Paradigm Academic Press
Frontiers in Management Science
ISSN 2788-8592
FEB. 2024 VOL.3, NO.1

Can the “Pre-Discussion” Decision-Making Mechanism of the Party Organization Improve ESG Performance? — An Empirical Study Based on the DID Model

Tian He[1]

[1] The Party School of Hunan Provincial Committee of CPC, Changsha, Hunan, China

Correspondence: Tian He, The Party School of Hunan Provincial Committee of CPC, Changsha, Hunan, China.

doi:10.56397/FMS.2024.02.08

Abstract

The “Pre-discussion” decision-making mechanism of the party organization is an important measure to integrate the party into the corporate governance structure of state-owned enterprises (SOEs). Taking the implementation of the “pre-discussion” decision-making mechanism in SOEs in 2016 as a quasi-natural experiment, using China’s Shanghai and Shenzhen A-share listed companies from 2011 to 2021 as samples, this paper employs the DID method to empirically examine the impact of the “pre-discussion” on the ESG performance of Chinese enterprises, as well explores the intrinsic pattern between ESG performance and the long-term value of enterprises. The study finds that the party organizations’ “Pre-discussion” decision-making mechanism can significantly promote corporate ESG performance, and the positive impact of ESG performance on corporate value has a long lag effect.

Keywords: pre-discussion mechanism, party organizations, ESG performance, state-owned enterprise, corporate governance

1. Introduction

The report to the 20th National Congress of the Communist Party of China (CPC) programmatically interprets the essential requirements of Chinese-style modernisation, emphasising that the primary feature of Chinese-style modernisation is adherence to the leadership of the Communist Party of China (CPC). Undoubtedly, the essential requirements of Chinese-style modernisation also apply to enterprises, mainly SOEs, which are the microscopic subjects of the modern economy. The report also clearly highlights the need to promote SOEs to strengthen the leadership of the CPC in improving corporate governance and to promote SOEs to become larger, stronger and better. Moreover, the nature of SOEs’ property rights further determines the necessity of adhering to the Party’s leadership in corporate governance. Reviewing the policy history of China’s SOEs to strengthen Party building, the “pre-discussion” decision-making mechanism establishes that discussion by the party organisation is a necessary procedure before the board of directors and senior management to make decisions on significant issues and reconstructs the decision-making mechanism of SOEs, which is undoubtedly a breakthrough in integrating the party organisation into corporate governance.

Party organisations embedded in corporate governance is a significant innovation of the modern enterprise system with Chinese characteristics. The implementation of the policy of “Pre-discussion” of the party organisation has transformed the position of the Party Committee (Party Group) in major decision-making from “participation” to “leadership”, which should have the effect of suppressing short-sighted and improper behaviours of the enterprises, as well improving the efficiency of decision-making, optimising the governance structure and the level of governance, and enhancing the performance of the state-owned enterprises. At present, little academic literature studies explicitly the mechanism of the “Pre-discussion” policy, and only a few articles discuss its economic consequences, such as suppressing financial fraud and improving economic performance. Even fewer studies examine the non-economic consequences of the mechanism of the “Pre-discussion”.

However, SOEs possess unique characteristics different from those of general enterprises. Although as market business entities, SOEs have the main attribute of pursuing economic profits, bearing social responsibilities and political functions is also essential. They are the indispensable force to help the government enhance social welfare, support public welfare and environmental protection, alleviate employment pressure, and realise the country’s strategic goals. Under the current complex background of slowing economic growth, prominent structural contradictions, and tightening resources and environmental degradation, it is necessary to strengthen the importance of environmental and social responsibility to achieve a win-win situation of economic performance and social & environmental performance while optimising China’s state-owned enterprises’ governance structure. In recent years, international and domestic societies have been paying more attention to the ESG concept, and it has become *the call of the times* to actively build an environmental, social, and governance (ESG) system. The ESG concept refers to integrating public (social) and environmental benefits into the company value system while considering economic benefits and is a sustainable development value. ESG is not only highly compatible with the essential requirements of Chinese-style modernisations but also provides a systematic and quantifiable evaluation system for enterprises’ high-quality and sustainable development.

Can the “Pre-discussion” decision-making mechanism of the Party organisation improve the ESG performance of SOEs, and what is the impact of ESG performance on corporate value? Taking the implementation of the “pre-discussion” decision-making mechanism in SOEs in 2016 as a quasi-natural experiment, using China’s Shanghai and Shenzhen A-share listed companies from 2011 to 2021 as samples, this paper employs the DID method to empirically examine the impact of the “pre-discussion” on the ESG performance of Chinese enterprises, as well explores the intrinsic pattern between ESG performance and the long-term value of enterprises.

The rest of the paper is organised as follows: Part 2 is the policy background, literature review and research hypotheses; Part 3 is the research design and data selection; Part 4 is the empirical results and analyses; Part 5 is the further analyses; and Part 6 is the conclusions and policy implications.

2. Policy Background, Literature Review and Research Hypotheses

2.1 Policy Background

The nature of SOEs’ property rights determines that their corporate governance must adhere to the leadership of the Party. The practice of the Party’s participation in the SOEs’ governance has a long history, from “the Party is in charge of everything” during the period of planned economy to the weakening of the Party’s governance by the property rights reforming times of SOEs and form the corporatisation of SOEs after the reform and opening-up period, to the high importance attached to the Party’s construction of SOEs after the 18th National Congress. Along with the transformation of China’s economic system and the reform of state-owned enterprises, the specific ways and importance of the Party’s participation in the governance of SOEs have changed several times, but adhering to the Party’s leadership and strengthening the Party’s construction has always been the “root” and “soul” of SOEs.

The participation of party organisations in corporate governance is also a unique advantage of China’s SOEs. In the practice of integrating the party organisation into the corporate governance of SOEs, how to deal with the relationship between the “new three committees” (Shareholder Committee, Board of directors, Senior management) and the “old three committees” (Party committee, Workers Congress, Labour union), and how to design the specific mechanism of the Party’s participation in corporate governance has become a central problem in the constitute of the corporate governance structure of SOEs. In this regard, China has made a series of policy arrangements. In January 1997, the “Notice of the CPC Central Committee on Further Strengthening and Improving the Work of Party Building in SOEs” put forward that participation of the Party organisation of SOEs in the decision-making of major issues is an important responsibility and primary way to play the role of political core, and emphasised that the senior managers and the board of directors should listen to and respect the opinions of the Party committee before they make decisions on the major issues. The Decision of the Central Committee of the Communist Party of China on Several Major Issues Concerning the Reform and Development of SOEs, adopted at the 4th Plenary Session of the 50th Central Committee of the Party in September 1999, made it clear that the participation of Party organisations in the governance of SOEs should follow the principle of “two-way entry and cross-posting”. The “two-way entry” refers to members of the Party Committee entering the Board of Directors, the Board of Supervisors and the Senior Management team through statutory procedures, while Party members in the Board of Supervisors and senior management team enter the Party Committee in accordance with the relevant provisions, respectively. The term “cross-posting” means that the secretary of the Party Committee and the chairman of the Board of Directors are appointed by the same person.

Although the above institutional arrangements have established the subject qualification and essential status of party organisations in participating in the corporate governance of SOEs and designed a set of specific mechanisms, they have not made clear provisions on the scope of authority and responsibility of party organisations in SOEs' decision-making procedures. The positioning of the party committee (party organisation) in the governance structure is still not precise enough, and it isn't easy to fundamentally address the integration of party organisations into the corporate governance structure of state-owned enterprises. Based on this, the CPC Central Committee issued the "Regulations on the Work of Party Groups of the Communist Party of China (for Trial Implementation)" in June 2015, which, for the first time, put forward the mechanism of "pre-discussion" of the Party Committee of SOEs, and established a "pre-discussion" mechanism for the Party Groups of the Chinese central SOEs in respect of the "Three Important and One Large Matters" (major issues, major cadres appointment and dismissal, major project investment, and the use of large sums of money). The following year, the Organisation Department of the CPC Central Committee and the State-owned Assets Supervision and Administration Commission of the State Council issued a notice on the "Implementation of the Spirit of the National Conference on Party Construction of State-owned Enterprises", which extends the party organisation's "Pre-discussion" decision-making mechanism to local SOEs. The "discussion front" has been formally established as a decision-making mechanism that all state-owned enterprises must adopt.

2.2 Literature Review and Theoretical Assumptions

2.2.1 The Impact of Party Organizations' Participation in Corporate Governance on SOEs

Academic circles have been highly concerned about the effectiveness of party organizations' participation in corporate governance. They mainly use empirical methods, such as measuring the degree of party organizations' participation in governance, to examine its impact on SOEs. Firstly, Early studies based on Western theories show that participation of the Party in corporate governance is a means of government intervention in enterprises, which will inhibit the improvement of corporate performance and may even lead to corruption. Secondly, Ma et al. (2013) argued that the involvement of party organizations in governance may lead to problems such as redundant employees and excessive concentration of power. Lei et al. (2012; 2013) and Cheng et al. (2014) empirically verified that the participation of party organizations in the governance of SOEs increases agency costs and reduces enterprises' operational efficiency and profitability. However, most scholars believe that party organization governance can effectively inhibit short-sighted and inappropriate behaviours of enterprises, such as tax avoidance, excessive compensation of executives, leverage manipulation, and corruption of senior officials. In terms of corporate governance structure, Ma et al. (2012) showed that party organization participation has a positive impact on both the governance level and board efficiency of SOEs; Huang et al. (2017) found that party organization participation can promote the equalization of the informal hierarchy of the board of directors and enhance corporate performance which can significantly improve the quality of internal control of SOEs, thus improving SOE performance.

In summary, scholars believe that party organizations' participation in corporate governance both positively and negatively affects SOEs' performance. On the one hand, it can effectively prevent the insider control problem of SOEs, reduce the agency cost, and thus enhance the performance. On the other hand, the party organization participation is a type of political intervention, which will increase the agency cost, lead to operational inefficiency, and the economic efficiency of state-owned enterprises causing damage to the economic efficiency of SOEs. However, the above studies, whether discussing the impact of party organizations' participation in corporate governance on the behaviour, performance or governance structure of SOEs, have ultimately examined the economic consequences of party organizations' involvement in corporate governance but seldom discussed the non-economic consequences. As a matter of fact, while SOEs are considered the pillars of China's national economy, the historical mission entrusted to SOEs by the Party and the State also includes the fulfilment of public welfare functions and the creation of social benefits.

At the present, there are a small amount of literature that examines the impact of party organization participation in governance on the performance of corporate social responsibility. For example, Yu et al. (2019) and Zheng et al. (2019) empirically verified that the embeddedness of the party organization significantly improves the level of social responsibility of state-owned enterprises and non-publicly owned enterprises, respectively. There are even fewer studies addressing the impact of SOEs' environmental responsibility performance. Currently, Yu et al. (2019) empirically verified that party organization embeddedness effectively promotes the green transformation of enterprises. Wang et al. (2019) investigated the impact of the governance participation of corporate party organizations on the green behaviours of enterprises. In addition, Li et al. (2021) found that the involvement of party organizations in the corporate governance of SOEs has a significant positive effect on corporate non-market strategies. However, the current study on the impact of party organization governance on SOEs is still based on a single dimension, and does not unify the social, environmental, and governance performance to examine the impact of party organization governance on the comprehensive performance of SOEs.

2.2.2 The Impact of the Party Organization's "Pre-Discussion" Decision-Making Mechanism on the ESG Performance of SOEs

ESG evaluation system is the abbreviation of Environment, Social, and Governance, which is an investment concept and enterprise evaluation standard focusing on environmental, social and corporate governance performance instead of single financial performance. The ESG evaluation system can unify these three dimensions well. Unlike traditional financial indicators, ESG focuses more on the unified development of environment, society and governance, and the spirit of the ESG concept has unity with the goal of the party organization to participate in the corporate governance of SOEs, so it has the motivation and ability to promote the development of ESG and prompt the corporate to take on environmental responsibility and social responsibility while improving the corporate governance structure. So far, there is very little literature assessing the effectiveness of party organization governance based on the ESG evaluation framework, and only Liu et al. (2022) found that corporate party organization governance has a positive impact on ESG performance and the effect of party organization governance on ESG is more evident in SOEs.

However, almost all of the above literature on the participation of party organizations in corporate governance is based on the mechanism of “two-way entry and cross-posting”, using the ratio of party committee members to the board of directors, board of supervisory, and senior management team and the degree of cross-posting overlap to measure the participation of the party organization and the degree of involvement. Although the organizational form of “two-way entry and cross-posting” ensures that the party organization has its representatives in corporate governance, the arrangement does not stipulate the scope of authority and responsibility of the party organization of state-owned enterprises and the decision-making procedures. Until the implementation of the “Pre-discussion” policies in 2015 and 2016, there is a specific scope of authority and implementation path for the decision-making of the Party committee & Party group on the “Three Major & One large Matters” (major issues, major cadres appointment and dismissal, major project investment, and the use of large sums of money) of the SOE. The “pre-discussion” completely clarifies the terms of reference of the Party organization with the board of directors, board of supervisory and management team. The Party committee that pursues social equity may pay more attention to SOEs’ social and environmental responsibilities in its decision-making due to its public interest preference and veto decisions made by the board of directors and the managerial layer that undermine the performance of SOEs in terms of ESG responsibilities in advance. Based on the above analysis, the paper proposes the research hypothesis H1.

H1: The “Pre-discussion” decision-making mechanism significantly improves the ESG performance of SOEs.

3. Method

3.1 Variable Design and Description

3.1.1 Explained Variables

The explanatory variable is corporate ESG performance (ESG_Score), measured by the Sino-Securities Index’s ESG rating. The rating is categorized into 9 levels, from high to low, such as AAA, AA, A, BBB, BB, B, CCC, CC, and C, and is rated four times a year. In this paper, the ratings are assigned a score of 1-9 from low to high, and the annual ESG performance of the firms was obtained by averaging the four scores for each year.

3.1.2 Explanatory Variables

The core explanatory variable of the DID model is “did”, which is obtained by cross-multiplying two dummy variables of treat and post (did=treat*post), representing whether the company implements the “Pre-discussing” decision-making mechanism of the party organization. “Treat” denotes the dummy variable of grouping; when the listed company is an SOE (treatment group), treat=1; when the listed company is a non-SOE (control group), treat=0. “Post” denotes the time dummy variable for policy implementation, and the year of policy implementation is 2016. So, for the years after 2016, post=1 and before 2016, post=0. The most concerned coefficient in the model is the estimated coefficient of “did”, which represents the policy effect of implementing the party organization’s “Pre-discussion” decision-making mechanism on SOEs’ ESG performance.

3.1.3 Control Variables

Referring to the related studies of Ma et al. (2012), Li et al. (2021), and Liu et al. (2022), this paper selects a series of firm characteristic variables that may affect the ESG performance of listed companies, which mainly include the company size (size), the corporate economic performance (roa), the Asset-liability ratio (lev), the listing year of the company (age), and the proportion of fixed assets (fixed), the proportion of shares held by the first largest shareholder (top1), the degree of equity balance (balance), the proportion of shares held by institutional investors (inst), and the proportion of two positions (dual), while controlling for the year and industry dummy variables. The main variables in this paper are defined as shown in Table 1.

Table 1. Definition table of main variables

Variable Type	**Variable Name**	**Variable Symbol**	**Definition**
Explained Variables	ESG performance	ESG_Score	The ESG rating is assigned a score of 1-9 and averaged for each year.
Explanatory Variables	Nature of property right	treat	Non-SOEs take the value of 0, SOEs take the value of 1.
	Year	post	before policy implementation (2016), post=0, after policy implementation, post=1
	Implementation	did	did=Treat*post
Control Variables	Company size	size	Natural logarithm of the total assets
	Company age	age	Number of years the firm has been listed
	Economic performance	roa	roa = Net profit/Total assets
	Asset-liability ratio	lev	lev=Total liabilities /Total assets
	Fixed assets ratio	fixed	Fixed=Net fixed assets/total assets
	Shareholding ratio of the first largest shareholder	top1	top1=Number of shares held by the 1st largest shareholder/total number of shares
	Degree of equity balance	balance	balance=The 2nd largest shareholder shareholding ratio/The largest shareholder shareholding ratio
	The proportion of shares held by institutional investors	inst	inst =Total number of shares held by institutional investors/total share capital
	Dual role of the board chairman and CEO	dual	dual=1 if chairman and CEO is the same person, otherwise dual=0

3.2 Basic DID Model Specification

To empirically study the impact of party organization's "Pre-discussion" decision-making mechanism on enterprises ESG performance, the paper constructs the DID model (1) as follow:

$$ESG\_Score_{it} = \beta_0 + \beta_1 treat_i \times post_t + \beta_2 contrls_{it} + \mu_i + \eta_t + \varepsilon_{it} \quad (1)$$

$\mathrm{ESG\_Score_{it}}$ denotes the ESG performance of enterprise "i" in year "t", $contrls_{it}$ represents other control variables; μ_i is the individual fixed effect; η_t is the time fixed effect; ε_{it} is the random disturbance term. The paper focuses on the coefficient β_1, which represents the net effect of the party organization's "Pre-discussion" decision-making mechanism on the ESG performance of SOEs. When β_1>0, the party organization's "discussion front" decision-making mechanism improves the ESG performance of SOEs compared with that of non-SOEs.

3.3 Sample Selection and Data Source

This paper selects the data of A-share listed companies from 2011 to 2021 as the research sample. As we know, the government first proposed the "Pre-discussion" policy in June 2015 to mandate the Central SOEs' Party committee to conduct discussion before the corporate's major decision-making and extended to local SOEs in October 2016 and specified the "Pre-discussion" decision-making mechanism that all SOE must adopt. Therefore, this paper selects 2017 as the policy impact threshold, 2011-2016 as the window period before policy implementation, and 2017-2021 as the window period for policy implementation. The data sources are mainly from the following three ways:

- The CSMAR database.
- iFinD database.
- Annual reports of listed companies, which are calculated and organized by hand.

Based on data availability and the research purpose of this paper, the samples are screened as follows:

- Excluding companies belonging to the financial industry and insurance industry.
- Excluding ST and *ST companies.
- Excluding companies with unclear nature of property rights during the reporting period and enterprises.
- Excluding samples with missing and incomplete data.

Meanwhile, all continuous variables are winsorized at the 1% and 99% quantile to eliminate the effects of extreme values. Finally, 16,269 observations from 1479 samples are obtained.

In addition, to reduce the systematic differences between the treatment and control groups and the estimation bias of "did", this paper refers to the research method of Heyman et al. (2007) to perform year-by-year propensity score matching (PSM). Referring to the studies of Chen et al. (2014) and Sun et al. (2020), firm size (size), roa, lev, top1, age, indep, and dual are selected as the matching variables. The following is the PSM model (2):

$$y_i = \alpha_0 + \alpha_1 size_{it} + \alpha_2 roa_{it} + \alpha_3 lev_{it} + \alpha_4 top1_{it} + \alpha_5 age_{it} + \alpha_6 indep_{it} + \alpha_7 dual_{it} + \varepsilon_{it}$$

Y_i indicates whether the company "i" is an individual in the treatment group (SOE), if "i" is a SOE, then y_i=1; otherwise, y_i=0. A logit regression of the propensity score matching model is carried out using the sample data from 2010 to 2020, and the closest matching method with a calliper range of 0.05 is used to find the matching non-state-owned enterprises for each state-owned enterprise year by year, which ultimately yields a total of 16,080 observations for 1461 enterprises, including 7,513 in the treatment group and 8,567 in the control group.

Finally, a balance test is conducted on the matching variables to examine the differences between the matching variables of the treatment and control groups before and after matching. The results of the test, as shown in Table 2, indicate that there is no significant difference between the matching variables of the treatment group sample and the control group sample after matching, and the absolute values of their standard deviations are less than 10%; and the B-value of the matched samples is 14.4% (less than 25%), and the R-value is 1.08 (in the range of [0.5, 2]). Therefore, the matching variables chosen in this paper are more reasonable, and the estimation results after matching are more reliable.

Table 2. The results of the PSM balance test

Variable	Unmatched	Mean		%bias	%reduct	t-test		V(T)/
	Matched	Treated	Control		|bias|	t	p>|t|	V(C)
size	U	23.051	22.086	74.100		47.550	0.000	1.61*
	M	23.049	23.034	1.200	98.400	0.670	0.502	1.19*
roa	U	0.035	0.039	-5.600		-3.480	0.000	0.33*
	M	0.035	0.038	-3.500	36.900	-2.320	0.021	0.40*
lev	U	0.503	0.384	61.000		38.800	0.000	0.990
	M	0.503	0.516	-6.700	89.000	-4.110	0.000	0.990
top1	U	0.398	0.316	57.000		36.290	0.000	1.11*
	M	0.398	0.389	6.100	89.200	3.490	0.000	0.82*
age	U	15.984	9.424	106.900		67.890	0.000	0.960
	M	15.977	16.200	-3.600	96.600	-2.200	0.028	0.92*
indep	U	0.374	0.377	-5.900		-3.760	0.000	1.26*
	M	0.374	0.371	5.400	7.800	3.450	0.001	1.49*
dual	U	0.092	0.340	-63.200		-39.500	0.000	
	M	0.092	0.099	-1.600	97.400	-1.330	0.183	
Sample	Ps R2	LR chi2	p>chi2	MeanBias	MedBias	B	R	%Var
Unmatched	0.290	6,504.430	0.000	53.400	61.000	144.9*	0.740	67.000
Matched	0.004	77.620	0.000	4.000	3.600	14.400	1.080	83.000

3.4 Empirical Results and Analysis

3.4.1 Descriptive Statistics Analysis

Table 3 shows the descriptive statistics of the main variables. The maximum value of the ESG score is 7, the minimum value is 1, the mean is 3.233, and the standard deviation is 1.200, indicating that there are some differences in the ESG performance scores of different listing companies. There are 16,269 observations in the full sample, which is a sufficient sample size, of which 7,524 observations (46.2%) are SOEs that have taken policy impacts, and the sample size of SOEa and non-SOEs does not differ much. The descriptive statistics of the main variables are all within a reasonable range and consistent with the existing relevant studies, which indicates the correctness and rationality of the sample selection in this paper.

Table 3. Summary statistics of the main variables

Sample	Variable	N	Mean	St. Dev	Min	Max
Non-SOEs	ESG Score	8,745	3.233	1.200	1.000	7.000
	treat	8,745	0.000	0.000	0.000	0.000
	post	8,745	0.455	0.498	0.000	1.000
	lnsize	8,745	22.085	1.141	19.078	26.915
	age	8,745	9.413	6.188	0.000	30.000
	roa	8,745	0.039	0.078	-2.120	0.526
	lev	8,745	0.384	0.195	0.007	1.187
SOEs	ESG Score	7,524	3.478	1.082	1.000	7.000
	treat	7,524	1.000	0.000	1.000	1.000
	post	7,524	0.455	0.498	0.000	1.000
	lnsize	7,524	23.052	1.447	19.640	28.636
	age	7,524	15.985	6.070	0.000	31.000
	roa	7,524	0.035	0.045	-0.451	0.381
	lev	7,524	0.503	0.194	0.010	1.056
All	ESG Score	16,269	3.347	1.153	1.000	7.000
	treat	16,269	0.462	0.499	0.000	1.000
	post	16,269	0.455	0.498	0.000	1.000
	lnsize	16,269	22.532	1.379	19.078	28.636
	age	16,269	12.452	6.954	0.000	31.000
	roa	16,269	0.037	0.065	-2.120	0.526
	lev	16,269	0.439	0.203	0.007	1.187

3.4.2 The Impact “Pre-Discussion” Decision-Making Mechanism on ESG Performance

Table 4 shows the asymptotic DID estimation results of the “Pre-discussion” decision-making mechanism of the Party Committee and Party Group on the performance of SOEs in the model (1). Column (1) is the regression result controlling for time-fixed effects and individual fixed effects, column (2) is the regression result controlling for firm characteristics variables on this basis, column (3) is the regression result further using clustered robust standard errors to control for correlation, and column (4) is the regression result further using double-difference estimation based on the propensity score-matched variables of model (2). The coefficient of the “did” variable (treat×post) shows a significant positive correlation at the 1% level, which indicates that the Party organization’s “pre-discussion” mechanism has a significant effect on the ESG performance of enterprises. Therefore, the participation of party organizations in corporate governance through the mechanism of “Pre-discussion” can promote enterprises’ ESG performance. Hypothesis H1 is verified.

Table 4. Policy effects of “Pre-discussion” on corporate ESG performance

	(1)	(2)	(3)	(4)
	ESG_Score	ESG_Score	ESG_Score	ESG_Score
did	0.389^{***}	0.331^{***}	0.331^{***}	0.256^{***}
	(0.027)	(0.028)	(0.045)	(0.068)
post	-0.382^{***}	-0.513^{*}	-0.513^{**}	-0.434
	(0.034)	(0.297)	(0.218)	(0.478)
control vars	Yes	Yes	Yes	Yes
year	Yes	Yes	Yes	Yes

id	Yes	Yes	Yes	Yes
constants	3.466***	-1.242***	-1.242*	-2.019*
constants	(0.022)	(0.478)	(0.691)	(1.150)
N	16280.000	16263.000	16263.000	5664.000
r2	0.026	0.046	0.046	0.031

3.5 Robustness Tests

3.5.1 Parallel Trend Tests

The DID method can avoid the possible problems caused by endogeneity and omitted variables. However, when using the DID model to analyse the policy effects, the samples of the treatment group and the control group need to have a common trend, i.e., pass the Parallel Trend test (Parallel Trend), which is a prerequisite to ensure the robustness of the results of the double difference model. In this paper, the samples were tested for parallel trends, and the results are shown in Figure1. Before the implementation of the “Pre-discussion” decision-making mechanism of the party organization discussion, i.e., 2011-2016, the trend of changes in the average ESG scores of enterprises in the treatment group (SOEs) and the control group (non-SOEs) is parallel, so the samples of the treatment group and the samples of the control group satisfy the conditions of the premise assumption of Parallel Trend, which provides a reasonable basis for the regression of the paper’s analysis and the robustness of its results.

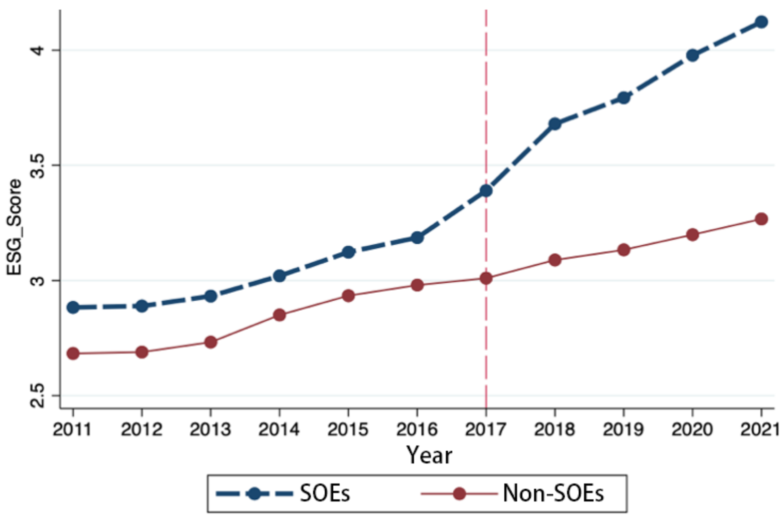

Figure 1. Parallel trends of the SOEs & Non-SOEs’ ESG scores

3.5.2 PSM-DID Model Test

In this paper, when setting up the DID model, the SOEs and non-SOEs are set as the treatment group and the control group, respectively, and the DID model requires that the selection of the treatment group and the control group is random, so the PSM-DID method was applied to avoid self-selection bias. The regression results are shown in column (4) of Table 4. The results show that the coefficient of the interaction term DID is 0.256 and is significant at the 1% level. Therefore, after solving the possible sample self-selection problem of the model setup, the regression results of this paper can still lead to the same conclusion, that is, the party organization’s “Pre-discussion” decision-making mechanism can promote the ESG performance of SOEs. Therefore, the core causality and hypotheses of this paper are valid.

3.5.3 Placebo Test

The paper uses the sample observations before implementing the “pre-discussion” decision-making mechanism of party organizations to conduct a placebo test. Assuming that the policy implementation year is 2014 and 2015, respectively, the sample observations before the policy implementation will be recorded as NP=0; the sample observations after the policy implementation will be recorded as NP=1. Using the model (1) set out in the previous section to conduct the regression, if the “Pre-discussion” policy implementation promotes the firm’s ESG performance significantly, the results of the placebo test should not be significant. The results in Table 5 show that the coefficient of the interaction term treat × NP is positive but insignificant, further validating the robust conclusion that the party organization's "Pre-discussion" decision-making mechanism can enhance the ESG performance of SOEs.

Table 5. Regression results of moving forward the policy implementing time

Variable	Policy implementing year move forward to 2014	Policy implementing year move forward to 2015
	ESG_Score	ESG_Score
treat×NP	0.026	0.057
	（0.003）	（0.004）
controls	Yes	Yes
year	Yes	Yes
firm	Yes	Yes
N	16263	16263
r2	0.047	0.047

4. Further Analysis

Since the "Pre-discussion" decision mechanism of the party organization can significantly contribute to the ESG performance of enterprises, what is the impact of ESG performance on enterprise value? The question has aroused extensive academic attention and generated different academic views. The first view is that enhancing ESG performance hurts corporate value. Corporations conducting ESG programs increase additional operating costs, which can harm shareholders' rights and interests and ultimately reduce corporate value. The second view is that enhancing ESG performance has a positive impact on corporate value, and the implementation of environmental activities or social responsibility activities by companies can improve corporate reputation and strengthen the interaction between companies and stakeholders, thus reducing business risks and increasing corporate value. Gunnar Friede et al. (2015) summarize more than 2,200 previous academic studies, and most scholars believe a non-negative relationship exists between ESG scores and financial performance. The positive effect of ESG performance on financial performance becomes increasingly apparent with time, indicating that the impact of ESG on enterprise value has a time lag effect. Zhu Naiping et al. (2014) proved that the positive fulfilment of corporate social responsibility has a certain lag and long-term effect on corporate performance and has no positive impact on short-term performance.

Based on this, this paper selects TobinQ as the variable representing enterprise value, lags the enterprises' ESG score by 1-7 periods, and conducts the OSL regression period-by-period to study the relationship between the ESG performance of the enterprise and enterprise value. The regression results are shown in Table 6. The results show a significant negative correlation between firm value and firms' current period and lag 1-3 periods ESG performance, while a significant positive correlation exists between the firms' lagged 4-7 periods ESG performance and firm value. The results indicate that ESG has a more prolonged lag effect on enterprise value. The possible reason is that, in the short-term process, the enterprise's substantial investment in the environmental field, the fulfilment of social responsibility and corporate governance will increase the enterprise's annual operating costs, aggravate the operational burden, so that the current and short-term financial performance is negative growth trend. In contrast, the investment of ESG to return is a long-term process. In the long run, adherence to the fulfilment of environmental & social responsibilities and an effective corporate governance strategy can establish a good reputation for the enterprise, improve its competitive advantage and profitability year by year, and ultimately enhance its long-term value and sustainable development capability.

Table 6. Relationship between ESG performance and long-term corporate value

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	TobinQ	TobinQ	TobinQ	TobinQ	TobinQ	TobinQ	TobinQ	TobinQ
ESG_Score	0.013^{**}							
	(0.009)							
ESG_Score_{t-1}		-0.011^{**}						
		(0.009)						
			-0.022^{**}					

ESG_Score_{t-2}			(0.010)					
ESG_Score_{t-3}				-0.008^{**}				
				(0.012)				
ESG_Score_{t-4}					0.009^{**}			
					(0.013)			
ESG_Score_{t-5}						0.041^{**}		
						(0.012)		
ESG_Score_{t-6}							0.078^{**}	
							(0.013)	
ESG_Score_{t-7}								0.067^{**}
								(0.015)
constants	1.686^{***}	1.608^{***}	1.887^{***}	2.166^{***}	2.896^{***}	2.376^{***}	1.965^{***}	1.438^{***}
	(0.039)	(0.041)	(0.044)	(0.048)	(0.052)	(0.048)	(0.049)	(0.056)
N	16280.00	14800.00	13320.00	11840.00	10360.00	8880.00	7400.00	5920.00
r2	0.173	0.177	0.176	0.187	0.202	0.121	0.073	0.080

5. Conclusion and Policy Implications

SOEs are the backbone of promoting Chinese-style modernisation, and the improvement of SOEs' corporate governance competence and governance structure is one of the specific manifestations of the modernisation of the country's governance capacity. At the same time, in the current complex environmental context of slowing economic growth, prominent structural contradictions, and tightening resources and environment, it is necessary for China's SOEs to strengthen their attention to the environment and social responsibility while optimising the corporation governance structure. Under the essential requirement of adhering to the leadership of the Communist Party of China, China has formed a modern SOE's corporation governance mechanism with Chinese characteristics. The "Pre-discussion" Policy implemented between 2015 & 2016 is an important measure to integrate the party organisation into the corporate governance structure of SOEs. Taking the implementation of the "pre-discussion" decision-making mechanism in SOEs in 2016 as a quasi-natural experiment, using China's Shanghai and Shenzhen A-share listed companies from 2011 to 2021 as samples, this paper employs the DID method to empirically examine the impact of the "pre-discussion" on the ESG performance of Chinese enterprises, as well explores the intrinsic pattern between ESG performance and the long-term value of enterprises. The study finds that the party organisations' "Pre-discussion" decision-making mechanism can significantly promote corporate ESG performance, and the positive impact of ESG performance on corporate value has a long lag effect.

This paper enriches the research scope of corporate governance, integrates the social and economic attributes of SOEs, provides an analytical perspective on the non-economic consequences of embedding the party organisation in the corporate governance of SOEs from the standpoint of ESG performance and verifies the policy effect of the party organisation's "Pre-discussion" decision-making mechanism on the ESG performance and the long-term value of the enterprise. It provides a new policy framework for further optimising the party organisation's participation in SOE governance.

Based on the results of this paper, this paper proposes the following policy implications: a. The central and local governments should continue to promote the implementation of the "pre-discussion" decision-making mechanism of the Party Committee and Party Group in SOEs, strengthen the degree of participation of the Party organisation, and optimise the decision-making process within SOEs. According to "The Three-year Action Plan for SOE Reform (2020-2022)" and other related policy documents, in the process of promoting the reform of SOE, it is necessary to further clarify the legal status of the party organisation in the corporate governance, organically combine the party organisations within the decision-making process. b. According to the policy content of the party committee and party group's "pre-discussion" decision-making mechanism, implement the scope of authority and responsibility of the party organisation as well as the list of pre-discussions. In implementing the policy, it should be clear that the specific scope of the party committee and party group's participation in the internal governance is the "Three Important and One Large Matters". Different SOEs have apparent differences in terms of industry, scale and importance, and the scope of the "Three Important and One Large Matters" decision-making is also different. SOEs should formulate their own list of "Three Important and One Large Matters", which is in line with their current situation. Then, SOEs should strictly follow the list to carry out the prior discussion within the Party Committee or the Party Group. So that we can avoid excessive involvement of the Party organisation in the corporate decision-making process, resulting in the enterprise's missed development opportunities and exacerbating the loss of efficiency of SOEs. c. Improve the institutional construction of SOE. Excellent party-building work and suitable external regulatory mechanisms can produce positive effects. The government should further strengthen the leadership position of the Party organisation in SOE in terms of policy guarantee and continuously deepen the integration of the Party organisations and the corporate governance structure. Provide an institutional guarantee for integrating the political and economic foundations of SOEs.

References

CHANG E C, WONG S M L, (2004). Political control and performance in China’s listed firms. *Journal of Comparative Economics, 32*(4), 617-636.

Chen Lin, Tang Yangliu, (2014). Whether partial privatization of State-owned enterprises can reduce their policy burden. *Research on Economics and Management*, (07), 42-51. DOI:10.13502/j.cnki.issn1000-7636.2014.07.005.

Chen Yan, Zhang Wuzhou, (2022). Can the Party organization of State-owned Enterprises “Put Direction” effectively restrain financial fraud? — Quasi-natural experiment based on “Pre-discussion” mechanism. *China Soft Science Magazine*, (01), 182-192.

Cheng Bo, Wang Jing, (2014). Legal environment, political governance and audit fee. *Economic Management, 36*(02), 88-99. DOI:10.19616/j.cnki.bmj.2014.02.011.

Cui Jiujiu, (2021). Party Committee participation in governance, Internal control quality and Performance of State-owned Enterprises. *Journal of Guizhou University of Finance and Economics*, (04), 15-23.

Gunnar Friede et al., (2015). ESG and financial performance: aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment, 5*(4), 210-233.

Heyman，F. et al., (2007). Is there really a foreign ownership wage premium? Evidence from matched employer-employe data. *Journal of International Economics, 73*(2), 355-376.

Huang Wenfeng, Zhang Jianqi, Huang Liang, (2017). Governance of Board of Directors, Informal Hierarchy of Board of Directors and Corporate performance in State-owned Enterprises. *Economic Management,* 39(03), 6-20. DOI:10.19616/j.cnki.bmj.2017.03.001.

Jin Xiaoyan, Ren Guanggan, Wang Yitong, (2022). Research on the influence of pre-decision mechanism of Party organizations on the performance improvement of State-owned enterprises. *Journal of Beijing Technology and Business University (Social Sciences),* 37(06), 47-59.

Lei Haimin, Liang Qiaozhuan, Li Jiajun, (2012). Does Corporate Political Governance Affect the Operational Efficiency of firms: A non-parametric test based on Chinese Listed Companies. *China Industrial Economics*, (09), 109-121. DOI:10.19581/j.cnki.ciejournal.2012.09.010.

Lei Haimin, Liang Qiaozhuan, Li Jiajun, (2013). Do organizational characteristics affect the financial capability of political resource enterprises? — Non-parametric test based on Chinese listed companies. *China Soft Science Magazine*, (02), 144-153.

Li Huyang, Liu Xuexin, Kong Xiaoxu, (2021). The influence of Party Organization Participation in corporate Governance on non-market strategy of State-owned enterprises. Reform, (05), 102-117.

Li Minghui, Liu Xiaoxia, Cheng Haiyan, (2020). Party organizations to participate in the governance of listed companies the influence of the tax avoidance. *Journal of Finance and Economics, 46*(03), 49-64. DOI:10.16538/j.cnki.jfe.2020.03.004.

Liu Xuexin, Li Huyang, Kong Xiaoxu, (2022). Party organization governance on corporate ESG performance study. Collected Essays on Finance and Economics, (01), 100-112. DOI:10.13762/j.cnki.cjlc.2022.01.008.

Lu Changchong, (1994). Corporate Governance institutions and the relationship between new and old parties. *Economic Research*, (11), 10-17.

Ma Lianfu, Wang Yuanfang, Shen Xiaoxiu, (2012). Research on the governance effect of Party organizations in State-owned Enterprises in China — based on the perspective of “Insider control”. *China Industrial Economics*, (08), 82-95. DOI:10.19581/j.cnki.ciejournal.2012.08.007.

Ma Lianfu, Wang Yuanfang, Shen Xiaoxiu, (2013). State-owned enterprise party organization governance, redundant employees and executive compensation contract. *Management world*, (05), 100-115+130. DOI:10.19744/j.cnki.11-1235/f.2013.05.008.

Ma Lianfu, Wang Yuanfang, Shen Xiaoxiu, (2013). State-owned enterprise party organization governance, redundant employees and executive compensation contract. *Management world*, (05), 100-115+130.DOI:10.19744/j.cnki.11-1235/f.2013.05.008.

Pan Haiying, Zhu Yidan, Xin Fu, (2022). ESG performance and firm financialization: The moderating effect of both internal and external supervision. *Journal of Nanjing Audit University, 19*(02), 60-69.

QIAN Y., (1996). Enterprise reform in China: Agency problems and political control. *Economics of Transition, 4*(2), 427-447.

Qiang Ge, (2018). How does the Party organization of State-owned enterprises embed the corporate governance structure? An empirical study of decision-making mechanism based on "Pre-discussion". *Comparative Economic and Social Systems*, (04), 16-23.

Qiang Ge, (2019). State-owned Enterprise Party Committee (Party group) play a leading role "How to change the corporate governance structure of State-owned enterprises?" — From "individual embedment" to "organizational embedment". *Comparative Economic and Social Systems*, (06), 71-81.

Qu Shupiing, Mao Wenxia, Bai Mengshi, (2021). Research on Leverage manipulation governance of State-owned Listed companies: Based on the perspective of Party organization governance. *Securities Market Herald*, (11), 12-23.

Sun Xiaohua, Yuan Fang, Zhai Yu, Wang Yun, (2022). Enterprise relationship with the central environmental protection supervision governance effect. *The Journal of world economy*, *45*(06), 207-236. DOI:10.19985/j.cnki.cassjwe.2022.06.010.

Wang Shuyang, Wu Rui, Gao Xudong, Li Xiaohua, (2019). Private enterprise party organization governance in the impact on the enterprise green behavior. *Economic Management, 41*(08), 40-57. DOI:10.19616/j.cnki.bmj.2019.08.003.

Xie Hongming, Wu Wenshi, (2019). Analysis on time-lag effect of R&D investment in Chinese listed pharmaceutical enterprises. *Science and Technology Management Research, 39*(24), 188-194.

Yan Ruosen, Li Linshan, (2019). The influence of Party Organization Participation in corporate Governance on hidden corruption of senior executives in State-owned enterprises. *Nankai Journal (Philosophy, Literature and Social Science Edition)*, (01), 176-190.

Yu Lianchao, Zhang Weiguo, Bi Qian, (2019). Party organization embedded and corporate social responsibility. *Collected Essays on Finance and Economics*, (04), 61-70. DOI:10.13762/j.cnki.cjlc.2019.04.005.

Yu Lianchao, Zhang Weiguo, Bi Qian, (2019). Party organization is embedded with the enterprise green transition. *Journal of Zhongnan University of Economics and Law*, (03), 128-137+160. DOI:10.19639/j.cnki.issn1003-5230.2019.0043.

Zheng Dengjin, Xie Deren, (2019). Party organizations and corporate donations in non-public enterprises. *Journal of Financial Research*, (09), 151-168.

Zhu Naiping, Zhu Li, Kong Yusheng, Shen Yang, (2014). Research on the synergistic effects of technological innovation input and social responsibility commitment on financial performance. *Accounting Research*, (02), 57-63+95.