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MEDIA COVERAGE, POLITICAL CONNECTIONS AND CORPORATE RISK

Cobertura de mídia, conexões políticas e risco corporativo

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ABSTRACT

Media coverage, as an important part of the external corporate governance mechanism, plays an important guiding role in corporate behavior patterns and public opinion. Taking A-share listed companies of Shanghai Stock Exchange and Shenzhen Stock Exchange from 2012 to 2017 as research examples, this paper analyzed how media coverage and political connections exert influence on corporate risk in an empirical study approach. This paper makes the following conclusions. First, the media, as information medium and external participant of the company, significantly lower the listed company's corporate risk through closed media coverage. Second, the closer connection a company has with government, the higher corporate risk it encounters and, in the meantime, less effect of media coverage's aversion effect towards corporate risk. Third, based on a further research on the nature of company's property rights, this paper revealed that in state-owned companies, close political connections weaken much more media coverage's aversion effect towards corporate risk than that in private companies.

Keywords: Media coverage, Political connections, Corporate risk, Nature of property rights.

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Media coverage, political connections and corporate risk

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RESUMO

A cobertura da mídia, como uma parte importante do mecanismo externo de governança corporativa, desempenha um papel importante de orientação nos padrões de comportamento corporativo e na opinião pública. Tomando empresas listadas com ações A da Bolsa de Valores de Xangai e da Bolsa de Valores de Shenzhen de 2012 a 2017 como exemplos de pesquisa, este artigo analisou como a cobertura da mídia e as conexões políticas exercem influência sobre o risco corporativo em uma abordagem de estudo empírico. Este artigo tira as seguintes conclusões. Primeiro, a mídia, como meio de informação e participante externo da empresa, reduz significativamente o risco corporativo da empresa listada por meio de cobertura fechada da mídia. Em segundo lugar, quanto mais estreita a conexão uma empresa tem com o governo, maior o risco corporativo que ela encontra e, entretanto, menos efeito do efeito de aversão da cobertura da mídia em relação ao risco corporativo. Terceiro, com base em uma pesquisa adicional sobre a natureza dos direitos de propriedade da empresa, este artigo revelou que em empresas estatais, conexões políticas estreitas enfraquecem muito mais o efeito de aversão da cobertura da mídia ao risco corporativo do que em empresas privadas.

Palavras-chave: Cobertura da mídia, Conexões políticas, Risco corporativo, Natureza dos direitos de propriedade.

INTRODUCTION

The media exert profound influence on the market during the market economy era. As society and economy progress and reform constantly, vibrant rising of the media not only makes the listed companies' financial activities more transparent, but significantly lower the time cost in acquiring information. That the media closely follow listed companies ensure that information would be transmitted accurately and in a timely manner, and in the meantime, lead the public to respond to information released by listed companies, thus guiding the public opinion. In the past few years, the media has reported "Melamine scandal" of the dairy industry, "clenbuterol scandal" of Shuanghui Group and financial fraud case of Nine Top in 2017. All these cases reveal that the media play an important role in supervising listed companies, protecting investors' interests and benefiting and stabilizing market.

Corporate risk refers to the uncertainty and volatility of corporate income flow. Forty years has passed since the implementation of reform and opening policy, and China's national economy has achieved profound progress. However, many companies blindly pursue the fast growth of corporate profits, while ignoring the ever-worsening corporate risk condition. The outbreak of 2008 financial crisis in the Unites States indicated that the outbreak of corporate risk not only lead to corporate bankruptcy, but result in sever struck to macro economy. Therefore, when focusing on the corporate performance, the public should also pay attention to corporate risks, based on which policy-makers and the academia begin to put much emphasis on factors concerning corporate risk. Current studies on corporate risk are mostly searching the relations between corporate risk and judicial supervision mechanism, internal control and managers, yet few studies probe into the influence of the media on corporate risk. At present, the media play an ever increasingly important role in listed companies'management, and a study researching corporate risk from the perspective of the media is highly relevant and theoretical.

Political connections are common among Chinese and foreign companies. No specific conclusions on such corporate-government ties have been made and its influence remain unknown. On the one hand, if maintaining positive communications with government, companies could be benefited from competitive advantages through preferential tax, facilitation in financing, breaking of industry barriers offered by government, and could be relieved from corporate risk to some extent. On the other hand, existence of political connections may result in problems such as excessive corporate investment and low-quality of accountant information, which will worsen corporate risks to some extent. In addition, Chinese capital market started later and is characterized by its unique institutional condition and market environment. The complexity of "Renqing", a special nepotistic practice, result in that political connections also exist within the media. Therefore, under such a complex circumstance, it is urgent and worthwhile studying the influence that establishment of political connections have exerted on corporate risk and moderating effect that political connections have on listed companies focused by the media.

This study makes innovations in the following aspects. First, from the perspective of corporate risk management, this study examines what effects may happen to corporate risk if there were media attention and political connections, and reveals that media coverage, as an external supervision mechanism, have aversion effect towards corporate risk, which has filled in the blank of the studies in corporate management and risk management; second, through empirical method, this study verifies that political connections will cause moderating effect on media coverage's aversion effect towards corporate risk, and based on listed companies' different nature of property rights, carries out variation analysis of moderating effect between listed companies and their connections with government, which renders reference and advice for preventing and lowering corporate risk.

1 LITERATURE REVIEW

1.1 Media coverage and corporate risk

Over the past years, Chinese and foreign scholars studying media coverage have mainly focused on its supervision functionality and its role as information medium.

First, the media function as an information medium. Through information announcement, collection and distribution, the media benefit investors with less information collection cost and less asymmetrical information disadvantage. (Xiong Yan,2014) started from the perspective of asymmetrical information and through an empirical study, verified that media coverage on corporate behaviors significantly lower the imbalance between company and investors in acquiring information, and reduce the corporate risk as a result. (Sun Yanmei and others,2018) utilize the language analysis tools to construct index indicating media coverage and language, to analyze what influence media is going to have on risk of stock price collapse and how that happens. The empirical result of her research revealed that media spread and distribute information, which effectively alleviate information asymmetry and increase the cost, legislative punishment and reputation cost that law-breakers of company must take in hiding negative news. Therefore, it is beneficial to constraining stock prices from collapsing. (Fang and Feress, 2009) also through empirical studies, found out that stocks with less media coverage are more likely to yield profit. This is because less accounting transparency lead to higher risk of information asymmetry, so more risk premiums are needed for compensation, which indirectly verified the role media has played as information medium. (Bushee and others, 2016) also carried out studies on the media as information medium. Their results reported that the media could reduce the errors existing in the corporate financial report through transmitting package information.

Second, the media also function as a supervisory body. As an important part of the external corporate governance mechanism, media coverage could investigate and reveal illegal activities infringing upon public goods, such as accounting fraud and earnings management, and thus, restrain management board from conducting opportunist behaviors. (Luo Jinhui,2012) used simultaneous equations models to conduct an empirical test on the benefits media converge produce on corporate governance. The result revealed that media coverage could reduce cost of dual agency to lower its risk. When corporate media coverage increase, corporate production efficiency, performance and social responsibility also increases, and company reported less violations in earning management. (Kong Dongmin,2013). (Li Peigong and Shen Yifeng,2010) discovered that media coverage may lead concerned supervisory bodies to intervene and drive up the violation cost, forcing companies to upgrade corporate governance and lower risk. (Dyck and others,2008) also put forward that companies encroaching outside investors are getting more attention form media, so media coverage effectively forces these companies to correct relative policies and conducts.

1.2 Political connections and corporate risk

After organizing current studies in this regard, this paper discovered that at present, the academia hasn't reached consensus about the influence of political connections on corporate risk. That said, political connections may exert dual effect on corporate risk.

First, political connections could lower corporate risk. Some scholars believe that compared with companies having no political connections, those that have political connections are more likely to acquire competitive advantages such as preferential tax policy, financing facilitation and convenient business entry, and finally lower the corporate risk. (Wang Zhongwei,2015) took private listed companies from 2008-2013 as examples, and found out that China's private companies tend to establish political connections to acquire preferential tax policies. The more connections they have with the government, the more profits they benefit from tax policies. (Yu Wei's,2012) researches discovered that political connections could function as information transmitter, and thus alleviate the information asymmetry between capital suppliers and demanders. Political connections could also help strengthen private companies' ability in acquiring resources to loosen the bond in financing, thus reducing corporate risk. (Luo Danglun and Liu Xiaolong,2009) found out that private listed companies can break industry barriers, develop corporate performance and reduce corporate risk through establishing political connections.

Second, political connections add to corporate risk. Some scholars believe that political connections lead to extra burden on companies, interfere in corporate operation and decision-making, and intervene their daily operation. (Hu Guoliu,2012) research on basic information on corporate manager and investment data, and found out that because of the over-confidence of corporate managers, company may overly invest, causing higher corporate risk. In addition, (Li Tian and others,2018) also discovered on their revealing studies researching relations between corporate political connections and corporate information environment that the closer company board are with government, the lower of the accounting information quality that company release, which is an obvious negative correlation. (Shen Hongbo,2014) put forward that for private listed companies, political connections, as an unofficial mechanism, restrain companies from releasing high-quality accounting information, resulting in higher corporate risk.

2 THEORY ANALYSIS AND RESEARCH HYPOTHESIS

2.1 Media coverage and corporate risk

Media coverage exert influence on corporate risk mainly from the following aspects:

Media coverage effectively alleviate information asymmetry between companies and investors, serving as an information medium. According to information asymmetry theory, in a market with uneven information distribution, different market players are equipped with different abilities in acquiring information, and market status is decided by how much information a market player possesses.

Under such circumstance, companies with absolute advantage in information acquiring ability whitewash their earning abilities through measures jeopardizing stake-holders such as manipulating profits and producing false report. Such measures not only seriously disorder investors' decision-making process and market operation, but prevent companies from sensing risk and controlling it in a swift manner. In general, as information distributor and transmitter, the media constantly reporting on listed companies is beneficial to alleviating market information asymmetry and creating a capital market that is comparatively transparent, and hence, reduce corporate risk caused by misconducts of management board.

To function as an external supervisory body, media coverage produces an effect called "overseeing effect", which refers to that listed companies reported by the media would be under the spotlight of investors, analysts and auditing agencies, and conducts jeopardizing investors' interests decrease. For companies, any negative reports concerning them may be reported by the media, therefore, out of egoistic impulse, companies tend to manage information. The public opinion is closely following them, so their information management behaviors are more likely to be disposed than companies that are not under the spotlight. Under such circumstance, companies face not only pressure from public opinions, but possible investigation from concerning administrative supervisory bodies, which to some extent lowers corporate risk caused by unstable ethical factors of corporate management board.

Based on the preceding analyses, this study put forward with the following hypotheses:

H1: Media coverage boasts profound risk aversion effect on corporate risk.

2.2 Political connections and corporate risk

Political connections exert dual effect on corporate risk. Positive influence on corporate risk from connections with government are mainly reflected on the following aspects:

First, in operation, companies often meet with difficulties when financing. Political connections render companies some convenience in financing. In domestic financing market, information is highly, unevenly distributed among capital supplying side and demanding side, and adverse selection problems originated from such phenomenon are important factors hindering companies' financing process.

Companies with strong political connections could lift restrictions on financing through delivering positive signals of corporate performance to the market, and reduce corporate risk in the end.

Second, tax laws in China are still incomplete. Government still enjoy much decision-making power in object of taxation, applicable tax categories, applicable tax rate, taxation basis, tax reduction and exemption and other preferential policies. According to Political Power Hypothesis, the closer connections corporate management board has with government officials, the more communications they will have. Therefore, companies with closer political connections enjoy more tax preferential policies through the political advantages they possess.

Negative influence on corporate risk from political connections are mainly reflected on the following aspects:

First, compared with companies without political connections, companies that have such connection could take advantage of it and acquire bank loans easily. Under such circumstance, companies are benefited with promising financing outlook, rich capital supply and more investment opportunities, which, to some extent, will lead to excessive investment in these companies and increase corporate risk.

Second, compared with companies without political connections, companies that have such connection tend to release information of lower quality. The quality of information that companies release are simultaneously decided by incentives of management board, rent-seeking behaviors and level of financing facilitation. To be specific, when there is higher level of rent-seeking behaviors as well as other incentives in the management board, and more convenient financing channels, companies are less interested in releasing quality information. Political connections provide corporate management board with natural privileges in power and rent-seeking behaviors, and strengthen their ability in capturing interests from investors and their incentives in rent-seeking. Meanwhile, such connections also provide companies with financing facilitation and alleviate their financing pressure. Therefore, when having political connections, companies tend to lower their information released, and have less demand in seeking quality information authentication service.

Considering that there are two completely different influence mechanism of political connections and corporate risk, this paper put forward following hypotheses:

H2a: Political connections efficiently check corporate risk.

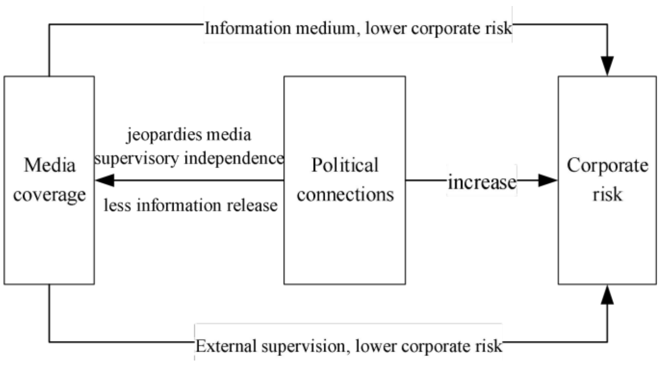
H2b: Political connections efficiently promote the corporate risk.

2.3 Political connections will cause moderating effect on media coverage 's aversion effect towards corporate risk

As an important part of the external corporate governance mechanism, media coverage functions as information medium and supervisory body, yet such functions could be affected by many factors.

Objectivity remains the core factor affecting quality of media information, while companies with political connections have a major influence on that objectivity. Currently, domestic laws protecting the liberty and independence of news report are not complete, and as many news agencies are under governance of local CPC committee and government, contents of news report are often censored by these authorities. Therefore, the media's role of information medium and supervisory body could be restrained by pressure from administration. Considering that a media agency released a negative report on a company that has political connections and such report had led to negative impact on corporate interests. Since this company have common interests with government, and corporate loss may carry a negative impact on government, it is reasonable to conclude that this company is very likely to protect its own interests and reputation by adopting special measures to interfere with this media agency so as to limit the scope of the negative impact. Thus, political connections can be an invisible guarantee for corporate risk. In addition, compared with companies without political connections, those that have connection intend to cover their rent-seeking behaviors, and will release less accounting information. This will cause a sharp increase of cost for the media intending to supervise and investigate these companies, and hinder performing of the media's supervisory function.

Figure 1 Influence Mechanism of Political Connections' Moderating Effect on Media Coverage's Aversion Effect Towards Corporate Risk



Based on the analysis above, this paper made following hypothesis:

H3: Ceteris paribus, political connections weaken media coverage's aversion effect towards corporate risk

3 RESEARCH DESIGN

3.1 Sample selection and data sources

This paper took non-financial A-share listed companies of Shanghai Stock Exchange and Shenzhen Stock Exchange from 2012 to 2017 as research samples. Information about the media reports was manually collected from China Core Newspapers Full-text Database. Background information about senior executives of listed companies was manually collected from CSMAR Database. Other accounting information was also collected from CSMAR Database. Adopting methodologies widely used by the academia, this paper has sifted and processed original information with following steps so as to eliminate abnormal samples:

(1) Financial listed companies were excluded. (2) ST and *ST stocks were excluded when samples were collected. Because companies trapped in financial debt are always under the spotlight of the media, furthermore, these companies are always with higher corporate risk, so research results obtained from these samples are jeopardized in terms of credibility and universality. (3) Companies with inaccessible data were excluded. (4) In order to avoid outliers, this paper winsorized 1% of the data acquired. The results included 12,916 samples.

3.2 Variable definition

(1) Corporate risk. Current domestic studies mainly evaluate corporate risk level through fluctuation of corporate profit capability. Based on that, this paper set three year as a time range and by using continuous calculation, calculated standard deviation of net return on equity. This standard deviation was used as proxy variable for risk level. The higher continuous standard deviation of net return on equity is, the higher corporate risk level is.

(2) Media coverage. This paper focuses on the influence that the media, as external supervisory function and information medium function, has on corporate risk, and doesn't lay emphasis on the differences caused by the preferences of different media reports. Under this circumstance, this paper chose the number of media reports as proxy variables. To be specific, drawing experience from (Li Peigong and Shen Yifeng,2010), and (Yi yi,2011), this paper selected eight most influential national financial daily newspapers from China Core Newspapers Full-text Database. These newspapers include China Security Journal, Security Daily, Securities Times, ShangHai Securities News, The Economic Observer, China Business Journal, China Business News, and 21st Century Business Herald. This paper adopted methods of theme search and title theme to acquire all news reports about these samples by searching the full name and abbreviation of company samples. After manual collection of research results, this paper listed news report information about non-financial A-share listed companies of Shanghai Stock Exchange and Shenzhen Stock Exchange from 2012 to 2017.

(3) Political connections. Political connections refer to an unofficial communication mechanism that companies established with government as well as its staffs, with senior executives as the medium. Most of the previous papers adopted dummy variables to evaluate whether a company established political connections, yet such method failed to measure the level of connection, thus lacking comprehensiveness. Drawing experience from research methodology of (Jia Ming,2010), this paper searched information form CSMAR Database by using key words of names of senior executives as well as their companies. After manual collection and organization of searching results, this paper set political background of senior executives (Pc) as proxy variables, and, through algorithm of value assignment, acquired the score of corporate political connections to measure the level of such connection. The value assignment standard are as follows:

Table 1 Score Assignment Standard for Measuring Political Connections

Categories	Score Assignment
Government Officials	Working in the State Council=7 Working in the provincial government=5 Working in the municipal government=3 Working in the government below the municipal level=1
Non-government Officials	Deputy of the NPC or Member of the CPPCC=6 Deputy of the provincial NPC or Member of the provincial CPPCC=4 Deputy of the municipal NPC or Member of the municipal CPPCC=2 Deputy of the NPC below the municipal level or Member of the CPPCC below the municipal level=0

(4) Control variables. Control variables refer to other factors affecting corporate risk. This paper followed the common practices of current studies, and chose six variables as control variables, including Size (size), Age (age), Operating margin (Om), Financial leverage (Lev), Operating income growth rate (Oigr), Proportion of independent directors (Indept). Specific definitions of variables are described as Table 2.

Table 2 Definition of Variables

Types of variables	Titles and Abbreviation of variables	Definition of Variables
Explained variables	Corporate risk (Risk)	Continuous standard deviation of ROE from year of t-2 to year of t
Explanatory variables	Media coverage (Media)	LN (1+the number of news reports in last year)
	Political connections (PC)	The score of corporate political connection acquired through algorithm of value assignment
Control variables	Asset size (Size)	Natural logarithm of total assets at the end of the period
	Company age (Age)	Calculated from the founding date of the company
	Operating margin (Om)	Total profits during the period/operating income during the period
	Financial Leverage (Lev)	Total liabilities at the end of the period/ total assets at the end of the period
	Operating income growth rate (Oigr)	Growth amount of operating income during the period/ operating income at the beginning of the period
	Proportion of independent directors (Indept)	The ratio of independent directors to total director members

3.3 Model design

Based on theory analysis and study hypothesis mentioned above, this paper designed Formula 1 and Formula 2 to verify hypothesis H1 and hypothesis H2 respectively to analyze the influence of media coverage on corporate risk and the influence of political connections on corporate risk.

$$Risk_{i,t} = \alpha_0 + \alpha_1 Media_{i,t-1} + \alpha_2 Size_{i,t} + \alpha_3 Age_{i,t} + \alpha_4 Om_{i,t} + \alpha_5 Lev_{i,t} + \alpha_6 Oigr_{i,t} + \alpha_7 Indept_{i,t} + \varepsilon_{i,t}. \quad (1)$$

$$Risk_{i,t} = \alpha_0 + \alpha_1 Pc_{i,t} + \alpha_2 Size_{i,t} + \alpha_3 Age_{i,t} + \alpha_4 Om_{i,t} + \alpha_5 Lev_{i,t} + \alpha_6 Oigr_{i,t} + \alpha_7 Indept_{i,t} + \varepsilon_{i,t}. \quad (2)$$

In these formulas, *i* refers to sample object, *t* refers to the year; α_0 refers to the constant term, α_i (i=1,2,…,7) refers to the parameter to be estimated, and $\varepsilon_{i,t}$ refers to stochastic interference term. The explanatory variable of Formula 1 is media coverage (Media). The natural logarithm of the number of news reports that plus one is set as the proxy variable for measuring. Considering that this paper focuses on the influence caused by the number of news reports each year on the corporate risk and that corporate risk are measured by the volatility of the net return on equity at the end of the year, this paper added one time period to the media coverage (Media), which is the explanatory variable, and after that, calculated it with regression method. By this method, the internal problem that explained variable and explanatory variable are reciprocal causations were resolved in the meantime. Based on hypothesis H1, if the variables' regression coefficient is far less than 0, then it indicates that media coverage is beneficial to lowering corporate risk. The explanatory variable of Formula 2 is corporate political connections (Pc). Algorithm of value assignment was adopted to calculate the score of corporate political connections to measure its level. According to hypothesis H2a, if the variables' regression coefficient is far less than 0, then it shows that political connections are beneficial to lowering corporate risk; according to hypothesis H2b, if the variables' regression coefficient is far more than 0, then it indicates that political connections lead to rising of corporate risk.

In addition, to testify if political connections exert influences on relation between media coverage and corporate risk, this paper, based on Formula 1, added variable of political connections and multiplicity of media coverage and political connections, and designed the testing Formula 3 as this:

$$Risk_{i,t} = \alpha 0 + \alpha 1 Media_{i,t-1} + \alpha 2\, Pc_{i,t} + \alpha 3\, Media_{i,t-1} * Pc_{i,t} + \alpha 4\, Size_{i,t} + \alpha 5\, Age_{i,t} + \alpha 6\, Om_{i,t} + \alpha 7\, Lev_{i,t} + \alpha 8\, Oigr_{i,t} + \alpha 9\, Indept_{i,t} + \varepsilon_{i,t} \quad (3)$$

Corporate risk (Risk) is the explained variable for both Formula 1, Formula 2 and Formula 3, and corporate risk is measured by three-year continuous standard deviation of corporate net return on equity and thus is a continuous variable. Also, since this paper took non-financial A-share listed companies of Shanghai Stock Exchange and Shenzhen Stock Exchange from 2012 to 2017 as research samples, which is a typical panel structure of statistics, this paper, based on the result of Hausman Test, adopted fixed effect model to verify formulas mentioned above.

According to hypothesis H3, regression coefficient of the interaction term of media coverage and political connections is the core parameter to be tested in Formula 3. If the regression coefficient of interaction termα3 is far more than 0, then it indicates that corporate political connections cause negative moderating effect on media coverage's aversion effect towards corporate risk. In other words, compared with companies without political connections, companies that have such connection are affected deeper by media coverage's aversion effect towards corporate risk, and as the level of political connections become higher, the media coverage's aversion effect towards corporate risk would be further limited.

4 EMPIRICAL TEST AND RESULT ANALYSIS

4.1 Descriptive statistics

Descriptive statistical results of major variables, including corporate risk (Risk), media coverage (Media), political connections (Pc) and others described in this paper, are shown in the Table 3. The results in this table indicate that: First, mean value and standard deviation of corporate risk (Risk) is 0.0618 and 0.185, which shows that there is obvious fluctuating volatility of the net return on equity between different samples, and, in other words, that there is relatively big difference of corporate risk between different companies. Second, the mean value and standard deviation of media coverage is 1.094 and 1.128 respectively, which shows that listed companies received much different media coverage.

Third, the mean value and standard deviation of political connections (Pc) is 3.715 and 2.146 respectively, which shows that the number of companies building political connections is high, and in among these companies, there is relatively large gap in terms of the level of political connections.

Fourth, the differences between maximum value and minimum value of size (Size), financial leverage (Lev) and other control variables are huge, which shows that there are also huge differences between different sample companies in terms of asset scales, liability level and other aspects.

In addition, this paper adopted Pearson analysis to test mutual relations between explanatory variables and control variables. The test results show that different variables are not revealing serious collinearities. In the meantime, since variance inflation factors (VIF) are all less than 5, the possibility of multicollinearity between different variables are excluded as well.

Table 3 Descriptive Statistics

Variable	N	Mean	Std.Dev.	Min	Max
Risk	12,916	0.0618	0.185	0	1.505
Media	12,916	1.094	1.128	0	6.125
Pc	12,916	3.715	2.146	0	7
Media*Pc	12,916	7.883	5.500	0	31.50
Size	12,916	22.13	1.448	19.52	27.27
Age	12,916	9.965	7.043	-0.0444	23.91
Om	12,916	0.0885	0.188	-0.790	0.715
Lev	12,916	0.437	0.224	0.0492	0.943
Oigr	12,916	0.458	1.302	-0.726	9.639
Indept	12,916	0.374	0.0528	0.333	0.571

4.2 Empirical results and analysis

With software Stata (14.0), this paper utilized fixed effect model to conduct fixed effect multiple regression analysis on Formula 1, Formula 2 and Formula 3 respectively. The results of multiple regression analysis are shown as in the Table 4.

As the results of Formula 1 show in Table 4, the regression coefficient of media coverage is far less than 0, which shows that the more report the media conducted on a list company, the higher of its media coverage level. Its corporate risk drops as well, which verify the hypothesis H1 made before. Therefore, based on preceding theory analyses, this paper made the reasonable research conclusion that the media, as an important information medium and a crucial part of external corporate governance mechanism, alleviate information asymmetry in the capital market and exert “overseeing effect” on companies, and enforce the companies to restrain from conduct immoral behaviors jeopardizing public interests, so as to improve corporate performance and reduce corporate risk.

As the results of Formula 2 show in Table 4, the regression coefficient of political connections is far more than 0, which shows that there is a positive correlation between political connections and corporate risk, verifying the hypothesis H2 made before. Based on preceding analysis of the positive effect and negative effect of corporate political connections, along with the regression analysis results, this paper made the reasonable conclusion that companies can break industry barriers, develop corporate performance and reduce corporate risk through establishing political connections, but such connections may lead to problems such as excessive investment and inauthentic accounting information, and such political connections bring out much more negative effects to companies than positive effects. Therefore, overall, political connections exert negative influence on corporate governance, and lead to higher corporate risk.

As the results of Formula 3 show in Table 4, the regression coefficient of multiplication of media coverage and political connections (Media*Pc) is evidently positive under 1% confidence level. This proves that political connections cause negative moderating effect on media coverage’s aversion effect towards corporate risk, which verifies preceding hypothesis H3. Based on preceding analysis of moderating effect theory of political connections, this paper made this reasonable conclusion that as an invisible guarantee, corporate political

connections may exert negative impact on the independence of the media, weaken the media's function of information medium and external supervisory body. And, out of safeguarding corporate interests and reputation, senior executive with political connections may resort to special measures to influence or even control the content of the media. In the end, the existence of corporate political connections weakens the media's aversion effect toward corporate risk. In addition, media coverage is evidently negative under 1% confidence level, and the regression coefficient of political connections is evidently positive. Both of them didn't undergo much changes, which further verify the hypothesis H1 and hypothesis H2b.

Table 4 Multiple Regression Analysis

	Dep.=Risk		
Variable	**Formula 1**	**Formula 2**	**Formula 3**
Media	-0.0302*** (-5.39)		-0.0274*** (-6.08)
Pc		0.0385** (4.48)	0.0988*** (4.52)
Media *Pc			
Size	-0.0618*** (-17.50)	-0.0592*** (-16.89)	0.0526*** (5.23)
Age	0.0108*** (11.40)	0.00942*** (10.28)	-0.0440*** (-30.96)
Om	-0.0627*** (-6.45)	-0.0627*** (-6.45)	-0.156*** (-17.97)
Lev	0.274*** (20.11)	0.271*** (19.91)	0.294*** (33.83)
Oigr	0.00378*** (3.42)	0.00383*** (3.47)	0.00209 (1.85)
Indept	0.0272 (0.69)	0.0267 (0.68)	0.0412 (1.49)
_Cons	1.184*** (16.17)	1.155*** (15.78)	0.868*** (28.40)
Industry	control	control	control
Year	control	control	control
N	12916	12916	12916
Ajusted – R^2	0.2191	0.2251	0.2187
F 值	113.89***	109.44***	88.61***

Notes：***, **, * represents evident level of 1%，5% and 10% respectively, the value of t is inside (), and the same as follows.

4.3 Further analysis

This paper holds the view that for listed companies with different nature of property rights, political connections cause negative moderating effect on media coverage's aversion effect towards corporate risk, yet these negative moderating effects may vary tremendously. This is because, compared with private companies, state-owned companies have “natural connections” with the State Council or local governments, and generally have much higher level of political connections than private companies.

Meanwhile, management board of state-owned companies mainly consist of government officials with relative political background. Compared with other management board in private companies, they are more likely to protect their reputations, because corporate performance of their companies are directly related with their political careers. Hence, to maintain political images and prospects, management board of state-owned companies are more motivated to take advantage of their political connections to suppress the release of negative news about their companies. Therefore, in state-owned companies, political connections cause more negative moderating effect on media coverage’s aversion effect towards corporate risk.

Based on these theory analyses, this paper made following hypotheses:

H4: Ceteris paribus, compared with private companies, political connections in state-owned companies cause more negative moderating effect on media coverage’s aversion effect towards corporate risk.

To further verify this hypothesis, this paper divided all samples into two groups, one group consists of private companies, the other one includes state-owned companies, in terms of nature of property rights, and analyze Formula 3 through regression analysis. This paper tested listed companies in different groups to check whether in companies with different nature of property rights, moderating effect caused by political connections on media coverage’s aversion effect towards corporate risk vary, and the test results are shown in Table 5. As Table 5 shows, whether in state-owned companies groups or private companies group, the regression coefficient of multiplication of media coverage and political connections (Media*Pc) is evidently positive, which shows that political connections cause negative moderating effect on media coverage’s aversion effect towards corporate risk in both private companies and state-owned companies. In addition, the regression coefficient of multiplication of state-owned companies’ group is 0.0569, which is evidently positive under 1% confidence level. And, this regression coefficient is more than that in private companies, which shows that, political connections in state-owned companies cause more negative moderating effect on media coverage’s aversion effect towards corporate risk. Based on these theory analyses, this paper concludes that state-owned companies generally have much higher level of political connections than private companies, and management board of state-owned companies are more motivated to take advantage of their political connections to suppress the release of negative news about their companies so as to avoid the negative impact on their social reputations and political careers. Therefore, hypothesis H4 is verified.

Table 5 Further Analysis

	Dep.=Risk	
Variable	**State-owned companies**	**Private companies**
Media	-0.0223***	-0.0336***
	(-5.74)	(-6.71)
Pc	0.0907***	0.0702*
	(3.92)	(2.22)
Media*Pc	0.0569***	0.0448*
	(4.37)	(2.56)
Size	-0.0389***	-0.0504***
	(-15.94)	(-27.20)
Age	0.00224***	0.00487***
	(4.89)	(16.41)
Om		

	-0.175*** (-11.01)	-0.134*** (-12.92)
Lev	0.313*** (19.94)	0.285*** (27.35)
Oigr	-0.000334 (-0.18)	0.00394** (2.73)
Indept	0.107* (2.07)	-0.0269 (-083)
Cons	0.738*** (13.95)	1.024*** (25.43)
Industry	control	control
Year	control	control
N	4794	8122
Ajusted-R^2	0.1085	0.1638
F Value	73.90***	193.22***

4.4 Robustness test

To strengthen the robustness of the research conclusions, this paper replaced explanatory variables to further carry out empirical test on the regression model. To be specific, since the current studies take various methods to measure level of political connections of companies with different nature of property rights, this paper adopted algorithm of value assignment to calculate the score of corporate political connections to measure its level, and, in reference to research of (Faccio,2007), set dummy variable of political connections (Newpc). If the chairman of the board or general manager was or is government official, representative of the party congress, deputy of the NPC or member of the CPPCC, then the dummy variable is 1, or 0 otherwise. This paper replaced the preceding general score of political connections with the dummy variable to measure the level of political connections and substituted it into Formula 2 and Formula 3 to conduct fixed effect regression analysis. The results are shown in Table 6. As Table 6 shows, the regression coefficient of major explanatory variables didn’t undergo fundamental shift, proving that the research results are robust.

Table 6 Robustness Test

	Dep.= Risk		
Variable	**Formula 1**	**Formula 2**	**Formula 3**
Media	-0.0402*** (-5.39)		-0.0183*** (-4.85)
Newpc		0.0619*** (4.64)	0.0512*** (5.00)
Media*Newpc			0.0789** (2.28)
Size	-0.0618*** (-17.50)	-0.0585*** (-16.76)	-0.0611*** (-17.36)

Age	0.0108*** (11.40)	0.00925*** (10.17)	0.0107*** (11.29)
Om	-0.0627*** (-6.45)	-0.0606*** (-6.25)	-0.0604*** (-6.25)
Lev	0.274*** (20.11)	0.264*** (19.47)	0.267*** (19.67)
Oigr	0.00378*** (3.42)	0.00393*** (3.57)	0.00387*** (3.52)
Indept	0.0272 (0.69)	0.0284 (0.72)	0.0292 (0.75
Cons	1.184*** (16.17)		
Industry	control	control	control
Year	control	control	control
N	12916	12916	12916
Ajusted_R^2	0.2191	0.2233	0.2172
Numerical value of F	113.89***	105.86***	85.76***

CONCLUSIONS

Research conclusion

Taking A-share listed companies of Shanghai Stock Exchange and Shenzhen Stock Exchange from 2012 to 2017 as research examples, this paper analyzes how media coverage and political connections exert influence on corporate risk respectively, and the moderating effect of corporate political connections on media's aversion effect toward corporate risk. This paper makes the following conclusions. First, as a crucial part of external supervisory body, media coverage makes up deficiency of legislative supervision, and effectively alleviate information asymmetry within and outside companies. Therefore, media coverage exerts evident aversion effect on corporate risk. Second, political connections refer to a communication mechanism that companies established with government by hiring senior executives with political backgrounds. The closer connection a company has with government, the higher corporate risk it encounters. Third, corporate political connections weaken the media's aversion effect toward corporate risk. Fourth, based on further research on companies with different nature of property rights, this paper found out that in state-owned companies, political connections weaken media coverage's aversion effect towards corporate risk to a larger extent.

Research enlightenment

Based on preceding research conclusions, this paper offers countermeasures and advice from the perspective of the media, government and listed companies.

The media. First, the media should strengthen its independence and objectivity, and constantly enhance the spirit of obligation and self-discipline. The media should release news reports about listed companies and capital market in an objective, precise, timely and genuine manner, to build an open and transparent atmosphere for capital market and to play its role of information medium and supervisory body. Second, in order to deliver precise and credential information to the public and government in a timely manner, the media should make

continuous efforts to improve capabilities of employers and develop a keen sense to various problems existing in listed companies and capital market.

The government. Political connections in listed companies may exert negative impact on function of information medium and supervisory role for the media. Therefore, the government should establish a protection mechanism to safeguard the media's rights of reporting and supervising, and should do its best to minimize the possibility that companies with political connections influence the media with unofficial measures so that the media, an important part of external corporate governance, smoothly supervise corporate performance and control corporate risk.

The listed companies. First, as an unofficial communication mechanism between government and companies, political connections are able to reduce the uncertainties of market to some extent for companies, and bring more resources and opportunities. However, companies should pay attention to the negativities of political connection, such as high cost of rent-seeking behaviors, government plundering, excessive investment of companies, etc. Second, as the media swiftly rise to prominence, more attention have been paid to accounting information of listed companies and transparency of decision-making process. Companies should closely follow media coverage, and consider it as an effective external supervisory mechanism to improve corporate efficiency.

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