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Chinese bank regulatory compliance and its connection with CEO political ties, ownership, and board gender

Jiao Ji ^a

Paul B. McGuinness ^{b, (*)}

Hanxiong Zhang ^c

^a Assistant professor in Finance, Sheffield University Management School, The University of Sheffield, Conduit Road, Sheffield S10 1FL, The United Kingdom (jiao.ji@sheffield.ac.uk).

^b Chair in Accounting and Finance, Sheffield University Management School, The University of Sheffield, Conduit Road, Sheffield S10 1FL, The United Kingdom (p.b.mcguinness@sheffield.ac.uk) & Emeritus Professor, Department of Finance, The Chinese University of Hong Kong (mcguinne@baf.cuhk.edu.hk).

^c Senior Lecturer in Finance, Bangor Business School, Bangor University, College Road, Bangor LL57 2DG, The United Kingdom (hanxiong.zhang@bangor.ac.uk) & Department of Finance, International Business School Suzhou, Xi'an Jiaotong-Liverpool University, Suzhou, China.

(*) Corresponding author.

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Chinese bank regulatory compliance and its connection with CEO political ties, ownership, and board gender

The present study investigates the link between CEO political connections and regulatory bank reprimands in China. We identify a resilient inverse relation. We explore this relationship in terms of a Chinese bank's (1) ownership characteristics, (2) risk-taking behavior, and (3) board attributes. The non-criminal enforcements we consider occur with considerable frequency and usually serve as reprimands. However, the visibility of such reprimands suggests significant risk of reputational loss for politically connected bank leaders. Study findings indicate a strong inverse association between such enforcements and a CEO's *state-level* political connections. This relation weakened following China's 2013 anti-graft reforms. We also report lower reprimand rates in banks with female board members. Likewise, lower rates are apparent in banks combining CEO political connections with concentrated ownership. However, such positive effects principally relate to non-SOE banks.

Keywords:

Regulatory bank reprimands.
Political connections.
China's 2013 anti-graft reforms.
Stock ownership.
Board gender and monitoring.
Limits on risk-taking.

JEL classification:

M14; G21; G34

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1 Introduction

The present study assesses the role of CEO political connections in relation to regulatory compliance in China. Within the unique institutional and regulatory setting of China, bank CEOs build reputation capital through demonstration of prudential success. Bank reprimands are thus injurious to the reputation of both lender and appointed leader. The present study treads new ground by exploring the scope and scale of bank reprimands in relation to CEO political connections. The reprimands in question arise with notable frequency across China's banking sector. They stand in stark contrast to criminally-based fraud actions. The regulatory reprimands we consider are *non-criminal* enforcements. As a remedy against substandard banking practice, bank reprimands potentially serve in pre-empting prudential mismanagement. Their purpose and design are thus radically different to more-invasive fraud actions, which arise infrequently and at huge cost.¹

The present study aims to unravel the complexities surrounding the inverse link between CEO political connections and bank reprimands. The major contribution of the present inquiry is its examination of this relation in terms of a bank's (1) ownership, (2) risk-taking behavior, and (3) board attributes. Through our focus on bank ownership, we offer insight into a politically connected CEO's influence over regulators (Stigler, 1971; Berkman et al., 2010; Lu et al., 2015; Cao et al., 2021; McCarten et al., 2022). We assess this behavior in terms of China's 2013 anti-graft initiative. The swift implementation of the reforms served as an exogenous shock event (Hope et al., 2020; Hu et al., 2020; Liu and Wang, 2021). Among other things, the anti-graft reforms directed listed firms' excise of politically-affiliated independent board officers.

We scrutinize bank reprimands available from *China National Administration of Financial Regulation* postings for the period 2010-2020. Such data enable determinations on the characteristics of the infractions and the identity of the censured bank branches. We identify a marked *increase* in the number of regulatory reprimands imposed on state-controlled banks in the post-reform period. Such an outcome is consistent with a weakening of regulatory capture effects (Ping, 2013). In broad terms, findings are consistent with state-owned banks' greater compliance with government directives (Cao et al., 2021) in the post-reform period.

We also assess regulatory reprimands in the context of the institutional development of a bank's home province. This line of inquiry extends account of China's uneven legal and market development (Jia et al.,

¹. In respect to the present study sample, many banks receive a number of branch-level reprimands over the course of the study period. Implementation of resulting remedial actions is generally swift. In contrast, bank fraud investigations are rare but protracted. Bank reprimands are thus distinctly different to corporate fraud actions. Nonetheless, our analysis extends the China corporate fraud literature (Cumming et al., 2015; Luo et al., 2020; Shi et al., 2020; and Liang et al., 2022) to a new context (i.e., to banks) and to a new application (i.e., to lighter-touch, regulatory reprimands).

2019; Gao et al., 2021; and Liu et al., 2022). Identification of misconduct may therefore arise more often in banks headquartered in developed provinces. In specific terms, banks in more institutionally developed provinces likely engage in stronger internal monitoring. Our findings strongly support this narrative.

The second potential channel of influence derives from a CEO's ability to limit risk-taking activities (Crocì & Petmezas, 2015; Ferris et al., 2017; Li et al., 2023). In this story, a politically connected CEO minimizes regulatory scrutiny by curbing business risks. Such a strategy potentially protects board members' political capital. However, greater state protection of politically-affiliated firms (Hung et al., 2017) might encourage *greater* risk-taking. Present study results suggest little difference in the business risk characteristics of politically-affiliated and non-politically affiliated banks. We thus contend that the inverse political connections-regulatory reprimand link is not an analog of lower risk-taking behavior.

The third channel in protecting political risk capital arises through a bank's internal governance. In this context, we assess the role of large block shareowners. More generally, we assess how board monitoring lessens regulatory scrutiny. For politically connected officers, such monitoring enhances the political prospects of incumbent officers (Cao et al., 2021). It also raises the economic standing of the targeted firm (Hung et al., 2015; Hung et al., 2017). We assert that gender-diverse boards' greater scrutiny of management (Adams & Ferreira, 2009), and stronger business ethics (Arnaboldi et al., 2021), lessen regulatory attention. Present study findings are consistent with such an account. We identify fewer reprimands for banks with gender-diverse boards. However, board gender diversity imparts limited effect in moderating the political connections-regulatory reprimand relation.

Overall, regulatory reprimands are less common in banks with politically connected CEOs. We offer three plausible reasons for an inverse link between CEO political connections and regulatory reprimands. These reasons relate to (1) regulatory capture (or state ownership), (2) the management of business risk, and (3) board monitoring. In respect to (3), the protection of political capital and *guanxi* support a politically-connected CEO's greater monitoring and desire to limit regulatory sanctions.

The present analysis sheds new light on the role of political influence in moderating regulatory reprimands. As a major exogenous shock, China's 2013 anti-graft reforms weakened the inverse political connections-regulatory reprimand link for state-controlled banks. We also investigate how ownership concentration, board gender diversity, and a bank's immediate legal/market environment moderate the relation between CEO political connections and regulatory reprimands.

In summary, study findings go well beyond the political connections-firm performance dyad (Fan et al., 2007; Liang et al., 2013; Hung et al., 2015; Hung et al., 2017; Chen et al., 2018). By focusing on regulatory compliance, we also extend the separate literatures on Chinese banks' political connections (Hung et al. 2017) and misconduct (Nguyen et al., 2016; Arnaboldi et al., 2021).

2. Background and development of hypotheses

2.1 Background

Regulatory enforcements serve a pivotal role in China in preempting more series breaches. Such breaches pose seismic international risks, especially given the size of Chinese banks. As illustration, PRC-domiciled lenders account for ten of the world's 30 largest banks (S&P Global, 2023). Chinese banks also increasingly boast international outreach, due to offshore M&A activities and the far-reaching "Belt-and-Road Initiative".² The stability of China's banking system is therefore central to global growth rates. Oversight of Chinese banks' non-performing loan positions are pivotal in ensuring such stability (Katsiampa et al., 2022). Reprimands issued by China's regulators constitute an early stage warning for the remediation of incipient mis-management. As such reprimands arise at branch level, the requisite corrective action normally follows speedily and at low cost. The China National Administration of Financial Regulation (NAFR) has a plethora of tools available to ensure compliance with the reprimands issued (see Section 3.1 of this paper for details).

The remedial regulatory measures we examine are therefore starkly different to fraud actions. Unlike corporate fraud investigations, bank reprimands constitute light-touch measures designed to pre-empt later stage, protracted reorganizational measures. Fraud actions, which often follow a chain of unidentified infringements, trigger huge legal and reorganizational costs. For the relevant regulatory authorities, such occurrences highlight failings in the detection of earlier signals of mis-management. Accordingly, the findings and issues in the present inquiry are separate and distinct from those relevant to corporate fraud. Nonetheless, the present inquiry adds context to the China corporate fraud literature (Cumming et al., 2015; Luo et al., 2020; Shi et al., 2020; and Liang et al., 2022). As a pre-emptive mechanism for the avoidance of later-stage fraud investigations, reprimands serve a pivotal role in prudential bank management.

Section 3.1 of this paper offers a finely-grained account of the banking regulatory reprimands relevant to this study. In summary, such reprimands arise with notable frequency and with little or no penalty cost.

2.1 Development of hypotheses

Before assessing possible transmission mechanisms, we first seek to establish the significance of an inverse political connections-regulatory reprimand relation. Based on global analysis, Chen et al. (2018) reveal

². The regulatory reprimands we consider also serve a role in limiting non-performing loans (NPLs). They also potentially preempt latent risks, which left unchecked raise the specter of subsequent and more invasive intervention by the China Banking Insurance and Regulatory Commission. Direct intervention in China's banking system has nonetheless arisen on a few occasions. The stabilization of three distressed small banks in 2019 offers one such example (Cheng, 2019). Intervention in relation to the Shengjing Bank's huge loan position with the embattled Evergrande property group (FT, 2021) is another.

political connections shield poorly-performing banks from regulatory investigation. In respect to China, Chen et al. (2017) show that political connections support firm value in privately controlled entities. However, they find the opposite for state-controlled firms.

Our focus on the political connections-regulatory reprimand relation extends the relevant literature on corporate fraud (Shi et al., 2020; and Fulmer et al., 2022) in two important ways. First, we address reprimands, which are far less invasive, but arise with much greater frequency. Second, we extend deliberations to consideration of bank misconduct.

The present study's first hypothesis asserts that political connections are most effective in averting regulatory censure when held at state level. State-level connections thus overarch those present at province and city levels. Accordingly, Hypothesis 1 contends,

H1: The inverse link between a CEO's political connections and regulatory reprimands is strongest (weakest) when connections are at state- (city- or province-) level.

Local political connections are often central to a Chinese bank's profitability. A bank CEO's proximity to, and understanding of, local borrowers' creditworthiness boosts financial returns (Hung et al., 2017). By galvanizing returns, localized political connections therefore offer value in averting regulatory attention. However, there are limits to the extent to which local connections protect against regulatory intrusion. These limits have, more recently, been tested by judicial reforms at city- and county-levels. Such reforms constitute a major threat to "local protectionism" (Liu et al., 2022).

In the initial phase, branch-level bank infractions are likely to alert city- and province-based regulators. Nonetheless, a CEO's state-level political connections may serve in warding-off regulatory oversight at the local level. A bank's *state*-level political connections may also act as a deterrent against borrower default (see, for example, Gao et al., 2021).

In summary, rejection of Hypothesis 1 might arise if city- and province-level political connections are sufficient to avert the scrutiny of local regulators. Indeed, bank reprimands almost always arise at branch level, and are therefore instigated by regulatory officials from local (i.e., city- or provincial) regulatory units. Notwithstanding this point, support for Hypothesis 1 would arise if a CEO's state-level connections deflect the scrutiny of local regulatory officers. Our empirical analysis therefore offers insight into the relative importance of localized versus state-level CEO political connections on regulatory oversight.

We also assess the specific channels of influence that are most salient to the political connections-regulatory reprimand association. Within the specific context of Chinese commercial banks, we consider three channels. We assert that state ownership, limits on risk-taking, and board monitoring each offer a potential role in circumscribing regulatory oversight. The first channel emphasizes regulatory capture. In this

story, fewer regulatory enforcements arise due to a leading officer's ability to influence regulators (Lu et al., 2015; McCarten et al., 2022). Consistent with such outcomes, Berkman et al. (2010) show that regulatory change generates weaker stockholder wealth effects in politically entrenched firms.

With specific reference to regulatory capture, we spotlight China's 2013 anti-graft campaign. The reforms constituted a *quasi* exogenous shock (Hope et al., 2020; Hu et al., 2020). Among other things, the anti-graft campaign mandated the excise of politically connected independent directors (for background discussion, see Hu et al., 2020). The announcement of the reforms in late 2013 led to their almost immediate implementation in early 2014 (Hope et al., 2020, p. 1023). In this light, the reforms constituted a major jolt to banking practice necessitating a rapid and almost immediate structural response from banks. While listed firms served as the target, non-listed firms were also *likely* awakened to the prospect greater scrutiny. As illustration, Zhang and Liu (2022) report a spike in the *detection* of corporate violations post-2013.

We assert that the 2013 anti-graft reforms weakened bank CEOs' political connections. However, greater insulation from the reforms may have been evident in state-owned entities (Pan and Tan, 2020). Such entities were perhaps less dependent on independent directors for state-based connections. For non-state-controlled banks, the picture may have been quite different.³ The excise of politically-connected independent officers may have exposed such entities to greater scrutiny. On this basis, Hypothesis 2a asserts an increase in the frequency of reprimands for non-state-controlled banks in the post-2013 period.

H2a: The 2013 anti-graft reform triggered an *increase* in the number of reprimands imposed on non-state-controlled banks.

As a counter argument, the 2013 reforms may have triggered disproportionately greater oversight of state-controlled (than non-state-controlled) entities. Such a narrative reflects the nature of China's anti-graft reforms which continued beyond the initial 2013 round of reforms. In particular, the state significantly ramped-up its oversight of China's most strategic state-controlled entities (Miller, 2015). The profile, visibility, and scale of some of China's leading state-controlled banks lends credence to such an account.

The counter-narrative to Hypothesis H2a resonates with a "showcasing" principle (Ferguson et al. 2002). In this argument, China's state-controlled entities face pressures to demonstrate compliance with regulatory directives. Moreover, the retention of a state-connected CEO's political connections depends on such compliance (Cao et al., 2021). Accordingly, an alternative view to Hypothesis 2a is one in which regulatory

³. For such non-state-controlled banks, the majority of shares held are in private hands. However, given the mix of exchange and non-exchange-listed banks in the sample, private ownership in this context does not necessarily imply a bank's non-exchange-listed status. Some non-state-controlled banks in the sample are exchange listed, while others are not.

oversight shifts disproportionately to the state sector in the post-reform period. Such an outcome would suggest weaker regulatory capture in state-controlled banks, culminating in a sharp rise in reprimands.

In deepening investigation of regulatory capture, we also examine the legal and market development (Jia et al., 2019) of a bank's home province. We assert that the legal and market norms of a lender's headquartered-province condition behavior throughout its whole branch network. As argued in Lin et al. (2016), anti-corruption initiatives are more effective in institutionally-developed settings.

Based on the foregoing, our next hypothesis asserts a higher (lower) number of enforcements for banks with politically connected CEOs in more (less) developed regions. Hypothesis 2b thus asserts,

H2b: Regulatory reprimand rates are higher (lower) in politically-connected banks with headquarters in more (less) institutionally-developed provinces.

The second channel of influence for an inverse political connections-regulatory reprimand relation relates to bank risk. Politically connected firms likely face lower levels of business risk. There are several possible reasons for such an outcome. First, government-based assurances and implicit guarantees alleviate pressures to outperform the market. Second, the additional public scrutiny facing politically connected CEOs may force banks to "play-it-safe" (Gropp et al., 2011). Such a strategy supports the maintenance of low non-performing loan (NPL) rates (McGuinness & Keasey, 2010; Katsiampa et al., 2022). Third, political connections enable disproportionate access to low-risk projects (Goldman et al., 2009).

Government support in relation to resources and revenue streams thus weakens politically connected firms' incentives to seek-out high-risk, high-reward ventures. In accordance with such arguments, our third hypothesis contends lower levels of risk in banks with politically-connected CEOs.

We also posit a further channel in explaining the inverse political connections-regulatory reprimand link. This channel emphasizes the role of ownership in encouraging compliance with regulatory edicts, directives, audits, and governance codes. In this context, we stress the importance of large shareholders and ownership concentration in supporting such compliance. As argued in Cao et al. (2021), the preservation of political capital necessitates support of government and regulatory intervention. We argue that such capital is at greater levels for larger shareowners and therefore in banks with more concentrated ownership. As argued in Jiang & Kim (2020, 2024), the presence of ownership concentration potentially limits (exacerbates) Type I (Type II) agency costs. Type II agency costs emerge from conflicts between major and minority equity holders (Megginson et al., 2014; Jiang & Kim, 2020). The first part of our next hypothesis, Hypothesis 3a, asserts that concentrated ownership supports board monitoring and regulatory compliance. Specifically,

H3a: Regulatory reprimands appear lower in banks that combine politically connected CEOs with more *concentrated ownership*.

We also argue that regulatory compliance is increasing in the gender diversity of bank boards. For instance, Adams and Ferreira (2009) highlight the enhanced disclosure and attentiveness of female directors. Arnaboldi et al. (2021) highlight a gender-diverse board's greater focus on business ethics. They report lower rates of identified bank misconduct in gender-inclusive European banks. A swathe of empirical evidence highlights an assortment of monitoring effects wrought by gender-inclusive boards (Cumming et al., 2015; Wahid, 2019; Karavitis et al., 2021; and Aguir et al., 2023). Another strand of the literature emphasizes female board members' search for, and dissemination of, firm-specific information (Gul et al., 2011). Weaker political connections (Fan et al., 2007), and career concerns (see, for example, Gu, 2020), underlie female board members' orientation toward board monitoring. As informed by the literature, greater gender balance fosters stronger engagement with best practice banking models.

Accordingly, Hypothesis 3b asserts,

H3b: Regulatory reprimands appear lower in banks that combine politically connected CEOs with more *gender-diverse boards*.

Through analysis of women in the regulatory reprimand process, we complement and add context to the literature on the gender-corporate fraud nexus (Cumming et al., 2015b; Wahid, 2019; and Wang et al., 2022).

3. Data and methodology

3.1. Data and sample selection

The sample-frame for the present inquiry is 2010-2020. Selection of this data period reflects a number of considerations. First, it avoids possible confounding effects arising during and immediately after the 2007-8 Global Financial Crisis. Second, the present inquiry treats the PRC Government's December 2012 anti-graft announcement reforms as a major exogenous disturbance. The literature regards the announcement as a major jolt to the markets. Accordingly, several studies treat the late 2012 reform announcement as a major exogenous shock event (see Hope et al., 2020; Hung et al., 2017; and Zhang, 2018). The reforms were also speedily implemented, taking effect from early 2013 onwards.

The anti-graft reforms of December 2012 were announced shortly after the installation of China's new leader, President Xi, in November 2012.⁴ As the specific reforms relate to a new era of governance, it is very likely that such reforms were not fully anticipated. We therefore sense that the announcement of the anti-graft reforms constituted a major jolt to business practice in China.

Our data selection period thus allows for three years of data (2010, 2011, & 2012) prior to reform implementation. Third, and by association, the data period allows for a significant period of post-reform assessment. Fourth, the data period avoids major confounding effects arising from international bank regulatory changes during the COVID pandemic. Given Chinese banks' rising exposure to overseas assets and lenders, lending activities altered appreciably in the second and third years of the COVID crisis.

The present study sample only addresses commercial deposit-taking institutions. This design excludes coverage of investment banking, which in the China market context often exists within securities firms. Many such securities firms accommodate agency (brokerage), proprietary trading, and conventional investment banking activities within their suite of activities. By way of contrast, the Chinese system separates such securities business from commercial deposit-taking activities (see Allen et al., 2012; and Huang, 2010).

The key watershed date in the sample is the Chinese government's December 2013 anti-graft reform shock. While directed at both financial and non-financial industry entities, the intervention triggered a sharp rise in non-criminal-based regulatory enforcement actions at bank branch level. Within a particular year, two or more branches of a given bank may conceivably face regulatory reprimands.⁵ Table 1 reports the average levy amounts for reprimands with financial penalty. As befitting the non-criminal nature of the infractions, the absolute dollar amount of any fine is at a relatively low level. Nonetheless, such non-criminally-based pecuniary actions arise with notable frequency across the China banking sector. However, the biggest impact of a visible regulatory enforcement actions is most likely felt by the bank CEO. This applies no matter whether the reprimand entails a financial penalty or not. In reputational capital terms, CEOs stand to lose significantly from a visible and high-profile regulatory reprimand. Such a reprimand might also cause the regulatory authorities to scrutinize a bank's affairs more closely in subsequent periods.

As reported in Table 2, CSMAR serves as the principal data source for financial variables. We require three years of financials for each bank. Table 1 reports the number of banks that feature within our study sample. Missing data on financial items principally relate to China's smaller banks. For 2020, the sampled banks account for more than 60% of the asset base of the Chinese banking system.

⁴. See Hope et al (2020, page 1016) for further details on the timing and swift implementation of the reforms.

⁵. For the specifics on the nature of such censure actions, see the PRC's Banking Supervision & Administration Law (2006), as available at the PBoC (<http://www.pbc.gov.cn/tiaofasi/144941/144951/2817142/index.html>).

For manual data collection, the sources are one or more of corporate annual reports, government reports, and the search engine *baidu.com*. For details on director attributes, we utilize CSMAR. In cases where such data are unavailable, we access annual reports and/or information at *baidu.com*. Missing bank-year data principally reflect the absence of information on a bank's total assets and performance levels.

We measure political connections for a bank CEO with experience as a government official, officer of the National People's Congress (NPC), and/or a delegate of the Chinese People's Political Consultative Conference (CPPCC) at state, province, and city levels. As explained in Table 2, respective dummy variables *P_CONN_state*, *P_CONN_prov*, and *P_CONN_city* capture a bank CEO's political connections at respective state-, province-, and city-levels. Such variables are consistent with, and enable comparison with, political connection measures formulated elsewhere (see, for example, Jia et al., 2019).

3.2 The nature and types of bank reprimand assessed

China National Administration of Financial Regulation (NAFR) postings, as available at *CnOpenData.com* (<https://www.cnopendata.com/en/>), catalog all reprimand actions. The data therein enable a finely-grained assessment of the NAFR postings. Such data identify the characteristics of the infraction and the bank branch sanctioned. Two types of non-criminal enforcement exist within the present context. The first is a non-pecuniary reprimand. The second is a reprimand with a small financial levy or penalty. The total number of enforcements administered therefore includes both types of reprimand. Table 1 reports the incidence rate in regard to both types of reprimand.

Of the more than 6,200 administrative reprimands identified within the 2010-2020 sample frame, the principal areas of concern relate to loan management, operations management, and governance. Infractions in these areas account for 65%, 28%, and 14% of all respective enforcements. Other areas identified account for less than 10% of reprimand notices. In some cases, a posting identifies two or more areas of concern.

Bank reprimands differ markedly from securities enforcements. The latter reside within the province of the front-line exchange regulatory bodies as well as the national and local offices of the China Securities Regulatory Commission (see Cao et al, 2021, for further discussion). The NAFR's purview on banking matters lies outside such securities enforcement matters.

The reprimands originate from the regulator on such matters, the NAFR (which is the successor body to the China Bank and Insurance Regulatory Commission on such reprimand matters). As the reprimands have the backing of China's super-regulator, a variety of remedies and sanctions are likely in the event of non-compliance. As reported in Article 26 of the NAFR (2021), sanctions arising from non-compliance include the possibility of legal action. All reprimands are posted to the NAFR (and recorded at the following website: <https://www.cnopendata.com/en/>).

NFRA investigations potentially arise from one or more of the following: (1) Routine supervision; (2) on-site random audits; (3) off-site monitoring through supervisory alert systems; (4) reviews triggered by one or more incident or warning signals; and (5) Whistle Blower reports. The NFRA (2021) approach is therefore neither purely reactive nor purely random. A bank may also receive one or more reprimand notifications in any given year. Such notifications could arise in relation to separate infractions arising at different branches within a given bank's network. A given bank may also face reprimands over successive years.

< Table 1 >

3.3. Variable measurement

3.3.1. Dependent variable: Regulatory enforcement actions

The regulatory reprimands that we consider relate to infractions at branch level. While such reprimands arise at branch level, such intervention seeps into higher managerial levels. Num_Enf (see Table 2) equals the number of enforcements received by bank Bk in year t . Similarly, Num_Fines equals the number of fines imposed on Bk in year t .⁶ CNY_Fines captures the mean Chinese Yuan (CNY) fine amount for bank Bk in year t . For reasons of robustness, we convert such measures into natural log form. Accordingly, we create three alternative dependent variables. As shown in the upper section of Table 2, these variables are $Ln(1 + Num_Enf)$, $Ln(1 + Num_Fines)$, and $Ln(1 + CNY_Fines)$.

3.3.2. Main independent variable: Political connections

The literature typically equates a firm's political connections with those of the leading officer (see, for example, Fan et al., 2007; and Wang, 2015). In the present study context, we apply a dummy construction, P_CONN , to capture the political connections of a bank's leading officer. In line with Jia et al. (2019, p. 354), we assign value one where the lead officer has political connections at one or more of three salient levels. These salient levels refer to connections at state, provincial, and city levels. As advocated by Jia et al. (2019, p. 359), we measure political connections for a bank CEO with experience as a government official, officer of the National People's Congress (NPC), and/or a delegate of the Chinese People's Political Consultative Conference (CPPCC). Dummy P_CONN_Board captures *board* level political connections in relation to the same salient levels (state-, province-, and city-) and roles. A value of one applies where at least one bank board officer holds, or has held, such connections.

The two principal political connection measures, P_CONN and P_CONN_Board capture comprehensive networks across the hierarchy of state-, provincial-, and city- domains. To enable finer-grained analysis, we also construct measures for CEO political connections at specific domain levels. Variables P_CONN_state ,

⁶. Such a standardization features in a number of corporate finance/enforcement areas (Liu, 2018; Croci & Petmezas, 2015).

$P_CONN_provincial$, and P_CONN_city capture a CEO's political connections at the respective state-, provincial-, and city-levels. This approach offers insight into the present study's Hypothesis 1. While all political connection levels matter, state-based networks likely predominate (Gao et al., 2021; Liu et al., 2022). A CEO with membership of the NPC and/or CPPCC has access to major political networks (see, among others, Feng et al., 2015; and Jia et al., 2019).

The present study's focus on political connections falls squarely on the CEO. Such connections are typically greater for state-controlled bank CEOs. However, privately-owned bank CEOs require political connections to lessen their distance from the state (Li et al., 2006; Li et al., 2008; McGuinness et al., 2017).

3.3.3. Control variables

In relation to internal governance factors, we address three salient board characteristics. First, *Brd_Duality* controls for boards where the same individual acts as CEO and chair. As informed by the literature, duality contributes to weaker monitoring of top-team management (Rechner and Dalton, 1991). All other things equal, duality potentially increases the risk of regulatory enforcement. Second, we control for the fraction of a bank board's independent officers (*Brd_Indep*). Such control features widely within academic accounts of bank and/or corporate misconduct (Nguyen et al., 2016; Arnaboldi et al., 2021; McCarten et al., 2022). Third, we consider gender mix in potentially attenuating corporate infringements (Cumming et al., 2015). Accordingly, regressions include an explanatory variable for female board representation, *Brd_Fem*.

Finally, and as an additional internal governance control, we address the age gap between chair and CEO. In the context of European firms, a wider gap might signify greater attentiveness (Goergen et al., 2015). In the Chinese market context, the situation may be rather different. Conflicts of opinion might arise due to inter-generational differences in business focus and ideology (Talavera et al., 2018). As a counter point, younger CEOs may be more deferential to senior chair persons (Cheng et al., 2010).⁷ No matter which of the two views holds in the China market context, a wider age gap signifies weaker board monitoring.

Equation (1) also controls for several firm-level characteristics. These controls include variables for a bank's financial performance (*RoA*) and scale [$\ln(size)$]. The inclusion of *RoA* widens the coverage of control variables. In particular, we control for financial performance, given the possibility that regulators may scrutinize under-performing banks more closely.

Specifically, the inverse CEO political connections-regulatory enforcement link may be an analog of bank performance. In this argument, superior bank performance supports the CEO's election prospects to the NPC or CPPCC (Jia et al., 2019). Banks with stronger performance are also less likely to arouse regulatory

⁷ We do not consider other facets of internal governance, such as international governance influence (Ji et al., 2025).

scrutiny. In the baseline regressions, we accommodate such concerns by including a proxy for a bank's return-on-assets (*ROA*) performance.

We also control for a bank's business risk (Crocì & Petmezas, 2015; Nguyen et al., 2016; Arnaboldi et al., 2021). In ensuring a comparable metric for listed and non-listed banks, we consider a lender's weighted risk capital percentage (*Cap_Adq*) and the ratio of deposits-in-place to book value of assets (*Dpst_Ratio*). Equation (1) also controls for bank type. We specify two bank dummy variables, one for *Rural Banks* and another for *City Bank* lenders. Table 2 defines all variables included in Equation (1).

< Table 2 >

3.3.4. Summary statistics

Table 3 reports descriptive statistics for all variables relevant to Equation (1). As a standard, we winsorize all continuous variables at the first and ninety-ninth percentiles. For our key enforcement dependent variable measures, *Num_Enf* and *Num_Fine*, the respective mean figures stand at 5.559 and 5.039. Both measures have a median of zero, with respective maximum values of 101 and 90.

< Table 3 >

Our central explanatory variable, (*P_CONN*) has mean of 0.105 (i.e., a politically-connected CEO is present in 10.5% of all bank-year observation). In line with Jia et al. (2019), we also consider political connections at state, provincial, and city levels. The respective rates for bank CEO political connections are 3.0%, 5.2%, and 4.4%. As some CEOs have political connections at two or more levels, the sum of the three percentages exceeds the mean for politically connected CEOs (*P_CONN*) of 10.5%.

In respect to internal governance measures, Table 3 reveals board duality in only a 3.2% of bank-year cases. In aggregate, independent directors account for 27.4% of board officers. This mean figure reflects the inclusion of both exchange-listed and non-listed banks in our study sample. For exchange-listed A-shares, at least one-third of the issuers' board officers must be independent (Liu et al., 2015, p. 224). The absence of such a requirement for non-listed entities means lower independent board representation rates for such banks. The overall sample mean for *Brd_Indep* of 27.4% is an amalgam of the means for exchange-listed (36.5%) and non-listed (24.4%) banks. For our third measure of internal governance, *Brd_Fem*, the mean figure across all bank-years is 0.119. Women therefore account for around 12 percent of bank directors. As a further governance control, we consider the age gap between board chair and CEO (Goergen et al., 2015; Talavera et al., 2018). On average, a bank's chair is only 2.9 years older than its CEO.

Rural Commercial Banks (*Rural Banks*) and City Commercial Banks (*City Banks*) account for 29.8% and 52.9% of all bank-year observations. The remaining banks comprise China's Big-Six and the National Joint Stock Commercial Banks (see EY, 2020 for details on the four categories of PRC-incorporated bank). The

mean of the natural log of a bank's assets, $Ln(Size)$, is 25.98. In relation to lender-based risk measures, the mean risk-weighted asset (Cap_Adq) and deposit-to-asset ($Dpst_Ratio$) ratios are at 13.33% and 71.4%.

4. Baseline empirical results

Equation (1) below sets-out the relation between CEO political connections and regulatory enforcements.

$$Bank\ enforcements_{Bk, t+1} = \beta_0 + \beta_1 P_CONN_{Bk, t} + \sum_{n=2} \beta_n (Vth\ Control_{Bk, t}) + Year_{Bk, t} + \varepsilon_{Bk, t} \quad (1)$$

The Bk and t subscripts in Equation (1) refer to bank Bk and financial year t . The principal dependent variable measures are $Ln(1 + Num_Enf)$, $Ln(1 + Num_Fines)$, and $Ln(1 + CNY_Fines)$. The main active explanatory effect is P_CONN , which is a dummy=1 for bank Bk with politically connected CEO in year t . $Control$ is a vector of control effects. To mitigate endogeneity concerns, dependent variable effects in year $t+1$ regress against independent variable effects in year t .

Table 4 presents baseline results. Regressions relate to the three specific natural log transformed dependent variables, $Ln(1 + Num_Enf)$, $Ln(1 + Num_Fines)$, and $Ln(1 + CNY_Fines)$. In corporate finance panel-data modelling, researchers often estimate OLS regressions with year and industry fixed effects (FE), and therefore without first differencing of variables, to achieve stationarity. Studies by Berkman et al. (2010), Chircop et al. (2025), Hung et al. (2017), and Raghunandan (2024) offer apt illustration. Such approaches contrast with the use of first-differencing in time-series modelling.⁸

< Table 4 >

Results in Table 4 reveal regulatory reprimands bear the strongest connection with political connections measure P_CONN . Dummy P_CONN captures political connections at *one or more* of the three constituent (state-, province-, and city-) levels. Results appear markedly weaker when isolating individual effects at constituent state-, province-, and city-levels. The results in Table 4 thus reveal stronger effects when a bank CEO has two or more levels of political connection. Of the individual levels (of state-, province, and city-), Table 4 findings suggest state-level connections yield the strongest effect. For example, the estimated coefficient on P_CONN_state is larger in absolute terms than that for either $P_CONN_province$ or P_CONN_city . This observation is particularly evident, in Columns (4), (9) & (14) of Table 4, in respect to regressions that include all of P_CONN_state , $P_CONN_province$, and P_CONN_city . Instructively, Appendix 1 indicates bivariate correlations between P_CONN_state , $P_CONN_province$, and P_CONN_city

⁸. The literature also questions whether the inclusion of firm or bank fixed effects is appropriate in relation to matters of board composition. Board composition typically changes gradually within defined time-periods (see, for example, Chen et al. 2016; Ferris et al. 2017; Katsiampa et al., 2024; Miao et al., 2025), as is relevant to the present study sample.

at acceptable levels. Accordingly, standard error bias is unlikely to be a concern in regressions where all such variables feature [i.e., Table 4, Columns (4), (9) & (14)].

Results are also statistically significant across **all** regressions where *P_CONN_state* features alone [see Table 4, Columns (5), (10) & (15)]. The same observation does not hold in regressions containing only the *P_CONN_province* or only the *P_CONN_City* political connections dimension. In regard to the regulatory reprimand association, political connections appear weakest at province-level.

Overall, results are strongly supportive of **Hypothesis 1**. The central tenet is that *state* political connections trump those at either *province*- or *city*- levels. Additionally, city-level political connections appear more important than province-level connections. Results are thus consistent with intermediate province-level political connections lacking the directness of city-level connections and the national regulatory influence of state-level connections ((Liu et al., 2013; Piotroski and Zhang, 2014).

In deepening baseline regression findings, we also consider alternative dependent variable and regression forms. Appendix 2 reports relevant results. As in Table 4, the inverse CEO political connections-regulatory reprimand relation is pervasive and resilient. This outcome applies across a range of dependent variable measurement forms. Appendix 2 results also report truncated regression forms in relation to dependent variables $\ln(1 + \text{Num_Enf})$, $\ln(1 + \text{Num_Fines})$, and $\ln(1 + \text{CNY_Fines})$. Again, overall findings strongly accord with the contention in Hypothesis 1.

In terms of control effects, it is instructive that *Brd_Fem* is significant in all 15 regressions in Table 4. The sign of the association suggests that regulatory reprimands are significantly lower in banks with a greater proportion of female board members. Reprimands also appear significantly lower in City commercial Banks and in Rural Commercial Banks. Higher rates are apparent in banks with greater asset value, and higher capital adequacy and deposit ratios.

5. Economic Channels

In exploring the resilient inverse relation between CEO political connections and identified bank misconduct, we assess three possible channels of influence. These channels relate to a bank's (1) ownership, (2) risk-taking behavior, and (3) board attributes.

5.1. Channel 1: The possibility of regulatory capture

We first consider the role of a CEO's political connections in influencing regulatory interventions (Stigler, 1971; Berkman et al., 2010; Lu et al., 2015; Cao et al., 2021; McCarten et al., 2022). In shedding light on this issue, we assess an important exogenous disturbance: China's 2013 anti-graft campaign (Hope et al., 2020;

Liu & Wang, 2021). While CEO political connections may have weakened post-2013, we contend via Hypothesis 2a that such an effect was not uniform.

We examine the moderating effect of China's 2013 anti-graft reforms on dummy variable P_CONN . This approach extends analysis of the moderating effects of such reforms on listed issuers' internal governance and board properties (see, for example, Hung et al., 2017; and Jia et al., 2019).⁹ We set dummy *Anti-Graft Reform* = 1 for Year $\geq$ 2013. The first variable of interest is the interaction term, $P_CONN \times Anti-Graft Reform$. The interaction term is positive and strongly significant in all Table 5 regressions. The sign of the coefficient suggests the shielding effect of political connections weakened post-reform. In effect, regulatory reprimands rose post-reform for banks with politically connected CEOs.

The second variable of interest is the interaction $P_CONN \times Anti-Graft Reform \times SOE$. As reported in Table 5, Columns (5)-(6), this interaction term failed to achieve significance. Findings therefore lend little if any support to Hypothesis 2a. Hypothesis 2a asserts that the reforms exerted greater impact on more-exposed privately controlled (i.e., non-state-controlled) banks. However, Table 5 results suggest the various reforms imparted a somewhat even effect on SOE and non-SOE banks. Such findings are consistent with a "showcasing" (Ferguson et al. 2002; Cao et al., 2021) principle in which the PRC authorities sought to demonstrate reform of both state- and non-state sectors. Such findings suggest the 2013 reforms had a proportionate outcome in spurring regulatory scrutiny of politically connected banks in both spheres.

In terms of control variables, the significant effects reported earlier (in Table 4) remain largely unchanged. However, Table 5 reveals that the inverse board gender-regulatory reprimand relation only holds within the non-state-controlled bank sector (and not in the state-controlled bank sector).

We further scrutinize the possibility of regulatory capture in relation to the legal/market development of the province of a bank's head office (Jia et al., 2019). For the market development component, we deploy the *China Market Index* (MKT_DEV). This variable enables assessment of the market development of a given province over a twenty- year period, spanning 1997 to 2019. The Index features widely in the empirical literature (see, for example, Wang et al., 2008; Fan et al., 2010; and Lin et al., 2016).¹⁰ For a province's legal development, we use a Legal Environment Index (*LEG_ENV*) as available at the NERI. Variable *LEG_ENV* captures the strength of a region's legal development in terms of the enforcement of property rights, the role of court systems, and numbers of lawyers per head of population. The Index also features widely in the empirical literature (Wang et al., 2008; Chen et al., 2017; Jia et al., 2019; Wu et al., 2021).

⁹. Nonetheless, political connections in other settings may serve as a risk factor (Gul, 2006; Bliss & Gul, 2012).

¹⁰. As available at <https://cmi.ssap.com.cn/>). The database is available at NERI: www.neri.org.cn (see Fan et al., 2011). The database information covers 27 indexes, which span 20 years and cover 31 of China's regional areas.

Hypothesis 2b asserts that due to regulatory capture, fewer enforcements arise for banks with politically connected CEOs in less developed legal/market settings. However, Table 6 results offer little support for this contention.¹¹ The two interaction terms, between political connections and market development, and between political connections and legal development, appear insignificant. The inclusion of three-way interactions, $P_CONN \times MKT_DEV \times SOE$ and $P_CONN \times LEG_DEV \times SOE$, also yields insignificant effects. Notwithstanding such outcomes, the inverse political connections-regulatory reprimand relation remains resilient and significant across all regressions in Table 6.

< Table 6 >

In summary, the inverse political connections-regulatory reprimand relation is largely invariant to the economic/legal development of a bank's home base. Results therefore suggest rejection of Hypothesis H2b.

Finally, the pattern of significant control effects remains largely unaltered by the inclusion of the market development and legal development terms. A lender's size and type (rural, city, or joint stock commercial) is therefore structurally more important than the legal/economic development of a bank's home base.

5.2. Channel 2: Banks' risk-taking behavior

Based on the literature on risk-taking (Crocì & Petmezas, 2015; Ferris et al., 2017; Li et al., 2023; Henderson et al., 2023), a politically connected CEO minimizes the prospect of regulatory reprimand by avoiding risky loan advances. However, support for such an effect may fail to materialize for two important reasons. First, politically-connected firms' preferential treatment on subsidies, tax breaks, and bail-outs (Faccio, 2006; Faccio et al., 2006; Chaney et al., 2011; and Hung et al., 2017) offers a hedge against project risk.¹² Political connections also open-up internal resources for firm-level investment. For example, Zhang et al. (2016b) report that political connections free a firm from large socially-based expenditures. For the US, Fulmer et al. (2022) highlight the role of donations in shifting regulatory risk from managerial to firm levels. We anticipate much less scope for such regulatory risk shifts in the Chinese context, where CEO and firm prospects closely align. In relation to non-bank studies, the literature stresses a politically connected CEO's role in limiting both risk-taking activities and regulatory scrutiny (Ferris et al., 2017; and Li et al., 2023).

Due to the social and economic objectives confronting a state-owned bank, non-commercial criteria also enter the calculus for loan advances (Berger et al., 2009; García-Herrero et al., 2009; Gao et al., 2021). The proximity of state-owned bank CEOs to government ensures the prioritization of such social and economic objectives (Shleifer & Vishny, 1986, 1997; Berger et al., 2009; García-Herrero et al., 2009; Jiang & Kim,

¹¹. In terms of our empirical design on this issue, we draw parallels with Jia et al. (2009, page 367).

¹². Cross-country analyses of non-financial firms (Faccio, 2006; Faccio et al., 2007; Boubakri et al., 2013; Otchere et al., 2020) provide support for this premise.

2020). Compliance with such objectives also supports the CEO's tenure, promotion prospects, and overall political aspirations.¹³ Regulatory reprimands are therefore injurious to such aims (Gao et al., 2021). While the RMB reprimand amounts are generally small, CEO reputational damage may be far-reaching. The strategic political-importance of China's banks also heightens the visibility of such reprimands.

From a career concerns perspective, the CEO has an incentive to limit regulatory scrutiny. One channel for doing so may be through the careful avoidance of risky loans. This area of our inquiry offers major extension of the bank risk-CEO political connections dyad (Hung et al., 2017). Accordingly, CEO political connections could combine with bank risk reductions in thwarting regulatory reprimands.¹⁴ Support for such requires a *positive* relation between enforcement actions and the interaction of CEO political connections and bank risk. We capture the propensity for risk-taking through a bank's Z-score and the standard deviation of its net income margin (Ashraf, 2017).¹⁵ Appendix 3 reports relevant results for a bank's *Z-score* (Laeven & Levine, 2009), variability of net income margin, *Sd (NIM)* (Ashraf, 2017), and non-performing loan rates (*NPL_Ratio*) (Zhang et al., 2016). Results reveal only weak association between such risk measures and CEO political connections. Banks with politically connected CEOs do not therefore embrace less risky growth options. In further robustness testing, we assess the degree to which politically connections and bank risk combine to stem regulatory reprimands. Appendix 4 investigates this premise through three interaction terms; none of which achieve significance at conventional levels.

5.3. Channel 3: Agency Costs

Our third conjectured channel posits board monitoring as a safeguard against bank reprimand. In safeguarding reputation capital, politically connected CEOs exert pressures on directors to enforce regulatory practices, codes, and edicts. Such pressures filter-down from CEO to director, from director to top-management, and from top-management to branch head levels. In examining such effects, we first consider ownership concentration. Such considerations reflect the importance of large shareholders in China's corporate governance model (Jiang & Kim, 2020, 2024). In such a setting, Type II, rather than Type I, agency

¹³. Within the Chinese legal context, Jia et al. (2019) argue political connections limit the risk of private litigation.

¹⁴. China's political hierarchy imposes major career concerns on the business leaders of sanctioned banks. For example, Cao et al. (2021) find that accounting restatements appear less likely for firms with politically-connected leaders. Other studies (Lin et al., 2025) also reveal greater regulatory compliance in other areas of disclosure for state connected firms. Such findings are consistent with the greater amounts of political capital at stake for relevant business leaders. In addition, fine amounts may not necessarily serve as a proxy for the scale or degree of misconduct. For example, Arnaboldi et al. (2021, Page 7) note the importance of negotiation in the determination of enforcement fines.

¹⁵. Reducing risk exposure also promotes prudential performance. As Li et al. (2023) demonstrate, tilting more of a bank's loan book to state-related borrowers alleviates bank risk. State-based loan guarantees Characterize such loans. Accordingly, we also examine bank risk in relation to non-performing loan ratios.

costs are of greatest concern. Type II agency costs arise from conflicts between major and minority shareowners (Megginson et al., 2014; Jiang & Kim, 2020).

Results in Table 7 reveal that the interaction of CEO political connections (P_CONN) and share concentration ($P_CONN \times OC5_OC10$) bears a significant inverse association with regulatory reprimands. Such findings lend support to the present study's Hypothesis 3a. However, results in Table 7, Columns (7)-(8) suggest a reversal of such effects when combining the two-way interaction with SOE ownership. Accordingly, in restraining regulatory demands, the combination of CEO political connections and ownership concentration appears most effective in non-SOE banks. A reversal of the interaction effect ($P_CONN \times OC5_OC10$) arises in the case of SOE banks.

< Table 7 >

We also consider internal governance attributes such as board duality, the fraction of independent directors, and gender-diversity. The fraction of independent directors is largely invariant to bank misconduct in all baseline regressions. However, gender diversity bears significant inverse relation with regulatory enforcements in the majority of regressions in Tables 4-7. Findings are consistent with more gender-inclusive boards' greater effectiveness in screening of top-management (Adams and Ferreira, 2009) and their inculcation of business ethics into bank practice (Arnaboldi et al., 2021).

In relation to Hypothesis 3b, we consider whether female board representation combines with CEO political connections to restrain regulatory reprimands. However, findings in Table 8 suggest that the relevant interaction is statistically insignificant in relation to the three dependent regulatory reprimand variables. In contrast to Hypothesis 3a, we find little evidence to support Hypothesis 3b. Despite this outcome, the main effects of the interaction variables remain strongly significant in Table 8. In particular, *Brd_Fem* and P_CONN both retain strong inverse association with regulatory reprimands.

< Table 8 >

6. Endogeneity

An endogeneity issue might arise for reasons of self-selection and/or omitted variable concerns. Such concerns raise the possibility of reverse causality. For example, banks with weak compliance records might appoint politically connected CEOs, as a means to lessen regulatory scrutiny. We perform several robustness tests to mitigate possible endogeneity. These tests also incorporate lagged political connection variables.

The analysis in this section deals with a possible endogeneity issue in three concrete ways. Specifically, we estimate regressions using (1) entropy balancing, (2) omitted variable robustness tests, and (3) a Heckman two-step procedure with Bootstrapping of standard errors. Appendix tables C and D deal with the first two issues, while Table 11 reports findings on the Heckman procedure.

6.1. Entropy Balancing (EB)

We employ an EB design to alleviate concerns about distributional difference in treatment and control groups. This approach enables covariate balance for binary separation of treatment and control groups (Hainmueller, 2012). EB enjoys widespread application in the empirical accounting and finance literature (see, among others, Berger & Lee, 2022; Fulmer et al., 2022; Freund et al., 2023). Unlike propensity score matching (PSM), the EB approach retains all observations in achieving covariate balance. In contrast, PSM parsimoniously excludes large amounts of data (see King and Nielsen, 2019 for further elaboration).

In the present context, politically connected banks and non-politically connected banks constitute the respective treatment and control groups. We impose constraints on the first, second, and third moments of all control variables used in the main test to calculate entropy weights. As shown in Appendix 5, Panel A, the post-EB distributional properties of treatment and control covariates are almost identical. Standardized mean differences (SMD) capture the difference in means between treatment and control samples, as divided by the standard deviation of the treatment sample for each covariate. With greater similarity in the distribution of the covariate across treatment and control samples, relevant SMD values approach zero. The Variance Ratio (VR) of a covariate recognizes the ratio of treatment to control sample variance. Appendix 5, Panel A results reveal SMD and VR levels of approximately 0 and 1.00 for all control variables.¹⁶

Results in Panel B of Appendix 5 reflect the application of EB weights. As with the baseline results in Table 4, EB regressions highlight an inverse political connections-regulatory enforcement link.

6.2. Reverse causality and omitted variable issues

In mitigating reverse causality bias, we employ forward variables of regulatory reprimands for years $t+2$ and $t+3$. Such a structure allows for delayed effects in the application of reprimands and fines.¹⁷ Cols. (1) and (2) of Appendix 6, Panel A present outcomes for $\ln(1 + \text{Num_Enf})$ at years $t+2$ and $t+3$. Results in Cols. (3)-(4) & (5)-(6) report results for the same year-ends for respective variables $\ln(1 + \text{Num_Fines})$ and $\ln(1 + \text{CNY_Fines})$. As with earlier findings in Tables 4-6, an inverse political connections-regulatory enforcement link remains. The suggestion is that CEO political connections restrain bank reprimands over longer-run horizons. However, the significance of effects is much stronger at the $t+1$ than $t+2$ or $t+3$ year-ends.

As a further step in ensuring the absence of omitted variable effects, Appendix 6, Panel B determines Impact Thresholds for a Confounding Variable, ITCV (for an example of its application, see Croci & Petmezas, 2015). Details of the approach are set out at the foot of Appendix 6, Panel B. For each of the major dependent variables, results suggest an omitted effect is unlikely.

¹⁶ This is an optimal outcome (see Berger and Lee, 2022, p. 1356; McMullin and Schonberger, 2020, p. 103).

¹⁷ Such an approach is relevant to delayed outcomes in other areas, namely governance change (see Ali et al., 2022).

6.3. Heckman two-step sample selection model

We employ the Heckman test to identify a possible non-random distribution in political connections across sample entities. Step one entails a probit model estimation of P_CONN against explanatory effects in baseline regressions. We identify instruments correlated with the probability of a bank having political connections but uncorrelated with the probability of regulatory enforcement. Our instrument is the proportion of politically connected CEOs among all other banks within the same classification tier. Such an approach to instrumental variable design has appeal elsewhere (Hung et al., 2017; Ginglinger and Moreau, 2023).¹⁸ We classify lenders into three tiers: (1) A- and/or H-listed banks; (2) rural and local banks; and (3) other joint-stock and/or city commercial banks. The instrument, defined as the proportion of politically connected CEOs in peer banks, sorts banks into one of three asset size groupings.¹⁹ As informed by the literature (Sapienza, 2004; Hung et al., 2017), such an approach offers some level of uniformity of governance and other corporate behavior traits within specific asset ranges.

Table 9, Col. (1) reports first-step Heckman results. The instrumental variable has a statistically significant positive coefficient. This outcome is indicative of business conditions and bank peer dynamics influencing CEO appointments. Stage one results indicate larger banks with superior profitability attract politically connected CEOs. Conversely, rural commercial banks are less likely to attract such officers.

< Table 9 >

Second-stage regressions correct for possible selection bias through inclusion of the first-stage Inverse Mills Ratio (IMR).²⁰ The specification of the second-step model is the same as in Equation (1). Table 11, Cols. (2), (3) & (4) report estimations for respective dependent variables $Ln(1 + Num_Enf)$, $Ln(1 + Num_Fines)$, and $Ln(1 + CNY_Fines)$. The estimations indicate a significant inverse relation between CEO political connections and regulatory reprimands in terms of number of enforcements and number of fines. The coefficient of the IMR variable in Columns (2)-(4) of Table 11 are all positive. This outcome suggests a positive relation between unobserved factors and regulatory enforcements. However, the relevant literature (Coles et al., 2012; and Wolfolds & Siegel, 2019) cautions on the viability of appropriate instruments in relation to the Heckman selection model. This literature recommends bootstrapping of standard errors. Accordingly, we report t-values [in squared brackets] in Table 11 to reflect bootstrapping of 10,000 times.²¹

¹⁸. Hung et al. (2017) divide all banks into ten size groupings, using the mean of a CEO's political connections in each group as the instrument. Rather than bank misconduct, their dependent variable addresses bank performance.

¹⁹. We also construct an IV as the fraction of politically connected CEOs among all peer banks in a given year. Results for the Heckman procedure are unaffected by such an approach.

²⁰. For interesting applications, see Bhuyan et al. (2025), Ginglinger & Moreau (2023); and Wooldridge, (2010).

²¹. This procedure reflects the approach at:
https://www.kellogg.northwestern.edu/faculty/petersen/htm/papers/se/se_programming.htm.

As an additional robustness test, we employ a Bivariate Probit Model (BPM) to deal with biases arising from unidentified misconduct (Wang et al., 2010; Wang, 2013; Nguyen et al., 2016). In BPM estimations, one first determines the propensity for bank infraction in relation to factors relevant to the act of misconduct, rather than to the act of detection. A second set of variables then gauges the *expected cost* of bank misconduct. This expected cost is a function of the probability of detection. In an ideal sense, the BPM design should contain one or more variables that are relevant to detection but independent of the act of misconduct. As guided by the literature, abnormal stock return measures typically figure in capturing the probability of detection (Wang, 2013; Nguyen et al., 2016). The presence of unlisted banks renders such an approach infeasible. Based on a variety of model designs, our BPM results are mixed.²²

7. Concluding remarks

The present study widens consideration of the impact of political connections in China beyond issues of firm performance (see, among others, Fan et al., 2007; Hung et al., 2015; Hung et al., 2017; Wang, 2015; and Jia et al., 2019). We shed light on how such connections relate to regulatory reprimands. To the best of our knowledge, the present inquiry is the first to investigate the link between political connections and *bank* reprimands in respect to China. This investigation is of particular and pressing importance given the Chinese state's preoccupation with banking reform and prudential management.

The issues that we investigate therefore have major prescriptive relevance to the regulation of China's private and public sector funding models. As emphasized, the remedies triggered by the bank reprimands in this paper stand in stark contrast to those that feature in corporate fraud investigations. Fraud actions, as criminally-based legal actions, occur with much less frequency. They also follow protracted investigations. In contrast, bank reprimands serve as alerts or warnings against sub-par bank practice, demanding swift corrective action. Above all, bank reprimands act as a warning to avert latent prudential mismanagement, or worse, malfeasance. The findings and issues in the present inquiry are thus separate and distinct from those featured in the China corporate fraud literature (see, among others, Cumming et al., 2015; Luo et al., 2020; Shi et al., 2020; and Liang et al., 2022).

We establish a resilient inverse link between CEO political connections and bank reprimands. This link is robust to a stream of endogeneity tests. As a major contribution to the literature, we assess plausible

²². Accordingly, such results are not reported but are available on request.

transmission mechanisms for the pervasive inverse CEO political connections-regulatory enforcement link. Specifically, we consider a bank's (1) ownership, (2) risk-taking behavior, and (3) governance attributes.

In relation to the overarching issue of bank ownership, we first assess the impact of China's 2013 anti-graft initiative. The imposition of regulatory reprimands on state-controlled banks increased materially post-2013. In contrast, a much smaller increase arose for non-state-controlled banks. For politically-connected state-controlled enterprises, relevant findings are consistent with China's 2013 reforms circumscribing regulatory capture. Such effects are also consistent with state-owned banks' willingness to accede to government-directed regulatory protocols (Cao et al., 2021). Leading officers' protection of valuable political capital (Gao et al., 2021) supports such a narrative.

As a second important study contribution, the present inquiry assesses the legal/market development of a bank's home province. While regulatory reprimands typically arise at branch level, the relevant legal/market protocols of the bank's home base likely permeate management behavior at branch level. We report that banks headquartered in more (less) institutionally-developed provinces face a higher (lower) number of regulatory reprimands. Nonetheless, we find that the legal/economic development of a bank's home base does little to moderate the inverse CEO political connections-regulatory reprimand relation. Findings on this frontier extend the nascent literature on the economic effects of China's uneven development (Jia et al., 2019; Gao et al., 2021; Liu et al., 2022). Present study findings also extend evidence elsewhere on regional variations in political connections (see, for example, Papadimitri et al., 2021 for the US).

As a third major contribution to the literature, we assess the internal governance attributes that underlie the inverse link between political connections and regulatory reprimands. We find that board duality and the fraction of independent officers bears only limited relation to this inverse relation. Such findings are consistent with evidence elsewhere on the limited role of independent directors on Chinese A-share listed firm boards (see, for example, Jiang, & Kim 2020, 2024). We extend this literature to a new application: The imposition of regulatory enforcements on Chinese banks.

The one internal governance attribute that does register significance is board gender diversity. We report significantly lower rates of regulatory reprimand for banks with more gender-inclusive boards. Such findings support gender-inclusive banks' greater attention to monitoring (Adams & Ferreira, 2009; Cumming et al., 2015; Wahid, 2019; Karavitis et al., 2021; and Aguir et al., 2023). Adams and Ferreira, 2009). Findings also support a business ethics (Arnaboldi et al., 2021) and information-sharing narrative (Gul, 2011) in regard to diversity. However, present study findings indicate the inverse association between gender heterogeneity and regulatory reprimands only holds in non-state-controlled banks. Despite such findings, female board representation offers little to no moderation of the inverse CEO-political connections-reprimand relation.

As an additional finding, ownership concentration combines with CEO political connections in lowering rates of regulatory intervention. Findings are consistent with block holders' greater monitoring of agency costs and compliance with regulatory edicts (Cao et al., 2021). However, such findings principally relate to privately-controlled Chinese banks, and not to SOE banks.

Finally, we uncover similar levels of bank risk for banks with and without CEO political connections. A similar finding emerges for banks with and without gender-diverse boards.

As summary points, the present inquiry extends the literature on the political connections-firm performance dyad (Fan et al., 2007; Liang et al., 2013; Hung et al., 2015; Hung et al., 2017; Chen et al., 2018). It does so through in-depth analysis of the CEO political connections-regulatory reprimand relation. Our deliberations also extend the bank misconduct literature (Nguyen et al., 2016; and Arnaboldi et al., 2021) to a new application. This application relates to China's unique, complex, and rapidly-evolving banking sector. We also scrutinize a special type of bank misconduct, addressing lighter-touch regulatory reprimands. Such reprimands constitute alerts or warnings necessitating swift redress. We also extend the narrative on non-bank "financial market misconduct" (Cumming et al., 2015) and non-financial sector misconduct (Amiram et al., 2018; Neville et al., 2019; Mehta & Zhao, 2020; Raghunandan, 2021).

Table 1 Descriptive statistics on enforcement actions imposed on Chinese banks, 2010-2020 (*, **)

Details on the incidence of bank reprimands, fines, and, where applicable, fine amounts (*, **)

Year (*, **)	Sample banks	No. fined banks	No. banks subject to enforcement (#)	Total amount of fines (millions CNY)	No. fines	No. enforcements	Average amount of fine (CNY)
2011	50	13	23	17.90	109	128	164,220.18
2012	68	6	20	18.20	84	90	216,666.67
2013	81	7	17	7.38	37	47	199,474.76
2014	86	12	19	11.90	60	63	198,333.33
2015	96	15	34	42.30	190	198	222,631.58
2016	106	17	47	263.00	755	773	348,344.37
2017	81	12	27	78.60	213	227	369,014.08
2018	88	14	43	424.00	601	646	705,490.85
2019	94	18	50	630.00	737	803	854,816.82
2020	89	17	50	453.00	784	918	577,806.12

(*) In the main text, we comment that the sample period is 2010 to 2020. As all dependent variables are set one year forward of explanatory effects, all bank enforcements actions shown in the above are dated one year forward relative to the year of the identified infraction.

(**) The majority of enforcements imposed relate to “loan management” issues, accounting for around 65% of all penalty notices.

(#) The number of regulatory enforcements includes both pecuniary enforcements (i.e., penalty fines with warnings) and non-pecuniary reprimands (warnings without immediate financial fine).

Table 2 Definition of Variables**Variable definitions relevant to baseline regressions**

Variable	Definition	Source
<i>Dependent</i>		
Ln(1+Num_Enf)	Natural log of (1 + Number of enforcements) for the given year	<i>CnOpenData</i>
	Num_Enf: Number of enforcements for the given year	<i>CnOpenData</i>
Ln(1+Num_Fines)	Natural log of (1 + Number of fines) for the given year	<i>CnOpenData</i>
	Num_Fines: Number of fines for the given year	<i>CnOpenData</i>
Ln(1+CNY_Fines)	Natural log of (1 + Chinese Yuan fine amounts) for the given year	<i>CnOpenData</i>
	CNY_Fines: The amount of a fine (or fines) in a given year in Chinese Yuan (CNY)	<i>CnOpenData</i>
<i>Independent</i>		
P_CONN	Dummy = 1 where a CEO is politically connected (i.e., the officer has or is presently holding representative status on the National People's Congress (NPC) or the Chinese People's Political Consultative Conference (CPPCC) at any of the three country-wide levels (i.e., at state-, provincial- or city-level).	CSMAR/Manual
P_CONN_state	Dummy = 1 in cases where the CEO's political connections are at state level.	CSMAR/Manual
P_CONN_provincial	Dummy = 1 in cases where the CEO's political connections are at provincial level.	CSMAR/Manual
P_CONN_city	Dummy = 1 in cases where the CEO's political connections are at city level.	CSMAR/Manual
P_CONN_Board	Dummy = 1 where at least one board officer has political connections (i.e., has or is presently a member of the NPC or CPPCC at state-, provincial- or city-level).	CSMAR/Manual
Brd_Duality	Dummy = 1 where one board member carries-out Chair and CEO roles.	CSMAR/Manual
Brd_Indep	(No. independent board directors)/(total no. board members).	CSMAR/Manual
Brd_Fem	(No. female board directors)/(total no. board members).	CSMAR/Manual
CEO_Chair age gap	Age gap between Chair and CEO (expressed in years).	CSMAR/Manual
RoA	The ratio of lender's net income to its asset book value.	CSMAR
Ln(Size)	Natural log of the book value of bank's total assets.	CSMAR
Dpst_Ratio	Ratio of the book amount of a bank's total deposits to the book value of total assets.	CSMAR
Cap_Adq	The fraction of a lender's credit exposure on a risk-weighted basis (in % terms).	CSMAR
Rural Banks	Dummy = 1 where the lender is a rural commercial bank.	CSMAR
City Banks	Dummy = 1 where the lender is a city commercial bank.	CSMAR
MKT_DEV	Index of market development (provincial level)	Fan et al. (2010)
LEG_ENV	Index of legal environment (provincial level)	Fan et al. (2010)

Table 3 Descriptive Statistics:

Panel A: For Baseline Variables included in Equation (1)

After removal of firm-years with missing values during the 2010-20 sample-frame, 839 unique bank year observations remain. The dependent variables are set one year ahead of explanatory effects. Accordingly, the number of observations in the table below relates to dependent variable firm-year observations for the ten years, 2010-2020.

All continuous independent variables are subject to winsorization at the first and ninety-ninth percentiles.

Summary statistics for baseline regression forms

Variable	N	Mean	S.D.	Min	25 th Pctl	Median	75 th Pctl	Max
<i>Dependent</i>								
$\ln(1+\text{Num_Enf})_{t+1}$	839	0.782	1.176	0	0	0	1.099	4.625
Num_Enf_{t+1}	839	5.559	16.252	0	0	0	2.000	101.000
$\ln(1+\text{Num_Fines})_{t+1}$	839	0.758	1.146	0	0	0	1.099	4.511
Num_Fines_{t+1}	839	5.039	14.512	0	0	0	2.000	90.000
$\ln(1+\text{CNY_Fines})_{t+1}$	839	6.111	7.130	0	0	0	13.592	18.112
CNY_Fines_{t+1}	839	3,180,984	11,100,000	0	0	0	800,000	73,400,000
<i>Independent</i>								
P_CONN	839	0.105	0.307	0	0	0	0	1
P_CONN_Board	839	0.398	0.490	0	0	0	0	1
P_CONN_state	839	0.030	0.170	0	0	0	0	1
P_CONN_provincial	839	0.052	0.223	0	0	0	0	1
P_CONN_city	839	0.044	0.205	0	0	0	0	1
Brd_Duality	839	0.032	0.177	0	0	0	0	1
Brd_Indep	839	0.274	0.101	0.077	0.182	0.286	0.353	0.500
Brd_Fem	839	0.119	0.105	0.000	0.000	0.111	0.200	0.429
CEO_Chair age gap	722	2.903	5.669	-9.000	-1.000	3.000	7.000	15.000
RoA	839	1.048	0.389	0.150	0.810	1.030	1.270	2.180
$\ln(\text{Size})$	839	25.981	1.845	22.567	24.674	25.563	26.798	30.756
Dpst_Ratio	839	0.714	0.108	0.452	0.634	0.714	0.806	0.905
Cap_Adq	839	13.330	1.821	10.410	12.060	13.080	14.310	21.490
Rural Banks	839	0.298	0.458	0	0	0	1	1
City Banks	839	0.529	0.499	0	0	1	1	1

Table 3 Panel B:

Descriptive statistics the types and variables utilized for bank reprimands

Variable	N	Mean	S.D.	Min	25 th Pctl	Median	75 th Pctl	Max
State-controlled Banks								
Num_Enf _{t+1}	401	9.903	22.003	0	0	1	7	101
Num_Fines _{t+1}	401	8.915	19.577	0	0	1	6	90
CNY_Fines _{t+1}	401	5367070	14300000	0	0	300000	2150000	73400000
Non-state-controlled Banks								
Num_Enf _{t+1}	438	1.582	5.493	0	0	0	1	63
Num_Fines _{t+1}	438	1.491	5.164	0	0	0	1	60
CNY_Fines _{t+1}	438	1179568	6393898	0	0	0	200000	73400000
Rural Banks								
Num_Enf _{t+1}	250	0.416	1.501	0	0	0	0	14
Num_Fines _{t+1}	250	0.348	1.197	0	0	0	0	12
CNY_Fines _{t+1}	250	142341.9	569777.3	0	0	0	0	7187968
City Commercial Banks								
Num_Enf _{t+1}	444	1.597	3.316	0	0	0	2	28
Num_Fines _{t+1}	444	1.493	3.004	0	0	0	2	24
CNY_Fines _{t+1}	444	967201.8	3929949	0	0	0	600000	54900000
Female CEOs								
Num_Enf _{t+1}	42	1.262	3.908	0	0	0	1	20
Num_Fines _{t+1}	42	1.190	3.789	0	0	0	0	19
CNY_Fines _{t+1}	42	658333.3	2059153	0	0	0	0	11000000
Male CEOs								
Num_Enf _{t+1}	797	5.785	16.621	0	0	0	2	101
Num_Fines _{t+1}	797	5.242	14.838	0	0	0	2	90
CNY_Fines _{t+1}	797	3313922	11400000	0	0	0	900000	73400000

Notes:

The relevant t-tests reveal significantly lower reprimand rates and levels in non-state-controlled banks (at the 1% level for all three measures considered).

Rural banks exhibit significantly lower reprimand levels than non-rural banks (at the 1% level across all measures considered).

Rural banks exhibit significantly lower reprimand levels than City Commercial banks (at the 1% level across all measures).

Banks led by female CEOs report significantly fewer reprimands than those led by male CEOs (at the 10% level for reprimand frequency, though not for monetary fines).

Table 4 Regressions of the relation between level (i.e., State, Province, or City) of political connections and identified bank misconduct (**Hypothesis 1**)

Table 4 presents marginal effects from the estimations to facilitate economic interpretation (see, for example, Barg et al., 2024). . Regressions are in OL form with robust standard errors. For Column (1)-(4), the dependent variable is $Ln(1+Num_Enf)$ refers to the natural logarithm of (1 + Number of enforcements) for the given year. For Columns (5) through (8), $Ln(1+Num_Fines)$ refers to the natural logarithm of (1 + Number of fines) for the given year. For Cols. (9) through (12), the dependent variable $Ln(1+CNY_Fines)$ refers to the natural logarithm of (1 + Chinese Yuan fine amounts) for the given year. A CEO's political connections (P_CONN) is the principal explanatory effect. $P_CONN=1$ If a CEO has or is presently a member of the NPC or the CPPCC at one of state-, provincial- or city-levels). See Table 2 for all variable definitions; Coefficients with significance at 1%, 5%, and 10% thresholds (denoted by ***, **, *).

	$Ln(1+Num_Enf)_{t+1}$					$Ln(1+Num_Fines)_{t+1}$					$Ln(1+CNY_Fines)_{t+1}$				
	OLS (1)	OLS (2)	OLS (3)	OLS (4)	OLS (5)	OLS (6)	OLS (7)	OLS (8)	OLS (9)	OLS (10)	OLS (11)	OLS (12)	OLS (13)	OLS (14)	OLS (15)
P_CONN					-0.217** (-2.33)					-0.219** (-2.39)					-0.865 (-1.59)
P_CONN_state	-0.340* (-1.71)			-0.334* (-1.66)		-0.329* (-1.71)			-0.323* (-1.67)		-2.174** (-2.21)			-2.102** (-2.14)	
P_CONN_province		0.006 (0.05)		0.055 (0.41)			-0.020 (-0.16)		0.024 (0.17)			0.948 (1.43)		1.257* (1.79)	
P_CONN_city			-0.190* (-1.91)	-0.202* (-1.78)				-0.176* (-1.82)	-0.179 (-1.59)				-0.911 (-1.16)	-1.259 (-1.57)	
Brd_Duality	-0.068 (-0.54)	-0.097 (-0.81)	-0.098 (-0.84)	-0.073 (-0.60)	-0.082 (-0.68)	-0.063 (-0.52)	-0.090 (-0.77)	-0.093 (-0.81)	-0.067 (-0.56)	-0.077 (-0.64)	-0.762 (-0.85)	-0.990 (-1.09)	-0.955 (-1.07)	-0.841 (-0.93)	-0.890 (-1.00)
Brd_Indep	0.305 (1.12)	0.283 (1.04)	0.287 (1.06)	0.309 (1.13)	0.290 (1.06)	0.215 (0.82)	0.193 (0.74)	0.197 (0.75)	0.218 (0.83)	0.200 (0.76)	3.416 (1.57)	3.253 (1.49)	3.292 (1.52)	3.415 (1.57)	3.299 (1.52)
Brd_Fem	-0.410** (-2.01)	-0.413** (-2.02)	-0.422** (-2.07)	-0.419** (-2.05)	-0.426** (-2.08)	-0.474** (-2.39)	-0.478** (-2.40)	-0.486** (-2.44)	-0.482** (-2.43)	-0.490** (-2.46)	-4.142** (-2.48)	-4.146** (-2.48)	-4.207** (-2.51)	-4.179** (-2.49)	-4.213** (-2.51)
RoA	0.016 (0.25)	0.006 (0.09)	0.008 (0.13)	0.016 (0.25)	0.020 (0.31)	0.022 (0.37)	0.014 (0.22)	0.015 (0.24)	0.023 (0.38)	0.027 (0.44)	-0.466 (-0.85)	-0.571 (-1.05)	-0.519 (-0.95)	-0.509 (-0.93)	-0.474 (-0.87)
Ln(Size)	0.340*** (13.96)	0.341*** (14.16)	0.345*** (14.34)	0.344*** (14.18)	0.350*** (14.45)	0.331*** (13.78)	0.331*** (13.98)	0.335*** (14.13)	0.334*** (13.96)	0.341*** (14.33)	1.734*** (9.93)	1.732*** (10.02)	1.755*** (10.02)	1.749*** (10.10)	1.775*** (10.10)
Dpst_Ratio	0.811*** (3.10)	0.817*** (3.09)	0.806*** (3.08)	0.814*** (3.09)	0.775*** (2.99)	0.777*** (3.07)	0.777*** (3.03)	0.772*** (3.05)	0.773*** (3.03)	0.741*** (2.95)	-2.635 (-1.44)	-2.365 (-1.27)	-2.650 (-1.45)	-2.389 (-1.29)	-2.764 (-1.50)
Cap_Adq	0.050*** (3.82)	0.050*** (3.87)	0.051*** (3.90)	0.050*** (3.85)	0.049*** (3.77)	0.048*** (3.78)	0.048*** (3.83)	0.049*** (3.86)	0.048*** (3.80)	0.047*** (3.72)	-0.079 (-0.82)	-0.072 (-0.74)	-0.074 (-0.76)	-0.074 (-0.77)	-0.081 (-0.83)
Rural Banks	-1.244*** (-10.02)	-1.188*** (-9.51)	-1.184*** (-9.75)	-1.231*** (-9.71)	-1.206*** (-9.88)	-1.235*** (-10.33)	-1.184*** (-9.84)	-1.177*** (-10.10)	-1.226*** (-10.01)	-1.199*** (-10.22)	-4.860*** (-5.53)	-4.390*** (-5.02)	-4.484*** (-5.07)	-4.660*** (-5.34)	-4.578*** (-5.21)
City Banks	-0.917*** (-8.25)	-0.860*** (-7.66)	-0.859*** (-7.90)	-0.908*** (-8.02)	-0.884*** (-8.05)	-0.895*** (-8.28)	-0.843*** (-7.74)	-0.840*** (-7.96)	-0.891*** (-8.07)	-0.865*** (-8.12)	-2.654*** (-3.82)	-2.190*** (-3.16)	-2.290*** (-3.25)	-2.496*** (-3.64)	-2.388*** (-3.42)
Constant	-9.028*** (-11.10)	-9.100*** (-11.23)	-9.173*** (-11.43)	-9.119*** (-11.16)	-9.243*** (-11.47)	-8.736*** (-10.84)	-8.800*** (-10.94)	-8.872*** (-11.14)	-8.810*** (-10.85)	-8.949*** (-11.22)	-35.358*** (-6.58)	-35.997*** (-6.73)	-36.162*** (-6.69)	-36.107*** (-6.73)	-36.384*** (-6.74)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	839	839	839	839	839	839	839	839	839	839	839	839	839	839	839
Adj. R ²	0.711	0.709	0.710	0.711	0.711	0.710	0.707	0.708	0.710	0.711	0.522	0.520	0.520	0.522	0.520

Table 5. Regressions of the interaction of China's 2013 Anti-Graft Reforms and political connections on bank reprimands [**Hypothesis 2a**]

Table 5 presents results of pooled OLS regressions assessing the effect of China's 2013 anti-graft reforms on the politically connected CEO-regulatory censure relation. *P_CONN* is the dummy=1 where a bank has a politically connected CEO. The *Anti-Graft Reform* (2013) dummy variable equals one for year ≥ 2013 and zero otherwise. The variable of interest is the interaction term, $P_CONN_T \times Anti-Graft Reform$. This effect is a DiD indicator variable capturing differences between treatment and control banks, as well as the *before* and *after* policy effects of the 2013 *Anti-Graft Reform*. *State Share* $\geq 25\%$ (*State Share* $< 25\%$) means the state has more (less) than 25% of ownership in a bank. $Ln(1+Num_Enf)$ refers to the natural logarithm of (1 + Number of enforcements) for the given year. $Ln(1+Num_Fines)$ refers to the natural logarithm of (1 + Number of fines) for the given year. All regression estimates reflect the inclusion of control variables. For presentational reasons, controls [ROA, Ln(Size), Dpst_Ratio, Cap_Adq, Rural Banks, City Banks] and the regression constant are not reported. See Table 2 for all variable definitions. Coefficients with significance at 1%, 5%, and 10% thresholds denoted by ***, **, and *.

	<i>State share $\geq 25\%$</i>		<i>State share $< 25\%$</i>		<i>Ln(1+Num_Enf)_{t+1}</i>	<i>Ln(1+Num_Fines)_{t+1}</i>
	<i>Ln(1+Num_Enf)_{t+1}</i>	<i>Ln(1+Num_Fines)_{t+1}</i>	<i>Ln(1+Num_Enf)_{t+1}</i>	<i>Ln(1+Num_Fines)_{t+1}</i>		
	OLS	OLS	OLS	OLS	OLS	OLS
	(1)	(2)	(3)	(4)	(5)	(6)
P_CONN	-0.532*** (-2.62)	-0.490** (-2.11)	-0.388 (-1.36)	-0.374 (-1.37)	-0.655*** (-4.64)	-0.601*** (-4.06)
P_CONN×Anti-Graft Reform	0.613** (2.39)	0.561** (2.04)	0.840** (2.29)	0.827** (2.38)	0.851*** (3.35)	0.820*** (3.33)
P_CONN×Anti-Graft Reform×SOE					-0.002 (-0.43)	-0.003 (-0.73)
SOE					0.001 (0.58)	0.001 (0.51)
Anti-Graft Reform (2013)	2.617*** (4.86)	2.605*** (4.95)	-0.284 (-0.60)	-0.256 (-0.55)	2.649*** (5.08)	2.631*** (5.18)
Brd_Fem	0.218 (0.53)	0.180 (0.42)	-0.595** (-2.10)	-0.634** (-2.30)	-0.240 (-1.14)	-0.276 (-1.33)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year×Province FEs	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	401	401	438	438	839	839
Log pseudolikelihood	0.852	0.846	0.616	0.621	0.807	0.804

Table 6. An investigation of Legal Environment and Market Development heterogeneity (**Hypothesis 2b**)

$\ln(1+Num_Enf)$ refers to the natural logarithm of (1 + Number of enforcements) for the given year. $\ln(1+Num_Fines)$ refers to the natural logarithm of (1 + Number of fines) for the given year. MKT_DEV refers to the province-level Market Development Ratio. LEG_ENV refers to the province-level Legal Environmental Ratio. SOE is a continuous variable representing the percentage of state ownership in a bank. All regression estimates reflect the inclusion of control variables. For presentational reasons, controls [ROA, $\ln(\text{Size})$, Dpst_Ratio, Cap_Adq, Rural Banks, City Banks] and the regression constant are not reported.

See Table 2 for all variable definitions. Coefficients with significance at 1%, 5%, and 10% thresholds denoted by ***, **, and *.

	$\ln(1+Num_Enf)_{t+1}$	$\ln(1+Num_Fines)_{t+1}$	$\ln(1+Num_Enf)_{t+1}$	$\ln(1+Num_Fines)_{t+1}$	$\ln(1+Num_Enf)_{t+1}$	$\ln(1+Num_Fines)_{t+1}$	$\ln(1+Num_Enf)_{t+1}$	$\ln(1+Num_Fines)_{t+1}$
	OLS	OLS	OLS	OLS	OLS	OLS	OLS	OLS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
P_CONN	-0.282** (-1.97)	-0.281** (-2.00)	-0.258* (-1.79)	-0.266* (-1.85)	-0.372*** (-2.75)	-0.367*** (-2.71)	-0.368*** (-2.70)	-0.364*** (-2.68)
MKT_DEV	0.005 (1.30)	0.004 (1.06)	0.005 (1.20)	0.004 (0.97)				
P_CONN × MKT_DEV	0.010 (0.65)	0.009 (0.65)	-0.020 (-0.49)	-0.008 (-0.20)				
P_CONN × MKT_DEV×SOE			0.001 (0.80)	0.000 (0.47)				
LEG_ENV					0.005 (1.27)	0.004 (1.04)	0.004 (1.12)	0.003 (0.89)
P_CONN × LEG_DEV					0.022 (1.47)	0.021 (1.44)	0.021 (0.61)	0.030 (0.87)
P_CONN × LEG_DEV×SOE							0.000 (0.01)	-0.000 (-0.32)
SOE			0.000 (0.24)	0.000 (0.24)			0.001 (0.51)	0.001 (0.51)
Brd_Fem	-0.467** (-2.28)	-0.523*** (-2.61)	-0.485** (-2.37)	-0.534*** (-2.69)	-0.470** (-2.29)	-0.524*** (-2.62)	-0.473** (-2.30)	-0.519*** (-2.62)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	839	839	839	839	839	839	839	839
Pseudo R2	0.712	0.710	0.712	0.710	0.713	0.711	0.712	0.711

Table 7. An investigation of ownership concentration and state ownership control (**Hypothesis 3a**)

This table presents subsample results using pooled OLS regressions examining the impact of CEO political connection on bank misconduct. $\ln(1+Num_Enf)$ refers to the natural logarithm of (1 + Number of enforcements) for the given year. $\ln(1+Num_Fines)$ refers to the natural logarithm of (1 + Number of fines) for the given year. OC3_OC5 is defined as the ratio of ownership by the largest 3 shareholders to the ownership of the largest 5 shareholders. OC5_OC10 is defined as the ratio of ownership by the largest 5 shareholders to the ownership of the largest 10 shareholders. SOE is a continuous variable representing the percentage of state ownership in a bank. All regression estimates reflect the inclusion of control variables. For presentational reasons, controls [ROA, $\ln(\text{Size})$, Dpst_Ratio, Cap_Adq, Rural Banks, City Banks] and the regression constant are not reported.

See Table 2 for all variable definitions; Coefficients with significance at 1%, 5%, and 10% thresholds denoted by ***, **, and *.

	$\ln(1+Num_Enf)_{t+1}$	$\ln(1+Num_Fines)_{t+1}$	$\ln(1+Num_Enf)_{t+1}$	$\ln(1+Num_Fines)_{t+1}$	$\ln(1+Num_Enf)_{t+1}$	$\ln(1+Num_Fines)_{t+1}$	$\ln(1+Num_Enf)_{t+1}$	$\ln(1+Num_Fines)_{t+1}$
	OLS	OLS	OLS	OLS	OLS	OLS	OLS	OLS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
P_CONN	0.766 (1.15)	0.872 (1.26)	1.848** (2.39)	1.745** (2.27)	0.427 (0.73)	0.542 (0.90)	1.511** (2.27)	1.429** (2.16)
OC3_OC5	0.160 (0.53)	0.271 (0.94)	0.135 (0.39)	0.267 (0.83)				
P_CONN × OC3_OC5	-1.211 (-1.46)	-1.342 (-1.54)	-3.069*** (-2.80)	-2.840*** (-2.61)				
P_CONN × OC3_OC5×SOE			0.013** (2.21)	0.011* (1.79)				
OC5_OC10					-0.129 (-0.49)	-0.097 (-0.38)	-0.224 (-0.74)	-0.175 (-0.60)
P_CONN × OC5_OC10					-0.815 (-1.11)	-0.961 (-1.25)	-2.743*** (-2.77)	-2.539*** (-2.59)
P_CONN × OC5_OC10×SOE							0.015** (2.32)	0.012* (1.91)
SOE			0.000 (0.08)	-0.000 (-0.07)			0.001 (0.49)	0.001 (0.42)
Brd_Fem	-0.409** (-2.00)	-0.479** (-2.43)	-0.436** (-2.14)	-0.499** (-2.55)	-0.393* (-1.93)	-0.457** (-2.32)	-0.421** (-2.08)	-0.480** (-2.45)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	839	839	839	839	839	839	839	839
Pseudo R2	0.712	0.711	0.714	0.712	0.712	0.711	0.714	0.712

Table 8. An investigation of political connections and gender board diversity **Hypothesis 3b)**

*This table presents subsample results using pooled OLS regressions examining the impact of CEO political connection on bank misconduct. $\ln(1+\text{Num_Enf})$ refers to the natural logarithm of (1 + Number of enforcements) for the given year. $\ln(1+\text{Num_Fines})$ refers to the natural logarithm of (1 + Number of fines) for the given year. The variable *Brd_Indep* refers to the degree of board independence. *Brd_Fem* represents the proportion of female directors serving on the board. SOE is a continuous variable representing the percentage of state ownership in a bank. All regression estimates reflect the inclusion of control variables. For presentational reasons, controls [ROA, $\ln(\text{Size})$, *Dpst_Ratio*, *Cap_Adq*, *Rural Banks*, *City Banks*] and the regression constant are not reported.*

See Table 2 for all variable definitions; Coefficients with significance at 1%, 5%, and 10% thresholds denoted by ***, **, and *.

	$\ln(1+\text{Num_Enf})_{i+1}$	$\ln(1+\text{Num_Fines})_{i+1}$	$\ln(1+\text{Num_Enf})_{i+1}$	$\ln(1+\text{Num_Fines})_{i+1}$	$\ln(1+\text{Num_Enf})_{i+1}$	$\ln(1+\text{Num_Fines})_{i+1}$	$\ln(1+\text{Num_Enf})_{i+1}$	$\ln(1+\text{Num_Fines})_{i+1}$
	OLS	OLS	OLS	OLS	OLS	OLS	OLS	OLS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
P_CONN	-0.249*	-0.225*	-0.219	-0.206	-0.774**	-0.664*	-0.728*	-0.656*
	(-1.79)	(-1.65)	(-1.55)	(-1.51)	(-2.16)	(-1.86)	(-1.91)	(-1.75)
P_CONN× Brd_Fem	0.281	0.053	-1.021	-0.705				
	(0.32)	(0.06)	(-0.67)	(-0.49)				
P_CONN× Brd_Fem ×SOE			0.025	0.014				
			(1.03)	(0.56)				
P_CONN× Brd_Indep					1.653	1.320	1.310	1.277
					(1.47)	(1.16)	(0.90)	(0.89)
P_CONN× Brd_Indep ×SOE							0.006	0.001
							(0.42)	(0.05)
SOE			0.001	0.001			0.001	0.001
			(0.64)	(0.59)			(0.76)	(0.73)
	(1.04)	(0.76)	(1.10)	(0.80)	(0.75)	(0.50)	(0.79)	(0.53)
Brd_Fem	-0.449**	-0.494**	-0.452**	-0.499**	-0.423**	-0.488**	-0.443**	-0.499**
	(-2.16)	(-2.47)	(-2.17)	(-2.49)	(-2.07)	(-2.45)	(-2.18)	(-2.53)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	839	839	839	839	839	839	839	839
Pseudo R2	0.711	0.710	0.711	0.710	0.712	0.711	0.712	0.710

Table 9 Addressing endogeneity:
Application of the Heckman two-step selection model.

This table presents regression results of the Heckman two-step selection model. In the first step, in Column (1), we run a pooled Probit regression of the CEO political connection dummy variable (*P_CONN*) against all control variables featured in our baseline regressions. We use the average of CEO Political Connection in a specific year and tier, excluding the value itself, as an additional exogenous variable. We anticipate that this variable has strong correlation with a bank's likelihood of political connections but weak correlation with the likelihood of bank-level misconduct. In the second step, in Cols. (2), (3) & (4), we add-in the Inverse Mills Ratio (IMR), as generated from the first step pooled Probit model, to control for potential sample selection bias. t-values based on robust standard errors appear in parentheses. t-values based on bootstrapping standard errors appear in squared brackets.

$\ln(1+Num_Enf)$ refers to the natural logarithm of (1 + Number of enforcements) for the given year. $\ln(1+Num_Fines)$ refers to the natural logarithm of (1 + Number of fines) for the given year. $\ln(1+CNY_Fines)$ refers to the natural logarithm of (1 + Chinese Yuan fine amounts) for the given year. t-values based on bootstrapping standard errors shown in squared brackets.

Consistent with the relevant literature (Jia et al., 2019), Column (1) below reports standard rather than marginal probit coefficients. See Table 2 for all variable definitions; Coefficients with significance at 1%, 5%, and 10% thresholds denoted by ***, **, and *.

	<i>Pro(P_CONN = 1)</i> Probit Heckman stage 1 (1)	$\ln(1+Num_Enf)_{t+1}$ OLS Heckman stage 2 (2)	$\ln(1+Num_Fines)_{t+1}$ OLS Heckman stage 2 (3)	$\ln(1+CNY_Fines)_{t+1}$ OLS Heckman stage 2 (4)
P_CONN		-0.206** (-2.30) [-2.30]	-0.208** (-2.36) [-2.37]	-0.856 (-1.57) [-1.56]
Brd_Duality	0.443 (1.42) [1.17]	0.480*** (2.64) [2.61]	0.472*** (2.63) [2.61]	-0.390 (-0.30) [-0.29]
Brd_Indep	0.631 (0.65) [0.65]	1.350*** (3.69) [3.61]	1.236*** (3.59) [3.51]	4.242 (1.46) [1.43]
Brd_Fem	-0.639 (-0.88) [-0.89]	-1.209*** (-4.16) [-4.18]	-1.256*** (-4.33) [-4.34]	-4.910** (-2.23) [-2.26]
RoA	0.600** (2.52) [2.56]	0.861*** (3.96) [3.93]	0.848*** (3.98) [3.95]	0.274 (0.17) [0.17]
Ln(Size)	0.276*** (3.82) [3.36]	0.753*** (7.20) [7.12]	0.734*** (7.15) [7.09]	2.133*** (2.86) [2.84]
Dpst_Ratio	-1.253* (-1.65) [-1.75]	-1.059** (-2.01) [-2.01]	-1.051** (-2.06) [-2.05]	-4.395 (-1.19) [-1.18]
Cap_Adq	-0.0540 (-1.17) [-1.09]	-0.029 (-1.31) [-1.29]	-0.029 (-1.34) [-1.33]	-0.150 (-0.87) [-0.86]
Rural Banks	-0.0196 (-0.06) [-0.05]	-1.200*** (-9.83) [-9.80]	-1.193*** (-10.16) [-10.11]	-4.572*** (-5.21) [-5.11]
City Banks	0.00801 (0.03) [0.02]	-0.876*** (-8.06) [-8.09]	-0.857*** (-8.14) [-8.17]	-2.381*** (-3.41) [-3.39]
Proportion of politically connected CEOs in peer	0.900* (1.71) [1.72]			
IMR		1.587*** (4.01) [3.96]	1.551*** (4.00) [3.96]	1.412 (0.50) [0.49]
Constants	-7.963*** (-3.85) [-3.37]	-21.547*** (-6.69) [-6.61]	-20.972*** (-6.63) [-6.57]	-47.327** (-2.07) [-2.05]
Year FEs	No	Yes	Yes	Yes
Obs	839	839	839	839
Pseudo R ²	0.230	0.718	0.717	0.520

Appendix 1 Correlation matrix for the variables in baseline regressions

See Table 2 for detailed definitions of all variables below.

		1	2	3	4	5	6	7	8	9	10	11	12	13
1	Ln(1+Num_Enf)	1.000												
2	Num_Enf	0.817	1.000											
3	Ln(1+Num_Fines)	0.996	0.815	1.000										
4	Num_Fines	0.821	0.996	0.823	1.000									
5	Ln(1+CNY_Fines)	0.842	0.500	0.847	0.507	1.000								
6	CNY_Fines	0.692	0.832	0.691	0.824	0.441	1.000							
7	P_CONN	0.226	0.160	0.222	0.157	0.189	0.194	1.000						
8	PC_state	0.205	0.202	0.204	0.197	0.139	0.141	0.512	1.000					
9	P_CONN_province	0.211	0.107	0.206	0.106	0.203	0.195	0.687	0.085	1.000				
10	P_CONN_city	0.063	0.038	0.063	0.038	0.050	0.116	0.628	0.065	0.314	1.000			
11	Brd_Duality	0.018	0.034	0.018	0.033	0.011	0.045	0.048	0.087	0.048	-0.006	1.000		
12	Brd_Indep	0.442	0.316	0.436	0.315	0.419	0.271	0.225	0.161	0.158	0.100	0.038	1.000	
13	Brd_Fem	0.055	0.040	0.049	0.037	0.015	0.024	-0.008	0.030	0.011	-0.027	0.037	0.035	1.000
14	RoA	-0.168	-0.065	-0.166	-0.061	-0.230	-0.095	0.034	0.031	-0.003	0.026	-0.011	-0.109	-0.037
15	Ln(Size)	0.777	0.637	0.775	0.641	0.658	0.531	0.377	0.288	0.261	0.150	0.039	0.602	0.049
16	Dpst_Ratio	-0.282	-0.074	-0.284	-0.077	-0.363	-0.136	-0.133	-0.057	-0.159	-0.048	0.002	-0.352	0.004
17	Cap_Adq	-0.117	0.045	-0.120	0.037	-0.201	0.027	-0.087	-0.064	-0.054	-0.004	-0.033	-0.148	0.010
18	Rural Banks	-0.333	-0.206	-0.338	-0.211	-0.353	-0.178	-0.155	-0.114	-0.153	-0.038	-0.104	-0.334	-0.104
19	City Banks	-0.205	-0.259	-0.200	-0.259	-0.061	-0.211	-0.121	-0.172	-0.057	-0.053	0.091	0.038	0.054

		14	15	16	17	18	19
14	RoA	1.000					
15	Ln(Size)	-0.117	1.000				
16	Dpst_Ratio	0.301	-0.381	1.000			
17	Cap_Adq	0.276	-0.229	0.132	1.000		
18	Rural Banks	0.120	-0.419	0.402	0.274	1.000	
19	City Banks	-0.091	-0.199	-0.246	-0.106	-0.691	1.000

Appendix 2 Further robustness testing of the link between political connection and bank misconduct in relation to alternative dependent variable constructions and regressions forms (**Hypothesis 1**)

The Table presents the marginal effects from the estimations to facilitate economic interpretation. Column (1) of Panel A presents the estimation of pooled Probit regression with dependent variable = 1 where a bank receives at least one penalty in a specific year (i.e., a fine or an issued warning letter without fine). A CEO's political connections (P_CONN) is the principal explanatory effect. $P_CONN=1$ If a CEO has or is presently a member of the NPC or the CPPCC at one of state-, provincial- or city-levels). Column (2) results reflect a population-averaged Probit model with autoregressive correlation structure of order 1. Column (3) presents the estimates of a pooled OLS regression with robust standard errors where the dependent variable is no. enforcements divided by the mean no. enforcements for all other banks in the sample for the same bank-year. Column (4) presents the estimates of a pooled Tobit regression with robust standard errors. Column (5) presents the estimation of a pooled Tobit regression with robust standard errors where the dependent variable is the no. of fines for a given bank-year/mean no. fines for all other banks in the sample for the same year. Column (6) presents the estimation of a random Tobit regression with robust standard errors. Column (7) presents the estimation of a random Tobit regression with robust standard errors by using board level political connection as a main variable of interest. Columns (8), (9) & (10) present the estimation of Truncated regressions with robust standard errors. See Table 2 for all variable definitions; See Table 2 for all variable definitions; Coefficients with significance at 1%, 5%, and 10% thresholds (respectively denoted by ***, **, and *).

	$EnfD_{t+1}$ Probit	$EnfD_{t+1}$ xtprobit	Num_Enf_{t+1} OLS	Num_Enf_{t+1} Tobit	Num_Fines_{t+1} Tobit	Num_Fines_{t+1} Random_Tobit	Num_Fines_{t+1} Random_Tobit	$Ln(1+Num_Enf)_{t+1}$ Truncated	$Ln(1+Num_Fines)_{t+1}$ Truncated	$Ln(1+CNY_Fines)_{t+1}$ Truncated
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
P_CONN	-0.123***	-0.221***	-1.648***	-2.001***	-1.796***	-0.865**		-0.217**	-0.219**	-0.865 (-1.61)
P_CONN_Board	(-2.85)	(-3.91)	(-4.33)	(-4.36)	(-3.87)	(-2.24)	-1.478*** (-2.68)	(-2.36)	(-2.42)	
Brd_Duality	-0.080 (-1.25)	-0.076 (-1.27)	-0.308 (-0.60)	-0.895 (-1.09)	-1.045 (-1.41)	-0.640 (-1.08)	-0.711 (-1.20)	-0.082 (-0.69)	-0.077 (-0.65)	-0.890 (-1.01)
Brd_Indep	0.268* (1.77)	0.154 (0.78)	-1.981** (-2.20)	0.0741 (0.04)	0.0490 (0.03)	-0.246 (-0.15)	0.157 (0.09)	0.290 (1.07)	0.200 (0.77)	3.299 (1.54)
Brd_Fem	-0.365*** (-3.05)	-0.519*** (-2.97)	-0.246 (-0.32)	-2.377 (-1.55)	-2.727* (-1.73)	0.776 (0.55)	0.758 (0.54)	-0.426** (-2.10)	-0.490** (-2.49)	-4.213** (-2.54)
RoA	-0.017 (-0.40)	-0.015 (-0.22)	-0.00803 (-0.04)	-0.309 (-0.60)	-0.492 (-1.01)	-0.408 (-0.79)	-0.340 (-0.66)	0.020 (0.32)	0.027 (0.44)	-0.474 (-0.88)
Ln(Size)	0.114*** (8.22)	0.122*** (5.78)	1.437*** (11.33)	2.449*** (12.26)	2.364*** (12.15)	2.014*** (9.03)	2.247*** (9.29)	0.350*** (14.62)	0.341*** (14.50)	1.775*** (10.22)
Dpst_Ratio	-0.089 (-0.58)	-0.154 (-0.75)	10.84*** (9.47)	11.92*** (7.01)	11.57*** (7.28)	4.968*** (2.69)	4.602** (2.51)	0.775*** (3.02)	0.741*** (2.98)	-2.764 (-1.52)
Cap_Adq	-0.002 (-0.25)	0.000 (0.01)	0.349*** (6.97)	0.351*** (3.75)	0.326*** (3.61)	0.0363 (0.38)	0.0420 (0.44)	0.049*** (3.81)	0.047*** (3.77)	-0.081 (-0.84)
Rural Banks	-0.332*** (-4.90)	-0.284*** (-2.66)	-3.692*** (-9.32)	-3.771*** (-5.78)	-4.062*** (-6.34)	-3.108*** (-2.91)	-2.832*** (-2.69)	-1.206*** (-10.00)	-1.199*** (-10.33)	-4.578*** (-5.27)
City Banks	-0.208*** (-3.58)	-0.176** (-2.01)	-3.061*** (-8.32)	-1.780*** (-3.58)	-1.909*** (-3.83)	-1.914** (-2.09)	-1.846** (-2.05)	-0.884*** (-8.14)	-0.865*** (-8.21)	-2.388*** (-3.46)
Constant	/	/	-45.43*** (-10.74)	-76.15*** (-12.79)	-73.07*** (-12.58)	-55.40*** (-8.15)	-60.94*** (-8.56)	-9.243*** (-11.60)	-8.949*** (-11.35)	-36.384*** (-6.82)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	839	623	839	839	839	839	839	839	839	839
Adj. R ²			0.6593							
Pseudo R ²	0.4159			0.2726	0.2732					
Wald chi2		200.26				392.04	404.61	1905.06	1857.22	3084.02

Appendix 3 Risk-Taking: An investigation of political connections on a bank's propensity to take risk

This table presents results of pooled OLS regressions examining the impact of CEO political connections on bank risk taking. $Z\text{-score} = (RoA + Equity/AssetRatio)/RoA_sd3$; $Equity/AssetRatio = Equity / Total\ Asset$; RoA_sd3 is the standard deviation of RoA in the last 3 years. $Sd(NIM)$ is the standard deviation of the annual net interest income to total operating income ratio in the last 3 years. NPL is the ratio of non-performing loans to total assets in each year. Table 2 defines all variables. ***, **, and * denote statistical significance at respective 1%, 5%, and 10% levels.

	Z-score t+1				Sd (NIM) t+1				NPL ratio t+1			
	OLS (1)	OLS (2)	OLS (3)	OLS (4)	OLS (5)	OLS (6)	OLS (7)	OLS (8)	OLS (9)	OLS (10)	OLS (11)	OLS (12)
P_CONN	-1.133 (-0.33)				0.00876 (1.21)				0.000524 (1.20)			
P_CONN_state		-3.731 (-0.75)				0.00323 (0.72)				0.000735 (1.54)		
P_CONN_province			1.387 (0.33)				-0.00101 (-0.15)				0.000360 (0.85)	
P_CONN_city				-0.419 (-0.10)				0.0221* (1.77)				0.000556 (0.74)
Brd_Duality	-0.841 (-0.28)	-0.599 (-0.20)	-0.977 (-0.33)	-0.917 (-0.31)	-0.00538 (-0.54)	-0.00508 (-0.50)	-0.00476 (-0.48)	-0.00457 (-0.46)	-0.00159** (-2.57)	-0.0016*** (-2.61)	-0.00157** (-2.55)	-0.00155** (-2.51)
Brd_Indep	-5.778 (-0.52)	-5.564 (-0.50)	-5.832 (-0.53)	-5.800 (-0.52)	-0.0687** (-2.35)	-0.0686** (-2.34)	-0.0684** (-2.33)	-0.0689** (-2.37)	-0.00216 (-0.93)	-0.00219 (-0.94)	-0.00215 (-0.93)	-0.00215 (-0.93)
Brd_Fem	-5.488 (-0.78)	-5.377 (-0.76)	-5.411 (-0.77)	-5.452 (-0.77)	0.0249 (1.14)	0.0244 (1.12)	0.0244 (1.12)	0.0255 (1.17)	-0.00292* (-1.80)	-0.00295* (-1.82)	-0.00294* (-1.81)	-0.00292* (-1.80)
RoA	5.025** (2.08)	5.061** (2.08)	4.893** (2.03)	4.959** (2.05)	-0.00810 (-1.21)	-0.00764 (-1.14)	-0.00750 (-1.13)	-0.00779 (-1.17)	-0.0041*** (-6.94)	-0.0041*** (-6.93)	-0.0041*** (-6.92)	-0.0041*** (-6.92)
Ln(Size)	4.385*** (4.45)	4.330*** (4.39)	4.326*** (4.39)	4.343*** (4.46)	-0.0055*** (-2.77)	-0.0052*** (-2.62)	-0.0052*** (-2.62)	-0.0056*** (-2.79)	-0.000279 (-1.38)	-0.000255 (-1.25)	-0.000259 (-1.27)	-0.000267 (-1.33)
Dpst_Ratio	2.223 (0.26)	2.392 (0.28)	2.756 (0.32)	2.398 (0.28)	-0.0795*** (-2.88)	-0.0811*** (-2.94)	-0.0814*** (-2.90)	-0.0800*** (-2.91)	0.0112*** (5.73)	0.0111*** (5.72)	0.0112*** (5.69)	0.0112*** (5.71)
Cap_Adq	-0.0733 (-0.14)	-0.0731 (-0.14)	-0.0613 (-0.12)	-0.0651 (-0.13)	-0.0036*** (-2.81)	-0.0037*** (-2.86)	-0.0037*** (-2.86)	-0.0037*** (-2.88)	-0.0000861 (-0.91)	-0.0000881 (-0.94)	-0.0000886 (-0.94)	-0.0000902 (-0.96)
Rural Banks	9.834** (2.06)	9.320* (1.93)	10.10** (2.09)	9.936** (2.11)	-0.00247 (-0.24)	-0.00265 (-0.26)	-0.00330 (-0.33)	-0.00376 (-0.37)	-0.000578 (-0.68)	-0.000502 (-0.58)	-0.000576 (-0.68)	-0.000635 (-0.75)
City Banks	5.979 (1.47)	5.483 (1.34)	6.256 (1.54)	6.104 (1.54)	0.0161** (2.23)	0.0157** (2.16)	0.0150** (2.09)	0.0150** (2.07)	-0.0029*** (-4.04)	-0.0029*** (-3.94)	-0.0029*** (-4.10)	-0.0030*** (-4.15)
Constants	-94.90*** (-3.27)	-93.41*** (-3.20)	-94.36*** (-3.24)	-94.27*** (-3.26)	0.290*** (4.97)	0.284*** (4.88)	0.284*** (4.88)	0.293*** (4.98)	0.0104* (1.75)	0.00993* (1.66)	0.0100* (1.67)	0.0103* (1.73)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	830	830	830	830	837	837	837	837	839	839	839	839
adj R2	0.0852	0.0856	0.0852	0.0851	0.1222	0.1209	0.1208	0.1256	0.2403	0.2400	0.2397	0.2400

Appendix 4 Risk-Taking: An investigation of the interaction of political connections and business risk on identified bank misconduct

This table presents the results of pooled OLS regressions examining the impact of CEO political connections on bank misconduct by including the inter between CEO political connection and different measures of bank risk-taking.

See Table 2 for all variable definitions; Coefficients with significance at 1%, 5%, and 10% thresholds denoted by ***, **, and *.

$\ln(1+Num_Enf)$ refers to the natural logarithm of (1 + Number of enforcements) for the given year. $\ln(1+Num_Fines)$ refers to the natural logarithm of (1 + Number of fines) for the given year.

	$\ln(1+Num_Enf)_{t+1}$	$\ln(1+Num_Fines)_{t+1}$	$\ln(1+Num_Enf)_{t+1}$	$\ln(1+Num_Fines)_{t+1}$	$\ln(1+Num_Enf)_{t+1}$	$\ln(1+Num_Fines)_{t+1}$
	OLS (1)	OLS (2)	OLS (3)	OLS (4)	OLS (5)	OLS (6)
P_CONN	-2.100*** (-3.59)	-1.826*** (-3.09)	-1.423** (-2.12)	-1.323* (-1.88)	-2.366*** (-2.93)	-1.812** (-2.27)
Z-score	-0.00704 (-0.96)	-0.00536 (-0.75)				
P_CONN × Z-score	0.0142 (1.15)	0.00834 (0.63)				
Sd (NIM)			3.063* (1.67)	2.842 (1.55)		
P_CONN × Sd (NIM)			-7.125 (-0.81)	-7.247 (-0.77)		
NPL ratio					59.19** (2.26)	65.00** (2.51)
P_CONN × NPL ratio					77.26 (0.57)	7.718 (0.06)
Brd_Duality	-0.430 (-0.48)	-0.637 (-0.80)	-0.371 (-0.40)	-0.569 (-0.69)	-0.891 (-1.08)	-1.053 (-1.40)
Brd_Indep	0.201 (0.11)	0.323 (0.18)	0.762 (0.44)	0.897 (0.51)	0.153 (0.09)	0.128 (0.07)
Brd_Fem	-2.928* (-1.94)	-3.359** (-2.17)	-2.916* (-1.93)	-3.357** (-2.17)	-2.161 (-1.41)	-2.508 (-1.59)
RoA	-0.817 (-1.58)	-0.856* (-1.68)	-0.843 (-1.64)	-0.879* (-1.74)	-0.132 (-0.25)	-0.298 (-0.59)
Ln(Size)	2.308*** (11.14)	2.213*** (10.74)	2.296*** (11.25)	2.210*** (10.92)	2.441*** (12.25)	2.364*** (12.18)
Dpst_Ratio	12.76*** (7.12)	11.55*** (6.56)	13.10*** (7.52)	11.98*** (6.97)	11.22*** (6.47)	10.81*** (6.66)
Cap_Adq	0.452*** (4.50)	0.390*** (3.91)	0.455*** (4.45)	0.391*** (3.85)	0.349*** (3.66)	0.330*** (3.58)
Rural Banks	-4.441*** (-6.63)	-4.557*** (-6.71)	-4.397*** (-6.67)	-4.509*** (-6.73)	-3.700*** (-5.62)	-3.995*** (-6.19)
City Banks	-2.013*** (-3.85)	-2.156*** (-4.08)	-2.059*** (-3.99)	-2.189*** (-4.20)	-1.661*** (-3.27)	-1.777*** (-3.50)
Constants	-73.66*** (-11.56)	-69.40*** (-11.04)	-74.09*** (-11.72)	-70.05*** (-11.27)	-75.93*** (-12.73)	-73.13*** (-12.56)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	660	660	665	665	839	839
Pseudo R	0.2647	0.2618	0.2675	0.2652	0.2738	0.2746

Panel A: Post-entropy balancing covariates

Calculation of standardized mean differences (SMD) reflects the difference in means between treatment and control samples divided by the standard deviation of the treatment sample for each covariate (i.e., values closer to zero arise where the distribution of a covariate is similar across treatment and control subsamples). The variance ratio (VR) is the ratio of the variance of each covariate in the treatment sample scaled by the covariate variance for the control sample. See Table 2 for all variable definitions; Coefficients with significance at 1%, 5%, and 10% thresholds (respectively denoted by ***, **, and *)

	Treatment Group			Control Group			SMD	VR
	Mean	Variance	Skewness	Mean	Variance	Skewness		
Brd_Duality	0.047	0.045	4.295	0.047	0.045	4.290	0.000	1.007
Brd_Indep	27.980	2.265	0.071	27.920	2.260	0.032	0.040	1.002
Brd_Fem	1.040	0.074	-0.453	1.038	0.074	0.626	0.007	1.002
RoA	0.667	0.008	-0.049	0.666	0.008	0.034	0.014	1.002
Ln(Size)	13.030	2.689	0.664	13.000	2.683	0.758	0.018	1.002
Dpst_Ratio	0.341	0.005	-1.165	0.340	0.005	-1.026	0.010	1.001
Cap_Adq	0.124	0.010	0.548	0.124	0.010	0.546	0.002	1.002
Rural Banks	0.093	0.086	2.793	0.094	0.085	2.788	-0.001	1.006
City Banks	0.393	0.241	0.440	0.392	0.239	0.442	0.001	1.009

Panel B: Entropy balancing regression results

$Ln(1+Num_Enf)$ refers to the natural logarithm of (1 + Number of enforcements) for the given year. $Ln(1+Num_Fines)$ refers to the natural logarithm of (1 + Number of fines) for the given year. $Ln(1+CNY_Fines)$ refers to the natural logarithm of (1 + Chinese Yuan fine amounts) for the given year.

	$Ln(1+Num_Enf)_{t+1}$	$Ln(1+Num_Fines)_{t+1}$	$Ln(1+CNY_Fines)_{t+1}$	$Ln(1+Num_Enf)_{t+1}$	$Ln(1+Num_Fines)_{t+1}$	$Ln(1+CNY_Fines)_{t+1}$
	OLS	OLS	OLS	Truncated	Truncated	Truncated
	(1)	(2)	(3)	(4)	(5)	(6)
P_CONN	-0.037 (-0.49)	-0.047 (-0.61)	-0.741 (-1.40)	-0.037 (-0.49)	-0.047 (-0.62)	-0.741 (-1.42)
Brd_Duality	-0.056 (-0.29)	-0.062 (-0.32)	-1.846 (-1.62)	-0.056 (-0.29)	-0.062 (-0.32)	-1.846 (-1.64)
Brd_Indep	-1.091 (-1.55)	-1.210* (-1.70)	-5.608 (-1.40)	-1.091 (-1.57)	-1.210* (-1.72)	-5.608 (-1.42)
Brd_Fem	0.066 (0.14)	-0.049 (-0.10)	-1.677 (-0.57)	0.066 (0.14)	-0.049 (-0.10)	-1.677 (-0.58)
RoA	0.003 (0.01)	0.051 (0.26)	-1.536 (-1.14)	0.003 (0.01)	0.051 (0.26)	-1.536 (-1.16)
Ln(Size)	0.511*** (12.01)	0.487*** (10.88)	1.459*** (4.37)	0.511*** (12.15)	0.487*** (11.01)	1.459*** (4.42)
Dpst_Ratio	-0.337 (-0.72)	-0.310 (-0.70)	-2.051 (-0.68)	-0.337 (-0.73)	-0.310 (-0.71)	-2.051 (-0.69)
Cap_Adq	0.105*** (4.09)	0.101*** (4.15)	-0.088 (-0.39)	0.105*** (4.14)	0.101*** (4.20)	-0.088 (-0.40)
Rural Banks	-0.870*** (-4.49)	-0.914*** (-4.74)	-7.724*** (-5.61)	-0.870*** (-4.54)	-0.914*** (-4.80)	-7.724*** (-5.67)
City Banks	-0.593*** (-4.95)	-0.603*** (-5.05)	-4.219*** (-4.14)	-0.593*** (-5.00)	-0.603*** (-5.11)	-4.219*** (-4.18)
Constant	-13.857*** (-13.14)	-13.169*** (-11.56)	-24.368*** (-2.69)	-13.857*** (-13.29)	-13.169*** (-11.69)	-24.368*** (-2.72)
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	839	839	839	839	839	839
Adj R ²	0.822	0.813	0.643			
Wald Chi2				2593.79	2594.56	1247.44

Appendix 6. Testing for omitted variable issues

Panel A. Addressing endogeneity: Reverse causality and omitted variable bias

$\ln(1+Num_Enf)$ is the natural log of (1 + No. of enforcements) in a given year. $\ln(1+Num_Fines)$ is the natural log of (1 + Number of fines) in a given year. $\ln(1+CNY_Fines)$ is the natural logarithm of (1 + Chinese Yuan fine amounts) in a given year.

	$\ln(1+Num_Enf)_{t+2}$	$\ln(1+Num_Enf)_{t+3}$	$\ln(1+Num_Fines)_{t+2}$	$\ln(1+Num_Fines)_{t+3}$	$\ln(1+CNY_Fines)_{t+2}$	$\ln(1+CNY_Fines)_{t+3}$
	OLS	OLS	OLS	OLS	OLS	OLS
	(1)	(2)	(3)	(4)	(5)	(6)
P_CONN	-0.167*	-0.001	-0.159*	0.010	0.017	0.577
	(-1.79)	(-0.01)	(-1.71)	(0.11)	(0.03)	(0.95)
Brd_Duality	-0.097	-0.178	-0.085	-0.161	-0.267	-1.420
	(-0.71)	(-1.20)	(-0.64)	(-1.11)	(-0.24)	(-1.27)
Brd_Indep	-0.182	0.168	-0.201	0.105	-0.816	2.137
	(-0.60)	(0.48)	(-0.68)	(0.31)	(-0.30)	(0.71)
Brd_Fem	-0.484**	-0.509**	-0.543**	-0.463*	-2.996	-1.600
	(-2.15)	(-2.03)	(-2.35)	(-1.91)	(-1.53)	(-0.74)
RoA	0.064	0.145	0.059	0.131	-0.280	0.284
	(0.86)	(1.60)	(0.82)	(1.48)	(-0.43)	(0.35)
Ln(Size)	0.389***	0.396***	0.375***	0.387***	1.956***	1.830***
	(14.76)	(14.02)	(14.44)	(14.06)	(10.04)	(8.91)
Dpst_Ratio	0.642**	0.679**	0.577**	0.649**	-5.509***	-6.477***
	(2.32)	(2.30)	(2.12)	(2.26)	(-2.69)	(-2.75)
Cap_Adq	0.026**	0.013	0.022*	0.009	-0.251**	-0.435***
	(2.00)	(0.82)	(1.68)	(0.59)	(-2.29)	(-3.34)
Rural Banks	-1.238***	-1.268***	-1.224***	-1.247***	-3.697***	-3.520***
	(-9.61)	(-9.24)	(-9.80)	(-9.37)	(-3.79)	(-3.34)
City Banks	-0.880***	-0.917***	-0.865***	-0.901***	-1.536**	-0.990
	(-7.37)	(-7.39)	(-7.52)	(-7.48)	(-2.00)	(-1.26)
Constant	-9.913***	-10.036***	-9.500***	-9.726***	-37.518***	-32.236***
	(-11.54)	(-10.84)	(-11.26)	(-10.73)	(-6.52)	(-5.28)
Year fixed	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	683	560	683	560	683	560
Wald chi2	0.735	0.754	0.732	0.757	0.510	0.493

Appendix 6, Panel B Addressing endogeneity: Omitted variable bias via an ITCV approach

$\ln(1+Num_Enf)$ is the natural log of (1 + No. enforcements) in a given year. $\ln(1+Num_Fines)$ is the natural logarithm of (1 + Number of fines) in a given year. $\ln(1+CNY_Fines)$ is the natural logarithm of (1 + Chinese Yuan fine amounts) in a given year.

	$\ln(1+Num_Enf)_{t+1}$			$\ln(1+Num_Fines)_{t+1}$			$\ln(1+CNY_Fines)_{t+1}$		
	ITCV	Impact	Impact _{raw}	ITCV	Impact	Impact _{raw}	ITCV	Impact	Impact _{raw}
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
P_CONN	-0.062			-0.068			0.113		
Brd_Duality		-0.0007	0.0009		-0.0006	0.0009		-0.0010	0.0005
Brd_Indep		-0.0002	0.0993		-0.0004	0.0979		0.0003	0.0941
Brd_Fem		-0.0002	-0.0004		0.0001	-0.0004		0.0009	-0.0001
RoA		-0.0151	-0.0058		-0.0146	-0.0057		-0.0138	-0.0079
Ln(Size)		0.0633	0.2928		0.0629	0.2919		0.0468	0.2478
Dpst_Ratio		-0.0011	0.0375		-0.0009	0.0378		0.0027	0.0483
Cap_Adq		-0.0030	0.0102		-0.0029	0.0105		0.0000	0.0175
Rural Banks		0.0158	0.0516		0.0162	0.0523		0.0064	0.0547
City Banks		0.0193	0.0249		0.0192	0.0243		0.0047	0.0073

The above table calculates an impact statistic for the main independent variable (P_CONN). The ITCV statistic indicates the minimum impact required to render the P_CONN coefficient statistically insignificant. The ITCV is the product of two correlations: (1) The correlation between P_CONN and the confounding variable; and (2) the correlation between bank misconduct and the confounding variable. To assess the likelihood that such a variable exists, column (2) shows the impact of each control variable on the coefficient of P_CONN . The impact is defined as the product of the *partial* correlation between P_CONN and the control variable and the correlation between $\ln(1+Num_Enf)_{t+1}$ and the control variable. In Column (2), the ITCV is larger in absolute terms than all control variables other than $\ln(Size)$. Accordingly, we would need a confounding variable with stronger impact to overturn the results. Column (3) shows a more conservative measure of impact, which is the relevant product based on *simple* correlations. In Column (3), only two control variables (Brd_Indep , and $\ln(Size)$) have a higher impact than the corresponding ITCV in absolute terms. Assuming an appropriate set of control variables, it is therefore unlikely that an unobserved confounding variable exists. The main findings for P_CONN are thus robust to omitted variable bias (Croci and Petmezas, 2015; Raghunandan, 2021). Cols. (4) through (6) repeat the exercise for $\ln(1+Num_Fines)_{t+1}$ as the dependent variable. Cols. (7) through (9) repeat the exercise for $\ln(1+CNY_Fine)_{t+1}$ as the dependent variable. The main findings appear qualitatively similar.

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