

## 2. Motivation

- Stakeholder appetite for environmental disclosure is growing rapidly
- Political connections present a hurdle to the disclosure of such information as they allow firms to avoid litigation, but only when their environmental performance isn't public information

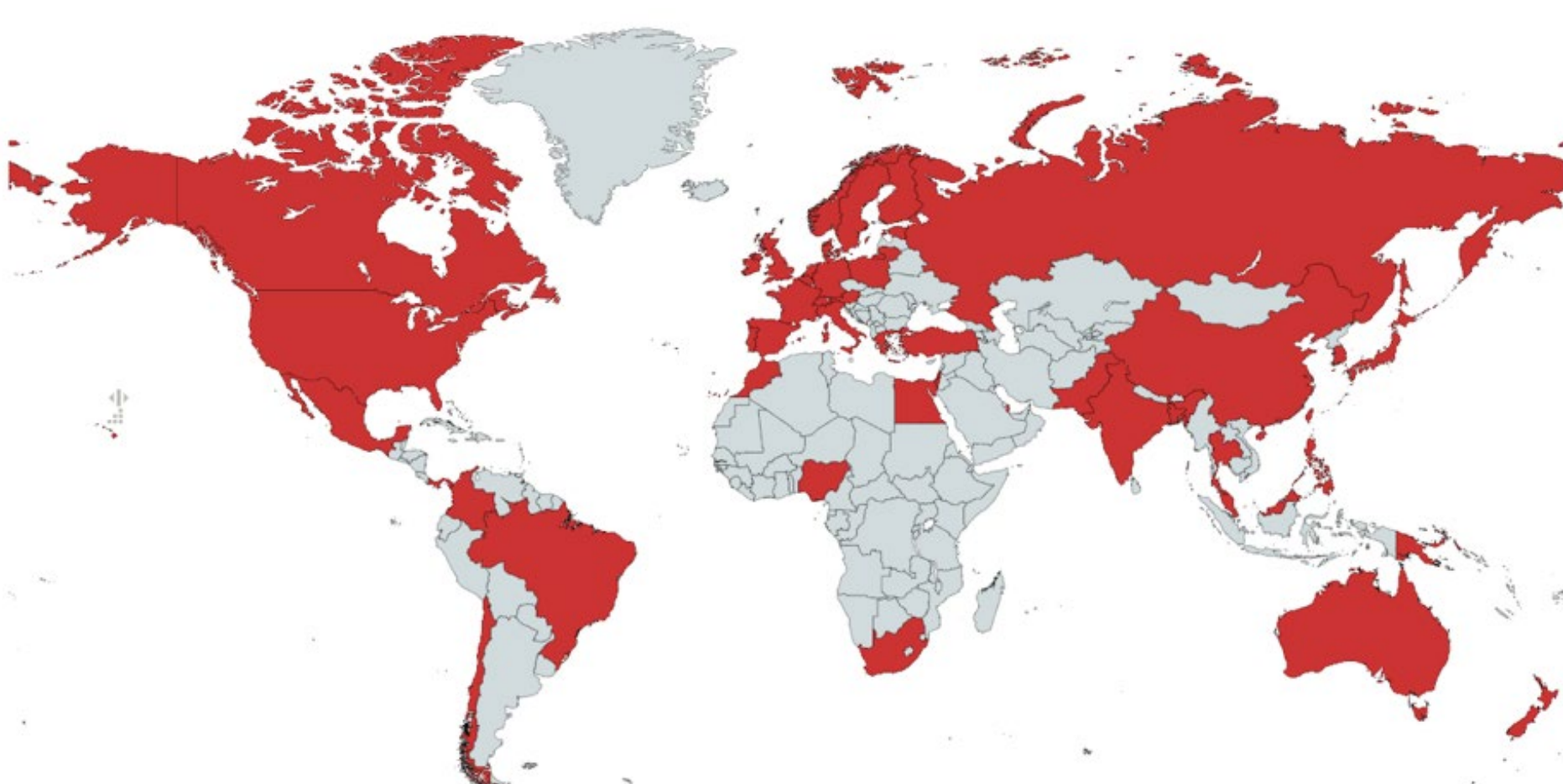
## 3. Empirical Strategy

- Difference-in-differences around a firm becoming politically connected to observe the effect on their decision to voluntarily disclose carbon emissions
- Further, examine how the decision to disclose/withhold this information affects firms' future environmental performance when politically connected

## 4. Data

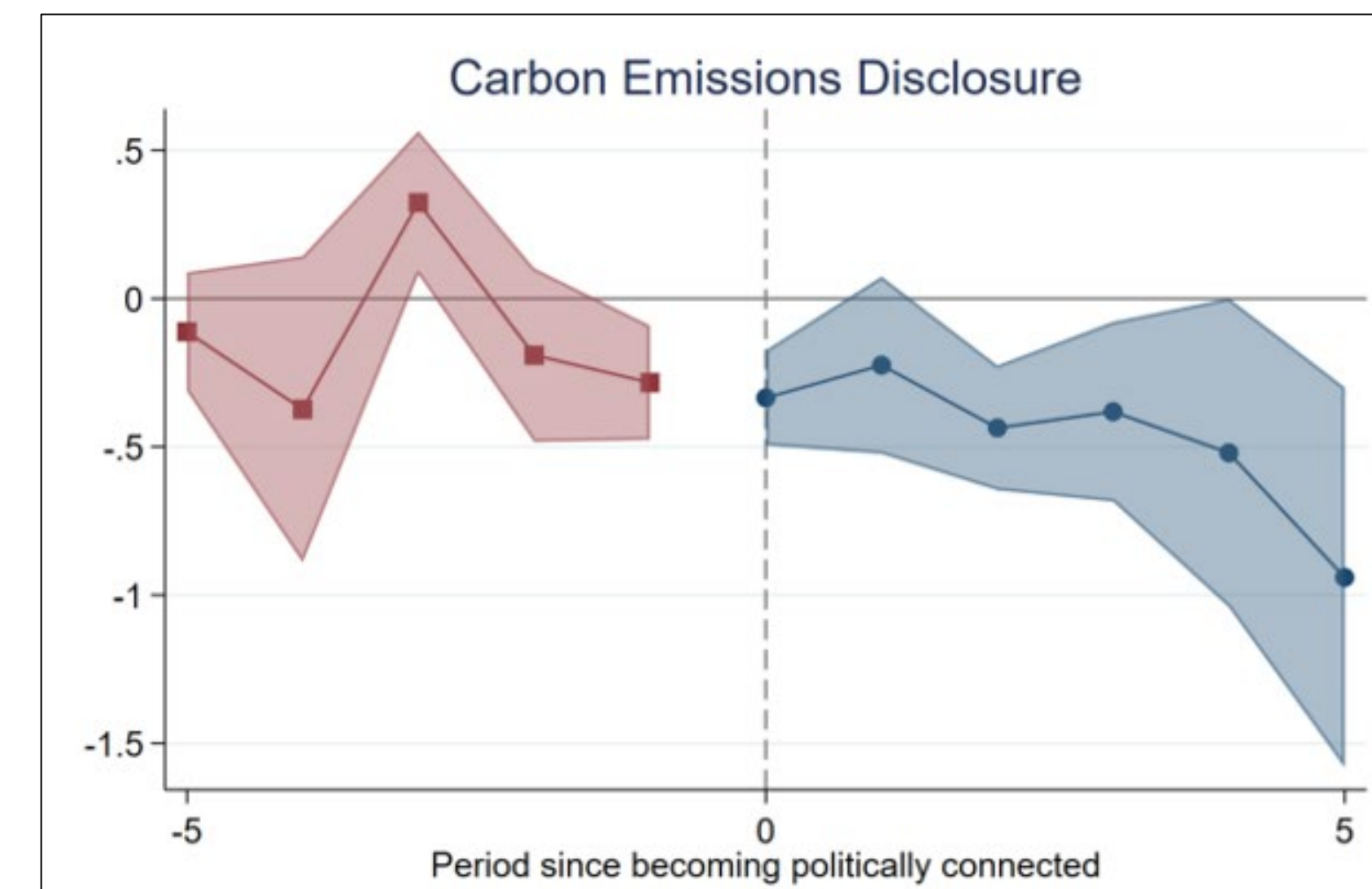
- C# parsing program used to identify potential political connections from Capital IQ biographies of employees
- Political connection defined as an employee who is active in a political position in the national government or works directly for someone in such a position
- Flagged biographies verified by hand
- After merging, 241 politically connected individuals across 192 different firms in 37 countries
- Voluntary disclosure data from CDP

### Sample Coverage



## 1. Paper in a Nutshell

When firms become **politically connected**, they **disclose** their carbon emissions **less often**



When these **newly connected, non-disclosing** firms are in countries with **fewer environmental laws**, they:

- 1) cause more **environmental incidents**
- 2) emit higher levels of **greenhouse gas**
- 3) raise **environmental costs** for society

Variable	Incidents	Emissions	Emissions Cost
	(1)	(2)	(3)
Connected Firm	0.268** [0.021]	0.285** [0.049]	0.124* [0.086]
Controls	YES	YES	YES
Firm FE	YES	YES	YES
Year FE	YES	YES	YES
Clustering	Firm	Firm	Firm
Observations	1,062	1,029	1,029
R-squared	0.615	0.984	0.984

All while experiencing **no change** in governmental **finances or penalties!**

Variable	Environmental Litigation
	(1)
Connected Firm	0.135 [0.382]
Controls	YES
Firm FE	YES
Year FE	YES
Clustering	Firm
Observations	360
R-squared	0.804

## 5. Further Findings

Our results are driven by countries where political connections are best able to shield firms from litigation, including:

- More **corrupt** countries
- Countries with **fewer political parties**
- **Non-democratic** countries
- Countries whose citizens prioritize the **economy over the environment**

Further, our results are driven by the types of connections that are strongest, including:

- Connections to a firm's **home country** government
- Connections to **appointed** rather than elected officials
- Connections through **more powerful individuals** within the firm

## 6. Conclusion

- Becoming politically connected leads to **lower carbon emissions disclosure**
- This is driven by firms that can **avoid government litigation** if they obfuscate their environmental performance
- Such firms become **worse environmental stewards** while **avoiding fines**
- These findings shed light on the ways in which **political connections sway firms' decisions to disclose environmental performance measures**
- Highlights the ways in which politically connected firms may **use non-disclosure** of their environmental performance to **become bad environmental stewards without consequence**

Contact Me!  
 Glades McKenzie  
 jmckenzie@fsu.edu  
<https://sites.google.com/view/glades-mckenzie/home>

