

The Research on the Influence of Chairman's Hometown Identity on Labor Cost Stickiness of State-owned Enterprises

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Abstract. This paper investigates the impact of the chairman's hometown identity on labor cost stickiness within Chinese state-owned enterprises (SOEs). Using a sample of Shanghai and Shenzhen A-share listed SOEs from 2007 to 2023, the empirical results show that SOEs with local chairmen exhibit weaker labor cost stickiness. This finding remains robust after a series of robustness checks, including instrumental variable analysis, PSM tests, HDFE models, and alternative measures for the key explanatory variable. Mechanism tests reveal that local chairmen reduce labor cost stickiness primarily through salary reductions rather than layoffs. Moderation effect analyses confirm that local chairmen, by sharing a cultural background with employees and thus gaining their trust and support, can effectively reduce labor cost stickiness. Finally, a series of heterogeneity analyses are conducted from three perspectives: external supervision, market environment, and internal corporate governance. The results indicate that when firms face negative conditions such as weak external supervision, poor market environments, or inferior internal governance, the informal institution of the chairman's hometown identity becomes effective, significantly reducing labor cost stickiness.

Keywords: State-Owned Enterprises; Hometown Identity; Cost Stickiness; Salary Adjustment.

1. Introduction

In recent years, following the transformation and upgrade of the global economic structure and the gradual weakening of demographic dividend advantages, China's economy has entered a "New Normal," characterized by a slowdown in economic growth. Within this macro context, numerous enterprises face dual pressures from high operating costs and overcapacity. Cost reduction, being a crucial aspect of management, compels firms to place greater emphasis on cost management, making cost stickiness a key concern. As cornerstones of China's socialist system, state-owned enterprises (SOEs) often have their operations influenced by political needs. When balancing social obligations against the pursuit of commercial profitability, they frequently prioritize fulfilling social duties. This leads to economic inefficiencies during their operations. This inefficiency implies that within a measurable period, after allocating resources, SOEs fail to achieve economic returns commensurate with the market value of these resources[1], resulting in efficiency losses and ultimately weakening their ability to precisely control labor costs. Under socio-political pressure, SOEs bear a significant burden of ensuring employment stability and promoting job creation. Consequently, when sales decline, they tend to avoid "layoffs" or "salary cuts," exhibiting strong labor cost stickiness, which increases their labor input costs and operational burdens, making their cost stickiness significantly higher than that of other firm types.

In China, Confucianism emphasizes personal virtues like benevolence, righteousness, propriety, wisdom, and trustworthiness. These traditional Chinese virtues foster an emotional attachment to one's hometown, creating a sense of hometown identity. Previous scholars have extensively studied the impact of this identity on corporate behaviors such as innovation, R&D, and tax avoidance (Ren et al., 2021; Lai et al., 2020; Li Jiyan et al., 2020)[2][3][4]. As the chairman is a top-level manager whose personal characteristics influence corporate behavioral choices[5], investigating whether a local chairman can help resolve management issues related to labor cost stickiness is of great significance.

However, it is unclear whether the local chairman will increase or decrease the stickiness of corporate labour costs. On the one hand, local chairmen often strive to maintain a good reputation within the local community (Relph, 1976; Lai et al., 2020)[6][3]. Therefore, when facing declining revenues, they might be more reluctant to adopt layoff or pay-cut policies to preserve their personal reputation and provide benefits to local residents. Simultaneously, reducing labor costs would expose them to greater social pressure. Choosing not to reduce labor costs when revenues fall would be more conducive to building a positive local image and safeguarding personal reputation. Thus, during economic downturns, local chairmen might be less willing to reduce labor costs, thereby increasing labor cost stickiness. On the other hand, local chairmen share a common hometown cultural background with employees. This allows them to better understand employees' genuine feelings and needs when implementing labor cost reduction policies, enabling more targeted policies, and providing more effective support and compensation. Concurrently, it facilitates local chairmen in gaining employees' support and trust more easily. Consequently, leveraging this shared cultural background and employee trust, local chairmen might be better positioned to implement labor cost reduction policies (such as layoffs and salary cuts), thereby reducing labor cost stickiness.

This paper selects Chinese A-share listed SOEs on the Shanghai and Shenzhen stock exchanges from 2007 to 2023 as the sample to explore the impact of the chairman's hometown identity on labor cost stickiness. An explanatory variable, *Native*, is constructed to measure the chairman's local identity. When the chairman's native place is available at the municipal level, if the chairman's native place is in the same city as the company's registered place, *Native* is 1. When the chairman's native place is not available at the municipal level but available at the provincial level, *Native* is 1 when the chairman's native place is in the same province as the company's registered place. Then, this paper builds an interactive term model by referring to the methods of Anderson et al.(2003), Gu et al.(2020) and Wu et al.(2024)[7][8][9]. The benchmark regression results show that state-owned enterprises with local chairman can significantly reduce the stickiness of labor cost.

Three approaches are used to mitigate potential endogeneity. Firstly, this paper uses instrumental variable method to carry out two-stage least squares regression, selecting the number of 985 or 211 engineering universities in the province where the state-owned enterprise is registered as the instrumental variable. The regression results show that the more the number of 985 or 211 universities in the province where the company is located, the lower the possibility of the company having a local chairman. Second, this paper uses propensity score matching (PSM) and high-dimensional fixed effects model (HDFE). Third, four different alternative measures for the chairman's hometown identity are employed. All regression results consistently support the conclusion that SOEs with local chairmen exhibit weaker labor cost stickiness. Next, the mechanism through which local chairmen reduce labor cost stickiness is explored. Replacing the dependent variable in the baseline regression with changes in average wage and changes in the number of employees reveals that local chairmen tend to reduce labor cost stickiness primarily through salary cuts rather than layoffs.

Further moderation effect analysis is conducted from two aspects: shared cultural background and employee trust. Grouped regression results show that local chairmen significantly reduce labor cost stickiness when sharing a cultural background with employees and gaining their trust. Finally, a series of heterogeneity analyses are performed from three perspectives: external supervision, market environment, and internal corporate governance. The results indicate that when firms face negative conditions such as weak external supervision, poor market environments, or inferior internal governance, the informal institution of the chairman's hometown identity becomes effective. Compared to non-local chairmen, local chairmen facing these negative situations are more likely to adopt salary adjustments, leveraging their information and trust advantages, thereby significantly reducing labor cost stickiness.

Compared with existing literature, this paper makes several contributions. First, it supplements research on the factors influencing labor cost stickiness. Previous studies have shown that macroeconomic uncertainty (Jin et al., 2021)[10], state ownership and political ties (Gu et al., 2020)[8], and diversified ownership structures (Luan Fugui et al., 2022)[11] affect labor cost

stickiness, mostly focusing on macro-market environments or organizational backgrounds, with fewer studies examining the impact of chairman personal characteristics. However, the object of labor cost adjustment policy is enterprise employees, this group has subjective initiative different from other production resources, so this paper studies how the personal characteristics of the chairman play a role in the communication process between the chairman and the enterprise employees, thus affecting the enterprise labor cost policy, so as to study the impact of the personal characteristics of the chairman on the enterprise labor cost stickiness, this research is of certain significance, the results of this study also show that State-owned enterprises with local chairman can effectively alleviate the labor cost stickiness of enterprises and enrich the related research on the influencing factors of labor cost stickiness.

Second, research on the economic consequences of executives' hometown identity mainly focuses on corporate innovation, social responsibility, M&A performance, and agency problems (Lai et al., 2020; Ren et al., 2021; Hu Jun et al., 2017; Sun Shuwei et al., 2022; Cao Chunfang et al., 2018)[3][2][12][13][14]. Many studies have shown that executives with local identities will cause multiple agency cost problems due to emotional bias and make non-optimal decisions. Conversely, this paper shows that a local chairman's identity can offer better communication advantages and greater employee trust, enabling better responses in labor cost adjustment during downturns and reducing stickiness. This enriches the understanding of how chairman's hometown identity affects corporate decisions.

Third, prior research have suggested that the state is more likely to intervene in SOE decision-making (Prabowo et al., 2018)[15]. Due to policy burdens, the government protects or subsidizes SOEs facing losses (Lin Yifu et al., 2004; Liu Ruiming et al., 2010)[16][17]. Beyond the social responsibilities that make labor cost reduction difficult, SOEs also face soft budget constraints from future government subsidies, reinforcing labor cost stickiness. While studies show that digital transformation (Li Liaoning et al., 2024)[18] and internal control (Han Lanlan et al., 2017)[19] can curb cost stickiness, this paper demonstrates that besides government subsidies, hiring a local chairman can also effectively alleviate labor cost stickiness in SOEs, offering another effective measure.

Fourth, from the perspectives of external supervision, market environment, and internal governance, this paper finds that when enterprises are faced with the unfavorable situation of weak external supervision, bad market environment and poor internal governance, local chairman can exert the effect through the informal system of hometown identification, promote the reduction of enterprise labor cost stickiness, play a certain role in replacing external supervision, formal system and internal governance, and also provide certain ideas for enterprises.

The rest of the paper is organized as follows: Chapter 2 reviews the literature and develops hypotheses; Chapter 3 describes the research design; Chapter 4 presents the empirical results; Chapter 5 discusses robustness checks; Chapter 6 details mechanism tests, moderation effect analyses, and heterogeneity analyses; Chapter 7 concludes.

2. Literature Review and Hypothesis Development

2.1. Research on Hometown Identity

Hometown identity is a multi-dimensional, complex socio-psychological concept. It represents an individual's comprehensive reflection of cognition, emotional connection, attitudinal evaluation, and behavioral tendencies towards the "hometown" as a geographic and emotional place of belonging. It is not merely geographic belonging but also profound emotional attachment and cultural identity. Hometown identity is an important characteristic of managers. It is a multidimensional concept rooted in social identity theory and place identity theory, including emotional attachment, cognitive evaluation, behavioral commitment and sociocultural affiliation. The concept of place identity was first proposed by Proshansky(1978) in environmental psychology[20]. Subsequently, place identity

has become a hot topic in academic circles. Hernandez et al.(2007) further explored place attachment and human-place interactions, finding a significant moderating effect on individual behavior[21].

Scholars have extensively researched the economic consequences of hometown identity. Yonker (2017) found that during distressed periods, branches located near a CEO's childhood home experienced fewer job and pay cuts and were less likely to be divested[22]. Subsequently, research expanded to corporate innovation, M&A performance, and corporate responsibility. Regarding innovation, Ren et al. (2021) proposed that hometown CEOs are more willing to engage in long-term investments (e.g., innovation), exhibiting stronger long-term orientation and lower career concerns, leading to significantly higher innovation input and output[2]. Lai et al. (2020) found that executive hometown identity mitigates the tendency to cut R&D spending[3]. However, views on enterprise innovation are not unified. Yan and Zhou (2021) found that compared with local CEOs, non-local CEOs, possessing diverse cultural experiences and open thinking, mitigate inherent "local preferences" and risk aversion, making them more inclined towards high-risk innovation activities [23].

Regarding M&A performance, studies consistently find that hometown identity exacerbates agency problems, leading to poorer M&A outcomes. Jiang et al. (2019) found that local executives have significant "hometown bias" in M & A decisions, and they are more than twice as likely to acquire hometown enterprises as other regions, but this bias will damage company value and lead to negative economic consequences such as worse M & A performance and higher premiums[24]. Sun et al.(2022) found that local executives showed significant hometown preference in remote M & A, and the long-term performance of the acquired enterprises was poor due to higher premium payment, more goodwill impairment, poor integration efficiency after M & A and increased over-employment[13]. Regarding corporate social responsibility (CSR), Li et al. (2020) showed that local CEOs exhibit lower tax avoidance tendencies due to hometown identity[4]; Hu et al. (2017) found more environmental investment with local executives, positively promoting corporate environmental governance[12]; Ren et al. (2023) found that firms with local executives tend to undertake more CSR[25]; Zheng et al. (2024) similarly found that local executives significantly promote corporate charitable donations, with higher likelihood and amounts[26]. However, research on how executive hometown identity affects corporate decisions rarely focuses on labor costs. This paper addresses this gap by investigating the impact of chairman's hometown identity on labor cost stickiness.

2.2. Research on Labor Cost Stickiness

Cost stickiness refers to the phenomenon where the magnitude of cost increase when revenues rise is greater than the magnitude of cost decrease when revenues fall by an equivalent amount. Following Anderson et al. (2003), who confirmed the existence of asymmetric cost adjustment (stickiness) by studying the financial data of 7629 companies in the United States for more than 20 years[7], global scholars have extensively studied cost stickiness across existence, consequences, and determinants.

After Anderson et al.(2003) proposed cost stickiness based on the sample of USA, Sun Zheng and Liu Hao(2004) first revealed that cost stickiness existed in China listed companies by using the data of 292 China listed companies from 1994 to 2001, and compared with USA, cost stickiness of China enterprises was more serious[27]. On consequences, Costa et al. (2023) found a significant negative correlation between cost stickiness and firm value through using the US samples[28]; Sun et al.(2019) found that cost stickiness reduces R&D expenditure by using data from listed companies in China manufacturing industry from 2007 to 2015[29]; Rouxelin et al.(2018) found higher cost stickiness correlates with lower future unemployment rates[30]; Jiang et al.(2016) found greater expense stickiness leads to lower accounting earnings persistence and earnings response coefficients[31].

Cost stickiness is the most explored field, and the causes of cost stickiness mainly include the following three aspects: optimistic expectations of management for the future, agency problems between management and shareholders, and resource adjustment costs. First, optimistic expectations believe that incomplete information in management decision-making often leads to optimistic

expectations, which is one of the key factors in the formation of cost stickiness. If managers believe that the decrease in operating income is only a temporary fluctuation, they usually do not rush to reduce idle production capacity, and absorb resources greatly when the operating income rises slightly. This behavior pattern intensifies the sticky characteristics of enterprise costs (Yu et al., 2019)[32]. Liang(2015) also pointed out that overconfident managers tend to underestimate the potential business risks of projects, overestimate their own ability level, and hold an optimistic attitude towards the future market of enterprises. When sales revenue decreases, overconfident management will not immediately reduce labor resource investment, thus causing serious labor cost stickiness[33].

Secondly, Anderson et al.(2003) pointed out that the resource adjustment cost of enterprises is one of the main reasons for the formation of cost stickiness. When the operating income of enterprises decreases, enterprises need to bear certain costs to reduce labor resources. At the same time, when the operating income of enterprises increases in the future, it will also produce certain costs to increase labor resources again. The cost generated in this process is labor adjustment cost, and labor adjustment cost not only includes monetary funds, It also includes psychological costs. iAmong them, monetary fund refers to the severance expenses paid to the employees who leave when the enterprise dismisses employees, as well as the recruitment costs and training costs incurred by re-employing new employees after the increase of operating income; psychological cost refers to the cost loss that cannot be directly measured by monetary fund, such as the decrease of employees 'enthusiasm caused by large-scale layoffs and the negative impact on the enterprise image.(Jiang and Hu, 2011; Anderson et al., 2003)[34][7]. When the adjustment cost is higher, the enterprise is less likely to cut resources when operating income declines, resulting in cost stickiness. For example, Banker et al.(2013) found that stricter employment protection laws lead to higher labor adjustment costs, and enterprises show stronger cost stickiness[35]; Liu Yuanyuan and Liu Bin (2014) also proposed that the implementation of Labor Contract Law increased the labor adjustment costs of enterprises, thus aggravating the labor cost stickiness of enterprises[36]; Ma Hui and Jin Qinglu (2024) proposed in their research that the reform of household registration system can help reduce the adjustment cost of re-recruiting employees when operating income rises, thus reducing the stickiness of labor cost[37].

Third, agency problems between management and shareholders are also important contributors to labor cost stickiness (Anderson et al., 2003; Chen et al., 2012)[7][38]. Under the background of imperfect corporate governance system and lack of effective supervision mechanism, managers hold the decision-making power of enterprises. In the decision-making process of enterprise cost management, managers' personal will will interfere with the efficiency of enterprise resource allocation, and then affect the cost stickiness of enterprises. Chen et al.(2012) deeply analyzed the influencing factors of enterprise cost stickiness from the perspective of agency cost, and the research showed that enterprise principal-agent problem is an important reason for cost stickiness. For example, Chen et al.(2012) notes that managers tend to expand beyond their optimal size in order to gain more personal benefits from status, power, compensation, and prestige, so this desire to expand makes managers less willing to reduce labor costs in the face of declining operating revenues[38]. Han Lanlan and Ma Yuanju(2011) proposed in their research that managers, driven by self-interest motives, increase resources excessively when operating income rises in order to obtain high compensation returns and maximize the resources they control, while when operating income falls, they do not immediately make decisions to reduce resources due to concerns about resource reduction and compensation reduction, resulting in an increase in cost stickiness; however, they also found internal control can curb self-interest and reduce stickiness[19]. Sun et al. (2024) found common institutional ownership can exert stronger influence on firm decisions, reducing agency-cost-induced stickiness[39].

Most studies on labor cost stickiness determinants focus on macro-markets, external supervision, or organizational environments, with few exploring executive personal characteristics. This paper addresses this gap by studying the impact of local chairmen on SOE labor cost stickiness.

2.3. Hypothesis Development

For SOEs bearing dual economic and social pressures, reducing labor costs is challenging. According to Upper Echelons Theory, the personal characteristics of key decision-makers influence their decisions. If the chairman is local, their personal emotional tendencies and values manifest in daily management and strategic decisions, affecting labor costs. Existing research shows labor costs exhibit “stickiness” during revenue declines. Previous scholars have shown that the formation of labor cost stickiness is not a single dimension of resource adjustment, but involves the coordinated adjustment process of labor scale and average salary (Gu et al., 2020; Liu Yuanyuan et al., 2014; Quan Xiaofeng et al., 2024; Tian Gaoliang et al., 2023; Fang Qiaoling et al., 2021)[8][36][40][41][42], so the viscous characteristics of labor cost may be caused by labor adjustment viscosity or salary adjustment viscosity, or both mechanisms. Accordingly, this paper further proposes that the chairman's local identity, as a key link between enterprise labor cost decision-making and enterprise employees, may affect compensation adjustment stickiness or employment adjustment stickiness through its differentiated resource adjustment logic, and then have an impact on labor cost stickiness.

In the salary adjustment mechanism, traditional compensation theory holds that downward adjustment of compensation faces severe rigid constraints, which originate from legal constraints of labor contract and external regulation of minimum wage system, and also from employees' perception of fairness and trust in management (Kahneman et al., 1986)[43]. When the operating income of an enterprise declines, if the management fails to formulate a reasonable and targeted salary reduction policy for employees, or employees lack trust in the management, employees will question the explanation of the salary reduction by the management and the fairness of the salary reduction, causing strong resistance, low morale, reduced productivity and other consequences, thus aggravating the hidden cost of the enterprise (Cohn et al., 2014)[44]. A local chairman can reduce resistance to salary cuts through two channels: shared cultural background and employee support, thus enhancing flexibility via salary adjustments and reducing labor cost stickiness.

First, local directors share a geographical and cultural background with employees and are more capable and willing to formulate more effective labor cost management policies. Previous studies have shown that place attachment includes three dimensions: cognitive, emotional and behavioral intentions, including understanding and adaptation to local sociocultural environments (Jorgensen et al., 2001; Raymonde et al., 2010)[45][46]. A local chairman likely possesses deep understanding of local dialect, environment, and culture (Jiang et al., 2019; Ren et al., 2021)[24][2], enabling them to grasp employees' genuine feelings and needs, formulate targeted policies, and provide effective support and compensation. For example, they might better understand employee preferences for “temporary salary cuts” versus “permanent layoffs”. Researches show most unemployed people prefer pay cuts to layoffs, especially in weaker economic periods (Weiss et al., 1986; Davis et al., 2025)[47][48]. When the chairman considers the hometown part of their social identity, decisions may incorporate concern for local employee welfare. This “in-group preference” makes local chairmen more likely to implement employee-acceptable policies (i.e., salary adjustments) to reduce labor costs and stickiness.

Second, a local chairman gains employee trust and communication advantages more easily. Social identity theory posits that when individuals perceive a leader as belonging to the same social group, trust, positive evaluation, and cooperation willingness increase (Turner, 1985)[49]. Shared origins enhance social identity and facilitate communication (Dai Yiyi et al., 2016)[50]. Compared to non-local chairmen, local chairmen gain employee trust more readily. Meanwhile, Bertheau et al.(2025) found firms prefer layoffs to pay cuts because pay cuts require costly, extensive negotiation and communication, harming morale. Firms would need substantial resources to manage post-cut morale and productivity decline, making layoffs preferable even with other costs (like severance)[51]. However, due to communication advantages and trust, local chairmen find employees more receptive to explanations, tolerant of temporary uncertainty, and trusting that the organization will protect long-term interests. Employees are more likely to accept that “pay cuts are temporary to tide over difficulties.” Consequently, the high communication costs and negative consequences of salary

adjustments are significantly mitigated by the local chairman's trust and communication advantage, making salary adjustments a more feasible tool to reduce labor costs and stickiness.

In the employment adjustment mechanism, employment adjustment involves the fracture and reconstruction of employment relationship, and its decision-making process is not only dominated by economic rationality and protected by system (Liu Yuanyuan et al., 2014)[36], but also deeply influenced by social norms, moral emotions and relational capital (Granovetter, 1985)[52]. This paper expects that a local chairman, sharing a cultural background, will be more cautious about using employment adjustments to manage labor costs. Furthermore, due to the greater trust employees place in a local chairman, the chairman, seeking to maintain this long-term trust relationship, will also be more cautious in choosing layoffs. Thus, it is predicted that a local chairman's identity will inhibit layoffs, making the firm prefer salary adjustments over employment adjustments to reduce labor costs and stickiness.

Social identity theory suggests that cultural similarity can establish and maintain social identity among individuals, and individuals with the same culture will form "inner groups". Individuals tend to allocate favorable resources to members of inner groups and give them more positive evaluation, i.e. "inner group preference" (Tajfelet al., 1982)[53]. Therefore, local directors are more likely to resonate emotionally with employees in the decision-making process, and they regard employees as fellow countrymen rather than simple employees. Meanwhile, some studies have found that local executives pay more attention to stability and social responsibility in decision-making (Renet al., 2023; Hu Jun et al., 2017; Li Jiyuan et al., 2020; Zhou Zhifang et al., 2023)[25][12][4][54]. Therefore, the labor cost adjustment policy of local chairman is not only regarded as economic behavior, but also endowed with moral responsibility. Between salary adjustment and employment adjustment, for the consideration of cultural empathy and moral responsibility, firing hometown employees is more likely to cause guilt and social pressure of local chairman, so the local identity of chairman will inhibit enterprises from reducing labor cost stickiness through employment adjustment. Second, local directors are more likely to gain employee trust and support, but also restricted by informal social relations. Fellow relationship is an informal social relationship. Compared with general social groups, people who speak the same dialect have stronger emotional dependence and cohesion, and also have stronger binding force (Zhai Xuewei, 2014)[55]. Fellow circles will quickly spread personal reputation, transmit information and word of mouth to each other, produce punishment and reputation effect on the chairman of the board, and the opportunity cost of bad reputation is extremely high (Dai Yiyi et al., 2016)[50]. At the same time, the local chairman is more likely to gain the trust and support of employees, which will constitute an implicit psychological contract between the two parties. Because of the identifiability and social embeddedness of his identity, the local chairman will pay more attention to maintaining the trust relationship with employees. Therefore, if the company chooses to lay off employees during the period of declining operating income, it will destroy the long-term trust relationship between the chairman and employees, as well as his personal reputation and Social networks in local society. Therefore, for the sake of maintaining trust relationship, personal reputation and Social networks, the local chairman is more likely to reduce labor cost stickiness by reducing compensation adjustment stickiness than labor adjustment stickiness. To sum up, this paper proposes the following assumptions:

H1: Compared to other SOEs, SOEs with local chairmen are more likely to reduce labor cost stickiness by lowering salary adjustment rigidity.

3. Research Design

3.1. Data Sources and Sample Selection

This paper selects a sample of Chinese state-owned enterprises (SOEs) listed on the Shanghai and Shenzhen A-share exchanges from 2007 to 2023. The starting year is 2007 due to the mandatory adoption of new accounting standards for Chinese listed companies from that year. Data primarily come from the CSMAR and CNRDS databases. Information on chairman's place of origin was manually collected and supplemented from these databases. The initial sample is adjusted as follows: (1) Exclude financial firms; (2) Exclude ST listed firms; (3) Exclude observations where labor costs exceed sales revenue; (4) Exclude observations lacking chairman hometown information; (5) Exclude observations lacking control variable data; (6) To mitigate potential outlier effects, continuous variables are winsorized at the 1% and 99% levels. After these selection criteria, a final sample of 6,382 firm-year observations is obtained.

3.2. Variable Definitions and Measurement

Labor cost stickiness refers to the phenomenon where labor costs increase more when operating revenue rises than they decrease when operating revenue falls by an equivalent amount. According to Gu et al.(2020), the explanatory variable in this paper defines the change in labor cost ΔCost as the change in the natural logarithm of labor cost between t years and $t-1$ years, and labor cost is the cash paid to and for employees in the cash flow statement [8].

The main explanatory variable, *Native*, is a binary variable indicating the chairman's local identity, following prior literature (Ren et al., 2021; Lai et al., 2020; Wu et al., 2024; Huang Zhen et al., 2022)[2][3][9][56]. Since chairman's place of origin (ancestral home, not necessarily birthplace, though often the same) is non-mandatorily disclosed, data are sometimes reported at the city level and sometimes only at the province level. Therefore, this paper matches using province or city level (Huang Zhen et al., 2022; Hu Jun et al., 2017; Li Hong et al., 2019)[56][12][57]. Specifically, when the chairman's native place is available at the municipal level, if the chairman's native place and the registered place of the enterprise are in the same city, *Native* is 1, and *Native* is 0 in different cities; when the chairman's native place is unavailable at the municipal level but available at the provincial level, *Native* is 1 if the chairman's native place and the registered place of the enterprise are in the same province, otherwise *Native* is 0. In Chinese listed companies, the chairman is usually appointed by the largest shareholder, who has more say than the general manager, so this paper focuses on the hometown identity of the chairman. Consistent with the traditional cost stickiness model of Anderson et al. (2003), operating revenue is chosen as the cost driver, measured as the change in the natural logarithm of operating revenue between year t and $t-1$.

For control variables, consistent with prior literature (Anderson et al., 2003; Gu et al., 2020; Wu et al., 2024; Quan Xiaofeng et al., 2024)[7][8][9][40], this paper includes some control variables at both enterprise and provincial levels, including whether the operating income of the enterprise decreases *D*, whether the operating income continuously decreases *SD*, employee intensity *LI*, asset intensity *AI*, regional economic growth rate *GDPG*, chairman's shareholding ratio *Cshare*, *Dual*, profitability *ROA*, *Loss*, and controls the fixed effects of year and industry.

Specific variables and definitions are as follows:

Table 1. Definition of main variables

	Variables	Definition
Dependent variables	ΔCost	Natural logarithmic change in labor costs for t years versus t-1 years.
Independent variables	Native	The dummy variable is equal to 1 if the chairman's home province is the same as the province in which the company is registered, 0 otherwise.
	ΔSale	The change in the natural logarithm of revenue between t and t-1.
Control variables	D	The dummy variable is equal to 1 when revenue in t is less than t-1, and 0 otherwise.
	SD	The dummy variable is equal to 1 when the sales revenue in year t-1 is lower than that in year t-2, and 0 otherwise.
	LI	Employee intensity, i.e. the natural logarithm of the ratio of the number of employees to operating income of the Company (unit: RMB million).
	AI	Asset intensity, equal to the natural logarithm of the ratio of total assets to sales revenue.
	GDPG	The true GDP growth rate (percentage) for the province in which the company is registered in t years.
	Cshare	The chairman's shareholding ratio.
	Dual	The dummy variable is equal to 1 if the chairman is also the CEO of the company, 0 otherwise.
	ROA	Profitability, the ratio of net profit to total assets.
	Loss	Dummy variable, assigned 1 if the company's net profit is less than zero, 0 otherwise.
Mediating Variables	$\Delta\text{AverageWage}$	Natural logarithmic change in average wage for t years and t-1 years, average wage is labor cost divided by number of employees.
	ΔNumEmp	Natural logarithmic change in number of employees for t years and t-1 years.
Fixed effect	Industry_FE	Industry fixed effect
	Year_FE	Year fixed effect

3.3. Regression Model

To investigate the impact of chairman's hometown identity on labor cost stickiness of SOEs, the following model is constructed:

$$\begin{aligned} \Delta\text{Cost}_{i,t} = & \alpha_0 + \alpha_1 \text{Native}_{i,t} + \sum \alpha_k C_{i,t} + (\beta_0 + \beta_1 \text{Native}_{i,t} + \sum \beta_k C_{i,t}) \times \Delta\text{Sale}_{i,t} \\ & + (\gamma_0 + \gamma_1 \text{Native}_{i,t} + \sum \gamma_k C_{i,t}) \times D_{i,t} \times \Delta\text{Sale}_{i,t} + \tau_t + \delta_j + \varepsilon_{i,t} \end{aligned} \quad (1)$$

where i denotes firm, t denotes year, j denotes industry, τ_t represents year fixed effects, δ_j represents industry fixed effects, and $\varepsilon_{i,t}$ is the error term. $C_{i,t}$ represents control variables. In this paper, all regression firm level standard errors are clustered.

This model includes two-way interactions with D, and three-way interactions with $\Delta\text{Sale} \times D$. β_0 represents the percentage increase in labor costs when revenue increases by 1%, and D takes 1 when revenue decreases. In this case, the sum of $\beta_0 + \gamma_0$ represents the percentage decrease in labor costs when revenue decreases by 1%. γ_0 represents the difference in the rate of change in labor costs

between the increase and decrease in business performance. If labor costs are viscous, labor costs should change more with revenue increase than with revenue decrease, then β_0 is positive and γ_0 is negative. β_1 represents the incremental percentage change in labor costs for a 1% revenue increase for firms with a local chairman compared to those without. $\beta_1 + \gamma_1$ represents the incremental percentage change for a 1% revenue decrease for firms with a local chairman compared to those without. γ_1 represents the incremental effect of local chairman on firm labor cost stickiness, which is also the focus of this paper. When $\gamma_1 > 0$, it means that local chairman has the ability to reduce firm labor cost stickiness through his own information advantage and employee trust, thus verifying hypothesis 1.

4. Empirical Results Analysis

4.1. Descriptive Statistics

Table 2 presents correlation analysis. The dependent variable ΔCost is positively correlated with its driver ΔSale , but negatively correlated with D. No abnormally high correlations among other variables are observed. Table 3 is descriptive statistics, with a mean of 0.124 and a median of 0.103 for ΔCost , a mean of 0.0933 and a median of 0.0863 for ΔSale , a mean of 0.346 for the dummy variable Native, indicating that approximately 34.6% of the sample had a local chairman, a mean of 0.294 for D, indicating that approximately 29.4% of the companies experienced a sales decline in t years, a mean of 0.0917 for SD, indicating that approximately 9.17% of companies experienced two consecutive years of declining sales, the Dual average was 0.0678, indicating that approximately 6.78% of SOE chairmen were also CEOs.

Table 2. Correlation Analysis

Variable	ΔCost	ΔSale	D	Native	SD	LI
ΔCost	1					
ΔSale	0.5273***	1				
D	-0.3198***	-0.6710***	1			
Native	0.0010	-0.0225*	-0.0012	1		
SD	-0.2187***	-0.3291***	0.4921***	0.0063	1	
LI	-0.0447***	-0.1545***	0.1000***	0.1307***	0.0826***	1
AI	-0.0787***	-0.1538***	0.1502***	0.0378***	0.1091***	0.2396***
GDPG	0.2598***	0.2056***	-0.1776***	0.0797***	-0.1341***	0.1090***
Cshare	0.0126	0.0019	-0.0126	0.0602***	0.0070	0.0557***
Dual	-0.0093	-0.0023	-0.0142	0.0814***	-0.0058	0.0595***
ROA	0.2235***	0.2585***	-0.2616***	0.0647***	-0.1549***	-0.0642***
Loss	-0.1533***	-0.2193***	0.2247***	-0.0137	0.1401***	0.1094***
Variable	AI	GDPG	Cshare	Dual	ROA	Loss
AI	1					
GDPG	-0.1061***	1				
Cshare	0.0176	-0.0552***	1			
Dual	0.0105	0.0018	0.0462***	1		
ROA	-0.1159***	0.0858***	0.0518***	-0.0044	1	
Loss	0.0809***	-0.0549***	0.0039	0.0012	-0.6021***	1

Note: ***, ** and * indicate significant at 1%, 5% and 10% levels, respectively.

Table 3. Descriptive Statistics

Variable	N	Mean	SD	Min	p25	p50	p75	Max
Δ Cost	6382	0.124	0.183	-0.336	0.0242	0.103	0.198	0.924
Δ Sale	6382	0.0933	0.247	-0.677	-0.0253	0.0863	0.206	1.056
D	6382	0.294	0.456	0	0	0	1	1
Native	6382	0.346	0.476	0	0	0	1	1
SD	6382	0.0917	0.289	0	0	0	0	1
LI	6382	-0.240	0.986	-3.255	-0.849	-0.146	0.434	1.857
AI	6382	0.633	0.738	-1.153	0.164	0.580	1.079	2.628
GDPG	6382	10.57	5.643	-1.044	6.540	9.811	13.87	23.67
Cshare	6382	0.192	1.065	0	0	0	0	8.950
Dual	6382	0.0678	0.252	0	0	0	0	1
ROA	6382	0.0359	0.0475	-0.130	0.0122	0.0317	0.0583	0.182
Loss	6382	0.0979	0.297	0	0	0	0	1

Note: ***, ** and * indicate significant at 1%, 5% and 10% levels, respectively.

4.2. Baseline Regression Analysis

Table 4 reports the regression results for the impact of chairman's hometown identity on labor cost stickiness. In column 1, the coefficient of Δ Sale is 0.4562 and significant, indicating that a 1% increase in revenue leads to a 45.62% increase in labor costs. The coefficient of Δ Sale $\times$ D is -0.2634 and significant, indicating that a 1% decrease in revenue leads to a 19.28% (45.62% - 26.34%) decrease in labor costs. This confirms the existence of labor cost stickiness in Chinese SOEs, consistent with classic models (Anderson et al., 2003). In column 2, including Δ Sale $\times$ Native and Δ Sale $\times$ D $\times$ Native, the coefficient of Δ Sale $\times$ D $\times$ Native is significantly positive, suggesting that during revenue declines, firms with local chairmen experience reduced labor cost stickiness. In column 3, including controls, shows a still significantly positive coefficient for Δ Sale $\times$ D $\times$ Native.

In column 4, the control variables are added to the model, and the double interaction terms of Δ Sale with each control variable and the triple interaction terms of Δ Sale $\times$ D with the control variable are added. The coefficients for Δ Sale and Δ Sale $\times$ D show that a 1% revenue increase raises labor costs by 68.22%, while a 1% revenue decrease reduces labor costs by only 19.58% (68.22% - 48.64%), consistent with prior research (Anderson et al., 2003; Gu et al., 2020)[7][8]. Moreover, the coefficient of Δ Sale $\times$ D $\times$ Native remains significantly positive at the 5% level, confirming that a local chairman reduces labor cost stickiness. Specifically, for SOEs with a local chairman, a 1% revenue decrease is associated with a 25.87% (68.22% - 48.64% - 12.31% + 18.6%) decrease in labor costs. This supports H1, indicating that SOEs with local chairmen have weaker labor cost stickiness.

Table 4. Baseline Regression

Dependent variable	Δ Cost			
	(1)	(2)	(3)	(4)
Δ Sale	0.4562*** (19.6229)	0.4865*** (18.3663)	0.4724*** (17.6629)	0.6822*** (11.8414)
Δ Sale $\times$ D	-0.2634*** (-7.7028)	-0.3076*** (-7.6292)	-0.3470*** (-8.4488)	-0.4864*** (-5.0739)
Δ Sale $\times$ Native		-0.1315*** (-2.8283)	-0.1374*** (-2.9723)	-0.1231*** (-2.7977)
Δ Sale $\times$ D $\times$ Native		0.1979*** (2.6649)	0.2000*** (2.6598)	0.1860** (2.4531)
Native		0.0148** (2.1602)	0.0134* (1.9595)	0.0122* (1.8121)
SD			-0.0301*** (-4.2932)	-0.0149 (-1.5790)
LI			0.0008 (0.2975)	-0.0132*** (-3.5714)
AI			0.0045 (1.1706)	0.0110** (2.2419)
GDPG			0.0015** (2.1278)	0.0030*** (3.4752)
Cshare			0.0027* (1.8805)	-0.0011 (-0.4738)
Dual			-0.0054 (-0.7640)	-0.0197* (-1.6536)
ROA			0.4038*** (6.9221)	0.3987*** (4.8672)
Loss			-0.0020 (-0.2297)	0.0130 (1.0479)
Δ Sale $\times$ SD				0.0837 (1.3999)
Δ Sale $\times$ LI				0.1216*** (5.8836)
Δ Sale $\times$ AI				-0.0804*** (-2.8236)
Δ Sale $\times$ GDPG				-0.0107*** (-2.8992)
Δ Sale $\times$ Cshare				0.0475 (1.5706)
Δ Sale $\times$ Dual				0.0799 (0.8712)
Δ Sale $\times$ ROA				-0.1546 (-0.3354)
Δ Sale $\times$ Loss				-0.2221** (-2.0589)
Δ Sale $\times$ D $\times$ LI				-0.0638 (-1.4473)
Δ Sale $\times$ D $\times$ AI				0.0049 (0.0955)
Δ Sale $\times$ D $\times$ GDPG				0.0094 (1.3972)
Δ Sale $\times$ D $\times$ Cshare				-0.2589
Δ Sale $\times$ D $\times$ ROA				1.1239 (1.0351)
Δ Sale $\times$ D $\times$ Loss				0.2764* (1.8121)
Constant	0.0692*** (20.0912)	0.0661*** (16.0690)	0.0355*** (3.8234)	0.0146 (1.2991)
Year & Industry	Included	Included	Included	Included
Observations	6382	6382	6382	6382
Adj.R2	0.3313	0.3335	0.3455	0.3646

Notes: Observations is the number of observations, Adj.R² is the adjusted R², and t values for regression coefficients are in parentheses, controlling for fixed effects of year and industry. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

5. Robustness Checks

5.1. Instrumental Variable (IV) Regression

To mitigate endogeneity concerns, a two-stage least squares (2SLS) regression using an instrumental variable is employed. The IV is “University” measured as the number of “Project 985” and “Project 211” universities in the province where the firm is registered. The reason for choosing this as a tool variable is that universities (especially those selected for the "985 Project" and "211 Project") often have high teaching quality and reputation, which is conducive to recruiting outstanding students from across the country. Therefore, if the province with more famous universities has more abundant regional talent reserve and higher mobility, then the possibility of enterprises in this region having local directors will decrease, so this variable is related to the explanatory variable of this study. In addition, this instrumental variable has no direct effect on the firm’s labor cost stickiness, which is consistent with the externality of instrumental variables.

The first-stage regression results are in Table 5, Column 1. The coefficient for University is negative and significant, indicating that more top-tier universities in a province decrease the probability of an SOE having a local chairman. Column 2 shows the second-stage results. The coefficient for $\Delta\text{Sale} \times D \times \text{Native_hat}$ is positive and significant, further supporting the baseline finding.

Table 5. Instrumental Variable Regression

	(1)	(2)
	Native	Costchange
	First Stage	Second Stage
University	-0.0029*	
	(-1.6981)	
ΔSale	-0.0617**	0.4687***
	(-2.5376)	(5.2165)
$\Delta\text{Sale} \times D$		-0.9218***
		(-4.8679)
$\Delta\text{Sale} \times \text{Native_hat}$		-0.0919
		(-0.3369)
$\Delta\text{Sale} \times D \times \text{Native_hat}$		1.7746***
		(3.2434)
Native_hat		-0.0067
		(-0.0706)
Controls	Included	Included
Year & Industry	Included	Included
Observations	6382	6382
Adj.R ²	0.1376	0.3453

Notes: Observations is the number of observations, Adj.R² is the adjusted R², and t values for regression coefficients are in parentheses, controlling for fixed effects of year and industry. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

5.2. Propensity Score Matching (PSM) Test

In this paper, PSM propensity score matching method is used to perform one-to-one nearest neighbor matching between state-owned enterprises with local chairman and state-owned enterprises without local chairman, and then regress the matched sample data again. The t test indicates that the PSM successfully achieves comparability between SOEs with local chairman and SOEs without local

chairman, and most of the control variables show no significant difference between the two groups after matching. The regression results after matching are shown in Table 6. It can be seen from the table that the coefficient of $\Delta\text{Sale} \times D \times \text{Native}$ is positive after PSM and significant at the 5% level, which indicates that the hypothesis of this paper is still supported by the propensity score matching method (PSM).

Table 6. Propensity Score Matching Test

Dependent variable	ΔCost
	(1)
	PSM
ΔSale	0.4350***
	(10.2742)
$\Delta\text{Sale} \times D$	-0.3865***
	(-5.7821)
$\Delta\text{Sale} \times \text{Native}$	-0.1075*
	(-1.7306)
$\Delta\text{Sale} \times D \times \text{Native}$	0.2491**
	(2.3677)
Native	0.0141
	(1.4802)
SD	-0.0359***
	(-3.5092)
LI	0.0077*
	(1.8943)
AI	-0.0012
	(-0.2296)
GDPG	0.0021*
	(1.8858)
Cshare	0.0041**
	(2.2620)
Dual	-0.0033
	(-0.3407)
ROA	0.3631***
	(4.2245)
Loss	-0.0115
	(-0.8893)
Constant	0.0405***
	(2.7434)
Controls	Included
Year & Industry	Included
Firm FE	Not Included
Observations	3094
Adj.R ²	0.2936

Notes: Observations is the number of observations, Adj.R² is the adjusted R², and t values for regression coefficients are in parentheses, controlling for fixed effects of year and industry. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

5.3. High-Dimensional Fixed Effects (HDFE) Test

Although a series of control variables and fixed effects of industry and year are added to the baseline regression model, in order to avoid the bias caused by missing variables or some unobserved characteristics, fixed effects of enterprises are added to the baseline regression model to increase the robustness of the regression results. The regression results are shown in Table 7. From the table, it can be observed that the regression coefficient of $\Delta\text{Sale} \times D \times \text{Native}$ is positive and significant at the 1% level, which further supports the hypothesis of this paper and alleviates the endogeneity problem.

Table 7. HDFE Test

Dependent variable	ΔCost
	(1)
	PSM
ΔSale	0.4775***
	(17.1701)
$\Delta\text{Sale}\times\text{D}$	-0.3901***
	(-8.7507)
$\Delta\text{Sale}\times\text{Native}$	-0.1601***
	(-3.2120)
$\Delta\text{Sale}\times\text{D}\times\text{Native}$	0.2247***
	(2.6204)
native	0.0140
	(1.2996)
SD	-0.0342***
	(-4.3851)
LI	0.0131*
	(1.6484)
AI	0.0153
	(1.3908)
GDPG	0.0019**
	(2.0154)
Cshare	0.0064
	(1.2153)
Dual	-0.0097
	(-1.0332)
ROA	0.5762***
	(6.4749)
Loss	0.0118
	(1.0907)
Constant	0.0193
	(1.3180)
Controls	Included
Year & Industry	Included
Firm FE	Included
Observations	6292
Adj.R ²	0.3569

Notes: Observations is the number of observations, Adj.R² is the adjusted R², and t values for regression coefficients are in parentheses, controlling for fixed effects of year and industry. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

5.4. Alternative Measures of Explanatory Variable

Four alternative measures for the chairman's local identity are used. First of all, Native01 is used to measure the hometown identity of the chairman at the provincial level. When the province where the chairman is born is consistent with the province where the enterprise is registered, Native01 is 1, otherwise it is 0. Secondly, we use Native02 to measure the chairman's hometown identity at the city level. When the chairman's hometown city matches the city where the company is registered, Native02 is assigned 1, otherwise 0. Third, Native03 is used to measure the chairman's hometown identity. If the chairman's province of birth is the same as the province in which the company is registered, the dummy variable Native03 is equal to 1, otherwise it is 0. Fourth, Native04 is used to measure the chairman's hometown identity. If the chairman's birth city is the same as the city where the company is registered, the dummy variable Native04 is equal to 1, otherwise it is 0. Finally, the regression results are shown in Table 8. The regression results in Table 8 show that the coefficients of $\Delta\text{Sale}\times\text{D}\times\text{Native}$ are positive and significant at 1%, 10%, 1% and 10% respectively.

Table 8. Alternative Measures for Explanatory Variable

Dependent variable	Δ Cost			
	(1)	(2)	(3)	(4)
	Native01	Native02	Native03	Native04
Δ Sale	0.4918*** (14.3105)	0.4655*** (17.3230)	0.4896*** (14.1357)	0.4834*** (16.1517)
Δ Sale $\times$ D	-0.4049*** (-7.5856)	-0.3299*** (-8.0882)	-0.4020*** (-7.3892)	-0.3599*** (-7.9878)
Δ Sale $\times$ Native	-0.0904** (-1.9878)	-0.1167** (-2.1921)	-0.0842* (-1.8520)	-0.1077** (-1.9869)
Δ Sale $\times$ D $\times$ Native	0.1972*** (2.7686)	0.1533* (1.7257)	0.1880*** (2.6158)	0.1533* (1.7266)
Native	0.0063 (0.9149)	0.0109 (1.4476)	0.0055 (0.8014)	0.0087 (1.1151)
SD	-0.0296*** (-4.0506)	-0.0312*** (-4.2789)	-0.0297*** (-4.0778)	-0.0287*** (-3.5934)
LI	0.0033 (1.1229)	0.0022 (0.7436)	0.0032 (1.1091)	0.0031 (0.9404)
AI	0.0033 (0.8283)	0.0045 (1.1130)	0.0034 (0.8438)	0.0055 (1.2216)
GDPG	0.0019** (2.4999)	0.0017** (2.2442)	0.0019** (2.4662)	0.0017** (2.0770)
Cshare	0.0032** (2.0505)	0.0030** (1.9992)	0.0031* (1.8949)	0.0031 (1.6464)
Dual	-0.0037 (-0.5011)	-0.0040 (-0.5395)	-0.0036 (-0.4906)	-0.0058 (-0.6866)
ROA	0.3928*** (6.3982)	0.3911*** (6.3954)	0.3902*** (6.3442)	0.3948*** (5.7512)
Loss	-0.0021 (-0.2316)	-0.0021 (-0.2295)	-0.0023 (-0.2516)	-0.0018 (-0.1696)
Constant	0.0334*** (3.3508)	0.0353*** (3.6717)	0.0341*** (3.4029)	0.0316*** (3.1128)
Controls	Included	Included	Included	Included
Year & Industry	Included	Included	Included	Included
Firm FE	Not Included	Not Included	Not Included	Not Included
Observations	5842	5842	5839	4847
Adj.R ²	0.3493	0.3483	0.3491	0.3589

Notes: Observations is the number of observations, Adj.R² is the adjusted R², and t values for regression coefficients are in parentheses, controlling for fixed effects of year and industry. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

6. Further Analysis

6.1. Mechanism Tests

This section explores the mechanism through which firms adjust labor costs in response to revenue declines. Labor cost comprises employee count and average wage; thus, labor cost stickiness may arise from wage rigidity, employment rigidity, or both (Gu et al., 2020; Dierynck et al., 2012)[8][58]. Accordingly, this section replaces the dependent variables in model (1) with Δ AverageWage (average wage stickiness) and Δ NumEmp (employment stickiness), Δ AverageWage being the difference between the natural logarithm of the average wage in year t and the natural logarithm of the average wage in year t-1, where the average wage is the labor cost divided by the total number of employees, and Δ NumEmp being the difference between the natural logarithm of the total number of employees

in year t and the natural logarithm of the total number of employees in year $t-1$ (Quan Xiaofeng et al., 2024; Wu et al., 2024)[40][9].

The results are shown in Table 9. The first column is the average wage stickiness. It can be seen from the table that the regression coefficient of $\Delta\text{Sale} \times D \times \text{Native}$ is positive and significant, indicating that for state-owned enterprises with local chairman, the anti-stickiness effect of local chairman is reflected through the mechanism of salary reduction. The second column is employment scale stickiness. The regression coefficient of $\Delta\text{Sale} \times D$ in the table is significantly negative, which indicates that all state-owned enterprises are under pressure to lay off employees during the period of declining operating income. Whether there is a local chairman or not, they all show employment scale stickiness. The regression coefficient of $\Delta\text{Sale} \times D \times \text{Native}$ shows no significance, which indicates that local directors tend to adjust labor costs through salary reduction rather than layoffs, which is consistent with the expected performance in this hypothesis. The results in Table 9 provide empirical support for this hypothesis and reveal the underlying mechanism by which the chairman's hometown status affects firms' labor adjustment policies, i.e., firms with a local chairman reduce labor cost stickiness through pay cuts rather than layoffs.

Table 9. Mechanism Tests

Dependent variable	$\Delta\text{AverageWage}$	ΔNumEmp
	(1)	(2)
	Mechanism test	Mechanism test
ΔSale	0.1244***	0.4337***
	(5.0743)	(11.4804)
$\Delta\text{Sale} \times D$	-0.0177	-0.4031***
	(-0.3801)	(-7.3329)
$\Delta\text{Sale} \times \text{Native}$	-0.0918*	-0.1089
	(-1.7878)	(-1.6381)
$\Delta\text{Sale} \times D \times \text{Native}$	0.1811*	0.0912
	(1.8420)	(0.8693)
Native	0.0216**	-0.0014
	(2.3760)	(-0.1342)
SD	-0.0088	-0.0129
	(-0.9660)	(-1.3564)
LI	-0.0191***	0.0224***
	(-5.2298)	(5.3342)
AI	0.0016	0.0004
	(0.3873)	(0.0794)
GDPG	0.0018*	-0.0010
	(1.9127)	(-1.0345)
Cshare	-0.0016	0.0037**
	(-1.3103)	(2.3768)
Dual	-0.0040	-0.0026
	(-0.4887)	(-0.2647)
ROA	0.0961	0.3106***
	(1.3789)	(3.8674)
Loss	-0.0026	0.0009
	(-0.2375)	(0.0810)
Constant	0.0379***	0.0007
	(3.5733)	(0.0630)
Controls	Included	Included
Year & Industry	Included	Included
Observations	6382	6382
Adj.R ²	0.0616	0.1294

Notes: Observations is the number of observations, Adj.R² is the adjusted R², and t values for regression coefficients are in parentheses, controlling for fixed effects of year and industry. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

6.2. Moderation Effect Analyses

Baseline results show local chairmen reduce labor cost stickiness. The hypothesis suggests this occurs through shared cultural background and employee trust. This section analyzes moderation effects from these two perspectives. First, the local chairman shares a cultural background with the corporate employees and is better able to understand the true feelings and needs of local employees, thus being more able to formulate more targeted policies and more willing to provide more effective support and compensation measures. Second, the local chairman is more likely to gain employee trust and support, and has communication advantages. When managers communicate with employees, employees are more likely to accept and trust the explanations provided by the local chairman, which helps to mitigate the negative impact of labor cost reduction policies.

6.2.1. Cultural Background

As suggested in the hypothesis, local directors have a deeper understanding of the local cultural environment and share cultural backgrounds with employees, so they are able and more willing to implement more targeted policies. From the aspect of shared cultural background, this part uses regional population mobility level and chairman's overseas experience as moderators to measure cultural consistency.

First of all, this part uses regional population mobility to make an empirical test. China labor market skills gap research report clearly shows that: the level of population mobility significantly increased the concentration of skilled labor from abroad. Bogliacino et al.(2022) also show that the proportion of migrant skilled workers is significantly higher in high-mobility regions than in low-mobility regions[59]. Therefore, higher levels of population mobility indicate a more dynamic social structure and a greater proportion of foreign talent in the local labor market, which means more non-local employees and fewer local employees for companies. In this case, the communication advantage of local directors over local employees is greatly reduced, while they have no advantage over non-local employees, indicating that they can play a limited role in developing more targeted measures, better communication with employees, and gaining the trust of employees. Therefore, this paper predicts that firms in regions with low regional population mobility will see a more pronounced effect of reduced labor cost stickiness. To demonstrate this, we refer to the regional population mobility pop_mob (Wu et al., 2024) used in previous studies[9], where the dummy variable equals 1 if the population mobility of the province (absolute value of the difference between the population at the end of t and the population at the end of $t-1$ divided by the population at the end of $t-1$) is higher than the mean, and 0 otherwise. The results of columns 1-2 in Table 10 show that the regression coefficient of $\Delta Sale \times D \times Native$ is not significant in enterprises with strong regional population mobility, while the regression coefficient of $\Delta Sale \times D \times Native$ is significantly positive in enterprises with low regional population mobility, and the between-group coefficient test between the two groups of samples is also significant, which provides support for the hypothesis of this paper.

Table 10. Moderation Effect: Cultural Background

Dependent variable		Δ Cost		
	(1)	(2)	(3)	(4)
	High population mobility	Low population mobility	With overseas background	Without overseas background
Δ Sale	0.3975*** (9.9088)	0.5326*** (16.1771)	0.4720*** (4.1622)	0.4733*** (17.2984)
Δ Sale $\times$ D	-0.3294*** (-4.8823)	-0.3816*** (-7.7398)	-0.3074* (-1.9551)	-0.3511*** (-8.2999)
Δ Sale $\times$ native	-0.0787 (-1.2139)	-0.1762*** (-2.7648)	0.1285 (0.5029)	-0.1503*** (-3.1918)
Δ Sale $\times$ D $\times$ native	0.1715 (1.5644)	0.2390** (2.3118)	-0.6041 (-1.0320)	0.2187*** (2.8685)
native	0.0050 (0.4766)	0.0216** (2.3723)	-0.0531 (-1.4106)	0.0150** (2.1271)
SD	-0.0418*** (-3.8023)	-0.0209** (-2.4333)	-0.0557** (-2.0621)	-0.0300*** (-4.1615)
LI	-0.0028 (-0.8231)	0.0035 (0.8055)	-0.0065 (-0.5048)	0.0016 (0.5414)
AI	0.0038 (0.7811)	0.0035 (0.6148)	0.0345 (1.3183)	0.0029 (0.7342)
GDPG	0.0030*** (2.9111)	-0.0003 (-0.3144)	0.0056** (2.0936)	0.0014* (1.9043)
Cshare	0.0032* (1.7383)	0.0020 (0.9877)	-0.0013 (-0.3847)	0.0023 (1.2664)
Dual	0.0026 (0.2352)	-0.0120 (-1.2735)	-0.0396 (-1.2241)	-0.0026 (-0.3729)
ROA	0.5472*** (6.6754)	0.2904*** (3.5581)	0.8053** (2.2804)	0.4027*** (6.7458)
Loss	0.0111 (0.8070)	-0.0149 (-1.3340)	0.0363 (0.7608)	-0.0029 (-0.3153)
Constant	0.0227 (1.6125)	0.0521*** (4.0069)	-0.0193 (-0.6550)	0.0371*** (3.8126)
Chow Test p-value	0.000		0.014	
Controls	Included	Included	Included	Included
Year & Industry	Included	Included	Included	Included
Observations	2997	3377	349	6026
Adj.R ²	0.2931	0.3990	0.3581	0.3452

Notes: Observations is the number of observations, Adj.R² is the adjusted R², and t values for regression coefficients are in parentheses, controlling for fixed effects of year and industry. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

Secondly, this part uses whether the chairman has overseas experience to carry on the empirical test. Berry(1990) proposed the theory of cultural adaptation: when different cultural groups and their members have sustained direct contact, it will cause changes in the original cultural patterns of both sides[60]. Therefore, for local directors with overseas experience, their cultural concepts shaped by the influence of their hometown cultural environment may change after having overseas experience. Their thinking process, behavior and decision-making will be integrated into the cultural opinions of different regions, which makes them more diversified in analyzing problems and formulating strategies. However, this also means that their sensitivity will become lower when dealing with problems closely related to local culture. Therefore, their advantage in understanding compensation measures for layoffs and pay cuts for local employees is weakened. Therefore, this paper predicts that

the communication advantage of local directors with overseas background is weak, and the effect of reducing labor cost stickiness is more obvious among local directors without overseas experience. To demonstrate this, this paper refers to previous studies using the chairman's overseas background (Lyu et al., 2024; Li et al., 2024; Wu et al., 2024) as a grouping variable [61][62][9], with the dummy variable equal to 1 if the chairman has overseas study or work experience and 0 otherwise. The results of columns 3-4 in Table 10 show that the regression coefficient of $\Delta\text{Sale} \times D \times \text{Native}$ is not significant in the group of local directors with overseas background, while the regression coefficient of $\Delta\text{Sale} \times D \times \text{Native}$ is significantly positive in the group of local directors without overseas background, and the between-group coefficient test between the two groups is also significant, which provides support for the hypothesis of this paper.

6.2.2. Employee Trust

Compared with the non-local chairman, the local chairman can gain more trust and support from local employees, and has communication advantage, which can reduce employees' negative perception of the company and mitigate the negative impact of labor cost reduction on the company. This part uses the regional social trust level and the chairman's retirement as moderating variables to test the moderating effect.

First, this part selects regional social trust level as the grouping variable. We believe that in the region with high social trust level, employees will have more trust in the chairman himself than in the region with low social trust level, so the advantage of local identity of local chairman can be limited, while in the region with low social trust level, the local identity of local chairman can play a certain role in replacing regional social trust level. Referring to previous scholars (Wu et al., 2014; Wu et al., 2024; Wang et al., 2025) [63][9][64] this paper uses data from the China Comprehensive Social Survey (CGSS), jointly conducted by the Hong Kong University of Science and Technology and the Department of Sociology of Renmin University of China, to measure regional social trust. In 2003, a questionnaire was distributed to residents of 125 counties in 28 provinces across the country. This paper constructs a measure of social trust based on the answer to the question "Do you trust strangers?". Respondents can choose one of the following five options: "Very distrustful", "mistrustful", "average", "trusting" and "very trusting" and scored the five options from the lowest trust level of "very distrustful" to the highest trust level of "very trusting" respectively, and then obtained the average score of the province where the respondents lived as the regional social trust level.

Regression results are shown in columns 1-2 of Table 11. It can be seen from the regression coefficient of $\Delta\text{Sale} \times D \times \text{Native}$ that the regression coefficient of the sample group with lower social trust level is significantly positive, while the sample with higher social trust level is not significant, and the coefficient test between the two groups is also significant. This result supports the hypothesis of this paper, indicating that the hometown identity of the chairman is easier to obtain the trust of employees. When the social trust level is low, It can substitute for it in a certain sense and help to reduce the viscosity of labor cost more effectively.

Second, if gaining employee trust plays an important role in reducing the stickiness of labor costs, employees facing a retiring local chairman may consider that the next chairman may not be able to fulfill the commitments made by the current chairman after the retirement of the future chairman, resulting in employees' trust in the retiring local chairman. According to the Company Law of the People's Republic of China and relevant regulations on the supervision and administration of state-owned assets, the term of office of the chairman of a state-owned enterprise is generally three years. Therefore, if the chairman is older than 57 years old, it means that they can expect only one remaining term of office. Therefore, the next chairman is most likely not the current chairman, and employees will reduce their trust in the chairman. Therefore, when the chairman is older than 57 years old, the dummy variable is equal to 1, otherwise it is 0. This compares changes in the stickiness of labor costs. The regression results are shown in columns 3-4 of Table 11. From the regression coefficient of $\Delta\text{Sale} \times D \times \text{Native}$, it can be seen that the regression coefficient of the sample group not approaching

retirement is significantly positive, while the sample group approaching retirement is not significant, and the between-group coefficient test between the two groups is also significant. This result supports the hypothesis of this paper.

Table 11. Moderation Effect: Employee Trust

Dependent variable	Δ Cost			
	(1)	(2)	(3)	(4)
	High social trust	Low social trust	Close to retire	Far from retire
Δ Sale	0.4005*** (11.2004)	0.5627*** (16.1044)	0.5046*** (12.3066)	0.4598*** (14.2284)
Δ Sale $\times$ D	-0.2584*** (-4.7408)	-0.4673*** (-7.7550)	-0.3292*** (-5.5327)	-0.3496*** (-6.8487)
Δ Sale $\times$ native	-0.0432 (-0.6976)	-0.2685*** (-4.2095)	-0.0995 (-1.3783)	-0.1557*** (-2.8014)
Δ Sale $\times$ D $\times$ native	0.0489 (0.4940)	0.4228*** (3.6214)	0.0651 (0.5702)	0.2715*** (2.9438)
native	-0.0024 (-0.2704)	0.0399*** (3.7401)	0.0121 (1.1849)	0.0132 (1.5220)
SD	-0.0363*** (-4.1324)	-0.0152 (-1.2674)	-0.0354*** (-3.2454)	-0.0236*** (-2.6807)
LI	-0.0021 (-0.6141)	0.0055 (1.1249)	-0.0041 (-0.9757)	0.0041 (1.1695)
AI	0.0052 (1.0496)	-0.0003 (-0.0490)	0.0064 (1.0154)	0.0013 (0.2766)
GDPG	0.0018 (1.3535)	0.0007 (0.6960)	0.0030*** (2.8794)	0.0010 (1.1002)
Cshare	0.0021 (1.3515)	0.0049 (1.3741)	0.0007 (0.4310)	0.0068** (2.5025)
Dual	-0.0063 (-0.6567)	-0.0062 (-0.5445)	-0.0007 (-0.0637)	-0.0076 (-0.8387)
ROA	0.3628*** (4.8793)	0.4773*** (5.4308)	0.3567*** (4.2963)	0.4063*** (5.2511)
Loss	-0.0023 (-0.2256)	0.0003 (0.0174)	-0.0093 (-0.7198)	-0.0005 (-0.0393)
Constant	0.0437*** (2.8291)	0.0307** (2.3016)	0.0166 (1.2721)	0.0460*** (3.8224)
Chow Test p-value	0.000		0.085	
Controls	Included	Included	Included	Included
Year & Industry	Included	Included	Included	Included
Observations	3928	2422	869	5486
Adj.R ²	0.3050	0.4083	0.4165	0.3386

Notes: Observations is the number of observations, Adj.R² is the adjusted R², and t values for regression coefficients are in parentheses, controlling for fixed effects of year and industry. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

6.3. Heterogeneity Analysis

The behavior of executives is influenced by external supervision, market environment and internal governance. This paper argues that when external supervision is weak, marketization level is low and internal governance level is low, the informal system of chairman's hometown identification will play a complementary role. Compared with the non-local chairman, the local chairman is more likely to adopt compensation adjustment method to exert his information and trust advantages, thus significantly reducing the labor cost stickiness due to the reasons of sharing cultural background with employees, living up to employee trust and local self-efficacy. This part analyzes heterogeneity from three aspects: external supervision, market environment and internal governance.

6.3.1. External Supervision

In this part, we analyze heterogeneity from the perspective of external supervision, firstly we select analyst attention as a grouping variable. The greater the number of analyst research reports on the enterprise, the less information asymmetry between the internal and external parts of the enterprise can be reduced, thus forming an invisible external supervision on the enterprise (Li Chuntao et al., 2014)[65]. Accordingly, the fewer the number of analyst research reports, the lower the analyst attention, and the weaker the external supervision of the enterprise. In this part, we refer to previous scholars' research and select the number of research reports published by analysts in the company year to measure analyst attention. The company annual median is used as the grouping basis. The sample group with higher than the median is 1, and the sample group with lower analyst attention is 0 (Chen Zuohua et al., 2026; Wu Qinqin et al., 2026)[66][67]. The regression results are shown in columns 1-2 of Table 1-2. From the regression coefficient of $\Delta\text{Sale} \times D \times \text{Native}$, it can be seen that the sample group with high analyst attention is not significant, while the regression coefficient of the sample group with low analyst attention is significantly positive, and the coefficient test between the two groups is also significant. This indicates that when the external supervision is weak, the informal system of chairman's hometown identification plays an effect and promotes the reduction of enterprise labor cost stickiness. This result supports the hypothesis of this paper.

As the most direct external supervision force, the external audit institution can reduce the degree of internal and external information asymmetry by issuing authentication reports and audit opinions. As the head organization of the external audit institution, the international four have accumulated a high reputation of the enterprise, which will pay more attention to audit risk and audit quality, and form stronger external constraints on the management of the enterprise.(Ren He et al., 2023; An Shiqiang et al., 2024; Han Liangliang et al., 2026)[68][69][70]. This part refers to previous scholars' research and adopts whether the enterprise is audited by the international big four accounting firms as a grouping variable. If the enterprise is audited by the international big four accounting firms, it is defined as 1, otherwise it is 0 (Ren He et al., 2023; Guan, 2025; Han Liangliang et al., 2026)[68][71][70]. The regression results are shown in columns 3-4 of Table 12. From the regression coefficient of $\Delta\text{Sale} \times D \times \text{Native}$, it can be seen that the regression coefficient of the sample group audited by the four international auditors is not significant, but the regression coefficient of the sample group not audited by the four international auditors is significantly positive, and the coefficient test between the two groups of samples is also significant. This result also shows that when the external supervision is weak, the informal system of chairman's hometown identification plays an effect and promotes the reduction of enterprise labor cost stickiness, which supports the hypothesis of this paper.

According to previous studies, the intensity of external supervision is negatively correlated with the stickiness of labor costs (Yuan Lu et al., 2026; Wu Lielan et al., 2024)[72][73], when the external supervision of the enterprise is weaker, the enterprise labor cost stickiness is stronger. However, the results of this part show that when the external supervision of the enterprise is weak, the local

chairman can effectively reduce the enterprise labor cost stickiness. This result shows that the informal system of chairman's hometown identification plays a significant role when the enterprise faces the disadvantage of weak external supervision.

Table 12. Heterogeneity Analysis: External Supervision

Dependent variable	ΔCost			
	(1)	(2)	(3)	(4)
	High analyst attention	Low analyst attention	Big Four	Not Big Four
ΔSale	0.5217***	0.4304***	0.4341***	0.4735***
	(16.2030)	(10.4267)	(5.7226)	(16.8524)
$\Delta\text{Sale} \times \text{D}$	-0.3539***	-0.3387***	-0.2687**	-0.3546***
	(-5.7589)	(-5.8287)	(-2.2795)	(-8.1907)
$\Delta\text{Sale} \times \text{native}$	-0.1091*	-0.1541**	0.0925	-0.1493***
	(-1.9072)	(-2.2409)	(0.5267)	(-3.1817)
$\Delta\text{Sale} \times \text{D} \times \text{native}$	0.0310	0.2956***	-0.0869	0.2107***
	(0.3142)	(2.7029)	(-0.3541)	(2.6744)
native	0.0068	0.0209**	-0.0117	0.0138*
	(0.7284)	(2.1862)	(-0.4961)	(1.9223)
SD	-0.0186*	-0.0340***	-0.0196	-0.0301***
	(-1.8565)	(-3.5621)	(-1.1263)	(-4.0053)
LI	0.0077**	-0.0013	-0.0051	0.0011
	(2.0266)	(-0.3042)	(-0.6670)	(0.3287)
AI	-0.0028	0.0076	0.0022	0.0042
	(-0.5837)	(1.4070)	(0.2295)	(1.0355)
GDPG	0.0010	0.0020*	0.0015	0.0016**
	(1.0392)	(1.8673)	(0.7279)	(2.0569)
Cshare	0.0033	0.0025	0.0730***	0.0022*
	(1.1694)	(1.4925)	(7.1416)	(1.6488)
Dual	-0.0164**	0.0002	-0.0344**	-0.0032
	(-2.1484)	(0.0172)	(-2.0743)	(-0.4257)
ROA	0.3004***	0.3576***	0.4215***	0.3942***
	(4.3923)	(3.3471)	(2.9614)	(6.3170)
Loss	-0.0234*	0.0073	0.0379	-0.0041
	(-1.8999)	(0.5709)	(1.5577)	(-0.4263)
Constant	0.0567***	0.0211	0.0381	0.0348***
	(4.7312)	(1.5061)	(1.4189)	(3.4867)
Chow Test p-value	0.0000		0.0117	
Controls	Included	Included	Included	Included
Year & Industry	Included	Included	Included	Included
Observations	3252	3129	725	5619
Adj.R ²	0.3954	0.2913	0.3831	0.3442

Notes: Observations is the number of observations, Adj.R² is the adjusted R², and t values for regression coefficients are in parentheses, controlling for fixed effects of year and industry. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

6.3.2. Market Environment

This part carries out heterogeneity analysis from the perspective of market environment. Firstly, the marketization level is selected as the grouping variable. A high marketization level indicates a high level of market legalization and perfect system (Yu Honghai et al., 2010)[74]. Correspondingly, a low marketization level indicates a lack of formal market system. Referring to previous scholars' research, this paper uses Fan Gang's marketization index to group according to the annual median of the marketization index of the province where the enterprise is located, divides the sample into high marketization group and low marketization group, and performs group regression analysis (Yu et al., 2024; Gu Xiaolong et al., 2026)[75][76]. Regression results are shown in columns 1-2 of Table 13. From the regression coefficient of $\Delta\text{Sale} \times D \times \text{Native}$, it can be seen that the sample group with high marketization level is not significant, while the regression coefficient of the sample group with low marketization level is significantly positive, and the coefficient test between the two groups is also significant. This indicates that when the formal system is imperfect, the informal system of chairman's hometown identification makes up for the lack of formal system. This result supports the hypothesis of this paper.

Second, economic policy uncertainty (EPU) is chosen as the grouping variable. The EPU index itself is an indicator of uncertainty in the policy-making process (Baker et al., 2016)[77]. A high EPU index indicates that the formal system is unstable and imperfect. Referring to previous scholars' research, this paper uses the annual median of economic policy uncertainty index to divide the samples into high economic policy uncertainty group and low economic policy uncertainty group, and performs group regression analysis (Fan Mingzhu et al., 2024; Fu Junhui et al., 2022; Xing Fei et al., 2022)[78][79][80]. Regression results are shown in columns 3-4 of Table 13. From the regression coefficient of $\Delta\text{Sale} \times D \times \text{Native}$, it can be seen that the regression coefficient of the sample group with low economic policy uncertainty is not significant, while the regression coefficient of the sample group with high economic policy uncertainty is significant positive, and the coefficient test between the two groups is also significant. This shows that when the formal system is imperfect and unstable, the chairman can identify with this informal system to make up for the lack and instability of the formal system. This result supports the hypothesis of this paper.

According to previous scholars, when the enterprise has low marketization level, low information transparency and lack of institutions, the enterprise labor cost stickiness will be higher (Ma Hui et al., 2024; Liu Genxia, 2021; Pan Pei, 2020)[37][81][82]. However, the results of this part show that the local chairman can reduce the enterprise labor cost stickiness under these circumstances. At the same time, local chairman can significantly reduce the stickiness of labor costs when firms face high economic policy uncertainty. Therefore, the results of this part of the study indicate that when the firm faces adverse market environment, the informal institution of chairman's hometown identification can play a significant role in compensating for the adverse market environment.

Table 13. Heterogeneity Analysis: Market Environment

Dependent variable	Δ Cost			
	(1)	(2)	(3)	(4)
	High level of marketization	Low level of marketization	High EPU	Low EPU
Δ Sale	0.4368***	0.5039***	0.4815***	0.4618***
	(11.2713)	(13.6945)	(14.1966)	(12.3535)
Δ Sale $\times$ D	-0.3090***	-0.3788***	-0.3324***	-0.3681***
	(-5.5509)	(-6.5348)	(-6.3734)	(-5.4488)
Δ Sale $\times$ native	-0.0814	-0.2092***	-0.2166***	-0.0502
	(-1.1697)	(-3.8031)	(-3.4777)	(-0.8978)
Δ Sale $\times$ D $\times$ native	0.0825	0.3568***	0.3136***	0.0706
	(0.8062)	(3.4813)	(3.1816)	(0.6405)
native	0.0041	0.0263***	0.0172*	0.0072
	(0.4187)	(2.8260)	(1.9536)	(0.7598)
SD	-0.0341***	-0.0217**	-0.0210**	-0.0437***
	(-3.5494)	(-2.1030)	(-2.1209)	(-4.4547)
LI	-0.0007	0.0034	0.0012	0.0006
	(-0.2012)	(0.6878)	(0.3309)	(0.1518)
AI	0.0034	0.0058	0.0058	0.0037
	(0.6695)	(0.9898)	(1.1552)	(0.6944)
GDPG	0.0004	0.0016	0.0014	0.0014
	(0.4137)	(1.5236)	(1.3573)	(1.6197)
Cshare	0.0011	0.0089**	0.0028*	0.0041
	(0.7671)	(2.3369)	(1.6702)	(1.5668)
Dual	-0.0188*	0.0090	-0.0136	0.0087
	(-1.8096)	(0.9086)	(-1.4290)	(0.9437)
ROA	0.3849***	0.4556***	0.3826***	0.4105***
	(4.7993)	(5.2496)	(4.9505)	(4.9109)
Loss	-0.0068	0.0098	-0.0091	0.0122
	(-0.5821)	(0.7332)	(-0.8025)	(0.8812)
Constant	0.0546***	0.0236*	0.0258**	0.0506***
	(4.3176)	(1.7373)	(2.1548)	(3.8800)
Chow Test p-value	0.0046		0.0000	
Controls	Included	Included	Included	Included
Year & Industry	Included	Included	Included	Included
Observations	3406	2976	3596	2785
Adj.R ²	0.3077	0.3902	0.3345	0.3458

Notes: Observations is the number of observations, Adj.R² is the adjusted R², and t values for regression coefficients are in parentheses, controlling for fixed effects of year and industry. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

6.3.3. Internal Governance

This part carries out heterogeneity analysis from the perspective of enterprise internal governance. Different internal governance difficulties of enterprises will affect managers' behavior decisions (Huo Chunhui et al., 2025; Fang Hongxing et al., 2016)[83][84]. First, the degree of enterprise financing constraints is selected as a grouping variable. High enterprise financing constraints indicate that it is difficult and costly for enterprises to obtain external financing, and internal governance is difficult. Referring to previous scholars' research, this paper uses KZ index to express the degree of enterprise financing constraint. The higher the KZ index, the more severe the financing constraint faced by enterprises. The samples with financing constraint degree higher than the median are assigned 1, and the samples with financing constraint degree lower than the median are assigned 0. Then, group regression analysis is performed (Ma Lianfu et al., 2025; Yang Sijing et al., 2026)[85][86]. The regression results are shown in columns 1-2 of Table 14. From the regression coefficient of $\Delta\text{Sale} \times D \times \text{Native}$, it can be seen that the sample group with low financing constraint level is not significant, while the regression coefficient of the sample group with high financing constraint level is significantly positive, and the coefficient test between the two groups is also significant. This indicates that when the internal governance difficulty is high, the informal system of chairman's hometown identification plays an effect and promotes the reduction of enterprise labor cost stickiness, which supports the hypothesis of this paper.

Secondly, the quality of internal control is chosen as a grouping variable to measure the level of internal governance. Low quality of internal control indicates low level of internal governance. Referring to previous scholars' research, this paper uses the Dibo Internal Control Index to measure the quality of internal control of enterprises, and groups them according to the annual-industry median. The samples with internal control index higher than the median are assigned 1, and the samples lower than the median are assigned 0, and then group regression analysis is performed (Yang Sijing et al., 2026; Hu Qianqian et al., 2022)[86][87]. The regression results are shown in columns 3-4 of Table 14. From the regression coefficient of $\Delta\text{Sale} \times D \times \text{Native}$, it can be seen that the sample group with high internal control quality is not significant, while the regression coefficient of the sample group with low internal control quality is significantly positive, and the coefficient test between the two groups is also significant. This indicates that when the internal governance level is low, the chairman's hometown identity plays an effect and promotes the reduction of enterprise labor cost stickiness, which supports the hypothesis of this paper.

According to previous scholars' research, when the difficulty of internal governance is high and the level of internal governance is low, the cost adjustment of enterprises is blocked, and the cost stickiness will be higher (Shi Shanchong et al., 2018; Wang Xianbin et al., 2024; Mou Shaohong et al., 2015)[88][89][90]. However, the results of this part show that the local chairman can significantly reduce the labor cost stickiness of the enterprise when the internal governance is difficult and the internal governance level is low. This result shows that the informal system of chairman's hometown identification plays a significant role when the enterprise faces poor internal governance.

Table 14. Heterogeneity Analysis: Internal Governance

Dependent variable	Δ Cost			
	(1)	(2)	(3)	(4)
	High financing constraints	Low financing constraints	High quality of internal controls	Low quality of internal controls
Δ Sale	0.4682***	0.4765***	0.5040***	0.4138***
	(12.4716)	(12.9229)	(17.3222)	(8.5519)
Δ Sale $\times$ D	-0.4116***	-0.2200***	-0.3686***	-0.2784***
	(-7.8063)	(-3.4412)	(-5.1318)	(-4.2577)
Δ Sale $\times$ native	-0.1749***	-0.1056	-0.1410**	-0.1002
	(-2.9539)	(-1.5830)	(-2.3284)	(-1.4487)
Δ Sale $\times$ D $\times$ native	0.2756***	0.0635	0.0511	0.1945*
	(2.9668)	(0.5078)	(0.4200)	(1.8355)
native	0.0138	0.0109	0.0176*	0.0053
	(1.4983)	(1.1322)	(1.7812)	(0.5746)
SD	-0.0290***	-0.0287***	-0.0241**	-0.0329***
	(-2.9858)	(-2.9351)	(-2.2187)	(-3.7175)
LI	-0.0008	0.0055	0.0046	-0.0003
	(-0.1941)	(1.4035)	(1.2210)	(-0.0677)
AI	0.0033	0.0022	0.0005	0.0068
	(0.6060)	(0.4027)	(0.1007)	(1.2328)
GDPG	0.0003	0.0028***	0.0016*	0.0015
	(0.2924)	(2.8816)	(1.6478)	(1.5342)
Cshare	0.0026*	0.0021	0.0016	0.0039*
	(1.6998)	(0.8143)	(0.5846)	(1.7552)
Dual	-0.0020	-0.0143	0.0028	-0.0097
	(-0.2023)	(-1.4444)	(0.2512)	(-1.0361)
ROA	0.6214***	0.3717***	0.3053***	0.4931***
	(5.9667)	(4.5203)	(4.2638)	(5.3190)
Loss	0.0030	0.0230	-0.0326*	0.0120
	(0.2811)	(1.0651)	(-1.8979)	(1.0646)
Constant	0.0456***	0.0256**	0.0388***	0.0360***
	(3.2198)	(1.9876)	(3.1212)	(2.7543)
Chow Test p-value	0.0003		0.0003	
Controls	Included	Included	Included	Included
Year & Industry	Included	Included	Included	Included
Observations	3288	3000	3321	3034
Adj.R ²	0.3453	0.3576	0.3654	0.3012

Notes: Observations is the number of observations, Adj.R² is the adjusted R², and t values for regression coefficients are in parentheses, controlling for fixed effects of year and industry. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

7. Conclusion

This paper studies the impact of the local status of the chairman of the board of directors of state-owned enterprises on the stickiness of labor costs. The data of state-owned enterprises listed on Shanghai and Shenzhen A-share exchanges from 2007 to 2023 are selected as samples to explore the theme of this paper through theoretical analysis and empirical research. First, the empirical results show that SOEs with local chairman have weaker labor cost stickiness than other SOEs, and then we support the conclusions of this paper through instrumental variables, PSM test, HDFE test and substitution explanatory variables.

Secondly, this paper has carried on the mechanism inspection. Labor cost stickiness is caused by salary stickiness, labor stickiness or both. This paper examines which mechanism local directors use to reduce labor cost stickiness. The results of mechanism analysis show that state-owned enterprises with local chairman manage labor cost and reduce labor cost stickiness by adjusting average salary rather than layoffs. The moderating effect test shows that the local chairman shares cultural background with employees and is more likely to gain employees' trust and support, so it can effectively reduce labor cost stickiness. The test results also support this idea. A series of heterogeneity analyses are also carried out from three aspects: external supervision, market environment and internal governance. When enterprises face negative situations such as weak external supervision, bad market environment and poor internal governance, the informal system of hometown identification of local directors plays an effect. Compared with non-local directors, local directors are more likely to adopt compensation adjustment methods to exert their information and trust advantages when facing these negative situations. This significantly reduces labor cost stickiness.

The potential contributions of this paper are as follows: Firstly, this study studies the influence of local chairman on labor cost stickiness of state-owned enterprises from the perspective of chairman's personal characteristics, and expands the existing literature on the influencing factors of labor cost stickiness. Secondly, most previous studies have studied the influence of executives' personal characteristics on enterprise innovation, social responsibility, agency cost, etc., but this paper finds that appointing local chairman can exert information advantage and gain employee trust, thus having a positive impact on enterprise labor cost stickiness, enriching the research results on the influence of chairman's hometown identity on enterprise behavior decision-making. Third, regarding the labor cost of state-owned enterprises, because state-owned enterprises bear certain social responsibility, it is generally believed that state-owned enterprises can alleviate the negative impact of labor cost stickiness by providing subsidies to state-owned enterprises in order to bear social responsibility and lead to sub-optimization of enterprise economic benefits. However, the research in this paper shows that besides relying on government subsidies, employing local directors can also effectively alleviate the stickiness of labor cost. This result provides another effective measure for state-owned enterprises to reduce labor cost stickiness. Finally, this paper finds that when the firm faces negative situations such as weak external supervision, bad market environment and poor internal governance, the informal institution of local chairman's hometown identification can play an effect. This research result shows that when the firm's internal supervision and governance are weak, not only the traditional formal institution can alleviate it, but also the informal institution can play a role, enriching the research results on the influence of informal institution on firm behavior decision-making.

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