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The contributions of this paper are mainly reflected in following three ways. Firstly, the extant research rarely explores the influence of political connections on crash risk from the perspective of foreign funded enterprises, which provides a new research perspective for the factors which affects crash risk. Secondly, this paper enriches the research in the field of crash risk. Finally, research conclusion has certain enlightening significance for how to reduce crash risk.

This paper is organized as follows. Section 2 reviews the related literature and develops the hypothesis. Section 3 describes the sample, variable and model are presented in section3. Section 4 reports empirical analyses and research results. Section 5 conducts robustness test. Section 6 additional tests. Finally, we draw the conclusions.

II LITERATURE REVIEW AND RESEARCH HYPOTHESES

The research on political links at home and abroad is relatively rich, and the summary is as follows:

2.1 Political Links and Accounting Earnings Quality

Prior research find political links impairs the quality of corporate accounting information. The reason is that the quality of accounting earnings is lower in companies with political connections [1]. In addition, analysts' forecast errors are highe1r in politically connected companies [2]. Furthermore, the probability of financial report disclosure errors of politically-linked companies is higher during financial crisis. In all, political connection of private enterprises may reduce the quality of accounting earnings [3].

2.2 Political Links and Corporate Value

The effect of political links on firm value is mainly reflected in the following three aspects, one is a positive impact, the other is a negative impact, and the third is a mixed impact.

2.2.1 Political connections increase corporate value

Research find that political links can enhance the value of enterprises to a certain extent [4-7]. In addition, if the government interferes more severely, political connections can help to enhance the value of company [8], which shows that the establishment of political connection by the company has a positive effect.

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$$PC_{i,t+1} = \propto_0 + \propto_1 \quad gi \quad i \quad _{i,t} + \propto_2 \quad i \quad _{i,t} + \propto_3 \quad _{i,t} + \propto_4 \quad _{i,t} + \propto_5 \quad _{i,t} + Y \quad + I \quad + \varepsilon \qquad (5)$$

In model (5), PC indicates political connections. Registration represents the place of firm registration. The explanation of other variables is the same as model (4). Table V shows test results of endogeneity. The regression results show that the research conclusion is still valid after addressing the endogeneity issues.

TABLE V. Test of endogeneity

PANEL A FIRST STAGE OF HECKMAN MODEL		
PC	df/dx	P>|z|
REGISTRATION	0.039	0.000
SIZE	0.069	0.00
LEV	-0.058	0.038
ROA	0.322	0.001
MB	0.041	0.000
OBS		8163
PSEUDO-R^2		0.038
PANEL B REGRESSION RESULTS WITH HACKMAN MODEL		
	$NCSKEW_{t+1}$	**$DUVOL_{t+1}$**
$NCSKEW_t$	-0.072***	
	(-4.51)	
$DUVOL_t$		-0.048***
		(-2.74)
PC_t	-0.229***	-0.196***
	(-6.33)	(-6.60)
$TURNOVER_t$	0.117***	0.098***
	(4.17)	(4.37)
RET_t	0.084***	0.095***
	(4.15)	(4.98)
$SIGMA_t$	-1.836**	-1.505**
	(-2.56)	(-2.57)
$SIZE_t$	0.523***	0.493***
	(2.92)	(3.30)
LEV_t	-0.892***	-0.767***
	(-4.47)	(-4.70)

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ROA_t	2.204**	1.850**
	(2.38)	(2.42)
MB_t	0.382***	0.320***
	(3.67)	(3.68)
IMR_t	3.218**	2.941***
	(2.50)	(2.74)
CONSTANT	-14.886***	-13.666***
	(-2.76)	(-3.04)
OBS	8163	8163
R^2(WITHIN)	0.045	0.050

On the other hand, we use PSM to amend sample selection bias, specifically, nearest neighbor matching (NNM), radius matching (RM) and kernel matching (KM) are used, and test results are present in Table VI. Table VI shows that the results of NNM, RM, and KM are basically the same, which further verifies the validity of hypothesis 1.

TABLE VI. The result of PSM

VARIABLE	**MATCH TYPE**	**TREATED GROUP**	**CONTROL GROUP**	**ATT**	**T-VALUE**
NCSKEW	Nearest Neighbor match(1:1)	-0.351	-0.274	-0.077	-2.38
DUVOL	Nearest Neighbor match(1:1)	-0.249	-0.190	-0.059	-2.30
NCSKEW	Radius match(0.01)	-0.351	-0.252	-0.099	-4.16
DUVOL	Radius match (0.01)	-0.250	-0.183	-0.067	-3.52
NCSKEW	Kernel match	-0.351	-0.248	-0.103	-4.41
DUVOL	Kernel match	-0.250	-0.181	-0.069	-3.64

4.4.3 echanisms

Existing research find companies that have established political connections will disclose

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negative information in a timely manner, so as to obtain government subsidies [26]. Furthermore, in order to be promoted, Officials of politically connected companies need to establish a good image in the outside world, so as to avoid the negative impact of the disclosure of negative information on the promotion of officials in the future, therefore, politically connected companies will also disclose negative information as soon as possible. As a result, the firm's crash risk will further decrease.

To test above prediction, referring to prior research [35], this paper divides the sample into two groups (good news and bad news) based on the earnings per share (EPS) predicted by analysts. Table VII presents the empirical test results, which indicates the coefficients on the PC variable are negative and pronounced in the bad news group with lower EPS. The coefficients on the PC variable are not pronounced in good news group. It shows that business managers report negative information more timely facing with lower EPS, resulting in the lower stock price crash risk.

TABLE VII. Mechanism test

VARIABLE	**BAD NEWS**		**GOOD NEWS**	
	(1)	**(2)**	**(3)**	**(4)**
	$NCSKEW_{t+1}$	**$DUVOL_{t+1}$**	**$NCSKEW_{t+1}$**	**$DUVOL_{t+1}$**
PC_t	-0.426**	-0.405**	-0.100	-0.180
	(-2.40)	(-2.55)	(-0.55)	(-1.04)
$NCSKEW_t$	-0.116**		-0.197*	
	(-2.17)		(-1.79)	
$DUVOL_t$		-0.064		-0.169
		(-1.13)		(-1.59)
RET_t	0.054	0.062	0.101	0.140
	(0.75)	(0.94)	(1.11)	(1.59)
$SIGMA_t$	-0.950	-0.283	-3.659	-2.996
	(-0.38)	(-0.13)	(-0.76)	(-0.69)
$TURNOVER_t$	0.222*	0.118	0.116	0.174
	(1.95)	(1.17)	(0.70)	(1.22)
$SIZE_t$	0.338***	0.338***	0.220	0.271**
	(3.61)	(3.87)	(1.64)	(2.19)
LEV_t	-0.693	-0.643*	-1.023	-1.087
	(-1.64)	(-1.81)	(-1.26)	(-1.64)

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ROA_t	2.032***	1.590**	1.204	-0.471
	(2.59)	(2.47)	(0.43)	(-0.20)
MB_t	0.251***	0.236***	-0.001	-0.023
	(2.74)	(3.35)	(-0.01)	(-0.35)
CONSTANT	-7.641***	-7.600***	-4.565	-5.506*
	(-3.93)	(-4.19)	(-1.43)	(-1.88)
OBS	1157	1157	466	466
R^2(WITHIN)	0.107	0.101	0.092	0.110

V ROBUSTNESS CHECKS

This paper conducts two tests to test the robustness of research results above. In the first place, we present robustness results of adopting an alternative crash risk model. Second, the sample of the paper does not include accounting period in 2008, so as to exclude the effect of the financial crisis.

5.1 Different Measure of Crash Risk

Based on existing research [35-36], this paper recalculate W_{it}, and calculate crash risk based on model (2) and model (3).

Table VIII presents the result in column (1) and column (2). The coefficients on crash risk are pronounced and positive, which shows the test results are consistent with research findings above.

5.2 Change Sample Periods

Referring to [35], considering the effect of the 2008 financial crisis on stock market, the year sample of 2008 is excluded. Column (3) and column (4) in Table VIII presents that the coefficient on PC is pronounced, which shows that the research conclusions are robust.

TABLE VIII. Robustness checks

VARIABLE	**(1)**	**(2)**	**(3)**	**(4)**
	$NCSKEW_{t+1}$	**$DUVOL_{t+1}$**	**$NCSKEW_{t+1}$**	**$DUVOL_{t+1}$**
PC	-0.119***	-0.100***	-0.229***	-0.201***
	(-4.61)	(-5.16)	(-5.49)	(-6.07)

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$NCSKEW_t$	-0.129***		-0.075***	
	(-9.74)		(-4.55)	
$DUVOL_t$		-0.140***		-0.053***
		(-11.53)		(-2.87)
RET_t	1.017**	0.788**	0.055**	0.060***
	(2.35)	(2.44)	(2.47)	(2.86)
$SIGMA_t$	1.332	0.685	0.006	-0.239
	(0.62)	(0.43)	(0.01)	(-0.34)
$TURNOVER_t$	0.141***	0.110***	0.026	0.023
	(7.41)	(7.64)	(0.75)	(0.83)
$SIZE_t$	-0.071***	-0.041***	0.106***	0.142***
	(-4.06)	(-3.04)	(4.04)	(6.81)
LEV_T	-0.005	0.022	-0.548***	-0.480***
	(-0.06)	(0.31)	(-3.83)	(-4.25)
ROA_t	0.773***	0.545***	-0.092	-0.144
	(3.39)	(3.08)	(-0.26)	(-0.49)
MB_t	0.076***	0.051***	0.114***	0.098***
	(6.59)	(6.22)	(5.87)	(6.43)
CONSTANT	1.231***	0.691**	-2.407***	-3.116***
	(3.44)	(2.49)	(-4.44)	(-7.21)
OBS	8163	8163	7276	7276
R^2(WITHIN)	0.049	0.051	0.028	0.031

VI ADDITIONAL TEST

6.1 The Effect of Corporate Governance

The more concentrated shareholding structure, the easier it is for big shareholders to encroach on the economic interests of small shareholders [37]. The decision-making of enterprise manager is usually guided by the interests of big shareholders and lacks consideration of the interests of small shareholders. When the company performance declines, the major shareholders may compensate the management by increasing in-service consumption, which virtually deteriorates the business prospects of the company. In addition, Tunneling by major shareholders will distort accounting income and increase the information asymmetry between company and outside world [38]. These will lead to an increase in crash risk. Therefore, this paper predicts higher shareholding ratio of major shareholders will weaken the influence of political connections on reducing crash risk.

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To test the above prediction, this paper divides the sample into higher shareholding ratio of big shareholders and lower shareholding ratio of small shareholders based on shareholding ratio. Table IX presents that the higher shareholding ratio weakens the positive influence of political connections on reducing crash risk.

TABLE IX. The effect of corporate governance

VARIABLE	LOWER SHAREHOLDING RATIO		HIGHER SHAREHOLDING RATIO	
	$NCSKEW_t$	$DUVOL_t$	$NCSKEW_t$	$DUVOL_t$
PC_t	-0.419***	-0.301***	-0.054	-0.009
	(-3.20)	(-2.62)	(-0.46)	(-0.08)
$NCSKEW_t$	-0.106**		-0.261***	
	(-1.97)		(-4.90)	
$DUVOL_t$		-0.052		-0.290***
		(-0.85)		(-5.26)
$TURNOVER_t$	0.105	0.088	0.069	0.108
	(0.87)	(1.07)	(0.68)	(1.23)
RET_t	-0.080	-0.015	0.003	0.011
	(-0.92)	(-0.20)	(0.04)	(0.21)
$SIGMA_t$	0.389	0.694	4.540	2.107
	(0.12)	(0.30)	(1.51)	(0.91)
$SIZE_t$	-0.103	-0.032	0.194	0.205
	(-0.76)	(-0.31)	(1.08)	(1.32)
LEV_t	-0.179	0.082	0.128	0.022
	(-0.28)	(0.17)	(0.16)	(0.03)
ROA_t	-0.504	0.129	1.314	0.960
	(-0.47)	(0.16)	(1.11)	(0.99)
MB_t	0.273***	0.228***	0.102	0.088*
	(4.08)	(4.33)	(1.58)	(1.85)
CONSTANT	1.522	0.026	-5.133	-5.114
	(0.55)	(0.01)	(-1.35)	(-1.57)
OBS	704	704	726	726
R^2(WITHIN)	0.096	0.102	0.112	0.136

6.2 The Influence of Marketization

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Prior research find that if a region has a higher degree of marketization, earnings manipulation by companies in the region will be lower [39], furthermore, the lower level of earnings management, the lower crash risk [32][40]. Conversely, if a company is located in a lower marketization, earnings management will be enhanced, and crash risk can increase. Therefore, if the degree of marketization in a region is higher, the weakening influence of political links on crash risk will be reduced.

To test the above prediction, we divide the sample into regions with a higher marketization and regions with a lower marketization based on marketization index [41]. Table X reveals that in regions where marketization degree is lower, the negative correlation between political link and crash risk is more pronounced.

TABLE X. The effect of marketization

VARIABLE	LOWER DEGREE OF MARKETIZATION		HIGHER DEGREE OF MARKETIZATION	
	$NCSKEW_{t+1}$	$DUVOL_{t+1}$	$NCSKEW_{t+1}$	$DUVOL_{t+1}$
PC_t	-0.273**	-0.231**	-0.482	-0.188
	(-2.48)	(-2.58)	(-0.85)	(-0.51)
$NCSKEW_t$	-0.055		-0.558***	
	(-1.08)		(-3.84)	
$DUVOL_t$		-0.005		-0.568***
		(-0.08)		(-3.50)
$TURNOVER_t$	0.121	0.117*	-0.402	-0.421
	(1.49)	(1.78)	(-1.05)	(-1.49)
RET_t	0.152**	0.171***	-0.782***	-0.676***
	(2.30)	(2.68)	(-2.78)	(-3.07)
$SIGMA_t$	-6.375***	-5.001***	24.123**	22.431***
	(-2.98)	(-2.90)	(2.36)	(2.87)
$SIZE_t$	-0.019	0.016	-0.651*	-0.611**
	(-0.30)	(0.31)	(-1.71)	(-2.39)
LEV_t	-0.188	-0.110	2.779	2.359
	(-0.44)	(-0.33)	(1.54)	(1.42)
ROA_t	-2.279***	-1.966***	8.557***	5.562***
	(-3.15)	(-3.29)	(4.24)	(3.79)
MB_t	0.173***	0.138***	0.775	0.772*

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	(3.40)	(3.38)	(1.50)	(1.97)
CONSTANT	0.476	-0.289	9.849	9.569*
	(0.36)	(-0.27)	(1.18)	(1.77)
OBS	901	901	218	218
R^2(WITHIN)	0.062	0.064	0.032	0.035

6.3 The Influence of Ownership

Compared with other types of enterprises, in foreign funded enterprises, corporate governance is relatively strict, accounting information transparency is higher, and information asymmetry between the firm and the outside world is lower. Therefore, this paper predicts that in foreign funded firms, the influence of political link in reducing crash risk will be weaker.

To test the above prediction, firstly, we introduce a dummy variable. If it belongs to a foreign-funded enterprise, the dummy variable is defined as 1, otherwise 0, and we test the effect of ownership. Table XI presents that political link has a bigger effect on the crash risk in non- foreign funded firm than that of foreign funded firm.

TABLE XI. The effect of ownership

VARIABLE	**FOREIGN-FUNDED ENTERPRISE**		**NON FOREIGN-FUNDED ENTERPRISE**	
	$NCSKEW_{t+1}$	$DUVOL_{t+1}$	$NCSKEW_{t+1}$	$DUVOL_{t+1}$
PC_t	-0.047	-0.087	-0.215***	-0.194***
	(-0.18)	(-0.34)	(-5.68)	(-6.14)
$NCSKEW_t$	-0.193*		-0.099***	
	(-1.83)		(-5.80)	
$DUVOL_t$		-0.021		-0.083***
		(-0.16)		(-4.39)
$TURNOVER_t$	0.027	0.042	0.109***	0.084***
	(0.17)	(0.38)	(3.81)	(3.66)
RET_t	0.121	0.271**	0.053**	0.066***
	(1.01)	(2.31)	(2.54)	(3.30)
$SIGMA_t$	-1.388	-3.233	-0.656	-0.569
	(-0.33)	(-0.97)	(-0.83)	(-0.88)
$SIZE_t$	-0.110	-0.038	0.117***	0.152***
	(-0.51)	(-0.25)	(4.08)	(6.54)

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LEV_t	0.454	-0.565	-0.611***	-0.545***
	(0.45)	(-0.72)	(-4.04)	(-4.48)
ROA_t	2.317	0.689	0.692*	0.494*
	(1.16)	(0.35)	(1.96)	(1.73)
MB_t	0.140**	0.148***	0.138***	0.110***
	(2.46)	(3.06)	(8.34)	(8.24)
CONSTANT	1.686	0.829	-2.706***	-3.358***
	(0.38)	(0.27)	(-4.57)	(-7.01)
OBS	237	237	6921	6921
R^2(WITHIN)	0.120	0.150	0.054	0.058

VII CONCLUSIONS

This paper tests the effect of political connections on the risk of stock price crash. The results of the study show that: political connections of enterprise may help reduce crash risk. In companies with lower proportion of major shareholders, lower marketization, and in non-foreign-funded enterprises, political links and crash risk are significantly negative correlation. This study tests the endogeneity of political connections by Heckman model, propensity matching score model (PSM), different methods to measure crash risk, and different sample period, the conclusions remain unchanged.

The enlightenment value of the research as follows: firstly, we should exert the positive influence of political connections, improve accounting conservatism and reduce information asymmetry; Secondly, to reduce the shareholding ratio of major shareholders, which will help reduce the probability of major shareholders deliberately hide bad news; Finally, it is necessary to accelerate the process of marketization, strengthen corporate governance of non-foreign-funded enterprise, and will reduce stock price crash risk, which will help steady operation of China's capital market. In addition, the research conclusion also has certain reference significance for other emerging market countries.

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