

The Characteristics of Politically Connected Firms

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Evidence from firms in 47 countries shows that companies connected with officials have higher leverage and higher market shares, but they underperform non-connected companies on an accounting basis. Differences between connected and unconnected firms become particularly pronounced when political links are stronger, and when connected firms operate in countries with higher levels of corruption.

I. Introduction

Despite the negative aggregate economic effect of corruption on aggregate investment and growth, a growing recent literature has pointed out that political connections may be beneficial to specific firms. There are plenty of anecdotes in the press identifying some of the possible *sources* of connected firms' relative advantage. In Indonesia, for example, a condition for IMF lending in the aftermath of the Asian financial crisis was that Suharto would sign an agreement that made companies controlled by his family give up lucrative government concessions, monopolies, licenses, government contracts, and tax breaks that protected them from competition in their domestic market.¹ Such benefits were found to be huge. In fact, when the Indonesian Bank Restructuring Agency published the names of Indonesia's main corporate borrowers, Suharto's children figured on the top of the list: "Second on the list, with 3.5 trillion rupiah in loans, is Timor Putra Nasional, the auto firm controlled by Tommy Suharto. Number five, with 2.9 trillion rupiah in debt, is a petrochemical company owned by the timber tycoon Prajogo Pangestu and Suharto's second son, Bambang Trihatmodjo."²

Despite a large number of such anecdotes in the press, academic studies reporting evidence on the sources of value of connections are limited to a few "benefits" such as preferential access to credit (Chiu and Joh, 2004, Cull and Xu, 2005, Dinç, 2005, Johnson and Mitton, 2003, and Khwaja and Mian, 2005), regulatory protection (Kroszner and Stratmann, 1998), and government aid to financially troubled firms (Faccio, Masulis and

¹ Rosenthal, A. M., "What Suharto Knew," The New York Times, 10 March 1998. Pura, Raphael, "Rising Resentment: Scrutiny of Suharto Wealth Is Intensifying in Jakarta," The Asian Wall Street Journal, 1 June 1998.

² Arnold, Wayne, "Indonesia's repo man: Eko Budianto has ordered corporate cronies from the Suharto regime to pay back the billions they owe Indonesian banks or he'll seize their assets, even if it means enlisting the army to help him," The New York Times, 31 July 1999.

McConnell, 2006). Additionally, most of these studies look at individual countries,³ and highly dissimilar types of connections, making any cross-country comparison virtually impossible.

By contrast, the purpose of this paper is to analyze the characteristics of connected firms across a large set of countries. In particular, I focus on characteristics that are likely to reflect benefits in terms of access to credit, tax discounts and market protection/monopolies. I have two main questions: First, are these alleged benefits common across countries, or are they specific of a few countries/types of connections? Second, are these benefits larger in countries with high corruption?

To address these questions, I use a new database built in Faccio (2006) that includes several thousand firms in 47 countries. A company is defined as connected with a politician if at least one of its large shareholders (anyone controlling at least 10 percent of voting shares) or one of its top directors (CEO, president, vice-president, or secretary) is a member of parliament, or a minister, or is closely related to a top politician or party. Close relationships can be through friendship, former heads of state or prime ministers, past directorships held, foreign politicians, or long-standing relationships with political parties. As recognized in Faccio (2006), relying on publicly available data sources yields an incomplete picture of connections. However, it seems reasonable to believe that those identified through public sources are more likely to represent durable ties (as opposed to campaign contributions).

I find that connected firms have higher leverage (which proxies preferential access to the credit market), pay lower taxes (which proxies tax discounts), and have stronger market power (which proxies for monopolies, government contracts, and protection in general), but poorer accounting performance than non-connected firms. They differ more dramatically

³ The lone exception is Faccio, Masulis and McConnell (2006).

from their peers when their political links are stronger. Differences are greater, for example, when companies are connected through owners rather than directors. Similarly, they are greater when the connection is with a minister, rather than with a member of the parliament. I additionally find that the financial characteristics of connected firms differ more from those of their non-connected peers in countries characterized by high levels of corruption. Results are robust to tests for reverse causality, outliers, the exclusion of individual countries and industries.

These results indicate that the distortions in the allocation of public resources often claimed by practitioners are common in both emerging and developed countries. However, the magnitude of this phenomenon is much larger in more corrupt systems. This last result is consistent with Faccio (2006) who, for a large sample of connections across developed and emerging markets, documents that firm value increases when an entrepreneur is elected to a top political position, especially in highly corrupt countries. Overall, this suggests caution in making inferences on the value and the size or frequency of benefits of political ties based on evidence from individual countries.

This work complements a growing literature studying the net effect of political connections on the value of firms. This evidence has largely shown that, on average, benefits exceed the costs. For example, Fisman's (2001) study of connections to Indonesian President Suharto shows that rumors of worsening in the health of Suharto significantly (and negatively) affected the prices of companies related to the President. Studies by Roberts (1990) and Goldman, Rocholl and So (2006) provide evidence that connections through campaign contributions on average add to the value of US firms.⁴ Ramalho (2003) and Feguson and Voth (2006) provide similar evidence for firms related to Brazilian Brazilian

⁴ Fisman, Fisman, Galef, and Khurana (2006), however, report that the value of companies tightly connected to Vice President Cheney is not affected by major health events involving the Vice President, or major political news.

President Collor de Mello, and German firms affiliated to the Nazi party (during its rise to power), respectively.

The rest of the paper is organized as follows. In section II, I define political connections. Section III presents evidence on the characteristics of connected firms. Section IV discusses the cross-country evidence. Section V provides a number of robustness tests. Section VI addresses reverse causality issues. Finally, Section VII concludes the paper.

II. Definition of political connections.

Data on political ties come from Faccio (2006), who analyzes political connections across 47 countries. In particular, a company is defined as politically connected if at least one of its large blockholders (anyone directly or indirectly controlling at least 10% of voting rights) or one of its top directors (e.g., CEO, president, etc) is a government minister or a head of state, or is closely related to a top politician or political party, or is a member of parliament.

Connections with government ministers include cases in which the politician himself is a director or a large shareholder, as well as cases where a politician's close relative covers such positions.

Close relationships include cases of friendship; former heads of state or prime ministers⁵ as well as former directorships held by current politicians; foreign politicians; and well-known relationships with political parties (Gomez and Jomo, 1997; and Johnson and Mitton, 2003). These connections need to involve the politician personally.

Finally, I include cases in which a member of parliament serves as a company's CEO, president, vice-president, or secretary, or controls at least 10 percent of shareholder votes. Because of data limitations, connections with a member of parliament are recorded only when members of parliament themselves are shareholders or top directors, but do not consider cases when such positions are held by relatives.

To establish the presence of connections, names of members of parliament or government are identified using the *Chiefs of State* directory (CIA, 2001) and the official website of the country's government and parliament. Names of top company directors are taken from Worldscope, Extel, company websites, and Lexis-Nexis. Major shareholders are identified from Claessens, Djankov, and Lang (2000), Faccio and Lang (2002), the web sites of the stock exchanges or their supervisory authorities, Worldscope, and Extel. *The Economist*, *Forbes* and *Fortune* are the sources of information for well-known cases of friendships. Additionally, studies by Agrawal and Knoeber (2001), Backman (1999), Gomez and Jomo (1997), Johnson and Mitton (2003), and Fisman (2001) are used to identify close relationships of the types listed above.

The dataset built in Faccio (2006) identifies 541 companies with political connections in 47 countries. To be included in the sample, financial information for these companies needs to be available in Worldscope for 1997. This reduces the sample to 458 connected firms, and 15,733 non-connected peers. Overall, there are 514 connections, as some companies have multiple ties. Of these, 307 connections (60%) involve top directors, while 207 cases (40%) involve large shareholders. In the majority of cases (304, or 59%) connections are with members of parliament, followed by close relationships (132 cases, or 26%) and connections with government ministers or heads of state (78 cases, or 15%).

Table 1 shows the country distribution of connections. The full list of connections is available at <http://www2.owen.vanderbilt.edu/marafaccio/AERConnectedFirms.xls>.

[Table 1 goes about here]

⁵ See from <http://www2.owen.vanderbilt.edu/marafaccio/AppendixA.doc> for data sources.

III. The characteristics of politically connected firms

This section studies the characteristics of connected firms, in terms of (i) leverage, (ii) taxation, (iii) market power, (iv) accounting performance, and (v) market-to-book ratio.

Before proceeding with the analysis, it is important to point out that at least three factors work against finding any statistical significance. First, to the extent that high leverage or low taxation reflects a benefit, this benefit may accrue mostly to unlisted firms connected with politicians. Since financial data are not widely available for unlisted firms, I cannot test this hypothesis. Second, benefits may be granted industry wide, rather than to specific firms. This is often true in the case of barriers to entry and tax relief. Stigler (1971) discusses several such cases in the U.S. Third, since many connected firms may operate as monopolies or quasi-monopolies, their industry-adjusted financial ratios will be exactly the same as those of their “peers.”

A. Leverage.

Leverage is a proxy for access to debt financing. *Leverage* is defined as the ratio of long-term debt (excluding the current portion of long-term debt, pensions, deferred taxes, and minority interest) to total capital $\times 100$. Total capital represents the total investment in the company. It is the sum of common equity, preferred stock, minority interest, long-term debt, non-equity reserves, and deferred tax liability in untaxed reserves.

To investigate the relationship between connectedness and leverage, all connections are initially pooled together (Table 3, Panel A); next, they are split between (i) connections through the owner and connections through a director (Panel B), or (ii) connections with the king, president or minister, connections with members of parliament and/or close relationships (Panel C).

Unless otherwise specified, all regressions control for whether the company is dually listed, recently privatized, or state-controlled, as well as size (market capitalization), country,

and industry, defined according to Campbell (1996).⁶ Dual listings (e.g., whether a company is listed on at least two stock markets) are identified from Worldscope. Lists of privatized firms are obtained from SDC Platinum; Bortolotti, Fantini and Siniscalco (2001), Dewenter and Malatesta (1997), and Megginson, Nash, and Van Randenborgh (1994), and are additionally updated with data kindly provided by Professor Megginson. Extel, Worldscope, Claessens *et al.* (2000), Faccio and Lang (2002), and the 2000 “Fortune 500 Global List” are used to identify government ownership.

Table 2 provides univariate statistics for the sample of connected firms and their non-connected peers. It shows that the leverage of connected firms is significantly higher than that of non-connected peers (28.14% vs. 24.19%). Connected firms also enjoy significantly lower tax rates (29.67% vs 32.7%), have larger market shares (18.04% vs. 9.48%). The accounting performance and market-to-book ratios are not different from a statistical standpoint. However, connected firms are substantially larger (3 times as large on average, in terms of market value of equity); they have more government ownership, and are more likely to be former state-owned enterprises.

[Table 2 goes about here]

Each Panel in Table 3 refers to different sets of regressions, using different measures of connections. An alternative approach would be to look at changes in leverage ratios (as well as taxation and market share) before and after the connection’s initial date. Only for a small proportion of firms can a precise event date be identified, however.

Connected firms have significantly higher leverage than non-connected ones. Furthermore, leverage is higher when connections are stronger. For example, the excess

⁶ Industries are defined as follows: petroleum (SIC 13, 29), consumer durables (SIC 25, 30, 36-37, 50, 55, 57), basic industry (SIC 10, 12, 14, 24, 26, 28, 33), food and tobacco (SIC 1-2, 9, 20-21, 54), construction (SIC 15-17, 32, 52), capital goods (SIC 34-35, 38), transportation (SIC 40-42, 44-45, 47), utilities (SIC 46, 48-49),

leverage is higher for firms connected through their owner, rather than for firms connected through a director. Leverage is the highest in cases of close relationships (coeff. = 8.29), the next-highest for firms connected with the king, the president, or a minister (coeff. = 3.99), and lowest for connections with a member of parliament (coeff. = 1.28). Results are robust to the exclusion of financial companies.

[Table 3 goes about here]

While connections ease debt financing (i.e., by reducing credit rationing constraints), connected companies do not necessarily enjoy a benefit in the form of reduced costs of debt financing. For the whole sample, the average interest rate on debt (interest paid/total debt) is only marginally lower for connected firms (a difference of -0.07 percent) and far from significance (this result is not formally reported in a table). For companies connected with a minister, however, the average interest rate on debt is lower by 1.14 percent (p-value = 0.05), again supporting the view that connections with more influential politicians are worth more.

B. Taxation.

The variable *tax* is defined as the ratio of Income Taxes / Pretax Income \times 100. In the calculation of the tax variable, companies with negative earnings and companies that display a tax rate above 100 percent are excluded.

The results indicate that connected firms enjoy low taxation. The difference between the tax rate of connected versus unconnected firms, however, is not statistically significant. Results are significant for the subgroup of firms that display stronger connections: companies connected through their owner. Surprisingly, connections with the king, president, or a minister are associated with insignificantly higher taxation.

textiles and trade (SIC 22-23, 31, 51, 53, 56, 59), services (SIC 72-73, 75-76, 80, 82, 87, 89), leisure (SIC 27, 58, 70, 78-79), and financial companies (SIC 60-69).

One problem with analysis of taxation is that tax breaks may be granted industry wide, rather than for one connected firm, leading to insignificant differences across firms. To assess this possibility, I rerun all simulations eliminating industry dummies (results not reported for space reasons). Results are essentially unchanged after the exclusion of industry dummies. A second limitation is that, while my tax variable captures tax breaks in the form of special deductions, it does not reflect tax savings that occur when companies are allowed to under-report income.

C. Market share.

Market share may come either from a real monopolistic position, from some advantage in obtaining concessions or licenses, as well as from sizeable government contracts. Large firms may find connections more valuable, and therefore be more likely to establish them. Similarly, the stakes may be higher for firms that have monopoly power; therefore, these firms may have more incentive to establish connections. *Market share* is measured as the firm's market capitalization as a proportion of the total market capitalization of all firms in the same country and two-digit SIC industry (percent). I use market cap instead of sales because the sample includes financial companies. However, results are similar if I use sales instead of market capitalization and exclude financial companies. As the market share variable is already defined at the country- and industry-level, in the regressions I do not control for country and industry effects.

The evidence on the market share variable is particularly strong. Connected firms enjoy a significantly higher market share. Market share is notably higher when the connection is through the owner (coeff. = 11.60) rather than through a director (coeff. = 1.89). Similarly, the market share is higher when the connection is through close relationships (coeff. = 13.95), than when it is with the king, president or a minister (coeff. = 8.02). The market share is only "marginally" higher (coeff. = 2.09) when connections are with a member of parliament.

These results confirm that stronger connections are associated with sharper differences between connected and non-connected firms.

D. Accounting performance and market valuation.

Here, there are two measures of company performance/value of interest:

- *Return on equity* (ROE) is the ratio of [(net income before preferred dividends – preferred dividend requirement) / last year's common equity] × 100
- *Market-to-book* is computed as the ratio of market value of (ordinary and preferred) equity plus the book value of debt, divided by the sum of book value of equity plus book value of debt.

One might expect connected firms to report better performance because of benefits obtained from connections. Furthermore, better performing firms may become connected to *maintain* their power and performance. Poorly performing companies may become connected for two reasons. First, they may look at connections as a way to obtain relief from some of their problems. Second, firms owned or managed by politicians may be poor performers because their managers lack the skills needed to run a successful company. In both cases, connected firms may underperform even though connections may be value-enhancing. Connected firms might also have to devote substantial resources to their rent-seeking activities, which may well eliminate any advantage from the rents they receive (see Fisman, 2001; Johnson and Mitton, 2002). De Soto (1989) argues that, in Peru, bribes replace the taxes that companies do not pay. Shleifer and Vishny (1994) note the costs of relationships between politicians and firms. While politicians will be willing to provide subsidies to firms run by independent managers, they will want firms to pay them back by pursuing social policy goals.⁷

⁷ To test for the possible level of overemployment by connected firms, I compute the ratio of the number of employees over total assets. I regress this ratio against the connections proxies used above, as well as various

Results indicate that connected firms are poor performers. The ROE of connected firms is lower by 5.38 percentage points (p-value < 0.01), and their market-to-book ratio is lower by 0.48 (difference only marginally significant). There is no clear picture as to which type of connection is associated with lower profitability. All subgroups of connected firms exhibit significantly lower ROE than their non-connected peers. Companies connected through the weakest relationships have the highest market valuation.

Given the existing evidence on the value of connections, my interpretation is that the poor accounting performance of connected firms likely reflects ex-ante underperformance. In other words, the performance of these companies is low even though political connections on average add value to the sample firms.

IV. Cross country evidence

A. Country-level results.

Analysis of country-level results is important because the benefits of political connections may vary by country. In the British system, a member of Parliament has no unusual power because voting occurs by party, while representatives in the U.S. vote independently on many issues. As in many countries there are just a handful of connected firms, I focus on the top countries in terms of (i) number of connected firms, (ii) proportion of politically connected listed firms, or (iii) connected firms as proportion of the market capitalization (omitting Ireland because it has only two connected firms).

control factors. In no case is there a significant difference in the level of employment by connected vs. non-connected firms (results not reported to save space). The difference is generally very small in economic terms (the coefficient of the connection dummy is -0.001), far from significant, and generally has the wrong sign, i.e., connected firms employ fewer people. The data do not allow examination of other interesting sources of costs across countries, e.g., the remuneration of politicians who sit on boards of directors or payments made to politicians, whether legally (i.e., campaign contributions) or illegally.

The results are in Table 4. For all except Italy, connected firms display higher leverage. Leverage is significantly higher for connected firms in Malaysia, Russia, and Thailand. In Italy, leverage is not only lower, but also significantly so. In all seven countries connected firms are subject to lower rates of taxation, but significantly lower only in Russia, where connected firm tax rates indicate an amazing discount of 73.27 percentage points.

For five of the seven countries, connected firms have higher market share. This relationship is statistically significant and economically large for the Russian sample. Connected firms exhibit lower ROE in all countries; the difference is significant in Russia and Thailand. Firms in the U.K. exhibit significantly lower market-to-book ratio. Connected firms (insignificantly) out-perform in Japan, Malaysia, and Russia.

[Table 4 goes about here]

B. Where are differences greatest?

To test whether connections are more important in countries with higher levels of corruption, I analyze a number of interaction dummies between connections and corruption. Table 5 shows that differences between connected and non-connected firms are particularly sharp in highly corrupt systems.

As proxy for corruption, I use the average of four indexes used elsewhere as measures of perceived corruption:⁸ the Business International index, the International Country Risk index, the Kaufmann, Kraay and Zoido-Lobaton index (<http://www.worldbank.org/wbi/governance/datasets.html#dataset>), and Transparency International index (www.transparency.org). Corruption indexes are rescaled from 0 to 10, so that lower scores correspond to lower levels of corruption. The Business International's (Economist Intelligence Unit) index assesses the "degree to which business transactions involve corruption and questionable payments". This assessment is compiled based upon questionnaires filled in by BI's network of

correspondents and analysts based in the countries covered, and reflect their perception of corruption. The International Country Risk's assessment of the corruption in government indicates whether "high government officials are likely to demand special payments" and "illegal payments are generally expected throughout lower levels of government" in the form of "bribes connected with import and export licenses, exchange controls, tax assessment, policy protection, or loans." The Kaufmann *et al.* corruption index is defined as the exercise of public power for private gains, and measures various aspects, ranging from the frequency of "additional payments to get things done" to the effects of corruption on the business environment. "The indicator reflects the statistical compilation of perceptions of the quality of governance of a large number of survey respondents in industrial and developing countries, as well as non-governmental organizations, commercial risk rating agencies, and think-tanks during 1997 and 1998". Finally, Transparency International measures the "degree to which corruption is perceived to exist among public officials and politicians. It is a composite index, drawing on 14 different polls and surveys from seven independent institutions, carried out among business people and country analysts, including surveys of residents, both local and expatriate." Corruption represents "the abuse of public office for private gain."

In the leverage regression, the coefficient of the interaction between the general connection variable and corruption is 2.04 (significant at the 1 percent level). This implies excess leverage (over non-connected firms) of 2.17 percentage points in the country with the lowest corruption index (the minimum in the sample is 3.2), and 11.35 percentage points in the country with the highest corruption index. Tax rates of connected firms are also lower in more corrupt countries, although insignificantly so. The market share of connected firms increases significantly with corruption (coefficient = 2.58, p-value < 0.01).

⁸ The same results obtain if the individual indexes are used.

Interestingly, while the accounting performance of connected firms significantly deteriorates with the level of corruption in the country, their market-to-book ratio does not change. In countries with higher corruption, this may suggest that while connected firms are relatively inefficient, connections provide them benefits that allow to more than compensate for any lack of management skills.

Table 5 also confirms that the type and strength of connections matters. For leverage and market share a connection through the owner, rather than through a director, has a greater marginal effect when corruption increases. Firms connected with the king, president, or a minister exhibit increasing differences in their leverage as corruption increases, while firms connected through close relationships and those connected with a member of Parliament exhibit greater differences in their ROE as corruption increases.

[Table 5 goes about here]

V. Robustness tests.

I perform a number of robustness tests in order to assess the robustness of the previous results. The sample is first split between countries with corruption above the sample median (Table 6, Panel A), and countries with corruption equal to or below the median (Panel B). The excess leverage and the market share of connected firms are significant in highly corrupt countries; market share is also significant in countries with relatively low corruption. The marginal impact of connections on leverage appears particularly great in countries with higher corruption. As before, taxation is never significant. For both samples, the ROE of connected firms is significantly worse. This poorer accounting performance does not result in below-market valuation when the connected firm operates in a country with higher corruption, however.

Panel C of Table 6 excludes Malaysia and Indonesia, as Fisman (2001) and Johnson and Mitton (2003) have already documented substantial effects associated with connections in

those countries. The basic results continue to hold after excluding these two countries. Exclusion of the UK and the US (with most firms) does not change the results, either.

Panel D excludes financial firms (SIC 6000-6999). Non-financial connected companies continue to exhibit significantly higher leverage than their peers, and significantly greater market shares. Once again, they significantly underperform on an accounting basis.

Panel E excludes government-controlled and privatized firms, whose objectives may be other than to maximize shareholder value, and which may exhibit abnormal ratios. Results are qualitatively unchanged after this exclusion. Finally, results do not appear to be driven by outliers (Panel F). Key results in fact are robust to truncating the data at the 5th and 95th percentiles of observations for the dependent variable.

[Table 6 goes about here]

VI. Endogeneity/causality concerns.

A. Anecdotal evidence.

Anecdotal evidence suggests that connected firms enjoy easier access to debt financing from state-controlled banks, even though they are not worth this extra credit. For example, in 1982, a company owned by Daim Zainuddin (former Malay Deputy Prime Minister and close friend of Prime Minister Mahathir), Baktimu Sdn Bhd, acquired a 33 percent stake in Sime UEP, for RM 75m cash. “Part of the loan for the acquisition, amounting to RM 40m, was obtained from the Singapore branch of the Union Bank of Switzerland; the loan was approved by the Union Bank only after the government-owned Bank Bimiputra issued a guarantee on Bakrimu’s behalf as security for the credit” (Asian Wall Street Journal, Aug. 24, 1984; Gomez and Jomo, 1997, pp. 54-55). In 1986, François Pinault, the controlling shareholder of Pinault SA (France) obtained a 250 million FF grant from the government (US\$40 million). By 1997, Crédit Lyonnais’ credits and stakes in Pinault had reached a value of 12 billion FF (US\$2.14 billion) (Calvi and Meurice, 1999; Gay and Monnot, 1999).

Similarly, Italian Prime Minister Silvio Berlusconi was accused of financing his television empire through the “large helping hand [of] public-sector banks, which provided bigger loans than Fininvest’s creditworthiness seemed to merit” (The Economist, 2001a).

Similarly, evidence suggests that connections lead to preferential tax treatment. In 1996, Russian President Boris Yeltsin signed a decree giving tax breaks and other aid potentially worth more than US\$ 1 billion to Norilsk Nickel, one of the country’s richest and most influential industrial giants. Norilsk was controlled by Uneximbank, whose president Vladimir Potanin was shortly thereafter appointed deputy prime minister (The Moscow Times, 1996). Similarly, when in 1996 Pinault SA obtained the cash contribution from the French government, it was also given a tax exemption of 250 million FF (Gay and Monnot, 1999).

Anecdotes on market power are legion. As described in Backman (1999, pp. 266-268), “money from the [Suharto] family’s start-up capital came from having themselves granted import monopolies. One of the earliest such monopolies was an exclusive license for the import of raw materials for plastic, granted in 1984.” Similarly, Malay crony capitalists are rent-seeking “private sector businessmen who benefit enormously from close relations” with government leaders by obtaining “not only protection from foreign competition, but also concessions, licenses, monopoly rights, and government subsidies” (Yoshihara, 1988, pp. 3-4, 71). Relationships became so widespread that by 1995 almost 20 percent of the Malay ruling party’s division chairmen were millionaire businessmen (Gomez and Jomo, 1997, p. 26). In the Philippines, connected firms could easily obtain licenses by paying a 10 percent fee (Hutchcroft, 1998, p.73).

B. Formal tests.

The anecdotal evidence reported above supports the view that greater market share, higher leverage, and/or lower taxation arise as a consequence of connections. However, the

relationship between market share (and other “benefits”) and political connections is potentially endogenous: the owner or manager of a large and important firm in the country may simply have a greater chance to enter politics.

I first attempt to control for reverse causality in the results by distinguishing connections based on the political experience of the politician involved. The idea being that, if higher leverage proxies for preferential access to credit that follow the connection, then this “excess leverage” should increase with the length of the connection. For this purpose I use the following two variables: *Connected with seasoned politician* is a dummy that equals one if the relevant connection had at least ten years of tenure as a politician in 1997;⁹ *Connected with unseasoned politician* is a dummy that equals one if the politician was appointed after 1987.

Results in Table 7 show that companies connected to a seasoned politician display significantly lower tax rates than their peers, while firms connected to a younger politician do not. Second, firms connected with a seasoned politician enjoy higher market share (coeff. = 9.29) than firms connected with an unseasoned politician (coeff. = 5.25). However, a connection with an unseasoned politician (rather than with a seasoned politician) is associated with insignificantly higher leverage than a connection with a more senior official (coeff. = 4.34 vs. 4.21). These results are overall consistent with the idea that access to privileges increases (benefits have time to “pile up”) when connections are dated longer.

[Table 7 goes about here]

Alternatively, the direction of causality could formally be tested by using a two-stage approach. Hence, I re-run all regressions using such an approach.¹⁰ In particular, in the first

⁹ The date of initial appointment of each politician is determined from sources listed in <http://www2.owen.vanderbilt.edu/marafaccio/AppendixA.doc>, Panel G. When I cannot identify the initial year of appointment, I classify the firm as connected with an unseasoned politician.

¹⁰ Results are available from the author upon request.

stage I regress each connections dummy against firm size (log of the lagged value of market capitalization, or log of the lagged value of total assets); lagged accounting performance (i.e., ROE); and country and industry dummies. I then use the predicted values of connections as regressors in the second stage, and re-run the previous regressions. All second-stage results are consistent (in sign and significance) with the results discussed earlier.

VII. Conclusion.

Several findings on the relationship between politics and business are revealed in this examination of connected corporations across several countries. Connected companies differ sharply from those not connected. On average, leverage is higher in connected corporations. Connected firms also enjoy lower taxation, and they display much greater market power. Connected firms display lower ROE and market valuation than their peers. These results are generally consistent across countries. This evidence is consistent with, and complements the results in previous studies of preferential access to credit by politically connected firms. For example, Kwaja and Mian (2004) show that Pakistani connected firms enjoy greater access to debt financing and, although they exhibit significantly higher default rates, they pay no higher interest rates than their non-connected peers.¹¹ To the best of my knowledge, however, this is the first study to document systematically tax discounts or strong market positions to the advantage of connected entrepreneurs.

I also show that differences between connected and non-connected firms become more important when political links are stronger. Greater differences are found when companies are connected through owners (rather than directors), through close relationships, or connected with a minister (rather than a member of parliament). Differences are also greater when the firm operates in countries with higher degrees of corruption. This last result, in

¹¹ Empirical evidence of higher borrowing by politically connected firms is also reported in Chiu and Joh (2004), Cull and Xu (2005), and Johnson and Mitton (2003).

particular complements the findings in Faccio (2006), who shows larger net benefits of connections in more corrupt countries. This paper indicates some of the channels through which such increase in value is realized.

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Table 1. Country Distribution of Firms with Political Connections.

No. of firms with available data is the number of firms with financial data available in Worldscope. *No. of connected firms* is the number of firms whose controlling shareholder or top director sits on a national parliament, government, is king/president of the country, or is closely related to a top politician/political party

Country	No. of firms with available data	No. of connected firms	Country	No. of firms with available data	No. of connected firms
Argentina	34	0	New Zealand	47	0
Australia	257	2	Norway	113	0
Austria	87	1	Peru	24	0
Belgium	104	5	Philippines	100	5
Brazil	127	0	Poland	32	0
Canada	438	6	Portugal	60	3
Chile	71	2	Russian Fed.	11	4
Czech Rep.	58	0	Singapore	215	16
Denmark	172	7	South Africa	188	0
Finland	91	2	South Korea	271	7
France	519	19	Spain	138	1
Germany	507	10	Sweden	172	3
Greece	90	1	Switzerland	180	4
Hong Kong	381	7	Thailand	204	32
Hungary	26	1	Turkey	78	1
India	257	8	U.K.	1,417	119
Indonesia	116	27	U.S.A.	6,007	13
Ireland	52	2	Venezuela	17	0
Israel	47	2	Colombia	32	0
Italy	178	21	Luxembourg	23	1
Japan	2,322	30	Sri Lanka	18	0
Malaysia	418	81	Taiwan	237	7
Mexico	68	7	Zimbabwe	8	0
Netherlands	179	1			
			All countries	16,191	458

Table 2: Descriptive statistics

Connected companies are those whose controlling shareholder or top director sits on a national parliament, government, is king/president of the country, or is closely related to a top politician/political party. *Leverage* is defined as long-term debt (excluding the current portion of long-term debt, pensions, deferred taxes, and minority interest) over total capital $\times 100$. Total capital represents the total investment in the company: the sum of common equity, preferred stock, minority interest, long-term debt, non-equity reserves, and deferred tax liability in untaxed reserves. *Tax* is income taxes over pretax income $\times 100$. *Market share* is firm's market capitalization over the total market capitalization of all firms in the same country and two-digit SIC industry (%). *ROE* is computed as [(Net income before preferred dividends – preferred dividend requirement) / last year's common equity] $\times 100$. *Market-to-book* is the ratio of market value of (ordinary and preferred) equity plus the book value of debt, divided by the sum of book value of equity plus book value of debt. *Mkcap* is the company's market capitalization, defined as market price as of year end \times common shares outstanding (in millions of US\$). *State* represents the voting stake held by the central and local government. It is calculated by identifying the weakest link in each control chain linking the corporation to the controlling shareholder, then summing the percentage control rights across these links. *Privatized* is a dummy that equals 1 if the company is a privatized firm, and 0 otherwise. *Dually listed* is a dummy that equals 1 if the company is listed on at least two stock markets, and 0 otherwise.

	Connected		Non-connected		T-test	Kruskal-Wallis test	Test of proportion
	Mean	Median	Mean	Median			
Leverage	28.14	22.67	24.19	18.62	0.00	0.00	
Tax	29.67	30.00	32.70	34.43	0.00	0.00	
Market share	18.04	5.26	9.48	0.61	0.00	0.00	
ROE	6.29	8.78	6.87	8.63	0.78	0.50	
Market-to-book	2.09	1.29	2.77	1.46	0.66	0.00	
Mkcap (\$M)	3,634.65	309.41	1,265.04	166.85	0.00	0.00	
State (%)	1.79	0.00	0.88	0.00	0.00	0.04	
Privatized (%)	4.37		1.33				0.00
Dually listed (%)	21.40		20.78				0.75

Table 3: Characteristics of Connected Firms.

All regressions control for whether the firm has recently been privatized, or is state-controlled, or is dually listed, as well as for firm size ($\ln\{\text{mkcap}\}$). Leverage, Tax, ROE, and Stock return regressions include country and industry dummies. Industry is defined according to Campbell (1996). Coefficients for control variables are not reported to save space. *Leverage* is defined as long-term debt (excluding the current portion of long-term debt, pensions, deferred taxes, and minority interest) over total capital $\times 100$. Total capital represents the total investment in the company: the sum of common equity, preferred stock, minority interest, long-term debt, non-equity reserves, and deferred tax liability in untaxed reserves. *Tax* is income taxes over pretax income $\times 100$. *Market share* is firm's market capitalization over the total market capitalization of all firms in the same country and two-digit SIC industry (%). *ROE* is computed as [(Net income before preferred dividends – preferred dividend requirement) / last year's common equity] $\times 100$. *Market-to-book* is the ratio of market value of (ordinary and preferred) equity plus the book value of debt, divided by the sum of book value of equity plus book value of debt. *Connected* is a dummy that equals 1 if the a company's controlling shareholder or top director sits on a national parliament, government, is king/president of the country, or is closely related to a top politician/political party, and 0 otherwise. *Connected through the owner* is a dummy that equals 1 if the company's controlling shareholder sits in a national parliament, holds office in the government, is the head of state, or is closely related to a top politician/political party, and 0 otherwise. *Connected through a director* is a dummy that equals 1 if a company's top director sits in a national parliament, holds office in the government, is the head of state, or is closely related to a top politician/political party, and 0 otherwise. *Connected with king, president or minister* is a dummy that equals 1 if a controlling shareholder or top director of the company holds a government office, or is king/president of the country, and 0 otherwise. *Connected with MP* is a dummy that equals 1 if a controlling shareholder or top director of the company sits in a national parliament, and 0 otherwise. *Close relationships* is a dummy that equals 1 if a controlling shareholder or top director of a company is closely related to at least one top politician, and 0 otherwise. Close relationships include: (i) friendship, (ii) former heads of state or prime ministers (and their relatives), (iii) directorships covered by current politicians in 1997, who recently left the firm, (iv) connections with foreign politicians, and (v) well-known cases of relationships with political parties. Standard errors (reported in parentheses below the coefficients) are computed using Huber/White correction for heteroskedasticity (see White, 1980). ^{a, b, c}: Significantly different from zero at the 1%, 5%, or 10% level. Each panel refers to separate regressions, and each column to a different regression.

	Leverage	Tax	Market share	ROE	Market-to-book
Panel A: General results					
Connected	3.51 ^a (1.29)	-0.73 (0.88)	6.30 ^a (1.21)	-5.38 ^a (1.47)	-0.48 ^c (0.29)
Panel B: Director vs. shareholder connection					
Connected through the owner	4.27 ^b (1.95)	-2.60 ^c (1.47)	11.60 ^a (1.95)	-5.76 ^b (2.43)	-0.11 (0.34)
Connected through a director	2.08 (1.62)	0.33 (1.02)	1.89 (1.44)	-3.76 ^b (1.72)	-0.66 ^c (0.34)
Panel C: Connections with members of parliament vs. connections with ministers					
Connected with king, president, or minister	3.99 (3.83)	0.83 (2.54)	8.02 ^b (3.18)	-6.96 ^c (4.18)	0.36 (0.61)
Connected with MP	1.28 (1.62)	-1.01 (1.01)	2.09 (1.39)	-3.58 ^b (1.73)	-0.75 ^b (0.36)
Close relationships	8.29 ^a (2.31)	-0.75 (2.05)	13.95 ^a (2.63)	-8.78 ^a (3.05)	-0.30 (0.39)

Table 3: Characteristics of Connected Firms (Cont'd).

	Leverage	Tax	Market share	ROE	Market-to-book
	Memo items				
N. Obs. Panels A–C	16,138	12,304	16,147	16,190	16,143
Country dummies	Yes	Yes	No	Yes	Yes
Industry dummies	Yes	Yes	No	Yes	Yes
Estimation technique	Tobit	Tobit	Tobit	OLS	OLS

Table 4: Country-Level Regressions.

All regressions except market share control for whether the firm has recently been privatized, and whether it is state-controlled, dually listed, operates in the financial industry (SIC between 6000 and 6999), as well as for firm size ($\ln\{\text{mkcap}\}$). The market share regressions control for all these effects except industry. All regressions include an intercept. Coefficients for these control variables are not reported save space. *Leverage* is defined as long-term debt (excluding the current portion of long-term debt, pensions, deferred taxes, and minority interest) over total capital $\times 100$. Total capital represents the total investment in the company: the sum of common equity, preferred stock, minority interest, long-term debt, non-equity reserves, and deferred tax liability in untaxed reserves. *Tax* is income taxes over pretax income $\times 100$. *Market share* is firm's market capitalization over the total market capitalization of all firms in the same country and two-digit SIC industry (%). *ROE* is computed as $[(\text{Net income before preferred dividends} - \text{preferred dividend requirement}) / \text{last year's common equity}] \times 100$. *Market-to-book* is the ratio of market value of (ordinary and preferred) equity plus the book value of debt, divided by the sum of book value of equity plus book value of debt. *Connected* is a dummy that equals 1 if the a company's controlling shareholder or top director sits on a national parliament, government, is king/president of the country, or is closely related to a top politician/political party, and 0 otherwise. Standard errors (reported in parentheses below the coefficients) are computed using Huber/White correction for heteroskedasticity (see White, 1980). ^{a, b, c}: Significantly different from zero at the 1%, 5%, or 10% level. Horizontal lines separate different regressions, and each column refers to a different regression.

	Leverage	Tax	Market share	ROE	Market-to-book
Indonesia					
Connected	4.26 (6.08)	-1.56 (6.49)	-5.21 (7.28)	-10.32 (7.10)	-0.18 (0.14)
R ² adj.; N. Obs.	0.07; 116	<0; 66	<0; 106	0.07; 115	0.28; 116
Italy					
Connected	-11.15 ^b (5.47)	-3.99 (3.52)	3.89 (5.55)	-1.54 (2.61)	-0.52 (0.43)
R ² adj.; N. Obs.	0.23; 178	<0; 149	0.04; 178	0.18; 173	0.16; 178
Japan					
Connected	0.59 (4.78)	-4.08 (2.62)	2.18 (1.65)	-0.02 (2.54)	0.24 (0.15)
R ² adj.; N. Obs.	0.02; 2,322	0.01; 1,786	0.16; 2,322	0.03; 2,314	0.10; 2,322
Malaysia					
Connected	12.31 ^a (2.92)	-0.79 (2.55)	1.52 (3.31)	-3.80 (4.52)	0.19 (0.77)
R ² adj.; N. Obs.	0.05; 418	0.06; 300	0.07; 418	0.01; 391	0.04; 418
Russia					
Connected	9.79 ^a (2.26)	-73.27 ^b (31.26)	88.32 ^a (30.92)	-7.48 ^c (2.21)	0.61 (1.18)
R ² adj.; N. Obs.	0.47; 11	0.19; 8	0.08; 11	0.58; 6	0.24; 11
Thailand					
Connected	20.44 ^a (7.53)	-3.40 (5.38)	-9.20 ^b (4.39)	-24.65 ^a (8.83)	-0.06 (0.24)
R ² adj.; N. Obs.	0.07; 204	<0; 119	0.27; 204	0.02; 204	0.03; 204
U.K.					
Connected	3.55 (2.37)	-1.48 (1.16)	2.35 (1.74)	-5.28 (4.28)	-0.70 ^b (0.34)
R ² adj.; N. Obs.	0.05; 1,417	0.04; 1,200	0.15; 1,416	0.03; 1,367	0.04; 1,417
Estim. technique	Tobit	Tobit	Tobit	OLS	OLS

Table 5: Differences Across Countries.

Panels report different regressions, and each column refers to a different regression. All regressions control for whether the firm is politically connected, has recently been privatized, is state-controlled, dually listed, as well as for firm size ($\ln\{mkcap\}$). Leverage, Tax, ROE, and Stock return regressions include country and industry dummies. Industry is defined according to Campbell (1996). Coefficients for these control variables are not reported to save space. *Leverage* is defined as long-term debt (excluding the current portion of long-term debt, pensions, deferred taxes, and minority interest) over total capital $\times 100$. Total capital represents the total investment in the company: the sum of common equity, preferred stock, minority interest, long-term debt, non-equity reserves, and deferred tax liability in untaxed reserves. *Tax* is income taxes over pretax income $\times 100$. *Market share* is firm's market capitalization over the total market capitalization of all firms in the same country and two-digit SIC industry (%). *ROE* is computed as $[(\text{Net income before preferred dividends} - \text{preferred dividend requirement}) / \text{last year's common equity}] \times 100$. *Market-to-book* is the ratio of market value of (ordinary and preferred) equity plus the book value of debt, divided by the sum of book value of equity plus book value of debt. *Connected* is a dummy that equals 1 if the a company's controlling shareholder or top director sits on a national parliament, government, is king/president of the country, or is closely related to a top politician/political party, and 0 otherwise. *Connected through the owner* is a dummy that equals 1 if the company's controlling shareholder sits in a national parliament, holds office in the government, is the head of state, or is closely related to a top politician/political party, and 0 otherwise. *Connected through a director* is a dummy that equals 1 if a company's top director sits in a national parliament, holds office in the government, is the head of state, or is closely related to a top politician/political party, and 0 otherwise. *Connected with king, president or minister* is a dummy that equals 1 if a controlling shareholder or top director of the company holds a government office, or is king/president of the country, and 0 otherwise. *Connected with MP* is a dummy that equals 1 if a controlling shareholder or top director of the company sits in a national parliament, and 0 otherwise. *Close relationships* is a dummy that equals 1 if a controlling shareholder or top director of a company is closely related to at least one top politician, and 0 otherwise. Close relationships include: (i) friendship, (ii) former heads of state or prime ministers (and their relatives), (iii) directorships covered by current politicians in 1997, who recently left the firm, (iv) connections with foreign politicians, and (v) well-known cases of relationships with political parties. Standard errors (reported in parentheses below the coefficients) are computed using Huber/White correction for heteroskedasticity (see White, 1980). ^{a, b, c}: Significantly different from zero at the 1%, 5%, or 10% level.

	Leverage	Tax	Market share	ROE	Market-to-book
Panel A: General results					
Connected	-4.36 ^b (2.14)	-1.37 (1.44)	-1.46 (2.03)	5.54 ^b (2.37)	-0.05 (0.55)
Connected \times Ave. Corruption	2.04 ^a (0.66)	-0.45 (0.52)	2.58 ^a (0.61)	-2.99 ^a (0.77)	-0.36 (0.37)
Panel B: Director vs. shareholder connection					
Connected through the owner	-13.46 ^a (4.00)	-0.34 (3.18)	1.22 (4.38)	10.87 ^b (4.73)	0.19 (0.77)
Connected through a director	-0.85 (2.63)	-2.55 (1.72)	-1.71 (2.43)	2.59 (2.83)	-0.08 (0.52)
Connected through the owner \times Ave. Corruption	3.54 ^a (0.96)	-0.80 (0.81)	2.33 ^b (0.98)	-3.90 ^a (1.15)	-0.36 (0.35)
Connected through a director \times Ave. Corruption	0.95 (1.15)	0.52 (0.86)	1.85 ^c (0.98)	-1.57 (1.13)	-0.35 (0.33)

Table 5: Differences Across Countries (Cont'd).

	Leverage	Tax	Market share	ROE	Market-to-book
Panel C: Connections with members of parliament vs. connections with ministers					
Connected with king, president, or minister	-16.72 ^b (7.95)	1.98 (5.17)	-0.80 (7.12)	2.19 (6.31)	0.98 (1.31)
Connected with MP	-1.37 (2.81)	-2.32 (1.76)	-1.24 (2.30)	5.22 ^c (2.96)	-0.09 (0.57)
Close relationships	-7.95 (5.06)	-0.18 (4.62)	4.65 (6.82)	5.52 (6.38)	0.06 (0.90)
Connected with king, president, or minister × Ave. Corruption	4.24 ^a (1.56)	-1.38 (1.07)	1.94 (1.48)	-2.52 (1.68)	-0.48 (0.42)
Connected with MP × Ave. Corruption	0.89 (1.29)	0.03 (0.90)	1.71 ^c (0.90)	-2.54 ^b (1.17)	-0.40 (0.37)
Close relationships × Ave. Corruption	2.78 ^b (1.23)	-0.63 (1.18)	2.13 (1.47)	-3.10 ^b (1.39)	-0.39 (0.36)
Memo items					
N. Obs. Panels A–C	16,138	12,304	16,147	16,190	16,143
Country dummies	Yes	Yes	No	Yes	Yes
Industry dummies	Yes	Yes	No	Yes	Yes
Estimation technique	Tobit	Tobit	Tobit	OLS	OLS

Table 6: Robustness Tests.

Panels report different regressions, and each column refers to a different regression. Generally, all regressions control for whether the firm is politically connected, has recently been privatized, is state-controlled, dually listed, as well as for firm size ($\ln\{\text{mkcap}\}$). Regressions in Panel E, however, do not control for whether the firm has recently been privatized or is state-controlled. Leverage, Tax, ROE, and Stock return regressions include country and industry dummies. Industry is defined according to Campbell (1996). Coefficients for these control variables are not reported to save space. *Leverage* is defined as long-term debt (excluding the current portion of long-term debt, pensions, deferred taxes, and minority interest) over total capital $\times 100$. Total capital represents the total investment in the company: the sum of common equity, preferred stock, minority interest, long-term debt, non-equity reserves, and deferred tax liability in untaxed reserves. *Tax* is income taxes over pretax income $\times 100$. *Market share* is firm's market capitalization over the total market capitalization of all firms in the same country and two-digit SIC industry (%). *ROE* is computed as [(Net income before preferred dividends – preferred dividend requirement) / last year's common equity] $\times 100$. *Market-to-book* is the ratio of market value of (ordinary and preferred) equity plus the book value of debt, divided by the sum of book value of equity plus book value of debt. *Connected* is a dummy that equals 1 if the a company's controlling shareholder or top director sits on a national parliament, government, is king/president of the country, or is closely related to a top politician/political party, and 0 otherwise. Standard errors (reported in parentheses below the coefficients) are computed using Huber/White correction for heteroskedasticity (see White, 1980). a, b, c: Significantly different from zero at the 1%, 5%, or 10% level.

	Leverage	Tax	Market share	ROE	Market-to-book
Panel A: Countries with corruption above the sample median					
Connected	5.35 ^a (1.89)	-2.37 (1.50)	3.90 ^b (1.78)	-5.25 ^b (2.09)	-0.67 (0.63)
R ² adj.; N. Obs.	NA; 5,241	NA; 3,927	0.03; 5,244	0.21; 5,084	0.02; 5,242
Panel B: Countries with corruption equal or below the sample median					
Connected	1.69 (1.72)	0.68 (1.00)	5.22 ^a (1.64)	-5.14 ^b (2.12)	-0.47 ^b (0.20)
R ² adj.; N. Obs.	NA; 10,897	NA; 8,377	0.02; 10,903	0.06; 10,310	<0; 10,901
Panel C: All countries except Malaysia and Indonesia					
Connected	2.73 ^c (1.46)	-0.11 (0.92)	5.11 ^a (1.34)	-5.19 ^a (1.56)	-0.64 ^b (0.30)
R ² adj.; N. Obs.	NA; 15,604	NA; 11,938	0.01; 15,613	0.07; 14,888	0.01; 15,609
Panel D: All industries except financial services (SIC: 6000-6999)					
Connected	2.69 ^b (1.37)	-1.25 (1.03)	8.02 ^a (1.57)	-4.74 ^a (1.79)	-0.55 (0.43)
R ² adj.; N. Obs.	NA; 12,887	NA; 9,548	0.02; 12,893	0.08; 12,280	0.03; 12,891
Panel E: All companies except government-controlled and privatized firms					
Connected	3.49 ^a (1.36)	-0.41 (0.93)	6.12 ^a (1.24)	-5.41 ^a (1.61)	-0.57 (0.35)
R ² adj.; N. Obs.	NA; 15,395	NA; 11,692	<0; 15,404	0.07; 14,658	0.02; 15,400
Panel F: Dependent variable truncated at the 5th and 95th percentiles					
Connected	1.84 ^c (1.11)	-0.08 (0.69)	4.73 ^a (0.70)	-1.35 ^b (0.68)	-0.06 (0.04)
R ² adj.; N. Obs.	NA; 13,288	NA; 11,272	0.05; 14,572	0.18; 13,852	0.27; 14,501
Country dummies	Yes	Yes	No	Yes	Yes
Industry dummies	Yes	Yes	No	Yes	Yes
Estim. technique	Tobit	Tobit	Tobit	OLS	OLS

Table 7: Connections with long-term vs. short-term politicians

All regressions control for whether the firm has recently been privatized, or is state-controlled, or is dually listed, as well as for firm size ($\ln\{\text{mkcap}\}$). Leverage, Tax, ROE, and Stock return regressions include country and industry dummies. Industry is defined according to Campbell (1996). Coefficients for control variables are not reported to save space. *Leverage* is defined as long-term debt (excluding the current portion of long-term debt, pensions, deferred taxes, and minority interest) over total capital $\times 100$. Total capital represents the total investment in the company: the sum of common equity, preferred stock, minority interest, long-term debt, non-equity reserves, and deferred tax liability in untaxed reserves. *Tax* is income taxes over pretax income $\times 100$. *Market share* is firm's market capitalization over the total market capitalization of all firms in the same country and two-digit SIC industry (%). *Connected with seasoned politician* is a dummy that equals 1 if the connected politician was first appointed in or before 1987, and 0 otherwise. *Connected with unseasoned politician* is a dummy that equals 1 if the connected politician was first appointed after 1987, and 0 otherwise. Standard errors (reported in parentheses below the coefficients) are computed using Huber/White correction for heteroskedasticity (see White, 1980). ^{a, b, c}: Significantly different from zero at the 1%, 5%, or 10% level.

	Leverage	Tax	Market share
Connected with seasoned politician	4.21 ^b (2.08)	-2.96 ^c (1.69)	9.29 ^a (2.14)
Connected with unseasoned politician	4.34 ^b (2.00)	1.11 (1.18)	5.25 ^a (1.85)
Memo items			
N. Obs.	16,138	12,304	16,147
Country dummies	Yes	Yes	No
Industry dummies	Yes	Yes	No
Estimation technique	Tobit	Tobit	Tobit