** (0.0161)		
Turnover × PT2	0.0620** (0.0414)		
Control	Yes	Yes	Yes
Firm fixed effect	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes
Observations	19110	2080	17030
R ²	0.1738	0.0851	0.1362

Note(s): This table reports the results of the moderating effect of the state-owned ownership ties on the relationship between political uncertainty and corporate risk-taking. Column (1) adds the moderating variable of *PT2*. *PT2* is a dummy variable that the value of one if a firm’s CEO or chairperson serves as a former (current) government official and zero otherwise. Columns (2) and (3) report the results of the subsample of PLCs and the subsample of non-PLCs, respectively. In all columns, the dependent variable is RISK1, and the independent variable is *Turnover*. Figures in parentheses are the values of p-value. ***, ** and * denote statistical significance at 1%, 5% and 10% levels, respectively. All variables are defined in Appendix A.

5. Conclusion

This paper investigates the impact of political uncertainty on corporate risk-taking. Using a sample of China’s non-financial listed companies and hand-collected official turnover data on the municipal-level city government from 2012 to 2024, we find that local government official turnover is negatively related to risk-taking by companies, which suggests political uncertainty forces firms to take less risks in order to survive.

Moreover, this study also shows that the heterogeneous political ties (i.e. state ownership ties and managerial political ties) weaken this effect. In other words, the negative effect of political uncertainty on corporate risk-taking is moderated by heterogenous political ties, which suggests that the state ownership ties and managerial political ties can help firms share more resources (Zhou, Luo, & Xiang, 2023) and more information (Sun, Mellahi, Wright, Xu, 2015) from the government in order to benefit them effectively cope with political risk.

Finally, this paper also has some limitations. First, this study only explores the political uncertainty caused by local government official turnover and its effect on corporate risk-taking. However, political uncertainty may trigger other political risk issues, such as corruption and retaliation, which are worth further examination. Second, this paper only examined two heterogeneity political moderating variables in the above-mentioned relationship. Thus, other heterogeneity political ties, such as board political ties and stakeholder political ties, can be examined in future studies. In summary, local government official turnover is an important channel through which local political process influences corporate risk-taking behaviour in China, firms must take political uncertainty into account when formulating their resource adjustment policies.

CRediT (contributor roles taxonomy)

Chee-Wooi Hooy: (i) conceptualisation/ formulation of ideas; (ii) development/ design of methodology.

Zhengyou Jiang: (iii) data collection/ curation; (iv) formal analysis/ techniques; and (v) writing - original draft.

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Appendix A: Variable definitions

Variables	Definitions
Dependent variables:	
RISK1	The ratio of R&D expenses to total assets in percentage.
Alternative dependent variable:	
RISK2	The ratio of total debts to total assets.
Control variables:	
Size	The natural logarithm of total assets (in RMB).
ROA	The net earnings as a ratio of total assets (in RMB).
Slack	The ratio of cash and cash equivalents to net assets.
Tangibility	The ratio of net property, plant and equipment to total assets.
MTB	The ratio of market value to book value of the equity.
Top1	The shareholding percentage of the largest shareholder.
Age	The natural logarithm of one plus the number of years since a firm's IPO.
GDP Growth	The annual GDP growth ratio of a city where a firm is located.
Independent variable:	
Turnover	An indicator variable that takes a value of one in year t if there is a change of the mayor or the secretary of the Communist Party of China municipal committee in the period from July in year t-1 to June in year t for a city, and zero otherwise.
Alternative Independent variables:	
Turnover-Mayor	An indicator variable that takes a value of one in year t if there is a change of the mayor in the period from July in year t-1 to June in year t for a city, and zero otherwise.
Turnover-CPC secretary	An indicator variable that takes a value of one in year t if there is a change of the secretary of the Communist Party of China municipal committee in the period from July in year t-1 to June in year t for a city, and zero otherwise.
Moderating variable:	
PT1	Dummy variable, it equals 1 if a firm's ultimate controller is the government (state-owned), and 0 otherwise.
PT2	Dummy variable, it equals 1 if a firm's CEO or chairperson serves as a former (current) government official
Instrument variable:	
Age2	The maximum age of the mayor and the secretary of the Communist Party of China municipal committee of the city.

Note(s): This table shows definitions of all variables used in this paper.