"Gheorghe Asachi" Technical University of Iasi, Romania

ENVIRONMENTAL PENALTIES AND ANALYST RECOMMENDATIONS: BASED ON THE PERSPECTIVE OF NEGATIVE ENVIRONMENTAL GOVERNANCE PERFORMANCE

Xiaoyan Chen, Xiaobo Tao[*], Xuecheng Wang

School of Economics and Management, North China University of Technology, Beijing, China, 100144

Abstract

This paper aims to test the influence of environmental penalties on analyst recommendations from the perspective of negative environmental governance performance, and further tests the influence of environmental penalties on corporate environmental governance. We subdivide environmental penalties into two dimensions: environmental penalty frequency and environmental penalty intensity based on the breadth and depth of environmental penalties. Then we take listed firms in heavy pollution industries in China from 2015 to 2021 as research samples, and use OLS regression analysis to test the impact of environmental penalty frequency and environmental penalty intensity on analyst recommendations. We find that both environmental penalty frequency and environmental penalty degree are significantly and negatively correlated with analyst recommendations. The heterogeneity analysis finds that the negative impacts of corporate environmental penalties on analyst recommendations are mainly reflected in the group with larger firm size and the group with greater industry competition degree. Further analysis shows that both environmental penalty frequency and environmental penalty degree can promote corporate environmental governance. The results show that environmental penalties bring lower analyst recommendations and reputation loss to enterprises. Under the deterrent effect of environmental penalties and the negative impact of analyst recommendations, enterprises have the motivation to improve environmental governance. This paper finds that corporate negative environmental governance performance is truthfully embedded in analyst recommendation decisions, providing evidence for the mechanism and path for China's environmental governance system to play its role. These findings are conducive to providing new evidence for analysts to play the role of capital market information intermediary. This study expands the literature on the economic consequences of corporate environmental penalties and enriches the literature on the factors affecting analyst recommendations from the new perspective of corporate negative environmental performance.

Key words: analyst recommendation, corporate environmental governance, environmental penalty frequency, environmental penalty degree, negative environmental performance

Received: August, 2023; Revised final: February, 2024; Accepted: February, 2024; Published in final edited form: May, 2024

---

[*] Author to whom all correspondence should be addressed: e-mail: dicuike@126.com