The Politics of Corporate Investment: Evidence from Political Turnovers and IPO Proceeds*

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Abstract

This paper studies corporate investment as a novel channel of government influence. Using project-level data on how Chinese IPO firms reallocate offering proceeds, we show that exogenous city-mayor turnovers trigger the launch of new projects and revisions to existing ones. These shifts are penalized by investors and worsen operating performance, yet they raise local employment and increase promotion odds for local politicians. The effects are stronger when investment adjustment costs are low, after on-site corporate visits by politicians, and align city policies with provincial priorities. The results document a grabbing hand operating through the reallocation of fresh capital in newly listed firms, with implications for firms, politicians, and state capitalism.

Keywords: Political connections, Government, Investment, China

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1 Introduction

Over the past decade, advanced and emerging economies alike have moved toward a more activist, state-capitalist posture. In the United States, pandemic-era interventions included warrants and equity-like stakes in firms alongside massive credit backstops, followed by large industrial-policy packages (e.g., semiconductors & clean energy) that paired subsidies, tax credits, and loan guarantees with domestic-production goals. China, for its part, has long combined state ownership and directed credit with industrial guidance funds and procurement preferences, and has recently tightened Party oversight within private firms. Together, the world's two largest economies now deploy an expanded toolkit that blends ownership, subsidies, regulation, and supervision–a shift with global spillovers as other countries emulate or hedge against these moves.

The rise in government involvement in firms revives the long-standing debate between the "grabbing hand" and "helping hand" perspectives. The grabbing hand view posits that governments and politicians are chiefly concerned with rent-seeking alongside winning and exercising power, at the expense of firm efficiency and value (Dixit, Grossman, and Helpman, 1997; Frye and Shleifer, 1997; Shleifer and Vishny, 1998). The helping hand view posits that government involvement enhances firm value (Roberts, 1990; Fisman, 2001; Faccio, 2006; Akey, 2015; Chen, Parsley, and Yang, 2015; Akey and Lewellen, 2017) and improves its access to government resources (e.g., Dinç, 2005; Khwaja and Mian, 2005; Faccio, Masulis, and McConnell, 2006; Duchin and Sosyura, 2012; Goldman, Rocholl, and So, 2013; Brogaard, Denes, and Duchin, 2021).

In this paper, we use novel microdata on firms' project-level investments of IPO proceeds in China to shed new light on the role of government involvement in firms. We investigate the relation between political changes and the reallocation of capital in newly listed firms, tracing its

motives to political promotions and government agendas, and its implications for firms' value and performance.

We aim to answer two main research questions. First, how do political considerations affect corporate investments and capital budgeting policies? Second, what are the implications for governments and firms? Despite the importance of these questions, it is difficult to provide evidence on the causal effect of politics on corporate investments. Detailed investment decisions are typically unobservable. Additionally, variation in the political setting is non-random and likely correlated with contemporaneous economic trends that simultaneously affect corporate investment.

We address these identification challenges as follows. First, we exploit a unique setting in China, which allows us to observe firms' detailed investments of their IPO proceeds, starting with the initial IPO application and through all subsequent modifications. The empirical approach identifies project-by-project changes in the stated use of IPO proceeds, including project replacements, cancellations, and changes in the implementation, location, and progress of existing projects, which must be disclosed within two days of the deciding board meeting. Second, we focus on investment changes around exogenous turnovers of local Chinese politicians due to deaths, term limits, and mandatory retirements. We show that these turnovers are uncorrelated with economic trends and find no evidence of anticipatory effects.

The analyses combine data from several sources. We gather project-level data on investments of IPO proceeds and any changes to capital budgeting policies from *Tonghuashun*, a major financial service company in China. We hand-collect data on turnovers, promotions, and career trajectories of city mayors in China, including turnover announcement dates and their underlying reasons. We collect province- and city-level information on annual government reports and corporate visits. Last, we obtain IPO filing dates from China's Securities Regulatory Commission (CSRC) and financial data from China Stock Market & Accounting Research

(CSMAR). Using these data, we compile an annual panel in which the unit of analysis is a city-firm-project triplet.

We begin the analyses by investigating the effect of turnovers of city mayors on changes in capital allocation of IPO firms headquartered in the city. We find that following the exogenous turnover of local politicians, the likelihood of capital reallocation increases by 14.2 percentage points, or 37.1% relative to the sample standard deviation. These estimates are statistically significant at the 1% level, and hold in tight specifications that include firm, industry-by-year, and project type fixed effects. We also investigate dynamic treatment effects and find no evidence that firms change their investments before political turnovers occur. Overall, firms reallocate a substantial amount in investment capital each year following an exogenous political turnover.

We provide several analyses to address concerns about confounding factors and selection effects. First, we consider the possibility that exogenous political turnovers are accompanied by heightened policy uncertainty. Prior research has shown that political uncertainty leads to declines in corporate investment (Julio and Yook (2012) and Jens (2017)). However, firms in our sample do not reduce their total investment amounts. Instead, they reallocate their IPO proceeds across existing and new projects, suggesting that the estimates do not capture investment reductions driven by political uncertainty. Nevertheless, we control for the effects of policy uncertainty by constructing a local-level index of economic policy uncertainty (EPU) based on the frequency of newspaper coverage following the method of Baker et al. (2016) and Yu et al. (2021). The estimates remain economically and statistically identical after including the EPU index. Second, a concern could be that large metropolitan regions (e.g., Beijing) drive the results. We omit the four directly administered municipalities and continue to report similar estimates. Last, firms might also shift investment amounts following exogenous political turnovers. We find there is no effect of these turnovers on investment amounts, suggesting that the results are driven by investment changes.

We compare the impact of exogenous political turnovers on firms' investments across IPO and mature firms. To provide evidence on the role of investment irreversibility and adjustment costs, we also exploit heterogeneity in investment irreversibility among IPO firms. Following prior work by Gulen and Ion (2016), we measure firm-level investment irreversibility based on depreciation expenses and asset tangibility. We find that higher investment irreversibility weakens the impact of exogenous political turnovers on the reallocation of IPO proceeds by 26.4%. We also conjecture that mature firms face considerably higher investment adjustment costs compared to IPO firms, and are therefore less likely to make investment changes following political turnovers. To test this hypothesis, we collect data on investments at mature firms from CSMAR. We find non-existent effects of exogenous political turnovers on new investments or completions and changes of existing investments in mature firms.

Collectively, these findings provide novel evidence that the reallocation of investment capital is an important channel through which governments influence firms. The results suggest that government involvement differs considerably across young IPO firms and mature firms due to investment irreversibility. As such, they complement the extant literature that focuses primarily on the role of politics in mature firms that contribute to political campaigns (Cooper et al., 2010), lobby (Chen et al., 2015; Borisov et al., 2016), and hire government officials (Goldman et al., 2009; 2013). They also add to the literature on the role of institutions and governments in entrepreneurship (e.g., Baumol, 1990; North, 1990; North, 2005; Colonnelli et al., 2024), with potentially large real effects given the importance of young firms for economic growth (e.g., Evans, 1987; Sutton, 1997; Haltiwanger, Jarmin, and Miranda, 2013). The remainder of the analyses thus aims to evaluate the economic implications of government involvement in firms' capital allocation, and differentiate between the "helping hand" and "grabbing hand" views.

We begin by studying the implications for firms. The average cumulative abnormal returns (CARs) around the announcement of investment changes are negative. These findings hold across different event windows and pricing models, and excluding announcements that coincide with earnings releases or other identifiable news events. The magnitudes range from -70 to -170 basis points, and are statistically significant at conventional levels. We also examine firms' operating performance following investment changes triggered by exogenous political turnovers. We find an average decline of 0.6 to 1.1 percentage points in firms' return on assets (ROA), return on equity (ROE) and net cash flows in the year that follows the investment change. Combined, these findings show that investors react negatively to news about investment changes, and, similarly, that operating performance is weaker following investment changes, consistent with the "grabbing hand" view.

We also study the implications for politicians and local financial constraints. The findings are threefold. First, the incentives for incoming city mayors to push for firms to change their investment policy is heightened when they are towards the beginning of their career. Accordingly, we find that firms are almost twice as likely to reallocate capital when the incoming mayor is younger. Second, politicians are more likely to advocate for firms to change their investment policy when government resources are limited. We examine variation in local budget constraints based on levels of public debt. We show that IPO firms are more than twice as likely to reallocate capital following exogenous mayoral turnovers in cities with tighter budget constraints. Third, we evaluate the role of political influence and find that the effects are amplified for firms that do not have any political connections. Combined, these findings are more consistent with the "grabbing hand" view – local governments have weaker incentives to extract rents from local firms when the incoming mayor is connected is relatively younger and when the government is less financially constrained.

In the next set of analyses, we explore direct links between government policies, politicians, and firms. Using hand-collected data on politicians' visits to firms, we investigate the relation between exogenous mayoral turnovers, corporate visits, and investment changes. We find that the likelihood of visits increases by 31.2 percentage points following exogenous political turnovers, and that investment changes are 2.1 percentage points more likely if the mayor visits the firm. Taken together, these findings provide evidence that links politicians' direct engagement with firms to changes in their allocation of investment capital.

We also hand-collect annual province-level and city-level government reports to investigate the relation between stated government policies, political turnovers, and the reallocation of IPO capital. The results can be summarized as follows. First, we use large language models to study the alignment of city- and province-level government reports. We find that the policies and targeted industries of cities and their provinces become more aligned following turnovers of city mayors. These findings suggest that incoming mayors realign their policies with the stated policy goals of their superiors at the province level. Second, we show that stronger alignment of policy and industry targets is correlated with the reallocation of capital at IPO firms. These results draw a direct link between policy realignment of incoming mayors and changes in the investment policies of local firms. As such, they suggest that the reallocation of IPO capital is a channel through which incoming city mayors implement policies aligned with the economic goals of their provinces.

Our last set of analyses study the effects of political promotion and local employment. The preceding results suggest that firms' investment changes serve to benefit city mayor. We first ask whether city mayors benefit by receiving a promotion. We find that investment changes in local firms increase the likelihood that the Party will promote the mayor by 4.8 to 6.7 percentage points. We then evaluate whether local areas receive short-term benefits in terms of employment. We show that local employment rises by 5.2% to 7.6%.

Overall, the results in this paper suggest that IPO firms with low adjustment costs reallocate investment after exogenous turnovers of local politicians. These shifts–often following on-site visits and aligning with higher-level economic and industrial priorities–are penalized by investors and weaken operating performance, yet they raise local employment and increase politicians' promotion odds. As such, the findings provide novel evidence on the government's grabbing hand, which operates through the reallocation of investment capital in newly listed companies, with implications for firms, local economies, and the efficacy of industrial policies and state capitalism.

This paper advances the growing literature that studies the interactions between firms and politicians on two fronts. First, it puts forth a new channel, capital reallocation, through which governments extract rents, underscoring the inefficiencies of state capitalism and how city-mayor policy alignment can fuel involution and overcapacity (Shen and Chen, 2017). Second, it shifts focus from mature firms to IPO firms, which—given lower adjustment costs and limited political clout—face higher expropriation risk. The findings complement experimental evidence on the costs of government participation in China's VC/PE markets (Colonnelli et al., 2024) and research on the implications of the geographic distance between local governments and collective Chinese firms (Duchin et al., 2020).

2 Institutional Background

2.1 IPOs in China

The central government in China heavily regulates IPOs, possibly due to weaknesses in the legal system and the underdevelopment of Chinese financial markets (Chen and Yuan (2004), Behrer, Glaeser, Ponzetto, and Shleifer (2021), Qian, Ritter, and Shao (2024)). In particular, the China Securities Regulatory Commission (CSRC) limits the number of IPOs each year and oversees the

performance of firms that intend to go public.[1] The CSRC also supervises the IPO application process, which takes, on average, approximately two years from application to approval.

Figure 1 shows the timeline of the IPO application, review, and approval process. As part of the application process, firms must report in the prospectus the set of investment projects that they intend to finance using the proceeds from the IPO. In particular, the CSRC requires firms to detail the amount of IPO proceeds, describe the usage of the funds across different projects, and provide a feasibility report for each project to avoid being rejected by the CSRC.[2] To ensure the proper and efficient use of the proceeds after listing, the CSRC also requires firms to report all changes in intended investments within two days of their approval by the board of directors. In the analyses, we leverage detailed and timely disclosure of the use of IPO proceeds to identify changes in firms' investment policies. Appendix B provides additional details on the announcements, including an example of a listed firm reporting various types of investment changes alongside the firm's explanations.

To construct our sample, we start with the 2,903 IPO firms that are listed on the Shanghai or Shenzhen stock exchanges from 2004 to 2020.[3] We exclude all financial firms and all project-year observations with endogenous turnovers of city mayors, which we define as changes in the city mayor due to any reason other than mandatory retirement or term limits. After applying these

[1] Until recently, the CSRC gradually transitioned toward a registration-based initial public offering (IPO) system (Qian, Ritter, and Shao, 2024). The reform was first implemented on the technology-oriented STAR Market in July 2019 and subsequently extended to the ChiNext and Beijing Stock Exchange boards. Under the new framework, stock exchanges primarily review IPO applications with an emphasis on information disclosure, while the CSRC ensures that listings conform to national industrial policy guidelines.

[2] Over the years, the CSRC has rejected many IPO applications due to improper use of IPO proceeds. For example, the CSRC rejected the IPO application of China Southern Airlines Group Culture Media due to "suspicious use of IPO proceeds." It also rejected the application of Jilin Kelong Building Energy Saving because "the applicant does not clearly state the intended use of the IPO proceeds."

[3] The IPO application date, which we retrieve from the CSRC IPO Sponsor Credit Regulation System, is not available before 2004. Another reason for starting the sample in 2004 is that the regulation governing the appointment of government officials, *Regulations on the Selection and Appointment of Party and Government Leading Cadres*, became effective in 2002. This aligns with our research design, which focuses on political turnover within the [t–2, t] window, where t denotes the year of investment change. For each project, we focus on the window [t, t+4], where t represents the IPO year; accordingly, we restrict our sample to IPOs up to 2020.

filters, the final sample includes 2,903 firms, 8,979 IPO projects, and 33,820 project-year level observations from 2004 to 2020.

Figure 2 shows the number of IPOs in China during the sample period from 2004 to 2020. Overall, it highlights that there has been continued rise in IPO activity over the past two decades. There were no IPOs in 2013 due to a suspension imposed by the CSRC. The number of IPOs strikingly increased in 2010, 2017, and 2020. China now represents one of the most active IPO markets in the word.

Table 1 provides detailed information on the investment projects in our sample. Panel A presents characteristics of IPO projects, including project size, duration, and forecasted outcomes. The average IPO project is substantial, with an average size of approximately RMB 212 million, which is about $29.8 million, and a mean duration of about 24 months. On average, forecasted revenue and profit are RMB 448 million (about $63 million) and RMB 59 million (approximately $8.3 million), respectively. The average internal rate of return is 25.5%.

Panel B reports the distribution of IPO project types. The most common project type is production-related projects, which account for roughly 59% of projects. R&D-related projects account for just under 33% of projects. The other project types include marketing- and equity-related projects.

Panel C shows the distribution of investment change categories. Project replacement occurs when a firm replaces a project from the IPO prospectus with a new one. Project cancellation is when the original project from the IPO prospectus is cancelled, and funds are typically reallocated to working capital. Investment amount indicates deviations between the actual project cost and the amount stated in the IPO prospectus. Implementation entity signifies that the project will be executed by a different entity than initially planned. An example is a project originally assigned to subsidiary A being delegated to subsidiary B. Implementation location refers to changes in the geographical location where the project will be carried out. Implementation methods denote

alterations in how the project is executed, such as shifting from in-house construction to acquiring from an external party. Implementation progress captures changes in the project timeline, usually reflecting delays compared to the original schedule. Among the most frequent changes are those related to project implementation progress and project replacement.

2.2 City Mayors in China

Estimating the causal effect of political turnovers on changes in firms' investment policies is challenging. First, changes in investment policies can drive political turnovers and not the other way around. Prior studies have shown that firms increase investment or employment to support political candidates (e.g., Carvalho (2014), Bertrand et al. (2018), Li et al. (2020)). Second, political turnovers and changes in investment policies can be driven by correlated omitted variables such as changes in economic conditions.

To address these challenges, our identification strategy focuses on mandatory political turnover of city mayors, defined as sudden deaths, term limits or mandatory retirements of the incumbent mayors. The identifying assumption is that local economic conditions or other correlated state variables remain unchanged in the short window surrounding the mandatory turnovers of city mayors. We examine this assumption in Section 4.

We focus on political turnovers at the city level because mayors occupy a central position in formulating and implementing local economic policies under the oversight of provincial authorities. Consistent with Chen and Zhang (2021), city mayors possess substantial discretion in promoting local development and setting economic priorities. Their performance is evaluated primarily on the outcomes of these policies, creating strong incentives to implement distinctive economic initiatives that enhance their promotion prospects at the prefecture level, a common trajectory in China's regionally decentralized authoritarian system (Xu, 2011).

We retrieve the reasons associated with each mayor turnover and classify turnovers as mandatory if they satisfy one of the following criteria. For the four directly administered municipalities (Beijing, Chongqing, Shanghai, and Tianjin), we adopt the criteria applied to provincial governors. First, we define turnover due to the sudden death of the incumbent provincial governor as mandatory. Second, we use term limits since incumbent provincial governors serve in office for 10 years. According to regulation on the selection and appointment of political leaders in China, provincial governors have a term of five years and can only be reappointed once. Hence, by the end of their 10th year in office, governors must be re-appointed to a different position. Third, we include mandatory retirements, which occur if an incumbent provincial governor reaches the age of 65 during her tenure or the age of 64 when her five-year term ends. According to regulation, government leaders must retire when they turn 65 and cannot be appointed to governors if they turn 64. Lastly, retirements coincide with the five-year political cycle when officials reach approximately 63 years of age.[4]

For mayors from other cities, we apply the following criteria. First, death and term limits follow the same rules as the four directly administered municipalities. Second, turnovers after fulfilling a single term typically constitute lateral moves ("cadre rotation"), which are generally unrelated to individual performance but aim to develop well-rounded leaders, prevent corruption, and facilitate knowledge transfer. Third, mandatory retirements occur when an incumbent male (female) city mayor reaches the age of 60 (55) during tenure. According to regulations, male mayors must retire at 60, with corresponding ages for female mayors.[5] Finally, similar to the four

[4] A provincial-level official who is 63 years or older at the time of a major Party Congress is expected to step down from their frontline leadership role to allow for a younger successor, in accordance with the "Seven Up, Eight Down" principle. The Party Congress and subsequent government meetings (the "Two Sessions") constitute a five-year political cycle. If an official is already 63 at the start of a new cycle (e.g., 2023), they would be 68 by the end of the term (e.g., 2028), reaching the mandatory retirement age of 68. To ensure a smooth leadership transition and a full term for the successor, officials approaching 63 at the start of the cycle are effectively retired. The cutoff of 62.5 years serves as the practical threshold during this transition period.

[5] The retirement age rule changed for female mayors in 2015, equalizing it with that of male mayors. An exception applies to mayors of sub-provincial cities (vice-ministerial rank), for whom mandatory turnover rules are the same regardless of gender.

municipalities, male (female) mayors departing around ages 58 (53) coincide with the five-year leadership transition cycle.

Figure 3 provides the number of mandatory political turnovers over the sample period from 2002 to 2020. It generally shows that there is a sizable number of turnovers occurring in most years. Section 4 describes how we use this variation to study the effect of political turnovers on firm investment.

3 Data

We gather data from several common sources in China, which we supplement with hand-collected data. We obtain information on IPO projects and related data from Tonghuashun. We use data from China Stock Market & Accounting Research Database (CSMAR) for firm financial information and stock returns. CSMAR includes data on ownership, political connections, and pre-IPO financial metrics. We also use data for the China three-factor model (Liu, Stambaugh, and Yuan, 2019), which is supplemented with data from Mingshi Investment Management.[6]

We collect data on political turnover for cities in China, covering all cities between 2000 and 2020. This dataset was primarily compiled manually from resumes of government officials published on People's Daily Online, Xinhua Net, local government websites, and Baidu Baike. We use data on government officials' appointment, departure, and birth dates from 2000 to 2015 from the China Political Elite Database (CPED) dataset (Jiang, 2018). We also incorporate data on government officials from 2000 to 2018 from the Chinese Research Data Services Platform (CNRDS). Further, we gather data on officials' post-departure jobs primarily via manual searches of resumes on People's Daily Online, Xinhua Net, and Baidu Baike.

To shed light on the mechanism, we use data on city-level official visits from CSMAR,

[6] We are grateful to the authors for providing access to the China three-factor data. The data can be obtained from Professor Robert F. Stambaugh's website (https://finance.wharton.upenn.edu/~stambaug) and from Mingshi Investment Management (https://www.mingshiim.com/database).

comprising news reports of visits to listed companies and their subsidiaries. The data are based on content from over 500 online media outlets and newspapers, exceeding eight million articles date from 2000 to 2024. This repository includes traditional print media such as the China Securities Journal and People's Daily, alongside major digital platforms like the CCTV News app, Xinhua News Agency, and The Paper.

Last, we use data from the National Bureau of Statistics in China for local economic and financial condition indicators—including GDP, employment, fiscal revenue, and government debt—were sourced from the National Bureau of Statistics. We construct an Economic Policy Uncertainty (EPU) index at the provincial-level measure following Yu et al. (2021), constructed through identification and quantification of news articles signifying economic policy uncertainty, following the methodology established by Baker, Bloom, and Davis (2016).

Table 1 provides summary statistics for the variables used in the analyses. Panel A includes variables for the analyses of IPO firms. On average, about 17.8% of the projects are changed. The likelihood of a mandatory political turnover is 15.5% during the sample period. Panel B shows variables for the analyses of mature firms.

4 Empirical Design

The baseline analyses estimate the following model:

$$Investment\ change_{p(ijl),t} = \beta \cdot Mandatory\ political\ turnover_{l,[t-2,t]} + FE + \varepsilon_{p(ijl),t}, \quad (1)$$

where *Investment change*, is an indicator variable equaling one if the project *i* of company *j* located in area *l* announces an investment change for project *p* in year of *t*. *Mandatory political turnover* is an indicator variable equal to one if a city mayor turned over in the previous two years, or in the

same year as the investment change announcement but prior to the announcement due to mandatory reasons specified above. *FE* denotes the combination of various set of fixed effects, including firm, industry*year, city and project type fixed effects. Standard errors are clustered by city. Appendix A provides variable definitions. We estimate the model using a linear probability model (LPM) since it specification includes granular fixed effects (Greene, 2004).

We conduct two complementary analyses to validate that mandatory prefecture turnovers are unrelated to local economic conditions and are largely unanticipated by firms. First, we regress the identified mandatory political turnovers on a set of local economic indicators, including GDP growth, population growth, and inflation. Table 3 provides the results. Panel A shows that these economic variables do not significantly predict mandatory political turnovers. This suggests that turnover events are not driven by local economic conditions, mitigating concerns about confounding factors affecting our inferences on investment changes. Second, we regress firms' capital investment on any mandatory turnover occurring within the previous three years. If firms anticipated these turnovers, we would expect corresponding changes in investment behavior. However, Panel B reveals no significant association between firms' investment levels, measured either as the natural logarithm of capital investment or scaled by total assets, and prior turnover events. Collectively, these findings indicate that mandatory political turnovers are not related to local economic conditions and that firms do not anticipate them.

5 The Effect of Politics on Corporate Investment

This section examines the effect of political turnover on corporate investment. Section 5.1 presents the baseline results, Section 5.2 discusses extensions and robustness analyses, and Section 5.3 explores cross-sectional heterogeneity in the baseline findings.

5.1 Baseline Results

We start by evaluating the effect of politics on corporate investment. IPOs in China offer a unique laboratory to study the role of politics due to the detailed information available on investment changes. The key variable of interest is *Investment change*, which is an indicator variable equaling one if a firm changes a project in a particular year. We include all types of investment changes. Figure 4 provides the timing of investment changes following IPOs. Motivated by this plot, we focus on investment changes up to four years after a firm's IPO.

Table 4 presents the results for the impact of mandatory turnovers of city mayors on firms' investment policies. In column 1, we estimate equation (1) by including city and industry-year fixed effects. We report that the likelihood of an investment change increases by 12.7 percentage points following a mandatory political turnover. This estimate is statistically significant at the 1% level and economically sizable, representing a 33.2% increase relative to the sample standard deviation. In column 2, we augment the specification with project type fixed effects to absorb differences in the likelihood of investment changes across project type. The estimate continues to be quite similar. In column 3, we adjust the model to include firm fixed effects to capture time-invariant firm heterogeneity. We find that the likelihood of an investment change is 14.2 percentage points, representing a 37.1% increase compared to the sample standard deviation. Combined, these findings indicate that mandatory political turnovers play a role in firms' investment policies by triggering changes in the set of projects that firms undertake.

Next, we investigate the dynamic treatment effects. Specifically, we study investment changes in a window around mandatory political turnovers. To implement the test, we focus on mandatory political turnovers occurring at least one year after the IPO to ensure a sufficient pre-event period for estimating dynamic treatment effects. Additionally, we require at least one year of project-level data following the mandatory turnover to estimate the post-event coefficients. This

figure reveals two important results. First, the effect of mandatory political turnovers on investment changes is immediate and remains elevated following mandatory turnover of city mayors. Second, we do not observe any impact on project-level investment changes before such turnovers. These findings are consistent with the parallel trends assumption and mitigate concerns about reverse causality or omitted variables, a scenario where investment or economic changes lead to political turnovers.

We conclude this section by conducting several robustness tests. The results are presented in Table 5. First, we address the concern that economic policy uncertainty, rather than political turnover per se, drives changes in firms' investment plans. Panel A provides the findings for incorporating the EPU index as a control variable. The estimates for the effect of political turnover on corporate investment remain highly similar in terms of magnitude and statistical significance. Further, the coefficients on the EPU index are economically negligible and statistically indistinguishable from zero. This evidence suggests that general economic policy uncertainty does not explain investment plan adjustments that we observe following political turnover events.

Second, a potential concern is that investment changes are largely concentrated in major metropolitan areas, where government influence may be particularly salient. To address this concern, we re-estimate our baseline specification by excluding observations from the four directly-administered municipalities, which are Beijing, Chongqing, Shanghai, and Tianjin. Panel B shows that the magnitude and statistical significance of the estimates remain almost unchanged, indicating that our findings are not driven by firms in these large cities.

Third, firms might alter the size of their investments following mandatory political turnovers. Panel C finds that firms do not significantly alter investment amounts after mandatory political turnover. Instead, the effects appear through adjustments in project composition.

5.2 Investment Irreversibility

There is substantial variation in the ability of firms to adjust their investment schedules. Some firms operate in industries where capital investments operate are costly and slow to change, such as manufacturing. Other firms are industries where investments can be changed with comparative, such as the retail sector. In this section, we connect our baseline results to the literature studying the characteristics of firm investments.

To examine whether the response varies by a firm's ability to change its investment schedule, we augment equation (1) with a measure of investment irreversibility and its interaction with *Mandatory Political Turnover*. We incorporate two measures of investment irreversibility following Gulen and Ion (2016). First, we measure investment irreversibility using depreciation rate, which is defined firm-level depreciation expense scaled by book value of total asset. Second, we proxy for investment irreversibility with the capital intensity ratio, which is industry-level PPE scaled by book value of total assets.

Table 6 reports the results. Column 1 uses the depreciation rate for investment irreversibility. We continue to find that firms are more likely to change investments following mandatory political turnover. Interestingly, we also report that the effect is attenuated for firms operating with higher investment irreversibility. Column 2 employs the capital intensity proxy for investment irreversibility. We also find that the firms tend to change investments after mandatory political turnover, which is diminished for firms operating in industries with high investment irreversibility.

5.3 Mature Firms

The analyses so far in this section have focused on IPO firms. We now turn to evaluating the response by mature firms, which we define as firms that have been listed for at least four years. On the one hand, mature firms might be subject to the same political pressures as IPO firms and alter

their investment activity following mandatory political turnover. On the other hand, mature firms generally have undertaken more investments relative to IPO firms, limiting their exposure to the political pressures of incoming city mayors after mandatory political turnover. To study mature firms, we gather firm-level data on ongoing projects disclosed in CSMAR and construct a project-year panel. We define *New* as an indicator variable equaling one if a firm starts a new project in a given year. We define *Completion* and *Change* similarly.

Table 7 provides the findings for the analyses of mature firms. In column 1, we examine the likelihood of a new project being initiated after mandatory political turnover. We find that the estimate is economically small and statistically insignificant, suggesting that firms do not start new projects when a city mayor is appointed. In columns 2 and 3, we evaluate the likelihood of project being completed or changed, respectively. We continue to find no evidence that projects are finished or changed following mandatory political turnover. Collectively, these findings highlight the importance differences of exposure to political pressures for comparatively younger firms recently undergoing an IPO and established, mature firms.

6 Firms

This section investigates the real effects of investment adjustments induced by local political turnover, focusing on firm-level implications for value and performance, city-level employment outcomes, and politicians' career advancement. We also explore the underlying mechanisms through which political turnover shapes politicians' interventions in IPO firms' investment decisions.

We first investigate the implications of politically driven investment changes for firm value and performance. Whether the impact is positive or negative remains an open empirical question. On the one hand, firms may deviate from their optimal policy and lose firm value if they make investment changes. Furthermore, the potential gains could be captured by the government (Dixit et al. (1997)). The agency problem of free cash flow might also worsen with preferential access to government resources and lax monitoring (Jensen (1986) and Stulz (1990)). On the other hand, firms may benefit from better access to government resources in response to the changes in their investment policies (e.g., Stigler (1971), Peltzman (1976), McChesney (1987), De Soto (1990), Spiller (1990), Shleifer and Vishny (1994)). We investigate these hypotheses by studying both announcement returns around investment changes and subsequent operating performance.

Table 8 reports the market's reaction to announcements of investment policy changes surrounding exogenous political turnovers. Abnormal returns are estimated using the market model of Fama and French (1993). Following prior studies (e.g., Lin, Officer, and Zou, 2011; Berkowitz, Lin, and Ma, 2015), we compute cumulative abnormal returns (CARs) over the event windows (–2, +5) and (–5, +5).

The results indicate that investors respond negatively to announcements of investment changes around exogenous political turnovers.[7] As shown in Column 1, the intercept term is negative (coefficient =-0.017) and statistically significant at the 1% level, suggesting that announcement returns decline by approximately 1.7% when firms disclose investment policy adjustments associated with exogenous political turnovers. The findings remain robust across

[7] Three reasons contribute to the relatively smaller number of observations in these analyses. First, we are unable to calculate announcement returns when return data in the pre-IPO period are missing. Second, to eliminate the confounding effects of earnings announcements, we remove announcements that are bundled with earnings releases (i.e., those announcements made in annual, semi-annual or quarterly reports). Third, we focus exclusively on announcements of investment changes surrounding exogenous political turnovers, rather than all announcements.

alternative event windows (see column 2) and alternative factors (China 3-factor in columns 3&4). Overall, the evidence suggests that investors perceive politically motivated investment adjustments as costly, reflecting concerns about suboptimal resource allocation or managerial discretion during political transitions.

Table 9 presents evidence on the operating consequences of investment policy adjustments around exogenous political turnovers. We measure operating performance using return on assets (*ROA*), return on equity (*ROE*), and operating cash flows (*Cash flows*). *ROA* is defined as earnings before interest and taxes (EBIT) divided by lagged total assets; *ROE* as EBIT divided by lagged book equity; and *Cash flows* as cash flow from operating activities divided by lagged total assets. Each measure is evaluated one year after investment plan adjustments associated with mandatory political turnover.

Columns 1–3 report the results. The estimates show that firms making investment changes following exogenous political turnovers experience a decline of 8.3% (7.9%/9.5%) in *ROA* (*ROE/Cash flows*) when evaluated at the respective sample median, all statistically significant at the 5% (5%/1%) level. These findings indicate that politically induced investment adjustments impose real costs on firms' future performance, consistent with the view that such changes distort efficient investment decisions.

7 Politicians and Aggregate Effects

7.1 Politicians and Financial Constraint

We posit that the impact of political turnover on investment adjustments varies systematically with career incentives and local economic conditions. We begin by examining the

role of politician age, which captures variation in career concerns. Younger politicians, facing stronger promotion incentives, are more likely to intervene in corporate affairs to achieve visible economic outcomes. We partition the sample by politician age, using the new mayor's age for firms experiencing mandatory turnover. Table 10 reports the findings. In column 1, we find that the effect is substantially amplified for relatively younger politicians, consistent with their comparatively heightened career concerns, consistent with the promotion-based incentive channel.

Next, we explore variation in local government financial constraints. Newly appointed mayors facing pressure to meet GDP targets may use local public finances, through tax revenues or debt issuance, to stimulate investment. When fiscal capacity is limited, however, they may instead exert influence on local firms, particularly newly listed ones with fresh access to capital, to adjust investment plans consistent with the mayor's policy objectives. Accordingly, we predict that the effect of political turnover on IPO firms' investment changes is amplified when local governments are more financially constrained. We measure local financial constraints using government debt levels. In column 2, we show that the effect of exogenous political turnover is more than doubled when there are tighter budget constraints.

Last, we evaluate the role of political connections. A large literature at the intersection of finance and political economy highlights that political connections can assist firms. In column 3, we consider the effects of firms that do not have any political connections and report that the effects are significantly larger.

7.2 Official Visits and Local Policies

We further examine how local mayors exert political influence on IPO firms. Specifically, we analyze city-level official visits surrounding mandatory mayoral turnovers, an explicit means through which political pressure is exercised (Duchin, Gao, and Shu, 2020). As reported in Table

11, one-year-ahead official visits increase significantly following mandatory turnovers. These visits are positively associated with IPO firms' investment changes, and the interaction between mandatory turnover and official visits is positive and significant, indicating that intensified political engagement amplifies corporate investment adjustments.

Finally, we explore whether policy alignment between city- and province-level governments shapes these corporate responses. We construct two measures of policy similarity: (1) the textual similarity (via TF-IDF analysis) between city and provincial government work reports, and (2) the overlap in targeted industries based on large language model inference. We tabulate the results in Table 12 and find that following mandatory political turnovers, the one-year-ahead policy alignment between city and province increases both in text similarity and industry overlap. Linking these measures to firm outcomes, we find that higher policy similarity correlates with a greater propensity for IPO firms to revise their investment plans.

Collectively, these findings provide direct evidence that newly appointed city mayors reallocate corporate investment—particularly IPO proceeds—as a channel to implement policies aligned with provincial economic objectives. This mechanism highlights the broader influence of political promotion incentives on corporate investment behavior in settings characterized by regional political hierarchies and decentralized control.

7.3 Political Promotion and Local Employment

The firm-level performance and valuation evidence presented above supports the grabbing-hand hypothesis, whereby newly appointed politicians pursue their own policy agendas by pressuring recently listed firms to adjust their investment plans. We now turn to examining the political incentives underlying these distortions.

In the regionally decentralized authoritarian system of China (Xu (2011)), local politicians

are promoted by higher-level authorities based on both economic outcomes and social stability. Consequently, political promotion incentives may influence the policy priorities that shape local firms' investment decisions.

We first explore whether these investment changes improve the promotion prospects of local politicians. Aggregating IPO-firm investment changes by city and mayoral tenure, we regress the indicator for mayoral promotion on the aggregate investment adjustments. Table 13 reports the findings. In Panel A, we show that both the frequency and intensity of local IPO firms' investment changes positively correlate with the likelihood of mayoral promotion, suggesting that politically motivated corporate adjustments are rewarded within the promotion system.

Next, we investigate whether investment adjustments by IPO firms benefit local employment. Although such politically induced investment changes reduce firm value and operating efficiency, they may simultaneously increase employment if newly initiated projects are more labor-intensive. From a mayor's perspective, higher employment enhances social stability and can strengthen the case for promotion. Panel B provides evidence consistent with this view: investment changes by IPO firms are associated with increased local employment following exogenous political turnovers.

8 Conclusion

Based on unique disclosure requirements in Chinese IPOs, which require firms to report the allocation of their IPO proceeds to investment projects, we examine the politics of corporate investments surrounding exogenous political turnovers. We find that firms make significant changes in their investment policies around exogenous turnovers of city mayor.

We then examine two potential explanations for the changing investment policy at firms. We find that firm value decreases and performance also suffers. These effects are consistent with a "grabbing hand" view, where politicians benefit at the expense for firms. The last set of analyses provide evidence that investment changes support local employment and serve the career incentives of politicians.

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Figure 1: IPO Timeline in China

This figure presents the process of IPO application, review and approval in China.

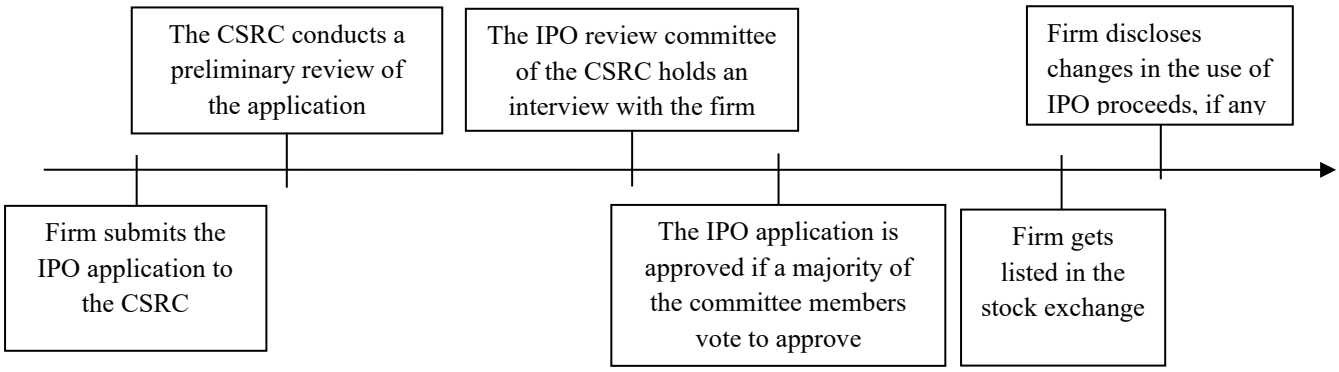


Figure 2: IPOs in China

This figure presents the annual number of IPOs over the sample period. Notably, there were no IPOs in 2013 due to a suspension imposed by the CSRC.

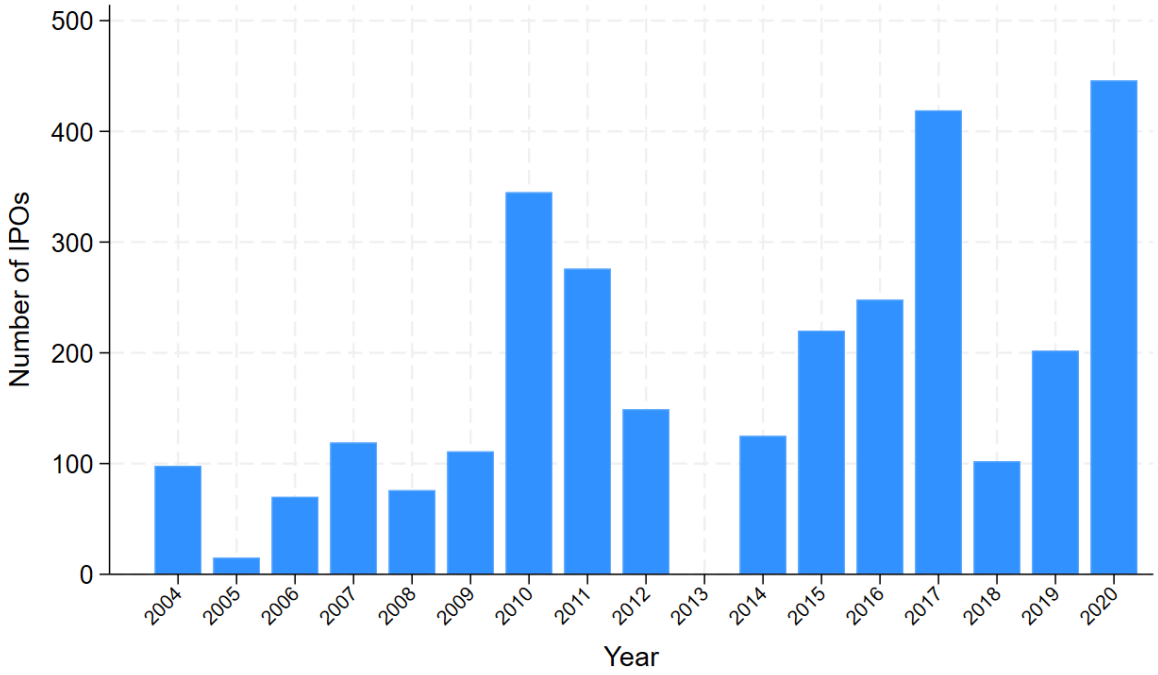


Figure 3: Mandatory Political Turnovers

This figure presents the annual number of mandatory political turnovers over the sample period.

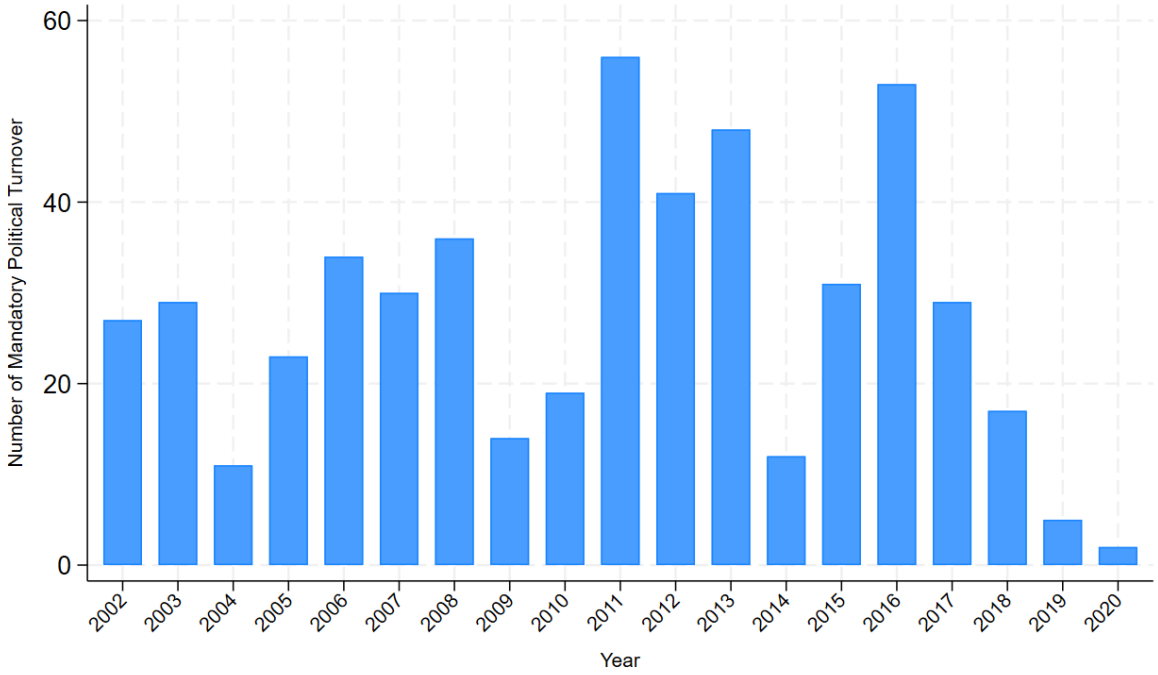


Figure 4: Investment Changes After IPOs

This figure presents the frequency of investment changes in the six years following IPOs. Year 0 is the year of the IPO.



Figure 5: Dynamics of Investment Changes

This figure presents dynamic estimates from regressions analyzing the association between mandatory mayor turnovers and investment changes. The base year ("-1") is defined as one year before the mandatory political turnover. The horizontal axis represents the timeline relative to turnover, while the vertical axis shows the coefficient estimates from the regression specification reported in column 3 of Table 4.

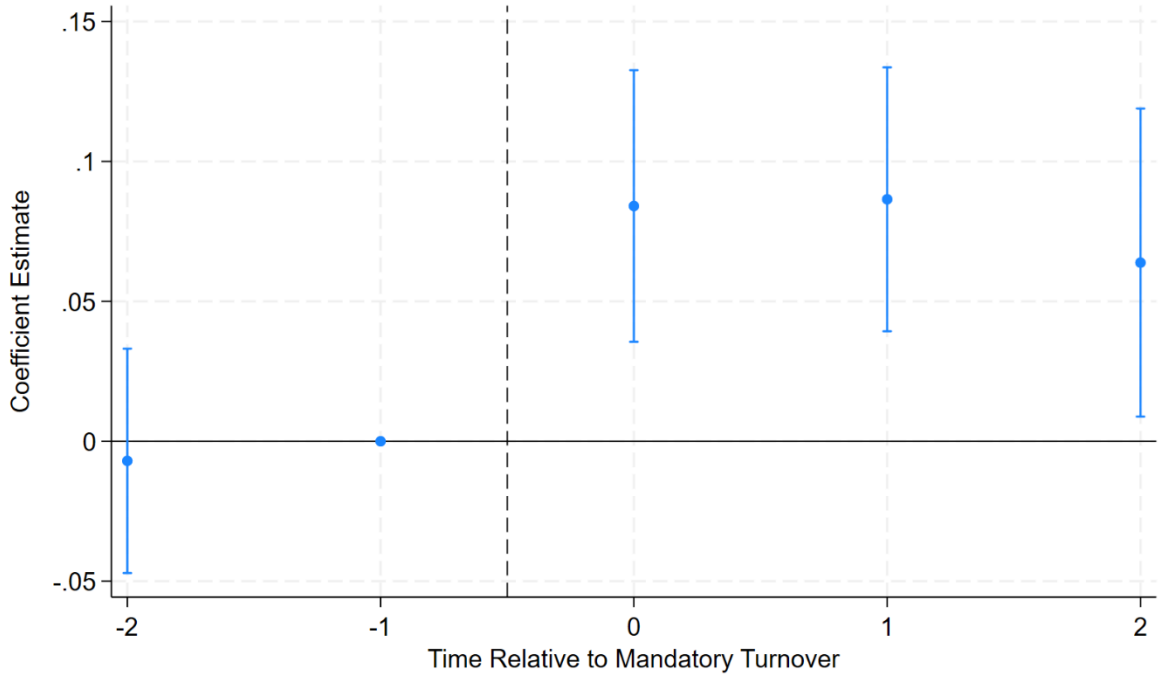


Table 1: Investment Projects

This table describes the projects and project-level investment changes in our sample. Panel A summarizes the size, duration and prospect of projects. Panel B shows the frequency of different project types. Panel C shows the frequency of different types of investment changes reported by IPO firms. The sample consists of 8,979 project-level observations for firms listed from 2004-2020. All variable definitions appear in Appendix A.

Panel A: Project Size, Duration and Prospect

Variable	Min	p25	Median	Mean	p75	Max	SD
Project size, million RMB	0.016	40.000	80.067	211.877	180.710	57120.000	1106.650
Project duration, month	3.000	18.000	24.000	23.243	24.000	120.000	9.679
Project sales, million RMB	5.825	120.000	255.000	447.614	505.472	7422.128	620.488
Project profit, million RMB	1.000	18.560	36.208	58.777	69.106	1415.730	77.018
Project IRR	0.061	0.191	0.242	0.255	0.302	0.758	0.096

Panel B: Types of Projects

Project type	Observations
R&D-related project	2,959
Marketing-related project	650
Equity-related project	70
Production-related project	5,300
Total	8,979

Panel C: Investment Change Categories

Category	Observations
Project Replacement	3,856
Project Cancellation	497
Investment Amount	897
Implementation Entity	749
Implementation Location	1,467
Implementation Methods	497
Implementation Progress	3,822
Others	535
Total	10,480

Table 2: Summary Statistics

This table reports summary statistics for the variables used in the analyses. Panel A reports summary statistics for the analyses of IPO firms. The sample consists of 2,903 IPOs, 517 mandatory political turnovers (at the city mayor level), 8,979 projects and 6,031 annual project-level investment changes from 2004-2020. Panel B reports summary statistics for the analyses of mature firms. All variable definitions appear in Appendix A.

Panel A: Analyses of IPO Firms				
Variable	Observations	Mean	Median	SD
Projects and Firms				
Investment change	33,820	0.178	0	0.383
Mandatory political turnover	33,820	0.155	0	0.362
Investment irreversibility (depreciation rate)	25,987	0.017	0.014	0.015
Investment irreversibility (depreciation rate), indicator	25,987	0.497	0	0.500
Investment irreversibility (asset tangibility)	33,713	0.249	0.231	0.106
Investment irreversibility (asset tangibility), indicator	33,713	0.457	0	0.498
Turnover induced investment changes	18,107	0.045	0	0.208
ROA	18,107	0.070	0.063	0.072
ROE	18,107	0.113	0.101	0.140
Cash flows	18,107	0.065	0.060	0.084
Ln(Capex)	14,750	18.067	18.111	1.534
Capex/total assets	14,750	0.094	0.067	0.091
Investment amount	33,820	0.211	0	0.408
POE, indicator	33,459	0.767	1	0.423
No political connection, indicator	33,785	0.849	1	0.358
Local Politician and Economic Indicators				
Mandatory political turnover (mayors)	5,415	0.079	0	0.270
GDP growth	5,415	0.128	0.123	0.089
Population growth	5,415	0.006	0.005	0.034
Inflation	5,415	0.025	0.023	0.018
EPU index	648	0.996	1.006	0.174
Younger politician indicator	29,839	0.524	1	0.499
City mayor age, years	6,349	50.768	51	4.015
Higher government debt indicator	28,404	0.477	0	0.499
City government debt	4,959	0.066	0	0.097
City visit	3,351	9.685	0	90.734
Government report similarity	4,181	0.592	0.577	0.075
Proportion of overlapping industries	4,181	0.328	0.333	0.123
Change in similarity in government report, indicator	5,063	0.617	1.000	0.486
Change in overlapping industries, indicator	5,063	0.543	1.000	0.498
City mayor promotion	5,543	0.232	0	0.422
Accumulative local investment changes, frequency	5,543	0.396	0	0.872
Accumulative local investment changes, indicator	5,543	0.224	0	0.417
Local employment	5,189	36.992	28.270	32.870
Local investment changes, frequency	5,189	0.209	0	0.534
Local investment changes, indicator	5,189	0.161	0	0.368
Panel B: Analyses of Mature Firms				
New	78,629	0.480	0	0.500
Completion	78,629	0.527	1	0.499
Change	78,629	0.740	1	0.439
Firm age, mature firm	78,629	19.224	19	5.666
Project balance, mature firm	78,629	256.954	32.596	711.033

Table 3: Mandatory Political Turnovers

This table studies the nature of mandatory political turnovers. Panel A studies the determinants of mandatory political turnover. The dependent variable, *Mandatory political turnover (Mayors)*, is an indicator variable equal to one if a city mayor turns over in a given year due to mandatory reasons such as death, term limits, or mandatory retirements, and zero otherwise. *GDP growth* is the annual growth rate of GDP (in percentage points) at the city level. *Population growth* is the population annual growth rate (in percentage points) at the city level. *Inflation* is the annual inflation rate (in percentage points) in the city. Panel B studies the potential anticipatory effect of upcoming mandatory political turnover on firms' capital investment for all listed firms during 2004–2020. *Mandatory Political Turnover_Pre1 (2/3)* is an indicator variable that equals one if the observation is from one (two/three) year(s) before an upcoming mandatory mayor turnover, and zero otherwise. The analysis focuses on the first political turnover that firms experience within the [-3, 4] window around their IPO listing year. In column (1), the dependent variable is the raw level of capital expenditure, measured in natural logarithm. In column (2), the dependent variable is capital expenditure scaled by lagged total assets. Standard errors are reported in parentheses and cluster by city. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed test.

Panel A: Determinants of Mandatory Political Turnovers

	Mandatory Political Turnover			
	(1)	(2)	(3)	(4)
GDP growth	-0.020			-0.019
	(0.051)			(0.051)
Population growth		0.001		0.003
		(0.147)		(0.147)
Inflation			-0.807	-0.801
			(0.668)	(0.667)
City FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	5415	5415	5415	5415
Adjusted R^2	0.005	0.005	0.005	0.005

Panel B: Impact of Upcoming Mandatory Political Turnover on Capital Investment

	Ln(Capex)	Capex/total assets
	(1)	(2)
Mandatory Political Turnover_Pre1	-0.044	-0.002
	(0.037)	(0.004)
Mandatory Political Turnover_Pre2	0.021	-0.001
	(0.042)	(0.004)
Mandatory Political Turnover_Pre3	-0.036	-0.004
	(0.053)	(0.004)
Firm FE	Yes	Yes
Industry-Year FE	Yes	Yes
Observations	14,750	14,750
Adjusted R^2	0.726	0.435

Table 4: Effect of Politics on Corporate Investment

This table studies how mandatory political turnovers are associated with project-by-project changes in the use of IPO proceeds. The dependent variable, *Investment change*, is an indicator variable equal to one if a company announces an investment change for a given project in a given year, and zero otherwise. *Mandatory political turnover* is an indicator variable equal to one if local mayor turned over in the previous two years, or in the same year as the investment change announcement but prior to the announcement, due to death, term limits, or mandatory retirements, and zero otherwise. The different columns correspond to regression specifications with alternating sets of fixed effects. All variable definitions appear in Appendix A. Standard errors are reported in parentheses and cluster by city. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed test.

	Investment Change		
	(1)	(2)	(3)
Mandatory political turnover	0.127***	0.127***	0.142***
	(0.016)	(0.016)	(0.021)
City FE	Yes	Yes	No
Industry-Year FE	Yes	Yes	Yes
Project Type FE	No	Yes	Yes
Firm FE	No	No	Yes
Observations	33,820	33,820	33,820
Adjusted R^2	0.068	0.069	0.155

Table 5: Robustness

This table presents robustness checks. Panel A studies whether economic policy uncertainty is incrementally associated with project-by-project changes in the use of IPO proceeds. *EPU index* is a one-year lagged measure of newspaper-based provincial economic policy uncertainty (Yu et al., 2021). Panel B studies whether the large cities (Beijing, Chongqing, Shanghai, Tianjin) dominate the effect by excluding the observation from these cities. Panel C studies whether mandatory political turnover drive changes in investment amount. The dependent variable in Panels A and B, *Investment change*, is an indicator variable equal to one if a company announces an investment change for a given project in a given year, and zero otherwise. The dependent variable in Panel C, *Investment amount*, is an indicator variable that equals one if the investment amount of the IPO project deviates from the plan stated in the IPO prospectus after the firm is listed, and zero otherwise. The different columns correspond to regression specifications with alternating sets of fixed effects. All variable definitions appear in Appendix A. Standard errors are reported in parentheses and cluster by city. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed test.

Panel A: Economic Policy Uncertainty

	Investment Change		
	(1)	(2)	(3)
Mandatory political turnover	0.127***	0.127***	0.144***
	(0.016)	(0.016)	(0.021)
EPU index	-0.038	-0.038	-0.096
	(0.038)	(0.038)	(0.063)
City FE	Yes	Yes	No
Industry-Year FE	Yes	Yes	Yes
Project Type FE	No	Yes	Yes
Firm FE	No	No	Yes
Observations	31,780	31,780	31,780
Adjusted R^2	0.070	0.071	0.164

Panel B: Omit Largest Cities

	Investment Change		
	(1)	(2)	(3)
Mandatory political turnover	0.136***	0.136***	0.157***
	(0.018)	(0.018)	(0.022)
City FE	Yes	Yes	No
Industry-Year FE	Yes	Yes	Yes
Project Type FE	No	Yes	Yes
Firm FE	No	No	Yes
Observations	26,829	26,829	26,829
Adjusted R^2	0.075	0.075	0.150

Table 5 (continued)

Panel C: Investment Amount

	Investment Amount		
	(1)	(2)	(3)
Mandatory political turnover	-0.006	-0.005	-0.001
	(0.010)	(0.010)	(0.002)
City FE	Yes	Yes	No
Industry-Year FE	Yes	Yes	Yes
Project Type FE	No	Yes	Yes
Firm FE	No	No	Yes
Observations	33,820	33,820	33,820
Adjusted R^2	0.061	0.062	0.500

Table 6: Investment Irreversibility

This table studies the impact of investment irreversibility behind the investment changes at IPO firms following mandatory political turnovers, measured as depreciation rate (column 1), and asset tangibility (column 2). The dependent variable, *Investment change*, is an indicator variable equal to one if a company announces an investment change for a given project in a given year, and zero otherwise. The main independent variable in all columns, *Mandatory political turnover,* is an indicator variable equal to one if local mayor turned over in the previous two years, or in the same year as the investment change announcement but prior to the announcement, due to death, term limits, or mandatory retirements, and zero otherwise. In each column, we interact the variable *Mandatory political turnover* with a different variable that aims to proxy for the relevant economic mechanism. All variable definitions appear in Appendix A. Standard errors are reported in parentheses and cluster by city. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed test.

	Investment Change	
	(1)	(2)
Mandatory political turnover	-0.032*	-0.043**
X Characteristic	(0.019)	(0.020)
Mandatory political turnover	0.121***	0.163***
	(0.022)	(0.022)
Characteristic	0.036**	-0.020
	(0.016)	(0.019)
Characteristic	Higher investment irreversibility (depreciation rate), indicator	Higher investment irreversibility (asset tangibility), indicator
Firm FE	Yes	Yes
Industry-Year FE	Yes	Yes
Project Type FE	Yes	Yes
Observations	25,987	33,713
Adjusted R^2	0.192	0.156

Table 7: Mature Firms

This table studies how mandatory political turnovers are associated with ongoing project changes at mature firms (listed for at least 4 years). The dependent variables, *New/Completion/Change*, are indicator variables equal to one if a mature firm initiates/completes/changes a project in a given year, and zero otherwise. *Mandatory political turnover* is an indicator variable equal to one if local mayor turned over in the previous two years due to death, term limits, or mandatory retirements, and zero otherwise. All variable definitions appear in Appendix A. Standard errors are reported in parentheses and cluster by city. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed test.

	New	Completion	Change
	(1)	(2)	(3)
Mandatory political turnover	0.005	0.004	-0.003
	(0.008)	(0.009)	(0.006)
Firm FE	Yes	Yes	Yes
Industry-year FE	Yes	Yes	Yes
Project type FE	Yes	Yes	Yes
Observations	78,629	78,629	78,629
Adjusted R^2	0.109	0.167	0.158

Table 8: Market Reaction

This table studies how the market reacts to IPO firms' announcements of investment changes in their IPO proceeds. We consider two event windows, [-5, +5] and [-2, +5], which correspond to 5 days before and 5 days after the announcement, and 2 days before and 5 days after the announcement, respectively. Columns 1-2 provide estimates of cumulative abnormal returns from a value-weighted market model. Columns 3-4 provide estimates of cumulative abnormal returns from China three-factor model (Liu et al. 2019). The cumulative abnormal returns from the two models above are estimated over the period [-130, -11] relative to the announcement date of the investment changes. To mitigate the confounding effects of earnings surprises and other concurrent information releases, we exclude announcements that coincide with earnings release. All variable definitions appear in Appendix A. Standard errors are reported in parentheses and cluster by city. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively, using a two-tailed test.

	CAR[-5, +5]	CAR[-2, +5]	CAR[-5, +5]	CAR[-2, +5]
	(1)	(2)	(3)	(4)
Constant	-0.017***	-0.007*	-0.011**	-0.008**
	(0.005)	(0.004)	(0.005)	(0.004)
Asset-pricing model	Market		China 3-factor	
Observations	556	556	556	556

Table 9: Firm Performance

This table studies firm-level consequences when newly listed firms change the use of their IPO proceeds following mandatory political turnovers. Column 1 studies firms' return on assets (ROA). *ROA* is firm's one-year ahead return on assets. Columns 2 study firms' return on equity (ROE). *ROE* is firm's one-year ahead return on equity. Column 3 studies firms' operating cashflow (*Cash flows*), defined as firm's one-year ahead operating cashflow (scaled by total assets). *Turnover induced investment changes* is an indicator variable equal to one if firms announce investment changes in a given year due to mandatory political turnover in the previous two years, or in the same year as the investment change announcement but prior to the announcement, and zero otherwise. All variable definitions appear in Appendix A. Standard errors are reported in parentheses and cluster by city. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively, using a two-tailed test.

	ROA	ROE	Cash flows
	(1)	(2)	(3)
Turnover induced investment changes	-0.006**	-0.011**	-0.008***
	(0.002)	(0.005)	(0.003)
Firm FE	Yes	Yes	Yes
Industry-Year FE	Yes	Yes	Yes
Observations	18,107	18,107	18,107
Adjusted R^2	0.524	0.379	0.388

Table 10: Politicians and Financial Constraints

This table studies the role of politician and local financial constraints in investment changes at IPO firms following mandatory political turnovers. The dependent variable in all columns, *Investment change*, is an indicator variable equal to one if a company announces an investment change for a given project in a given year, and zero otherwise. The main independent variable in all columns, *Mandatory political turnover,* is an indicator variable equal to one if local mayor turned over in the previous two years, or in the same year as the investment change announcement but prior to the announcement, due to death, term limits, or mandatory retirements, and zero otherwise. In each column, we interact the variable *Mandatory political turnover* with a different variable. In column 1, this variable is *Younger politician indicator* which equals one if the politician is younger, and zero otherwise. Column 2 presents the *Higher government debt indicator*, which equals one if government debt exceeds the annual median, and zero otherwise. Column 3 includes the *No political connection indicator*, which equals one if the CEO lacks political connections. All variable definitions appear in Appendix A. Standard errors are reported in parentheses and cluster by city. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed test.

	Investment Change		
	(1)	(2)	(3)
Mandatory political turnover	0.075**	0.156***	0.054*
X Characteristic	(0.031)	(0.033)	(0.030)
Mandatory political turnover	0.095***	0.095***	0.099***
	(0.025)	(0.026)	(0.026)
Characteristic	-0.002	0.041	-0.002
	(0.019)	(0.031)	(0.017)
Characteristic	Younger politician indicator	Higher government debt indicator	No political connection indicator
Firm FE	Yes	Yes	Yes
Industry-year FE	Yes	Yes	Yes
Project type FE	Yes	Yes	Yes
Observations	29,839	28,404	33,785
Adjusted R^2	0.171	0.157	0.156

Table 11: Official Visits

This table studies the impact of mandatory political turnover on city official visit and firm investment changes. Column 1 studies the impact of mandatory political turnover on city official visit. The dependent variable, *City visit*, is the number of visits to the firm by city official one year after mandatory political turnover. The analysis is performed using Poisson pseudo-maximum likelihood regression with multiple-way fixed effects. Columns 2-3 study the impact of city on investment changes by local IPO firms. The dependent variable, *Investment change*, is an indicator variable equal to one if a company announces an investment change for a given project in a given year, and zero otherwise. The independent variables, *Mandatory political turnover,* is an indicator variable equal to one if local mayor turned over in the previous two years, or in the same year as the investment change announcement but prior to the announcement, due to death, term limits, or mandatory retirements, and zero otherwise. *City visit* is defined as the number of visits paid by city official (scaled by 100). All variable definitions appear in Appendix A. Standard errors are reported in parentheses and cluster by city. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed test.

	City Visit	Investment change	
	(1)	(2)	(3)
Mandatory political turnover	0.312***		0.138***
	(0.094)		(0.023)
City visit		0.005***	0.011***
		(0.001)	(0.002)
Mandatory political turnover X City visit			0.021***
			(0.005)
City FE	Yes	No	No
Year FE	Yes	No	No
Firm FE	No	Yes	Yes
Industry-year FE	No	Yes	Yes
Project type FE	No	Yes	Yes
Observations	3,351	31,445	31,445
Adjusted R^2	0.932	0.155	0.168

Table 12: Regional Economic Policies

This table studies the impact of mandatory political turnover on local policy shift and firm investment changes. Panel A studies the impact of mandatory political turnover on local policy shift. The dependent variables are similarity in the forward-looking section city- and province-level government report using TF-IDF method (column 1) and the proportion of overlapping industries in city- and province-level government report (column 2). The main independent variable, *Mandatory political turnover,* is an indicator variable equal to one if local mayor turned over in the previous two years, or in the same year as the investment change announcement but prior to the announcement, due to death, term limits, or mandatory retirements, and zero otherwise. Panel B studies the impact of policy shift on investment changes by local IPO firms. The dependent variable, *Investment change*, is an indicator variable equal to one if a company announces an investment change for a given project in a given year, and zero otherwise. The main independent variable, *Policy change*, is indicator variable equal to one if there is an increase in the similarity in the forward-looking section of city- and province-level government report around mandatory political turnover (columns 1 & 2), or if there is an increase in the proportion of overlapping industries in city- and province-level government report around mandatory political turnover (columns 3 & 4), and zero otherwise. All variable definitions appear in Appendix A. Standard errors are reported in parentheses and cluster by city. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed test.

Panel A: Impact of Mandatory Political Turnover on Regional Economic Policies

	Government report similarity	Proportion of overlapping industries
	(1)	(2)
Mandatory political turnover	0.017***	0.023**
	(0.006)	(0.010)
City FE	Yes	Yes
Year FE	Yes	Yes
Observations	4,181	4,181
Adjusted R^2	0.121	0.075

Panel B: Impact of Regional Economic Policies on Investment Changes

Policy change	Investment Change			
	Change in similarity in government report, indicator		Change in the proportion of overlapping industries, indicator	
	[-1,+1]	[-2,+2]	[-1,+1]	[-2,+2]
	(1)	(2)	(3)	(4)
Policy change	0.179***	0.133***	0.338***	0.103***
	(0.020)	(0.036)	(0.014)	(0.015)
Firm FE	Yes	Yes	Yes	Yes
Industry-year FE	Yes	Yes	Yes	Yes
Project type FE	Yes	Yes	Yes	Yes
Observations	5,063	7,071	5,063	7,071
Adjusted R^2	0.188	0.155	0.188	0.155

Table 13: Aggregate Effects

This table studies the impact of local IPO firm investment changes on local political promotion and local employment. Panel A studies the impact of investment changes by local IPO firms on local mayor's promotion. The dependent variable in all columns, *City Mayor Promotion*, is an indicator variable equal to one if local mayor got promoted one-year ahead, and zero otherwise. The independent variable is the count (indicator) of accumulative investment changes by local firms over the politician's tenure in column 1(2). Panel B studies the impact of investment changes by local IPO firms on local employment. The dependent variable in all columns, *Local Employment*, is measured as the size of the local workforce employed in the city one year ahead (in natural logarithm). The independent variable is the count (indicator) of investment changes by local firms in a given year in column 1(2). The sample consists of 5,291 annual city-level observations for 2004-2020. All variable definitions appear in Appendix A. Standard errors are reported in parentheses and cluster by city. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, using a two-tailed test.

Panel A: Impact of Investment Changes on Political Promotion of City Mayor

	City Mayor Promotion	
	(1)	(2)
Accumulative local investment changes, frequency	0.048***	
	(0.010)	
Accumulative local investment changes, indicator		0.067***
		(0.018)
City FE	Yes	Yes
Year FE	Yes	Yes
Observations	5,543	5,543
Adjusted R^2	0.133	0.131

Panel B: Impact of Investment Changes on Local Employment

	Local Employment	
	(1)	(2)
Local investment changes, frequency	0.073***	
	(0.023)	
Local investment changes, indicator		0.051***
		(0.019)
City FE	Yes	Yes
Year FE	Yes	Yes
Observations	5,291	5,291
Adjusted R^2	0.934	0.933

Appendix A: Variable Definitions

This appendix defines the variables. It provides detailed definitions and data sources for all the variables included in the analyses.

Variables	Definition	Source
Investment changes and politician turnovers		
Mandatory political turnover	An indicator variable that equals one if the local mayor turns over in the previous two years, or in the same year as the investment change announcement but prior to the announcement, due to mandatory reasons such as death, term limits or mandatory retirement, and zero otherwise.	Hand-collected
Investment change	An indicator variable that equals one if the company changes its project-level investment plan in year t, and zero otherwise.	Tonghuashun
New	An indicator variable that equals to one if the project is initiated in year t, and zero otherwise.	CSMAR
Completion	An indicator variable that equals to one if the project is completed in year t, and zero otherwise.	CSMAR
Change	An indicator variable that equals to one if the project is initiated or completed in year t, and zero otherwise	CSMAR
Projects		
Project size	The intended amount of IPO proceeds firms allocate to an IPO project (in millions RMB).	Tonghuashun
Project duration	The intended duration of investment change by an IPO project over the window of (t, t+4), where t is year of IPO listing (in months).	Tonghuashun
Project sales	The projected sales firms could generate from the IPO project (in millions RMB).	Tonghuashun
Project profit	The projected profit firms could generate from the IPO project (in millions RMB).	Tonghuashun
Project IRR	The projected internal rate of return for the IPO project.	Tonghuashun
R&D-related project	An indicator variable that equals to one if the project is related to research and development, and zero otherwise.	Tonghuashun
Marketing-related project	An indicator variable that equals to one if the project is related to marketing, and zero otherwise.	Tonghuashun
Equity-related project	An indicator variable that equals to one if the project is related to equity investment, and zero otherwise.	Tonghuashun
Product-related project	An indicator variable that equals to one if the project is related to production, and zero otherwise.	Tonghuashun
Project replacement	An indicator variable that equals to one if the IPO project was replaced after IPO firm is listed, and zero otherwise.	Tonghuashun
Project cancellation	An indicator variable that equals to one if the IPO project was cancelled after IPO firm is listed, and zero otherwise.	Tonghuashun
Investment amount	An indicator variable that equals one if the investment amount of the IPO project deviates from the plan stated in the IPO prospectus after the firm is listed, and zero otherwise.	Tonghuashun
Implementation entity	An indicator variable that equals one if the implementation entity of the IPO project deviates from the plan stated in the IPO prospectus after the firm is listed, and zero otherwise.	Tonghuashun

Implementation location	An indicator variable that equals one if the implementation location of the IPO project deviates from the plan stated in the IPO prospectus after the firm is listed, and zero otherwise.	Tonghuashun
Implementation methods	An indicator variable that equals one if the implementation method of the IPO project deviates from the plan stated in the IPO prospectus after the firm is listed, and zero otherwise.	Tonghuashun
Deadline changes	An indicator variable that equals one if the deadline of the IPO project deviates from the plan stated in the IPO prospectus after the firm is listed, and zero otherwise.	Tonghuashun
Others	Other types of investment changes not accounted for in the categories above.	Tonghuashun
Project balance, mature firm	The project balance at the end of the year t for mature firms (in millions RMB).	CSMAR
Politicians		
Younger politician, indicator	An indicator variable that equals one if the city mayor age is below the median, and zero otherwise.	Hand-collected
City mayor age, years	The age of the city mayor.	Hand-collected
City mayor promotion	An indicator variable that equals one if city mayor gets political promotion, and zero otherwise.	Hand-collected
City visit	The number of city-level official visit paid to a local firm.	CSMAR
Firms		
Mandatory Political Turnover_Pre1 (2/3)	An indicator variable that equals one if the observation is from one (two/three) year(s) before an upcoming mandatory mayor turnover, and zero otherwise.	Hand-collected
Ln(Capex)	The amount of capital expenditure made by the firm in a given year, in natural logarithm.	CSMAR
Capex/total assets	The amount of capital expenditure made by the firm in a given year, scaled by total assets.	CSMAR
Investment irreversibility (depreciation rate)	Investment irreversibility, a firm-level measure of depreciation expenses scaled by total asset.	CSMAR
Investment irreversibility (depreciation rate), indicator	An indicator variable that equals one if the firms' investment irreversibility (depreciation rate) is above the annual median, and zero otherwise.	CSMAR
Investment irreversibility (asset tangibility)	Investment irreversibility, an industry-level measure of PPE scaled by total assets.	CSMAR
Investment irreversibility (asset tangibility), indicator	An indicator variable that equals one if the firms' investment irreversibility (asset tangibility) is above the annual median, and zero otherwise.	CSMAR
ROA	Return on asset, measured as earnings in t+1 divided by total assets, where t is the year of investment change.	CSMAR
ROE	Return on asset, measured as earnings in t+1 divided by book value of equity, where t is the year of investment change.	CSMAR
Cash flows	Operating cashflow (scaled by total assets) in t+1, where t is the year of investment change.	CSMAR
Turnover induced investment changes	An indicator variable equal to one if firms announce investment changes in a given year due to mandatory political turnover in the previous two years, or in the same year as the	CSMAR

	investment change announcement but prior to the announcement, and zero otherwise.	
POE, indicator	An indicator variable that equals one if the firm is privately owned, and zero otherwise.	CSMAR
No political connection, indicator	An indicator variable that equals one if the firms' CEOs are politically connected, and zero otherwise.	CSMAR /Hand-collected
Firm age, mature firm	The firm age for mature firms, measured as the number of years since IPO.	CSMAR
Regional and macroeconomic conditions		
Higher government debt indicator	An indicator variable that equals one if the government debt is above the annual median, and zero otherwise.	CSMAR/Bureau of Statistics (City)
City government debt	City-level government debt, measured as ordinary city government debt scaled by GDP.	CSMAR/WIND
Government report similarity	The textual similarity between the forward-looking sections of city-level and corresponding province-level government reports, measured using TF-IDF approach.	Hand-collected
Proportion of overlapping industries	The proportion of overlapping industries mentioned in both city-level and corresponding province-level government reports, calculated as the ratio of commonly mentioned industries to the total unique industries referenced across both reports.	Hand-collected
Change in similarity in government report, indicator	An indicator variable equal to one if the similarity between city-level and province-level government reports increases around mandatory mayor turnover, and zero otherwise.	Hand-collected
Change in overlapping industries, indicator	An indicator variable equal to one if the proportion of overlapping industries mentioned in both city-level and corresponding province-level government reports increases around mandatory mayor turnover, and zero otherwise.	Hand-collected
Accumulative local investment changes, frequency	The number of total investment changes made by local IPO firms over the city mayor's tenure, in natural logarithm.	CSMAR
Accumulative local investment changes, indicator	An indicator variable that equals one if the local IPO firms make investment changes over the city mayor's tenure, and zero otherwise.	CSMAR
Local employment	The total count of individuals classified as employed within the administrative boundaries of a city, in natural logarithm	CSMAR
Local investment changes, frequency	The number of total investment changes made by local IPO firms in a year, in natural logarithm.	CSMAR
Local investment changes, indicator	An indicator variable that equals one if the local IPO firms make investment changes, and zero otherwise.	CSMAR
EPU index	The economic uncertainty index at provincial level across China following the methodology in Baker et al. (2016).	Yu et al. (2021)
GDP growth	The growth in provincial GDP (in percentage points).	CSMAR
Inflation	The local inflation rate (in percentage points) in the province.	CSMAR
Population growth	The population growth rate (in percentage points) in the province.	CSMAR

Appendix B: The Disclosure of Project-level Investment Changes

This appendix describes the disclosure requirements in China surrounding the use of IPO proceeds, and provides sample disclosures of Chinese IPO firms.

In 1998, the China Securities Regulatory Commission (CSRC) mandated that the IPO prospectus provide detailed disclosures of the allocation of IPO funds across individual projects. The detailed disclosures of capital allocation across projects in Chinese IPOs differs from the disclosure mandates in the U.S. In the U.S., firms can decide if and how to disclose their use of IPO proceeds. Not surprisingly, Leone et al. (2007) show that there is considerable variation in the level of details that firms disclose in their IPO prospectuses. Moreover, firms in the U.S. report the general purpose of their proceeds' usage, including working capital, debt repayment and R&D, but do not disclose the allocation of the proceeds across individual projects as Chinese firms are required to do.[8] In contrast, disclosures in China include each project's name, the total amount of investment in each project and its breakdown into categories (e.g., labor costs, machinery, etc.), the prospects and feasibility of the project, the board's views on the project, the implementation entity, and the duration of the project. Firms are required to disclose this information when they submit the IPO application to the CSRC. After the IPO application is approved, firms that change their investment or implementation plans for a given project are required to disclose the change within two days of when the decision is made by the board of directors.

To construct our sample, we follow firms since its IPO, and record project-level changes over the subsequent 4 years. Below are examples demonstrating the announcement of investment changes following IPO, including the project size, the date of the announcement, the type of investment changes, and the brief explanation of the investment changes.

[8] For example, Facebook (now Meta) stated the use of its IPO proceeds in its IPO prospectus as follows: "*The principal purposes of our initial public offering are to create a public market for our Class A common stock and thereby enable future access to the public equity markets by us and our employees, obtain additional capital, and facilitate an orderly distribution of shares for the selling stockholders. We intend to use the net proceeds to us from our initial public offering for working capital and other general corporate purposes; however, we do not currently have any specific uses of the net proceeds planned. We may use a portion of the net proceeds to us to satisfy a portion of the anticipated tax withholding and remittance obligations related to the initial settlement of our outstanding RSUs, which will become due approximately six months following the completion of our initial public offering. Additionally, we may use a portion of the proceeds to us for acquisitions of complementary businesses, technologies, or other assets. However, we have no commitments with respect to any such acquisitions or investments at this time.*" For more details, see its Form S-1, which is available at:
https://www.sec.gov/Archives/edgar/data/1326801/000119312512034517/d287954ds1.htm#toc287954_4

Company name: Xinjiang Xintai Natural		Listing date: 2016-08-31
Project name: Mi Dong District Phase II Coal-to-Gas Project		Project size: 51.5287 million (RMB)
Date of announcement	**Type of change**	**Brief explanation**
2017-08-25	Project Replacement	The company plans to allocate 650.95 million yuan for new projects, including the “One Town, Two Villages” natural gas project in the Urumqi High-tech Zone, a CNG station in Kuche County, a rural gasification project in Hanikata Mu Township, and an urban CNG station construction project. Located near National Road 217 in Kuche, a key route linking Northern to Southern Xinjiang, the project benefits from high traffic and lower gas prices (2.4 yuan/m^3) compared to Urumqi (3.06 yuan/m^3). It promises good profitability, economic feasibility, and will contribute to reduced pollution and improved regional environmental quality.
2017-08-25	Investment Amount	The project originally planned an investment of 146.8755 million yuan for constructing 166.2 km of pipelines, 3 new gas stations, and related urban gas facilities. However, based on actual progress, the investment amount has been reduced to 129.0201 million yuan. This adjustment is due to the cancellation of one gas station on the northern main road in Urumqi. The decision was made because of fierce competition in the local vehicle gas market, which led to the reduction in investment risk, and the company decided to focus on more strategically viable locations for the remaining stations.
2018-05-15	Project Replacement /Investment Amount	Due to market conditions and future trends, the company plans to adjust its original investment strategy. Key adjustments include: -The investment has been reduced from 129.0201 million yuan to 51.5287 million yuan due to fierce competition in the vehicle gas market, with the cancellation of certain gas stations.
2019-08-21	Project Replacement	The project has been completed and is ready for use. The company plans to close the project and optimize the use of the raised funds. To minimize financial costs and improve the company's risk resilience, the remaining funds from this and other previously raised projects will be used to permanently supplement the company’s working capital.