

The Effect of Politician Career Concerns on Media Slant and Market Return: Evidence from China

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ABSTRACT

Using city official data in China, we find that government officials are more likely to be promoted to higher positions if the listed State-Owned-Enterprises (SOEs) under their control are covered by less negative media news toward the end of their current terms. This is consistent with a career concern that provides local government officials with strong incentives to suppress negative media news of companies under their control as they approach the end of their current terms. Such media distortion significantly worsens the capital market's information environment. Furthermore, the negative externality from official career concerns cannot be completely offset by other information channels, and therefore it can have a sizable impact on stock prices. To demonstrate the distortion on stock prices, we show that a trading strategy longing firms with less negative media slant under outgoing officials, and shorting firms with more negative media slant under incoming officials, can generate a 12% per annum abnormal return. In addition, we find that officials with stronger career concerns are impacted by negative news to a greater extent and are in turn more likely to suppress it. These results are consistent with the notion that politician career concerns are an important determinant of the capital market information environment in China.

Key words: politician career concern, media slant, information environment, China, market efficiency

JEL: G14, G38

1. Introduction

Career concerns have long been recognized and documented to affect managers' behaviors (e.g., Fama, 1980; Lazear and Rosen, 1981; Holmström, 1999). Specifically, CEO career concerns affect firm information environment and firm value (e.g., Song and Thakor, 2006; Adams and Ferreira, 2009). Similar to corporate managers, bureaucrats also have career concerns (e.g., Tirole, 1994; Dewatripont, Jewitt, and Tirole, 1999; Acemoglu, Kremer, and Mian, 2008). When bureaucrats approach the end of their tenure terms, they have strong incentives to retain their jobs and be promoted in the next term. On a different front, the media selectively chooses which information to publicly present (e.g., Groseclose and Milyo, 2005). Gentzkow and Shapiro (2010) define such bias as *media slant*. Bureaucrats are regarded to have power over media and could potentially use a media slant for their own interest rather than for public consumption (Tullock, 1967; Krueger, 1974; Besley and Prat, 2006). The media news is an important factor in shaping the capital market information environment and can affect market return (e.g., Tetlock, 2007; Fang and Peress, 2009; Engelberg and Parsons, 2011). Thus, in theory, bureaucrats' career concerns can affect the information environment and therefore the market return, similar to corporate managers' career concerns. Our study empirically tests this idea by specifically investigating how bureaucrats' careers relate to media news of companies under their control, whether they create a media slant by hiding negative news, and, if so, the subsequent impact on market informational efficiency and stock prices of these companies.

Government official terms of appointments and characteristics of the information environment in China provide an ideal setting for investigating this issue. In China, bureaucrats are a dominant force in economic activities. They are highly motivated by the economic performance of their region, and claim that they "manage cities" just like CEOs run corporations. Politicians do not consider their positions as short-term jobs but rather appointments with life-long impact on their social status and personal life qualities. If a

politician makes no serious errors during her current term, she is likely to enter another term of employment with a promotion or lateral movement (Liang, 2012). Regional officials rely on the central government's support and authority in maintaining their status quo in socioeconomic and political affairs. More specifically, as local officials' superiors chose which bureaucrats are promoted or retained, those superiors' opinions are of utmost importance to the official's career. The Chinese government has an elaborate system through which to evaluate subordinates' economic performance. Explicit and critical evaluation indicators include local companies' performance and growth, employment rate, and the general fiscal situation (Liang, 2012; Chen, Li, and Zhou, 2005; Xu, 2011). Thus, regional officials are very concerned about economic performance under their administration. As Piotroski and Wong (2011) argue, the information environment is poor in China in general, and information hiding is difficult to detect. Thus local officials have strong incentives to hide negative economic news that might reflect upon their performance during the evaluation period. In Western countries, local constituencies elect local politicians, so the opinions of local populations matter the most. As such, the evaluation metric is more multi-dimensional and can include factors such as pollution, welfare, and public education. So it is quite common for Western politicians who campaign for government positions to emphasize their strong local backgrounds to gain popularity and votes. Under democracies, locality can be seen as a link between politicians and their voters and economic performance is relatively a weaker indicator for voters (Liang, 2012). In addition, because the media is more independent and market efficiency is greater, hiding information is relatively costly in the West. Therefore, China provides an ideal setting to improve the power of testing local officials' incentives to hide negative news about companies under their control and the negative externality in capital market efficiency.

We focus on news regarding corporations when we investigate the effect of bureaucrats' career concerns on information environment for two reasons. First, media news is widely

regarded to have a comprehensive influence on information environment. For example, Engelberg and Parsons (2011) suggest that the media produces two informational effects: the information-enlargement effect and the information-dissemination effect. Bushee, Core, Guay, and Hamm (2010) argue that the media is the broadest and most widely disseminated of all potential information intermediaries.¹ More importantly, the media reports not only firms' financial information, but also non-financial information, including corporate social responsibility, sustainable growth, innovation progress, and so on. Thus, the media can more comprehensively reflect bureaucrats' accountability and their performance. Second, Chinese bureaucrats have the discretion to alter the information environment through manipulating the media. Zhao (2004) argue that censorship and control over media are strong in China, relative to the Western countries, and government officials have much discretion in exercising the power. Therefore, China provides an ideal setting to test the effect of bureaucrats' career concerns on the information environment and market efficiency by examining the media news around the end of officials' tenure terms.

State-Owned-Enterprises (SOEs) play an important role in China's economy. The majority of domestic firms listed on China's two stock exchanges (Shanghai and Shenzhen) are state owned (Piotroski, Wong and Zhang, 2013). Among the economic performance indicators for a local government official, the performance of the companies directly owned by the local government take on an important role because these companies directly reflect on the official's effort and ability. News about local listed SOEs is critical in shaping perceptions about the official's ability. Thus local officials are concerned that negative news about local SOEs might make them look incompetent to their superiors. Thus, local officials have a strong incentive to maintain the best image in front of their superiors, especially during a critical time such as prior

¹ Specifically, Bushee et al. (2010) argue that press plays an informational role in three ways: the press facilitates disseminations of corporate disclosure; media news packages information together from multiple sources; press creates new information, incremental to corporate disclosure and analyst research reports.

to the end of their current term.

Furthermore, local officials are also concerned that negative news released to the public might dampen the local SOEs stock performances. Stock market investors, customers, and suppliers react to negative news unfavorably, which may affect firms' operations that are the major support to the city infrastructure development, local employment, and the government's fiscal income. Thus avoidance of negative SOE news can enhance the political capital of government officials, increasing their opportunities for promotion (Kornai, 1993; Qian, 1994; Li and Zhou, 2005; Wang, Wong, and Xia, 2008; Piotroski and Wong, 2011). Overall, we hypothesize that promotion probability decreases with the amount of negative media news, and government officials are very likely to suppress negative news about the major local SOEs, especially during their evaluation period—i.e., towards the end of their current term.

If negative news is suppressed, then information about these firms is distorted. Because information channels for investors are very limited, this distortion is unlikely to be offset and can thus potentially affect firms' future stock returns. In other words, the market as a whole can be “fooled” by the information distortion; i.e., the market informational efficiency is impaired. We predict that manipulated news around the end of officials' tenure terms is positively related to future returns of the firms under these officials' administration.

Using a sample from 2001 to 2011, we find that the amount of negative news is negatively correlated with the likelihood of an official's promotion in the next term, after we control for other effects as in Li and Zhou (2005). Furthermore, we find that in the year prior to the end of a city government official's appointment term, the media releases less negative news about the listed SOEs under city government control. In the year when an official starts a new term, the media releases more negative news about these firms than in other periods. This reversal phenomenon provides intriguing evidence of a bureaucrat's manipulation of information flow. This is consistent with the notion that in order to avoid adverse performance evaluation and a

negative effect on their career paths, government officials tend to suppress bad news about the companies under their control at the end of their tenure term.

Similar to Gurun and Butler's (2012) findings that an abnormal positive local media slant strongly relates to a firm's abnormal return, we find that investors can make 12% excess return per annum if they long the stocks (1) under the administration of city officials whose term ends in the following year; and (2) with least negative news, and short the stocks (1) under the administration of city officials beginning term in last year and (2) with most negative news. These results imply that the government official's intervention significantly distorts the information environment and that such distortion is not completely offset through other information channels, consistent with Piotroski and Wong's (2011) argument that the information environment of China is very poor and investors have very limited information channels.

Furthermore, we find that media owned by the government is more likely to suppress negative news when city officials approach their term ends, and that only negative news from government-owned media affects promotion decisions. In contrast, we cannot find suppressive action on non-government-owned media. These results suggest that it is less costly for city officials to directly exert administrative pressure to control government-owned media actions. We also find that investors can make significant excess returns only on a portfolio that is formed based on government-owned media news, suggesting that investors are more likely to be misled by a bias in government-owned media.

Although it is not surprising that Chinese government officials control the media to their own advantages, it is not clear if all officials engage in this behavior. If not, who then is more likely to control the media? We argue that career concerns play an important role when bureaucrats decide to manipulate the media by suppressing negative news. As such, those bureaucrats with stronger career concerns are more likely to be impacted by negative news to a

greater extent and more likely to suppress news when they approach the end of their tenure term. We apply two proxies with which to separate bureaucrats based on their career concerns. First, we regard officials ending their current term at age 59 or older to have less career concerns. According to the practice of official promotion in China, when city officials end their current term at age 59 or older, they are less likely to be promoted. Second, we regard officials in cities in which the gross domestic product (GDP) growth is large to have greater career concerns. When officials have better economic performances, they should have a better prospect of promotion. The results show that negative news hurts those officials who are strong contenders for promotion, and that these officials are in turn more likely to suppress negative news.

Our paper makes several contributions to the literature. While existing studies document that politicians can withhold bad news (Piotroski et al, 2013), control media outlets (Djankov, Mcleish, Nenova, and Shleifer, 2003; Enikolopov, Petrova and Zhuravskaya, 2011), and that a media slant affects future firm returns (Gurun and Butler, 2012), we are the first to document that politicians' intervention on media propagation affects firms' capital market performance. Our study shows that when political incentives are strong, city officials tend to suppress bad news related to their performance, and such information distortion significantly weakens the informational efficiency of the market to the extent that profitable arbitrage strategy can be formed based on the measure of media distortion.

Although it is not surprising that the Chinese government restricts media, we find that in fact not all officials exert such power even when their incentives are strong, as they must trade off their benefits and costs for such media distortion. Only when their career concerns are greatest will bureaucrats intervene in the media propagation. These findings imply that media intervention is costly for at least local officials in nowadays China.

In addition, this study is the first to show the effect of news about corporations on a bureaucrat's promotion. Prior studies have only focused on a macro-level economic

performance, a bureaucrat's background, and other characteristics when considering a promotion (e.g., Li and Zhou, 2005; Chen et al., 2005). We show that media information is also an important factor in forming the perception of superiors who make decisions about a bureaucrat's career path.

Finally, the literature has documented the effect of CEO career concerns on the information environment (e.g., Dechow and Sloan, 1991; Murphy and Zimmerman, 1993; Kalyta, 2009; Hermalin and Weisbach, 2012; Kothari, Shu and Wysocki, 2008; Ali and Zhang, 2013). Ali and Zhang (2013) argue that at the beginning of a CEO's tenure, she is more likely to inflate reported earnings because she is concerned the possibility of dismissal due to poor performance when the board is not yet familiar with her true abilities. Our study shows that bureaucrats' career concern is not at the beginning of their term but rather at the end. This is due to the different contracts for corporate managers and government officials. Our study fills the gap of comparing career concerns between corporate managers and government officials who are the most important players in a society.

In a related paper, Piotroski et al. (2013) examine whether Chinese firms seem to crash less around two visible national events: meetings of the National Congress of the Chinese Communist Party and provincial-level political promotions. The authors found evidence that firms indeed are less likely to crash prior to these events and subsequently exhibit more crashes. These results are consistent with the hypothesis that local politicians and politically connected managers temporarily restrict the flow of negative information about firms under their control during these critical events. Our paper extends Piotroski et al. (2013) in a few important ways. First, Piotroski et al. (2013) is a study of the macro level, such as the National Congress of the Chinese Communist Party and the turnover of provincial-level politicians, while we study the micro level, focusing instead on individual-turnover cases of local politicians. We carefully choose our test strategy by linking our study to the literature on CEO career concerns in the

U.S. Our goal is to carefully study the incentives of local bureaucrats who manipulate the informational environment in an attempt to win favorable opinions from their superiors. Second, we also study the outcome of these manipulations, both in terms of raising the odds of individual-promotion cases and in terms of the impact on stock price dynamics. In our framework, individual decision makers are the local bureaucrats who control part of the media (the state-owned media) to avoid the release of damaging information about firms directly under their control (the local state-owned enterprises). Our tests provide direct evidence that these bureaucrats are fully attendant to the costs and benefits of their individual behavior to distort the informational environment for their own personal gains. In that sense, our results reveal that Chinese bureaucrats, even though possibly perceived by outsiders as zealous ideologists, are in fact rational economic animals, just like profit-driven CEOs in the West. We do not believe that the same results can be easily teased out in Piotroski et al. (2013). With their great attention to detail, the Piotroski et al. (2013) study is revealing only in the activities around macro-level events, so it is not clear whether what the authors found could be a rational local bureaucrat trying to maximize her own chance of promotion or a zealous ideologist trying to “maintain the security of the society” during an important macro event. The latter could well be sanctioned or even directly carried out by the Party at the highest level. In our case, we focus on a channel that would clearly only benefit local bureaucrats, and thus would be an action taken exclusively at the local level. Finally, Piotroski et al. (2013) stopped at suggesting that the resulting stock price behavior would be consistent with the existence of information manipulation. We directly test the impact on one important channel of information dissemination—the media. We found strong and consistent results that complete the missing link between political motivation and stock price dynamics. We also found subtle differences between the state-controlled and non-state-controlled media channels. In our opinion, these findings lend more credence to our test results.

The rest of the paper is organized as follows. Section 2 reviews the institutional backgrounds and presents our hypotheses. Section 3 discusses the data sample and research design. Section 4 presents the results, and Section 5 concludes the paper.

2. Institutional Background and Hypotheses Development

2.1. Media Slant, Information Environment, and Government Intervention in China

Gurun and Butler (2012) find that when local media report news about local companies, they use fewer negative words compared with the same media reporting about non-local companies because of local firms' media advertising expenditures. In addition, such media distortion seems to have real impact on the capital market and society. Gurun and Butler (2012) find that a media slant is positively correlated with market return. Djankov et al. (2003) argue that government ownership of media can also undermine political and economic freedom; that is, through the media, government suppresses public oversight and thus facilitates corruption. Enikolopov et al. (2011) find that given that the governing party in Russia controls most media outlets, the only independent national TV channel that supports the opposition parties can significantly affect the outcome of an election; thus a media slant can be used for both political and economic purposes.

Piotroski and Wong (2011) argue that over more than two decades' development of the capital market in China, although the market-based and contracting-based incentives for transparency have increased substantially, countervailing political, legal, and cultural incentives for opacity of companies does exist. Using a sample from 1991 to 2000, Jin and Myers (2006) find that Chinese firms displayed the highest level of stock-return synchronicity out of the 40 countries included in their study. Piotroski and Wong(2011)show that the negative skewness in daily excess returns in China is significantly greater than the global average documented in Jin and Myers (2006), which is consistent with the existence of local incentives to suppress the

release of bad news. Using data from the Shanghai Stock Exchange's domestic A share market, Kang, Liu, and Ni (2002) and Naughton, Truong and Veeraraghavan (2009) document the profitability of momentum-investment strategies over the periods of 1993 to 2000 and 1995 to 2005, respectively. These findings highlight the fact that momentum returns arise from the delayed impounding of firm-specific information and that these portfolio returns are robust to numerous alternative explanations (bid-ask bounce; non-synchronous trading effects; size effect) and considerations for transaction costs. Overall, the market-based evidence shows market inefficiency due to a weak information environment in China.

This weak environment results from a lower demand and supply of information from the corporate sector and other information intermediaries. Consequently, investors have limited information channels when they make investment decisions (Piotroski and Wong, 2011). First, there is a lower demand for a high quality of financial reporting. The majority of Chinese listed firms remain state controlled (65% of firms and 89% of market capitalization of the equity market), thus concentrated control gives the state (i.e., the majority owner) both the incentive and ability to directly monitor the performance of firms' managers other than financial reporting. Bankruptcy is rare among listed state firms in China and hence financial information is not a requirement for creditors and investors. Profit maximization is not the sole objective of most Chinese publicly listed state-controlled firms; instead, these firms are obligated to achieve certain social objectives, such as infrastructure development and full employment targets in the region. As a result, the demand for financial information is reduced. Correspondingly, the demand for high-quality external auditing is also lower. Second, market institutions and investor protection are weak in China. Because of the state's control over the markets and the economy, Chinese investors are less likely to rely upon legal protections or information supplied by firms or financial intermediaries when making investment decisions. Instead, local investors focus on firms' political background when choosing investment opportunities and expect the

government to bail the firm out if there is financial distress. As such, local investors do not create a demand for high-quality reports.

Besides of this low quality of financial information and weak institutions, control of the media has always been an important component of governmental rule in China, thus enabling the government, particularly the Chinese Communist Party, to “guide public opinion” with its version of events and to exclude narratives that might challenge Party positions or actions. Governmental media controls remain in place, managed by the Department of Propaganda. Thus, to the extent that political incentives prevail, the firm-specific information conveyed through these media outlets is likely to be biased and the supply of information constrained. However, with the reduction of governmental subsidies to the traditional media, the rise of commercially driven media, and the rapid spread of new information technologies, the Chinese media landscape has become increasingly diverse, eroding the government’s ability to control public discourse as comprehensively as it once did.

The traditional and tightly controlled governmental media outlet now co-exists with more lively commercially driven publications (Lawrence and Martin, 2013). Such publications put a provocative spin on governmentally approved news, expose scandals, and report on policy debates, even though they may share the same owner as the government and are also subject to governmental Propaganda Department censorship. For example, one of China’s most muscular tabloids, the *Global Times*, is a sister paper to the *People’s Daily* which is the most traditional government-owned newspaper. The crusading *Southern Metropolis News* and *Southern Weekend*, both known for their daring investigative journalism, are sister papers to the mouthpiece of the Guangdong government, the *Southern Daily*. In addition, China’s financial media, which tends to be less tightly censored than the mainstream media, often showcases some of the most probing analysis of policy issues and corporate scandals through publications such as *Caixin New Century Weekly*, and *Caijing*, which is read particularly closely by the

country's elites. Therefore, China's media is still under tight government control relative to Western countries, but the situation is improving, especially in the business field.

2.2. Evaluation System and Tenure of Officials in China

China is a unitary state and its political system is broadly composed of five layers of state administration: the center, provinces, cities, counties, and townships. Since China began its far-reaching economic reforms in 1978, the regional governments play an increasingly important role in economic management rather than the ministries at the center, which were traditionally in charge of planning and coordination (Qian and Xu, 1993; Huang, 1996). Moreover, the reforms of 1978 also empowered regional leaders with the ultimate authority in allocating economic resources in their provinces. At the same time, local officials are held accountable for the corresponding results arising from their economic performances (Li and Zhou, 2005; Whiting, 2001; Xu, 2011). Analogous to a multidivisional company, local leaders are just like middle-level managers that are responsible for their divisional performances.

The city-level economy is a major impetus for China's economic growth. Thus, to maintain the stability of city officials and to provide sufficient incentives—such as promotions—improving the local economy is an important aspect to spurring China's growth. In regards to city officials' tenure term, the Organization Department of the Communist Party of China Central Committee issued the *"Provisional Regulations on Terms of Cadres of the Party and Government"* in August 2006.² Articles 3 and 4 are in accordance with the regulation stipulated in the regulation, *"Organic Law of the Local People's Congresses and the Local People's Governments of the PRC"*, which states that mayors and officials of county level and above should serve five-year terms and that these terms should be relatively stable. An added regulation also stipulates that cadres may not serve in the same position for more than two terms

² In Chinese, the regulation is *"Dangzheng lingdao ganbu zhiwurenqi zanxing guiding"*. See http://news.xinhuanet.com/lianzheng/2006-08/06/content_4927344.htm.

(Article 6) and may not serve in positions of the same rank for more than 15 years (Article 7). Lin (2012) finds that in practice, the duration of a term served in a leadership post has not always followed the stipulated formal rules.³ So, in general, city officials have little career concern after they are appointed to a tenure term until the next performance evaluation.

City officials' superiors are the Communist Party of the China Provincial Committee. Regularly, in the fourth year of a city official's tenure term, the Organization Department of the Provincial Committee is sent to evaluate the official's performance and will then determine the status of the official's job for the next tenure term according to collected information and other factors. Chen et al. (2005) and Li and Zhou (2005) find that regional leaders' promotions and demotions are significantly associated with changes in the economic performance of the region under their control. Piotroski et al. (2013) also find that prior to regional officials' promotions, they are more likely to suppress bad news regarding a company, thus avoiding a price crash. This is consistent with the notion that SOE performance is an important factor that affects officials' careers.

2.3. Hypotheses Development

Blanchard and Shleifer (2001) argue that the readiness of the central government to reward or punish local officials motivates them to improve the local economy. Chen et al. (2005) find that regional GDP growth rate is positively correlated with the likelihood of promotion. Piotroski and Wong (2011) and Allen, Qian, and Qian (2005) argue that SOEs are important drivers of a local economy. In addition, the media news about a local SOE can be more easily attributed to the accountability of local officials, and thus form a superior's perception on the local officials' competence before the end of their tenure term. Therefore, we hypothesize:

³ There will be a high frequency of personnel shifts if the regime feels it is necessary to prevent cadres from becoming too familiar with their posts and too attached to parochial interests. The regulations should create a proper balance between political control and administrative continuity.

Hypothesis 1: The amount of negative media news about SOEs under a city official's administration is negatively correlated with the likelihood of that official's promotion in the next tenure term.

Accordingly, when city officials are evaluated around the year before their tenure ends, they have strong incentives to show a good performance and avoid bad news. Among information channels, media is an important one to control. So we hypothesize:

Hypothesis 2: When city officials approach the end of their tenure terms, they are more likely to suppress the negative media news about the SOEs under their administration.

Prior studies have document that media news is positively correlated with market return (e.g., Tetlock, 2007; Fang and Peress, 2009; Engelberg and Parsons, 2011). If negative news about firms is suppressed, then the firms seem to have more positive news. So these firms would have positive returns unless the market detects the suppressed negative news. Piotroski and Wong (2011) argue that information channels for investors are very limited, and the information environment is weak in China. Thus, information distortion is unlikely to be offset and thus affect firms' future returns. So we hypothesize:

Hypothesis 3: The manipulated media news around the end of officials' tenure term is positively related to firms' future returns under these officials' administration.

3. Research Design

3.1. Sample Selection

For consistency with our hypotheses, we examine the news media tone regarding the listed Chinese firms that are ultimately controlled by the local city government; i.e., city State-

Owned-Enterprises (SOEs).⁴ Our sample period is from 2001 to 2011. We start with 2001 because the China Core Newspaper Database (CCND)⁵ compiles newspaper reports in China starting from 2000, and we need to use related data in the prior year to standardize our key variable, which is negative media tone. We obtain the required financial data and stock returns from the China Stock Market and Accounting Research (CSMAR) database, institutional holdings data from the WIND database, and management forecast data from the RESSET database.⁶

Our city data is collected from the China Economic Information Network (CEI net) Statistics Database, which includes city names in each province and city GDP growth rate.⁷ We search the information on tenure term and personal background of local government officials, including the city mayor and party secretary, from city government official websites. If the information is not available, we then hand-collect information from the Baidu Search Engine (www.baidu.com).

In addition, we exclude the financial services firms and firm-year observations with insufficient data to obtain related variables. Our final sample consists of 4,289 firm-year observations for city SOEs. Related to these city SOEs, there are 447 turnover events for city government officials. To mitigate the effects of outliers, we winsorize continuous variables at the 1% level in both tails.

⁴ In additional tests, we also examine non-SOEs and discuss the results in the result section.

⁵ The China Core Newspaper Database (CCND) collects newspaper reports from over 700 newspapers in China from the year 2000. For each newspaper report, the database includes the article title, author, content, organizer, etc.

⁶ Beijing Gildata RESSET Data Tech Co., Ltd (RESSET), a manufacturer of "national high-tech enterprise" specializing in financial databases and financial-related investment research software, was co-established by numerous domestically and globally renowned finance and database experts after several years of research and development. RESSET provides accurate economic and financial data and complete value-added services for universities, government, and financial institutions. RESSET is China's leading provider of financial databases and software solutions for financial and investment research. Their products are high quality and convenient and considered highly professional in the industry. More information is from <http://www.resset.cn/en/>.

⁷ CEI net Statistics Database includes two sub-databases, the China Economic Statistics Database and the World Economic Statistics Database. The previous one consists of five sections, macro monthly data, yearly data, industry data, custom data, and city-yearly data. The latter consists of two sections, OECD monthly data, and OECD yearly data.

3.2. Research Design

3.2.1. Measure of media negative tone

Similar to prior studies (Gurun and Butler, 2012; Liu and McConnell, 2013), we use the fraction of negative words to total words in each news story as our measure of tone. We combine the Loughran and McDonald (2011) dictionary and Guo (1996) dictionary to identify negative words in a financial context.⁸ Following Gurun and Butler (2012), we first calculate the fraction of negative words to total words in each news story by covering listed firms ($Negative_{i,t,m}$). Then, we standardize $Negative_{i,t,m}$ by the mean and standard deviation of the ratio of negative words over prior year using the following equation,

$$Negative_{i,t,m} = \frac{Negative_{i,t,m} - \overline{Negative_{i,t-1,m}}}{std(Negative_{i,t-1,m})} \quad (1)$$

Finally, we get the annual negative-words ratio, $Negative_{i,t}$, by taking the arithmetic average of $Negative_{i,t,m}$ over year t.

We further separate the negative media tone into two types of measures based on whether the newspaper is owned by a government institution. If the newspaper is owned by a government institution, we define it as a government-owned media.⁹ Otherwise, it is a non-government-owned media.¹⁰ We then follow the above method to calculate the annual average government-owned media negative tone, $Negative_Government_{i,t}$ and the annual average non-government-owned media negative tone, $Negative_NonGovernment_{i,t}$, in year t.

⁸ The literature usually assumes that all negative words in the dictionary are equally informative and other words are uninformative (Gurun and Butler, 2012; Liu and McConnell, 2013). These assumptions are consistent with previous literature that argues that negative information has more impact than positive information (Tetlock, 2007; Baumeister et al., 2001; Rozin and Royzman, 2001).

⁹ For example, the owner of the *People's Daily* is the *Central Committee of the Communist Party of China*. So, we define it as a government-owned media.

¹⁰ For example, the owner of *Southern Weekly* is the *Nanfang Media Group*, which is not a government institution. Thus, we define it as a non-government-owned media.

3.2.2. Regression model to test H1

To test H1, we extend ordered probit model as in Li and Zhou (2005) by including the variable of negative media news, as shown below:¹¹

$$\text{Turnover}_{i,t} = \alpha_0 + \alpha_1 \text{Negative_avg}_{i,t-1} + \alpha_2 \text{GDPGRW_avg}_{i,t} + \alpha_3 \text{Degree}_{i,t} + \alpha_4 \text{Age}_{i,t} + \alpha_5 \text{Tenure}_{i,t} + \alpha_6 \text{Negative_avg}_{i,t} + \varepsilon_{i,t} \quad (2)$$

Consistent with Li and Zhou (2005), the model is based on official level. $\text{Turnover}_{i,t}$ equals 0 for *termination* (including demotion, retirement, arrested for guilty, resignation, etc.), 1 for a *peer move* when the city official moves to the same position in a different city (e.g., lateral move to the same position in another city), and 2 for a *promotion*.¹² $\text{Negative_avg}_{t-1}$ is the mean value of $\text{Negative}_{i,t}$ of all city SOEs in the city one year before city government officials' turnover. $\text{GDPGRW_avg}_{i,t}$ is the average GDP growth rate over city official's tenure. $\text{Degree}_{i,t}$ is an indicator variable that equals 1 for city officials with a college education and 0 otherwise. $\text{Age}_{i,t}$ is the age of city officials when they end their tenure term. $\text{Tenure}_{i,t}$ is the years a city official has been in the same position. Negative_avg_t is the mean value of $\text{Negative}_{i,t}$ of all city SOEs in the city in the year of city government officials' turnover. H1 predicts α_1 to be negative.

3.2.2. Regression model to test H2

¹¹ When we employ probit model to estimate regressions (1= promotion, and 0=others), our main results do not change.

¹² Using similar definitions as in Li and Zhou (2006) and Piotroski, Wong, Zhang (2013), the turnover event is defined as a promotion when the city official moves to a more senior position than his prior one, which mainly includes: 1) promotion to higher positions at the center (e.g., promotion from city mayor or city party secretary to (vice) minister at the center); 2) promotion to higher-ranking positions at province level (e.g., promotion from city mayor or city party secretary to (vice) provincial party secretary or (vice) provincial governor); 3) promotion within the same city (e.g., promotion from city mayor to city party secretary); 4) promotion to another important city; 5) promotion to a same level government position but with more power (e.g., promotion from city mayor to the provincial party committee secretary general). Important cities refer to those cities whose administrative levels are higher than general cities, defined as vice-province level cities (In Chinese, Fu Sheng Ji Cheng Shi) and provincial capital cities in the political hierarchy in China. These vice-province level cities include: Haerbin, Changchun, Shenyang, Dalian, Jinan, Qingdao, Nanjing, Hangzhou, Qingdao, Xiamen, Guangzhou, Shenzhen, Wuhan, Chengdu, Xi'an.

To test the hypotheses on media slant, we estimate the following regression:

$$\begin{aligned}
 \text{Negative}_{i,t} = & \alpha_0 + \alpha_1 \text{Year-1}_{i,t} + \alpha_2 \text{Year0}_{i,t} + \alpha_3 \text{Year1}_{i,t} + \alpha_4 \text{Size}_{i,t} + \alpha_5 \text{Lev}_{i,t} + \alpha_6 \text{ROA}_{i,t} + \\
 & \alpha_7 \text{Salesgrowth}_{i,t} + \alpha_8 \text{Dturn}_{i,t} + \alpha_9 \text{Sigma}_{i,t} + \alpha_{10} \text{Ret}_{i,t} + \alpha_{11} \text{MB}_{i,t} + \alpha_{12} \text{Ncskew}_{i,t} + \alpha_{13} \text{Iapi}_{i,t} + \\
 & \alpha_{14} \text{Segment}_{i,t} + \alpha_{15} \text{Employees}_{i,t} + \alpha_{16} \text{Emp/Population} + \text{Year Fixed Effects} + \text{Industry Fixed} \\
 & \text{Effects} + \varepsilon_{i,t} .
 \end{aligned} \tag{3}$$

We define several proxies to capture the years around the end of government officials' tenure term. *Year-1* is an indicator variable that equals one if the year is just prior to the end of an official tenure term and zero otherwise. *Year0* is an indicator variable that equals one if the year is the final year of an official tenure term and zero otherwise. *Year1* is an indicator variable that equals one if the year is the beginning of a tenure term and zero otherwise. Consistent with our conjecture, α_1 is predicted to be negative, and α_3 is predicted to be positive.

We also include control variables as in Gurun and Butler (2012) to control for the other effects related to a company's media negative tone. *Size* is defined as the natural log of firm's total assets, capturing the effect of firm size. *Lev* is book leverage, defined as the book value of all liabilities scaled by the book value of assets. *ROA* is return on assets, defined as income before extraordinary items, divided by total assets. *Salesgrowth* is sales growth, defined as the percentage change in sales compared to the prior year sales. *Dturn* is share turnover, the average monthly share turnover for the current fiscal year minus the average monthly share turnover for the previous fiscal year in which monthly share turnover is calculated as monthly trading volume divided by the total number of circulating shares outstanding during the month. *Sigma* is return volatility, calculated as the standard deviation of firm-specific weekly returns over the fiscal year. *Ret* is the mean of firm-specific weekly returns over the last year, multiplied by 100. *MB* is the market-to-book ratio of equity. *Ncskew* is the negative coefficient of skewedness, calculated by taking the negative of the third moment of firm-specific weekly

returns for each sample year and dividing it by the standard deviation of firm-specific weekly returns raised to the third power. This variable is included to control for the effect of a price crash, which Piotroski et al. (2013) find to appear just prior to two major political national events. *Iapi* is information asymmetric price impact, estimated as the yearly median of the Amihud (2002) illiquidity measure (i.e., the daily absolute return divided by the trading volume). *Segment* is the number of business segments reported in the most current annual financial statement. *Employees* is the natural log of the number of firm employees. *Emp/Population* is calculated as the number of employees (people) scaled by the population of the city's firm headquarters (10,000 people).

3.2.3. Regression model to test H3

To test the hypothesis that the negative news ratio is related to future returns, we implement both univariate and multivariate tests. As illustrated in Fig. 1, we divide our sample of firms into two groups for each month: Group 1 includes stocks under the administration of city officials approaching tenure end within one year before this month; and Group 2 includes stocks under the administration of city officials beginning a new tenure within one year after this month. We then further sort firms within each group into three portfolios by the tercile of each stock's monthly media negative tone value, *Negative*. Portfolio 1 contains stocks in the lowest percentile with the least negative news and portfolio 3 contains stocks in the highest percentile with the most negative news.

We then compute the return in the following month on a zero-investment portfolio that longs the stocks (1) under the administration of city officials ending tenure in the next year and, (2) with the least negative news (*Portfolio 1 of Group 1*), and short the stocks (1) under the administration of city officials beginning tenure in the last year and (2) with the most negative

news (*Portfolio 3 of Group 2*). Following Chan (2003) and Fang and Peress (2009), we compute the equal-weighted return of six portfolios using individual stock returns in the next month.

Repeating this every month in our sample period yields a time series of returns for this zero-investment portfolio. The resulting time-series returns on the long-short portfolio are then regressed on risk factors as shown in model (4):

$$Return_{i,t} = \alpha + \gamma_0 Mkt-rf_{i,t} + \gamma_1 SMB_{i,t} + \gamma_2 HML_{i,t} + \gamma_3 MOM_{i,t} + \varepsilon_{i,t} \quad (4)$$

Regression results that estimate one-, three-, and four-factor monthly alphas are reported. *Mkt-rf* is the Chinese market return in excess of the risk-free rate. This rate is calculated as the composite Shanghai and Shenzhen market return, weighted by tradable market capitalization minus the demand deposit rate. *SMB* is the Chinese size-factor return and *HML* is the Chinese value-factor return, which are formed according to the methodology of Fama and French (1993) and Carhart (1997). We obtain the time-series returns on *Mkt-rf*, *SMB*, and *HML* from the RESSET database. *MOM* is the Chinese momentum-factor return. Following Choi, Jin, and Yan (2013), we construct the momentum-factor portfolio *MOM* following the methodology described on Kenneth French's website. We calculate the 50th percentile total market capitalization at month end $t-1$ and the 30th and 70th percentile cumulative stock returns over months $t-12$ to $t-2$, using the entire Shanghai/Shenzhen stock universe to calculate percentile breakpoints. The intersections of these breakpoints delineate six tradable market-capitalization-weighted sub-portfolios for which we compute month t returns. *MOM* is the equally weighted average of the two recent-winner sub-portfolio returns minus the equally weighted average of the two recent-loser sub-portfolio returns.

4. Results

4.1. Descriptive Statistics

Panel A of Table 1 presents the descriptive sample statistics to test H1. The mean and median of *Turnover* is 1.537 and 2 respectively, suggesting that in general most city officials are promoted in the next tenure term. The mean of *Negative_avg_{t-1}* and *Negative_avg_t* is 0.033 and 0.078 respectively. The results imply that the amount of negative news is lower before tenure yearend than in the turnover year.

Panel B of Table 1 presents the descriptive sample statistics to test H2. The mean and median of *Negative* is 0.057 and -0.063 respectively, suggesting that the distribution of negative news ratio is left skewed. The standard deviation of *Negative* is 0.543, suggesting a huge variation within the negative news ratio, which can improve the power of our test.

Panel C of Table 1 reports mean/median comparison of the negative news ratio among three years around the tenure term end. We find that the mean ratio for *Year-1*, *Year0*, and *Year1* are -0.003, 0.088, and 0.235 respectively. This obviously shows that relative to the tenure term end and the beginning of a new tenure term, the media is less likely to release bad news about the companies under city officials' control in the year just prior to their tenure term, when they are likely to be evaluated. This univariate result is consistent with our conjecture that local officials are more likely to suppress bad news about their economic performance during this critical political period.

4.2. Regression Results

4.2.1. Base models

Table 2 presents the regression results of model (2). In column (1), the coefficient on *Negative_avg_{t-1}* is -0.676 (*z*-statistics = -4.77), consistent with the prediction of H1 that city officials with more negative media news about SOEs under their administration are less likely to be promoted. In columns (2) and (3), we find that the results are robust after other factors affecting official promotion are controlled.

Table 3 presents the regression results for model (3). In column (1), we test the change of news tone around the end of a mayor's tenure. The coefficient on *Year-1* is -0.139 (t-statistics = -4.04), consistent with our hypothesis that in the year prior to their tenure end, officials are more likely to suppress negative news. Such results also appear in columns (2) and (3), which include the tenure of the party secretary. The coefficient on *Year0* is insignificant for all three columns.¹³ This result suggests that during the transition year, the news release does not differ from other years except in the year before tenure end and in the beginning year of new tenure.¹⁴

The coefficients on *Year1* are 0.169 (t-statistics = 1.98), 0.190 (t-statistics = 2.14), and 0.174 (t-statistics = 2.34) for the three columns, respectively. This shows that negative news increases after a tenure term begins, which is consistent with the notion that even officials at the beginning of their new tenure term have a strong incentive to initially lower their performance benchmark. Another possible explanation is that although the negative news is likely to be suppressed during their evaluation period (just before tenure end), some related news might still be released in the future when the situation is more relaxed. This is analogous to the "reversal" phenomena of corporate opportunistic disclosure around major market events, such as earnings management surrounding IPOs and SEOs, disclosure around stock repurchases, and potential insider trading (see, e.g., Teoh, Welch, and Wong, 1998a, 1998b; Cheng and Lo, 2006; Brockman, Khurana, and Martin, 2008).

Similarly, as indicated in Chart A of Fig. 2, the negative ratios are quite similar in the years $t-2$, t and $t+2$. This finding implies that except for the years in which the officials tend to manipulate media news, the media news in general can maintain a stable level. However, in the year $t-1$, the negative news ratio is substantially low, close to zero, and in the year $t+1$, the

¹³ Our results are robust after the four municipalities (Beijing, Shanghai, Tianjin, Chongqing) are removed from the sample.

¹⁴ In the sample of non-SOEs, we estimate the model (2) and the coefficient on *Negative_avg_{t-1}* is significant; in the estimation of model (3), we also don't have the significant coefficient on *Year-1*. These results are consistent with the notion that government officials are primarily responsible to the SOEs, and only the news of SOEs under their control are used for promotion decision. Thus officials are only willing to incur costs in suppressing the negative media news about SOEs.

negative news is abnormally high, almost three times that of the normal level, consistent with our predictions.

Table 4 reports the trading return based on the news tone of media prior to the end of city officials' tenure. Panel A shows that for the firms whose governing officials approach tenure end within one year before this month (Group 1), the average monthly return for those with the least negative news is 1.5%; for those with median negative news, the average is 1.4%; and for those with most negative news, the average is 1.1%. For the firms whose governing officials just begin a new tenure within one year after this month (Group 2), the average monthly return for those with the least negative news is 1.4%; for those with median negative news, the average is 1.1%; and for those with most negative news, the average is 0.5%. If investors long the firms with the least negative news in Group 1 and show the firms with most the negative news in Group 2, they can earn a monthly return of 1%, which is an abnormal return and 12% if annualized, which is also statistically significant (t-statistics = 2.62). Similarly, the results based on median return also show statistically and economically significant abnormal returns.¹⁵ These results suggest that the information distortion due to media suppression around the end of official tenure can lead to significant abnormal returns. These findings are also consistent with the notion that the information environment in China is poor and thus investors have very limited information channels through which to correct their perceptions that have been formed by distorted information (Piotroski and Wong, 2011).

In order to fill out the factors affecting firm returns, we estimate the abnormal returns by regressing the portfolio return on the Carhart four factors. As shown in Panel B of Table 3, the constant is 0.010 (t-statistic = 2.29) in column (1), which only controls the market return. In columns (2) and (3), the constant is 0.009, significant at the 0.05 level. The coefficient magnitude is similar to that of the return for the portfolio trading strategy. So the information

¹⁵ Although the transaction costs to short stock is relatively high, our test is based on portfolio strategy that shows the abnormal return that can be earned, and the effect on market efficiency.

distortion due to media suppression for political purposes can significantly impair the market efficiency, consistent with our conjecture.

4.2.2. Government-owned media vs. non-government-owned media

Table 5 presents the effects of negative news from different media ownership on bureaucrats' promotions. The coefficient on *Negative_Gov_avg_{t-1}* is -0.340 (z-statistic = -2.84), and the coefficient on *Negative_NonGov_avg_{t-1}* is -0.068 (z-statistic = -0.62). These results suggest that only the negative news from government-owned media makes a difference in a promotion decision. This is consistent with the notion that government superiors rely more on the news from government-owned media when they form their perception about bureaucrats' competence and make their promotion decisions accordingly. Thus we predict that government officials care more about the news from government-owned media and only suppress negative news from these media.

Table 6 shows how media ownership impacts the effect of political incentives on the news tone. In columns (1) and (2), the coefficients on *Year-1* are -0.249 (t-statistics = -4.05) and -0.025 (t-statistic = -0.84), respectively, suggesting that only negative news from media owned by government is suppressed. Chart B of Fig. 2 also shows a similar pattern. The negative news ratio from the government-owned media fluctuates much more than the non-government-owned media. In particular, the negative news from government-owned media reverses not only in the year $t+1$, but also in year t , although not very statistically significant. These findings suggest that it is less costly for officials to influence government-owned media, the information value of news from government-owned media may be higher for superiors' evaluation, and at the same time, these media have stronger incentives help the officials.

Although it is not surprising that government-owned media is more likely to sacrifice objectivity to benefit officials, it is still surprising that media not owned by the government is

not significantly affected by government officials even when the political incentives are great, because of the perception that the Chinese government is very powerful and wants to control all the propagation channels. In addition, how much the public believes the news from government-owned media is also under debate. On the one hand, people may realize the substantial slant from government-owned media and tend to discount the news. On the other hand, the information environment in Chinese market is very poor due to limited availability (Piotroski and Wong, 2011); thus investors would like to use such biased information when they choose how to invest. Therefore, we investigate this issue by examining whether the low negative news ratio from government-owned media is correlated with an abnormal future return.

Table 7 presents the abnormal returns in regards to the bias of government-owned and non-government-owned media. As Panel A shows, if investors long the Group 1 firms with the least negative news ratio based on government-owned media and short the Group 2 firms with the highest negative news ratio, they can generate a 1.6% monthly return, or 19.2% per annum. This is both economically and statistically significant. However, if investors impose this trading strategy based on non-government-owned media, then the portfolio return is 0.006, statistically insignificant. These results suggest that investors take the manipulated negative news ratio from government-owned media for granted and cannot determine a media slant. For the non-government-owned media, they are generally objective overall, as the information is likely to be already priced already and thus their trading strategy cannot make a profit. Consistently, in Panel B, we only find significant abnormal returns after controlling Carhart (1997) risk-factors portfolios that are formed based on government-owned media.

4.2.3. The impact of government officials' differential career concerns

In order to strengthen our argument on politician career concerns, we partition the officials into two groups: those with strong career concerns and those without career concerns. We argue

that only officials with strong career concerns in their career path are likely to manipulate the media slant, because they are more affected by the negative media news. Table 8 shows the impact of government officials' differential career concerns on the relationship between negative media news and the likelihood of promotion.

We argue that when city officials end their tenure term at age 59 or older, they are unlikely to be promoted in their next job and do not have career concerns, so negative news is unlikely to affect their promotion. On the contrary, the officials ending their tenure term before age 59 and have the opportunity to be promoted in the next tenure term have strong career concerns, and can be affected by negative news.

We set an indicator variable, *AGE59*, which is equal to one if the city official's tenure term ends at 59 or older, and zero otherwise. In column (1), the coefficient on *Negative_avg_{t-1}* is -1.139 (t-statistic = -5.52), consistent with the prediction that the negative news about SOEs under government administration reduces the promotion likelihood of bureaucrats with career concerns. The coefficient on *Negative_avg_{t-1}* AGE59* is 0.967 (z-statistic = 1.99), suggesting that the negative impact of negative news on a promotion significantly weakens for officials without career concerns. The sum of the coefficients on *Negative_avg_{t-1}* and *Negative_avg_{t-1}* AGE59* is -0.172 and insignificant statistically, suggesting that officials without career concerns are unlikely to be affected by the negative news in cases of promotion.

Consistent with the findings in Chen et al. (2005) and Li and Zhou (2005) and Xu (2011), we also argue that if the average cities' GDP growth over the officials' tenure term ranks in the province's top two among all the officials, the former are more likely to be promoted in the next tenure term; thus they have strong career concerns when they approach the end of the tenure term. We predict that the impact of negative news on the likelihood of promotion is stronger for the officials who have top city GDP growth than for other officials. Accordingly, we define an indicator variable, *TOPTWO*, which is equal to one if the average GDP growth

ranks in the province's top two and zero otherwise. In column (2), the coefficient on $Negative_avg_{t-1} * TOPTWO$ is 0.967 (z-statistic = 1.99), consistent with our prediction that the negative impact of negative news on a promotion is more pronounced for the officials with career concerns.

In addition, the coefficients on $AGE59$ is negative and positive on $TOPTWO$. Both are significant at the 0.10 level. These are consistent with our argument that officials' ending their tenure term before age 59 and those whose city GDP growth ranks among a province's top two are more likely to be promoted and thus have stronger career concerns.

Table 9 shows how the differential career concerns affect the change of the news tone around the end of city government officials' tenure. The results show that only those officials whose tenure terms end before age 59 and whose city GDP growth ranks among the top two in the province significantly suppress negative news media before their tenure term ends.¹⁶ This is consistent with our notion that only when officials have strong career concerns will they tend to suppress negative news.

If just officials with strong career concerns are likely to manipulate the media slant, then we expect that only firms under these administration officials will be related to news-based abnormal results in the future. Table 10 presents the abnormal returns for the news media partitioned by officials' career concerns. As Panel A shows, if investors long the Group 1 firms with the least negative news ratio and short the Group 2 firms with highest negative news ratio for government officials with strong career concerns, then investors can earn a return that is significant at the 0.10 level. But if investors impose this trading strategy to news media related to officials without strong career concerns, then they cannot make significant returns. In the return regression controlling Carhart (1997) risk-factor portfolios, Panel B and Panel C show significant results of abnormal returns related to officials with career concerns, but insignificant

¹⁶ We find similar results when we choose the officials whose city GDP growth ranks among the top one in the province.

abnormal returns related to officials without career concerns. These results are consistent with our argument that only those officials with career concerns have an incentive to manipulate the media tone, which can impair market informational efficiency.

Overall, Tables 8, 9, and 10 suggest that officials trade off their benefits and costs when they decide to suppress negative news and thus not all officials have sufficient incentives, specifically from career concerns, to control the media. If the media is not affected by political career concerns, then market informational efficiency is not significantly impaired. These results imply that media intervention may be costly for at least local officials in nowadays China, which is not as perceived previously.

4.2.5. Robustness tests

4.2.5.1. Controlling for effects from other information channels.

Our results have shown that city officials suppress negative news through media propagation intervention. However, one alternative explanation for our findings is that the city officials suppress SOEs to disclose negative news, and thus the media has less news to investigate; consequently we can observe a negative correlation between negative media news ratio and political incentives. Similar to prior studies such as Shroff, Sun, White, and Zhang (2013), we control for the information content of firm disclosure by including firms' forecast frequency and the sum of market return around all the forecasts during the year.

Other important factors to control are analyst following and institutional holding. It is possible that the government official intervenes due to analyst forecasts and recommendations or institutional behaviors that can be news sources. If the media does not observe adverse institutional trading or changes in analyst behavior, they may write less negative news about a

company. Similar to the prior studies, we include analyst following and institutional holding to control for these effects.¹⁷

An alternative explanation for the less negative news is due to less media news overall (positive news or negative news) about the companies when officials approach the end of their tenure term. Then it is not because of the suppression of only negative news. So in the robustness test, we also control for the volume of news in the period, *MC* which is equal to natural log of one plus the number of newspaper articles on a firm at year *t*.¹⁸

As column (1) of Table 11 shows, after the effects from corporate disclosure, analyst forecast, and institutional behaviors are controlled, the coefficient on *Year-1* is -0.140 (t-statistic = -4.59), leading to the same conclusion: that is, that nearing the end of city officials' tenure terms, the media is less likely to release negative news about local SOEs.

4.2.5.2. Filtering out the effect of CEOs' turnover of SOEs around the officials' turnover

At the end of their tenure, CEOs have incentives to release more good news and little bad news, as this can favorably influence their careers and future compensation. This phenomenon is commonly referred to as the “horizon problem” (e.g., Dechow and Sloan, 1991; Murphy and Zimmerman, 1993; Ali and Zhang, 2013). If the media is regarded as objective, then less bad news disclosed by the firms may drive less negative media news about these firms. So if the CEOs' turnover of SOEs are around the same time as officials' turnover, then our findings can be attributed to career concerns of CEOs of SOEs rather than career concerns of city officials.

In order to rule out this alternative explanation, we exclude the firms whose CEOs have turnovers around the turnover of officials who administer these firms, and redo the regression

¹⁷ The data on management forecasts in the RESSET database starts from 2002. The data on analyst coverage in the CSMAR database and institutional holdings in the WIND database starts from 2003 and 2004, respectively. So we further control these four information channels in the regressions from 2004 to 2011.

¹⁸ In an additional test, we also find that there are more positive media news when officials approach end of tenure term, consistent with the notion that officials manipulate the media slant by suppressing the negative news, but encourage more positive news during their evaluation period when their career concerns are stronger. The untabulated results are up on to request.

as in Table 3. The column (2) of Table 11 shows that only 67 firms are removed due to the turnover overlap, suggesting that these firms should significantly affect our results. We find that the results on our interest variables are robust in the subsample, thus our argument on career concerns still holds.

5. Conclusion

This paper finds that government officials are more likely to be promoted to higher positions if the listed State-Owned-Enterprises (SOEs) under their control are covered by less negative news toward the end of their current terms. Moreover, when city officials approach the end of their current term, they are more likely to suppress negative news about local SOEs under their control, and they do it through controlling the media channel that is directly owned by the government. Such suppression is likely to reverse at the beginning of a new term. If investors long firms with less negative news under outgoing officials and short firms with more negative media news under incoming officials, they can generate a 12% annualized abnormal return. These results are consistent with the notion that career concerns play an important role when bureaucrats decide to manipulate the media by suppressing negative news.

We also argue that the bureaucrats with stronger career concerns are more likely to be impacted by negative media news to a greater extent and more likely to suppress the media news when they approach the end of their tenure terms. Our results show that negative news hurts more if the officials are strong contenders for promotion, and these officials are in turn more likely to suppress negative news.

Overall, our findings suggest that bureaucrats' career concerns are an important factor in distorting information dissemination on the Chinese capital market. Furthermore, such distortion is not entirely offset by other information channels as it significantly weakens the overall informational efficiency of the market.

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Appendix: Variable definitions

Variable	Definition	Sources
<i>Negative</i>	<p>The negative words as a percentage of total words. We first calculate the fraction of negative words to the total words in each news story covering listed firms ($Negative_{i,t,m}$). Then we standardize $Negative_{i,t,m}$ by the mean and standard deviation of the negative words ratio over the prior year using the following equation,</p> $Negative_{i,t,m} = \frac{Negative_{i,t,m} - \overline{Negative_{i,t-1,m}}}{std(Negative_{i,t-1,m})}$ <p>Finally, we get the annual negative words ratio, $Negative_{i,t}$, by taking the arithmetic average of $Negative_{i,t,m}$ over year t.</p>	CCND
<i>Negative_Government</i>	Based on whether the newspaper is owned by a government institution, we partition the media into two groups, government-owned media and non-government-owned media. If the newspaper organizer is a government institution, we define it as a government-controlled media. Otherwise, it is a non-government-owned media. Then, we calculate the annual average government-controlled media tone, $Negative_Government$, following the method to calculate $Negative$.	CCND
<i>Negative_NonGovernment</i>	The annual average non-government-owned media tone, $Negative_NonGovernment$, following the method to calculate $Negative$.	CCND
<i>Turnover</i>	$Turnover$ equals 0 for a <i>termination</i> (including demotion, retirement, arrested for guilty, resignation, etc.), 1 for a <i>peer move</i> when the city official moves to a different city in the same position (e.g., lateral move to the same position in another city), and 2 for a <i>promotion</i> .	Hand-collected
<i>Year-1</i>	Indicator variable that equals one if the year is just prior to the end of official tenure term and zero otherwise.	Local Government Website
<i>Year0</i>	Indicator variable that equals one if the year is the final year of official tenure term and zero otherwise.	Local Government Website
<i>Year1</i>	Indicator variable that equals one if the year is the beginning of a tenure term and zero otherwise.	Local Government Website
<i>AGE59</i>	Indicator variable. $AGE59$ is equal to one if the city official ends the tenure term at 59 or older and zero otherwise.	Local Government Website
<i>TOPTWO</i>	Indicator variable. If the average GDP growth ranks top two in the same province, $TOPTWO=1$, otherwise, $TOPTWO=0$.	CEInet
<i>Size</i>	The natural log of the firm's total assets.	CSMAR
<i>Lev</i>	The book value of all liabilities scaled by the book value of assets.	CSMAR
<i>ROA</i>	Income before extraordinary items, divided by total assets.	CSMAR
<i>Salesgrowth</i>	The percentage change in sales compared to the prior year's sales	CSMAR
<i>Dturn</i>	The average monthly share turnover for the current fiscal year minus the average monthly share turnover for the previous fiscal year, where monthly share turnover is calculated as monthly trading volume divided by the total number of circulating shares outstanding during the month.	CSMAR
<i>Sigma</i>	The standard deviation of firm-specific weekly returns over the fiscal year.	CSMAR
<i>Ret</i>	The mean of firm-specific weekly returns over the fiscal year, times 100.	CSMAR
<i>MB</i>	Ratio of market value of the firm to book value of equity.	CSMAR
<i>Ncskew</i>	The negative coefficient of skewedness, calculated by taking the negative of the third moment of firm-specific weekly returns for each sample year and dividing it by the standard deviation of firm-specific weekly returns raised to the third power. In detail, we first estimate firm-specific weekly returns, denoted W , as the natural log of one plus the residual return from the expanded market model regression for each firm and year:	CSMAR

	$R_{i,t} = \alpha_i + \beta_1 R_{m,t-2} + \beta_2 R_{m,t-1} + \beta_3 R_{m,t} + \beta_4 R_{m,t+1} + \beta_5 R_{m,t+2} + \varepsilon_{i,t} \quad (A1)$ <p>where $R_{i,t}$ is the return on stock i in week t and $R_{m,t}$ is the value-weighted A-share market return on week t. The firm-specific weekly returns for firm i in week t are measured by $W_{i,t} = Ln(1 + \varepsilon_{i,t})$, where $\varepsilon_{i,t}$ is the residual in Eq. (A1). Then, we calculate the <i>NCSKEW</i> for each firm i in year t as</p> $NCSKEW_{i,t} = -\left[n(n-1)^{3/2} \sum W_{i,t}^3 \right] / \left[(n-1)(n-2) (\sum W_{i,t}^2)^{3/2} \right] \quad (A2)$ <p>A higher value for <i>NCSKEW</i> corresponds to a stock being more “crash prone” and vice versa.</p>	
<i>Iapi</i>	Information asymmetric price impact, <i>Iapi</i> is the yearly median of the Amihud (2002) illiquidity measure (i.e., daily absolute return divided by the trading volume).	CSMAR
<i>Segment</i>	Number of business segments reported in the most current annual financial statement	WIND
<i>Employees</i>	The natural log of the number of firm employees.	CSMAR
<i>Emp/Population</i>	The number of employees (people) scaled by the population of the city firm headquarters (10,000 people).	CEIne/ Annual report of company
<i>Analyst</i>	The number of analysts who issued earnings forecasts for a firm during year t	CSMAR
<i>Institution</i>	The number of shares owned by an institutional investor divided by the total number of outstanding shares at the end of calendar year.	WIND
<i>Frequency</i>	The annualized number of management forecast. We assume that the forecast is zero if a firm is covered in the database but does not issue a forecast in year t .	RESSET
<i>Sum_CAR</i>	The aggregate cumulative abnormal returns for the three-day window [-1, 1] around forecast announcements in year t . When a firm provides no forecasts, we set the variable as zero.	RESSET
<i>MC</i>	The natural log of one plus the number of newspaper articles on a firm at year t .	CCND
<i>GDPGRW_avg</i>	The average GDP growth rate over city official’s tenure.	CEInet
<i>Degree</i>	An indicator variable that equals 1 for city officials with a college education and zero otherwise.	Local Government Website
<i>Age</i>	The age of city officials when they end their tenure term.	Local Government Website
<i>Tenure</i>	The years a city official has been in the same position.	Local Government Website

Table 1: Descriptive Statistics

Panel A presents descriptive statistics for the city SOEs over the period 2001 to 2011. Panel B describes the mean and median for media negative tone, $Negative_{i,t}$, around local government official turnover, $Year-1$, $Year0$ and $Year1$. All variables are as defined in the Appendix. Statistical tests for differences in means and equality of medians for $Negative_{i,t}$ across Year-1, Year 0 and Year 1 are also presented. ***, ** and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.

Panel A: Descriptive statistics for the test of turnover and media slant

<u>Variable</u>	<u>Mean</u>	<u>Median</u>	<u>Std</u>
<i>Turnover</i>	1.537	2.000	0.717
<i>Negative_avg_{t-1}</i>	0.033	-0.015	0.618
<i>GDPGRW_avg</i>	0.137	0.138	0.037
<i>Degree</i>	0.875	1.000	0.331
<i>Age</i>	53.094	53.000	4.193
<i>Tenure</i>	3.966	4.000	1.692
<i>Negative_avg_t</i>	0.078	0.000	0.462
N		447	

Panel B: Descriptive statistics for the test of media slant and officials' approaching tenure end

<u>Variable</u>	<u>Mean</u>	<u>Median</u>	<u>Std</u>
<i>Negative</i>	0.057	-0.063	0.543
<i>Size</i>	21.564	21.480	0.885
<i>Lev</i>	0.517	0.534	0.179
<i>ROA</i>	0.029	0.029	0.057
<i>Salesgrowth</i>	0.188	0.151	0.323
<i>Dturn</i>	0.012	0.008	0.329
<i>Sigmat</i>	0.045	0.042	0.019
<i>Ret</i>	-0.115	-0.085	0.096
<i>MB</i>	2.976	2.345	2.246
<i>Iapi</i>	1.794	0.998	1.996
<i>Segment</i>	2.490	2.000	1.810
<i>Employees</i>	7.633	7.664	1.146
<i>Emp/Population</i>	2.882	1.259	4.910
N		4,289	

Panel C: Mean and Median $Negative_{i,t}$ for year -1, 0, +1 and other

	Year -1	Year 0	Year 1	Others	t-value / Wilcoxon z-value		
					Year-1: Year 0	Year 0: Year 1	Year -1: Year 1
Mean comparison	-0.003	0.088	0.235	0.086	-3.53***	-3.61***	-6.39***
Median comparison	-0.033	-0.043	0.022	-0.098	-1.84*	-2.39**	-3.22***

Table 2: The Impact of the Media Tone on City Government Officials' Turnover

This table presents the ordered probit regression results of the impact of the media news tone on the turnover of city government officials. The dependent variable is *Turnover*, which equals 0 for a *termination* (including demotion, retirement, arrested for guilty, resignation, etc.), 1 for a *peer move* when the city official moves to a different city with the same position (e.g., lateral move to the same position in another city), and 2 for a *promotion*. More details about these three types of turnover can be found in the Appendix. The independent variable is *Negative_avg_{t-1}*, which is the mean value of *Negative_{i,t}* of all city SOEs in the city one year before city government officials' turnover. Other variables are as defined in the Appendix. Year fixed effects are included in the regressions. z-statistics based on robust standard errors are presented in parentheses. ***, ** and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.

	(1)	(2)	(3)
<i>Negative_avg_{t-1}</i>	-0.676*** (-4.77)	-0.651*** (-4.55)	-0.649*** (-4.52)
<i>GDPGRW_avg</i>		2.333 (1.17)	2.333 (1.17)
<i>Degree</i>		0.394** (2.13)	0.392** (2.09)
<i>Age</i>		-0.108*** (-6.06)	-0.108*** (-6.05)
<i>Tenure</i>		0.024 (0.62)	0.024 (0.62)
<i>Negative_avg_t</i>			-0.013 (-0.10)
N	447	447	447
Pseudo R ²	0.04	0.12	0.12

Table3: Change of Media Tone around the End of City Government Officials' Tenure

This table presents the regression results of the change of media news tone around the end of city government officials' tenure. The dependent variable is *Negative_{it}*. The sample period is from 2001–2011. *Year-1*, *Year0*, and *Year1*, are three indicator variables that equal one if the firm-year falls in the year preceding official tenure end, the year of official tenure end, and the year following official tenure end, respectively, and zero otherwise. Year and industry fixed effects are included in the regressions. All variables are as defined in the Appendix. *t*-statistics derived using clustered standard errors by city are presented in parentheses. ***, ** and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.

	Mayor (1)	Party Secretary (2)	All (3)
<i>Year-1</i>	-0.139*** (-4.04)	-0.164*** (-4.92)	-0.153*** (-6.26)
<i>Year0</i>	-0.058 (-1.64)	0.001 (0.03)	-0.031 (-1.12)
<i>Year1</i>	0.169** (1.98)	0.190** (2.14)	0.174** (2.34)
<i>Size</i>	-0.041 (-1.55)	-0.059*** (-2.67)	-0.049** (-2.17)
<i>Lev</i>	-0.053 (-0.54)	-0.029 (-0.28)	-0.043 (-0.44)
<i>ROA</i>	-0.485 (-1.56)	-0.447 (-1.48)	-0.478 (-1.64)
<i>Salesgrowth</i>	-0.070 (-1.47)	-0.075 (-1.52)	-0.072 (-1.58)
<i>Dturn</i>	-0.010 (-0.17)	0.017 (0.27)	0.001 (0.03)
<i>Sigma</i>	2.175 (0.44)	1.698 (0.34)	1.832 (0.38)
<i>Ret</i>	-0.279 (-0.33)	-0.175 (-0.20)	-0.246 (-0.29)
<i>MB</i>	0.013 (1.54)	0.015* (1.70)	0.014* (1.81)
<i>Ncskew</i>	-0.030 (-1.16)	-0.026 (-1.00)	-0.028 (-1.12)
<i>Iapi</i>	0.025 (1.61)	0.026 (1.60)	0.025* (1.68)
<i>Segment</i>	0.003 (0.30)	0.005 (0.51)	0.004 (0.40)
<i>Employees</i>	-0.007 (-0.32)	-0.029 (-1.44)	-0.018 (-0.89)
<i>Emp/Population</i>	0.004 (0.77)	0.010** (1.98)	0.007 (1.38)
<i>Constant</i>	0.305 (0.51)	1.371*** (2.62)	1.097** (2.08)
Year indicators	included	included	included
Industry indicators	included	included	included
N	2160	2129	4289
Adj-R ²	0.09	0.09	0.10

Table 4: Trading Returns Based on the Tone of the Media Prior to City Government Officials' Tenure End

Each month, we divided our sample of firms into two groups: Group 1 with stocks whose governing officials approach tenure end within one year before this month and Group 2 with stocks whose governing officials just begin a new tenure within one year after this month. We then further sort firms within each group into three portfolios by the tercile of each stock's monthly media negative tone value, *Negative*. Portfolio 1 contains stocks in the lowest percentile and portfolio 3 contains stocks in the highest percentile. Following Fang and Peress (2009), we compute the equal-weighted return of six portfolios using individual stock returns in the next month. Panel A presents average monthly returns for portfolios. Panel B presents the multivariate results. The resulting time-series returns on the long-short portfolio are regressed on risk factors. Regression results that estimate one-, three-, and four-factor monthly alphas are reported. Mkt-*rf* is the Chinese market return in excess of the risk-free rate, SMB is the Chinese size-factor return, HML is the Chinese value-factor return, and MOM is the Chinese momentum-factor return. The sample includes 130 months. t-statistics derived using Newey and West (1987) standard errors are presented in parentheses. ***, ** and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively. We also compute the return difference between different portfolios and their t-statistics for return differences in means.

Panel A: Univariate Results

	Portfolio Return			Low-High	t-value	Group1_Low	t-value
	Low	Medium	High			- Group2_High	
Group1	0.015	0.014	0.011	0.004	0.404	0.010	2.62***
Group2	0.014	0.011	0.005	0.009	0.697		

Panel B: Multivariate Results

	(1)	(2)	(3)
<i>Mkt-rf</i>	0.049 (0.95)	0.042 (0.78)	0.043 (0.81)
<i>SMB</i>		0.166 (1.46)	0.124 (1.19)
<i>HML</i>		0.031 (0.18)	0.026 (0.15)
<i>MOM</i>			-0.104 (-1.32)
<i>Constant</i>	0.010** (2.29)	0.009** (2.25)	0.009** (2.29)
N	130	130	130
Adj-R ²	0.01	0.03	0.04

**Table 5: The Impact of the Media Tone on the Turnover of City Government Officials:
The Effect of Media Ownership**

This table presents the ordered probit regression results of the impact of media ownership on the relationship between media news tone and the turnover of city government officials. The dependent variable is *Turnover*, which equals 0 for a *termination* (including demotion, retirement, arrested for guilty, resignation, etc.), 1 for a *peer move* when the city official moves to the same position as his original one (e.g., lateral move to the same position in another city), and 2 for a *promotion*. More details about these three types of turnover can be found in the Appendix. The independent variables are *Negative_Gov_avg_{t-1}* and *Negative_NonGov_avg_{t-1}*, which are the mean value of *Negative_Government_{i,t}* and *Negative_NonGovernment_{i,t}* of all city SOEs in the city one year before city government officials' turnover, respectively. Other variables are as defined in the Appendix. Year fixed effects are included in the regressions. *z*-statistics based on robust standard errors are presented in parentheses. ***, ** and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.

<i>Negative_Gov_avg_{t-1}</i>	-0.340*** (-2.84)
<i>Negative_NonGov_avg_{t-1}</i>	-0.068 (-0.62)
<i>GDPGRW_avg</i>	1.887 (0.72)
<i>Degree</i>	0.503** (2.08)
<i>Age</i>	-0.128*** (-5.51)
<i>Tenure</i>	0.091* (1.78)
<i>Negative_Gov_avg_t</i>	-0.026 (-0.26)
<i>Negative_NonGov_avg_t</i>	-0.044 (-0.27)
N	284
Pseudo R ²	0.13

**Table 6: Change in Media Tone around the End of City Government Officials' Tenure:
The Impact from Media Ownership**

This table presents the regression results of the change of the tone in government-owned media news tone in regards to the city SOEs around the end of city government officials' tenure. Based on whether the media is directly owned by a government institution, we partition media into two groups, government-owned and non-government-owned. We then calculate the annual average media tone, *Negative_Government* and *Negative_NonGovernment*, respectively. The sample period is from 2001–2011. *Year-1*, *Year0*, *Year1*, are three indicator variables that equals one if the firm-year falls in the year preceding official tenure end, the year of official tenure end, and the year following official tenure end respectively, and zero otherwise. Year and industry fixed effects are included in the regressions. All variables are as defined in the Appendix. t-statistics derived using clustered standard errors by city are presented in parentheses. ***, ** and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.

Dependent Variable =	(1) <i>Negative_Government</i>	(2) <i>Negative_NonGovernment</i>
<i>Year-1</i>	-0.249*** (-4.05)	-0.025 (-0.84)
<i>Year0</i>	-0.021 (-0.30)	0.039 (1.31)
<i>Year1</i>	0.016 (0.14)	0.066 (1.05)
<i>Size</i>	-0.112* (-1.96)	-0.058** (-2.33)
<i>Lev</i>	0.108 (0.40)	-0.081 (-0.64)
<i>ROA</i>	0.265 (0.33)	-0.669* (-1.82)
<i>Salesgrowth</i>	-0.130 (-1.33)	-0.064 (-1.32)
<i>Dturn</i>	0.081 (0.54)	0.003 (0.03)
<i>Sigma</i>	3.321 (0.28)	6.364 (1.14)
<i>Ret</i>	-0.079 (-0.04)	0.319 (0.32)
<i>MB</i>	0.023 (1.51)	0.008 (0.91)
<i>Nc skew</i>	-0.023 (-0.42)	-0.057* (-1.78)
<i>Iapi</i>	0.024 (0.78)	0.017 (0.93)
<i>Segment</i>	0.024 (1.10)	-0.000 (-0.03)
<i>Employees</i>	0.044 (0.90)	-0.019 (-0.89)
<i>Emp/Population</i>	-0.002 (-0.17)	0.007 (1.39)
<i>Constant</i>	2.164* (1.87)	0.603 (1.00)
Year indicators	included	included
Industry indicators	included	included
N	2159	4124
Adj-R ²	0.05	0.10

Table 7: Trading Returns Based on the Tone of Government-Owned Media Prior to the End of City Government Officials' Tenure

Each month, we divided our sample of firms into two groups: Group 1 with stocks whose governing officials are approaching tenure end within one year before this month, and Group 2 with stocks whose governing officials just began a new tenure within one year after this month. In Panel A, we further sort firms within each group into three portfolios by the tercile of each stock's monthly government-owned media negative tone value, *Negative_Government*, and the tercile of each stock's monthly non-government-owned media negative news tone value, *Negative_NonGovernment*, respectively. Portfolio 1 contains stocks in the lowest percentile and portfolio 3 contains stocks in the highest percentile. Panel A presents average monthly returns for portfolios. Following Fang and Peress (2009), we compute the equal-weighted return of these portfolios using individual stock returns in the next month. We also compute the return difference between different portfolios and their t-statistics for return differences in means. Panel B presents the multivariate results. The resulting time-series returns on the long-short portfolio are regressed on risk factors. Regression results that estimate one-, three-, and four-factor monthly alphas are reported. Mkt-rf is the Chinese market return in excess of the risk-free rate, SMB is the Chinese size-factor return, HML is the Chinese value-factor return, and MOM is the Chinese momentum-factor return. t-statistics derived using Newey and West (1987) standard errors are presented in parentheses. ***, ** and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.

Panel A: Univariate Results

Sorted by Monthly Average		Portfolio Return					Group1_Low -Group2_high	t-value
		Low	Medium	High	Low-High	t-value		
<i>Negative_Government</i>	Group1	0.020	0.015	0.013	0.007	0.50	0.016	2.24**
	Group2	0.020	0.015	0.004	0.016	1.24		
<i>Negative_NonGovernment</i>	Group1	0.016	0.014	0.013	0.003	0.22	0.006	0.43
	Group2	0.015	0.013	0.010	0.005	0.37		

Panel B: Multivariate Results

<i>Sorted by</i>	<i>Negative_Government</i>			<i>Negative_NonGovernment</i>		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Mkt-rf</i>	0.058 (0.55)	0.065 (0.61)	0.068 (0.62)	0.062 (0.73)	0.070 (0.83)	0.070 (0.82)
<i>SMB</i>		0.196 (0.96)	0.131 (0.65)		0.034 (0.23)	0.039 (0.25)
<i>HML</i>		-0.246 (-0.85)	-0.250 (-0.87)		-0.151 (-0.59)	-0.151 (-0.58)
<i>MOM</i>			-0.160 (-1.16)			0.012 (0.10)
<i>Constant</i>	0.016** (2.03)	0.016** (1.98)	0.016** (2.01)	0.003 (0.43)	0.003 (0.52)	0.003 (0.51)
N	127	127	127	130	130	130
Adj-R ²	0.01	0.03	0.03	0.01	0.01	0.01

Table 8: The Impact of Government Officials' Differential Incentives on the Relationship between Media Slant and Turnover of City Government Officials

This table presents the ordered probit regression results of the impact of government officials' differential incentives on the relationship between media tone and turnover of city government officials. The dependent variable is *Turnover*, which equals 0 for a *termination* (including demotion, retirement, arrested for guilty, resignation, etc.), 1 for a *peer move* when the city official moves to the same position in a different city (e.g., lateral move to the same position in another city), and 2 for a *promotion*. More details about these three types of turnover can be found in the Appendix. The independent variable is *Negative_avg_{t-1}*, which is the mean value of *Negative_{i,t}* of all city SOEs in the city one year before city government officials' turnover. Other variables are as defined in the Appendix. Year fixed effects are included in the regressions. *z*-statistics based on robust standard errors are presented in parentheses. ***, ** and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.

	(1)	(2)
<i>Negative_avg_{t-1}</i>	-1.139*** (-5.52)	-0.216** (-1.97)
<i>Negative_avg_{t-1}</i> * <i>AGE59</i>	0.967** (1.99)	
<i>AGE59</i>	-0.694* (-1.79)	
<i>Negative_avg_{t-1}</i> * <i>TOPTWO</i>		-0.563** (-1.99)
<i>TOPTWO</i>		0.243* (1.64)
<i>GDPGRW_avg</i>	1.907 (0.57)	0.309 (0.15)
<i>Degree</i>	0.493 (1.04)	0.398** (2.05)
<i>Age</i>	-0.144*** (-3.27)	-0.127*** (-6.50)
<i>Tenure</i>	0.050 (0.85)	0.032 (0.78)
<i>Negative_avg_t</i>	-0.027 (-0.17)	0.017 (0.21)
N	447	447
Pseudo R ²	0.13	0.15

Table 9: Change of Media News Tone around the End of City Government Officials' Tenure: The Impact of Government Officials' Differential Incentives

This table presents the regression results of the impact of government official differential incentives on the change of media news tone in regards to city SOEs around the end of city government officials' tenure. Column (1) presents the results on the impact of the "59-years-old effect." According to the Chinese government promotion practice, when a city government official ends her/his tenure term at 59 or older, she/he is unlikely to be promoted and is likely to retire. AGE59 is equal to one if the city official ends the tenure term at 59 or older and zero otherwise. Column (2) presents the results on the impact of GDP growth ranking in the same province. We first calculate the average GDP growth rate over officials' tenure. Then, we rank the average GDP growth across different officials in the same province at the same year when there is at least one official approaching tenure end. If the average GDP growth ranks among the top two in the same province, then TOPTWO=1; otherwise, TOPTWO=0. The sample period is from 2001–2011. *Year-1*, *Year0*, *Year1*, are three indicator variables that equals one if the firm-year falls in the year preceding official tenure end, the year of official tenure end, and the year following official tenure end respectively, and zero otherwise. Year and industry fixed effects are included in the regressions. All variables are as defined in the Appendix. t-statistics derived using clustered standard errors by city are presented in parentheses. ***, ** and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.

	(1) The Impact of the "Age 59 Effect"		(2) The Impact of GDP Growth Ranking in the Same Province	
	AGE59=1	AGE59=0	TOPTWO=1	TOPTWO=0
<i>Year-1</i>	-0.050 (-1.32)	-0.165*** (-5.48)	-0.139*** (-3.98)	-0.065 (-1.41)
<i>Year0</i>	0.123* (1.91)	-0.051 (-1.61)	-0.036 (-0.88)	0.081 (1.13)
<i>Year1</i>	0.258 (1.30)	0.169** (2.26)	0.286*** (2.65)	0.069 (0.85)
<i>Size</i>	-0.085* (-1.83)	-0.049* (-1.91)	-0.019 (-0.60)	-0.105*** (-2.61)
<i>Lev</i>	-0.009 (-0.05)	-0.018 (-0.17)	0.087 (0.66)	0.035 (0.18)
<i>ROA</i>	-0.030 (-0.06)	-0.532* (-1.72)	-0.466 (-1.26)	-0.511 (-1.05)
<i>Salesgrowth</i>	-0.053 (-0.93)	-0.097* (-1.90)	-0.012 (-0.15)	-0.100 (-1.53)
<i>Dturn</i>	-0.191 (-1.46)	0.032 (0.55)	0.056 (0.69)	-0.103 (-1.58)
<i>Sigma</i>	14.933* (1.98)	2.849 (0.55)	0.890 (0.14)	19.377** (2.44)
<i>Ret</i>	2.176 (1.46)	0.061 (0.07)	-0.645 (-0.56)	3.671*** (2.67)
<i>MB</i>	-0.021* (-1.92)	0.016* (1.82)	0.003 (0.23)	-0.002 (-0.14)
<i>Ncskew</i>	-0.063* (-1.93)	-0.030 (-1.06)	0.018 (0.56)	-0.101*** (-2.97)
<i>Iapi</i>	0.019 (0.88)	0.029** (2.00)	0.024 (1.54)	0.028 (1.55)
<i>Segment</i>	-0.001 (-0.04)	0.005 (0.50)	0.004 (0.27)	-0.005 (-0.33)
<i>Employees</i>	-0.030 (-1.33)	-0.018 (-0.73)	0.003 (0.09)	-0.030 (-1.11)
<i>Emp/Population</i>	-0.000 (-0.00)	0.008 (1.57)	0.002 (0.27)	0.009* (1.72)
Constant	1.784 (1.64)	0.508 (0.89)	0.193 (0.28)	1.903** (2.42)
Year indicators	included	included	included	included
Industry	included	included	included	included

indicators				
N	928	3361	1916	2373
Adj-R ²	0.04	0.09	0.09	0.03

Table 10: Trading Returns Based on the Media Tone Prior to the End of City Government Officials' Tenure: Sorted by AGE59 and TOPTWO

Each month, we first divided our sample of firms into two groups based on AGE59 (AGE59=0 and AGE59=1) and TOPTWO (TOPTWO=0 and TOPTWO=1), respectively. Within these four groups, we then further divided our sample of firms into two groups: Group 1 with stocks whose governing officials approach their tenure end within one year before this month, and Group 2 with those stocks whose governing officials just began a new tenure within one year after this month. Finally, we sort firms within each group into three portfolios by the tercile of each stock's monthly media negative tone value, *Negative*. Portfolio 1 contains stocks in the lowest percentile and portfolio 3 contains stocks in the highest percentile. Following Fang and Peress (2009), we compute the equal-weighted return of six portfolios using individual stock returns in the next month. Panel A presents average monthly returns for portfolios by sorting on AGE59 and TOPTWO. Panel B and Panel C present the multivariate results by sorting on Age59 and TOPTWO, respectively. The resulting time-series returns on the long-short portfolio are regressed on risk factors. Regression results that estimate one-, three-, and four-factor monthly alphas are reported. Mkt-*rf* is the Chinese market return in excess of the risk-free rate, SMB is the Chinese size-factor return, HML is the Chinese value-factor return, and MOM is the Chinese momentum-factor return. The sample includes 130 months. t-statistics derived using Newey and West (1987) standard errors are presented in parentheses. ***, ** and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively. We also compute the return difference between different portfolios and their t-statistics for return differences in means.

Sorted by Monthly Average		Portfolio Returns					Group1_Low -Group2_high	t-value
		Low	Medium	High	Low-High	t-value		
<i>AGE59=0</i>	Group1	0.024	0.021	0.019	0.005	0.44	0.018	1.79*
	Group2	0.018	0.016	0.006	0.012	1.11		
<i>AGE59=1</i>	Group1	0.020	0.018	0.010	0.010	0.74	0.008	0.62
	Group2	0.022	0.021	0.012	0.010	0.87		
<i>TOPTWO=0</i>	Group1	0.025	0.024	0.021	0.004	0.37	0.009	0.73
	Group2	0.024	0.022	0.016	0.008	0.63		
<i>TOPTWO=1</i>	Group1	0.024	0.020	0.014	0.010	0.84	0.014	1.88*
	Group1	0.020	0.018	0.010	0.010	0.087		

Panel B: Multivariate Results Sorted by AGE59

<i>Sorted by</i>	<i>AGE59=0</i>			<i>AGE59=1</i>		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Mkt-rf</i>	-0.032 (0.64)	-0.032 (0.63)	-0.031 (0.63)	0.194** (2.22)	0.197** (2.14)	0.195** (2.14)
<i>SMB</i>		-0.006 (0.06)	-0.011 (0.11)		-0.050 (0.32)	0.007 (0.04)
<i>HML</i>		-0.001 (0.01)	-0.002 (0.01)		-0.018 (0.07)	-0.011 (0.04)
<i>MOM</i>			-0.013 (0.16)			0.147 (0.98)
Constant	0.011*** (2.83)	0.011*** (2.85)	0.011*** (2.85)	0.007 (1.00)	0.008 (0.97)	0.007 (0.93)
N	130	130	130	119	119	119
Adj-R ²	-0.032	-0.032	-0.031	0.194**	0.197**	0.195**

Panel C: Multivariate Results Sorted by TOPTWO

<i>Sorted by</i>	<i>TOPTWO=0</i>			<i>TOPTWO=1</i>		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Mkt-rf</i>	0.003 (0.05)	0.015 (0.27)	0.015 (0.27)	0.005 (0.07)	-0.019 (0.28)	-0.016 (0.24)
<i>SMB</i>		-0.059 (0.49)	-0.060 (0.51)		-0.017 (0.18)	-0.076 (0.73)
<i>HML</i>		-0.160 (0.76)	-0.160 (0.76)		0.400** (1.98)	0.396** (2.01)
<i>MOM</i>			-0.003 (0.03)			-0.143* (1.72)
Constant	0.004 (0.77)	0.005 (0.91)	0.005 (0.91)	0.014*** (2.75)	0.013*** (2.62)	0.013*** (2.66)
N	128	128	128	129	129	129
Adj-R ²	0.003	0.015	0.015	0.005	-0.019	-0.016

Table11: Change in Media Tone around the End of City Government Officials' Tenure: Robustness Checks

This table presents the regression results of robustness checks. In Panel A, we report the regression results of the change in media news tone around the end of city government officials' tenure including five additional control variables: *Analyst*, *Institutional*, *Frequency*, *Sum_ARs* and *MC*. The sample period is from 2004–2011. In Panel B, we report the regression results of the change in media tone around the end of city government officials' tenure after deleting the firms whose CEO or Chairman's ending year is same as officials' ending year. The sample period is from 2001–2011. The dependent variable is *Negative_{it}*. *Year-1*, *Year0*, *Year1*, are three indicator variables that equals one if the firm-year falls in the year preceding official tenure end, the year of official tenure end, and the year following official tenure end respectively, and zero otherwise. Year and industry fixed effects are included in the regressions. All variables are as defined in the Appendix. t-statistics derived using clustered standard errors by city are presented in parentheses. ***, ** and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively.

	(1)	(2)
<i>Year-1</i>	-0.140*** (-4.59)	-0.130*** (-4.88)
<i>Year0</i>	-0.015 (-0.52)	-0.027 (-0.88)
<i>Year1</i>	0.226** (2.43)	0.156* (1.83)
<i>Analyst_{t-1}</i>	-0.003 (-0.87)	
<i>Institution_{t-1}</i>	-0.216** (-2.07)	
<i>Frequency</i>	0.001 (0.12)	
<i>Sum_CAR</i>	-0.075 (-0.40)	
<i>MC</i>	0.049** (2.14)	
<i>Size</i>	-0.024 (-0.71)	-0.012 (-0.51)
<i>Lev</i>	-0.087 (-0.76)	-0.152 (-1.37)
<i>ROA</i>	-0.510 (-1.48)	-0.871*** (-2.77)
<i>Salesgrowth</i>	-0.096* (-1.96)	-0.075 (-1.37)
<i>Dturn</i>	0.015 (0.24)	-0.076 (-1.32)
<i>Sigma</i>	6.829 (1.20)	2.538 (0.45)
<i>Ret</i>	0.557 (0.58)	-0.361 (-0.36)
<i>MB</i>	0.018** (2.20)	0.021** (2.18)
<i>Nc skew</i>	-0.030 (-0.92)	-0.040 (-1.50)
<i>Iapi</i>	0.027 (1.41)	0.030* (1.93)
<i>Segment</i>	0.011 (1.02)	0.005 (0.43)
<i>Employees</i>	-0.012 (-0.61)	-0.004 (-0.19)
<i>Emp/Population</i>	-0.000 (-0.07)	0.003 (0.60)

<i>Constant</i>	0.341	0.177
	(0.47)	(0.34)
Year indicators	included	included
Industry indicators	included	included

N	3242	3175
Adj-R ²	0.12	0.09

Fig. 1. Design of portfolio strategy.

Portfolio strategy:

We long the stocks in Portfolio 1 of Group 1 and short the stocks in Portfolio 3 of Group 2, and then hold for one month after portfolio formation.

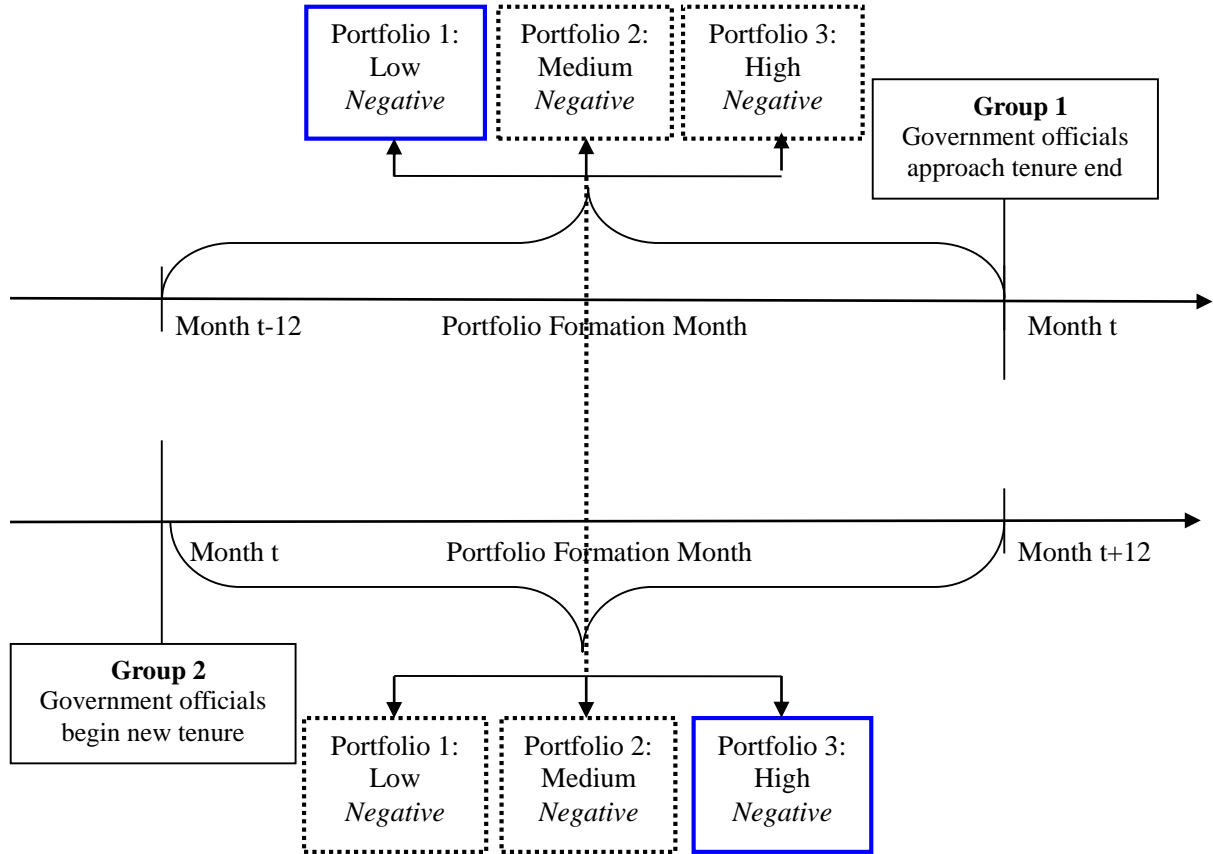


Fig. 2: News media tone around officials' turnover.

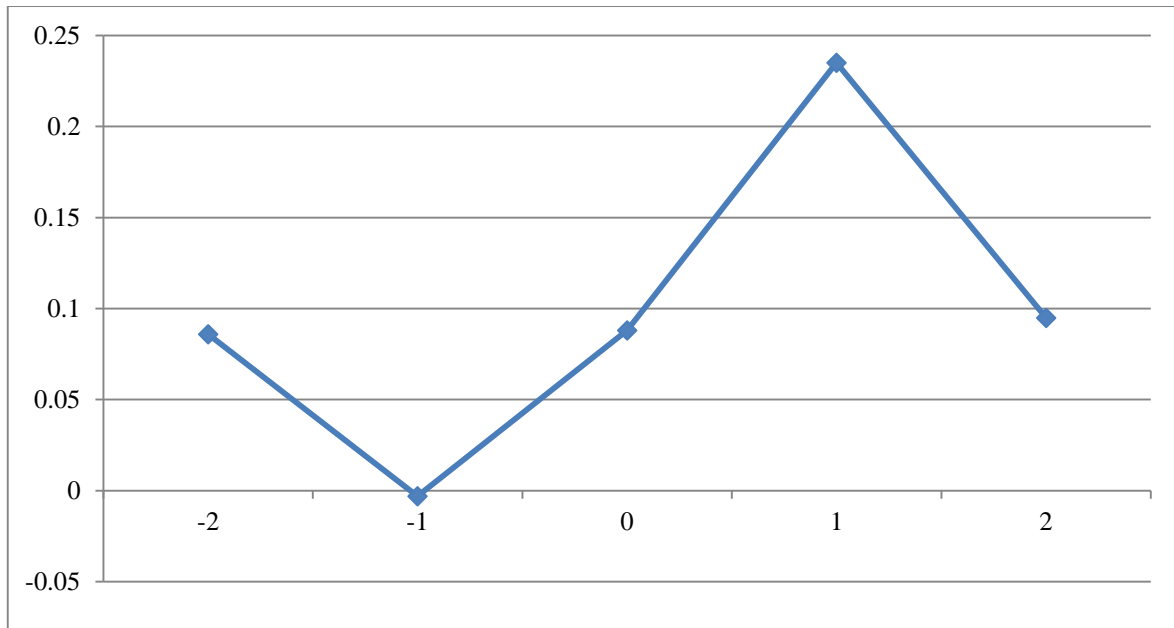


Chart 1: Negative News Ratio from All Media

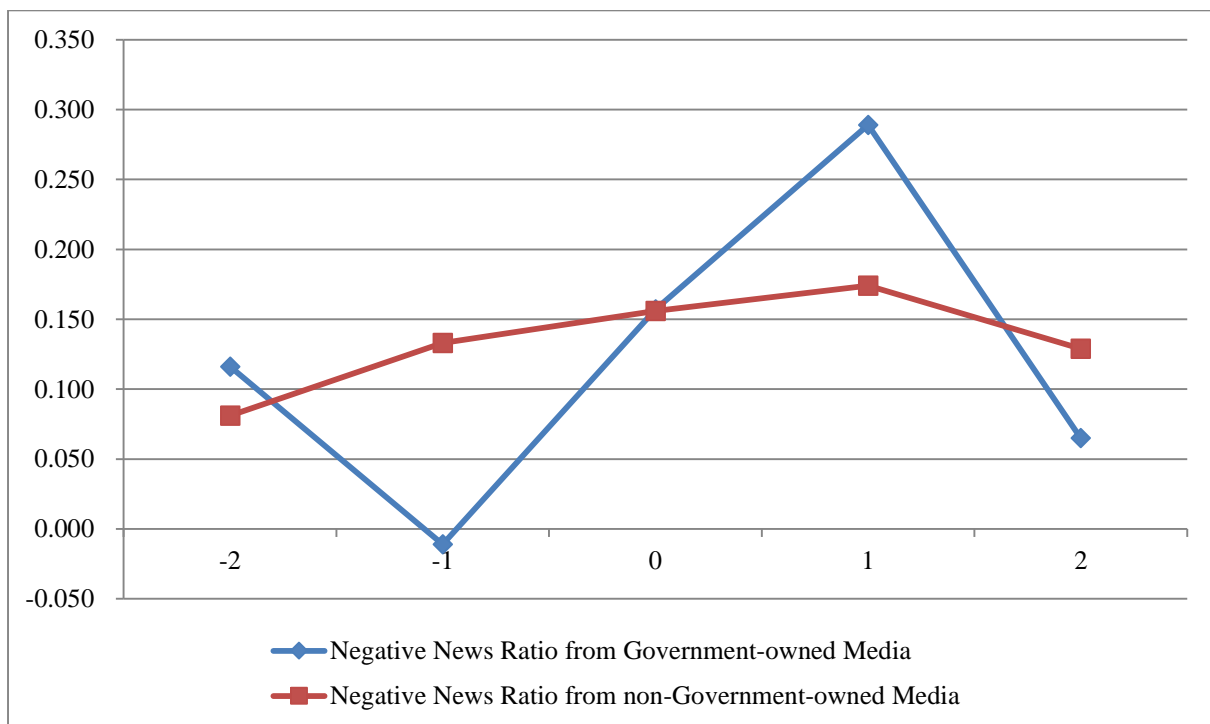


Chart 2: Negative News Ratio from Government-owned and Non-government-owned Media