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CONTENTS

Editorial introduction
Michał Pilc, Konrad Sobański

INVITED PERSPECTIVE

On productivism
Dani Rodrik

ARTICLES

Economic complexity and the shadow economy in Africa: An assessment of nonlinearity and asymmetry
James Temitope Dada, Folorunsho M. Ajide, Mosab I. Tabash, Mamdouh Abdulaziz Saleh Al-Faryan

Demystifying Foreign Direct Investment dynamics in emerging economies: An ISM–MICMAC analysis
Srabani Paul Grover, Varun Chotia, Satyaki Datta, Sham Ranjan Shetty

Political connection and corporate ESG performance: Evidence from China
Congming Ding, Xuezhenzi Hu

Liquidity risk and liquidity timing in the cross-section of Indian equity mutual fund returns
Suresh Kumar, Hyder Ali

Forecasting cryptocurrencies in turbulent times: Evidence on parsimony versus model complexity
Anna Tatarczak, Oleksandra Humeniuk

From digital mining to market prices: An empirical analysis of the relationship between energy consumption and price dynamics of Bitcoin and Ether
Levent Sezal

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Political connection and corporate ESG performance: Evidence from China

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Xuezhenzi Hu[2]

Abstract

ESG has attracted widespread attention in China's capital markets. This study investigates the impact of corporate executives' political connections on firms' ESG performance in China. Using panel data from A-share listed companies between 2009 and 2022, this study empirically tests whether politically connected executives influence ESG ratings. The results show a significant positive association between political connections and ESG scores. Mechanism analysis reveals that such connections improve ESG performance by enhancing media scrutiny, alleviating financing constraints, and increasing access to government subsidies. To address endogeneity concerns, we employ Two-Stage Least Squares (2SLS) regression, confirming the robustness of the findings. These results highlight the role of political capital in promoting sustainable corporate practices.

Keywords

- political connection
- ESG performance
- media monitoring
- financing constraints

JEL codes: G3, M21, Q56.

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Introduction

Sustainable development has become a global priority, with ESG standards gaining prominence and rising to become core principles in corporate strategy and investment (Cao et al., 2023; Gonçalves et al., 2023; Pedersen et al., 2021). As the world's largest emitter of carbon dioxide, China accounted for 32.1% of global emissions from combustible fuels in 2023 (IEA, 2024), thus bearing critical responsibility in global climate mitigation efforts. At the 2020 United Nations General Assembly, China made a clear commitment to carbon emissions peaking before 2030 and carbon neutrality being achieved before 2060. Chinese enterprises, operating within this macro context of immense pressure and commitment, must play a decisive role in this transition. Against this backdrop, understanding the drivers of corporate ESG performance within China's unique institutional environment becomes critically important.

In emerging economies like China, informal institutions such as political connections often serve as vital supplements for market-supporting mechanisms. This is particularly pertinent in the Chinese context, characterised by a significant role of the state in resource allocation and a governance model where formal market-supporting institutions are still evolving. Under such institutional arrangements, informal networks and relationships naturally emerge as crucial channels for firms to navigate the business environment, secure resources, and interpret policy directions. While numerous scholars have examined how political connections influence corporate behaviour (Chan et al., 2012; Faccio, 2006; Florackis et al., 2023; Hu et al., 2024; Tsai et al., 2019; L. Wang & You, 2022), another group has explored the determinants of corporate ESG performance (Pedersen et al., 2021; S. Wang et al., 2025; Xie & Lv, 2022). However, a gap persists at the intersection of these two research paths. Although the resource advantages conferred by political connections have been well-documented, their impact on non-profit, long-term outcomes like ESG performance remains understudied. As a channel for resource acquisition, do political connections affect corporate ESG performance? Do they elevate or diminish ESG rating scores? What are the transmission mechanisms through which political connections affect corporate ESG performance? These questions are particularly pertinent in the Chinese context, where the government plays a central role in resource allocation and policy implementation, and corporate governance discourse is deeply embedded within a unique political framework. Examining how firms navigate and leverage political connections within such a context is therefore not merely an option but a necessity for understanding corporate behaviour.

This study aims to bridge this gap by empirically investigating the impact of political connections on corporate ESG performance in China. Based on a dataset of Chinese A-share listed companies from 2009 to 2022, this study

employs a panel regression model with firm and year fixed effects to identify this relationship. Our findings indicate that political connections significantly enhance corporate ESG performance. Three primary mechanisms are identified: strengthening media monitoring, alleviating financing constraints, and increasing government subsidies. Moreover, we document significant effect heterogeneity, with the impact being more pronounced in non-SOEs, northern China, SMEs, and high-tech industries.

This paper makes a twofold contribution. Firstly, it extends ESG research beyond financial impacts (Pedersen et al., 2021) to reveal institutional drivers of corporate ESG behaviour in developing countries and their performance-enhancing mechanisms. Secondly, by exploring the link between political connections and ESG outcomes, it offers new insights into how political embeddedness shapes operational strategies in contexts characterised by distinct governance models. These findings inform policy approaches for guiding firms toward strengthened social responsibility, environmental stewardship, and sustainable development.

The paper is structured as follows: Section 1 provides a literature review; Section 2 outlines the research methods and data; Section 3 and 4 reveal the empirical results; Section 5 discusses the research findings. The final section concludes the research.

1. Literature review

ESG is a key indicator system for evaluating corporate sustainability (Cao et al., 2023; Gonçalves et al., 2023) and is widely used in such areas as investment decision-making, corporate management, and social responsibility fulfilment. ESG not only concerns long-term profitability, but also highlights a company's active commitment to and performance in environmental protection, social responsibility, and corporate governance.

Existing research on the drivers of corporate ESG performance can be broadly categorised into several streams. Firstly, a substantial corpus of literature highlights the pivotal function of formal institutions, including environmental regulations and government policies, in influencing corporate ESG conduct (Qiu & Yin, 2019). Secondly, studies have emphasised the pressures and expectations from key stakeholders, including investors, consumers, and the public, which compel firms to adopt better ESG practices to maintain legitimacy and reputation (Gu, 2024). Thirdly, the economic implications of ESG are a central focus. It has been demonstrated by scholars that strong ESG performance has the capacity to reduce financing costs (Fang & Hu, 2023) and to influence investment decisions (D. Tang & Jin, 2023). Nevertheless, the direct impact

of ESG on financial performance remains a complex and contentious issue (S. Wang et al., 2022). While these studies offer valuable insights, they have predominantly focused on market incentives or formal regulatory pressures, and have largely been confined to research contexts in developed economies. In contrast, emerging economies such as China, where formal institutions are still developing and the state plays a key role in allocating resources, have not been widely studied. The influence that informal institutions, particularly political relationships at the corporate level, exercise on ESG in these countries remains a significant yet under-explored domain.

Government-business relationships refer to the multi-layered interactive networks between government and the market, government and enterprises, and even officials and entrepreneurs (Yang & Su, 2021). Through this network, enterprises gain access to greater government resource allocation and support—including credit financing facilities, tax incentives, and industry access advantages (Chan et al., 2012; L. Wang & You, 2022)—while also obtaining advance information on official transitions and policy shifts, thereby effectively mitigating risks stemming from political uncertainty (Alam et al., 2023). Simultaneously, government-business relationships elevate corporate visibility at both governmental and public levels. Media and societal scrutiny intensify regarding environmental investments and social responsibility practices. Consequently, under dual pressure from public opinion and societal expectations, companies increase environmental protection and social responsibility expenditures, yielding significant outcomes in environmental investments and performance (Chu et al., 2025; Hu et al., 2024). Of course, overreliance on political-business networks can introduce agency costs and governance challenges. They may lead to the misallocation of resources (W. Zhang et al., 2013) and weaken internal corporate governance mechanisms (S. Tang & Sun, 2014). For private firms, close political ties have been associated with lower operational efficiency, though this effect may diminish with improvements in the institutional environment (Deng & Zeng, 2009). In certain contexts, such as overcapacity industries, political connections can even trigger a "resource curse", exacerbating corporate financialisation and distracting from substantive operations (Mao et al., 2022). Therefore, maintaining necessary interactions while safeguarding against power abuse is crucial for enhancing ESG performance.

Compared with developed countries, China's ESG-themed indices started late, and the number of issuances, though initially small, has grown significantly in recent years. The development of enterprises cannot only rely on their efforts but also requires the support of the external environment, especially in developing countries where formal institutional rules and external markets are imperfect. The government's policy direction and the closeness to politics can affect the firm operation. In this context, we predict that a firm's close political connection with the government will help the firm's investment and performance on ESG.

2. Research methods and data

This study utilises a sample of firms listed on China's A-share market from 2009 to 2022.[3] ESG performance data were sourced from the SNSI ESG[4] database, which is widely recognised and applied in the market and provides valuable ESG information for companies, investors, and other stakeholders. The political connection data were derived from executive background information provided in the "Executive Personal Information" section of the Chinese Securities Market and Accounting Research Database (CSMAR). The samples were processed according to the following requirements: retain the samples with a normal listing in the observation period and exclude the abnormal samples such as Special Treatment (ST) firms; retain the rest of the companies except for the financial industry; and exclude companies with missing ESG and political connection data. Finally, unbalanced panel data consisting of 36,901 sample observations from 3932 listed companies are obtained. All continuous variables were winsorised at 1% and 99% levels to reduce the impact of outliers.

Following Xie and Lv (2022), this study adopts the SNSI ESG rating score, which includes environmental, social, and governance data, as a measure of firms' ESG performance. Consistent with Z. Liu et al. (2020), this study defines the political connection dummy variable (PC) as 1 if a firm's chairman or general manager has previously served as a government official, CPPCC member, NPC deputy, or party representative at any administrative level. Otherwise, the PC is assigned a value of 0. The emphasis on the chairman and general manager arises from their crucial roles in corporate decision-making and governance.

Drawing from the prior literature (Hu et al., 2024; Tsai et al., 2019; S. Wang et al., 2025), this study includes a set of control variables to account for other determinants of ESG performance. Firm age (Lnage) controls for accumulated experience, positing that older firms may have more mature systems for long-term ESG management. Firm size (Size), measured by the number

[3] The sample period starts from 2009 because the SNSI ESG ratings are initiated by Sino-Securities Index Information Service (Shanghai) Co. Ltd., and the earliest ratings of A-share listed companies start from 2009 and end in 2022, due to data availability and comparability.

[4] SNSI ESG Rating is based on the core connotation and development characteristics of ESG, combined with the internationally recognized ESG evaluation framework, and taking into account China's characteristics and practical experience. The rating system builds a four-level indicator system from top to bottom, including three first-level pillar indicators, 16 second-level subject indicators, 44 third-level topic indicators, and nearly 80 fourth-level underlying indicators. The rating result is a nine-grade "AAA-C" rating for the subject, and the scores of the ESG overall score, the first-level indicators, the second-level indicators, and the third-level indicators are all between the standard scores of 0–100, and the higher the scores, the better the subject's performance on the indicators. The ESG composite score is the main indicator for testing the hypotheses. In addition, the scores of the individual ESG pillars were used.

of employees, accounts for the greater resources and public scrutiny larger firms face, which can influence their ESG investments. Return on assets (ROA) is included as financially sound firms likely have more slack resources for ESG initiatives. Leverage ratio (Leverage) controls for the potential constraint high debt imposes on non-essential investments. Cash holding level (Cash) captures financial flexibility, with higher liquidity expected to facilitate ESG spending. Shareholding concentration (Sh_Conc) addresses how governance structure may either enable or impede ESG policy implementation. Growth (Growth) and capital intensity (CI) control for the firm's strategic focus and investment structure, which may affect its propensity and capacity to fund long-term ESG projects. Table 1 and Table 2 provide the descriptive statistics and the results of correlation analysis and multiple collinearity tests for the main variables used in the empirical analysis, respectively.

Table 1. Descriptive statistics

Variable type	Variables	*N*	Mean	SD	Min	Max
Dependent variable	ESG rating score (ESG)	36901	73.06	5.224	56.74	84.06
Key explanatory variable	Political connection (PC)	36901	0.303	0.459	0	1
Mechanism variables	Media monitoring (Media)	36901	0.355	0.429	–1	1
	Financing constraints (KZ)	33574	1.098	2.453	–11.33	13.66
	Government subsidies (Grant)	35909	17.07	1.985	6.399	21.28
Control variables	Firm age (Lnage)	36901	2.093	0.888	0	3.332
	Firm size (Size)	36608	5.062	9.903	0.084	70.37
	Return on assets (ROA)	36900	0.037	0.064	–0.263	0.205
	Leverage ratio (Leverage)	36900	0.427	0.210	0.052	0.940
	Cash holding level (Cash)	36900	0.206	0.147	0.016	0.704
	Shareholder concentration (Sh_Conc)	36901	53.42	15.49	19.67	88.58
	Growth (Growth)	36812	0.376	1.016	–0.682	7.209
	Capital intensity (CI)	36883	2.534	2.177	0.399	14.53

Source: SNSI ESG and CSMAR databases.

Table 1 presents ESG and PC, the key variables in our study. ESG rating scores vary significantly across companies, ranging from a minimum of 56.74 to a maximum of 84.06, with a mean of 73.06. This indicates that the overall ESG performance of the sample companies is at a relatively high level. The

Table 2. Correlation matrix and collinearity analysis

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) ESG	1.000												
(2) PC	0.052*	1.000											
(3) Media	0.126*	–0.033*	1.000										
(4) KZ	–0.179*	0.001	–0.077*	1.000									
(5) Grant	0.151*	0.003	0.144*	–0.024*	1.000								
(6) Lnage	–0.131*	–0.014*	–0.007	0.298*	0.083*	1.000							
(7) Size	0.164*	0.031*	0.026*	0.033*	0.341*	0.159*	1.000						
(8) ROA	0.233*	0.027*	0.067*	–0.529*	0.046*	–0.215*	0.025*	1.000					
(9) Leverage	–0.112*	0.009	–0.044*	0.633*	0.129*	0.393*	0.250*	–0.371*	1.000				
(10) Cash	0.124*	–0.047*	0.019*	–0.605*	–0.055*	–0.325*	–0.105*	0.262*	–0.436*	1.000			
(11) Sh_Conc	0.154*	0.007	0.003	–0.209*	0.058*	–0.343*	0.175*	0.213*	–0.090*	0.129*	1.000		
(12) Growth	–0.003	0.003	–0.048*	0.067*	–0.080*	0.055*	–0.064*	–0.005	0.081*	0.017*	–0.012	1.000	
(13) CI	–0.066*	0.019*	–0.055*	0.086*	–0.134*	0.100*	–0.148*	–0.189*	–0.022*	–0.027*	–0.051*	0.178*	1.000
VIF	1.11	1.01	1.04	2.83	1.20	1.33	1.34	1.51	2.01	1.66	1.23	1.06	1.13

Note: * indicates significance at the 1% level.

Source: own work.

mean value of the political connections variable (PC) is 0.303, indicating that nearly one-third of executives in listed companies possess political connections. This suggests that under China's unique institutional environment during its transition period, establishing connections with the government serves as a crucial means for enterprises to pursue development.

The correlation analysis results in Table 2 indicate that the correlation coefficients between variables are generally low. The last row of Table 2 also reports the variance inflation factors (VIF) for each variable, all of which are found to be less than 3. This demonstrates that the fixed-effects model constructed in this paper does not exhibit significant multicollinearity issues.

To investigate the relationship between political connections and corporate ESG performance, this study employs a panel regression model with firm and year fixed effects as primary empirical strategy. Our baseline model is specified as follows:

$$ESG_{it} = \alpha_0 + \alpha_1 PC_{it} + \sum_{j=1}^{k} \delta_j Control_{it} + id_i + year_t + \mu_{it} \quad (1)$$

where ESG_{it} is the firm's ESG rating scores, PC_{it} is the degree of political connection of the firm, i and t are the listed firm and the year, respectively, id_i is an individual firm fixed effect, $year_t$ is a time-fixed effect, μ_{it} is a randomised disturbance term. The coefficient α_1 captures the effect of political connections on ESG performance. Based on the research hypothesis, α_1 is expected to be positive, indicating a beneficial impact of political connections on ESG performance.

The set of control variables, $Control_{it}$ is selected based on the established literature on corporate ESG and political connections (Hu et al., 2024; Tsai et al., 2019; S. Wang et al., 2025). They include: firm age (lnage), firm size (Size), return on assets (ROA), leverage ratio (Lev), cash holding level (Cash), shareholding concentration (Shrcr), growth (growth), capital intensity (CI). The same set of controls is consistently applied across all regression models in Tables 3 to 7 to ensure the comparability and coherence of our findings.

3. Results and discussion

3.1. Baseline regression

Table 3 presents the results of the effect of political connection on ESG performance. The coefficients on PC in columns (1) through (4) are all significantly positive. Column (4) indicates that after controlling for a range of

variables, adding individual and year fixed effects, and clustering for industry and prefecture, the results show that firms with at least one chairman or general manager who has had political experience tend to outperform their peers in terms of ESG performance. These results provide initial support for the underlying research hypothesis that political connections are associated with higher ESG performance.

Table 3. Baseline regression results n ESG

Variable	(1)	(2)	(3)	(4)
PC	0.590***	0.160*	0.493***	0.177**
	(0.059)	(0.090)	(0.057)	(0.080)
Lnage			–0.425***	–0.873***
			(0.035)	(0.195)
Size			0.093***	0.101***
			(0.003)	(0.014)
ROA			14.279***	3.945***
			(0.462)	(0.702)
Lev			–0.861***	–2.964***
			(0.155)	(0.427)
Cash			1.903***	0.799*
			(0.202)	(0.440)
Shrcr			0.017***	0.009
			(0.002)	(0.007)
Growth			0.075***	–0.061
			(0.026)	(0.045)
CI			0.007	–0.074*
			(0.013)	(0.042)
Constant	72.879***	73.014***	71.836***	75.027***
	(0.033)	(0.034)	(0.163)	(0.690)
Observations	36901	36741	36519	36348
R^2	0.003	0.537	0.099	0.555
Firm FE	NO	YES	NO	YES
Year FE	NO	YES	NO	YES

Notes: Clustered robust standard errors of the estimated coefficients at the industry and prefecture level are in parentheses; ***, **, and * indicate 1%, 5%, and 10% significance levels, respectively.

Source: own work.

The signs and significance of the control variables are largely consistent with theoretical expectations. For instance, Size and ROA exhibit positive and significant coefficients, suggesting that larger and more profitable firms tend to have better ESG performance, likely due to greater resources and managerial slack. The results for these controls enhance our confidence in the model specification.

3.2. Robustness tests

The possibility of reverse causality poses a significant challenge to establishing a causal interpretation of our findings. While we hypothesise that political connections (PC) enhance ESG performance, it is equally plausible that firms with superior (or inferior) ESG records may self-select into forming political ties. For instance, firms anticipating regulatory scrutiny due to poor environmental practices may proactively appoint politically connected executives to mitigate potential penalties or to gain preferential access to policy information (Florackis et al., 2023). This strategic appointment creates an endogeneity problem, as unobserved firm characteristics driving both the formation of political connections and ESG outcomes would bias the OLS estimates.

To address this identification concern, we employ an instrumental variable (IV) approach. Our instrument is the mean level of political connections of other firms within the same prefecture-level city and industry (Luo & Liu, 2019). The results of the two-stage least squares (2SLS) estimation are presented in Columns (1) and (2) of Table 4.

The first-stage *F*-statistic is well above the conventional threshold of 10, indicating a strong instrument. Most importantly, as shown in Column (2), the coefficient on the instrumented PC variable remains positive and statistically significant at the 5% level. This finding provides stronger causal evidence that political connections exert a positive influence on corporate ESG performance, even after accounting for the potential bias introduced by reverse causality.

To address potential concerns that our results are driven by evolving regulatory frameworks in the early stages of ESG development in China, we conduct a robustness check by restricting the sample period. Specifically, we shorten the time window to the period from 2015 to 2022. This choice is motivated by a key institutional change: the establishment of Green Finance Committee of the China Society of Finance in 2015, which marked a critical inflection point and the beginning of a more formalized and standardized era for ESG practices in the country (W. Wang, 2025). By focusing on this later period, we effectively test whether our main findings hold in a regulatory environment where ESG concepts became more mainstream and measurable.

Table 4. Robustness tests

	(1)	(2)	(3)	(4)
	Instrumental variable approach		Shortened time window	Alternative explanatory variable
	PC	ESG	ESG	ESG
PC_Level				0.049*
				(0.025)
PC		2.998**	0.253**	
		(1.237)	(0.108)	
IV	0.599***			
	(0.059)			
Observations	36348	36348	24791	36348
R^2			0.630	0.555
F	14.220			
Controls	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Note: The control variables are Lnage, Size, ROA, Leverage, Cash, Sh_Conc, Growth, CI.

Source: own work.

The regression results, presented in Column (3) of Table 4, show that the coefficient of PC remains positive and statistically significant. Notably, the point estimate is larger than that in the benchmark regression. This finding not only confirms the robustness of the positive relationship between political connection and ESG performance but also provides suggestive evidence that the role of political connections has become more pronounced as national and public attention to ESG has intensified post-2015. The consistency of our core result across different sample periods strengthens the credibility of our primary conclusion.

Furthermore, we alleviate concerns regarding any measurement error by employing an alternative measure for our key independent variable–political connection. Specifically, we use the political connection level (PC_Level) of corporate executives to replace the previous political connection (PC) (Fan et al., 2007). As shown in Column (4) of Table 4, the coefficient on PC_Level remains positive and significant at the 10% level, reinforcing that our findings are not sensitive to the specific operationalisation of the political connection construct.

4. Mechanism analysis and extended analysis

4.1. Mechanism analysis

Close political connections can bring potential various resources to enterprises, solve the problem of resource demand in the process of enterprise development, and then promote the operation and development of enterprises, which also helps to improve the ESG performance of enterprises; at the same time, close political connections also put the enterprises under more open and transparent media supervision, which motivates them to engage in more ESG behaviours. This study explores the impact of political connections on corporate ESG performance through three channels: media monitoring, alleviating financing constraints, and providing political resources. To further verify whether there is a mechanism effect, the following model (2) is designed for these purposes:

$$Mechanism_{it} = \beta_0 + \beta_1 PC_{it} + \sum_{j=1}^{k} \delta_j Control_{it} + id_i + year_t + \mu_{it} \quad (2)$$

In this specification, $Mechanism_{it}$ represents the mechanism variables, such as Media, KZ, and Grant, and the rest of the variables are explained as in equation (1).

4.1.1. Media monitoring

Legitimacy theory suggests (Al-Twaijry et al., 2003; Bednar, 2012) that the business activities of enterprises need to conform to the order and norms of society. As ESG ratings become a focus of social and national attention, firms strive to portray an environmentally friendly and responsible image through green innovation, fulfilment of social responsibility, and improvement of corporate governance levels in order to gain social acceptance and enhance legitimacy. If a corporate executive is involved in politics, he or she will inevitably receive more attention from the public. This is particularly salient in the era of digital media. From the perspective of agenda-setting theory, the media tends to pursue socially sensitive topics. As noted by Hu et al. (2024), once executives establish political connections, their information is eagerly reported, exposing them to heightened stakeholder scrutiny and reputational risk. Based on this situation, the executives of the firm, whether for optimizing the firm or their personal image (Hamdi, 2024), and under reputational pressure from media exposure (Hu et al., 2024), will pay more attention to ESG, make

more investments, and take the lead in ESG performance to cater to the concerns and expectations of the outside world about the firm.

The role of media as an external governance and monitoring mechanism has been documented in various contexts, including China (Li et al., 2022). While acknowledging the state's overarching influence on traditional media in China, the media landscape is not monolithic. Two key nuances support the relevance of media monitoring: firstly, at the operational level, local media and financial news outlets often retain a degree of autonomy in reporting on specific corporate conduct, especially regarding environmental and social issues that align with national policy priorities. Secondly, and more critically, the rise of social media, such as TikTok and RedNote, has created an alternative and vibrant arena for public oversight. Numerous studies have shown that social media in China acts as a powerful channel for exposing corporate environmental violations, labour disputes, and governance scandals, generating substantial public pressure that compels firms to respond (T. Ding & Chen, 2025; D. Liu, 2025; Sun, 2021; Y. Zhang, 2023). Therefore, for a politically connected firm, maintaining a positive image across both traditional and social media becomes a strategic imperative to manage reputational risk.

Furthermore, positive media coverage itself can be a valuable asset. It enhances corporate image and reputation, creating a consistent positive signal that builds stakeholder confidence. This improved reputation can, in turn, help alleviate corporate financing constraints (Capelle-Blancard & Petit, 2019)and managers can no longer ignore their impact on firm value. In this paper, we investigate the extent and the determinants of the stock market's reaction following ordinary news related to environmental, social and governance issuesthe so-called ESG factors. To that purpose, we use an original database provided by Covalence EthicalQuote. Our empirical analysis is based on about 33,000 ESG news (positive or negative, forming a virtuous cycle that supports ESG investments.

The Janis-Fadner coefficient (Janis & Fadner, 1943) of media monitoring is an indicator that quantifies the net tonality of media coverage. It is based on the number of positive and negative media reports about an enterprise or event, and is used to measure the bias and intensity of monitoring. This paper uses the number of positive, negative and neutral media reports from the China Research Data Service (CNRDS) financial database to construct a media monitoring indicator using the $J-F$ coefficient. The calculation method is as follows:

$$J-F=\begin{cases}\dfrac{e^2-ec}{t^2} & \text{if} \quad e>c \\ \dfrac{ec-c^2}{t^2} & \text{if} \quad e<c \\ 0 & \text{if} \quad e=c\end{cases}$$

where e is the number of positive reports, c is the number of negative reports, and t is the sum of the number of positive and negative reports. The value of the $J-F$ coefficient ranges from –1 to 1. When there are more positive reports about an enterprise, the $J-F$ coefficient approaches 1; when there are more negative reports about an enterprise, the $J-F$ coefficient approaches –1.

Table 5 examines whether media monitoring, financing constraints, and government subsidies serve as transmission channels. The models here replace the dependent variable with each mechanism variable.

Table 5. Transmission mechanism test

	(1)	(2)	(3)	(4)
	ESG	**Media**	**KZ**	**Grant**
PC	0.177**	0.023**	–0.092***	0.141***
	(0.080)	(0.011)	(0.030)	(0.043)
Observations	36348	36348	32978	35411
R^2	0.555	0.311	0.815	0.597
Controls	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Note: The control variables are lnage, Size, ROA, Lev, Cash, Shrcr, Growth, CI.

Source: own work.

Column (2) of Table 5 shows that the coefficient of the effect of political connection on corporate media monitoring ($J-F$ coefficient) is significantly positive, indicating that politically connected firms garner more favourable net media coverage. This finding is consistent with the logic that such firms are incentivized to actively manage their media image. The positive coverage likely reflects both their efforts to showcase ESG-aligned behaviours and the media's tendency to report on prominent, politically linked entities. Firms, in turn, tend to invest more in ESG not only to maintain this favourable image but also to pre-empt potential negative scrutiny, as predicted by reputational pressure theory (Hu et al., 2024), thereby further improving their ESG rating scores.

4.1.2. Financing constraints

During the critical period of China's economic transformation and development, the capital market system is still imperfect, and the conditions for enterprises to go public are harsh, making it difficult for most enterprises to obtain all the funds needed for R&D projects through equity financing.

A good relationship with the government can significantly reduce firms' reliance on equity financing (Boubakri et al., 2012), enabling them to show potential advantages in obtaining bank loans, especially long-term loans (Chan et al., 2012; Fan et al., 2008). Firms that are well-capitalised, less costly, and have relatively fewer financing constraints are more inclined to play a greater role in the ESG sector, as these firms have more resources to devote to ESG.

This paper employs the KZ index as a proxy variable for financing constraints. Proposed by Kaplan and Zingales (1997), the KZ index aims to assess the difficulty of an enterprise's access to funds through a comprehensive analysis of a series of financial indicators. The calculation method of the KZ index is relatively complex and involves financial data, such as an enterprise's total assets at the beginning of the period (Asset), operating net cash flow (OCF), cash dividends (Dividends), cash holding level (Cash), asset-liability ratio (Leverage), and Tobin's Q. The construction method is as follows:

$$KZ = b1 \times \frac{OCF}{Asset} + b2 \times Leverage + b3 \times \frac{Dividends}{Asset} + b4 \times \frac{Cash}{Asset} + b5 \times \text{Tobin's}Q$$

In the formula, OCF, Dividends, and Cash are all normalised using total assets at the beginning of the period, Leverage is the asset-liability ratio, and Tobin's Q is the Tobin's Q value, which is the ratio of the market value of the enterprise to the replacement cost of its assets. The higher the KZ index, the more severe the financing constraints faced by the enterprise and the more limited its financing ability. Referring to the study by Lamont et al. (2001), the values of $b1 \sim b5$ are −1.001909, 3.139193, −39.3678, −1.314759, 0.2826389.

Column (3) of Table 5 shows that political connection has a significantly negative effect on the financing constraints index of firms. Given that a larger financing constraint index implies a higher degree of financing constraint, this result suggests that firms with political connections face lower financing constraints compared to firms without political connections and, thus, are able to invest more in ESG.

4.1.3. Political resources

From the perspective of the enterprise's development, the formation of political connections makes it easier for the enterprise to obtain subsidies and capital (Tsai et al., 2019), which promotes its expansion and growth and directly affects its investment behaviour. According to signalling theory, government subsidies, as a signal of favourable investment, can help enterprises attract more external resources and have a positive impact on their financial and operational activities. Stakeholder theory emphasises that enterprises will comprehensively consider and respect the legitimate interests of all stakeholders in the management process (Donaldson & Preston, 1995). Therefore,

firms with stronger political connections are usually more responsive to ESG policy orientation in order to maintain a good cooperative relationship with the government.

Government agencies provide various forms of financial assistance or support to enterprises. These subsidies usually take the form of tax reductions or exemptions, grants, or other forms of non-monetary benefits, and are intended to support enterprises' development, innovation, poverty alleviation, social responsibility, and other activities. The total amount of government subsidies received across all enterprise projects constitutes the enterprise's government subsidies, represented by the variable Grant.

Column (4) of Table 5 shows that the effect of political connections on government subsidies is significantly positive, which suggests that politically connected firms are able to obtain more government support and directly promote their ESG investments. These findings corroborate our theoretical framework that political connections facilitate ESG investment through these three pathways.

4.2. Extended analysis

4.2.1. Structural analysis

The effects of political connections on different factors of ESG may differ, according to the composition of the three pillars of ESG in the SNSI ESG ratings geared towards exploring the effect of political connection on the three pillars, respectively. The regression results are shown in Table 6.

Table 6. Structural analysis

	(1)	(2)	(3)	(4)
	ESG	**E**	**S**	**G**
PC	0.177**	0.108	0.328*	0.070
	(0.080)	(0.123)	(0.195)	(0.147)
Observations	36348	36348	36348	36348
R^2	0.555	0.612	0.574	0.499
Controls	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Note: The control variables are lnage, Size, ROA, Lev, Cash, Shrcr, Growth, CI.

Source: own work.

The coefficient of the impact of political connection on CSR in column (3) is significantly positive, and the coefficients of the impact of political connection on corporate environmental protection and corporate governance in columns (2) and (4) are not significant. The above regression results illustrate the impact of political connection on ESG, mainly through improving corporate social responsibility.

4.2.2. Heterogeneity analysis

Ownership structure, regional differences, firm size, and industry characteristics can be considered to play an important role in the mechanisms that influence the role of political connections on firms' ESG performance. This is because significant differences exist in resource acquisition and management capabilities between state-owned and non-state-owned firms (Liang et al., 2012), which may lead to different degrees of politically involved executives' roles in different environments. There are significant differences in political-business relationships in China's southern and northern regions,[5] with firms in the north having stronger political-business relationships and the south being more market-oriented, with the government establishing generally weak ties with firms (C. Ding et al., 2024), which may lead to differential effects of political connections in different regions. Large-scale firms, which are rarely resource-constrained, experience a limited marginal effect from additional policy resources on their ESG performance. In contrast, for small-scale firms, such resources represent a critical input, yielding a substantially more significant impact. There are significant differences between high-tech and non-high-tech industries in terms of their development models, resource dependence, and regulatory environments, which makes it possible for political connections to impact differently on the ESG performance of the two types of industries. Based on this, categorical regression analysis is carried out on each of these dimensions to explore the differential impact of political connections.

Table 7 explores the heterogeneous effects across different sub-samples. The stark contrast in the magnitude and significance of the PC coefficient across these groups reveals that the effect of political connections is not uni-

[5] According to the National Bureau of Statistics and economic geography to the Qinling and Huaihe River as the boundary of the division of the North and South standards, excluding Hong Kong, Macao and Taiwan, this paper treats Jiangsu, Zhejiang, Shanghai, Anhui, Fujian, Jiangxi, Hubei, Hunan, Guangdong, Guangxi Zhuang Autonomous Region, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet Autonomous Region as the southern region; Beijing, Tianjin, Hebei Province, Shanxi, Inner Mongolia Autonomous Region, Liaoning, Jilin, Heilongjiang, Shandong, Henan, Shaanxi, Gansu, Qinghai, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region are treated as the northern region.

Table 7. Heterogeneity analysis

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	SOE	**Non-SOE**	**North**	**South**	**Small**	**Large**	**High-tech**	**Non-High-tech**
	ESG	**ESG**	**ESG**	**ESG**	**ESG**	**ESG**	**ESG**	**ESG**
PC	0.101	0.227**	0.407***	0.080	0.282**	0.097	0.259**	0.029
	(0.215)	(0.092)	(0.145)	(0.096)	(0.115)	(0.100)	(0.107)	(0.111)
Observation	4446	31108	11315	25033	17939	18026	19570	16726
R^2	0.628	0.571	0.569	0.551	0.596	0.573	0.549	0.586
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES

Note: The control variables are Lnage, Size, ROA, Leverage, Cash, Sh_Conc, Growth, CI.

Source: own work.

form. It is particularly pronounced in non-state-owned firms, northern local firms, small-scale firms, and high-tech firms, which aligns with our contention that these firms rely more heavily on informal institutions like political ties to compensate for their inherent resource or institutional disadvantages.

5. Discussion

This study provides compelling evidence that political connections play a significant role in the ESG performance of Chinese enterprises. Our findings reveal the complex role that informal institutions play in promoting corporate sustainability within emerging economies.

The literature presents the dual nature of political connections, highlighting both their potential for resource misallocation (W. Zhang et al., 2013) and their role in resource provision (Chan et al., 2012; L. Wang & You, 2022). Our findings reconcile this tension by demonstrating that, within the specific context of China's top-down sustainability drive, political connections can be channelled to drive substantive ESG investment. By strengthening media monitoring, easing financing constraints, and increasing government subsidies, political connections simultaneously bolster firms' ESG capabilities through resource allocation and strengthen their incentives via external pressure. This

dual effect demonstrates that within the Chinese context, political connections transcend mere resource acquisition tools to become vehicles for value creation aligned with national strategies such as green development. The mechanisms we identify forge a direct link between the established literature and our findings. The roles of eased financing constraints and increased government subsidies provide empirical validation for the resource-based view of political connections, showing how accessed resources (Chan et al., 2012) are strategically allocated to meet long-term ESG goals. Concurrently, the significant role of media monitoring integrates this literature with stakeholder and legitimacy theories (Gu, 2024), revealing that the heightened visibility of connected firms triggers a pressure to conform to societal expectations on ESG, a nuanced channel previously underexplored in the political connections domain.

This study offers multiple theoretical contributions: firstly, by empirically demonstrating that acquired resources can be allocated towards long-term non-financial objectives such as ESG, it extends the boundaries of the resource-based theory of political connections, transcending traditional research focused on short-term financial gains. Secondly, by empirically validating the specific causal pathways between these elements, this study bridges the gap between political connectedness and ESG literature. While existing ESG research often emphasizes formal regulations or market pressures, this study reveals that political embeddedness, though an informal factor, is also a crucial driver of corporate production and operations.

Heterogeneity findings further deepen our understanding. The stronger effects observed in non-state-owned enterprises, SMEs, and high-tech firms indicate that political connections serve as a compensatory mechanism for companies lacking the inherent resource advantages of state-owned enterprises or operating in non-priority national development sectors. This aligns with institutional theory, where firms proactively employ political strategies to secure legitimacy and resources within specific institutional vacuums. This finding provides a critical nuance to the existing narrative. While prior research has often associated close political ties with inefficiencies or a "resource curse" for private firms (Deng & Zeng, 2009; Mao et al., 2022), our results suggest that under strong national policy signals, such as the promotion of ESG, these very connections can be transformed. For resource-constrained firms, they become a strategic tool not for rent-seeking but for overcoming barriers to making substantive sustainability investments, thereby enhancing their legitimacy and long-term resilience.

Our findings offer significant practical and policy implications. Regulators should leverage these findings to target supervision and design incentives. Policies should reward demonstrable ESG outcomes rather than political affiliations to ensure connections facilitate genuine sustainable development. Managers, particularly in non-SOEs, SMEs, and high-tech industries where

the benefit is strongest, should proactively manage their political relationships not as an end in itself but as a strategic asset to facilitate long-term ESG investments. For example, they can leverage political connections to secure necessary funding for green technologies or to better understand evolving regulatory expectations. However, they must also be mindful of the associated reputational risks and increased public scrutiny.

Conclusions

This study establishes a significant positive association between the political connections of Chinese corporate executives and ESG performance. Through rigorous empirical testing, we identify three core mechanisms: strengthened media monitoring, alleviated financing constraints, and increased government subsidies. We also identify key boundary conditions related to ownership, region, firm size, and industry.

This study's principal theoretical contribution lies in integrating political strategy literature with corporate sustainability theory, revealing how informal institutions shape ESG outcomes in emerging markets. Practically, it provides regulators with clear guidance on directing corporate political capital towards public goods, while also charting a course for managers seeking to leverage networks for long-term value creation.

In sum, this paper emphasises that in developing countries with imperfect formal systems, corporate ESG performance is not solely attributable to the individual behaviour of micro-enterprises but is mixed with the influence of complex factors, including political factors.

Despite the contributions of this study, several limitations remain, presenting opportunities for future research. For instance, although we employed instrumental variables to address endogeneity issues, the possibility of omitted variable bias cannot be entirely ruled out. Subsequent research may incorporate more granular firm-level variables or adopt alternative identification strategies. Regarding causal identification, future studies could employ more direct event study methods to discern the impact of political connections on corporate ESG performance. In terms of data, while the political relationship metrics in this study were meticulously constructed, future research could leverage more refined datasets to broaden the research dimensions. This would not only capture the existence of relationships but also allow for a more precise measurement of their intensity, thereby reducing measurement errors and enhancing the reliability of causal inferences.

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