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Article

Political connections and corporate ESG performance

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Abstract: With the popularization of the concept of sustainable development, corporate ESG performance has attracted more and more attention from all walks of life. However, there is still a lack of in-depth discussion on what factors affect corporate ESG performance, especially in a political and economic system like China. This article takes A-share listed companies as a sample to empirically analyze the impact of political connections on corporate ESG performance. The study found that political connections can promote corporate ESG performance by increasing media attention and reducing financing constraints. Further research found that this promotion performance is more significant in non-state-owned enterprises. This article combines the national conditions with Chinese characteristics, enriches the research on the factors that promote corporate ESG performance from the government perspective, and deepens the research on the role and consequences of political connections.

Keywords: political connections; corporate ESG performance; media attention; nature of property rights

1. Introduction

As environmental problems become increasingly severe, it is urgent to achieve dual carbon goals and sustainable development goals. Against this policy background, the ESG system has become the focus of attention from all sectors of society [1]. Corporate ESG performance not only affects corporate value [2], but also reflects the level of corporate sustainable development [3]. Therefore, domestic and foreign academics and practitioners have conducted a large number of studies on corporate ESG performance and its influencing factors and consequences. Although my country's ESG market is developing rapidly, there is still a big gap compared with developed countries [4], and it needs continuous improvement.

There are two main flaws in the existing research on corporate ESG performance: first, the analysis of factors affecting corporate ESG performance is not comprehensive and in-depth; second, it ignores the important role that the government level may play in corporate ESG performance under the characteristics of China's market economy. In response to these two major shortcomings, this article will explore whether and how political connections affect corporate ESG performance.

Choosing political connection as the analytical perspective is mainly based on the following considerations:

First of all, the revised version of the "Guidelines for the Governance of Listed Companies" states that listed companies should strengthen ESG information disclosure and strengthen their leading role in assuming social responsibilities. It also emphasizes the importance of party and government leadership in corporate governance. The relevant legal system construction of my country's market economy is not yet fully mature. The government is the key leader in social and economic development. Political connections, as an important resource for enterprises [5], play the role of a "supporting hand" and can help enterprises. Obtaining more loans [6], reducing financing constraints [7,8], and obtaining financial subsidies and tax incentives have a non-negligible impact on corporate financial and non-financial indicators. Studying the impact of political connections on corporate ESG performance will help reveal the mechanism of the political environment on corporate sustainable development and provide a theoretical basis and empirical support for the government to formulate relevant policies and norms.

Secondly, existing research mostly focuses on the impact of political connections on sub-indexes of corporate ESG performance and rarely analyzes the relationship between the two as a whole. Moreover, there are different views on how political connections affect sub-indicators of ESG performance. Regarding the impact of political connections on corporate environmental responsibilities, one side believes that political connections make companies more likely to receive media attention, and companies will take the initiative to fulfill more environmental responsibilities in order to maintain their reputation [9]. In addition, political connections will promote corporate green innovation and play a role in the "Resource effect" [10]. The other side believes that political connections may lead to companies abusing power or enjoying privileges, helping companies circumvent environmental systems [11], and punishing companies for environmental violations. Producing a "shelter effect" [12], that is, reducing the intensity of penalties for violations, thereby relaxing the emphasis on and improving environmental issues. Regarding the impact of political connections on companies' performance of social responsibilities, one party believes that political connections can promote corporate charitable behaviors [13] and the fulfillment of social responsibilities [14]. The other side believes that political connections may weaken companies' consideration and response to social interests and reduce corporate social responsibility information disclosure [15]. Regarding the impact of political connections on the quality of corporate internal governance, one party believes that political connections can enhance executives' enthusiasm for implementing corporate internal governance, and their execution will also be enhanced [16], so that companies will have better internal governance. Control governance performance. The other side believes that political connections increase the ability and motivation of major shareholders to misappropriate funds [17], thereby increasing agency costs. To a certain extent, this will increase the risk of adverse selection by management and weaken corporate governance elements such as internal control.

Generally speaking, political connections have a non-negligible impact on the overall ESG performance of companies, and this impact may be positive or negative. In this context of the dual drivers of social markets and macropolitics, this article attempts to answer the following questions: Does the impact of political connections on the overall performance of corporate ESG indicators promote or inhibit? And through what channels does this influence occur? In response to this problem, this article uses empirical analysis methods to explore the impact and mechanism of political connections on corporate ESG performance.

Compared with existing research, the main contributions of this article may be reflected in the following aspects: (1) filling the gap in the literature, exploring the impact of political connections on the overall performance of corporate ESG for the first time, and deepening the understanding of the market economy with Chinese characteristics and the background of sustainable development Related research on political connections: (2) based on reputation pressure theory, it is found that media attention plays a mediating role between political connections and corporate ESG performance, enriching the impact of media information disclosure on corporate non-financial indicators; (3) in companies with different property rights, the impact of political connections is different. This paper divides companies into categories of property rights. The study found that political connections have a more positive effect on the ESG performance of non-state-owned enterprises, enriching the impact of political connections on companies with different property rights research.

2. Theoretical analysis and research hypotheses

First, based on rent-seeking theory, in the context of an incomplete market economy, the government will allocate market resources through intervention or regulation, thereby creating or protecting certain privileges. Establishing political connections is a typical rent-seeking behavior that strengthens the mutually beneficial relationship between the government and enterprises [18]. This relationship is mainly reflected in the following two aspects. First, enterprises are highly dependent on some resources controllable by the government. By using the intervention of government administrative power, they can increase their chances of obtaining excess income, such as: obtaining more financial subsidies [19], reducing financing constraints [7,8], etc., thereby increasing the company's own profits; secondly, in order to improve performance indicators, government officials are forced to be promoted and differentiated. The competitive pressure of local governments [20–22] requires enterprises to assume some social responsibilities and enhance the quality of relevant information disclosure. To sum up, through the rent-seeking behavior of establishing political connections, enterprises obtain more additional resources, relieve financing pressure, and increase the pressure on environmental and social responsibilities. In order to maintain this mutually beneficial relationship, companies may use part of their funds for corporate ESG performance investment to promote corporate ESG performance.

Second, based on the moral compensation theory, an individual's moral decision-making will be affected by prior behavior. If an unethical behavior was performed previously, a more moral behavior will be performed later, and vice versa. Companies that establish political connections may breed corruption among government officials [23], increase the moral hazard of executives, and harm the interests of small and medium shareholders. These unethical behaviors for self-interest will prompt executives to feel shame [24] and subsequently make moral compensation [25]. In addition, enterprises can obtain more social resources by establishing political connections, which may cause unfair competition between enterprises and harm the interests of enterprises that have not established political connections. In order to alleviate the guilt caused by previous unethical behavior and make up for the harm of these unethical behaviors to the corporate image, corporate executives may show higher ethical behavior in other aspects, such as: assuming more social and environmental protection responsibilities, increasing charitable donations, etc., these behaviors will improve the ESG performance of enterprises to a certain extent.

Third, based on institutional theory, when companies face external pressures brought about by establishing political connections, they may adopt a decoupling strategy to complete tasks symbolically [26] rather than truly changing their behavior. and attitude. This may lead to companies not investing too much resources in fulfilling social or environmental responsibilities when facing public pressure, as long as they meet legal requirements to avoid punishment. In addition, political connections will weaken the impact of institutional constraints on corporate operations or investment activities [27], which means that companies can evade or reduce institutional responsibilities or penalties through political channels, thereby reducing their recognition of ESG performance. level of knowledge and compliance. On the other hand, political connections may make companies more dependent on political resources, reduce their motivation to participate in market competition, and reduce their motivation to enhance their competitiveness and reputation by improving ESG performance. To sum up, political connections may have a negative impact on corporate ESG performance, because it not only reduces corporate investment in and emphasis on ESG performance, but also weakens corporate motivation and willingness to improve ESG performance.

In summary, this article puts forward the following hypotheses:

- Hypothesis 1a: Political connections will improve corporate ESG performance.
- Hypothesis 1b: Political connections will reduce corporate ESG performance.

The mediating effect of media attention on political connections and corporate ESG performance.

From the perspective of agenda setting theory, the media will pursue important issues in society and process and report on them. This behavior will affect the public's perception of this issue. Political connections are controversial and socially sensitive topics, which are in line with the media's tendency to pursue hot topics. In real life, once executives establish political connections, their relevant information will be reported eagerly [10], thereby being exposed to the attention of stakeholders and facing higher reputational risks. Combined with the analysis of reputational pressure theory, media attention brings reputational and exemplary pressure to management, which will prompt management to actively or passively adjust their behaviors and strategies to adapt to the expectations and standards of social groups. In order to respond to public expectations for companies to protect the environment and fulfill social responsibilities, companies will enhance their performance of social responsibilities [28], thereby improving corporate ESG performance.

- Hypothesis 2: Political connections will improve corporate ESG performance by increasing media attention.

3. Research design

3.1. Sample source

This article takes all A-share-listed companies from 2010 to 2020 as the research sample and screens them through the following criteria: First, exclude financial and insurance companies; second, exclude ST and *ST listed companies; and third, exclude the required data from the missing company. A total of 20,093 sample values were obtained after screening. This article winsorizes all continuous variables at the upper and lower 1% to eliminate the impact of extreme values on the study. The data required in this article comes from the Wind database.

3.2. Model construction

In order to test the impact of political connections on corporate ESG performance, this article constructs the following model. The specific variable definitions are shown in **Table 1**.

$$ESG_{i,t} = \alpha_0 + \alpha_1 PC_{i,t} + \alpha_2 Controls_{i,t} + Industry + Year + \xi_{i,t} \quad (1)$$

where the explanatory variable *ESG* denotes the *ESG* performance of the firm in year *t*, reflecting the firm's performance in environmental protection, social responsibility, and corporate governance. The explanatory variable PC indicates whether the firm has political connections, which is a binary variable where 1 indicates the presence of political connections and 0 indicates the absence of political connections. The presence of political connections may affect a firm's *ESG* performance through various channels, such as through higher policy attention or better access to resources. The control variable Controls include other factors that may affect *ESG* performance, such as firm size, profitability, and capital structure, which are selected for inclusion in the model based on existing literature and theoretical foundations. The model also includes industry-fixed effects and year-fixed effects to control for the time effects of industry characteristics and macroeconomic or policy environments that do not vary with firm operations in order to more accurately estimate the impact of political linkages on *ESG* performance. In addition, we control for heteroskedasticity and robust standard errors.

Table 1. Variable names and definitions.

Variable name	Variable symbol	Variable definition
Corporate ESG performance	ESG	Based on the ESG rating of Huazheng, according to the rating "C~AAA" from low to high, "1~9" is used as the proxy variable of the company's ESG performance
political connection	PC	If any one of the chairman and general manager of the enterprise is currently or has been a government official, the value of PC is 1, otherwise it is 0
Enterprise size	Size	Take the natural logarithm of the total assets of the enterprise
Assets and liabilities	Lev	Total Liabilities/Total Assets
Return on total assets	ROA	Net profit/total assets
Operating income growth rate	Growth	(Operating income of the current period - operating income of the previous period)/Operating income of the previous period
Number of directors	Board	Number of people on the company's board of directors
Ratio of independent directors	Indep	Number of independent directors/total number of board members
Shareholding ratio of the largest shareholder	Top1	Number of shares held by the largest shareholder/total number of shares
Equity checks and balances	Balance	Total shareholding ratio of the second to fifth largest shareholders/shareholding ratio of the first largest shareholder
Property rights structure	SOE	If the enterprise is a state-owned enterprise, take 1, otherwise take 0

3.3. Variable definition

3.3.1. Corporate ESG performance

Nowadays, the ratings of corporate ESG performance at home and abroad are complicated, and there are no certain standards. This article takes into account the national conditions with Chinese characteristics and the adequacy of the sample size, and selects the Huazheng ESG with the longest annual interval, drawing on foreign rating standards and combining Chinese characteristics. Ratings measure corporate ESG performance. Specifically, it is based on the Huazheng ESG annual rating, that is, the ratings C to AAA are assigned values from low to high from 1 to 9, and the explained variable (ESG) is constructed based on this assignment method.

3.3.2. Political connections

Drawing on the practices of Fan et al. [29] and Zhang et al. [30], the political connection studied in this article is set as a dummy variable. If the company's chairman or general manager is currently or has served as a government official, the PC value is 1, otherwise it is 0.

3.3.3. Control variables

The control variables in this paper include enterprise size (Size), asset-liability ratio (Lev), return on total assets (ROA), business income growth rate (Growth), number of directors (Board), proportion of independent directors (Indep), Shareholding ratio of the largest shareholder (Top1), equity balance (Balance) and ownership structure (SOE). Finally, the paper also controls the annual effect and fixed effect. Specifically, as shown in **Table 1**.

3.4. Descriptive statistics of variables

Table 2 reports the results of descriptive statistics of the variables. As can be seen from **Table 2**, the mean value and standard deviation of corporate ESG performance (ESG) are 6.525 and 1.196 respectively, indicating that there are large differences in ESG between different companies; the mean and standard deviation of political connection (PC) are 0.316 and 0.465 respectively, indicating that political. The degree of dispersion of the association is relatively large. The above shows that the sample data in this article are diverse and meet statistical requirements.

Table 2. Variable descriptive statistics.

Variable	*N*	Average	Standard deviation	Min	Max
ESG	20,093	6.525	1.196	1	9
PC	20,093	0.316	0.465	0	1
Size	20,093	22.38	1.302	19.52	26.21
Lev	20,093	0.467	0.209	0.0668	0.961
ROA	20,093	0.0323	0.0683	−0.289	0.217
Growth	20,093	0.179	0.564	−0.632	4.124
Board	20,093	8.687	1.720	5	15
Indep	20,093	0.3749	0.0538	0.3333	0.5714
Top1	20,093	0.3400	0.1464	0.0923	0.7365
Balance	20,093	0.0066	0.0057	0.0002	0.0255
SOE	20,093	0.465	0.499	0	1

4. Empirical results and analysis

4.1. Political connections and corporate ESG performance

Table 3 lists the regression results for political connections and corporate ESG performance. Column (1) is the regression result of corporate political connections and corporate ESG performance under the premise of controlling industry fixed effects and year fixed effects. Among them, the regression coefficient of PC on ESG is 0.108 and is significant at the 1% level, indicating that the positive impact of political connections on corporate ESG performance has been preliminary proven. Column (2) is the regression result after controlling for industry and year-fixed effects and adding control variables. Among them, the regression coefficient of PC on ESG is 0.058, both of which are significantly positive at the 1% level. The above results indicate that political connections will promote corporate ESG performance. This conclusion supports hypothesis 1a.

Table 3. Political connections and corporate ESG performance.

Variable	(1)	(2)
	ESG	**ESG**
PC	0.108***	0.0580***
	(0.0177)	(0.0160)
Size	-	0.354***
	-	(0.00744)
Lev	-	−0.718***
	-	(0.0454)
ROA	-	1.887***
	-	(0.122)
Growth	-	−0.0982***
	-	(0.0133)
Board	-	0.0222***
	-	(0.00524)
Indep	-	0.00372**
	-	(0.00155)
Top1	-	−0.000306
	-	(0.000733)
Balance	-	−0.0773***
	-	(0.0180)
SOE	-	0.390***
	-	(0.0173)
Constant	5.719***	−2.104***
	(0.102)	(0.179)
Year	Yes	Yes
Industry	Yes	Yes
Observations	20,093	20,093
R-squared	0.103	0.280

Note: *, ** and *** denote significance at the 10%, 5% and 1% levels, respectively, with heteroscedasticity robust standard errors in parentheses. Same as below.

4.2. Mediating effect test

Examine the mediating effect of media attention. Therefore, this article refers to the approach of Tao and Jin [31] and selects the logarithm (MT) of the total number of times that A-share listed companies are reported by newspapers and media each year plus 1 as the measurement variable of media attention. To test the mediating effect of media attention, a three-stage regression was conducted. Among them, the relationship between political connections and corporate ESG performance has been listed above and will not be described at this stage. As shown in **Table 4**, according to column (1), PC and MT are significantly positive at the 1% level, indicating that corporate political connections can increase corporate media attention. According to column (2), MT and corporate ESG performance are significantly positive at the 1% level, indicating that newspaper and media attention will improve corporate ESG performance. The path of "political connections → (increased) media attention → (improved) corporate ESG performance" has been verified. Corporate political connections can improve corporate ESG performance by increasing corporate media attention.

Table 4. Mediating effect test of media attention.

Variable	**(1)**	**(2)**
	MT	**ESG**
MT	-	0.0498***
	-	(0.00724)
PC	0.102***	0.0587***
	(0.0182)	(0.0173)
Size	0.505***	0.290***
	(0.00764)	(0.00813)
Lev	0.126***	−0.236***
	(0.0248)	(0.0236)
ROA	0.220***	0.266***
	(0.0457)	(0.0435)
Growth	7.05×10^{-6}	-1.16×10^{-5}
	(8.04×10^{-6})	(7.63×10^{-6})
Board	0.0327***	0.0238***
	(0.00590)	(0.00561)
Indep	0.0108***	0.00344**
	(0.00168)	(0.00159)
Top1	−0.00417***	0.00128*
	(0.000805)	(0.000766)
Balance	−0.0458**	−0.0462**
	(0.0197)	(0.0187)
SOE	−0.0275	0.346***
	(0.0197)	(0.0187)

Table 4. (*Continued*).

Variable	(1)	(2)
	MT	**ESG**
Constant	−7.872***	−1.357***
	(0.204)	(0.202)
Year	Yes	Yes
Industry	Yes	Yes
Observations	17,292	17,292
R-squared	0.363	0.258

5. Robustness test

5.1. Surrogate variables for political connections

Since the impact of political connections on corporate *ESG* performance may vary depending on the level of political connections, this article draws on the research of Fan et al. [29] and sets an ordinal variable for the level of political connections (PCLEVEL). Among them, if the chairman or CEO of the company has an administrative level in the past or present or serves as a party representative, a deputy to the National People's Congress, or a member of the Chinese People's Political Consultative Conference, the assignment will be divided into four levels based on China's political level or regional level. The higher the level, the greater the intensity of the political connection. Specifically, 1 is taken at the departmental, district, or county level; below, 2 is taken at the divisional or city level; 3 is taken at the departmental or provincial level; and 4 is taken at the ministerial or national level. Otherwise, 0 is taken. If both exist, the maximum is taken. value to measure. This paper brings the measured PCLEVEL into the benchmark model for regression analysis. The results are shown in column (2) of **Table 5**, which shows that the above results are robust.

Table 5. Robustness test regression results.

Variable	(1)	(2)
	CNRESG	**ESG**
PCLEVEL	-	0.0158***
	-	(0.00486)
PC	0.292**	-
	(0.140)	-
Size	1.747***	0.353***
	(0.0684)	(0.00747)
Lev	−1.574***	−0.719***
	(0.494)	(0.0454)
ROA	3.718***	1.887***
	(1.299)	(0.122)
Growth	−0.286*	−0.0981***
	(0.155)	(0.0133)

Table 5. (*Continued*).

Variable	(1) CNRESG	(2) ESG
Board	0.173***	0.0223***
	(0.0410)	(0.00524)
Indep	−0.0101	0.00375**
	(0.0129)	(0.00155)
Top1	0.0298***	−0.000342
	(0.00653)	(0.000733)
Balance	0.965***	−0.0777***
	(0.168)	(0.0180)
SOE	−0.0877	0.391***
	(0.164)	(0.0174)
Constant	−28.24***	−2.088***
	(1.653)	(0.180)
Year	Yes	Yes
Industry	Yes	Yes
Observations	6129	20,093
R-squared	0.401	0.280

5.2. Proxy variables for corporate ESG performance

Referring to the practice of He et al. [32], the dummy variables of the six contents of product advantages, charity volunteer activities and social controversy advantages, diversification advantages, corporate governance advantages, employee relations advantages, and environmental advantages in the CNRDS database are summed to This serves as a proxy variable for corporate ESG performance (CNRESG). As shown in column 1 of **Table 5**, after replacing the ESG performance of the explained variable, the conclusion of this article is still significant.

6. Further analysis

Based on resource dependence theory, enterprises need to establish connections with external organizations to obtain the resources required for production and operations. In the context of the system with Chinese characteristics, the government is the main allocator of resources, and enterprises with different property rights have varying degrees of dependence on the government [33]. There is an irreplaceable connection between state-owned enterprises and the government. This is reflected in the fact that most of the executives of state-owned enterprises are government officials and have state-owned equity. In contrast, non-state-owned enterprises do not have a state-owned holding background, and their development is more uncertain and risky [34]. Therefore, enterprises can only actively seek political connections through their own efforts, hoping to obtain government resources and protection. The establishment of political connections by non-state-owned enterprises has proactive characteristics and is more difficult than that of passive state-owned enterprises. Therefore, non-state-owned enterprises will be more careful to maintain the mutually beneficial relationship between government and enterprises brought about by rent-seeking, aggravating the impact of rent-seeking theory on enterprises and thereby enhancing the role of political connections in promoting corporate ESG performance.

This article interacts the nature of property rights (SOE) with political connection (PC) to obtain the interaction term SOE × PC and puts it into the benchmark model for regression, as shown in **Table 6**. It can be seen that SOE × PC and ESG are significantly negative at the 1% level, indicating that compared with state-owned enterprises, political connections have a more obvious impact on the ESG performance of non-state-owned enterprises. This conclusion confirms hypothesis 2.

Table 6. Test of moderating effect of property rights nature.

Variable	**(1)**
	ESG
PC	0.118***
	(0.0213)
SOE × PC	−0.136***
	(0.0318)
SOE	0.431***
	(0.0198)
Size	0.353***
	(0.00744)
Lev	−0.720***
	(0.0454)
ROA	1.888***
	(0.122)
Growth	−0.0974***
	(0.0133)
Board	0.0233***
	(0.00524)
Indep	0.00391**
	(0.00155)
Top1	−0.000360
	(0.000732)
Balance	−0.0771***
	(0.0180)
Constant	−2.126***
	(0.179)
Year	Yes
Industry	Yes
Observations	20,093
R-squared	0.281

7. Conclusion and enlightenment

This paper takes the relevant data of A-share listed companies from 2010 to 2020 as the research object and uses theoretical analysis, empirical analysis, and robustness analysis to systematically study the impact of political connections on corporate ESG performance and its mechanisms. Research has found that political connections have a significant role in promoting corporate ESG performance. Political connections can increase the media's attention to the company, making corporate executives under the pressure of reputation protection and exemplary effect, increasing the degree of corporate social responsibility fulfillment, which in turn has an incentive for companies to enhance ESG performance. Further research found that political connections have a greater impact on the ESG performance of non-state-owned companies than state-owned companies.

Based on the above research conclusions, this paper draws the following enlightenment: First, political connections have a significant impact on corporate ESG performance, and companies should use political connections reasonably to help companies improve ESG performance, but they should also pay attention to avoid over-reliance on or abuse of political connections so as not to damage the long-term development and social reputation of the enterprise. At the same time, enterprises should also focus on improving their internal competitiveness and innovation capabilities, as well as fulfilling their environmental, social, and governance responsibilities, so as to achieve sustainable development. Second, media attention is an important intermediary variable between politics and corporate ESG performance, indicating that media supervision has an important impact on corporate behavior and can prompt companies to pay more attention to environmental, social, and governance responsibilities and performance. The government should establish relevant laws and regulations to enable the media to play a better role in information transmission and disclosure, and then help the government supervise and regulate corporate behavior. Third, non-state-owned enterprises face greater market competition pressure than state-owned enterprises. When non-state-owned enterprises cannot further improve their ESG performance with their own resources, they can obtain more resources and protection by seeking political connections, thereby helping themselves improve corporate ESG performance. At the same time, non-state-owned enterprises should also pay attention to the legal and reasonable use of political connections to avoid damaging the rights and interests of other stakeholders or violating laws and regulations because of political connections, so as not to cause negative public opinion or regulatory penalties.

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