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The effect of political connections on CSR performance in the banking sector

Student: Lauke Janssen
Student Number: 4328884

Supervisor: Dr. Martha Gabriela Contreras

ABSTRACT. The financial crisis was followed by a revived interest in corporate social responsibility (CSR) principles within the banking sector. CSR should make the banking sector more ethically aware and transparent (Krasodomska, 2015), potentially benefiting society as a whole and benefit the firm. Consequently, it would seem relevant to examine what factors determine the level of CSR performance in in the financial sector. While there is abundant literature on the determinants of CSR performance, this research will add to the existing literature by introducing political connections as a potential determinant of CSR performance in OECD countries. Specifically, this thesis addresses the effect of political connections CSR performance in the banking sector. Additionally, this thesis assesses whether the strength of environmental policy stringency in different countries positively moderates this relationship. Using a sample of 151 banks from OECD countries, over an 8-year period, overall the findings support the idea that political connections do not influence corporate social responsibility performance within the banking sector. Environmental policy stringency negatively affects the relationship between political connections and CSR performance, however this result is not robust.

Keywords: Political Connections, Corporate Social Responsibility Performance, Environmental Policy Stringency

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1. Introduction

The past decades have witnessed a shift from social responsibility in the hands of the government to the hands of corporations (Scherer & Palazzo, 2011). That is, firms have taken up state responsibility roles such as the protection of citizenship rights (Matten & Crane, 2005). Following the 2008 financial crisis, corporate social responsibility (CSR) received new attention by society and by companies, in response to a greater need for the integration of moral principles into management decisions of large corporations (Jin, Drozdenko, & DeLoughy, 2013) to ensure a sustainable business environment. In addition to the intended environmental and social impact of CSR, research also points to the fact that there are more benefits than merely societal and environmental benefits. CSR also has an effect on banks' economic performance (Bihari & Pradhan, 2011; Mallin, Farag, & Ow-Yong, 2014) and reputation insurance (Minor & Morgan, 2011) among other firm-level factors. Given the potential benefits that adopting CSR can provide, it seems crucial to understand what factors lead to greater CSR performance (CSRP).

Playing a critical role in both CSR implementation and performance is the organization's board of directors and supervisory board (Chan, Watson, & Woodliff, 2014). Research in corporate governance has highlighted the role of boards in providing strategic advice with regards to CSR practices (Baysinger & Hoskisson, 2011; Hillman & Dalziel, 2003; Stiles, 2001). Moreover, board characteristics such as its structure, composition and experience contribute to a firm's ability to perform well with respect to CSR (Bear, Rahman, & Post, 2010; Harjoto, Laksmana, & Lee, 2015; Jizi, Salama, Dixon, & Stratling, 2013). To illustrate, directors with a more diverse background in terms of experience have acquired more diverse knowledge of different board-related topics. This would lead to more diverse knowledge within a board, increasing the ability to foster different perspectives and to recognize the needs of more stakeholders. Consequently, this is driving CSRP (Harjoto et al., 2015). Similarly, there are more factors that influence the decision-making process of the board in terms of CSR.

An alternative way through which a board's decision-making process is influenced is the network of a board member (Haunschild & Beckman, 1998). By sitting on multiple boards a director enhances the diffusion of knowledge between these organizations (Haunschild & Beckman, 1998). Consequently, board interlocks referring to board members that sit on more than one board, are often studied as a mechanism through which organizational practices and information disseminate, or strategic initiatives are born (Shropshire, 2010). Such information sharing also has a potential effect on the adoption of certain strategies within a firm (Carretta,

Farina, Gon, & Parisi, 2012). A specific form of a board interlock is one between a firm and a political entity. From a firm-level perspective this is often referred to as political connectedness (Gu, Ryan, Bin, & Wei, 2013; Niessen & Ruenzi, 2010). In various countries, local and national level politicians are allowed to continue working in the private sector after elections (Carretta et al., 2012). For example, Gerrit Zalm, a retired Dutch Minister of Finance, was appointed as a board member of ABN AMRO in 2009 right in the midst of the financial crisis when the bank was nearly bankrupt. This appointment had a strategic purpose: to steer the bank towards a more socially responsible strategy (AD, 2018; Giebel & Herderscheê, 2016). ABN AMRO is not an isolated case. Similarly, Ex-minister of Finance Wim Kok was installed at the Chinese Construction Bank in 2014 in a supervisory capacity with the instruction to help the bank battle the current social and environmental problems (Dekker, 2014). Boards of large corporations such as Apple and Ford also consist of former politicians (Maynard, 2006; Tsukaya, 2011), reason being that former politicians are expected to be well informed in current CSR principles and policies (Carretta et al., 2012). These examples illustrate that politicians are often brought in the organization for their expertise regarding CSR. However, especially in developed countries it remains unclear within the literature whether these politically connected directors, i.e. PCDs, have an effect on CSR performance within firms.

This research focuses on the banking sector. Current research on CSR within the banking sector is relatively sparse. Yet, there are numerous developed frameworks and guidelines for social reporting in the banking sector (Carnevale, Mazzuca, & Venturini, 2012; Viganò & Nicolai, 2009). Previously CSR did not seem to involve banks because their products seemed to be unrelated to risks and effects that influenced CSR. However, currently there is an increased recognition that bank lending practices are inevitably linked to commercial projects that can influence environmental degradation. In order to clarify, banks are considered to be directly confronted with CSR to a similar extent as any firm today is. However, there also seems to be an indirect effect that banks have on the spread of CSR principles. By funding those firms or projects that are not considered to perform honorably in terms of CSR, a bank is also indirectly responsible for the spread of degrading CSR practices (Thompson & Cowton, 2004; Viganò & Nicolai, 2009). The increased recognition that CSR relates to financing commercial projects motivates the choice of focusing on the banking sector and CSR.

This thesis contributes to the current literature regarding CSR and political connections in several ways. First, this research contributes to the existing evidence with regards to PCDs. Current research regarding the effects of PCDs has pointed out that political connections are positively associated with market capitalization (Faccio, 2006b; Goldman, Rocholl, & So,

2009), access to financial resources (Claessens, Feijen, & Laeven, 2008; Wang & Qian, 2011), bailouts (Faccio, 2006a), tax benefits (Adhikari, Derashid, & Zhang, 2006; W. Wu, Wu, Zhou, & Wu, 2012) among other firms-specific outcomes. Second, evidence regarding PCDs and their effect on CSR is largely focused on the Chinese corporate market, given the Chinese government's recent interest in CSR practices leading to many government-induced policies with respect to CSR (f.e. Gu et al., 2013; Li, Song, & Wu, 2015; Reimsbach, Braam, & Wang, 2018; Zhang, 2017). Consequently, this research adds to this literature by focusing on OECD countries in which voluntary adoption of CSR principles is more common. To the best of my knowledge, there is no evidence regarding this topic that is focused on this specific group of countries. As a result of the fact that CSR principles are more commonly used in this sample of mostly developed countries, the focus of this research is on how well CSR principles are executed. The execution of these principles can be measured by CSRP. At last, given the renewed urgency with respect to increasing CSRP within the banking sector after the financial crisis, this research aims to contribute to the existing literature by understanding which factors are important in contributing to or harming CSRP within banks. Consequently, this research poses the following main research question: *To what extent are political connections within the banking sector associated with better or worse CSR performance?* In doing so, this research calls for a discussion on the ways in which banks can behave more sustainably.

This thesis is outlined as follows. Section 2 provides relevant theoretical and empirical background regarding CSR within the banking sector, the relationship between political connections and CSRP and the moderating effect of environmental policy stringency on the relationship between political connections and CSRP. Section 3 discusses the sample, data aggregation, variables and the methodology, whereas Section 4 describes the main results. Section 5 provides a discussion of the results and several limitations. Finally, Section 6 describes the concluding remarks and ideas for future research.

2. Literature review

This section elaborates on the importance of CSR within the banking sector, and the relevant theories and empirical evidence explaining the link between political connections and CSR performance. At last, the moderating effect of environmental policy stringency on the relationship between political connections and CSR will be discussed.

2.1 CSR in the banking sector

Banks are considered institutions of public trust, responsible for effectively managing risks, securing returns on behalf of their depositors (Barako & Brown, 2008), and allocating capital across different projects (Krasodomska, 2015). Through proper capital allocation, banks can stimulate economic growth and firm growth (Scholtens, 2009). However, the impact that banks have on CSR was until recently poorly understood. One of the ways in which banks can influence CSR is through allocating capital to projects that promote sustainable growth. That is, they have a second order impact (Simpson & Kohers, 2002). The European banking crisis shed a new light on CSR within the banking system. In a speech given at Symposium (ICCA-EABH) in 2008, the governor of the Banque de France, Christian Noyer, stated the following: *“The current financial crisis [...] should add a new dimension to the debate on Corporate Social Responsibility. [...] Companies (including banks) must take on new responsibilities that go beyond a simple policy of ‘paternalism’” (p. 1)*. While CSR has been on the agenda for firms for quite some time now, Noyer (2008) emphasized that CSR is also important for banks. Similarly, Simpson & Kohers (2002) state that while banks may not have the same CSR responsibilities as non-financial firms, they do have a social and legal responsibility because they lend out to firms that do have those responsibilities.

The benefits of improving CSR extend beyond societal benefits to firm-level benefits. At the firm-level, existing research has found a link between CSR and financial performance (FP) (e.g. Beck, Frost, & Jones, 2018; W. Li & Zhang, 2010). While most of the research between the CSR-FP link has focused on the manufacturing sector, there is some evidence on the CSR-FP link in the banking sector. CSR enhances bank financial performance through increased reputation. Banks with CSR practices enjoy reputational benefits (Forcadell & Aracil, 2017; Krasodomska, 2015), which in turn enhance customer loyalty (Brine, Brown, & Greg, 2007). Bank customers, through enhanced loyalty, are expected to borrow more and deposit more at banks that perform well in terms of CSR (Shen, Wu, Chen, & Fang, 2016; Wu & Shen, 2013). Furthermore, since customers are more willing to borrow from banks performing well in terms of CSR, these banks have a bargaining position advantage allowing them to charge

higher interest rates and prices (Shen et al., 2016). In this case, firms prefer to borrow at those banks at a higher cost due to a banks increased reputation (Sen & Bhattacharya, 2001). At last, CSR is said to have an impact on the overhead cost of a bank. This may seem counterintuitive given that CSR increases costs by involving itself in supporting charitable organizations and programs addressing societal problems, however from a different perspective CSR is said to reduce information asymmetry between the organization and its stakeholder, resulting in less conflicts between them (Shen et al., 2016). While empirical evidence provides positive evidence (Esteban-Sanchez, de la Cuesta-Gonzalez, & Paredes-Gazquez, 2017; Mallin et al., 2014; Shen et al., 2016; Tsoutsoura, 2004), but also mixed evidence (Luo, Wang, Raithel, & Zheng, 2015; Margolis & Walsh, 2011), the social benefits and potential firm-level benefits provide a clear incentive for banks to engage in CSR. Consequently, this research aims to understand the factors influencing the decision to engage in CSR.

2.2 Political connections and CSR

Policies and enforcement are major forces in the external environment of banks and firms in general, and environmental regulation is no exception (Carretta et al., 2012; Hillman, 2005). Research in resource dependence argues that boards of directors are one way to manage environmental uncertainty when environmental linkages are established (Boyd, 1990; Hillman, 2005; Pfeffer & Salancik, 1978). When considering policies and enforcement, banks can then manage environmental uncertainty by creating ties with politicians (Carretta et al., 2012; Hillman & Dalziel, 2003). Consequently, the need for political connections is considered a function of a firms dependence to its environment (Hillman, 2005). Adding politicians to a board increases access to the relatively complex public policy processes, enhances the channel of communication with existing political organizations that the board member is or was a part of. All of which potentially enhances communication with central influential policy makers resulting in potential influence over the policy decisions (Hillman, 2005).

Aside from enhancing access and communication and in line with resource dependency theory, PCDs often possess additional knowledge and experience that regular board members do not possess. Regular board members or executives are not necessarily well educated in the appraisal of social issues, whereas policy makers often times are (Den Hond, Rehbein, de Bakker, & Lankveld, 2014). The experience and information that PCDs are equipped with during their political career, can help a firm to identify politically and socially important issues. Consequently, banks that have a PCD on their board are potentially more sensitive to prioritize those issues that enhance CSR (Den Hond et al., 2014). Aside from better prioritization, a

PCD may also provide critical information enabling a well-designed and well-executed CSR plan (Den Hond et al., 2014). At last, the additional experience and information a PCD brings may enhance the credibility of their commitment to CSR, increasing the probability of any CSR project successfully and positively impacting their reputation (Peterson & Pfitzer, 2009). When it comes to the undertaking of proactive CSR initiatives, banks may be more inclined to do so when they establish environmental linkages with politicians (Ortiz-de-Mandojana & Aragon-Correa, 2015). PCDs possess knowledge about social and environmental issues either through experience, or accessible through their network, that otherwise would have to be obtained in the market at a price (Ortiz-de-Mandojana & Aragon-Correa, 2015). Hence, banks with politicians on the board are expected to have an advantage, when it comes to CSR performance compared to banks that do not have politicians on their boards.

The relationship between political connections and CSRP can be further explained by stakeholder theory. CSR suggests that in addition to the focus on shareholders, firms should consider the interests of shareholders, advocating a more stakeholder oriented approach (Ortiz-de-Mandojana & Aragon-Correa, 2015). Stakeholder theory has been used as a framework for strategic decision making and responding to environmental change (Miles & Friedman, 2002). The theory implies that stakeholders, referring to those individuals and organizations that affect or are affected by the firm, are an important source of organizational dependency. Primary stakeholders are groups such as customers, investors, suppliers and the government, whereas secondary stakeholders are less critical to the survival of the firm and include the media among other groups. If kept unsatisfied, these stakeholders can cause serious damage to the organization (Clarkson, 1995). Accordingly, firms should broaden their objectives to address the expectations and interest of all stakeholders, including compliance to policies and regulation, societal expectations and consumer expectations (Buysse et al., 2010; Huang & Kung, 2010). One way to align the interests of stakeholders and the firm is by appointing directors that currently perform or have performed a role as stakeholder of the firm. PCDs fall into this category as primary stakeholders or ex-stakeholders of firms. Assuming that politicians and ex-politicians have a pre-established interest in the protection of public interests, the appointment of PCDs should result in a firm that is more likely to fulfill its legal and ethical obligations, also in terms of CSR (Liedong, Ghobadian, Rajwani, & O'Regan, 2015).

Evidence regarding the effect of political connections on CSR is scarce and has focused on corporations in China, as depicted in Table 1. The Chinese business environment is characterized by more strong government control, a more recent interest in sustainable business conduct (See, 2009; Yin & Zhang, 2012), and many politically connected or state-owned firms

(Tu, Lin, & Liu, 2013). This has resulted in greater interest in the effect of political connections on CSR within the Chinese market. Chinese evidence in general suggests that political connections are beneficial for CSR performance and increases the likelihood for a firm to engage in CSR reporting. For example, evidence from the Chinese hotel industry suggests that there is a positive relationship between the implementation of CSR policies and political involvement (Gu et al., 2013). Similarly, Reimsbach, Braam, and Wang (2018) find that Chinese firms are more likely to issue a CSR report when they are politically embedded. Their findings support the control-oriented perspective, suggesting that pressure from governments can shape firms' behavior towards CSR which is often the case when examining the level of state-ownership (Li et al., 2015; W. Li & Zhang, 2010; Xu & Zeng, 2016). In general, Chinese evidence focuses mainly on two types of measuring political involvement, state-ownership or politically connected firms or a combination of both, and most findings indicate a positive relationship (Gu et al., 2013; S. Li et al., 2015; Reimsbach et al., 2018; Zhang, Li, Fung, & Qiao, 2019).

Table 1. Evidence regarding political connections and CSR

<i>Authors</i>	<i>Methods</i>	<i>Findings</i>
(Gu et al., 2013)	<i>Method:</i> Interviewing managers of the firm regarding political connectedness and CSR	Find a positive relationship between 'political connectedness' and 'CSR adoption'
(Zhang, Li, Fung, & Qiao, 2019)	<i>Sample:</i> Chinese firms	SOEs that are politically linked to the central government promote more innovation in general and more environmental innovation than SOEs without these links.
	<i>Independent:</i> State-owned enterprises (SOEs)	
	<i>Dependent:</i> Green patents as an indicator of environmental innovation	
	<i>Method:</i> Zero-inflated Negative Binomial Regression	
	<i>Sample:</i> Chinese firms	
(Reimsbach et al., 2018)	<i>Independent:</i> State-ownership and political connections	Politically embedded firms are more likely to issue CSR reports. Politically embedded firms perform better in terms of CSR.
	<i>Dependent:</i> Dummy stating 1 if a sustainability report is issued and 0 otherwise, KLD score	
	<i>Method:</i> Multilevel logistic regression and multilevel panel regression	
	<i>Sample:</i> Chinese firms	
(Li et al., 2015)	<i>Independent:</i> State-ownership and political connections measured by a dummy variable indicating if the chairperson is politically connected or not	Find a stronger positive relationship between political connections and

	<i>Dependent:</i> Corporate philanthropy	corporate philanthropy in non-state-owned firms
	<i>Method:</i> Logit and Tobit model	
(Lin, Tan, Zhao, & Karim, 2015)	<i>Sample:</i> Chinese firms <i>Independent:</i> Charitable donations <i>Dependent:</i> Replacement of government officials <i>Method:</i> Event study	Find that when a city government official is replaced, the level of CSR activity increases for companies active in that city
(Lin, Zeng, Ma, Qi, & Tam, 2014)	<i>Sample:</i> Chinese firms <i>Independent:</i> Political capital measured by a dummy that equals 1 if the CEO is politically connected and 0 otherwise <i>Dependent:</i> Green innovation <i>Method:</i> Probit model	Find a negative relationship between political capital and green innovation
(Zhang, 2017)	<i>Sample:</i> Chinese firms <i>Independent:</i> Political connected firm if its CEO is a current or former government bureaucrat <i>Dependent:</i> level of corporate environmental information disclosure <i>Method:</i> Fixed Effects, FE Poisson, FE Negative Binomial, System GMM <i>Sample:</i> Chinese Firms	Find a positive relationship between political connections and environmental disclosure

In summary, PCDs are expected to have acquired pertinent knowledge regarding CSR that may help firms with prioritizing CSR, exerting political influence, executing CSR plans and enhancing commitment and credibility of its CSR plan. Consequently, the first hypothesis is as follows:

Hypothesis 1a: Politically connected banks perform better, in terms of CSR, than banks that are not politically connected

However, it is worth acknowledging that political connections have a dark side pointing towards a negative relationship between politically connected firms and CSRP. Marquis and Qian (2013) discuss how different levels of firm dependency regarding governmental institutions lead to different levels of CSR reporting. In both emerging and developed countries organizations are able to capitalize on political legitimacy by engaging in political alliances, providing a competitive advantage (Li et al., 2015; Marquis & Qian, 2013). In some cases, political alliances may refer to state-ownership; other times it refers to valuable political

connections. Firms lacking such legitimacy are likely to view legitimacy as a strategic need, as a lack thereof can lead to organizational constraints (Dowling & Pfeffer, 1975). CSR is considered a channel through which legitimacy can be achieved by enabling firms to address more than profit maximizing motives (Barkemeyer, 2007). Similarly, political ties increase political legitimacy, to the extent to which governments believe that the connected firms focal actions are desirable and proper (Suchman, 1995). Consequently, politically connected firms may have less strategic need for legitimacy than their counterparts that are not politically connected. In such a case, a firms incentive to engage in CSR to achieve legitimacy decreases and can lead to worse CSR performance (Marquis & Qian, 2013). Similarly, Firth, Rui, and Wu, (2012) argue that in a Chinese environment litigation risk is lower for politically connected firms as opposed to non-connected firms. Additionally, the authors find that politically connected firms are more likely to win an appeal when losing their initial case. While not mentioned in the paper, these advantages could lead to worse CSR performance. More specifically, to a similar extend as the aforementioned argument involving firm legitimacy, a lower likelihood of litigation could lead to a weaker incentive for firms to adhere to policy initiatives regarding CSR. This argument is related to many other outcomes of political connections that do not focus on CSR (e.g. Correia, 2014; Faccio, 2006b). Reimsbach et al. (2018) suggest that there is a trade-off between CSRP and FP which is greater for politically connected firms than for firms that are not, suggesting that political connections have a potential cost in terms of CSR to the firm. Lin, Zeng, Ma, Qi, and Tam (2014) find a negative relationship between political capital, measured as a dummy variable indicating whether the CEO is politically connected or not, and green innovation. As a conclusion, the authors propose that political connections may bring subsidies, government contracts, loans and may help circumvent regulations among other firm benefits, however this decreases the incentive to deal with environmental issues by introducing environmental innovation (Lin et al., 2014). Having PCDs seems to be associated with certain privileges that potentially harm other firm-specific factors such as performance or CSR. For instance, banks are more likely to be bailed out by the government when politically connected (Faccio, 2006a), and similarly firms are less likely to be involved in SEC involvement actions when politically connected (Correia, 2014). When firms are aware of this, this can lead to wrong incentives that negatively affect performance.

Aside from creating the wrong incentives, evidence indicates that PCDs often are more interested in activities characterized by a rent-seeking nature, rather than maximizing firm value (Du & Girma, 2010; Schweizer, Walker, & Zhang, 2018). In a sample of French firms these authors find that political connections lead to rent-seeking behavior involving the usage of

resources for political purposes. Findings suggest that CEOs whose past experience has been serving in the government may make decisions such as job creation and destruction in such a manner that it benefits incumbent politicians in their bid for re-election (Bertrand, Kramarz, Schoar, & Thesmar, 2018). Additionally, the authors show that lower performance of these organizations is driven by the resulting labor costs that are higher.

In summary, politically connected firms are more likely to experience certain privileges such as legitimacy or lower litigation risk which could decrease their incentive to engage in CSR decreasing CSRP. Additionally, PCDs are potentially incentivized to make decision in favor furthering their own political careers. Consequently, the second hypothesis is as follows:

Hypothesis 1b: Politically connected banks perform worse, in terms of CSR, than banks that are not politically connected

2.2 Institutional environment

While most theory seems to be in favor of a positive relationship between political connectedness and CSR performance, this research posits that the strength of this relationship is dependent upon the governmental focus on corporate social responsibility. Whenever a government has more stringent policies regarding environmental matters, this should result in politicians feeling a stronger urgency regarding the implementation of CSR. Several papers address the importance of institutional and economic factors in determining the strength of the effect that political connections have in general. Institutional factors such as the level of democracy (Boubakri, Guedhami, Mishra, & Saffar, 2012), corruption (Daniele & Bennesen, 2013; Faccio, 2006a, 2010), GDP levels (Faccio, 2006a, 2010) interest rates (Faccio, 2010), and environmental policy stringency (Maung, Wilson, & Tang, 2016; C. Zhang, 2017). This stresses the importance of institutional factors as controlling or moderating factors.

Even when focusing on developed countries exclusively, there are notable differences in terms of environmental regulation among countries. For European countries in which the EU prescribes certain regulations regarding CSR, the differences are notable. Pellegrini and Gerlagh (2006) show that environmental policy stringency differs across European countries, mostly caused by different level of corruption and institutional quality. Institutional quality, corruption among other factors determine the level of enforcement of environmental policies and consequently causes discrepancies between different countries in terms of environmental policies. Given these discrepancies, the strength of the effect that certain political connections may have on CSR performance within a bank can differ. A PCD that is active in a country in

which the government has a greater level of environmental policy enforcement should have more knowledge of environmental policy and regulation in order to deal with such enforcement. Consequently, according to resource dependency theory (Pfeffer & Salancik, 1978) and stakeholder theory (Freeman & Velamuri, 2006) this knowledge is absorbed by the firm in question and provides a better toolbox to improve CSRP. Similarly, if having a political connection would have a negative effect on CSRP, this effect should be less negative in case the country in which the bank is active is more stringent in terms of environmental policy. Zhang (2017), investigating the relationship between political connections and corporate environmental performance (CER) in Chinese firms finds that in cities where environmental policy is more stringent, the effect of political connectedness on CER is larger than in cities where environmental stringency is lower. Similarly, Xu and Zeng (2016) find that managers that have acquired a reputation with regards to investing in CSR of a promotion and the receipt of political benefits. Consequently, in a setting where CSR is considered to be more desirable by the government, personal aspirations of such managers create an additional incentive for them to engage in CSR (Marquis & Qian, 2013)

In summary, PCDs have an incentive to at least obey environmental regulation in order to ensure any future business position. As such, PCDs will absorb more knowledge regarding CSR policy and regulation in an environment that is more stringent in this regard. Consequently, the second hypothesis is as follows. Figure 1 portrays a conceptual model of hypothesis 2.

Hypothesis 2: Politically connected bank active in a country with greater environmental policy stringency performs better in terms of CSR than politically connected bank active in a country with less environmental policy stringency

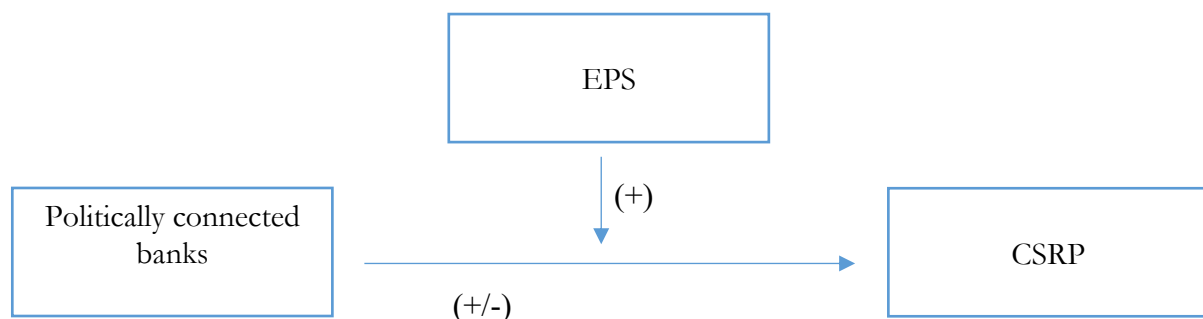


Figure 1. Conceptual Model

3. Method

3.1 Sample

The sample consists of 151 publicly listed banks from OECD countries, considering the time period from 2008 to 2015. This period is of particular interest due to the revived interest in CSR principles for financial firms right after the financial crisis (Krasodomska, 2015). Additionally, 2015 is the latest available year in terms of data. Despite the revived interest in CSR within the banking sector, banks remain poorly studied. Additionally, Hillman, (2005) proposes that especially in highly regulated industries, having political ties are especially important, because these firms are affected by policy changes more frequently and more critically. While most CSR initiatives are still voluntary, the crisis has increased the importance of implementing CSR principles for banks (Sigurthorsson, 2012). Consequently, due to the highly regulated environment such banks operate in and the recent interest in implementing CSR principles, the banking sector is the unit of analysis. Focusing on OECD countries only decreases the possibility of political connections being used for corrupt purposes (Sigurthorsson, 2012). If political connections are used for corrupt purposes, the possibility that CSRP scores do not reflect a banks true performance increase. Aside from this, there is little data available regarding developing countries. Public banks are chosen because of data availability. To conclude, by analyzing the banking sector this thesis aims to shed light on the importance of political connections as an alternative to steer banks towards a more sustainable path.

3.2 Data aggregation

Data is retrieved from Boardex, Eikon, the World Bank, Orbis, the OECD databank, and the Equator Principles website. Boardex contains data at the director and company level, providing information such as the committees on which board members are present, their previous experience and the length of their board positions. I make a couple of assumptions concerning the duration of board positions for directors. First, I exclude all directors with board positions with an unknown starting and ending date. Second, whenever only the end date is unknown, I assume that the board position is held for only one year. Similarly, whenever only the start-date is unknown, I assume the board position is held for only one year as well. Hence, when director X was part of the board from 10th of April 2010 to Unknown, this director was part of board X for one year: from 2010 to 2010. Financial data and ESG data are retrieved from Eikon. Data regarding state-ownership is retrieved from Orbis. Political environmental stringency is a country-level factor is retrieved from the OECD website, measuring the level of stringency with

regards to the implementation of environmental policy. Data specifying whether a bank has adopted the equator principles is retrieved from the Equator Principles website. In order to preserve as much data as possible, given the small sample, while connecting the Boardex data with the other firm-level data, the first 4 known ISIN codes are used to match the correct company.

3.3 Variables

3.3.1 Corporate social performance

CSRP is measured by the Thomson Reuters ESG score by Asset4. This score is designed to measure environmental, social and governance (ESGSCORE) performance and effectiveness across several themes based on reported company data (Thomson Reuters, 2019). These themes include human rights, shareholders, environmental product innovation, emissions, resource reduction, employment quality, health and safety, diversity among other factors. These themes are calculated using over 150 indicators and amount up to three pillars: environmental, social and governance. While there are other ratings that measure ESG data such as KLD (Kinder, Lydenberg, and Domini Research & Analytic) and GES (Global Engagement Services), these measures largely correlate (Semenova & Hassel, 2015). While KLD is often still the most widely used measure, Asset4 ESG score is also used abundantly (f.e. Dell’Atti, Trotta, Iannuzzi, & Demaria, 2017; Esteban-Sanchez, de la Cuesta-Gonzalez, & Paredes-Gazquez, 2017; Ioannou, Serafeim, & Link, 2013; Rees, 2011). The issue with all scoring systems remains that it is difficult to tell whether the measured scores reflect genuine CSR performance or are simply designed to satisfy stakeholders (Rees, 2011b). There is some preliminary evidence demonstrating that these type of scores reflect an underlying reality, however the scores tend to be more focused on past CSRP than on future CSRP (Chatterji, Levine, & Toffel, 2009). To test whether the results of my initial estimation is robust, this research also uses the three pillars on which the ESG score is based separately in the regressions. These pillars include the social score (SOCSCORE), environmental score (ENVSCORE) and a corporate governance score (CGVSCORE). All scores range from 0 to 100, where 0 refers to the lowest performing banks with regards to CSR and 100 refers to the best performing banks, however for the purpose of the logistic analysis the variables are divided into three equal sections ranging from 0-33, 33-66 and 66-100¹. Further descriptions of the variables can be found in Table 2.

¹ These variables are named dESGSCORE, dENVSCORE, dSOCSCORE and dCGVSCORE

3.3.2 *Politically connected firms*

This research considers a bank to be politically connected (POLCON) if at least one board member of the executive board or supervisory is currently active or used to be active as a minister, member of parliament or other top governmental position (Boubakri et al., 2012; Chaney, Faccio, & Parsley, 2011; Wu et al., 2012)². This definition takes into account other definitions used within the literature. Faccio (2006a) defined a politically connected firm as a firm with at least one of the firms large shareholders was a member of parliament, a minister or other top official. Ferguson and Voth (2008) consider politically connected firms to include firms that have at least one executive or supervisory board member that were close to the ruling political party at that time. The argument to use not only current but also former politicians is based on the idea that the experience that politicians have with implementing CSR-related policies and regulations does not disappear. Additionally, a count variable (POLCON) and the ratio of political connections to the number of board members (rPOLCON) will be used to test the robustness of the results.

3.3.3 *Political environmental stringency*

In order to test for the moderating effect that the institutional environment can have on the relationship between politically connected banks and CSRP, I use the environmental policy stringency index (EPS) by the OECD as a measure for environmental stringency. The EPS index is defined as the degree to which environmental policies put a ‘higher explicit or implicit price on polluting or environmentally harmful behavior’ (Botta & Kozluk, 2014, p. 14). The index is built up out of many instruments such as the percentage of R&D invested in renewable energy, CO2 taxes, tariffs for wind and solar energy among other instruments. The index ranges from 0 to 6, where 0 is the least environmentally stringent and 6 is the most environmentally stringent (Botta & Kozluk, 2014).

3.3.4 *Control variables*

Larger firms are involved in more activities and have a larger impact on society (Trotman & Bradley, 1981). Additionally, larger firms are often under more pressure to report their social and environmental activities in order to legitimize their business (Cowen & Ferreri, 1987). *Size* (lnSIZE) is measured using the total number of employees (Tagesson, Blank, Broberg, & Collin, 2009). Evidence also mostly points towards a positive relationship between firm size

² A list is provided in the appendix Table 2

and CSR (f.e. Adams, Hill, & Roberts, 1998; Haniffa & Cooke, 2005) Consequently, size is expected to positively influence CSR performance. In order to ensure a normal distribution this variable is log-transformed (Gamerschlag, Möller, & Verbeeten, 2011). The relationship between *profitability* (wROE) and CSR also seems conclusive. Profitability of organizations creates more flexibility and autonomy for management to invest in CSR (Khan, 2010; Patten, 1991). From an agency theoretical perspective more profitable companies are often more exposed to public scrutiny and are therefore more likely to apply for voluntary mechanisms that fend off regulatory interference, leading to better CSR compliance (Ng & Koh, 2012). Bank profitability is measured by return on equity (Athanasoglou, Brissimis, & Delis, 2008; Khan, 2010). Profitability is winsorised at the 1 percent level due to extreme outliers on both sides of the distribution³. *Financial leverage* (lnLEVER) is also added as a control variable measured by the debt to equity ratio (David, 1987; Khan, 2010). Highly geared firms are expected to disclose more CSR information in order to satisfy their creditors by ensuring them that management will not evade their covenant claims (Khan, 2010). Opposing this argument is the need of managers of highly leverage corporations to retain cash for obligatory interest payments reducing their ability to fund CSR initiatives (Barnea & Rubin, 2010). Consequently, the direction of the effect of financial leverage remains inconclusive. Leverage is log-transformed in order to normalize the distribution. A study by Rahman, Zain, and Al-Haj (2011) investigates the role of state-ownership in Malaysia on CSR disclosure within companies. Partially state-owned enterprises are controlled by the government in appointing board members and managers, providing funds for operations and having appointed board members reporting back to the government. As such, they are often forced to be more socially responsible than their counterparts. However, state-owned enterprises have also been argued to have more legitimacy and receive support or protection from the government that owns it. Consequently, Marquis and Qian (2013) argue that these enterprises have the least need for CSR reporting, because they do not seek additional status and resources from the government. Hence, this research includes a dummy variable for *state-ownership* (STATE) of banks, whenever state-ownership is greater than 50 percent. Also, I add the presence of a *sustainable committee* (SUSTAIN) as a dummy variable. The purpose of such a committee is to review, plan and implement policies and projects regarding sustainability (Liao, Luo, & Tang, 2015). Firms with a committee focused on environmental and sustainable behavior should be more inclined to improve CSR performance and disclosure (Liao et al., 2015; Peters & Romi, 2013).

³ This reduced the standard deviation from 207 to 23, and the mean from 5.2 percent to 2.7 percent respectively (see Table 3). Figure 1 in the appendix portrays a scatter plot before and after winsorising

Besides the firm-specific factors mentioned in the previous section, there are several board-related control variables that are expected to influence CSRP. Considering group interactions, smaller supervisory boards are expected to be more effective in monitoring the management board (Jizi et al., 2013). Smaller boards communicate and coordinate more effectively. However, having a smaller board also comes at a cost, as it increases the workload of its members which could limit the monitoring of CSR activities (Jizi et al., 2013; John & Senbet, 1998). Additionally, smaller boards could decrease the quality and advice offered which consequently decreases CSR quality (Guest, 2009). *Board size* (lnBSIZE) is measured by the number of board members on the board in each year (Jizi et al., 2013; Pathan, Skully, & Wickramanayake, 2007). In order to improve the distribution of board size this variable is log-transformed (Carter, Simkins, & Simpson, 2003). In line with the agency perspective, Fama and Jensen, (1983) first argued that a larger number of independent (non-executive) directors should increase the effectiveness of monitoring activities. Independent directors are supposed to assess performance of executives more objectively as they are less involved in the firms' strategy. Consequently, a larger number of independent directors is expected to lead to better monitoring and better CSR performance (Jizi et al., 2013). *Independence* (INDEP) is measured as the percentage of non-executive directors divided by the total amount of board members (Jizi et al., 2013). *Board gender diversity* (GENDIV), is measured by the percentage of females on a board (Carter et al., 2003). While evidence is dispersed, the presence of female directors is argued to increase the heterogeneity of boards, increasing their independence and diversity of opinions. The latter leads to a better quality 'social capital' on a board, which is in line with resource dependency theory (Carter et al., 2003). From an agency perspective more female executives on a board should lead to better monitoring, given that females increase the variety of skills, experience and expertise within a board (Bear et al., 2010). Consequently, I expect a positive relationship between gender diversity and CSRP. *CEO duality* (CEODUAL) refers to the situation in which a CEO is both the chairperson as well as the CEO simultaneously. In line with agency theory this is expected to have a negative effect on CSR performance, as it violates its main premise referring to the separation of ownership and control (Grove, Patelli, Victoravich, & Xu, 2011). CEO duality is measured as a dummy variable taking the value of 1 when a CEO is also acting as a chairman and 0 otherwise. *The Equator Principles* (EQP) is a voluntary risk management framework that determines the social, environmental and managing risk in project finance that was set up in 2003 (Contreras, Bos, & Kleimeier, 2016). Research has indicated that corporate social responsibility policies of financial institutions that adopted the equator principles are better than those that have not implemented these principles

(Scholtens & Dam, 2007). Consequently, I expect a positive association between CSRP and the Equator Principles. This variable will take the value of 0 if a bank has not adopted these principles and 1 if the bank has.

Aside from firm and board related variables affecting CSRP, the institutional environment also play an important role in determining the level of CSRP. Kolk and Perego (2010) have emphasized the role of the legal environment in determining the adoption of corporate reporting of CSR. Their distinction of common versus civil law countries follows the approach of La Porta, Lopez-de-Silanes, Shleifer, & Vishny (1997). Common law country firms are often considered shareholder wealth maximizing. An environment in which the role stakeholders is less pronounced for firms. Conversely, while the main goal remains economic efficiency in civil law countries, they also emphasize the importance of social and environmental goals (Kolk & Perego, 2010). Evidence found reports that there are significant differences in the amount of CSR reporting between stakeholder-oriented countries and shareholder-oriented countries (van der Laan-Smith, Adhikari, & Tondkar, 2005). Consequently, this research controls for the distinction between common and civil law countries by proxying this variable as the amount of shareholder *investor protection* (INVPROT). As argued in La Porta et al. (1997), investor protection is an important indicator of whether countries are more civil or common law focused. Additionally, better shareholder protection indicates that the emphasis is on economic efficiency relative to social and environmental goals. Therefore, greater shareholder protection is possibly at the expense of sustainable behavior. Shareholder protection is measured by The World Bank that developed an investor protection measure ranging from 0 to 10, where 0 indicates the least protective and 10 the most protective. Year-effects are added in accordance with a similar study by Zhang et al. (2019) in order to control for year specific events. A full description of the variables can be found in Table 2.

Table 2. Variable descriptions

<i>Variable</i>	<i>Measure</i>
<i>CSR measures:</i>	
Environmental, social, governance score ₁ (dESGSCORE)	ESG score with three categories ranging from 1 to 3, where 1 is referring to the least CSR and 3 the most
Environmental, Social, Governance Score ₂ (ESGSCORE)	ESG score (ranging from 0-100)
<i>Robustness CSR measures</i>	
Environmental score ₁ (dENVSCORE)	Pillar constituting of a score (ranging from 1-3) regarding corporate environmental friendliness measured by resource use, emissions, and innovation
Environmental Score ₂ (ENVSCORE)	Same pillar score ranging from 0 to 100
Corporate Governance Score ₁ (dCGVSCORE)	Pillar constituting of a score for corporate governance (ranging from 1-3) measured by the indicators management, shareholders and CSR strategy
Corporate Governance Score ₂ (CGVSCORE)	Same pillar score ranging from 0 to 100
Social Score ₁ (dSOCSCORE)	Pillar constituting of a score for social corporate behavior (ranging from 0-100) measured by the indicators workforce, community, human rights and product responsibility
Social Score ₂ SOCSCORE	Same pillar score ranging from 0 to 100
<i>Retrieved from (Thomson Reuters, 2019)</i>	
<i>Political connections measures:</i>	
Politically connected firms ₁ (dPOLCON)	Dummy taking the value of 1 if the firm has a board member that is currently active in or used to serve as a high-ranking government official
Politically connected firms ₂ (POLCON)	Variable counting the amount of board member that are currently active in or used to serve as a high-ranking government official
Ratio of political connections ₃ (rPOLCON)	The number of political connections divided by the total number of board members
<i>Control variables:</i>	
Banks size (lnSIZE)	Log transformed number of employees

Profit (wROE)	Winsorised return on Equity (ROE)
Leverage (lnLEVER)	Log-transformed ratio of debt divided by equity
Board size (lnBSIZE)	Log transformed number of board members in the year t
Gender diversity (GENDIV)	Percentage of female directors
Independence (INDEP)	Percentage of non-executive directors divided by the total number of directors
CEO Duality (CEODUAL)	Dummy variable taking the value of 0 if the CEO does perform only an executive role, and 1 if the CEO is both chairman and executive head.
Equator principles (EQP)	Dummy variable taking the value of 0 if a bank has not adopted the equator principles and 1 if the bank has adopted them
State ownership (STATE)	Dummy variable taking the value of 0 if a bank is not owned by the government by more than 50 percent, and 1 if the bank is state-owned by over 50 percent.
Environmental stringency index (EPS)	Degree to which environmental policies put an explicit or implicit price on polluting or environmentally harmful behavior. This score ranges from 0-6 where 0 is the least environmentally stringent and 6 the most.
Investor protection (INVPROT)	Level of country-level investor protection ranging from 0 to 10 where 0 refers to the lowest level and 10 to the highest level.
Sustainable committee (SUSTAIN)	Dummy variable taking the value of 0 if the bank does not have a committee dedicated to sustainable behavior and 1 if it does have a committee dedicated to sustainable behavior

3.4 Methodology

In order to investigate the relationship between political connectedness and CSR performance in banks the following model is tested:

$$dESGSCORE_{itc} = \beta_0 + \beta_1 dPOLCON_{itc} + \beta_2 EPS_{tc} + \beta_3 (dPOLCON * EPS)_{itc} + \beta_4 \ln SIZE_{itc} + \beta_5 ROE_{itc} + \beta_6 \ln LEVER_{itc} + \beta_7 GENDIV_{itc} + \beta_8 INDEP_{itc} + \beta_9 CEODUAL_{itc} + \beta_{10} EQP_{itc} + \beta_{11} \ln BSIZE_{itc} + \beta_{12} SUSTAIN_{itc} + \beta_{13} STATE_{itc} + \beta_{14} INVPROT_{tc} + \beta_{15} YEAREffects_{tc} + \varepsilon_{itc}$$

Where CSRP is measured by the dESGSCORE in country c, in firm i at time t. To measure the proposed relationship, this research uses an ordered logit regression model for several reasons. All available continuous measures regarding CSRP are non-normally distributed (Poole & O'Farrell, 2006). Transforming the variables by means of cube root, square root, square, exponent, reciprocal and logarithm, which are all commonly used transformations, did not yield a normally distributed dependent variable (Hoyle, 2006). An ordered logit model is more lenient towards the normality assumption due to its non-linear nature. Instead, a cumulative logistic probability function is used to transform the predictor variables, resulting in probability estimates (Stone, 2013).

There are several assumptions that should be met in order to safely use the model. First, the dependent variable should be measured at the ordinal level (Williams, 2016). Consequently, the dependent variable which is measured continuously from 0 to 100 is split into 3 categories numbered one through 3, referring to the lowest (0-33), middle (33-66) and the highest score (66-100) taking the values 0, 1 and 2 respectively. Second, there should be no multicollinearity present between the independent variables (Williams, 2016). In order to reduce the existing multicollinearity⁴ between the independent variables and the interaction term, the continuous variable is mean centered by subtracting the mean from its score⁵. After this, none of the variance inflation factors (VIF) exceeded 2 which does not exceed 10, the critical threshold used in most studies (f.e. Alexiou, 2009; Lawlor et al., 2010). Consequently, I conclude that my model does not suffer from multicollinearity. The last assumption is the proportional odds assumption⁶ (Williams, 2006). This assumption is tested using the commonly used Brant post estimation test (Williams, 2016). Due to violation of the proportional odds assumption, CEO

⁴ The Variance Inflation Factor (VIF) is above the critical level of 10 (Alexiou, 2009; Lawlor et al., 2010)

⁵ Environmental policy stringency index (EPS) is mean-centered and the dummy constituting the other half of the interaction was not, which is a commonly used method to reduce multicollinearity between a dummy and a continuous variable (Widaman, Helm, Castro-schilo, Pluess, & Belsky, 2013)

⁶ Refers to the assumption that the slope of each independent variable is the same across all response levels of the dependent variable, regardless of how the dependent variable is divided (Williams, 2006)

duality (CEODUAL) is dropped. Additionally, the variable size (lnSIZE) initially measured by the log of total assets is replaced by the log number of total employees, as the latter does not violate the proportional odds assumption⁷. Given that the data is of panel nature, this research uses a panel data analysis. In order to distinguish between a regular ordered logit model, random and fixed effects the Likelihood-Ratio (LR) test and the Hausman test are performed. The Hausman test is significant at the critical 5 percent level, for which the null hypothesis is rejected, and fixed effects is the appropriate model (Torres-Reyna, 2007). Similarly, the Likelihood Ratio test at the end of the regression, tests the goodness of fit between two competing models, in this case random effects and ordinary ordered logit. The p-value of the test is significant, indicating that the random effects model is more appropriate than the regular ordered logit model (Williams, 2012).

4. Results

4.1 Descriptive statistics

The next section describes Table 3 through 6 depicting descriptive statistics (Table 3), an independent T-Test (Table 4), mean scores per country (Table 5) and a correlation matrix (Table 6). Figure 2 and 3 illustrating the EPS index by country over time and the mean ratio political connections over time respectively.

Table 3 indicates that within this sample of 984 bank-year observations, approximately 32 percent firm-years has at least one PCD with a standard deviation of 47 percent. This mean is similar to other studies using samples including OECD countries such as Goldman et al. (2009) and Boubakri, Cosset, and Saffar, (2008) reporting 31 and 35 percent firm-years for the US and a global sample including mostly OECD countries respectively. An independent t-test shown in Table 4 suggests a preliminary indication of a positive relationship between politically connected banks and CSR. The mean CSR score for politically connected banks (2.58) is different from the mean of banks that are not politically connected (2.405), which is significant at the critical 1 percent level. Similarly, the correlation coefficient ($r = 0.130$, $p < 0.05$) depicted in Table 6 is in line with the former indication suggesting that stakeholder and resource dependency theory could provide a solid argument for the effect of political connections on CSR. The average number of board members is approximately 12 which is similar to other studies concerning banks reporting 12 (Tanna, Pasiouras, & Nnadi, 2011), and 13 (Belkhir,

⁷ Substituting the measure for bank size and dropping CEO duality resulted in an almost identical model in terms of the fit of the model (Pseudo R-square) and the direction, strength and significance of the coefficients

2009) number of board members approximately. The average number of employees is approximately 52000 which is similar to the mean number of employees in a study by Scholtens and Dam (2007) using a similar sample, indicating that this sample consists of relatively large-sized banks.

Figure 2, depicting the EPS index score by country over time indicates that there are large differences between countries, but also over time. After the crisis of 2008, a large increase in environmental policy stringency is observed. The mean EPS index increased from approximately 2.35 to 2.75, which is relatively large on a scale of 0 to 6. This is as expected as a financial crisis is usually followed by a period of stricter regulation (Law, Solomon, & Zaring, 2009). Figure 2 also indicates that there are large differences in environmental policy stringency between countries over time. Similarly, when examining Table 5 indicates that the mean EPS score is the lowest for Brazil (0.411) and the largest for Denmark (3.806). The largest proportion of the sample is settled in the US, the second largest part is settled in Italy and the third largest in Canada with 17.6, 8.9 and 6 percent respectively, making up 32.5 percent of the sample. Figure 3, depicting the mean proportion of political connections and the 95 percent confidence area, indicates that the number of firms that have a political connection has remained relatively stable over time as expected ranging in between 0.3 and 0.35 (Chen, Li, Su, & Sun, 2011).

The correlation matrix is depicted in Table 6. Most signs of the coefficients are as expected in the literature. Leverage is positively correlated with CSRP ($r = 0.139$, $p < 0.05$) which would seem to support the argument that highly geared firms are expected to disclose more CSR information in order to satisfy their creditors. Bank size is positively correlated with CSRP ($r = 0.586$, $p < 0.05$) which supports the idea that larger banks are more pressured to engage in CSR in order to legitimize their business (Cowen & Ferreri, 1987). State-ownership ($r = -0.018$, $p > 0.05$) and board independence ($r = 0.035$, $p > 0.05$) do not show a significant correlation with CSRP which contradicts previous findings. Correlations between size and political connections ($r = 0.462$, $p < 0.05$), board size and the Equator Principles ($r = 0.487$, $p < 0.05$), investor protection and board size ($r = 0.485$, $p < 0.05$), and independence and board size ($r = 0.388$, $p < 0.05$) indicate a potential source of multicollinearity (Thadewald & Büning, 2007). Even though the VIF test did not provide any evidence regarding multicollinearity, I re-estimated my model without these variables to examine whether this may bias the overall results.

Table 3. Descriptive statistics

	<i>count</i>	<i>mean</i>	<i>sd</i>	<i>min</i>	<i>p50</i>	<i>p75</i>	<i>max</i>
ESGSCORE	984	66.360	30.530	3.250	80.975	92.730	97.350
dESGSCORE	984	1.403	0.802	0.000	2.000	2.000	2.000
ENVSCORE	984	64.379	32.569	8.430	84.205	91.930	95.080
dENVSCORE	984	1.346	0.867	0.000	2.000	2.000	2.000
SOCSCORE	984	66.379	28.496	3.660	76.285	91.760	98.140
dSOCSCORE	984	1.395	0.783	0.000	2.000	2.000	2.000
CGVSCORE	984	57.918	27.237	1.980	63.980	82.805	97.700
dCGVSCORE	984	1.250	0.797	0.000	1.000	2.000	2.000
EPS	984	2.717	0.767	0.375	2.733	3.279	4.133
dPOLCON	984	0.316	0.465	0.000	0.000	1.000	1.000
POLCON	984	0.513	0.939	0.000	0.000	1.000	6.000
lnSIZE	966	9.890	1.577	1.609	9.937	10.982	13.053
wROE	958	5.191	23.618	-163.660	8.745	13.970	61.940
ROE	958	2.711	207.930	-4298.470	8.745	13.970	4314.550
lnLEVER	844	-0.245	1.656	-8.064	-0.244	0.821	5.151
lnBSIZE	984	1.971	1.160	0.000	2.485	2.944	3.871
GENDIV	984	20.751	25.604	0.000	13.333	25.000	100.000
EQP	984	0.279	0.449	0.000	0.000	1.000	1.000
STATE	984	0.0508	0.219	0.000	0.000	0.000	1.000
CEODUAL	984	0.149	0.357	0.000	0.000	0.000	1.000
SUSTAIN	984	0.056	0.230	0.000	0.000	0.000	1.000
INVPROT	984	6.335	1.614	3.000	6.000	8.300	8.700
INDEP	984	83.296	18.439	0.000	86.667	100.000	100.000
N	984						

Variables that are log transformed are marked with “ln” variables that are winsorised are marked with a “w”

Table 4. Independent t-test

<i>Variable</i>	<i>N (combined)</i>	<i>Total sample mean</i>	<i>PC mean</i>	<i>NC mean</i>	<i>T-statistic for difference in means</i>
<i>dESGSCORE</i>	<i>984</i>	<i>2.4035</i>	<i>2.5820</i>	<i>2.3210</i>	<i>0.0000</i>

Table 5. ESG score, political connections and environmental stringency index mean by country

	Freq.	Percent	dESGSCORE (mean)	dPOLCON (mean)	EPS (mean)
Australia	42	4.27	2.929	0.214	3.089
Austria	16	1.63	2.312	0.000	3.054
Belgium	32	3.25	1.875	0.281	2.489
Brazil	22	2.24	3.000	0.000	0.411
Canada	59	6.00	2.847	0.068	3.427
China	31	3.15	2.613	0.194	1.575
Czech Republic	8	0.81	2.000	0.000	2.551
Denmark	24	2.44	1.667	0.292	3.806
Finland	15	1.52	1.867	0.533	3.338
France	32	3.25	2.969	0.844	3.454
Germany	32	3.25	2.781	0.438	3.011
Greece	35	3.56	2.714	0.600	2.134
India	32	3.25	1.656	0.000	1.341
Italy	88	8.94	1.875	0.477	2.929
Japan	22	2.24	1.364	0.091	2.613
Netherlands	9	0.91	2.889	0.667	3.632
Norway	8	0.81	3.000	0.375	3.118
Poland	43	4.37	1.907	0.581	2.685
Portugal	23	2.34	2.522	0.696	2.265
Republic of Ireland	24	2.44	2.250	0.833	3.335
South Africa	33	3.35	2.909	0.061	1.027
Spain	57	5.79	2.895	0.386	2.524
Sweden	32	3.25	3.000	0.219	3.123
Switzerland	50	5.08	2.240	0.420	3.235
United Kingdom - England	34	3.46	2.882	0.676	3.364
United Kingdom - Scotland	8	0.81	3.000	0.625	3.335
United States	173	17.58	2.220	0.069	2.703
Total	984	984	2.403	0.316	2.717
N	984	984	984		

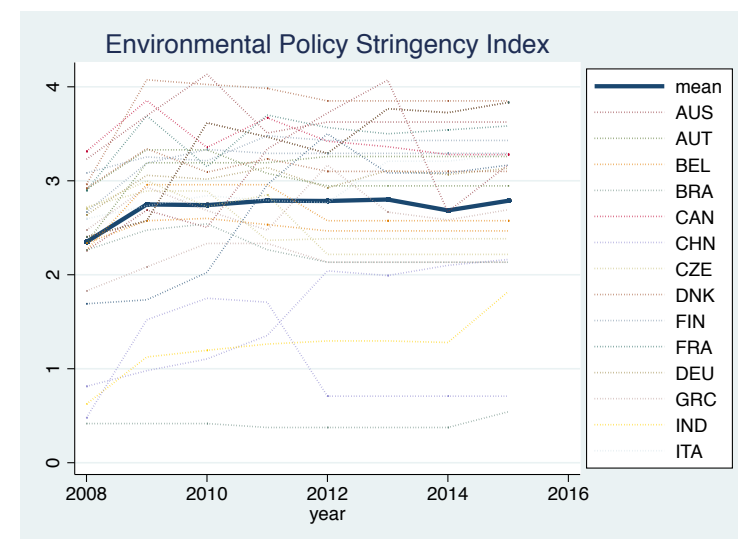


Figure 2. EPS index by country over time

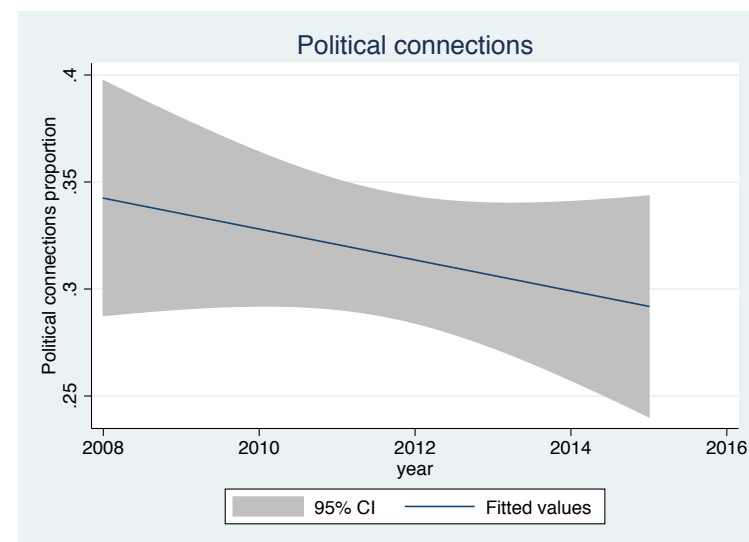


Figure 3. Mean proportion of banks with political connections

Table 6. Correlation matrix

Variables	dESGSCORE	ESGSCORE	ENVSCORE	dENVSCORE	SOCSCORE	dSOCSCORE	CGVSCORE	dCGVSCORE	EPS	dPOLCON	POLCON	lnSIZE	wROE	lnLEVER	lnBSIZE	GENDIV	EQP	STATE	CEODUAL	SUSTAIN	INVPROT	INDEP
dESGSCORE	1.000																					
ESGSCORE	0.961*	1.000																				
ENVSCORE	0.874*	0.912*	1.000																			
dENVSCORE	0.867*	0.893*	0.975*	1.000																		
SOCSCORE	0.864*	0.910*	0.856*	0.837*	1.000																	
dSOCSCORE	0.850*	0.878*	0.825*	0.814*	0.952*	1.000																
CGVSCORE	0.654*	0.726*	0.560*	0.528*	0.531*	0.497*	1.000															
dCGVSCORE	0.614*	0.677*	0.527*	0.496*	0.486*	0.451*	0.946*	1.000														
EPS	0.079*	0.012	0.039	0.100*	-0.033	0.070*	0.147*	0.197*	1.000													
dPOLCON	0.130*	0.160*	0.211*	0.176*	0.197*	0.152*	0.068*	0.042	0.181*	1.000												
POLCON	0.128*	0.160*	0.211*	0.186*	0.180*	0.153*	0.099*	0.007	0.095*	0.805*	1.000											
lnSIZE	0.586*	0.614*	0.607*	0.576*	0.597*	0.560*	0.424*	0.382*	-0.174*	0.133*	0.156*	1.000										
wROE	0.116*	0.085*	-0.031	-0.062	0.019	0.081*	0.102*	0.021	-0.065*	-0.196*	-0.204*	0.128*	1.000									
lnLEVER	0.139*	0.123*	0.053	0.071*	0.099*	0.101*	0.150*	0.149*	-0.063	-0.189*	-0.160*	0.145*	0.069*	1.000								
lnBSIZE	0.074*	0.075*	0.198*	0.180*	0.206*	0.198*	-0.147*	-0.176*	0.229*	0.462*	0.411*	-0.025	-0.234*	-0.162*	1.000							
GENDIV	0.109*	0.072*	0.012	0.115*	0.002	0.101*	0.206*	0.205*	0.163*	-0.085*	-0.100*	-0.006	0.077*	-0.038	-0.291*	1.000						
EQP	0.384*	0.506*	0.493*	0.391*	0.504*	0.379*	0.441*	0.323*	0.013	0.083*	0.041	0.487*	0.096*	0.233*	0.032	0.090*	1.000					
STATE	-0.018	-0.064*	0.007	-0.001	-0.042	-0.016	-0.131*	-0.031*	-0.183*	-0.033	-0.015	0.228*	0.012	0.111*	-0.141*	-0.127*	-0.105*	1.000				
CEODUAL	0.036*	0.083*	0.138*	0.094*	0.144*	0.091*	-0.061	-0.023	-0.060	0.022	0.114*	0.134*	-0.067*	-0.144*	0.198*	-0.153*	0.025	-0.064*	1.000			
SUSTAIN	0.034*	0.090*	0.137*	0.054*	0.104*	0.034*	0.087*	0.033*	0.040	0.177*	0.239*	0.154*	-0.130*	0.044	0.107*	-0.073*	0.065*	0.124*	-0.028	1.000		
INVPROT	-0.068*	0.002	-0.109*	-0.151*	-0.117*	-0.174*	0.266*	0.243*	0.057	-0.196*	-0.156*	0.021	0.127*	0.160*	-0.485*	0.319*	0.112*	-0.033	-0.247*	0.122*	1.000	
INDEP	0.035	0.053	0.057	-0.012	-0.003	-0.050	0.161*	0.211*	-0.004	-0.151*	-0.151*	0.000	0.109*	0.072*	-0.388*	0.262*	0.114*	0.072*	-0.263*	-0.126*	0.223*	1.000

Using a similar approach as Drydakis (2015) this study uses Pearson correlation coefficients to estimate correlations when both scales are continuous and when one scale is binary and the other continuous (the Pearson coefficient is mathematically equivalent to the Point-Biserial correlation suitable for nominal and continuously scaled variables). This study uses **Rank-Biserial correlation coefficients** (in bold) to estimate correlations between ordinal and nominal variables and *Spearman's correlation* (in italic) for correlations between ordinal and continuous variables. P-values are in parenthesis. (*) Significant at the 5% level.

4.2 Regression results

The next section will discuss the main regression results presented in Table 7. When examining all models in Table 7, with or without the interaction and year-effects political connections (dPOLCON) consistently do not seem to have a significant effect on CSRP ($p > 0.1$). When examining model 4, the economic interpretation of the effect of political connections would be that if environmental policy stringency (EPS) would be equal to the mean, the odds of being in the highest performing group in terms of CSR, over being in the lowest two groups would increase by 0.631 when there is a politician on the board, resulting in a probability of 38.6 percent⁸ and is considered a negative effect. However, having a political connection does not seem to have a significant effect ($p > 0.1$). Consequently, hypothesis 1a and 1b are rejected given that neither a positive nor a negative effect of political connections is found.

Environmental policy stringency (EPS) consistently has a positive and significant effects on CSRP in all four models. A one-point increase in this stringency index (ranging from 0 to 6) increases the odds of being in the highest performing group in terms of CSR over being in the lowest two performing groups by 3.430 (model 4). This corresponds to a probability of 77.4 percent of being in the highest performing group *ceteris paribus*, suggesting that environmental policy stringency may play an important role in determining CSRP. Model 3 and 4 include the interaction effect with and without year-effects. In both models the interaction term is significant, suggesting that a politically connected bank in a more environmentally stringent country has a negative effect on CSRP. A one-point increase in the interaction term is associated with a 16.1 percent (model 4: $r = 0.184$, $p < 0.1$) likelihood of being in the best performing group in terms of CSR over being in the two least performing groups. Consequently, I also have to reject hypothesis 2 as the opposite effect is found here⁹.

Bank size is positively and significantly related to CSRP in all four models. This result is similar to previous findings (e.g. Li & Zhang, 2010; Mallin et al., 2014). A one log-point increase in the number of employees is associated with an 84.4 percent (model 4: $r = 7.372$, $p < 0.01$) likelihood of being in the highest performing group in terms of CSR, over being in the lowest two groups *ceteris paribus*. This result seems to suggest that larger banks that are more in the spotlight, are more inclined to adopt CSR in order to legitimize their business (Cowen & Ferreri, 1987; Scholtens & Dam, 2007). Similarly, the adoption of the Equator Principles (EQP) is associated with a 99.7 percent (model 4: $r = 485.7$, $p < 0.01$) likelihood of being in the highest

⁸ Probability = $\frac{odds}{1+odds}$

⁹ Additionally, I re-estimated the model excluding board size (lnBSIZE) (not reported here), due to large correlations with several independent variables as shown in table 5, however this yielded similar results

performing group in terms of CSR, over being in the lowest two groups *ceteris paribus*. However, the causality of this effect should be interpreted with caution as firms adopting the Equator Principles are often already assumed to be performing better in terms of CSR (Scholtens & Dam, 2007). State-ownership (STATE) has a negative and significant effect on the likelihood of performing well in terms of CSR (model 4: $r = 0.0393$, $p < 0.1$). When a bank is state-owned the probability of being in the highest performing group in terms of CSR, over being in the lowest two groups is only 3.9 percent. This supports the argument that state-owned banks have less need for CSR, because the government ensures a certain level of legitimacy (Marquis & Qian, 2013). However, given that only 5 percent (approximately 40 bank-years) of our sample is state-owned this result should be interpreted with caution. Surprisingly, the presence of a sustainable committee does not seem to have significant effect on CSRP in all models, however the sign is positive. Similarly, board size has a positive but insignificant effect on CSRP in all models. Profitability (wROE) has a positive and significant effect in all models. A 1 percent increase in ROE is associated with a 50.3 (model 4: $r = 1.012$, $p < 0.05$) percent likelihood of being in the highest performing group in terms of CSR, over being in the lowest two groups. Hence, more profitable firms possibly have more resources they can devote to more sustainable behavior (Khan, 2010; Patten, 1991). Gender diversity (GENDIV) also has a positive effect on CSRP in all four models as expected by the literature. A one percent increase in the ratio of female board members to total board members is associated with a 50.8 percent (model 4: $r = 1.034$, $p < 0.05$) likelihood of being in the highest performing group in terms of CSR, over being in the lowest two groups. This is in line with the agency and resource dependency perspective where female presence increases independence, diversity of opinions and independence of a board, resulting in better CSRP (Bear et al., 2010; Carter et al., 2003). At last, investor protection (INVPROT) does not seem to have a significant effect on CSRP in all four models, which would suggest that greater shareholder protection is not at the expense of sustainable behavior.

Table 7. Random effects ordered logit model

This table reports the random ordered logit odds ratio of the relationship between political connections and the dependent variable CSR _P over the period of 2008-2015. Model 1 and 2 represent the results excluding the interaction effect and model 3 and 4 represent the results with the interaction effect. Model 1 and 3 report result without year-effects and model 2 and 4 results with year-effects. Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1				
VARIABLES	(1) OR	(2) OR	(3) OR	(4) OR
dPOLCON	0.673 (0.414)	0.868 (0.498)	0.619 (0.390)	0.631 (0.402)
EPS * dPOLCON			0.192* (0.171)	0.184* (0.163)
EPS	2.416* (1.119)	1.340* (0.723)	3.445** (1.789)	3.430** (1.769)
lnSIZE	7.377*** (3.214)	9.754*** (4.411)	7.195*** (2.979)	7.372*** (3.171)
wROE	1.012** (0.00520)	1.013** (0.00537)	1.012** (0.00526)	1.012** (0.00528)
lnLEVER	1.044 (0.174)	1.128 (0.198)	1.016 (0.183)	1.013 (0.182)
lnBSIZE	1.967 (0.939)	2.343 (1.237)	1.900 (0.839)	1.832 (0.842)
GENDIV	1.034** (0.0148)	1.031*** (0.0113)	1.034** (0.0146)	1.034** (0.0146)
EQP	349.5*** (458.2)	383.8*** (529.2)	465.1*** (650.6)	442.2*** (619.4)
STATE	0.0270* (0.0510)	0.00620** (0.0140)	0.0278* (0.0527)	0.0393* (0.0739)
SUSTAIN	1.307 (1.064)	1.114 (1.377)	1.091 (0.837)	1.052 (0.794)
INVPROT	1.000 (0.335)	0.759 (0.297)	0.993 (0.326)	0.973 (0.325)
Cut 1	17.602*** (4.701)	16.280*** (5.134)	17.281*** (4.664)	16.231*** (5.101)
Cut 2	21.406*** (4.754)	20.879*** (5.192)	21.102*** (4.723)	20.529*** (5.161)
Year-effects	N	Y	N	Y
Observations	836	836	836	836
Number of CompanyID	135	135	135	135
Pseudo-R2	0.2433	0.2802	0.2481	0.2850

4.2 Robustness tests

To confirm the general pattern of these results, I conduct several robustness checks depicted in Table 8. First, several alternative measures of CSR_P are tested. As discussed in previous sections, the ESG score is built up out of multiple pillars. The re-estimations using these three pillars are depicted in model 1-3 and include the environmental (dENVSCORE), social (dSOCSCORE) and corporate governance score (dCGVSCORE) (Botta & Kozluk, 2014). The original regression is re-estimated using these three measures as dependent variable.

Model 4, and 5 display the original estimation using different samples. Model 4 includes China, the UK, Germany, France and Canada. All five countries are signatories of the Paris Agreement, an agreement signed in 2016 in which each signatory should regularly report on their contribution to mitigate global warming (UNFCCC, 2016). These are also 5 countries that are characterized by the most uncertain policy environment. Consequently, according to resource dependency theory these countries should benefit most from political connections, given that political connections are supposed to act as a means to mitigate such uncertainty. Accordingly, I expect that the relationship between political connections and CSR_P would be stronger for countries that are characterized by policy uncertainty (“Economic Policy Uncertainty,” 2019), and have the intention to be more sustainable (UNFCCC, 2016). Policy uncertainty is measured using data from the economic policy uncertainty index (“Economic Policy Uncertainty,” 2019). The average score for economic policy uncertainty for the period of 2008-2015 is calculated from monthly data. The 5 countries with the highest scoring average are used to construct the sample. Similarly, model 5 represent the results for a sub-sample of countries including the United States¹⁰, the Netherlands, Japan, Sweden, Spain and Italy. These countries are characterized by the least economic policy uncertainty and are also signatories of the Paris Agreement (“Economic Policy Uncertainty,” 2019; UNFCCC, 2016).

At last, in model 6 and 7 represent the same results with two alternative measures for political connections. The first is a count variable counting the number of connections per bank (POLCON). Consequently, this model measures whether having more than one connection could play an important role in determining the level of CSR_P. The second variable is the ratio of politically connected board members to the total number of board members (rPOLCON). This measures whether the ratio of politically connected to non-connected board members could potentially determine the level of CSR_P. Similar to the idea of a critical mass, that is

¹⁰ Discussions regarding the United States withdrawal from the Paris Agreement started in 2017 (Milman, 2018). This is outside the scope of this sample, for which I do not take this into account.

often used in research concerning female representation in board rooms (Joecks et al., 2013; Torchia, Calabrò, & Huse, 2011), a certain ratio of political connections might better ensure sustainable behavior by banks. Because political board members are assumed to have different ideas regarding CSR than regular board members, the translation of such ideas into increased CSRP is better ensured if there is a group of board members that have similar ideas.

Aside from these results Table 1 in the Appendix also reports the results using a panel fixed effects model using the continuous versions of all four dependent variables representing CSRP; ESGSCORE, ENVSCORE, SOCSCORE and CGVSCORE. Initially, the normality assumption is formally tested using the Shapiro Wilk test for both the dependent variable and the residuals of the regression. Both indicated a significant p-value at the critical 5 percent value indicating that the residuals and the CSRP are not normally distributed (Thadewald & Büning, 2007). However, when visualizing the regression residuals, they seem relatively normally distributed. When performing the Jarque Bera test for normality the p-value is insignificant indicating that the residuals are normally distributed. Jarque Bera is considered a poorer test especially in circumstances where the distribution has short tails or is bimodal (Thadewald & Büning, 2007). However, this does not seem the case for which I believe it is possible to use an ordinary panel regression as an additional robustness test with caution. Following the approach of Cahan, De Villiers, Jeter, Naiker, & Van Staden (2016) this research controls for country fixed effects that could include unobserved factors such as culture.

When examining Table 7, the results regarding hypothesis 1a and 1b remain robust in most models aside from model 4, representing the results for the sub-sample of countries that are most uncertain regarding economic policy. The results in model 4 suggest that in more uncertain policy environments political connections may be of critical value to improving CSRP. However, these results should be interpreted with caution due to several reasons. When formally testing for multicollinearity, the VIF score for EPS is relatively large (5.18)¹¹. Second, when examining the correlations between the interaction term and political connections, and EPS and the interaction term, these are all above 50 percent¹². Third, when excluding the interaction term, the effects of political connections and EPS on CSRP turn insignificant. At last, when re-estimating the results in model 4 using the alternative three CSRP measures (dENVSCORE, dCGVSCORE and dSOCSCORE) all results regarding the EPS, political connections and the interaction term remained insignificant¹³.

¹¹ Not reported here

¹² Not reported here

¹³ Not reported here

Table 8. Robust random ordered logit regressions

This table reports the random ordered logit odds ratio of the relationship between political connections and several proxy measures of CSR over the period of 2008-2015. Model 1, 2 and 3 represent the relationship between political connections and the environmental pillar score (dENVSCORE), political connections and the social pillar score (dSOCSCORE) and political connections and the corporate governance score (dCGVSCORE) respectively. Model 4 represents the results of the relationship between political connections and the total ESG score (dESGSCORE) for a subsample including only Germany, France, Canada, the UK and China. Model 5 represent the same results for a sample including the United States, the Netherlands, Japan, Sweden, Spain and Italy. Model 6 and 7 represent the results using two alternative measures of political connections. Robust standard errors in parenthesis. *** p<0.01, ** p<0.05, * p<0.1.

Dependent variable in parenthesis	Alternative measures CSR ^P			Selected Samples		Alternative measures political connections	
	(dENVSCORE)	(dSOCSCORE)	(dCGVSCORE)	(dESGSCORE)	(dESGSCORE)	(dESGSCORE)	(dESGSCORE)
	(1)	(2)	(3)	Sample including Germany, Canada, the UK, France and China (4)	Sample including the United States, Netherlands, Japan, Sweden, Spain and Italy (5)	Number of political connections (POLCON) (6)	Ratio of political connections divided by the number of board members (rPOLCON) (7)
	OR	OR	OR	OR	OR	OR	OR
dPOLCON ¹	.729 (0.379)	0.563 (0.220)	2.162 (1.312)	3.570*** (2.470)	1.178 (1.009)	0.870 (0.408)	0.866 (0.405)
EPS	1.984 (1.203)	2.577*** (0.894)	1.654 (0.799)	7.972 (16.566)	1.466 (0.347)	1.987 (1.216)	1.301 (0.743)
EPS * dPOLCON	0.571 (0.407)	1.561 (1.257)	0.370 (.0.293)	1.860*** (1.310)	0.206 (0.347)	0.410* (0.224)	0.408* (0.218)
Control variables	Y	Y	Y	Y	Y	Y	Y
Year dummies	Y	Y	Y	Y	Y	Y	Y
N	836	836	836	179	330	836	836
Pseudo-R2	0.3458	0.0348	0.2371	0.9196	0.7201	0.2803	0.2803
% of firms with at least 1 political connection	27.8%	27.8%	27.8%	39.4%	23.9%	27.8%	27.8%

¹ The last two models use different measures for political connections

Additionally, Table 1 in the appendix confirms the general pattern that political connections do not influence CSRP. Therefore, I conclude that political connections do not have a significant effect on CSRP within the banking sector.

Results regarding hypothesis 2 are more mixed. Aside from model 4, 6 and 7 the results regarding hypothesis 2 remain insignificant. Model 4 provides support for hypothesis 2 ($r = 1.860$, $p < 0.01$). A one-point increase in the interaction term would be associated with a 65 percent likelihood of being in the best performing group of CSRP compared to the two least performing groups. However, as previously mentioned these results should be examined with caution, due to potential multicollinearity. Also, the results are not robust when re-estimated using the alternative measures of CSRP (dENVSCORE, dCGVSCORE and dSOCSCORE)¹⁴. Model 6 and 7 provide similar results as the initial estimation in Table 7, pointing towards a negatively moderating effect of EPS on the relationship between political connections and CSRP. Consequently, while hypothesis 2 is still rejected, the results obtained in Table 7 are not robust across the different re-estimations.

¹⁴ Not reported here

5. Discussion and limitations

While political connections may have an effect on a firm's likelihood to adopt certain CSR principles in some studies (Gu et al., 2013; Li et al., 2015; Zhang et al., 2019), this study indicates that CSRP is not significantly influenced by the presence of politically connected board members. It is possible that the negative and positive effects of having a PCD on the board cancel out and result in no effects, however this section will provide several other reasons why this effect could be found.

The first reason is related to the way political connections are measured. This measure only takes into account one way for a bank to connect to political organizations. Other potential ways in which the board of a large bank can connect with the government aren't accounted for. More specifically, there are banks that have non-direct connections, that can provide them with the similar advantages or disadvantages in terms of CSRP. To illustrate, Faccio (2006a) includes several indirect measures of political connections of which examples are connections through relatives and connections through friends. The former is classified as a board member that has the same last name as a top government official. In other words, there are other network effects that remain unaccounted for in this study possibly distorting the results. Second, in most OECD countries, CSR remains mostly on a voluntary basis (Steurer, 2010). Consequently, PCDs may not feel pressured to change current the current status of CSRP in order to ensure their political or business position. Third, this sample consists of politically connected banks in which approximately 63 percent of all banks that are politically connected consists of a political connection acting as a supervisory board member, or in the case of multiple connections the majority acts as a supervisory board member (not reported here). Only 1 percent consists of political connections acting as executive board member, or in the case of multiple connections the majority acts as executive board members. The remaining 36 percent are companies that include as many executives as supervisory political connections. Hence, I conclude that the majority of PCDs are active in a supervisory capacity. Supervisory board members are often studied in relation to CSR, and are considered an important determinant of CSRP (Fuente, García-Sánchez, & Lozano, 2017). However, the effectiveness of supervisory board members can vary in the presence of different board systems (Dienes & Velte, 2016). In two-tier systems, such as Germany, the supervisory board is considered more independent, whereas in a one-tier system such as the UK have one board for executive and non-executive board members (Jungmann, 2006). More specifically, the differences between countries regarding board systems and their practical implementation can influence the board composition and consequently the decision-making process in which a politically connected board member

participates. Additionally, in countries such as Germany characterized by a two-tier system such independence may be compromised. To illustrate, former managers are often allowed to sit in the supervisory board (Dienes & Velte, 2016). Overall, this indicates that while this research controls for independence of board members, there are other factors that may influence the effectiveness of supervisory board members and consequently, the effectiveness of politically connected board members.

There are several other limitations to this research. First, a multilevel ordered logit model was also considered as the data exists of firm-level (level 1) units nested in country-level (level 2) clusters. However, in order to have unbiased results potentially caused by type I error (the risk of detecting a false effect), the sample size is a very important aspect. A minimum of 50 level 1 units and 40 level 2 units is necessary for ordinary fixed effects. When dealing with a cross-level interaction as is the case in our analysis, this increases to 100 level 1 and 80 level 2 units (Schoeneberger, 2016; Sommet & Morselli, 2017). Given that the number of countries in our analysis is 30 (level 2) I cannot safely suggest using this model. This brings me to the next limitation; sample size. While as a whole the sample is sufficient, the country-level samples are relatively small. Therefore, some countries are represented by only 1 bank resulting in 8 firm-year observations. While the entire sample may be representative for the OECD, some countries may be poorly represented by this sample. Consequently, entangling country-level discrepancies in environmental policy stringency may lead to biased results. Third, during data collection, approximately half of the sample is dropped due to missing data for the ESG score. Consequently, a sample selection bias could arise by only including those banks that have a score in terms of CSRP. However, the procedure to test this with ordinal data is unfamiliar to me. Consequently, in order to get some preliminary idea whether the sample selection could bias the results, I test a heck-man two-step procedure which is applicable when using continuous data (Heckman, 1976). In this procedure the residuals of the selection equation¹⁵ tested in a probit model, are saved and transformed into the Inverse Mills ratio¹⁶. When the Inverse Mills ratio into the original equation¹⁷, it acts as a selection bias control factor. However, because the vector of predictors in the selection equation is the same as the vector of predictors used in the second stage, this can lead to multicollinearity between the Mills ratio

¹⁵ $TREATMENT_{itc} = \beta_0 + \beta_1 dPOLCON_{itc} + \beta_2 EPS_{tc} + \beta_3 (dPOLCON * EPS)_{itc} + \beta_4 CONTROLS_{tc} + \beta_5 YEAREffects_{tc} + \varepsilon_{itc}$,
Where the treatment variable refers to whether or not a bank has a score for CSRP.

¹⁶ The Inverse Mills ratio is the probability density function divided by the cumulative distribution function

¹⁷ In this case using ESGSCORE as the dependent variable (continuous). In order to reduce multicollinearity between lambda and bank size, the original measure for bank size using the logarithm of the total number of employees is now measured by the logarithm of total assets in both the selection equation and the original equation depicted on page 20

and predictors in the second stage (Smits, 2003). To avoid this the logarithm of assets is used as an instrument for size in the selection equation, as opposed to the logarithm of the number of employees. The latter will be used in the second stage of the equation, reducing multicollinearity¹⁸. The results, reported in Table 3 of the appendix, indicate that the Inverse Mills ratio ($r = -24.73$, $p < 0.01$) significantly effects CSRP. Consequently, there is preliminary evidence of a selection bias. Fourth, the paper by Lin, Tan, Zhao, and Karim argue that CSR may be used as a means to increase political connections in the Chinese market. An event study, examining how the abrupt termination of several city mayors affects a companies choices regarding CSR, points out that when a major is replaced, and hence the current statusquo regarding political connections is changed, the propensity to engage in CSR changes. The authors find that the explanation for this lies in the idea that CSR is used as a means to bond with the new government and creating new political connections. This is true especially for firms that are not state-owned, as these firms do not have a pre-established link with the government. As such, good CSRP could be used to attract PCDs. This provides a preliminary argument for the problem of reverse causality, where CSRP could be endogenous to having political connections. In panel data reverse causality can lead to biased coefficients and can be adressed by using a lagged version of the dependent variable (Wang & Qian, 2011) or using more sophisticated empirical methods. However, when estimating the original ordered logit regression adding a lagged version of CSRP leads to severe multicollenearity. More sophisticated measures could be used in future research to adress this potential problem.

¹⁸ The VIF of lambda (Inverse Mills Ratio) was reduced from 9.84 using the log number of employees as a measure for size in both equations, to 3.18 using the log of total assets in the selection equation and the log number of employees in the second stage equation

6. Conclusion

This thesis has focused on examining the relationship between political connections and CSR performance within the banking sector of OECD countries. Both negative and positive effects were hypothesized. The main proposal of a positive impact of political connections on CSR was rooted in resource dependency theory and stated that political connections can provide easier access to or provide dialogue with governmental organisations and provide knowledge and experience that can potentially enhance CSR. The main proposal of a negative impact was that having a political connection can assert certain benefits to banks such as legitimacy, such that their need to gain legitimacy using CSR will decrease. Additionally, this thesis tested whether the relationship between political connections and CSR is positively moderated when banks are active in countries with more stringent environmental policy. Unlike most previous empirical evidence that has focused their efforts on the Chinese market, this thesis has focused on OECD countries as a sample. Overall, the findings suggest that political connections do exert a positive nor a negative effect on CSR. Surprisingly, when re-estimating this relationship in a sample of countries that is characterized by an uncertain economic policy environment, the results seem to be in favor of hypothesis 1a and hypothesis 2. However, these results are to be interpreted with great caution, and are not robust across other CSR measures. At last, this thesis provides mixed results regarding the moderating effect that environmental policy stringency may have on the relationship between political connections and CSR. Most evidence found points towards no moderating relationship, or a negative one, suggesting that banks active in a more environmentally stringent environment should not hire PCDs, as they will exert a negative influence on CSR. However, this effect is not robust.

The policy, research and managerial implications of this thesis that can be found from this thesis are mixed. While I find that overall political connections do not influence CSR, there are notable limitations to this study that need to be taken into account in future research in order to arrive at a definitive conclusion regarding political connections and CSR in OECD banks. Therefore, I would like to suggest several suggestions for future research. First, alternative measures of political connections should be explored (Faccio, 2006a). By focusing only on former or currently politically active board members that are also active as a bank board member, this research ignores all the other potential connections between banks and the government. Second, entangling country-level differences may be better suited for a larger more representative sample of OECD banks. Enlarging the sample would also provide the researcher with the opportunity to use a better-suited multilevel analysis (Schoeneberger, 2016; Sommet & Morselli, 2017). Third, a more advanced empirical method to address a potential selection

bias resulting from dropping banks that do not have an available score for CSRP would be recommended. Fourth, the researcher should be aware of potential endogeneity of political connections resulting in reverse causality. At last, when examining the results taking into account economic policy uncertainty (Table 8; Model 4), I would suggest taking into account that some countries may be characterized by a more uncertain policy environment where political connections may be more valuable than in others. This would be more in line with resource dependency theory, which states that political connections may be a means to combat environmental uncertainty such as policy uncertainty (Boyd, 1990; Hillman, 2005; Pfeffer & Salancik, 1978). To conclude, political connections have a significant effect on CSRP in this study, however further research is needed to establish a more definitive conclusion.

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APPENDIX

Table 1. Robust fixed effects panel regressions

This table reports the fixed effects panel regression of the relationship between political connections and several proxy measures of CSR over the period of 2008-2015. Model 1 represents the results of the relationship between the political connections and the total ESG score (ESGSCORE). Model 2, 3 and 4 represent the relationship between political connections and the environmental pillar score (ENVSCORE), political connections and the social pillar score (SOCSCORE) and political connections and the corporate governance score (CGVSCORE) respectively. Robust standard errors in parenthesis. *** p<0.01, ** p<0.05, * p<0.1

	Overall	ESG pillars		
	ESGSCORE	ENVSCORE	SOCSCORE	CGVSCORE
	(1)	(2)	(3)	(4)
	FE	FE	FE	FE
dPOLCON	-0.102 (2.003)	-1.442 (2.249)	2.187 (2.011)	-0.967 (1.786)
EPS	2.493 (1.806)	3.165 (2.233)	3.164* (1.702)	0.269 (1.573)
EPS *	-5.837* (2.322)	-3.799 (2.639)	-6.883*** (2.249)	-0.067 (2.803)
dPOLCON				
Control variables	Y	Y	Y	Y
Year dummies	Y	Y	Y	Y
N	836	836	836	836
R2	0.2565	0.3273	0.0716	0.1833

Table 2. List of governmental institutions

Governmental institutions

Assembly of Western European Union (WEU)
Assembly parliamentary de la Francophonie (APF)
Australia Opposition Front Bench (Shadow Cabinet)
Australian House of Representatives
Austrian Federal Ministry of Finance
Bavarian Ministry of the Interior
Bavarian State Ministry for Economic Affairs Infrastructure Transport and Technology
Belgian Federal Government
Belgian Ministry of Justice
Belgium Federal Parliament
Belgium Ministry of Economic Affairs
Brazil Ministry of Finance
British-American Parliamentary International Group
German Federal Ministry of Finance
Canadian Cabinet
Canadian Russian Inter Governmental Economic Commission
CDU/CSU Parliamentary Group
Chamber of Trades (France)

Chamber of Agriculture Gers (France)
 Chamber of Economics, Social and Solidarity (France)
 Chamber of Agriculture (France)
 Chancellery of the Prime Minister (Poland)
 China Ministry of Commerce
 Committee on Ways & Means US Senate
 Congress of New Caledonia
 Congressional Budget Office
 Council of Europe
 Council of Europe (COE)
 Council of Europe and Western European Union
 Council of European National Youth Committees (CENYC)
 Council of Ministers of the Republic of Bulgaria
 Council of State Governments
 Council of the European Union
 Danish Ministry of Climate and Energy
 Danish Ministry of Culture
 Danish Ministry of Economic and Business Affairs
 Danish Ministry of Education
 Danish Ministry of Finance
 Danish Ministry of Food Agriculture and Fisheries
 Danish Ministry of the Environment
 Danish Ministry of Transport and Energy
 Defense People & Training Board UK Ministry of Defense
 Department of the Prime Minister and Cabinet (DPMC) Australia
 Directorate General of Treasury and Economic Policy (France)(DGTPE)
 Dutch Ministry of Agriculture Nature and Food Quality
 Dutch Ministry of Economic Affairs (MinEA)
 Dutch Ministry of Education Culture and Science
 Economic Planning Unit Prime Minister's Department (Malaysia)
 Euro Mediterranean Parliamentary Assembly
 European Commission (EC)
 European Parliament
 European Parliamentary Financial Services Forum (EPFSF)
 European Union (EU)
 Federal Government (Switzerland)
 Federal Ministry for Economic Affairs and Energy (Germany)
 Federal Ministry for Economic Cooperation and Development
 Federal Ministry for Education and Research (Germany)
 Federal Ministry for Europe Integration and Foreign Affairs
 Federal Ministry for European and International Affairs (Germany)
 Federal Ministry for Foreign Affairs Austria
 Federal Ministry for Transport Innovation and Technology (Germany)

Federal Ministry of Economic Affairs
 Federal Ministry of Education and Research (BMBF)
 Federal Ministry of Finance (FMF)
 Federal Ministry of Food and Agriculture (Germany)
 Federal Ministry of Health (Germany)
 Federal Ministry of Science Research and Economics (BMWF) (Germany)
 Federal Ministry of the Interior Building and Community (Germany)
 Federal Ministry of Transport and Digital Infrastructure (Germany)
 Federal Ministry of Transport Building and Urban Affairs (Germany)
 Federal Republic of Germany
 Federal Republic of Nigeria
 Finnish Ministry of Employment and Economy
 Finnish Ministry of Transport and Communications
 Finnish Parliament
 Folketing (Danish Parliament)
 French Ministry of Agriculture and Fisheries
 French Ministry of Culture & Communication
 French Ministry of Defense
 French Ministry of Education Research and Technology
 French Ministry of Employment Social Cohesion and Housing
 French Ministry of Foreign and European Affairs
 French Ministry of Justice
 French Ministry of National Education Higher Education and Research
 French Ministry of Research and Technology
 French Ministry of Small and Medium Sized Enterprises Trade Small Scale Industry and the Professions
 French Ministry of Social Affairs
 French Ministry of the Economy Finance and Industry
 French Ministry of Transport Infrastructure Tourism and the Sea
 French Ministry of Youth and Sports
 French Senate
 General Confederation of Agricultural Co-operatives in the European Union (COGECA)
 German Bundestag (Lower House of the German Federal Parliament)
 German Federal Ministry for Environment Nature Conservation and Nuclear Safety
 German Federal Ministry of Defense
 German Federal Ministry of Economics and Technology
 German Federal Ministry of Labor and Social Affairs
 German Federal Parliament
 German Ministry of Finance
 Government (Algeria)
 Government (Angola)
 Government (Armenia)
 Government (Australia)
 Government (Austria)

Government (Azerbaijan)
Government (Bahrain)
Government (Belarus)
Government (Belgium)
Government (Belize)
Government (Bermuda)
Government (Botswana)
Government (Brazil)
Government (Bulgaria)
Government (Canada)
Government (Cayman Islands)
Government (Chile)
Government (China)
Government (Congo)
Government (Costa Rica)
Government (Croatia)
Government (Cyprus)
Government (Czech Republic)
Government (Denmark)
Government (Egypt)
Government (Finland)
Government (France)
Government (Germany)
Government (Greece)
Government (Guernsey)
Government (Hong Kong)
Government (Hungary)
Government (Iceland)
Government (India)
Government (Indonesia)
Government (Iran)
Government (Israel)
Government (Italy)
Government (Ivory Coast)
Government (Jamaica)
Government (Japan)
Government (Jersey)
Government (Jordan)
Government (Kazakstan)
Government (Lebanon)
Government (Lesotho)
Government (Libya)
Government (Liechtenstein)

Government (Luxembourg)
Government (Macau)
Government (Malaysia)
Government (Mali)
Government (Malta)
Government (Mauritius)
Government (Mexico)
Government (Mongolia)
Government (Morocco)
Government (Mozambique)
Government (Myanmar)
Government (Netherlands)
Government (New Zealand)
Government (Nigeria)
Government (Norway)
Government (Pakistan)
Government (Papua New Guinea)
Government (Peru)
Government (Philippines)
Government (Poland)
Government (Portugal)
Government (Qatar)
Government (Republic of Georgia)
Government (Republic of Guinea-Bissau)
Government (Republic of Ireland)
Government (Republic of Namibia)
Government (Romania)
Government (Russia)
Government (Scotland)
Government (Serbia)
Government (Singapore)
Government (Slovenia)
Government (South Africa)
Government (South Korea)
Government (Spain)
Government (Sudan)
Government (Sweden)
Government (Switzerland)
Government (Thailand)
Government (Turkey)
Government (Turks and Caicos Islands)
Government (UK)
Government (Ukraine)

Government (USA)
Government (Valencia)
Government (Venezuela)
Government (Zambia)
Government (Zimbabwe)
Government Legal Department UK
Government of Catalonia
Government of Dubai
Government of Federation of Bosnia and Herzegovina
Government of South Australia
Greek Parliament (Hellenic Parliament)
Hellenic Ministry of Rural Development and Food
Hellenic Republic Ministry of Development (Greece)
Hellenic Republic Ministry of Finance (Greece)
House of Representatives of the Parliament of the Czech Republic
Inter-Parliamentary Union (IPU)
Isle of Man Government
Italian Ministry of Agricultural Food & Forestry Policies
Italian Ministry of Communications
Italian Ministry of Foreign Affairs
Italian Ministry of Infrastructure and Transport
Italian Ministry of Justice
Kazakhstan Ministry of Geology
Korea Ministry of Strategy and Finance (MOSF)
Latin American Parliament
Parliament of the Republic of Lithuania
Lower House of the Dutch Parliament
Mexican Ministry of Trade
French Ministry of Industry
Ministry of Security and Justice (Netherlands)
Ministry of Foreign Affairs and Cooperation (Spain)
Ministry of Energy and Mines of Peru
Ministry of Land and Finance (Spain)
Ministry of Home Affairs (Spain)
Ministry of Justice (Poland)
Ministry of Health (Poland)
Ministry of Culture and Education (Spain)
Ministry for Foreign Affairs (Iceland)
Ministry for Foreign Affairs (Sweden)
Ministry for Foreign Affairs of Finland
Ministry for National Economy Hungary
Ministry for Rural Affairs (Ministry of Agriculture prior to 01/2011) (Sweden)
Ministry for Tourism Malta

Ministry of Agrarian Policy and Food of Ukraine
 Ministry of Agriculture
 Ministry of Agriculture Agri-food and Forestry
 Ministry of Agriculture and Forestry Finland
 Ministry of Agriculture and Rural Development (Poland)
 Ministry of Agriculture Czech Republic
 Ministry of Armed Forces (France)
 Ministry of Atomic Energy (Russia)
 Ministry of Business and Growth
 Ministry of Children and Youth Services
 Ministry of Commerce & Industry (MOCI)
 Ministry of Commerce and Industry (India)
 Ministry of Commerce and Industry (Oman)
 Ministry of Communications and Mass Media of the Russian Federation
 Ministry of Community Development Youth and Sports (Singapore)
 Ministry of Construction Housing and Utilities of the Russian Federation
 Ministry of Culture (Spain)
 Ministry of Culture (Russia)
 Ministry of Culture and Communication (France)
 Ministry of Culture and National Heritage of the Republic of Poland
 Ministry of Culture Youth and Sports (Germany)
 Ministry of Defense (Czech Republic)
 Ministry of Defense (Luxembourg)
 Ministry of Defense (MINDEF) (Singapore)
 Ministry of Defense of the Russian Federation
 Ministry of Defense (Japan)
 Ministry of Development (Poland)
 Ministry of Development Industry and Foreign Trade (MDIC)
 Ministry of Ecology Energy Sustainable Development and the Sea (France)
 Ministry of Economic Development and Technology (Republic of Slovenia)
 Ministry of Economic Development and Trade (MERIT)
 Ministry of Economic Development of the Russian Federation (The)
 Ministry of Economic Development) (MSE) (Italy)
 Ministry of Economics (Germany)
 Ministry of Economy (Poland)
 Ministry of Economy & Competitiveness (Spain)
 Ministry of Economy and Budget Planning (Republic of Kazakhstan)
 Ministry of Economy and Energy (Bulgaria)
 Ministry of Economy and Finance
 Ministry of Economy and Finance (Italy)
 Ministry of Economy and Finance (Peru)
 Ministry of Economy and Innovation (Portugal)
 Ministry of Economy Industry and Digital

Ministry of Economy of Russian Federation
Ministry of Economy Productive Recovery and Digital (France)
Ministry of Economy Trade and Industry (Japan)
Ministry of Education (China)
Ministry of Education (France)
Ministry of Education & Science
Ministry of Education and Research
Ministry of Education and Research (Sweden)
Ministry of Education and Research Republic of Estonia
Ministry of Education and Science of the Republic of Kazakhstan
Ministry of Education Universities and Research (Italy)
Ministry of Energy (Poland)
Ministry of Energy
Ministry of Energy (Russian Federation)
Ministry of Energy and Mining
Ministry of Energy and Water (Lebanon)
Ministry of Energy of the Republic of Kazakhstan
Ministry of Environment (Finland)
Ministry of Environment (Republic of Lebanon)
Ministry of Environment and Sustainable Development (MESD)
Ministry of Equipment Transportation & Tourism (METT)
Ministry of European Integration Romania
Ministry of External Relations (Brazil)
Ministry of Finance (Belgium)
Ministry of Finance (Canada)
Ministry of Finance (Chile)
Ministry of Finance (Czech Republic)
Ministry of Finance (Estonia)
Ministry of Finance (Finland)
Ministry of Finance (Hungary)
Ministry of Finance (India)
Ministry of Finance (Japan)
Ministry of Finance (Luxembourg)
Ministry of Finance (Netherlands)
Ministry of Finance (Poland)
Ministry of Finance (Portugal)
Ministry of Finance (Republic of Kazakhstan)
Ministry of Finance (Republic of South Africa)
Ministry of Finance (Russian Federation)
Ministry of Finance (Sweden)
Ministry of Finance and Economic Affairs
Ministry of finance and public affairs (Spain)
Ministry of Finance and Public Credit (Mexico)

Ministry of Finance and The Public Service (Jamaica)
Ministry of Finance of the Republic of Bulgaria
Ministry of Finance of the Republic of Latvia
Ministry of Finance of the Republic of Lithuania
Ministry of Finance of Ukraine
Ministry of Finance Republic of Serbia
Ministry of Foreign Affairs (Bulgaria)
Ministry of Foreign Affairs (Czech Republic)
Ministry of Foreign Affairs (Egypt)
Ministry of Foreign Affairs (Lithuania)
Ministry of Foreign Affairs (Portugal)
Ministry of Foreign Affairs (Thailand)
Ministry of Foreign Affairs and International Development
Ministry of Foreign Affairs of Denmark
Ministry of Foreign Affairs of the Russian Federation
Ministry of Fuel and Energy (Russia)
Ministry of Geology
Ministry of Home Affairs (India)
Ministry of Industry and Energy (Russian Federation)
Ministry of Industry and Trade of Czech Republic
Ministry of Industry and Trade of Italy
Ministry of Industry and Trade of Kazakhstan
Ministry of Industry and Trade of Poland
Ministry of Industry and Trade of Russian Federation
Ministry of Infrastructure (Poland)
Ministry of Internal Affairs of the Russian Federation
Ministry of Justice (Denmark)
Ministry of Justice (Finland)
Ministry of Justice (Russian Federation)
Ministry of Justice (United Arab Emirates)
Ministry of Justice Legal and Parliamentary Affairs
Ministry of Justice Turkey
Ministry of Knowledge Economy (MKE)
Ministry of Labor (Norway)
Ministry of Labor and Social Insurance (Republic of Cyprus)
Ministry of Labor and Social Security (Turkey)
Ministry of Manpower (Singapore)
Ministry of Minerals Energy and Water Resources (MMEWR)
Ministry of National Cultural Heritage (Hungary)
Ministry of National Defense (Greece)
Ministry of National Education and Religious Affairs
Ministry of Natural Resources and Environment (Russian Federation)
Ministry of Personnel Public Grievances and Pensions (India)

Ministry of Petroleum & Natural Gas (India)
 Ministry of Planning and Investment (Vietnam) (MPI) (Formerly known as State Planning Commission)
 Ministry of Primary Industries
 Ministry of Public Finance of Romania
 Ministry of Public Works (France)
 Ministry of Public Works Transport and Communications
 Ministry of Regional Development (Poland)
 Ministry of Science & Technology (India)
 Ministry of Science and Technology (Spain)
 Ministry of Science and Technology of the People (Republic of China)
 Ministry of Science and the Arts (Germany)
 Ministry of Social Affairs and Employment BV
 Ministry of State Treasury (Poland)
 Ministry of Telecom and Mass Communications of the Russian Federation
 Ministry of the Budget (France)
 Ministry of the Environment Japan
 Ministry of the Environment of the Czech Republic
 Ministry of the Environment Sweden
 Ministry of the Interior (France)
 Ministry of the Interior and Kingdom Relations of Netherlands
 Ministry of the Interior of the Czech Republic (The)
 Ministry of the Russian Federation on the Development of the Far East
 Ministry of the Treasury (Poland)
 Ministry of Tourism (Republic of Lebanon)
 Ministry of Trade and Commerce
 Ministry of Trade and Industry (Finland)
 Ministry of Trade and Industry (Norway)
 Ministry of Trade and Industry (Singapore)
 Ministry of Trade Republic of Indonesia
 Ministry of Transport (Czech Republic)
 Ministry of Transport (Malaysia)
 Ministry of Transport (UK)
 Ministry of Transport Housing and Infrastructure (Spain)
 Ministry of Transport Maritime and Communications (Turkey)
 Ministry of transport of the Russian Federation
 Ministry of Transport Public Works and Water Management
 Monaco Economic Board (Formerly known as Chamber of economic development)
 Namibia Ministry of Environment and Tourism
 National Assembly of the Republic of Bulgaria
 National Council of Economics and Labor (CNEL) (Italy)
 National Transport Authority (NTA) Republic of Ireland
 NATO Parliamentary Assembly (NATO PA)
 NATO Research and Technology Organization

Dutch Ministry of Foreign Affairs
Netherlands Ministry of Economic Affairs
North American Maritime Ministry Association (NAMMA)
North Atlantic Treaty Organization (NATO)
Norway Ministry of Defense
Norwegian Ministry of Finance
Norwegian Ministry of Petroleum and Energy
Norwegian Ministry of the Environment
Norwegian Ministry of Trade Industry and Fisheries
Norwegian Ministry of Transport and Communications
Norwegian Parliament
Office of the Prime Minister of the Republic of Slovenia
Parliament of Australia
Parliament of Ireland
Parliament of the Republic of Polish (PSRP)
Parliament of Trinidad and Tobago
Parliamentary Assembly Council of Europe
Parliamentary Office of Science and Technology (POST)
Prime Minister's Advisory Panel on the Citizen's Charter (UK)
Prime Minister's Office (France)
Prime Minister's Office (Turkey)
Prime Minister's Office (India)
Privy Council of United Kingdom
House of Representatives (Netherlands)
Regional Government (Scotland)
Republic of Austria
Republic of Bashkortostan
Republic of Benin
Republic of Cyprus Ministry of Finance
Republic of Estonia
Republic of France
Republic of Karachay-Cherkessia
Republic of Kazakhstan
Republic of Khakassia
Republic of Malta
Republic of Mexico
Republic of Peru
Republic of Poland
Republic of Poland Ministry of Finance
Republic of Portugal
Republic of Romania
Republic of Tatarstan (Russia)
Republic of Turkey Ministry of Culture and Tourism

Republic of Turkey Ministry of Development
Republic of Turkey Ministry of Energy & Natural Resources
Republic of Turkey Ministry of Interior
Republic of Turkey Ministry of National Defense
Republic of Turkey Ministry of Treasury and Finance
Republic of Turkey Prime Ministry Privatization Administration
Republic of Turkey Prime Ministry Undersecretaries of Treasury
Royal Norwegian Ministry of Agriculture and Foods
Royal Norwegian Ministry of Climate and Environment
Royal Norwegian Ministry of Culture and Church Affairs
Royal Norwegian Ministry of Fisheries and Coastal Affairs
Royal Norwegian Ministry of Foreign Affairs
Royal Norwegian Ministry of Justice & the Police
Russian Ministry of Economic Development & Trade
Scottish Government (The)
Scottish Parliament
Scottish Parliament Business Exchange
Ministry of Foreign Affairs Mexico
Senate of the Republic of Poland
Senate State of New York
Italian Senate
Shanghai Municipal Government
Social economic board (Netherlands)
Ministry of Health and Social Affairs
Spanish Congress
Spanish Ministry of Defense
Spanish Ministry of Economy and Finance
Spanish Ministry of Foreign Affairs and Cooperation
Spanish Ministry of Health and Consumption
Spanish Ministry of Industry Energy and Tourism
Spanish Ministry of Industry Tourism and Commerce (The)
Spanish Ministry of Public Administration
Spanish Senate
State Council of the People's Republic of China
States-General Netherlands Parliament
Swedish Ministry of Defense
Swedish Parliament
Swiss Parliament
Thuringian Ministry of Justice
Transport and Communications Committee (Government of Finland)
Treasury (The) Australian Government
UK Cabinet
UK Cabinet Office

UK Delegation to NATO
UK Department for Exiting the European Union (DExEU)
UK Foreign and Commonwealth Office
UK Government Equalities Office (GEO)
UK Government Spectrum Management Advisory Group
UK House of Commons
UK House of Lords
UK Ministry of Agriculture Fisheries and Food
UK Ministry of Agriculture Forestry and Fisheries (MAFF)
UK Ministry of Defense (MoD)
UK Ministry of Justice
UK Ministry of Labor
UK Mission to the United Nations
UK Office of the European Parliament
UK Office of the Prime Minister
UK Official Opposition Shadow Cabinet
UK Parliamentary and Scientific Committee
United Nations (UN)
United Nations Association of the UK (UNA-UK)
United Nations body for Trade Facilitation and Electronic Business (UN/CEFACT)
United Nations Commission on International Trade Law (UNCITRAL)
United Nations Commission on Sustainable Development
United Nations Development Program (UNDP)
United Nations Economic and Social Commission for Western Asia (UN-ESCWA)
United Nations Economic and Social Council (ECOSOC)
United Nations Economic Commission for Europe (UNECE)
United Nations Educational Scientific and Cultural Organization (UNESCO)
United Nations Environment and Development UK Committee (UNED-UK) (Formerly Known as United Nations Environment Program (UNEP))
United Nations Fund for International Partnerships (UNFIP)
United Nations General Assembly (UNGA)
United Nations Global Compact
United Nations Industrial Development Organization (UNIDO)
United Nations Office at Geneva (UNOG)
United Nations Office for Project Services (UNOPS)
United Nations Secretary General's Advisory Board on Water and Sanitation (UNSGAB)
United Nations Security Council (UNSC)
United Nations World Tourism Organization (UNWTO)
US Senate
US State Government
USSR Ministry of Foreign Affairs
Flemish Parliament

Table 3. Heckman two-step OLS regression

VARIABLES	(1) OLS
dPOLCON	0.680 (2.026)
mEPS	5.887*** (1.274)
lnSIZE	5.936*** (0.731)
INTERACT	-3.953 (2.795)
wROE	0.0596 (0.0608)
lnLEVER	1.665*** (0.538)
lnBSIZE	-1.036 (0.917)
GENDIV	-0.0242 (0.0339)
EQP	14.00*** (2.202)
STATE	-21.69*** (4.651)
SUSTAIN	-1.075 (4.187)
INVPROT	-2.516*** (0.681)
lambda	-24.73*** (4.464)
Constant	27.80** (11.98)
Year-effects	Y
Observations	836
R-squared	0.521

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

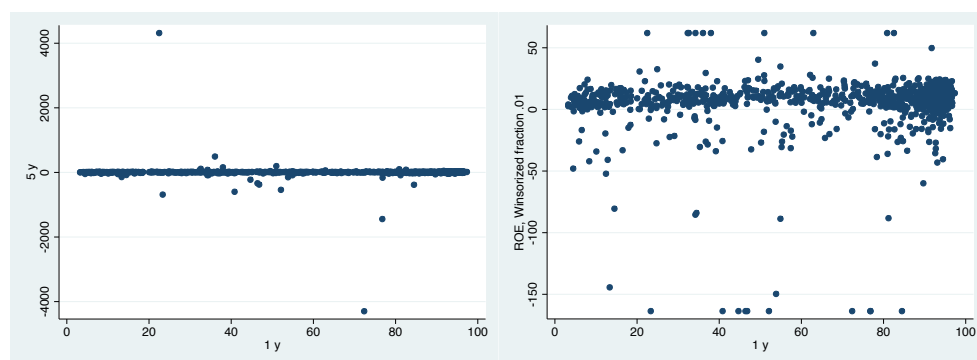


Figure 1. ROE before and after winsorising