

Decarbonization Commitment, Political Connections, and Firm Value: Evidence from China

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Abstract

On 22 September 2020, China announced an ambitious decarbonization commitment, leading to significant stock market reactions. Using a comprehensive dataset of China's listed firms and a manually updated political connections index, we employ an event study approach with regression analysis to examine the effects of political connections and industry heterogeneity on firm value following the announcement. Our analysis reveals several key findings: First, there were overall negative market reactions to the announcement. Second, political connections negatively impact firm value by acting as a "grabbing hand" in China's private sector, as private firms with strong political ties often prioritize political agendas over shareholders' profit maximization objectives. Third, the adverse effects of political connections are industry-specific, with firms in the environmental protection and decarbonization sectors being more vulnerable to environmental policies. Lastly, we observe a limited moderating effect of the economic development of the firm's host province. Our results are robust across different estimation techniques, model specifications, and major financial announcements such as quarterly financial statements, M&A, and dividend offering.

Index Terms

Decarbonization; Political Connections; Firm Value; Event Study