# The Impact of Politicians' Hometown Favoritism on Resource Allocation

Yanling Wu[a]  Gary Gang Tian[a*]

[a] Macquarie Business School, Macquarie University, Australia

**Abstract:** This study examines whether and how politicians' hometown favoritism influences the resource allocation. Using a Chinese initial public offering (IPO) regulation setting and a difference-in-difference research design, we find that IPO firms headquartered in the hometown province of the incumbent chairman of China Securities Regulatory Commission (CSRC), are 14.87% more likely to receive IPO approval. The chairman's favoritism is principally motivated by social preferences due to birthplace identity rather than by rent-seeking motives. Xi Jinping's anti-corruption campaign has no significant impact on this hometown favoritism. Furthermore, such hometown favoritism is stronger for IPO applicants who have no IPO approval committee connection, no political connection, no state ownership, or lower earnings quality. Finally, hometown-connected IPO firms tend to experience higher IPO underpricing, lower post-IPO stock returns, and worse post-IPO accounting performance reversals, which suggests that the hometown favoritism of politicians distorts resource allocation in an emerging market.

**Keywords:** Hometown favoritism, place identity, the chairman, IPO allocation efficiency

**JEL**: G18; G38; P16

Email addresses: yanling.wu@students.mq.edu.au (Y. Wu). Corresponding author: gary.tian@mq.edu.au (G. G. Tian).

1. Introduction

This paper examines how politicians' hometown favoritism influences the resource allocation. Hometown favoritism is prevalent in the distribution of economic resources. For example, existing studies find that hometown favouritism matters for public good provision (Zantman, 2002), federal funds distribution (Berry et al., 2010; Brollo and Nannicini, 2012; Albouy, 2013), regional nightlight time (Hodler and Raschky, 2014), road building (Burgess et al., 2015), and infrastructure development (Do et al., 2017). However, in these studies, politicians, such as presidents, even though with supreme power, could not directly and fully control the allocation of a specific resource. Furthermore, there is little evidence about the firm-level benefits of hometown favoritism and the impact of such favoritism on the allocation efficiency. To fill this void, we explore a Chinese setting on the initial public offering (IPO) allocation and examine whether the chairman of China Securities Regulatory Commission (CSRC), who has direct and great control over the resource, favor their hometown firms and the impact on resource allocation efficiency.

Prior studies document that politicians' hometown favoritism can be driven by political motive and/or social preferences (Hodler and Raschky, 2014; Do et al., 2017). The political motive argues that politicians direct more resources to their birthplaces for winning votes and reelection in democracies (Ferejohn, 1974; Knight, 2008), and in authoritarian regimes, such as in China, local government officials favor hometown firms to improve the regional economic performance within their jurisdiction to increase a chance to be promoted to higher-rank offices (Chen et al., 2020; Xu, 2011). Such being the case, existing studies either in democratic or in authoritarian regimes face difficulties to differentiate political motive from social preferences of their hometown favoritism. However, as central government officials, the appointment and promotion of the CSRC's chairman

are determined by their superiors rather than public citizens or the economic performance of the regions where IPO firms reside (Li and Zhou, 2005). Thus, the chairman' hometown favoritism is less likely to be driven by political motives, and China's IPO resource allocation is a good setting to test the existence of social preferences motive of politicians' hometown favoritism.

The social preferences motive of hometown favoritism is rooted in place identity. Individuals establish affective identity with specific places and gain strong emotional satisfaction from benefiting people in those places (Hidalgo and Hernández, 2001; Fowler and Kam, 2007; Scannell and Gifford, 2017). Akerlof and Kranton (2000) and Kranton (2016) suggest that when making economic decisions, individuals consider identity motives to gain higher utility. Thus, politicians allocate more resources to their hometowns due to their shared-place identity (Do et al., 2017), and hometown favoritism of top officials in China is more pronounced because officials face fewer constraints (Hodler and Raschky, 2014, Fisman et al., 2018). Under the social preferences motive, we expect that the CSRC's chairman favor their hometown firms in the IPO resource allocation.

However, research extending social preferences to explain the effect of firm-level benefits derived from politicians' hometown favoritism on economic resource distribution is still scarce. This omission is unfortunate given the fact that political force frequently plays an important role (Pitroski et al., 2015) and rent seeking from politicians is prevalent, especially in a heavily regulated market such as in China (Shleifer and Vishny, 1993; Khwaja and Mian, 2011). Indeed, most existing literature focuses on rent seeking and possible corruption of the CSRC in the capital resource allocation (Yang, 2013; Brockman et al., 2019; Wang and Wu, 2020). As such, we extend this literature by examining politician's hometown favoritism on the ground of social preferences

and test our hypothesis that birthplace identity encourages the chairman to favor their hometown firms, thereby facilitating hometown firms more IPO allocation.[1]

We conduct our research in the Chinese setting due to the following benefits. China requires all firms to receive IPO approval from the CSRC before they can go public, and the CSRC's chairman has the highest authority to allocate the IPO resource. A recent example of hometown favoritism in the IPO approval regulation is that the former chairman of the CSRC, LIU Shiyu. During LIU's tenure as chairman, IPO firms headquartered in his birthplace, Jiangsu province, have a high probability to be approved by the CSRC. However, it is widely reported that these hometown firms are more likely to experience post-IPO performance reversals.[2] Therefore, this unique IPO approval regulation setting provides an excellent opportunity to examine whether the chairmen's hometown favoritism brings about firm-level benefits for their birth provinces, what the motives of such hometown favoritism are, and how this favoritism influences the resource allocation efficiency.

To test the hometown favoritism of the top official of the CSRC in IPO resource allocation, we examine Chinese A-stock companies that submitted IPO prospectuses to the CSRC between 2006 and 2019 and use the difference-in-difference research approach. We find that IPO firms headquartered in the birth province of the incumbent CSRC's chairman are more likely to receive IPO approval, and a hometown tie increases the probability of IPO approval by 14.87%.

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[1] Given that political rent seeking is prevalent in China's IPO approval regulation setting, the chairman's hometown favouritism may be motivated by personal economic gains through engaging in rent seeking activities with IPO firms. This alternative motive also brings about a higher likelihood of IPO approval and a lower resource allocation efficiency. However, we have conducted empirical analysis to rule out the rent seeking motive in Section 4.3.

[2] See https://finance.sina.com.cn/roll/2019-05-20/doc-ihvhiews3277874.shtml?source=cj&dv=1. This media article reported that during LIU's chairmanship of the CSRC, his hometown province, Jiangsu, had a relatively high proportion of IPOs, and the IPO approval process of several banks in Jiangsu was questioned by the market.

Then, we find that such favoritism is more pronounced for IPO applicants located in narrower geographic areas around the chairman's birthplace, and in regions with higher language diversity or stronger in-group collectivism culture, while the regional average rent-seeking expenditure and regional corruption level, and IPO firms' public relations expenditure have no significant impact on this hometown favoritism. These results confirm the existence of the social preferences motive of hometown favoritism and rule out the alternative explanation that such favoritism is driven by the rent seeking motive. We also find that the CSRC's chairman only favor IPO applicants from their birth provinces rather than from provinces where they previously worked and for IPO firms whose CEOs attend the same university as the chairman does, suggesting that the chairman's favoritism is more likely motivated by birthplace identity, rather than by rent seeking motive through the social ties they have established through the shared working or educational experience. Moreover, Xi Jinping's anti-corruption campaign since late 2012 and the central inspection into the CSRC since late 2015, have not significantly reduced the chairman's hometown favoritism, suggesting that such favoritism is less likely driven by rent seeking or possible corruption. In addition, we find that the chairmen's favoritism is stronger for non-committee-connected, non-political-connected or non-stated-owned IPO firms, suggesting the hometown favoritism is a substitute for the approval committee connections, CEOs' political connections or state ownership in IPO resource allocation. Therefore, we infer that the chairman's hometown favoritism is principally motivated by social preferences due to birthplace identity. However, we recognize that we cannot completely rule out the personal economic gains motive that the chairman may receive through rent seeking activities.

Finally, we find that this hometown favoritism is more pronounced for IPO firms with more discretionary accruals, intercompany loans, or related-party transactions in their prospectuses,

suggesting that such favoritism helps low-quality applicants to go public and leads to the IPO resource misallocation. Furthermore, we find that the hometown-connected firms tend to have a higher ratio of the offering price to earnings per share, show higher IPO underpricing, have lower post-IPO both buy-and-hold abnormal return and cumulative abnormal return, and experience worse post-IPO accounting performance reversals. All these results confirm that such hometown favoritism reduces the overall IPO resource allocation efficiency. Our findings document that, in an emerging market, hometown favoritism of government officials distorts the resource allocation and decreases the effectiveness of regulation.

Overall, this paper makes the following contributions. First, our paper contributes to the literature on hometown favoritism of politicians in resource allocation. Prior studies mainly document that their hometown favoritism influences public service, such as public good provision (Zantman, 2002), federal funds distribution (Brollo and Nannicini, 2012; Albouy, 2013), intensity of nightlight time (Hodler and Raschky, 2014), road building (Burgess et al., 2015), or regional fundamental infrastructure (Do et al., 2017). Our paper extends those studies by examining hometown favoritism of the CSRC's chairman who have the direct and great control for the IPO resource allocation and providing evidence that such favoritism brings about firm-level benefits.

Second, our paper also contributes to the literature on the effectiveness of regulation. Existing literature shows that political connection (Liu et al., 2013), regulatory committee connection (Yang, 2013; Chen et al., 2017; Brockman et al., 2019; Wang and Wu, 2020), and regulated interest groups' rent seeking through media capture (Dyck et al., 2013; Wu and Tian, 2021) distorts resource allocation. Drawing on place identity theory, our paper complements those studies by adding new empirical evidence that hometown favoritism of regulators with supreme authority motivated by social preferences also leads to an ineffective regulation.

Third, existing research shows that hometown ties between firms and government officials at provincial or prefecture levels have an impact on corporate investment decisions (Liu et al., 2016) or corporate subsidiary locations (Chen et al., 2020). The other studies show managers' hometown favoritism affect firm employment decisions (Yonker, 2017), acquisitions (Jiang et al., 2019), trade credit (Kong et al., 2020), or innovation (Ren et al., 2021). However, our paper focuses on officials at central government level and test whether and how politicians directly in charge of the resource favor their hometown firms in resource allocation.

The remainder of this paper proceeds as follows. Section 2 introduces the IPO resource allocation in China, and then develops the hypothesis. Section 3 describes the sample, key variables, and summary statistics. Section 4 presents the main regression results on hometown favoritism of the CSRC's chairman in the IPO approval decision. Section 5 reports result on the influence of hometown favoritism on resource allocation efficiency. Section 6 concludes the paper.

2. Institutional Background and Hypothesis Development

2.1 IPO Resource Allocation in China

In China, the capital market is relatively underdeveloped, and the overall legal environment is weak, because class action lawsuits are absent and the legal enforcements can be challenging for state-owned or politically connected firms (Brockman et al., 2019). Therefore, to optimize the IPO resource allocation and select high-quality companies to enter the capital market, the Chinese government adopts the IPO approval regulation.

Different from the registration system of the United States and other western countries, this approval system requires that all firms must receive the IPO approval from the CSRC before they are eligible to issue new shares. There is a risk of IPO rejection, which is about 20% during our

sample period from 2006 to 2019. In July 2019, the Chinese government set up the Sci-Tech Innovation Board (STAR Market) and piloted the so-called registration system of the IPO. Nevertheless, China's registration system is not an authentic one as in other countries, because approval committee members still take responsibility for voting for each IPO applicant and there is still administrative intervention in STAR market.[3] In other words, the Chinese government has not relinquished the control for the IPO resource allocation even since the introduction of STAR market and always played a dominant role in the regulatory process. Without fundamentally improving the legal system or establishing an effective delisting system, the impact of the new system should be quite limited.

During the regulatory process on IPO resource allocation, the submitted IPO prospectus is first reviewed by the CSRC officials to ensure that it meets basic requirements, and then it is scrutinized by the Examination Committee members of the CSRC who vote whether to approve the IPO application, and the chairman makes final decisions about IPO applications. Thus, the CSRC's chairman has the highest authority and greatest control over the IPO resource allocation.

The CSRC is a central-level government institution, established in 1992, and directly controlled by the Chinese State Council, including the appointment of the chairman of the CSRC. As the top official of the CSRC, unlike the relatively fixed tenures of political leaders in democracies or Chinese local government officials, the chairman is often unexpectedly rotated, which can be more likely to alleviate the endogeneity of hometown connections between IPO firms

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[3] A media article (https://www.iyiou.com/p/111223.html) took one IPO applicant' rejection case as an example to illustrate that the IPO registration in STAR market does not mean deregulation, but even stricter IPO regulation. Another article (https://baijiahao.baidu.com/s?id=1655156065063804450&wfr=spider&for=pc) reported descriptive statistics about the IPO approval rate, IPO proceeds, and IPO approval criterion in 2019 in STAR market, indicating the IPO rejection risk was 4.39% in 2019.

and the chairman.[4] During our sample period, there were five successive chairmen of the CSRC: SHANG Fulin (born in Shandong province), GUO Shuqing (born in Inner Mongolia province), XIAO Gang (born in Hunan province, and grew in Jiangxi province), LIU Shiyu (born in Jiangsu province), and YI Huiman (born in Zhejiang province). Among them, SHANG's tenure was the longest, at nine years from 2002 to 2011, and the shortest tenure was 1.5 years of GUO. In this paper, we intend to test whether and how hometown favoritism of these CSRC chairmen influences the IPO resource allocation and the possible motives of such favoritism.

2.2 Hypothesis Development

In this study, we focus on the CSRC chairman's behaviors in the IPO resource allocation. Based on China' IPO approval setting, prior studies have shown that the resource misallocation can be caused by IPO applicants' CEOs' own government working experience (Liu et al., 2013), the Examination Committee members' connections that IPO firms establish by hiring intermediary organizations whose former partners are currently full-time Committee members during their IPO application periods (Yang, 2013; Chen et al., 2017; Brockman et al., 2019; Wang and Wu, 2020), and IPO firms' rent seeking through media capture (Wu and Tian, 2021). As the top official of the CSRC, the chairman has the highest authority in allocating the IPO resource and makes final decisions about all IPO applications, and thus may play a more important role in the IPO approval regulatory process than political-connected CEOs, the Committee members, or the media.

Existing research has documented that politicians' hometown favoritism in resource allocation is widespread around the world. For example, political leaders tend to allocate more public good (Zantman, 2002), federal funds (Berry et al., 2010; Brollo and Nannicini, 2012; Albouy, 2013),

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[4] We will more vigorously address the endogeneity issues in Section 4.2.

nightlight time (Hodler and Raschky, 2014), or funds used for regional fundamental infrastructure (Burgess et al., 2015; Do et al., 2017) to their birthplaces. Furthermore, such hometown favoritism is more prevalent for autocratic top officials who face fewer external constraints from public citizens (Hodler and Raschky, 2014) or in China with a strong hometown culture and place attachment (Fisman et al., 2018). Thus, we conjecture that the CSRC's chairman is more likely to favor IPO firms headquartered in their birthplaces when allocating the IPO resource.

Then, we intend to explore the specific motives of the chairman's hometown favoritism. Prior literature has shown that politicians' hometown favoritism can be driven by the political motive and social preferences (Hodler and Raschky, 2014; Do et al., 2017). The political motive means that by allocating more resources to their hometown regions, politicians can seek votes or support from public citizens of their birthplaces to increase a probability of political reelection in democratic countries (Ferejohn, 1974; Knight, 2008). Under the social preferences motive, politicians favor their birth regions because they can gain higher personal and emotional satisfaction due to birthplace identity (Do et al., 2017).

Under China's meritocratic cadre selection system (Li and Zhou, 2005; Xu, 2011), local government officials' appointment and promotion depend on the economic performance of regions with their jurisdiction, thus provincial officials favor their hometown firms in the distribution of economic resources for the better regional economic achievements and the better promotion prospects (Chen et al., 2020). However, as a Chinese central government official, the CSRC's chairman only needs to please their superiors (i.e., the State Council) rather than public citizens to get appointed to the CSRC, and the regional economic growth, especially their hometown regions' economic performance, is not likely to relate to their rotation and promotion. Thus, we infer that the chairman's favoritism towards their hometown regions in the IPO resource allocation is less

likely to associate with political reelection or political promotion, but more likely to associate with social preferences.

In this paper, the social preference motive means that it is the birthplace identity that drive the CSRC's chairman' willingness to allocate more IPO resource to firms operating in their hometown provinces. In the framework of social identity theory, after individuals classify themselves and others into different social groups, they develop the identity to a certain group and favor people from the same group (Ashforth and Mael, 1989; Ashforth et al., 2008). Place identity is one category of social identity, and individuals establish affective identity with specific regions through interactions and develop the place identity (Hidalgo and Hernández, 2001; Scannell and Gifford, 2017). Individuals make economic decisions based on both monetary incentives and their identity motives (Akerlof and Kranton, 2000; Kranton, 2016), and can gain higher utility and satisfaction by bestowing benefits to people who share the same identification (Fowler and Kam, 2007). Hometown favoritism is grounded in the birthplace identity which is an extension of place identity, and political leaders tend to make economic decisions in favor of their hometown provinces to gain personal and emotional satisfaction (Do et al., 2017). Based on the Chinese famous proverb on hometown favoritism "When a man attains power, even his chickens and dogs ascend to heaven", we know that once in political power, government officials would distribute benefits and resources to their family members and hometowns. Thus, under the social preference motive, we expect that the chairman, born in regions that puts more value on family ties and family support, is more likely to approve their hometown-connected IPO applicants.

Based on the above discussions, due to the birthplace identity, hometown favoritism of the CSRC's chairman exists in the IPO resource allocation. Thus, we predict that:

Hypothesis: IPO firms headquartered in the birth province of the CSRC's incumbent chairman are more likely to receive the IPO approval.

3. Sample, Key Variables, and Summary Statistics

3.1 Sample Selection and Distribution

To test whether the hometown favoritism of the CSRC's chairman exists in IPO resource allocation and the impact of such favoritism on resource allocation efficiency, we select all Chinese A-stock IPO applicants examined by the CSRC between 2006 and 2019 as our original sample. Since 2006, all IPO applicants have been required to publicly disclose their prospectuses, so that we can access to data to conduct empirical analysis. Thus, our sample period starts in 2006.

Panel A of Table 1 indicates that a total of 2,943 IPO applicants were examined by the CSRC from 2006 to 2019. First, we exclude 71 applicants in the financial industry, because these firms are subject to different financial reporting rules. In this paper, we intend to test how hometown ties to the top official of the CSRC influence the likelihood of IPO firms receiving approval, while the rejection result of the first-time application may influence the firm's incentive to manage the resubmission timing to establish hometown connections with the incumbent chairman, thus there may be endogeneity issues. Also because of the difference in applications' experience between the first submission and the resubmissions, we only focus on the first IPO application and remove 240 applicants that resubmitted IPO prospectuses after their previous applications were rejected by the CSRC. In order to collect data on rejected IPO firms, we manually search their prospectuses, whereas relevant data for approved IPO firms come mainly from the China Securities Market and Accounting Research (CSMAR) Database or these firms' prospectuses. After collecting these data,

we drop 6 IPO firms whose financial information is incomplete. Finally, we obtain 2,626 prospective IPO firms, of which 2,155 receive IPO approvals from the CSRC.

As shown in Panel B of Table 1, the observation was zero in 2013 as the CSRC suspended IPO examination from October 2012 to January 2014. The highest likelihood of IPO approval is 92.74% in 2016, and the lowest is 58.86% in 2018. As shown in Panel C, the highest number of applications is in the Machinery and Equipment Manufacturing Industry, accounting for 43.64%; However, IPO firms in the Transportation, Storage, and Postal Services Industry are most likely to be approved by the CSRC. Panel D indicates that for 31 provinces, Guangdong province has the highest proportion of IPO applications, at 19.76%; While firms in some western provinces are more likely to receive the IPO approval because of some preferential policies, such as in Ningxia and Qinghai. Panel E presents that there was total 5 chairmen of the CSRC in power during our sample period between 2006 and 2019; during XIAO Gang's tenure in the CSRC, IPO firms are most likely to be approved, and the likelihood is 91.17%.

[Insert Table 1 about here]

3.2 Definitions of Key Variables

3.2.1 IPO Approval

We manually collect regulatory decisions on 2,626 IPO applicants between 2006 and 2019 from the CSRC website. Then, we use the variable *Approval* to measure IPO regulatory decisions, and if an IPO application is approved by the CSRC, the value for *Approval* is 1, otherwise is 0.

3.2.2 Hometown Ties

To construct our main independent variable, IPO firms' hometown ties to the top official of the CSRC, we first identify all CSRC's chairmen who were in office during our sample period from 2006 to 2019 from the CSRC Website, and further collect data about their tenure as the chairman and their birth provinces. Then, we define a hometown-connected-chairman IPO firm as a firm headquartered in the hometown province of the incumbent chairman who is in office when this IPO firm is examined by the CSRC. Finally, we use the dummy variable, *Hometown*, to measure hometown ties of IPO firms. If an IPO firm is a hometown-connected IPO firm, the value of *Hometown* is 1, and otherwise is 0.

3.3 Descriptive Statistics and Univariate Tests

We provide descriptive statistics for all variables of 2,626 prospective IPO firms in Panel A of Table 2. The average likelihood of IPO approval (*Approval*) is 82.1%, and this approval rate is similar to prior results (Yang, 2013; Liu et al., 2013; Chen et al., 2017; Wang and Wu, 2020). The mean value of *Hometown* is 0.137, which indicates that during our sample period from 2006 to 2019, more than 10% of IPO applicants have hometown connections with the incumbent chairman of the CSRC on their IPOs' examination date.

The univariate test in Panel B of Table 2 indicates that IPO firms with hometown ties to the current chairman (*Hometown*=1) are more likely to be approved by the CSRC than IPO firms without hometown ties (*Hometown*=0), which suggests that hometown favoritism of the top official of the CSRC exists in the IPO resource allocation, and thus supports our Hypothesis. We also find significant differences in many variables between home-connected and non-hometown-connected IPO applicants. Thus, in baseline regression analysis, we control these variables. In addition, in Section 4.2.4, we select all these variables as the matching variables and use a propensity-score matching approach to address the sample self-selection bias.

4. Hometown Favoritism of the CSRC's Chairman and IPO Approval

We first test whether IPO firms headquartered in the hometown province of the incumbent chairman of the CSRC are more likely to receive IPO approvals (Section 4.1). Second, we use multiple difference-in-difference research designs to address the endogeneity issues (Section 4.2). Third, we examine the specific motives of the Chairman's hometown favoritism (Section 4.3). Forth, we test the moderating effects of approval committee connections, political connections, and state ownership on this hometown favoritism (Section 4.4).

4.1 Baseline Regressions for the influence of Hometown Ties on IPO Approval

To examine the hometown favoritism of the CSRC' chairman in the IPO approval decision, we create the following Equation (1) to test how hometown ties of IPO firms (*Hometown*) influence the likelihood of receiving IPO approval (*Approval*) from the CSRC:

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\begin{aligned}
Approval_{i,t} = \beta_0 &+ \beta_1 Hometown_{i,t} + \beta_2 Size_{i,t-1} + \beta_3 LEV_{i,t-1} + \beta_4 Growth_{i,t-1} + \beta_5 ROA_{i,t-1} + \beta_6 IA_{i,t-1} \\
&+ \beta_7 SOE_{i,t-1} + \beta_8 PC_{i,t-1} + \beta_9 CC_{i,t-1} + \beta_{10} Age_{i,t-1} + \beta_{11} Underwriter_{i,t-1} + \beta_{12} Auditor_{i,t-1} \\
&+ \beta_{13} Lawyer_{i,t-1} + \beta_{14} Main_{i,t-1} + \beta_{15} SME_{i,t-1} + FixedEffects + \varepsilon_{i,t}
\end{aligned}
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$$Equation\ (1)$$

Following prior studies on the determinants of IPO regulatory decisions, we select a set of control variables for Equation (1). Shu et al. (2009) indicates that firms with larger size and higher profitability are easier to receive IPO approval from the CSRC, so we control for *Size*, *Age*, and *ROA*. Following Myers (2003), we control for financial leverage (*LEV*), sales growth (*Growth*), and the ratio of intangible assets to total assets (*IA*). Brockman et al. (2019) argue that state-owned firms could receive preferential treatment from the CSRC when they apply for capital resource, so we use *SOE* to capture the influence of state ownership on IPO approval. Prior studies document

that firms with political-connected CEOs (Liu et al., 2013) and committee-connected underwriters, auditors, or lawyers (Yang, 2013; Chen et al., 2017) are more likely to receive the IPO approval from the CSRC. Thus, to capture possible political connections in the IPO regulatory process, we include two variables: one is *PC* that equals to 1 if the CEO or chairman of the IPO firm serves as government officials and the other dummy variable is *CC* that identifies whether the IPO firm hires intermediaries (i.e., investment banks, auditing firms or law firms) whose partners are committee members during its IPO examination period. Following Chen et al. (2017) and Brockman et al. (2019), we control for the professionalism and reputation of intermediary organizations in the IPO process, namely, *Underwriter*, *Auditor* and *Lawyer*, because those with a good reputation typically have greater experience helping firms prepare for IPO application and their work thus increases the likelihood of IPO approval. Given the different approval requirements for the three boards, we control for the IPO board and set up two dummy variables (*Main* and *SME*). We include industry and province fixed effects to control for time-invariant industry and regional characteristics, respectively. We also include year fixed effects to control for time-variant unobservable factors that may affect the IPO approval decisions.[5] All variables are defined in Appendix A.

Table 3 presents the logistic regression coefficients (and *Z*-statistics) for Equation (1). In Columns (1) to (4), we include different year, industry, and province fixed effects, and find that there is a positive and significant relationship between IPO firms' hometown connections with the incumbent chairman (*Hometown*) and the likelihood of receiving IPO approval from the CSRC (*Approval*). For example, as shown in Column (4), the coefficient is 0.824, and the *Z*-statistic is 3.01. Furthermore, the unreported result also indicates that the marginal effect of *Hometown* is

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[5] Since each IPO firm has only one chance to submit its IPO application in our samples, we cannot obtain firm-level panel data from an IPO approval setting, thus there is no need to control for the firm fixed effect.

0.1487. Thus, a hometown tie to the CSRC's chairman increases the probability of receiving IPO approval by 14.87%. These results suggest that IPO firms are more likely to be approved by the CSRC when they are headquartered in the birth province of the CSRC's top official, which supports our Hypothesis. These findings are consistent with the hometown favoritism argument that political officials allocate more resources to their birth regions (Dahlberg and Johansson, 2002; Berry et al., 2010; Hodler and Raschky, 2014; Burgess et al., 2015; Do et al., 2017).

Column (4) of Table 3 shows a significant and positive association between CEOs' political connection (*PC*) and the likelihood of IPO approval (the coefficient is 0.316, and the *Z*-statistic is 2.39), consistent with Liu et al. (2013). We also find that the committee connections (*CC*) have a significantly positive impact on the IPO approval decision (the coefficient is 0.445, and the *Z*-statistic is 3.45), consistent with Yang (2013) and Chen et al. (2017). Furthermore, the marginal effects of *PC* and *CC* on the probability of IPO approval are 5.71% and 8.03%, respectively. These findings suggest that the influence of hometown ties (*Hometown*) is stronger than direct political connections (*PC* and *CC*), which supports Broadstock et al. (2020) who document that the effect of implicit political connections is stronger than direct political connections on firm value. Among other control variables, firm size, financial leverage, firm profitability, the ratio of intangible assets, firm age, and three IPO intermediary organizations have significant influence on the likelihood of IPO approval; these regression results are consistent with previous studies (Yang, 2013; Liu et al., 2013; Chen et al., 2017; Wu and Tian, 2021).

[Insert Table 3 about here]

4.2 Causal Inferences: Hometown Ties and IPO Approval[6]

4.2.1 DID Analysis for Changes of Hometown Ties

Our baseline regression results suggest that IPO firms headquartered in the CSRC chairman's birth province are more likely to receive the IPO approval. However, there is a potential endogeneity issue that some regions may simply have higher likelihood of IPO approval and higher probability of being the CSRC chairman's birth province. In Equation (1), we have already used the province fixed effects to control for the time-invariant differences across regions. To further alleviate concerns that some unobserved changes within regions may simultaneously influence the hometown ties and the IPO approval, following Bertrand and Mullainathan (2003), Armstrong et al. (2012), and Hodler and Raschky (2014), we construct 7 dummy variables to capture the changes of the incumbent chairman's hometown province from 0 to 1 and from 1 to 0 (mainly because of the turnover of the CSRC's chairman), and estimate the following DID regressions Equation (2):

$$\begin{aligned} Approval_{i,t} = \beta_0 &+ \beta_1 hometown(-2)_{i,t} + \beta_2 hometown(-1)_{i,t} + \beta_3 hometown(0)_{i,t} \\ &+ \beta_4 hometown(+1)_{i,t} + \beta_5 hometown(+2)_{i,t} + \beta_6 hometown\_loss(1)_{i,t} \\ &+ \beta_7 hometown\_loss(2)_{i,t} + Controls_{i,t-1} + FixedEffects + \varepsilon_{i,t} \end{aligned}$$

*Equation (2)*

We focus on provinces that will become a chairman's birth province, have been a chairman's hometown province until recently, or already lose hometown connections with the chairman, and define these provinces as the hometown provinces. Based on the turnover year of each chairman of the CSRC, we first create a dummy variable, *hometown (0)*, which equals 1 for this turnover year when the hometown province changes from 0 to 1, and 0 otherwise. Second, we define two

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[6] Like Hodler and Raschky (2014) and Do et al. (2017), in our paper, the treat unit is the birth province of the chairman rather than the IPO firm, thus, from the province-year perspective, we use the panel data and can employ the difference-in-difference approach to address the endogeneity issues.

dummy variables, *hometown (−2)* and *hometown (−1)*, as 1 for one year and two years before this hometown province changes from 0 to 1, respectively. Then, we define *hometown (+1)* and *hometown (+2)*, as 1 for one year and at least two years after this hometown province changes from 0 to 1, respectively. Finally, we also construct two dummy variables to capture the loss of hometown ties, *hometown_loss (1)* and *hometown_loss (2)*, which equals 1 for one year and two years after this hometown province changes from 1 to 0, respectively. We base on the headquarter province of each IPO firm to determine the value of these 7 variables for all 2,626 prospective IPO firms during our sample period.

As shown in Columns (1) to (3) of Panel A of Table 4, after the hometown province changes from 0 to 1, *hometown (0)*, *hometown (+1)*, and *hometown (+2)* are all positively and significantly related to the likelihood of IPO approval (*Approval*).[7] These results suggest that the hometown favoritism in the IPO resource allocation emerges as the connected chairman gets into office in the CSRC, and this favoritism persists during the chairman's tenure. However, Columns (2) and (3) indicate that before this hometown province changes from 0 to 1, *hometown (−2)* and *hometown (−1)*, and after this hometown province changes from 1 to 0, *hometown_loss(1)* and *hometown_loss(2)*, the influences of hometown ties are all statistically insignificantly. These results suggest that no matter before these regions become a chairman's hometown province or after these provinces are no longer the incumbent chairman's birth places, IPO firms headquartered in these provinces do not have higher probability of IPO approval. These findings document that IPO firms in hometown provinces are more likely to be approved by the CSRC because of the hometown tie to the chairman, rather than because of other underlying changes within regions that

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[7] During our sample period, the tenures of two chairmen of the CSRC are less than two years. After we exclude IPO firms that are examined during these two chairmen's tenure periods, we re-estimate Equation (2) and find that the significant and positive relationships between *hometown (0)*, *hometown (+1)*, *hometown (+2)* and *Approval* still hold.

simultaneously increase the likelihood of IPO approval and the chance of becoming the chairman's hometown province, supporting that our baseline regression results are robust.

4.2.2 DID Analysis for Changes of Hometown Ties of Subsamples

Our above DID regressions are based on the full sample, including IPO firms headquartered in non-hometown provinces that are without changes in *hometown*. In this section, we use a subsample that only includes 994 IPO firms headquartered in hometown provinces (*Treat*=1) that have changes in *hometown* from 0 to 1 or from 1 to 0, and estimate the following Equation (3):

$$Approval_{i,t} = \beta_0 + \beta_1 Treat_{i,t} \times Post_{i,t} + Controls_{i,t-1} + FixedEffects + \varepsilon_{i,t}$$

*Equation* (*3*)

First, we define the dummy variable *Post1* as 1 if this hometown province has changed from 0 to 1 in year t, and 0 otherwise. In Columns (1) to (3) of Panel B of Table 4, we estimate the changes around [−1, +1], [−2, +2] and [−3, +3] years, respectively, where year 0 is the year when the province of IPO firms begins to be the birth region of the new chairman of the CSRC. We find that there is a positive and significant association between the interaction term (*Treat* × *Post1*) and the likelihood of IPO approval, that is, the coefficients are 3.637, 0.863, and 0.803, respectively, and the Z-statistics are 2.65, 2.06, and 1.80, respectively. Furthermore, the unreported results indicate that the marginal effects of (*Treat* × *Post1*) are 49.72%, 14.19%, and 11.21%, respectively. These results suggest that after the province becomes the birthplace of the incumbent chairman, IPO firms headquartered in this province are more likely to receive the IPO approval from the CSRC. In addition, in terms of the magnitude of the coefficients, the Z-values and marginal effects, over the window times from [−1, +1] to [−3, +3], this hometown favoritism in the IPO resource allocation is weaker.

Second, we define the dummy variable *Post2* as 1 if this hometown province has unexpectedly changed from 1 to 0 in year t, and 0 otherwise. As shown in Columns (5) and (6) of Panel B for during the change periods [−2, +2] and [−3, +3] years respectively, our results indicate a significant and negative relationship between (*Treat* × *Post2*) and the likelihood of IPO approval, that is, the coefficients are −1.535 and −1.038, respectively, and the Z-statistics are −2.28 and −1.93, respectively. These results suggest that when IPO firms lose the hometown connection with the incumbent chairman, they are less likely to be approved by the CSRC. Column (4) of Panel B of Table 4, during the change periods [−1, +1] years, the coefficient of (*Treat* × *Post2*) is statistically insignificant, which suggests that there is the leftover effect of hometown favoritism in the IPO approval process. Overall, these findings support our Hypothesis and are also consistent with the hometown favoritism argument in government's resource allocation.

### 4.2.3 Placebo Test

To alleviate the concern that our regression results are driven by a general time effect or other factors rather than the influence of hometown ties, we conduct placebo tests. In Panel C of Table 3, we randomly assign hometown connections with the incumbent chairman of the CSRC (*Hometown* [False]) to our sample IPO firms, and estimate Equation (1) using the simulated samples and repeat the simulation process 1000 times. In Columns (1) to (4), we include different fixed effects and find that the coefficients on (*Hometown* [False]) are all close to zero and statistically insignificant, which suggests that the probability of IPO approval is similar for IPO firms connected and unconnected to the incumbent chairman in the placebo periods. These findings support that hometown tie, rather than other factors, leads to the change in the IPO approval rate.

4.2.4 Propensity-Score Matching Approach

To control for the observable differences between hometown-connected IPO firms and non-hometown-connected IPO firms, we use the propensity score matching approach to address the sample self-selection bias. Specifically, we first select all control variables in Equation (1) as the matching variables. Second, we conduct a logistic regression to evaluate the possibility of IPO firms having a hometown tie to the CSRC's chairman (*Hometown*=1) based on the matched variables using the one-to-one without replacement matching design. Then, we calculate the propensity scores for each IPO firm and select the optimal match according to the closest propensity scores. Third, after matching in Panel D of Table 4, we find the differences in the mean and median for matching variables between the treatment group (*Hometown*=1) and the control group (*Hometown*=0) are weaker than those before matching in Panel B of Table 2. Finally, we re-estimate our Equation (1) based on the matched 718 IPO firms. Columns (1) to (4) of Panel E of Table 4 show that IPO firms headquartered in the birth province of the incumbent chairman are more likely to be approved by the CSRC, and thus our baseline regressions results are still robust.

[Insert Table 4 about here]

4.3 Motives of Hometown Favoritism

As discussed in hypothesis development, in the IPO resource allocation, the CSRC chairman's hometown favoritism could be motivated by social preferences toward their hometown regions due to birthplace identity. However, since political rent-seeking and possible corruption is prevalent in China's IPO approval regulation (Liu et al., 2013; Yang, 2013; Chen et al., 2017; Wang and Wu, 2020; Wu and Tian, 2021), there may be an alternative motive that the CSRC' chairman favor their hometown regions because they can enjoy the personal economic gains

through engaging in political rent seeking activities with IPO firms. Therefore, in this section, we construct several variables to measure the strength of social preferences motive and rent seeking motive, then examine the probabilities of these two motives, and finally confirm the existence of social preferences motive and rule out the personal economic gains motive.

4.3.1 Direct Evidence of Social Preferences Motive

The social preferences motive argues that hometown favoritism is grounded in the birthplace identity, and the CSRC's chairman favor their hometown IPO firms because they can gain personal and emotional satisfaction. Thus, if the social preferences motive exists in the IPO resource allocation, we expect a higher level of the chairman's hometown favoritism in regions with stronger sense of birthplace identity. To capture the strength of the chairman's birthplace identity, we construct three variables: *Birthcity*, *Language*, and *Collectivism*.

First, Shayo (2009) state the social identity or preferences can be influenced by the distance or the perceived similarity between an individual and the other members of the group. Hodler and Raschky (2014) further find that politicians show stronger hometown favoritism to rather narrow geographical areas around their birthplaces, because family members with similar cognitive psychology are more likely to live in narrower places. In our baseline regression analysis, *Hometown* is defined at the province level, while in this section, we focus on the narrower geographical area: the chairman's birth city (*Birthcity*). Thus, we infer that the chairman tends to show stronger identity to IPO firms headquartered in their birth cities, and these firms will receive higher favoritism than firms located in other cities of the same province.

Second, prior studies document that language is an important dimension of social identity (Giles et al., 1977; Lauring, 2008). Hodler and Raschky (2014) also find that the political leader

born in regions with higher linguistic diversity is more attached to their hometowns because of stronger shared values, thus, we expect that the chairman from multilingual regions have a stronger sense of birthplace identity, then exhibit a higher level of hometown favoritism in the IPO approval regulation. We use dialects to proxy for the probability that two randomly selected individuals speak different languages and define *Dialect* as the number of dialects divided by the population of the IPO applicant's registered province in the IPO examination year.

Third, using the research on social identity theory, Chen et al. (1998) finds that individuals with more collectivistic orientation exhibit greater in-group favoritism, thus, we infer that the chairman born in provinces with stronger collectivism culture have a higher level of hometown favoritism in the IPO resource allocation. Following the GLOBE framework proposed by House et al. (2004), Zhao et al. (2015) define in-group collectivism as "to what extent do individuals feel proud, loyal, and cohesive in their families and groups", then conduct surveys and provide in-group collectivism index for each province in China. In this paper, *Collectivism* is 1 if the in-group collectivism index of an IPO firm's registered province is higher than the upper-quarter value of the full sample, and 0 otherwise.

Columns (1) to (3) of Panel A in Table 5 show a significant and positive relationship between *Hometown* and *Approval*, and the coefficients on (*Hometown* × *Birthcity*), (*Hometown* × *Language*), and (*Hometown* × *Collectivism*) are all significantly positive. These results suggest that hometown favoritism is stronger for firms headquartered in more closely to the chairman's birth city, and in regions with higher linguistic diversity or with stronger in-group collectivism culture, supporting that the chairman's hometown favoritism in the IPO resource allocation is most likely to be motivated by social preferences.

4.3.2 Rule out Rent Seeking Motive

To test the probability of rent-seeking motive of the chairman's favoritism, we construct three variables: the regional average rent-seeking expenditure (*RSE*), the level of regional corruption (*Corruption*), and the IPO applicant's direct public relations expenditure (*PRE*). We infer that IPO applicants headquartered in provinces with a higher rent-seeking expenditure or a higher corruption level or spending more public relations expenses are more likely to seek rent from the incumbent chairman of the CSRC. Thus, if the chairman's hometown favoritism is motivated by personal economic gains through rent seeking, we expect that regional rent-seeking expenditure and corruption level, and IPO firms' public relations expenditure strengthen such favoritism.

First, we use data from a survey conducted by Sun Yat-sen University in 2000 to measure the provincial average rent-seeking expenditure (*RSE*). In 2000, the university conducted sample surveys on private enterprises across 31 provinces and collected the average time and expenses that these companies spend on rent seeking, based on which it constructed the rent-seeking expenditure index for each province. Second, following Butler et al. (2009), Smith (2016) and Huang et al. (2017), we define the provincial corruption (*Corruption*) as the total number of per capita arrested officials for the registered province of the IPO firm between 2013 and 2019. Third, following Wu and Tian (2021), we first collect the actual public relations expenses spent by IPO firms during the 3 years before the IPO examination from their prospectuses, then use a regression equation to estimate the normal public relations expenses, and finally the regression residual is defined as the abnormal public relations expenditure (*PRE*).

As shown in Columns (1) to (3) of Panel B in Table 5, there exist a positive and significant association between *Hometown* and *Approval*, while the interaction terms, (*Hometown* × *RSE*),

(*Hometown × Corruption*), and (*Hometown × PRE*), are all statistically insignificant. These results suggest that such favoritism is not reinforced by the regional rent-seeking environment or the IPO firm's rent-seeking expenditure, supporting that the chairman's hometown favoritism is not likely motivated by personal economic benefits through potential political rent seeking or collusion.

[Insert Table 5 about here]

4.3.3 Educational Ties and Working Experience

To further explore the underlying social connections between IPO firms and the incumbent chairman of the CSRC, in addition to hometown connections, we analyze here how the chairman's educational experiences and working experiences influence the IPO approval decision. If the chairman's favoritism is motivated by rent seeking and personal economic gains, since all these social connections provide collusion opportunities for the chairman and IPO applicants, thus we expect both educational ties and shared working experiences significantly increase the likelihood of IPO approval. Otherwise, the chairman's favoritism is most likely driven by social preferences.

Following Guan et al. (2016) and Gu et al. (2019), we identify an educational tie (*Education* =1) if the incumbent chairman and the IPO firm's CEO (or Chairman) attended the same university, regardless of the period. Additionally, we define *Working* as 1 if the IPO applicant is headquartered in the province where the incumbent chairman of the CSRC previously worked, and 0 otherwise. The unreported results indicate that the mean values of *Education* and *Working* are 0.035 and 0.174, respectively, which suggests that IPO firms connected to the incumbent chairman through educational ties are still a minority. Columns (1) and (3) of Table 6 indicate that hometown-tied (*Hometown*) IPO applicants are more likely to receive approval from the CSRC (*Approval*). However, in Columns (1) to (3) of Table 6, we find the educational ties (*Education*) and the shared

working experiences (*Working*) both have no significant impact on the probability of IPO approval (*Approval*). These results suggest that only hometown connections lead to the chairman's favoritism in the IPO resource allocation, rather than including the educational ties and the shared working experiences, which are common means of rent seeking. These findings further confirm that the chairman's favoritism is mainly motivated by social preferences due to birthplace identity and rule out the rent seeking motive.

[Insert Table 6 about here]

### 4.3.4 Xi Jinping's Anti-Corruption Campaign

In late 2012, Xi Jinping (the Chinese President) launched a far-reaching anti-corruption campaign which strengthens the monitoring and punishment on corrupt activities by introducing the central inspection team (Chen and Kung, 2019). Furthermore, in late 2015, the Central Commission for Discipline Inspection appointed the seventh central inspection team to enter the CSRC department and carry out a two-month special inspection. This inspection detected the corruption of Feng Xiaoshu who was finally punished in 2017.

Indeed, Xi's anti-corruption campaign and the central inspection have markedly increased the risk of being investigated on charges of corruption and strengthened the punishment of corrupt behaviors, which may weaken rent-seeking activities in the IPO approval regulation. Thus, if the chairman's hometown favoritism is for personal economic gains by receiving rents from hometown IPO firms, we expect that such favoritism is weaker after Xi's anti-corruption campaign. However, if the chairman's hometown favoritism is driven by social preferences due to the birthplace identity, Xi's anti-corruption campaign may have insignificant influence on this

favoritism. In this section, we intend to examine whether Xi's anti-corruption campaign is effective in suppressing hometown favoritism of the CSRC's chairman in allocating IPO resource.

Columns (1) to (4) of Table 7 indicate that a significantly positive association between *Hometown* and the likelihood of IPO approval (*Approval*), but a statistically insignificant relationship between the interaction term (*Hometown × Post-campaign*) and *Approval*, which suggests that Xi's anti-corruption campaign since late 2012 and the central inspection into the CSRC since late 2015 have no significant impact on the hometown favoritism of the CSRC's chairman in the IPO resource allocation. These results further confirm that the chairman's hometown favoritism is less likely motivated by personal economic gains through political rent seeking, but most likely by social preferences.

In addition, as shown in Columns (2) and (4) of Table 7, the interaction terms, (*CC × Post-campaign*) and (*PC × Post-campaign*), are both significant and negative, suggesting that Xi's anti-corruption campaign is effective in reducing the positive effects of the approval committee connections and political connections on the likelihood of IPO approval, confirming that this campaign has more impact on punishing the political corruption of money bribes. These results complement the recent study (Broadstock et al., 2020) that Xi's anti-corruption campaign mitigates the effect of direct political connections arising from firms' managers' own government working experience but is ineffective in suppressing implicit political connections that managers develop through shared social connections with government officials.

[Insert Table 7 about here]

4.4 Moderating effects of IPO Applicants' Connections and State Ownership

In addition to test whether hometown favoritism of the CSRC's chairman affects IPO resource allocation, in this section, we intend to examine how this hometown favoritism varies with IPO firms' attributes. Specifically, based on the determinants of the capital resource allocation in China (Liu et al., 2013; Yang, 2013; Chen et al., 2017; Brockman et al., 2019), we test how IPO applicants' committee connection, political connection, and state ownership influence the relationship between hometown ties of IPO firms (*Hometown*) and the likelihood of IPO approval (*Approval*).

As shown in Columns (1) to (3) of Table 8, the coefficients of *Hometown* are positive and statistically significant, and the interaction terms, (*Hometown* × *CC*), (*Hometown* × *PC*), and (*Hometown* × *SOE*), are all negatively associated with the likelihood of IPO approval (*Approval*). These results suggest that the chairman's hometown favoritism is more pronounced for non-committee-connected, non-political-connected, and non-stated-owned IPO applicants. Prior literature shows that firms with approval committee connections (Yang, 2013; Chen et al., 2017; Brockman et al., 2019), political connections (Liu et al., 2013), or state ownership (Brockman et al., 2019) have a higher probability to be approved by the CSRC, and thus our regression results document that a hometown tie to the CSRC's chairman is a substitute to political connections and state ownership in obtaining the IPO resource rather than a complementary effect.

[Insert Table 8 about here]

5. Hometown Favoritism and Resource Allocation Efficiency

Our primary results demonstrate that the chairman of the CSRC gives special treatment to their hometown firms when allocating the IPO resource. In this section, we further examine the influence of hometown favoritism on the IPO resource allocation efficiency by testing whether

such favoritism in IPO approval is stronger for low-quality IPO applicants (Section 5.1), and how hometown ties influence the IPO pricing efficiency (Section 5.2), post-IPO stock returns (Section 5.3), and post-IPO accounting performance reversals (Section 5.4).

5.1 IPO Applicants' Quality

Chen and Yuan (2004) and Haw et al. (2005) document that the CSRC can identify earnings manipulation and only select high-quality applicants to receive the capital resource. If the positive relationship between the chairman's hometown ties (*Hometown*) and the likelihood of IPO approval (*Approval*) is more pronounced for low-quality IPO applicants, we can infer that the chairman's hometown favoritism facilitates unqualified IPO firms to be approved and thus reduces the overall resource allocation efficiency.

Following prior studies (Sletten et al., 2018; Brockman et al., 2019), to capture IPO applicants' quality in their IPO prospectuses, we construct three variables: the discretionary accrual (*DA*), intercompany loans (*OREC*), and related-party transactions (*RPT*). We use the performance-adjusted Jones model (Kothari et al., 2005) to measure the accrual-based earnings management in the last fiscal year before the IPO examination, and define *DA* as 1 if the IPO firm's absolute value of the discretionary accrual is higher than the industry median value, and 0 otherwise. *OREC* is 1 if the IPO firm's average ratio of other receivables to total assets is higher than the industry median ratio in the last three years before the IPO examination, and 0 otherwise. *RPT* is defined as 1 if the IPO firm's average operating related-party transactions is higher than the industry median ratio in the last three years before the IPO examination, and 0 otherwise.

As shown in Columns (1) to (3) of Table 9, the hometown ties to the CSRC's chairman (*Hometown*) are positively and significantly associated with the likelihood of IPO approval

(*Approval*), and the interaction terms between hometown ties (*Hometown*) and earnings manipulation (*DA*, *OREC*, and *RPT*) are also positive and significant. These results suggest that the effect of hometown connection is stronger for low-quality IPO applicants, supporting that the hometown favoritism of the top official of the CSRC distorts the IPO resource allocation.

[Insert Table 9 about here]

5.2 IPO Pricing, Proceeds, and Underpricing

Following prior literature on Chinese IPO setting (Chen et al., 2017; Chen et al., 2018), we construct three variables to measure the IPO pricing efficiency: *PE* is defined as the ratio of the offering price to the pre-IPO earnings per share (EPS), *Proceeds* is the gross amount of IPO proceeds scaled by the average total assets in the last three years before IPO examination, and *Underpricing* is the difference between the closing price of the first listing day and the offering price, scaled by the offering price.

Column (1) of Table 10 shows a positive and significant relationship between hometown ties (*Hometown*) and the ratio of offering price to EPS (*PE*) (the coefficient is 2.660, and the *t*-statistic is 2.99), which suggests that hometown connection increases the IPO offering price. Similarly, Columns (2) and (3) indicate that IPO applicants with hometown ties to the incumbent chairman (*Hometown*) are more likely to raise more proceeds (*Proceeds*) and have higher IPO underpricing (*Underpricing*), respectively. These findings document that the hometown connection between IPO firms and the CSRC's chairman reduces the IPO pricing efficiency.

[Insert Table 10 about here]

5.3 Post-IPO Stock Returns

Following Liu et al. (2013) and Chen et al. (2017), we use the post-IPO buy-and-hold abnormal returns and cumulative abnormal returns to measure the quality of IPO applicants, and a lower post-IPO stock return represents a lower IPO resource allocation efficiency. $BHAR_{[0,\ 6\ months]}$, $BHAR_{[0,\ 12\ months]}$, and $BHAR_{[0,\ 24\ months]}$ are the monthly buy-and-hold abnormal returns adjusted by the market return during the first six months, during the first year, and during the second year after the listing date, respectively. Similarly, we define the cumulative abnormal returns: $CAR_{[0,\ 6\ months]}$, $CAR_{[0,\ 12\ months]}$, and $CAR_{[0,\ 24\ months]}$.

Columns (1) to (6) of Table 11 indicate a negative association between *Hometown* and post-IPO abnormal stock returns (*BHAR* and *CAR*) during the first six months, during the first 12 months, and during the first 24 months after the IPO listing date. These results suggest that hometown ties lead to a lower post-IPO stock return, consistent with our argument that the chairman's hometown favoritism decreases the IPO resource allocation efficiency.

**[Insert Table 11 about here]**

5.4 Post-IPO Accounting Performance

Following Yang (2013) and Chen et al. (2017), we use the post-IPO accounting performance reversal to measure the quality of IPO firms, and the stronger reversal means a lower efficiency of IPO resource allocation. Following Yang (2013), we define $DROA_{[(t-1)\ -\ t]}$ as the difference in the firm's *ROA* (returns on assets) between the first year before IPO listing (t−1) and the IPO listing year (t), and similarly define $DROA_{[(t-1)\ -\ (t+1)]}$ and $DROA_{[(t-1)\ -\ (t+2)]}$.

As shown in Columns (1) to (3) of Table 12, the coefficients of *Hometown* are negative and significant, which suggests that IPO firms that are headquartered in the birth province of the

incumbent chairman are more likely to perform worse in the IPO listing year $ROA_t$, in the first year after IPO listing $ROA_{(t+1)}$, and in the second year after IPO listing $ROA_{(t+2)}$. Columns (4) to (6) of Table 11 indicate a significantly positive association between *Hometown* and post-IPO performance reversals ($DROA_{[(t-1)\ -\ t]}$, $DROA_{[(t-1)\ -\ (t+1)]}$, and $DROA_{[(t-1)\ -\ (t+2)]}$). These results suggest that the hometown ties between IPO applicants and the chairman is associated with a higher accounting performance reversal, consistent with our argument that the IPO resource has been misallocated because of the chairman's hometown favoritism.

[Insert Table 12 about here]

These findings about the relationship between hometown connection and IPO pricing efficiency, post-IPO stock returns and post-IPO accounting performance confirm that hometown favoritism of the top official of the CSRC distorts the IPO resource allocation and leads to a lower allocation efficiency. Existing studies have mainly focused on how political leaders' favoritism influences the government resource allocation (Cohen et al., 2011; Hodler and Raschky, 2014; Prakash et al., 2019), and few studies develop a debate on the effect of this favoritism on resource efficiency and economic growth (Levitt and Poterba, 1999; Asher and Novosad, 2017). Our findings extend those studies and document that government officials' hometown favoritism reduces the resource allocation efficiency.

6. Conclusion

In this paper, we examine whether and how hometown favoritism of politicians with direct control over the resource allocation bring about firm-level benefits, what the motives of such favoritism are, and the impact of this favoritism on resource allocation efficiency. Using the special setting of Chinese IPO approval regulation, we find that IPO firms headquartered in the hometown

province of the incumbent chairman of the CSRC are 14.87% more likely to receive the IPO approval, and this relationship is robust when we use difference-in-difference research designs and the propensity-score matching approach to address the endogeneity bias.

Then, we find this hometown favoritism of the top official of the CSRC is stronger for IPO firms in narrower geographic areas around the chairman's birthplace, and in regions with higher language diversity or stronger in-group collectivism culture, while the regional rent-seeking expenditure and corruption level, and IPO firms' public relations expenditure show insignificant impact on such favoritism, suggesting that the chairman's favoritism is more likely motivated by social preferences due to birthplace identity rather than personal economic gains through engaging in rent-seeking activities with IPO firms. Moreover, other social connections between the chairman and IPO firms, such as the educational ties and shared working experience, do not bring about higher probability of IPO approval. Also, Xi Jinping's anti-corruption campaign since late 2012 and the central inspection into the CSRC since late 2015 are both ineffective in reducing hometown favoritism of the CSRC's chairman in allocating IPO resource. These results further confirm that the chairman's hometown favoritism is less likely to be driven by rent seeking or potential corruption. Furthermore, we find that such hometown favoritism is more pronounced when IPO applicants have no approval committee connections, political connections, or state ownership.

Finally, the chairman' hometown favoritism in the IPO approval regulation is stronger for low-quality IPO applicants who engage in more discretionary accruals, intercompany loans, or related-party transactions in IPO prospectuses. We also find that hometown-connected IPO firms are more likely to get higher offering price to pre-IPO earnings-per-share ratio, raise more proceeds, show higher IPO underpricing, have lower post-IPO both buy-and-hold and cumulative abnormal stock

returns, and experience worse post-IPO performance reversals. These findings support that this hometown favoritism leads to a lower resource allocation efficiency.

Under the overall weak legal environment, the Chinese government adopts the IPO approval regulation to select high-quality firms to enter the capital market. However, in addition to political rent seeking from the approval committee members of the CSRC (Yang, 2013; Chen et al., 2017; Brockman et al., 2019), our results suggest that hometown favoritism of the top official of the CSRC motivated by social preferences due to birthplace identity also distorts the resource allocation. Given that Xi's anti-corruption campaign has ineffective impact on politicians' hometown bias caused by social preferences, the issues about how to effectively mitigate the adverse effects of hometown favoritism on the resource allocation warrant for further research.

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**Table 1** Sample Selection and Distribution.

**Panel A: Sample selection**

| | Total firm-year observations |
|---|---|
| Total IPO applicants examined by the CSRC from 2006 to 2019 | 2,943 |
| Less: applicants in the financial industry | (71) |
| applicants resubmitting IPO applications to the CSRC | (240) |
| applicants with incomplete financial information | (6) |
| Final prospective IPO firms in this paper | **2,626** |
| Total firms approved by the CSRC | 2,155 |

**Panel B: Sample distribution based on year and the likelihood of IPO approval**

| Year | Obs. | Percentage | Number of IPO approval | Likelihood of IPO approval |
|---|---|---|---|---|
| 2006 | 61 | 2.32% | 54 | 88.52% |
| 2007 | 101 | 3.85% | 78 | 77.23% |
| 2008 | 91 | 3.47% | 74 | 81.32% |
| 2009 | 177 | 6.74% | 151 | 85.31% |
| 2010 | 371 | 14.13% | 314 | 84.64% |
| 2011 | 292 | 11.12% | 229 | 78.42% |
| 2012 | 185 | 7.04% | 141 | 76.22% |
| 2013 | 0 | —— | —— | —— |
| 2014 | 108 | 4.11% | 94 | 87.04% |
| 2015 | 247 | 9.41% | 227 | 91.90% |
| 2016 | 248 | 9.44% | 230 | 92.74% |
| 2017 | 451 | 17.17% | 357 | 79.16% |
| 2018 | 158 | 6.02% | 93 | 58.86% |
| 2019 | 136 | 5.18% | 113 | 83.09% |
| Total | 2,626 | 100% | 2,155 | 82.06% |

**Panel C: Sample distribution based on industry and the likelihood of IPO approval**

| Industry Name (SIC Code) | Obs. | Percentage | Number of IPO approval | Likelihood of IPO approval |
|---|---|---|---|---|
| Agriculture, Forestry, Husbandry, and Fishing Industry (A) | 28 | 1.07% | 20 | 71.43% |
| Mining Industry (B) | 37 | 1.41% | 28 | 75.68% |
| Food, Beverage, and Clothes Manufacturing Industry (C1) | 167 | 6.36% | 131 | 78.44% |
| Wood, Chemistry, and Medicine Manufacturing Industry (C2) | 516 | 19.65% | 427 | 82.75% |
| Machinery and Equipment Manufacturing Industry (C3) | 1,146 | 43.64% | 961 | 83.86% |
| Other Manufacturing Industry (C4) | 84 | 3.20% | 69 | 82.14% |
| Electricity, Heat, Gas, and Water Supply Industry (D) | 28 | 1.07% | 22 | 78.57% |
| Construction Industry (E) | 74 | 2.82% | 60 | 81.08% |
| Wholesale and Retail Industry (F) | 62 | 2.36% | 48 | 77.42% |
| Transportation, Storage, and Postal Services Industry (G) | 46 | 1.75% | 43 | 93.48% |
| Accommodation and Restaurants Services Industry (H) | 5 | 0.19% | 4 | 80.00% |
| Information Technology Services Industry (I) | 240 | 9.14% | 187 | 77.92% |
| Real Estate Industry (K) | 10 | 0.38% | 8 | 80.00% |
| Leasing and Business Services Industry (L) | 34 | 1.29% | 25 | 73.53% |
| Scientific Research and Technical Services Industry (M) | 58 | 2.21% | 47 | 81.03% |
| Water, Environment and Public Facilities Industry (N) | 38 | 1.45% | 30 | 78.95% |
| Residential, Repairs, and Other Services Industry (O) | 3 | 0.11% | 2 | 66.67% |
| Health and Social Work Industry (Q) | 9 | 0.34% | 7 | 77.78% |
| Culture, Sports, and Entertainment Industry (R) | 41 | 1.56% | 36 | 87.80% |
| Total | 2,626 | 100% | 2,155 | 82.06% |

**Table 1 (Cont'd)**

**Panel D: Sample distribution based on provinces and the likelihood of IPO approval**

| Province Name | Obs. | Percentage | Number of IPO approval | Likelihood of IPO approval |
|---|---|---|---|---|
| Anhui | 68 | 2.59% | 54 | 79.41% |
| Beijing | 260 | 9.90% | 209 | 80.38% |
| Chongqing | 34 | 1.29% | 26 | 76.47% |
| Fujian | 104 | 3.96% | 87 | 83.65% |
| Gansu | 16 | 0.61% | 14 | 87.50% |
| Guangdong | 519 | 19.76% | 428 | 82.47% |
| Guangxi | 16 | 0.61% | 12 | 75.00% |
| Guizhou | 15 | 0.57% | 12 | 80.00% |
| Hainan | 10 | 0.38% | 9 | 90.00% |
| Hebei | 28 | 1.07% | 25 | 89.29% |
| Henan | 53 | 2.02% | 41 | 77.36% |
| Heilongjiang | 12 | 0.46% | 9 | 75.00% |
| Hubei | 53 | 2.02% | 43 | 81.13% |
| Hunan | 77 | 2.93% | 59 | 76.62% |
| Jilin | 15 | 0.57% | 9 | 60.00% |
| Jiangsu | 362 | 13.79% | 309 | 85.36% |
| Jiangxi | 24 | 0.91% | 18 | 75.00% |
| Liaoning | 34 | 1.29% | 30 | 88.24% |
| Inner Mongolia | 6 | 0.23% | 6 | 100.00% |
| Ningxia | 4 | 0.15% | 4 | 100.00% |
| Qinghai | 2 | 0.08% | 2 | 100.00% |
| Shandong | 140 | 5.33% | 124 | 88.57% |
| Shanxi | 9 | 0.34% | 6 | 66.67% |
| Shaanxi | 30 | 1.14% | 21 | 70.00% |
| Shanghai | 171 | 6.52% | 131 | 76.61% |
| Sichuan | 89 | 3.39% | 70 | 78.65% |
| Tianjin | 33 | 1.26% | 26 | 78.79% |
| Tibet | 12 | 0.46% | 9 | 75.00% |
| Xinjiang | 27 | 1.03% | 21 | 77.78% |
| Yunnan | 17 | 0.65% | 11 | 64.71% |
| Zhejiang | 386 | 14.71% | 330 | 85.49% |
| Total | 2,626 | 100% | 2,155 | 82.06% |

**Panel E: Sample distribution based on the CSRC's chairman and the likelihood of IPO approval**

| Chairman Name | Duration | Obs. | Percentage | Number of IPO approval | Likelihood of IPO approval |
|---|---|---|---|---|---|
| SHANG Fulin | 2006.01.01 - 2011.10.29 | 1,023 | 38.96% | 849 | 82.99% |
| GUO Shuqing | 2011.10.30 - 2013.03.17 | 255 | 9.71% | 192 | 75.29% |
| XIAO Gang | 2013.03.18 - 2016.02.20 | 385 | 14.66% | 351 | 91.17% |
| LIU Shiyu | 2016.02.21 - 2019.01.26 | 837 | 31.87% | 657 | 78.49% |
| YI Huiman | 2019.01.27 - 2019.12.31 | 126 | 4.80% | 106 | 84.13% |
| Total | 2006.01.01 - 2019.12.31 | 2,626 | 100% | 2,155 | 82.06% |

*Note*: Panel A shows the sample selection. Panel B shows the likelihood of IPO approval for each year. Panel C presents the probability of IPO approval for each industry based on the Standard Industry Classification (SIC, 2012). Panel D and Panel E present the sample distributions for each province and for each chairman, respectively.

**Table 2** Summary Statistics.

**Panel A: Descriptive statistics**

| Variable | N | Mean | Std. dev. | Min | Q1 | Median | Q3 | Max |
|---|---|---|---|---|---|---|---|---|
| *Approval* | 2,626 | 0.821 | 0.384 | 0.000 | 1.000 | 1.000 | 1.000 | 1.000 |
| *Hometown* | 2,626 | 0.137 | 0.344 | 0.000 | 0.000 | 0.000 | 0.000 | 1.000 |
| *Size* | 2,626 | 20.13 | 1.126 | 16.89 | 19.44 | 19.97 | 20.64 | 27.31 |
| *LEV* | 2,626 | 0.441 | 0.267 | 0.043 | 0.316 | 0.439 | 0.557 | 11.05 |
| *Growth* | 2,626 | 0.303 | 0.470 | −0.505 | 0.080 | 0.214 | 0.408 | 9.756 |
| *ROA* | 2,626 | 0.133 | 0.071 | 0.004 | 0.084 | 0.121 | 0.166 | 0.624 |
| *IA* | 2,626 | 0.052 | 0.052 | 0.000 | 0.018 | 0.042 | 0.071 | 0.768 |
| *SOE* | 2,626 | 0.110 | 0.313 | 0.000 | 0.000 | 0.000 | 0.000 | 1.000 |
| *PC* | 2,626 | 0.329 | 0.470 | 0.000 | 0.000 | 0.000 | 1.000 | 1.000 |
| *CC* | 2,626 | 0.325 | 0.469 | 0.000 | 0.000 | 0.000 | 1.000 | 1.000 |
| *Age* | 2,626 | 3.207 | 0.936 | 0.477 | 2.649 | 3.267 | 3.875 | 7.021 |
| *Underwriter* | 2,626 | 0.491 | 0.500 | 0.000 | 0.000 | 0.000 | 1.000 | 1.000 |
| *Auditor* | 2,626 | 0.570 | 0.495 | 0.000 | 0.000 | 1.000 | 1.000 | 1.000 |
| *Lawyer* | 2,626 | 0.496 | 0.500 | 0.000 | 0.000 | 0.000 | 1.000 | 1.000 |
| *Main* | 2,626 | 0.272 | 0.445 | 0.000 | 0.000 | 0.000 | 1.000 | 1.000 |
| *SME* | 2,626 | 0.357 | 0.479 | 0.000 | 0.000 | 0.000 | 1.000 | 1.000 |

**Panel B: Univariate tests between firms with or without *Hometown* ties**

| | *Hometown=1* | *Hometown=0* | Difference Test | |
|---|---|---|---|---|
| | (N = 359) | (N = 2,267) | Diff. | *t*-stat |
| *Approval* | 0.891 | 0.809 | 0.082*** | 3.77 |
| *Size* | 20.30 | 20.10 | 0.208*** | 3.25 |
| *LEV* | 0.441 | 0.441 | −0.001 | −0.05 |
| *Growth* | 0.220 | 0.317 | −0.097*** | −3.63 |
| *ROA* | 0.123 | 0.134 | −0.012*** | −2.97 |
| *IA* | 0.054 | 0.052 | 0.003 | 0.90 |
| *SOE* | 0.084 | 0.115 | −0.031* | −1.75 |
| *PC* | 0.373 | 0.322 | 0.051* | 1.90 |
| *CC* | 0.326 | 0.325 | 0.001 | 0.03 |
| *Age* | 3.446 | 3.169 | 0.277*** | 5.23 |
| *Underwriter* | 0.487 | 0.491 | −0.004 | −0.14 |
| *Auditor* | 0.551 | 0.573 | −0.022 | −0.78 |
| *Lawyer* | 0.460 | 0.502 | −0.042 | −1.48 |
| *Main* | 0.440 | 0.245 | 0.195*** | 7.80 |
| *SME* | 0.226 | 0.378 | −0.152*** | −5.63 |

*Note*: Panel A shows the descriptive statistics for all variables used in the baseline regression analyses. Panel B reports the univariate test for the likelihood of IPO approval between firms with or without hometown ties to the incumbent chairman of the CSRC. All variables are defined in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

**Table 3** Baseline Regression Results for the Influence of Hometown Ties on IPO Approval.

| | Dependent Variable: *Approval* | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Hometown | 0.713*** | 0.902*** | 0.897*** | 0.824*** |
| | (3.86) | (3.90) | (3.85) | (3.01) |
| Size | 0.623*** | 0.799*** | 0.830*** | 0.864*** |
| | (7.39) | (8.34) | (8.46) | (8.57) |
| LEV | −0.562 | −0.579 | −0.657 | −0.822* |
| | (−1.45) | (−1.27) | (−1.38) | (−1.68) |
| Growth | −0.038 | 0.007 | 0.013 | 0.005 |
| | (−0.33) | (0.05) | (0.10) | (0.04) |
| ROA | 4.453*** | 6.088*** | 6.119*** | 6.325*** |
| | (4.00) | (4.92) | (4.85) | (4.88) |
| IA | 2.161* | 2.313* | 2.239* | 2.097* |
| | (1.86) | (1.94) | (1.80) | (1.67) |
| SOE | −0.206 | −0.368* | −0.291 | −0.148 |
| | (−1.12) | (−1.88) | (−1.44) | (−0.70) |
| PC | 0.327*** | 0.291** | 0.303** | 0.316** |
| | (2.72) | (2.30) | (2.35) | (2.39) |
| CC | 0.271** | 0.440*** | 0.431*** | 0.445*** |
| | (2.26) | (3.53) | (3.41) | (3.45) |
| Age | −0.380*** | −0.294*** | −0.290*** | −0.298*** |
| | (−5.84) | (−4.04) | (−3.94) | (−3.98) |
| Underwriter | 0.089 | 0.093 | 0.104 | 0.105 |
| | (0.83) | (0.84) | (0.94) | (0.93) |
| Auditor | 0.377*** | 0.212* | 0.214* | 0.221* |
| | (3.38) | (1.75) | (1.74) | (1.74) |
| Lawyer | 0.264** | 0.304*** | 0.298*** | 0.286** |
| | (2.46) | (2.74) | (2.67) | (2.50) |
| Main | −0.152 | −0.182 | −0.137 | −0.137 |
| | (−0.94) | (−1.06) | (−0.79) | (−0.75) |
| SME | 0.025 | −0.027 | 0.035 | 0.014 |
| | (0.19) | (−0.18) | (0.23) | (0.09) |
| Constant | −10.683*** | −13.608*** | −14.850*** | −15.695*** |
| | (−6.45) | (−7.29) | (−7.53) | (−7.74) |
| Year Fixed Effects | NO | YES | YES | YES |
| Industry Fixed Effects | NO | NO | YES | YES |
| Province Fixed Effects | NO | NO | NO | YES |
| Observations | 2,626 | 2,626 | 2,626 | 2,626 |
| Pseudo $R^2$ | 0.070 | 0.122 | 0.131 | 0.142 |

*Note*: This table presents the logit regression results on the influence of IPO firms' hometown ties to the incumbent chairman of the CSRC (*Hometown*) on the likelihood of IPO approval (*Approval*). All variables are defined in Appendix A. Z-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

**Table 4** The Causal Influence of Hometown Ties on IPO Approval.

| Panel A: DID Analysis for Staggered Changes of *Hometown* from 0 to 1 and from 1 to 0, respectively | | | |
|---|---|---|---|
| | Dependent Variable: ***Approval*** | | |
| | (1) | (2) | (3) |
| *hometown (-2)* | | −0.150 | −0.160 |
| | | (−0.44) | (−0.46) |
| *hometown (-1)* | | 0.293 | 0.275 |
| | | (0.65) | (0.61) |
| *hometown (0)* | 1.527** | 1.533** | 1.492** |
| | (2.04) | (2.04) | (1.98) |
| *hometown (+1)* | 0.843* | 0.818* | 0.776* |
| | (1.90) | (1.81) | (1.70) |
| *hometown (+2)* | 0.677* | 0.716* | 0.666* |
| | (1.77) | (1.85) | (1.69) |
| *hometown_loss (1)* | | | −0.461 |
| | | | (−0.81) |
| *hometown_loss (2)* | | | −0.025 |
| | | | (−0.02) |
| *Size* | 0.864*** | 0.865*** | 0.863*** |
| | (8.55) | (8.55) | (8.53) |
| *LEV* | −0.761 | −0.769 | −0.778 |
| | (−1.55) | (−1.56) | (−1.58) |
| *Growth* | 0.004 | 0.003 | 0.002 |
| | (0.03) | (0.02) | (0.01) |
| *ROA* | 6.514*** | 6.490*** | 6.514*** |
| | (5.00) | (4.98) | (5.00) |
| *IA* | 2.038 | 2.001 | 2.023 |
| | (1.63) | (1.60) | (1.62) |
| *SOE* | −0.132 | −0.131 | −0.129 |
| | (−0.62) | (−0.61) | (−0.60) |
| *PC* | 0.316** | 0.319** | 0.324** |
| | (2.39) | (2.40) | (2.44) |
| *CC* | 0.439*** | 0.435*** | 0.436*** |
| | (3.41) | (3.37) | (3.37) |
| *Age* | −0.291*** | −0.293*** | −0.294*** |
| | (−3.89) | (−3.91) | (−3.92) |
| *Underwriter* | 0.097 | 0.097 | 0.093 |
| | (0.85) | (0.86) | (0.82) |
| *Auditor* | 0.236* | 0.239* | 0.243* |
| | (1.86) | (1.87) | (1.90) |
| *Lawyer* | 0.294** | 0.295** | 0.292** |
| | (2.56) | (2.57) | (2.55) |
| *Main* | −0.135 | −0.136 | −0.136 |
| | (−0.74) | (−0.74) | (−0.74) |
| *SME* | 0.016 | 0.009 | 0.010 |
| | (0.10) | (0.06) | (0.07) |
| *Constant* | −15.779*** | −15.789*** | −15.751*** |
| | (−7.77) | (−7.76) | (−7.74) |
| Year Fixed Effects | YES | YES | YES |
| Industry Fixed Effects | YES | YES | YES |
| Province Fixed Effects | YES | YES | YES |
| Observations | 2,626 | 2,626 | 2,626 |
| Pseudo $R^2$ | 0.144 | 0.144 | 0.144 |

**Table 4 (Cont'd)**

**Panel B: DID Analysis for Treat Samples**

| | Dependent variable: *Approval* | | | | | |
|---|---|---|---|---|---|---|
| | *Hometown* Changes from 0 to 1 | | | *Hometown* Changes from 1 to 0 | | |
| | [−1, +1] | [−2, +2] | [−3, +3] | [−1, +1] | [−2, +2] | [−3, +3] |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| *Treat×Post1* | 3.637*** | 0.863** | 0.803* | | | |
| | (2.65) | (2.06) | (1.80) | | | |
| *Treat×Post2* | | | | 0.336 | −1.535** | −1.038* |
| | | | | (0.29) | (−2.28) | (−1.93) |
| *Size* | 2.403*** | 2.129*** | 2.661*** | 2.399*** | 1.730*** | 1.488*** |
| | (2.65) | (4.67) | (5.27) | (2.90) | (3.61) | (3.41) |
| *LEV* | −7.812** | −0.604 | −1.747 | 7.256* | −0.279 | 0.970 |
| | (−2.31) | (−0.38) | (−1.03) | (1.73) | (−0.14) | (0.53) |
| *Growth* | 0.536 | 0.239 | 0.641 | 1.173 | 1.739 | 0.139 |
| | (0.34) | (0.29) | (0.88) | (0.55) | (1.50) | (0.19) |
| *ROA* | 20.116* | 21.977*** | 23.566*** | 20.626** | 12.505* | 18.350*** |
| | (1.71) | (3.72) | (3.77) | (2.16) | (1.95) | (2.96) |
| *IA* | −1.790 | 2.113 | 2.112 | 13.853 | 2.127 | −2.609 |
| | (−0.19) | (0.46) | (0.40) | (1.29) | (0.35) | (−0.49) |
| *SOE* | 0.000 | 1.625 | −0.230 | 0.732 | 15.698 | 2.174 |
| | (.) | (0.91) | (−0.19) | (0.28) | (0.01) | (1.35) |
| *PC* | 1.134 | 0.300 | 0.280 | 0.204 | 0.710 | 0.851 |
| | (0.99) | (0.62) | (0.56) | (0.21) | (1.07) | (1.46) |
| *CC* | 1.416* | −0.172 | 0.169 | −0.173 | −0.213 | −0.039 |
| | (1.73) | (−0.42) | (0.39) | (−0.18) | (−0.39) | (−0.08) |
| *Age* | 0.580 | 0.159 | 0.568* | −0.365 | −0.425 | −0.389 |
| | (1.06) | (0.58) | (1.90) | (−0.69) | (−1.28) | (−1.26) |
| *Underwriter* | 0.200 | 0.227 | 0.377 | 0.980 | 0.971* | 0.693 |
| | (0.28) | (0.59) | (0.96) | (1.21) | (1.91) | (1.57) |
| *Auditor* | 1.425* | 0.322 | 0.444 | 2.183* | 0.170 | 0.128 |
| | (1.66) | (0.67) | (0.92) | (1.78) | (0.30) | (0.26) |
| *Lawyer* | −0.113 | 0.626 | 0.771* | 1.500 | 0.260 | 0.150 |
| | (−0.15) | (1.60) | (1.87) | (1.54) | (0.51) | (0.33) |
| *Main* | −0.069 | −0.282 | −0.255 | −1.693 | −0.329 | −0.211 |
| | (−0.07) | (−0.63) | (−0.53) | (−1.39) | (−0.54) | (−0.39) |
| *SME* | 2.296 | 0.836 | 1.119 | −0.657 | −0.573 | −0.686 |
| | (1.44) | (1.15) | (1.48) | (−0.67) | (−0.82) | (−1.11) |
| *Constant* | −49.502** | −49.276*** | −63.441*** | −57.289*** | −34.800*** | −31.147*** |
| | (−2.56) | (−4.91) | (−5.50) | (−3.08) | (−3.50) | (−3.29) |
| Year FEs | YES | YES | YES | YES | YES | YES |
| Industry FEs | YES | YES | YES | YES | YES | YES |
| Province FEs | YES | YES | YES | YES | YES | YES |
| Observations | 201 | 352 | 414 | 113 | 213 | 288 |
| Pseudo $R^2$ | 0.388 | 0.249 | 0.347 | 0.376 | 0.281 | 0.271 |

**Table 4 (Cont'd)**

**Panel C: Placebo tests for the multi-period difference-in-difference approach**

| | Dependent Variable: *Approval* | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| $Hometown^{False}$ | −0.000 | 0.010 | 0.003 | 0.001 |
| | (−0.03) | (0.04) | (0.01) | (0.02) |
| Controls | YES | YES | YES | YES |
| Year Fixed Effects | NO | YES | YES | YES |
| Industry Fixed Effects | NO | NO | YES | YES |
| Province Fixed Effects | NO | NO | NO | YES |
| Observations | 2,626 | 2,626 | 2,626 | 2,626 |
| Pseudo R$^2$ | 0.064 | 0.115 | 0.124 | 0.139 |

**Panel D: Difference tests after propensity score matching**

| | Treatment group | | | Control group | | | Difference test | |
|---|---|---|---|---|---|---|---|---|
| | *Hometown* = 1 | | | *Hometown* = 0 | | | *t*/Z Statistics | |
| Variable | N | Mean | Median | N | Mean | Median | Mean | Median |
| *Size* | 359 | 20.30 | 20.12 | 359 | 20.18 | 20.06 | 0.120* | 0.060 |
| *LEV* | 359 | 0.441 | 0.449 | 359 | 0.478 | 0.457 | −0.037 | −0.008 |
| *Growth* | 359 | 0.220 | 0.163 | 359 | 0.252 | 0.151 | −0.032 | 0.012 |
| *ROA* | 359 | 0.123 | 0.115 | 359 | 0.128 | 0.119 | −0.005 | −0.004 |
| *IA* | 359 | 0.054 | 0.047 | 359 | 0.053 | 0.049 | 0.001 | −0.002 |
| *SOE* | 359 | 0.084 | 0.000 | 359 | 0.074 | 0.000 | 0.010 | 0.000 |
| *PC* | 359 | 0.373 | 0.000 | 359 | 0.329 | 0.000 | 0.044 | 0.000 |
| *CC* | 359 | 0.326 | 0.000 | 359 | 0.337 | 0.000 | −0.011 | −0.000 |
| *Age* | 359 | 3.446 | 3.565 | 359 | 3.315 | 3.471 | 0.131** | 0.094* |
| *Underwriter* | 359 | 0.487 | 0.000 | 359 | 0.489 | 0.000 | −0.002 | −0.000 |
| *Auditor* | 359 | 0.551 | 1.000 | 359 | 0.523 | 1.000 | 0.028 | 0.000 |
| *Lawyer* | 359 | 0.460 | 0.000 | 359 | 0.486 | 0.000 | −0.026 | −0.000 |
| *Main* | 359 | 0.440 | 0.000 | 359 | 0.377 | 0.000 | 0.063* | 0.000* |
| *SME* | 359 | 0.226 | 0.000 | 359 | 0.311 | 0.000 | −0.085** | −0.000** |

**Table 4 (Cont'd)**

| Panel E: Regression Analysis for a Matched Sample | | | | |
|---|---|---|---|---|
| | Dependent Variable: *Approval* | | | |
| | (1) | (2) | (3) | (4) |
| Hometown | 0.542** | 0.693*** | 0.737*** | 0.733** |
| | (2.31) | (2.64) | (2.75) | (2.50) |
| Size | 1.123*** | 1.326*** | 1.394*** | 1.496*** |
| | (5.12) | (5.31) | (5.35) | (5.46) |
| LEV | −1.559 | −2.267** | −2.438** | −2.368** |
| | (−1.64) | (−2.10) | (−2.21) | (−2.03) |
| Growth | −0.038 | −0.195 | −0.170 | −0.152 |
| | (−0.15) | (−0.73) | (−0.63) | (−0.55) |
| ROA | 3.877 | 3.774 | 3.633 | 4.720 |
| | (1.48) | (1.30) | (1.20) | (1.49) |
| IA | 2.631 | 2.831 | 3.601 | 3.657 |
| | (0.84) | (0.86) | (1.02) | (0.99) |
| SOE | −0.772* | −0.848* | −0.816* | −0.729 |
| | (−1.91) | (−1.96) | (−1.69) | (−1.36) |
| PC | 0.199 | 0.234 | 0.378 | 0.393 |
| | (0.78) | (0.86) | (1.33) | (1.30) |
| CC | −0.007 | −0.029 | −0.020 | −0.045 |
| | (−0.03) | (−0.11) | (−0.07) | (−0.15) |
| Age | −0.383** | −0.220 | −0.259 | −0.254 |
| | (−2.52) | (−1.32) | (−1.48) | (−1.44) |
| Underwriter | 0.542** | 0.499** | 0.477* | 0.500* |
| | (2.19) | (2.01) | (1.87) | (1.86) |
| Auditor | 0.535** | 0.556** | 0.624** | 0.620** |
| | (2.19) | (2.10) | (2.28) | (2.11) |
| Lawyer | 0.050 | 0.129 | 0.090 | 0.203 |
| | (0.21) | (0.53) | (0.35) | (0.76) |
| Main | −0.557* | −0.535 | −0.464 | −0.706* |
| | (−1.76) | (−1.63) | (−1.36) | (−1.92) |
| SME | −0.043 | −0.450 | −0.375 | −0.319 |
| | (−0.14) | (−1.28) | (−1.05) | (−0.85) |
| Constant | −19.861*** | −23.557*** | −26.302*** | −28.652*** |
| | (−4.59) | (−4.56) | (−4.69) | (−4.83) |
| Year Fixed Effects | NO | YES | YES | YES |
| Industry Fixed Effects | NO | NO | YES | YES |
| Province Fixed Effects | NO | NO | NO | YES |
| Observations | 718 | 718 | 718 | 718 |
| Pseudo R$^2$ | 0.114 | 0.159 | 0.180 | 0.204 |

*Note*: This table presents results on the casual influence of hometown ties on the IPO approval. Panel A reports results from estimating Equation (2) using the staggered difference-in-difference design. Panel B reports results for the IPO firms in provinces that have changes in *Hometown*: Columns (1) to (3) on *Hometown* changes from 0 to 1 around [−1, +1], [−2, +2] and [−3, +3] years, respectively; Columns (4) to (6) on *Hometown* changes from 1 to 0 around [−1, +1], [−2, +2] and [−3, +3] years, respectively. In Panel C, we randomly assign *Hometown* to our sample firms, and conduct analyses using the simulated sample and repeat the simulation process 1000 times. Panels D and E report results from estimating Equation (1) by using the propensity score matching approach. All variables are defined in Appendix A. Z-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

**Table 5** Motives of Hometown Favoritism.

| Panel A: Social Preferences Motive | | | |
|---|---|---|---|
| | Dependent variable: ***Approval*** | | |
| | Birth City | Language Diversity | Collectivism |
| | (1) | (2) | (3) |
| Hometown | 0.771*** | 0.790*** | 0.695*** |
| | (3.51) | (3.65) | (3.11) |
| Hometown × Birthcity | 1.896** | | |
| | (1.75) | | |
| Birthcity | −0.341 | | |
| | (−1.08) | | |
| Hometown × Language | | 1.564** | |
| | | (2.00) | |
| Language | | −0.006 | |
| | | (−0.05) | |
| Hometown × Collectivism | | | 1.194** |
| | | | (2.08) |
| Collectivism | | | 0.271* |
| | | | (1.80) |
| Size | 0.740*** | 0.730*** | 0.756*** |
| | (7.83) | (7.72) | (7.93) |
| LEV | −0.472 | −0.476 | −0.499 |
| | (−1.31) | (−1.32) | (−1.28) |
| Growth | −0.056 | −0.056 | −0.052 |
| | (−0.47) | (−0.46) | (−0.42) |
| ROA | 5.901*** | 5.871*** | 5.961*** |
| | (5.04) | (4.99) | (5.01) |
| IA | 2.458** | 2.423* | 2.392* |
| | (1.96) | (1.94) | (1.92) |
| SOE | −0.232 | −0.227 | −0.199 |
| | (−1.16) | (−1.13) | (−0.99) |
| PC | 0.338*** | 0.331*** | 0.328** |
| | (2.65) | (2.60) | (2.57) |
| CC | 0.346*** | 0.343*** | 0.352*** |
| | (2.77) | (2.74) | (2.81) |
| Age | −0.333*** | −0.336*** | −0.346*** |
| | (−4.59) | (−4.63) | (−4.76) |
| Underwriter | 0.096 | 0.103 | 0.086 |
| | (0.87) | (0.93) | (0.78) |
| Auditor | 0.253** | 0.250** | 0.225* |
| | (2.01) | (1.99) | (1.77) |
| Lawyer | 0.293*** | 0.302*** | 0.282** |

|  | (1) | (2) | (3) |
|---|---|---|---|
|  | (2.66) | (2.74) | (2.55) |
| *Main* | −0.121 | −0.120 | −0.198 |
|  | (−0.71) | (−0.70) | (−1.15) |
| *SME* | 0.040 | 0.050 | 0.040 |
|  | (0.27) | (0.34) | (0.27) |
| *Constant* | −13.339*** | −13.150*** | −13.621*** |
|  | (−6.91) | (−6.79) | (−7.03) |
| Year Fixed Effects | YES | YES | YES |
| Industry Fixed Effects | YES | YES | YES |
| Province Fixed Effects | YES | YES | YES |
| Observations | 2,626 | 2,626 | 2,626 |
| Pseudo $R^2$ | 0.108 | 0.108 | 0.111 |

**Panel B: Regional Rent-Seeking and Corruption, and Firms' Public Relations Expenditure**

|  | Dependent variable: *Approval* | | |
|---|---|---|---|
|  | Regional Rent-Seeking Expenditure | Regional Corruption Level | Firm-level Public Relations Expenditure |
|  | (1) | (2) | (3) |
| *Hometown* | 1.294** | 1.007* | 0.894*** |
|  | (2.02) | (1.88) | (4.13) |
| *Hometown × RSE* | −0.024 |  |  |
|  | (−0.65) |  |  |
| *RSE* | −0.015* |  |  |
|  | (−1.81) |  |  |
| *Hometown × Corruption* |  | −0.044 |  |
|  |  | (−0.22) |  |
| *Corruption* |  | −0.004 |  |
|  |  | (−0.09) |  |
| *Hometown × PRE* |  |  | −0.203 |
|  |  |  | (−0.50) |
| *PRE* |  |  | 0.501*** |
|  |  |  | (4.07) |
| *Size* | 0.754*** | 0.742*** | 0.725*** |
|  | (7.93) | (7.83) | (7.66) |
| *LEV* | −0.486 | −0.467 | −0.490 |
|  | (−1.33) | (−1.31) | (−1.36) |
| *Growth* | −0.050 | −0.055 | −0.026 |
|  | (−0.41) | (−0.46) | (−0.21) |
| *ROA* | 5.930*** | 5.903*** | 4.783*** |
|  | (5.04) | (5.04) | (4.02) |
| *IA* | 2.421* | 2.416* | 2.322* |
|  | (1.94) | (1.94) | (1.90) |
| *SOE* | −0.202 | −0.232 | −0.206 |
|  | (−1.00) | (−1.16) | (−1.02) |
| *PC* | 0.340*** | 0.329*** | 0.354*** |
|  | (2.67) | (2.58) | (2.77) |
| *CC* | 0.352*** | 0.349*** | 0.344*** |

|  | (2.81) | (2.79) | (2.75) |
| --- | --- | --- | --- |
| Age | −0.339*** | −0.334*** | −0.345*** |
|  | (−4.67) | (−4.61) | (−4.73) |
| Underwriter | 0.088 | 0.094 | 0.093 |
|  | (0.80) | (0.86) | (0.84) |
| Auditor | 0.239* | 0.251** | 0.265** |
|  | (1.90) | (1.99) | (2.11) |
| Lawyer | 0.280** | 0.294*** | 0.290*** |
|  | (2.53) | (2.67) | (2.62) |
| Main | −0.173 | −0.132 | −0.115 |
|  | (−1.00) | (−0.77) | (−0.67) |
| SME | 0.038 | 0.045 | 0.071 |
|  | (0.26) | (0.31) | (0.48) |
| Constant | −13.360*** | −13.357*** | −12.927*** |
|  | (−6.91) | (−6.91) | (−6.69) |
| Year Fixed Effects | YES | YES | YES |
| Industry Fixed Effects | YES | YES | YES |
| Province Fixed Effects | YES | YES | YES |
| Observations | 2,626 | 2,626 | 2,626 |
| Pseudo $R^2$ | 0.108 | 0.106 | 0.113 |

*Note*: This Table presents regression results on the motives of the chairman's hometown favoritism in the IPO resource allocation. Panel A reports results on the existence of the social preferences motive. *Birthcity* is 1 if the IPO firm is headquartered in the birth city of the incumbent chairman of the CSRC, and 0 otherwise. *Language* is the number of dialects divided by the population of the IPO applicant's registered province. *Collectivism* is 1 if the provincial in-group collectivism index of an IPO firm is higher than the upper-quarter value of the full sample, and 0 otherwise. Panel B presents insignificant influence of regional rent-seeking expenditure and corruption level, and IPO firms' public relations expenditure on such hometown favoritism, thus ruling out the rent-seeking motive. We use data from a survey conducted by Sun Yat-sen University in 2000 to measure the provincial rent-seeking expenditure (*RSE*). *Corruption* is the number of per capita arrested local officials in the province where the IPO applicant is located. *PRE* is defined as the IPO firm's abnormal public relations expenditure during the 3 fiscal years before the IPO examination and measured using the residual of Equation (3). All variables are defined in Appendix A. Z-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

**Table 6** Influence of Educational Ties and Working Experience.

| | Dependent variable: *Approval* | | |
| | *Educational* Ties | *Working* Experience | *Education* + *Working* |
| | (1) | (2) | (3) |
| Hometown | 0.814*** | 0.837*** | 0.827*** |
| | (2.97) | (3.03) | (2.99) |
| Education | −0.236 | | −0.242 |
| | (−0.82) | | (−0.84) |
| Working | | 0.363 | 0.368 |
| | | (1.08) | (1.10) |
| Size | 0.866*** | 0.869*** | 0.871*** |
| | (8.57) | (8.61) | (8.61) |
| LEV | −0.833* | −0.795 | −0.806 |
| | (−1.70) | (−1.62) | (−1.64) |
| Growth | 0.007 | −0.001 | 0.001 |
| | (0.05) | (−0.00) | (0.01) |
| ROA | 6.268*** | 6.426*** | 6.368*** |
| | (4.84) | (4.94) | (4.89) |
| IA | 2.111* | 2.116* | 2.131* |
| | (1.68) | (1.69) | (1.70) |
| SOE | −0.152 | −0.150 | −0.154 |
| | (−0.72) | (−0.71) | (−0.73) |
| PC | 0.315** | 0.319** | 0.318** |
| | (2.38) | (2.41) | (2.40) |
| CC | 0.442*** | 0.448*** | 0.446*** |
| | (3.43) | (3.48) | (3.46) |
| Age | −0.300*** | −0.295*** | −0.297*** |
| | (−4.00) | (−3.94) | (−3.97) |
| Underwriter | 0.101 | 0.102 | 0.098 |
| | (0.89) | (0.90) | (0.87) |
| Auditor | 0.221* | 0.222* | 0.222* |
| | (1.74) | (1.75) | (1.75) |
| Lawyer | 0.285** | 0.287** | 0.287** |
| | (2.49) | (2.50) | (2.50) |
| Main | −0.144 | −0.163 | −0.171 |
| | (−0.79) | (−0.89) | (−0.93) |
| SME | 0.010 | 0.009 | 0.005 |
| | (0.07) | (0.06) | (0.03) |
| Constant | −15.713*** | −15.935*** | −15.953*** |
| | (−7.75) | (−7.81) | (−7.82) |
| Year Fixed Effects | YES | YES | YES |
| Industry Fixed Effects | YES | YES | YES |
| Province Fixed Effects | YES | YES | YES |
| Observations | 2,626 | 2,626 | 2,626 |
| Pseudo $R^2$ | 0.142 | 0.142 | 0.143 |

*Note*: This table presents results on how school ties and shared working experience influence the IPO approval decision. *Education* is 1 if the IPO firm's CEO has school ties with the chairman, and 0 otherwise. *Working* is 1 if the IPO firm is in regions where the chairman worked before, and 0 otherwise. All variables are defined in Appendix A. *t*-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

**Table 7** Effectiveness of Xi Jinping' Anti-corruption Campaign.

| | Anticorruption Campaign Since 2012 | | Central Inspection Team Since 2015 | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Hometown | 0.868** | 0.874** | 0.650** | 0.664** |
| | (2.07) | (2.08) | (2.07) | (2.10) |
| Hometown × Post-campaign | 0.053 | 0.068 | 0.214 | 0.247 |
| | (0.11) | (0.14) | (0.51) | (0.58) |
| Post-campaign | −11.570 | −11.532 | −4.185*** | −4.351*** |
| | (−0.03) | (−0.03) | (−5.94) | (−5.95) |
| CC × Post-campaign | | −0.522** | | −0.628** |
| | | (−2.16) | | (−2.51) |
| CC | 0.348*** | 0.417** | 0.341*** | 0.418*** |
| | (2.79) | (2.50) | (2.70) | (2.60) |
| PC × Post-campaign | | −0.500* | | −0.827** |
| | | (−1.85) | | (−2.54) |
| PC | 0.332*** | 0.305* | 0.312** | 0.266* |
| | (2.61) | (1.92) | (2.42) | (1.79) |
| SOE × Post-campaign | | −0.336 | | −0.036 |
| | | (−0.88) | | (−0.08) |
| SOE | −0.241 | −0.103 | −0.221 | −0.214 |
| | (−1.21) | (−0.40) | (−1.08) | (−0.89) |
| Size | 0.740*** | 0.736*** | 0.743*** | 0.738*** |
| | (7.84) | (7.81) | (7.82) | (7.77) |
| LEV | −0.460 | −0.438 | −0.409 | −0.394 |
| | (−1.31) | (−1.21) | (−1.27) | (−1.13) |
| Growth | −0.056 | −0.055 | −0.048 | −0.048 |
| | (−0.46) | (−0.45) | (−0.40) | (−0.40) |
| ROA | 5.917*** | 6.052*** | 5.857*** | 5.982*** |
| | (5.07) | (5.12) | (5.01) | (5.01) |
| IA | 2.428* | 2.315* | 2.192* | 2.041 |
| | (1.95) | (1.85) | (1.74) | (1.62) |
| Age | −0.335*** | −0.340*** | −0.336*** | −0.343*** |
| | (−4.62) | (−4.67) | (−4.58) | (−4.63) |
| Underwriter | 0.095 | 0.102 | 0.104 | 0.117 |
| | (0.86) | (0.92) | (0.93) | (1.05) |
| Auditor | 0.251** | 0.244* | 0.226* | 0.223* |
| | (2.00) | (1.94) | (1.77) | (1.74) |
| Lawyer | 0.295*** | 0.299*** | 0.312*** | 0.315*** |
| | (2.68) | (2.70) | (2.78) | (2.79) |
| Main | −0.134 | −0.180 | −0.124 | −0.167 |
| | (−0.78) | (−1.04) | (−0.71) | (−0.95) |
| SME | 0.046 | 0.034 | 0.064 | 0.060 |
| | (0.31) | (0.23) | (0.43) | (0.40) |
| Constant | −13.322*** | −13.328*** | −13.452*** | −13.358*** |
| | (−6.90) | (−6.90) | (−6.90) | (−6.86) |
| Year Fixed Effects | YES | YES | YES | YES |
| Industry Fixed Effects | YES | YES | YES | YES |
| Province Fixed Effects | YES | YES | YES | YES |
| Observations | 2,626 | 2,626 | 2,626 | 2,626 |
| Pseudo R$^2$ | 0.106 | 0.110 | 0.129 | 0.129 |

*Note*: This Table presents results about the effectiveness of Xi's anti-corruption campaign in the IPO approval process. Z-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

**Table 8** Mediating Effects of IPO Applicants' Connection and Ownership.

| | Dependent variable: *Approval* | | |
|---|---|---|---|
| | Committee Connection | Political Connection | State Ownership |
| | (1) | (2) | (3) |
| Hometown | 1.077*** | 1.160*** | 0.922*** |
| | (3.86) | (4.04) | (3.67) |
| Hometown × CC | −0.854** | | |
| | (−2.17) | | |
| Hometown × PC | | −1.055*** | |
| | | (−2.70) | |
| Hometown × SOE | | | −0.979* |
| | | | (−1.72) |
| CC | 0.454*** | 0.376*** | 0.368*** |
| | (3.37) | (2.95) | (2.89) |
| PC | 0.358*** | 0.461*** | 0.337*** |
| | (2.73) | (3.32) | (2.58) |
| SOE | −0.084 | −0.094 | −0.098 |
| | (−0.40) | (−0.45) | (−0.45) |
| Size | 0.775*** | 0.770*** | 0.776*** |
| | (7.86) | (7.84) | (7.89) |
| LEV | −0.610 | −0.562 | −0.588 |
| | (−1.35) | (−1.29) | (−1.33) |
| Growth | −0.065 | −0.065 | −0.069 |
| | (−0.53) | (−0.53) | (−0.56) |
| ROA | 6.118*** | 6.142*** | 6.179*** |
| | (4.89) | (4.94) | (4.95) |
| IA | 2.227* | 2.178* | 2.320* |
| | (1.77) | (1.73) | (1.83) |
| Age | −0.337*** | −0.332*** | −0.340*** |
| | (−4.57) | (−4.53) | (−4.63) |
| Underwriter | 0.094 | 0.094 | 0.091 |
| | (0.84) | (0.84) | (0.82) |
| Auditor | 0.261** | 0.272** | 0.275** |
| | (2.00) | (2.08) | (2.10) |
| Lawyer | 0.272** | 0.284** | 0.275** |
| | (2.41) | (2.52) | (2.43) |
| Main | −0.144 | −0.139 | −0.124 |
| | (−0.81) | (−0.77) | (−0.69) |
| SME | 0.016 | 0.022 | 0.033 |
| | (0.10) | (0.15) | (0.22) |
| Constant | −14.214*** | −14.256*** | −14.198*** |
| | (−7.14) | (−7.15) | (−7.13) |
| Year Fixed Effects | YES | YES | YES |
| Industry Fixed Effects | YES | YES | YES |
| Province Fixed Effects | YES | YES | YES |
| Observations | 2,626 | 2,626 | 2,626 |
| Pseudo $R^2$ | 0.119 | 0.120 | 0.118 |

*Note*: This Table presents results on how IPO firms' committee connections (*CC*), political connection (*PC*), and state ownership (*SOE*) influence the chairman's hometown favoritism. All variables are defined in Appendix A. Z-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

**Table 9** Influence of IPO Applicants' Quality.

| | Dependent variable: *Approval* | | |
|---|---|---|---|
| | Discretionary Accrual | Intercompany loan | Related-party transaction |
| | (1) | (2) | (3) |
| Hometown | 0.551** | 0.705** | 1.108*** |
| | (1.99) | (2.37) | (2.77) |
| Hometown × DA | 0.644* | | |
| | (1.70) | | |
| DA | −0.213* | | |
| | (−1.82) | | |
| Hometown × OREC | | 1.161*** | |
| | | (2.64) | |
| OREC | | −0.751*** | |
| | | (−6.08) | |
| Hometown × RPT | | | 1.121** |
| | | | (2.39) |
| RPT | | | −1.279*** |
| | | | (−9.58) |
| Size | 0.736*** | 0.678*** | 0.729*** |
| | (7.45) | (7.03) | (7.10) |
| LEV | −1.166*** | −0.489 | −0.436 |
| | (−4.48) | (−1.25) | (−1.07) |
| Growth | −0.007 | −0.034 | −0.070 |
| | (−0.06) | (−0.28) | (−0.54) |
| ROA | 3.907*** | 5.518*** | 5.262*** |
| | (4.84) | (4.59) | (4.19) |
| IA | 2.074* | 2.240* | 2.894** |
| | (1.80) | (1.77) | (2.11) |
| SOE | −0.213 | −0.212 | −0.103 |
| | (−1.04) | (−1.03) | (−0.48) |
| PC | 0.342*** | 0.350*** | 0.263* |
| | (2.64) | (2.69) | (1.94) |
| CC | 0.683*** | 0.395*** | 0.372*** |
| | (5.21) | (3.08) | (2.73) |
| Age | −0.323*** | −0.329*** | −0.387*** |
| | (−4.35) | (−4.45) | (−4.94) |
| Underwriter | 0.327*** | 0.107 | 0.118 |
| | (2.86) | (0.96) | (1.00) |
| Auditor | 0.855*** | 0.254** | 0.257* |
| | (7.58) | (1.99) | (1.91) |
| Lawyer | −0.126 | 0.256** | 0.191 |
| | (−1.11) | (2.28) | (1.61) |
| Main | −0.111 | −0.112 | −0.119 |
| | (−0.63) | (−0.63) | (−0.62) |
| SME | 0.063 | −0.015 | −0.132 |
| | (0.42) | (−0.10) | (−0.83) |
| Constant | −12.732*** | −11.599*** | −12.407*** |
| | (−6.46) | (−5.89) | (−5.86) |
| Year Fixed Effects | YES | YES | YES |
| Industry Fixed Effects | YES | YES | YES |
| Province Fixed Effects | YES | YES | YES |
| Observations | 2,626 | 2,626 | 2,626 |
| Pseudo $R^2$ | 0.138 | 0.126 | 0.188 |

*Note*: This Table presents the results on heterogeneity of the chairman's hometown favoritism for IPO applicants' quality (*DA*, *OREC*, *RPT*). All variables are defined in Appendix A. *Z*-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

**Table 10** Hometown Ties and IPO Pricing, Proceeds, and Underpricing.

| | *PE* ratio | IPO *Proceeds* | IPO *Underpricing* |
|---|---|---|---|
| | (1) | (2) | (3) |
| Hometown | 2.660*** | 0.154*** | 0.101*** |
| | (2.99) | (6.80) | (3.31) |
| Size | −0.450 | −0.081*** | −0.079*** |
| | (−1.15) | (−8.92) | (−6.69) |
| LEV | −0.829 | 0.077 | −0.122 |
| | (−0.32) | (1.31) | (−1.56) |
| Growth | 1.331** | 0.241*** | 0.002 |
| | (2.00) | (16.20) | (0.09) |
| ROA | −3.937 | 2.528*** | −0.668*** |
| | (−0.67) | (19.34) | (−3.78) |
| IA | −1.352 | −0.123 | −0.114 |
| | (−0.22) | (−0.87) | (−0.60) |
| SOE | 1.786 | 0.022 | 0.039 |
| | (1.63) | (0.86) | (1.16) |
| PC | −0.152 | −0.012 | 0.003 |
| | (−0.23) | (−0.80) | (0.16) |
| CC | 0.299 | 0.017 | 0.009 |
| | (0.45) | (1.16) | (0.44) |
| Age | −0.334 | −0.004 | 0.019* |
| | (−0.87) | (−0.45) | (1.67) |
| Underwriter | 0.965 | 0.028** | −0.022 |
| | (1.60) | (2.09) | (−1.20) |
| Auditor | −0.989 | −0.027* | 0.033 |
| | (−1.48) | (−1.76) | (1.60) |
| Lawyer | −0.541 | −0.010 | −0.009 |
| | (−0.90) | (−0.72) | (−0.52) |
| Main | −1.025 | 0.009 | 0.067** |
| | (−1.11) | (0.43) | (2.33) |
| SME | −3.871*** | −0.120*** | 0.038 |
| | (−4.76) | (−6.61) | (1.57) |
| Constant | 32.634*** | 1.537*** | 2.704*** |
| | (3.79) | (7.68) | (10.30) |
| Year Fixed Effects | YES | YES | YES |
| Industry Fixed Effects | YES | YES | YES |
| Province Fixed Effects | YES | YES | YES |
| Observations | 2,106 | 2,106 | 2,106 |
| Adj. $R^2$ | 0.371 | 0.611 | 0.450 |

*Note*: This table presents regression results on the hometown ties on the IPO pricing efficiency. *PE* is the ratio of the offering price to the pre-IPO EPS. *Proceeds* is defined as the total IPO proceeds scaled by the average total assets in the last three years before IPO. *Underpricing* is the difference between the closing price of the first trading day and the offering price, scaled by the offering price. All variables are defined in Appendix A. *t*-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

**Table 11** Hometown Ties and Post-IPO Stock Returns.

| | Buy-and-hold Abnormal Returns (**BHAR**) | | | Cumulative Abnormal Returns (**CAR**) | | |
|---|---|---|---|---|---|---|
| | [0, 6 months] | [0, 12 months] | [0, 24 months] | [0, 6 months] | [0, 12 months] | [0, 24 months] |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Hometown | −0.133** | −0.158*** | −0.113** | −0.154*** | −0.134** | −0.083 |
| | (−2.50) | (−2.90) | (−2.01) | (−2.83) | (−2.35) | (−1.28) |
| Size | −0.068*** | −0.073*** | −0.091*** | −0.069*** | −0.090*** | −0.114*** |
| | (−3.27) | (−3.41) | (−3.67) | (−3.25) | (−4.03) | (−4.53) |
| LEV | 0.059 | 0.133 | 0.227 | 0.011 | 0.068 | 0.143 |
| | (0.42) | (0.92) | (1.35) | (0.07) | (0.45) | (0.84) |
| Growth | 0.017 | −0.018 | 0.057 | −0.029 | −0.073 | −0.042 |
| | (0.27) | (−0.28) | (0.78) | (−0.47) | (−1.13) | (−0.58) |
| ROA | −0.905*** | −0.506 | −0.700* | −1.180*** | −1.058*** | −1.271*** |
| | (−2.83) | (−1.55) | (−1.84) | (−3.62) | (−3.10) | (−3.31) |
| IA | 0.264 | 0.831** | 0.718* | 0.295 | 0.416 | 0.262 |
| | (0.79) | (2.44) | (1.83) | (0.87) | (1.17) | (0.66) |
| SOE | 0.033 | 0.027 | 0.035 | 0.008 | 0.005 | −0.017 |
| | (0.56) | (0.45) | (0.51) | (0.14) | (0.08) | (−0.24) |
| PC | −0.022 | −0.042 | −0.079* | −0.035 | −0.044 | −0.075* |
| | (−0.63) | (−1.17) | (−1.92) | (−1.00) | (−1.17) | (−1.80) |
| CC | −0.006 | 0.009 | 0.021 | 0.003 | 0.005 | 0.027 |
| | (−0.18) | (0.25) | (0.51) | (0.07) | (0.15) | (0.64) |
| Age | −0.019 | −0.008 | 0.005 | −0.029 | −0.022 | −0.010 |
| | (−0.94) | (−0.40) | (0.20) | (−1.40) | (−1.02) | (−0.40) |
| Underwriter | −0.002 | 0.024 | 0.026 | 0.028 | 0.038 | 0.050 |
| | (−0.07) | (0.75) | (0.69) | (0.86) | (1.13) | (1.30) |
| Auditor | 0.068* | 0.088** | 0.099** | 0.031 | 0.051 | 0.061 |
| | (1.88) | (2.36) | (2.35) | (0.84) | (1.31) | (1.39) |
| Lawyer | 0.003 | 0.021 | 0.017 | 0.003 | 0.001 | −0.002 |
| | (0.10) | (0.66) | (0.44) | (0.08) | (0.02) | (−0.05) |
| Main | −0.107** | −0.103** | −0.087 | −0.143*** | −0.150*** | −0.115* |
| | (−2.13) | (−2.01) | (−1.49) | (−2.81) | (−2.81) | (−1.90) |
| SME | −0.015 | −0.052 | −0.008 | −0.062 | −0.079* | −0.032 |
| | (−0.35) | (−1.20) | (−0.16) | (−1.43) | (−1.74) | (−0.62) |
| Constant | 0.632 | 0.101 | 0.444 | 1.039** | 1.193** | 1.558*** |
| | (1.37) | (0.21) | (0.82) | (2.21) | (2.43) | (2.83) |
| Year FEs | YES | YES | YES | YES | YES | YES |
| Industry FEs | YES | YES | YES | YES | YES | YES |
| Province FEs | YES | YES | YES | YES | YES | YES |
| Observations | 2,106 | 2,106 | 2,055 | 2,106 | 2,106 | 2,055 |
| Adj. R$^2$ | 0.218 | 0.184 | 0.138 | 0.258 | 0.241 | 0.190 |

*Note*: This table presents regression results on the hometown ties on the post-IPO abnormal stock returns. *BHAR* is the monthly buy-and-hold abnormal returns adjusted by the market return. *CAR* is the monthly cumulative abnormal returns adjusted by the market return. All variables are defined in Appendix A. *t*-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

**Table 12** Hometown Ties and Post-IPO Accounting Performance.

| | Return on Asset (**ROA**) | | | Post-IPO Performance Reversal (**DROA**) | | |
|---|---|---|---|---|---|---|
| | $ROA_t$ | $ROA_{t+1}$ | $ROA_{t+2}$ | $DROA_{[(t-1)-t]}$ | $DROA_{[(t-1)-(t+1)]}$ | $DROA_{[(t-1)-(t+2)]}$ |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Hometown | −0.009*** | −0.007** | −0.007* | 0.016*** | 0.016*** | 0.017*** |
| | (−4.57) | (−2.37) | (−1.85) | (3.42) | (3.08) | (2.85) |
| Size | 0.003*** | 0.000 | −0.001 | −0.006*** | −0.003* | −0.002 |
| | (4.16) | (0.43) | (−0.38) | (−3.34) | (−1.68) | (−0.99) |
| LEV | −0.020*** | −0.018** | −0.013 | −0.065*** | −0.073*** | −0.081*** |
| | (−3.85) | (−2.40) | (−1.35) | (−5.26) | (−5.25) | (−5.22) |
| Growth | 0.002 | −0.005 | −0.006 | −0.038*** | −0.030*** | −0.028*** |
| | (1.04) | (−1.42) | (−1.42) | (−7.10) | (−5.02) | (−4.21) |
| ROA | 0.254*** | 0.266*** | 0.274*** | 0.405*** | 0.389*** | 0.384*** |
| | (22.00) | (15.83) | (13.14) | (14.36) | (12.38) | (11.08) |
| IA | −0.002 | 0.020 | 0.035 | 0.022 | −0.008 | −0.015 |
| | (−0.17) | (1.18) | (1.61) | (0.74) | (−0.24) | (−0.41) |
| SOE | −0.001 | 0.003 | 0.002 | −0.002 | −0.005 | −0.005 |
| | (−0.38) | (1.11) | (0.63) | (−0.44) | (−0.90) | (−0.72) |
| PC | 0.000 | −0.000 | −0.002 | −0.004 | −0.003 | −0.002 |
| | (0.18) | (−0.05) | (−0.73) | (−1.43) | (−1.02) | (−0.49) |
| CC | −0.000 | 0.003 | −0.001 | −0.004 | −0.007** | −0.003 |
| | (−0.36) | (1.63) | (−0.26) | (−1.43) | (−1.99) | (−0.67) |
| Age | 0.000 | 0.002 | 0.003*** | −0.006*** | −0.008*** | −0.010*** |
| | (0.17) | (1.59) | (2.60) | (−3.66) | (−4.31) | (−4.61) |
| Underwriter | −0.000 | −0.001 | 0.000 | 0.006** | 0.006** | 0.005 |
| | (−0.06) | (−0.46) | (0.18) | (2.13) | (2.08) | (1.58) |
| Auditor | 0.001 | −0.000 | 0.004 | 0.000 | −0.002 | −0.007* |
| | (0.68) | (−0.02) | (1.57) | (0.02) | (−0.50) | (−1.65) |
| Lawyer | −0.002** | −0.004** | −0.006*** | 0.001 | 0.003 | 0.005 |
| | (−2.11) | (−2.51) | (−2.84) | (0.48) | (1.05) | (1.57) |
| Main | 0.001 | 0.007*** | 0.013*** | −0.000 | −0.004 | −0.009* |
| | (0.59) | (2.70) | (3.76) | (−0.02) | (−0.87) | (−1.68) |
| SME | 0.003** | 0.006*** | 0.010*** | −0.003 | −0.006 | −0.009** |
| | (2.01) | (2.86) | (3.59) | (−0.84) | (−1.34) | (−1.98) |
| Constant | −0.026 | 0.030 | −0.001 | 0.180*** | 0.125*** | 0.156*** |
| | (−1.57) | (1.27) | (−0.04) | (4.44) | (2.78) | (3.09) |
| Year FEs | YES | YES | YES | YES | YES | YES |
| Industry FEs | YES | YES | YES | YES | YES | YES |
| Province FEs | YES | YES | YES | YES | YES | YES |
| Observations | 2,106 | 1,987 | 1,923 | 2,106 | 1,987 | 1,923 |
| Adj. $R^2$ | 0.377 | 0.245 | 0.191 | 0.333 | 0.294 | 0.276 |

*Note*: This table presents results on the hometown ties on the post-IPO accounting performance. $ROA_t$, $ROA_{t+1}$, and $ROA_{t+2}$ is the return on assets in the listing year, in the first year after listing, and in the second year after listing, respectively. $DROA_{[t-1, t]}$, $DROA_{[t-1, t+1]}$, and $DROA_{[t-1, t+2]}$ is the difference between the ROA in the first year before IPO and $ROA_t$, $ROA_{t+1}$, and $ROA_{t+2}$, respectively. All variables are defined in Appendix A. *t*-statistics are reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels (two-tailed), respectively.

**Appendix A** Definitions of Variables.

| Variable | Definition |
|---|---|
| *Approval* | Indicator variable that is 1 if the IPO firm is approved by the CSRC, and 0 otherwise. |
| *Hometown* | Indicator variable that is 1 if the IPO firm is headquartered in the birth province of the incumbent chairman of the CSRC, and 0 otherwise. |
| *hometown (-2)* | Indicator variable that is 1 for two years before this hometown province changes from 0 to 1, and 0 otherwise. |
| *hometown (-1)* | Indicator variable that is 1 for one year before this hometown province changes from 0 to 1, and 0 otherwise. |
| *hometown (0)* | Indicator variable that is 1 for the year when this hometown province changes from 0 to 1, and 0 otherwise. |
| *hometown (+1)* | Indicator variable that is 1 for one year after this hometown province changes from 0 to 1, and 0 otherwise. |
| *hometown (+2)* | Indicator variable that is 1 for two years after this hometown province changes from 0 to 1, and 0 otherwise. |
| *hometown_loss (1)* | Indicator variable that is 1 for one year after this hometown province changes from 1 to 0, and 0 otherwise. |
| *hometown_loss (2)* | Indicator variable that is 1 for two years after this hometown province changes from 1 to 0, and 0 otherwise. |
| *Size* | Natural logarithm of the total assets in the last fiscal years before IPO. |
| *LEV* | The ratio of the long-term liability to total assets in the last fiscal year before IPO. |
| *Growth* | The annual growth rate of operating sales during the last fiscal year before IPO. |
| *ROA* | The ratio of net income to total assets during the last fiscal year before IPO. |
| *IA* | Natural logarithm of the intangible assets in the last fiscal year before IPO. |
| *SOE* | Indicator variable that equals 1 if the company is controlled by central or local governments and 0 otherwise. |
| *PC* | Referring to Fan et al. (2007), it is 1 if the CEO or chairperson of the firm is a current or former government official and 0 otherwise. |
| *CC* | Indicator variable that equals 1 if the IPO firm hires approval committee-connected intermediaries during its IPO examination period. |
| *Age* | Square of the difference in years between the CSRC examination date and the company's establishment date. |
| *Underwriter* | Indicator variable that equals 1 if the annual income of the underwriter is in the top 10 in China in the last fiscal year before IPO examination year and 0 otherwise. |
| *Auditor* | Indicator variable that equals 1 if the annual income of the auditor is in the top 10 in China in the last fiscal year before IPO examination year and 0 otherwise. |
| *Lawyer* | Indicator variable that equals 1 if the annual income of the lawyer is in the top 10 in China in the last fiscal year before IPO examination year and 0 otherwise. |
| *Main* | Indicator variable that equals 1 if the company applies for the main board and 0 otherwise. |
| *SME* | Indicator variable that equals 1 if the firm applies for the SME board and 0 otherwise. |
| *YEAR* | IPO examination year fixed effect. |
| *IND* | Company industry fixed effect. |
| *PROVINCE* | Company registered province fixed effect |

**Appendix B** Correlation Analysis: Pearson Correlation Matrix.

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|---|---|---|---|---|---|---|---|---|
| (1) *Approval* | 1 | | | | | | | |
| (2) *Hometown* | 0.073*** | 1 | | | | | | |
| (3) *Size* | 0.129*** | 0.063*** | 1 | | | | | |
| (4) *LEV* | −0.027 | −0.001 | 0.222*** | 1 | | | | |
| (5) *Growth* | −0.003 | −0.071*** | −0.166*** | 0.028 | 1 | | | |
| (6) *ROA* | 0.022 | −0.058*** | −0.467*** | −0.247*** | 0.233*** | 1 | | |
| (7) *IA* | 0.049** | 0.018 | 0.055*** | −0.031 | −0.083*** | −0.049 | 1 | |
| (8) *SOE* | 0.019 | −0.034* | 0.349*** | 0.099*** | −0.026 | −0.182*** | 0.013 | 1 |
| (9) *PC* | 0.068*** | 0.037* | 0.111*** | 0.080*** | −0.030 | −0.112*** | 0.090*** | 0.061*** |
| (10) *CC* | 0.053*** | 0.001 | −0.050** | −0.002 | 0.063*** | 0.123*** | −0.054*** | −0.019 |
| (11) *Age* | −0.088*** | 0.102*** | 0.078*** | −0.059*** | −0.214*** | −0.098*** | 0.006 | −0.087*** |
| (12) *Underwriter* | 0.042** | −0.003 | 0.001 | −0.035* | 0.016 | 0.057*** | 0.014 | −0.071*** |
| (13) *Auditor* | 0.068*** | −0.015 | 0.150*** | −0.033* | −0.111*** | −0.060*** | 0.035* | 0.004 |
| (14) *Lawyer* | 0.063*** | −0.029 | 0.029 | −0.011 | 0.052*** | 0.042** | 0.018 | −0.026 |
| (15) *Main* | 0.052*** | 0.150*** | 0.488*** | 0.072*** | −0.164*** | −0.178*** | 0.098*** | 0.156*** |
| (16) *SME* | 0.003 | −0.109*** | −0.059*** | 0.110*** | −0.009 | −0.058*** | −0.012 | 0.001 |

| | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) |
|---|---|---|---|---|---|---|---|---|
| (9) *PC* | 1 | | | | | | | |
| (10) *CC* | 0.006 | 1 | | | | | | |
| (11) *Age* | −0.086*** | −0.045** | 1 | | | | | |
| (12) *Underwriter* | 0.010 | 0.053*** | −0.024 | 1 | | | | |
| (13) *Auditor* | −0.060*** | −0.012 | 0.173*** | 0.030 | 1 | | | |
| (14) *Lawyer* | −0.016 | 0.116*** | 0.000 | 0.068*** | 0.019 | 1 | | |
| (15) *Main* | 0.011 | −0.104*** | 0.185*** | −0.001 | 0.153*** | −0.003 | 1 | |
| (16) *SME* | 0.110*** | −0.039** | −0.203*** | −0.001 | −0.181*** | −0.013 | −0.456*** | 1 |

*Note*: This table presents Pearson correlation coefficients for all prospective IPO firms. All variables are defined in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% levels (two-tailed), respectively.