

## **Politically connected firms:**

### **Can they squeeze the state?**

Mara Faccio \*

For a sample of 42 countries, I examine firms with controlling shareholders and top managers who are members of national parliaments or governments. I find this overlap to be quite widespread. Connected companies enjoy easy access to debt financing, low taxation, and higher market share. These benefits are particularly pronounced when companies are connected through their owner, a seasoned politician, or a minister. Benefits are generally greater when connected firms operate in countries with higher degrees of corruption, resulting in a significant increase in value.

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\* University of Notre Dame, Mendoza College of Business, Notre Dame, IN 46556-5646, U.S.A.  
Tel.: (574) 631-5540; e-mail: [mfaccio@nd.edu](mailto:mfaccio@nd.edu)

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Shleifer and Vishny (1994) point out that many countries experience a form of capitalism in which politicians direct resources toward favored firms. An example described in the popular press is Indonesia then-President Suharto's children, who followed a typical way of entering business. Most of them started companies made possible by licenses and concessions granted by their father's government. Timor, Tommy Suharto's automobile company, did not have to pay duties on imported Korean parts. This concession allowed Tommy to undersell his competitors by thousands of dollars per vehicle (the New York Times, 1998).

The "benefits" of political connections can take many forms, such as: preferential access to government subsidies or preferential treatment by government owned enterprises like banks (Shleifer and Vishny, 1993 and 1994; Backman, 1999; Dinç, 2002); lighter taxation (De Soto, 1989); preference in award of government contracts; reduced regulation of firms, or adverse regulatory decisions for rivals (Stigler, 1971; De Soto, 1989); help in overcoming regulation (Leff, 1964); reduced enforcement of laws impacting the firm, or stricter enforcement of laws for rivals.

Subsidies to corporations are not costless to political officials, who may have to deal with objections from different agents, such as other ministers, voters, and so on. Politicians concerned about their career and reputation may be disinclined to provide benefits if they face a substantial risk of being caught. As a consequence, some officials may refuse to provide benefits for free, or to provide them at all (Shleifer and Vishny, 1994).

In less developed countries, financial institutions are poorly developed, so access to bank loans and lax enforcement of protective covenants in economic downturns are likely to be extremely important. Backman (1999) brilliantly describes political control over financial institutions: "Tommy [Suharto] was in need of credit to finance the activities of BPPC. He turned to the central bank for a US\$600 million line of credit but was refused. He then wrote

to the Sultan of Brunei to request a US\$650 million loan [but] the Sultan declined. Finally, Tommy asked his father, the president, to intervene, and the central bank was pressured to lend Tommy the money.... It isn't known if the loan was repaid" (pp. 266-268). Similarly, bankers in Malaysia are reported to have often been compelled to extend loans for projects they forecasted to be unprofitable. They figured that ultimately the finance minister or the President would find a way to rescue a company if its investment did not work out as planned (Friedman, 1999).

Do connections with political officials reflect a relatively common practice, or are they a limited phenomenon, confined to a few highly corrupt countries? Why do firms establish connections with government officials? In particular, are there benefits that companies systematically obtain? Connections also have costs. Do the benefits offset the costs, so that relationships with politicians result in better performance? If so, why wouldn't all companies establish relationships? If not, why do firms bother with such relationships at all?

From an empirical standpoint, we know little about how widespread these connections are. Most previous studies focus on individual countries, and look at types of connections that are highly dissimilar and therefore not comparable. The non-U.S. literature focuses on political influence by dominant business families (Morck, Stangeland, and Yeung, 2000); cases of "historical" friendship with top politicians (Fisman, 2001; Johnson and Mitton, 2002); or identifiable cases involving corruption (Hellman, Jones, and Kaufmann, 2000). In the U.S., most of the literature focuses on companies connected to politicians by means of contributions made during electoral campaigns (Roberts, 1990; Kroszner and Stratmann, 1998); the political experience of outside directors (Agrawal and Knoeber, 2001); or interest groups' influence in general (Ang and Boyer, 2000).

To explore connections, I rely on a unique and newly collected database, which covers 19,884 firms across 42 countries. I use a narrow definition of connections. I define a

company as connected with a politician if at least one of its large shareholders (i.e., anyone who controls at least 10 percent of voting shares) or one of its top directors (i.e., the company's 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, directorships held in the past by current politicians, connections with foreign politicians, and well-known cases of relationships with political parties.

Shleifer and Vishny (1993) and Treisman (2000), among others, concentrate on corruption. I focus instead on perfectly legal connections.<sup>1</sup> This allows me to obtain data from publicly available sources. One virtue of my approach is that, since political connections are observable at the company level (while indexes of perceived corruption are observable at the country level only), I am able to measure and provide direct empirical evidence on the pervasiveness of connections and the extent of private benefits.

I find that connections are relatively widespread in the 42 countries of my sample. 532 firms have top directors or large shareholders who serve in the national parliament or government. These firms represent 7.76 percent of the world's market capitalization, and 2.68 percent of listed corporations. The diffusion of connections varies widely across countries. Connections are especially widespread in countries perceived as highly corrupt.

Why do firms establish connections with government officials? I show that firms do so to obtain easier access to debt financing (i.e., undue credit), lower income taxation, and stronger market power. These benefits are pervasive.

There is a wide array of possible political relationships, so we should distinguish between different types of connections. The strongest connection is likely to be cases of large direct financial ownership positions by senior politicians and government officials in

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<sup>1</sup> The literature on corruption is analyzed in Rose-Ackerman (1999).

business. The Berlusconi and Shinawatra families represent influential businesspeople ascending to key political positions. One step removed are financial relationships between dominant business families and officials or politicians. As the extent of the financial relationship falls, and the government official becomes less important, so should the impact of the relationship lessen. Weaker relationships are implied, for example, in social ties and political contributions to politicians or political parties, in part because in countries with these elections systems governments tend to have less political influence on the business sector.

Consistent with the differential importance of various types of relationships, I show that benefits are greatest when political links are stronger. That is, I find greater benefits when companies are connected through owners rather than through directors. Similarly, connections are associated with greater benefits when the connection is with a minister (or through close relationships), rather than with a member of the parliament.

I additionally find that the level of benefits depends upon the environment in which the firm operates. In particular, benefits significantly increase with the level of corruption.

Do benefits add value? Whether connections are valuable to firms is not clear-cut. One strand of the literature (Roberts, 1990; Fisman, 2001; Johnson and Mitton, 2002) suggests that relationships with politicians enhance the value of connected firms. Shleifer and Vishny (1994), however, note that politicians will not provide subsidies to firms for free; rather, they will want firms to pay them in exchange for pursuing social policy goals, or to pay bribes, or contribute to their political campaign. De Soto (1989) explicitly points out that in Peru bribes replace the taxes that companies do not pay. Costs of connections may be so large as to

potentially offset any benefits. Hellman, Jones, and Kaufmann (2000), for example, find no evidence of better performance for firms engaged in “administrative corruption.”<sup>2</sup>

An event study around announcements of directors or dominant shareholders entering politics and of politicians joining boards documents that connections result in a significant increase in value when companies operate in highly corrupt countries, thus reflecting the greatest benefits they obtain. Connections do not add value to firms operating in countries with low levels of corruption, where benefits are also marginal. In these countries, therefore, most companies optimally decide not to become connected.

The rest of the paper is organized as follows. In section I, I define political connections, and discuss the extent of their diffusion. Section II describes the characteristics of the countries in which connections are more common. Section III presents evidence on the benefits firms extract out of connections. Section IV analyzes the value of connections, and section V concludes the paper.

## **I. Diffusion of political connections.**

### **A. Definition of connections.**

I say a company is connected with a politician if (at least) one of the company’s large shareholders or top directors is: (i) a member of parliament, (ii) a minister or the head of state, or (iii) is “closely related” to a top official.

#### *A.1. Connections with members of parliament.*

Firms may be connected through a member of parliament (MP) in two ways. First, at least one of their top directors may currently sit in the national parliament. As in Claessens,

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<sup>2</sup> Hellman *et al.* (2000) rely on cases of corruption “identified” in face-to-face interviews with firm managers and owners. Such a study suffers the typical biases of interviews. Biases might be particularly pronounced in this case, as firms are asked to acknowledge their illicit behavior.

Djankov, and Lang (2000), and Faccio and Lang (2002), top directors are defined as the company's CEO, president, vice-president, or secretary. For example, Lord Browne of Maddingley (a member of the British House of Lords) is the CEO of British Petroleum. BP is therefore classified as connected with a member of parliament, through a director.

Second, companies are classified as connected when (at least) one large shareholder is a member of parliament. Large shareholders are defined as anyone directly or indirectly controlling at least 10 percent of shareholder votes. A good example of connection through the owner is one of the most influential families in Italy, the Agnelli family. Giovanni Agnelli, a key figure, has a life term as senator. Through a remarkably complex ownership structure, the Agnelli family *directly* or *indirectly* controls more than 10 percent of the votes (and is actually the largest shareholder) in 18 Italian listed firms (see Figure 1). Those firms are all classified as connected with a member of parliament. Firms in which a family controls less than 10 percent of votes are not considered connected. Connections via ownership are included regardless of whether the 10 percent stake refers to the largest shareholder or to a large minority shareholder.

Because of data limitations, connections with a member of parliament are included if members of parliament themselves are shareholders or a top director of a listed firm, but are excluded when such positions are held by family members. Thus, although Giovanni Agnelli's brother (Umberto) is a top director of IFIL, this company is not considered connected through a director. The company, however, is still included in my sample because of Giovanni Agnelli's ownership.

[Figure 1]

#### A.2. *Connections with a minister or the head of state.*

There are three types of connections with a minister or head of state. First, the minister may be a director of a listed company. Second, the minister can be a large shareholder.

Third, a family member of the minister may be a director or a large shareholder of the company.<sup>3</sup>

One example is Ian MacFarlane, Australian Minister for Small Business. He is chairman of two Australian listed firms: Central Pacific Minerals, and Southern Pacific Petroleum. These firms are therefore classified as connected with a minister, and the connection is through a director. In a second case, Italy's Prime Minister Silvio Berlusconi is the largest shareholder of four Italian listed firms: Arnoldo Mondadori Editore, Mediaset, Mediolanum, and Standa. All these companies, therefore, are defined as politically connected (with a minister) through their owner.

Malaysian Prime Minister Mohamad Mahathir's son, Mirzan, and Silvio Berlusconi's daughter, Marina, are all either controlling shareholders or top directors of several listed corporations. All these connections are included.

### A.3. Companies "closely related" to a top official.

The cases of close relationships are a bit more complex. Since they lack the definitional objectivity of the first two connection types, I place them in a separate category. Connections in this case are through: (i) friendship; (ii) former heads of state or prime ministers (and their relatives); (iii) directorships held by current politicians in 1997, who have recently left the firm; (iv) connections with foreign politicians; and (v) well-known cases of relationships with political parties.

- (i) To maintain as much objectivity as possible, cases of friendship are included as long as they are mentioned in *The Economist*, *Forbes*, or *Fortune*. For example, according to Forbes's "2000 World's Richest People," François Pinault (the controlling shareholder of Pinault-Printemps-Redoute, Grand Bazar de Lyon, Rexel, and Zodiac)

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<sup>3</sup> I define relative as spouse, sons, daughters, sisters, brothers, and parents.

is a close friend of French President Jacques Chirac. This friendship is listed in *Forbes* as Mr. Pinault's "sole hobby."<sup>4</sup>

- (ii) Close relationships also include former heads of state or prime ministers (identified, for all countries, using sources listed in Appendix A, Panel G). For example, former Russian Prime Minister Viktor Chernomyrdin is a large shareholder of Gazprom.<sup>5</sup>
- (iii) Directorships held by current officeholders in 1997, who have recently left the firm (according to Worldscope) are included. One example is U.S. Secretary of Defense Donald Rumsfeld, who used to be the chairman of Gilead Sciences.
- (iv) Connections with foreign politicians. The Agnelli family has large ownership stakes in a number of non-Italian companies. These firms are classified as connected with a foreign politician.
- (v) The last category is close and well-known relationships with political parties (e.g., the UMNO in Malaysia —see also Gomez and Jomo, 1997, and Johnson and Mitton, 2002). This last inclusion criterion introduces a potential bias in the country-level results, in particular for countries with better data sources (especially Indonesia and Malaysia).

## **B. Data and descriptive statistics.**

I start with all countries for which Worldscope provides minimal coverage. For each country, I then gather names of members of parliament or government. The "Chiefs of State"

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<sup>4</sup> Cases of friendship represent just a few of my connections overall (see Table I). Most cases of friendship are not reported in *Forbes*. For example, Richard Cheney and George Bush are friends of many chief executives, particularly in the energy sector, but this is not cited in *Forbes*, so it is not incorporated in my connection variables.

<sup>5</sup> Although I do include the connections of former heads of state and prime ministers, most connections involving cabinet members and MPs of the previous regimes are missing. This is particularly the case in Latin America, where the governments of Chavez in Venezuela, Toledo in Peru, and De la Rúa in Argentina all represent sharp breaks with the past.

directory (CIA, 2001) and the official web site of the country's government are used to identify ministers (see Appendix A, Panel B). The Inter-Parliamentary Council (2000) encourages countries to provide basic information on their parliaments, including full lists of members. Many countries do make this information available electronically on their Parliament's official web site. When I could find no parliamentary data source or lists of members of parliament for a country, I excluded it from the sample. Overall, data sources allow me to identify 17,033 politicians in 42 countries in the first half of 2001. Data before then are generally not available.

Names of politicians are cross-checked with names of top directors of 19,884 listed companies covered in Worldscope. Worldscope does not provide the full composition of the board, but generally only the names of the company's CEO, president, vice-president, or secretary, and in some instances those of some directors. Worldscope generally provides only the family name and initials of top directors. Whenever I find names that are the same as those of members of parliaments or governments, I cross-check the data using Extel, company websites, and extensive searches on Lexis-Nexis to ensure that the full name coincides. Whenever I cannot find the full names of directors, I drop the observation from the sample. In most cases where I have the full names of directors, I discover that connections with politicians based on initials alone can be misleading. Much of the time there is no connection. Think how many Kims and Parks there are in Korea. I thus prefer to understate connections, rather than considerably overstate them. To avoid understating family affiliations in Asia, where family names may not be the same, I integrate my information with country-specific family affiliation data taken from sources listed in Appendix A, Panel F. If not covered in those sources, connections are excluded when the family name does not coincide. So, for example, the Canadian Prime Minister Jean Chrétien

is the father-in-law of Paul Desmarais, an important Canadian tycoon. This case does not show up in my data, because the two do not share the same family name.

The names of major shareholders come from a number of sources published by each country's stock exchange or supervisory authority (see the country data sources listed in Appendix A, Panel C). I also rely on Claessens, Djankov, and Lang (2000) for East Asian countries, and Faccio and Lang (2002) for West European countries, who have collected data from the various publications and files produced by the stock exchanges and their supervisory authorities.<sup>6</sup> When ownership data cannot be found in those sources, the data are then integrated with Worldscope and Extel. I do not rely primarily on Worldscope and Extel for coverage and reliability reasons. For example, Worldscope includes only 176 of 632 Spanish listed firms as of the end of 1997; a similar coverage problem exists with Extel. Moreover, ownership data are sometimes missing; in this case, Worldscope reports zero ownership stakes.

Further information on political connections comes from Agrawal and Knoeber (2001) for the U.S.; Backman (1999) for Asia; Gomez and Jomo (1997) and Johnson and Mitton (2002) for Malaysia; Fisman (2001) for Indonesia; and the Stationery Office (2001) for the United Kingdom.<sup>7</sup>

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<sup>6</sup> Most of these data on board membership and share ownership are from periods between 1996 and 1999. Extel is used to update them with current information.

<sup>7</sup> Agrawal and Knoeber (2001) identify U.S. connections starting from proxy statements provided in Lexis-Nexis, for a sample of 264 manufacturing firms. Backman (1999) provides a detailed analysis of Asian companies and their political connections, until the early stages of the Asian financial crisis. Gomez and Jomo (1997) analyze Malaysian companies and their connections prior to the Asian crisis. Johnson and Mitton (2002) code as "connected" firms whose officers or major shareholders have close relationships with key government officials (mainly Mahathir, Daim, and Anwar). Fisman (2001) identifies connections based on the Suharto Dependency Index, developed by the Castle Group, a leading economic consultant in Indonesia. The index was compiled for a seminar given in 1996 to members of the Jakarta business community, and is based on a subjective assessment by a

Finally, I use *Forbes* and *Fortune* to gather information on well-known cases of friendships between top politicians and entrepreneurs.

State-owned firms are not included in my definition of political connections, unless a member of parliament or government sits on their boards, or is a large minority shareholder. Clearly, they are likely all the same to be strongly supported by their governments, but their objectives are likely to differ substantially from those of private firms. For this reason, in all the firm-level regressions I include dummies to control for state-owned and recently privatized firms (see Megginson and Netter (2001) for a survey of the literature on state-owned enterprises).

[Table I goes about here]

Overall, I find 597 connections involving 532 firms, which represent 2.68 percent of all listed corporations (see Table II). These firms represent 7.76 percent of the world's market capitalization. Larger firms exhibit connections more often, in line with evidence provided in Agrawal and Knoeber (2001) and Johnson and Mitton (2002). The size relationship, however, is not very strong. For example, the correlation coefficient between my connections dummy and firm size (i.e., market capitalization) is a low 0.06. Some countries

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number of consultants of the Castle Group. It consists of a numerical rating of political connections and their profitability. Ratings range from one (least dependent) to five (most dependent). In my definition of connections, I include only groups rated five. These include all companies affiliated with Suharto's children (thus, the Bimantara and Citra Lamtoro groups), Suharto allies Bob Hasan (Nusamba group), Liem Sioe Liong (Salim group), and Prajogo Pangestu (Barito Pacific group). The Stationery Office's (2001) "Register of (U.K.) Members' Interests" is published soon after the beginning of a new Parliament, under the authority of the Committee on Standards and Privileges, and annually thereafter. Each MP is responsible for the content of his or her own entry with respect to ten sections, including those on registrable shareholdings and remunerated directorships. Registrable shareholdings are defined when MPs have a beneficial interest in a shareholding having a face value: (a) greater than 1 per cent of the issued share capital of the company or body, or (b) less than 1 per cent of the issued share capital but more than £25,000. The requirement extends to holdings in which the interest is held by or on behalf of the Member's spouse or dependent children.

in the study exhibit only a few cases of connections, or no connections at all (as is the case for 9 of 42 countries). In Indonesia, Italy, Malaysia, Russia, and Thailand, however, over 10 percent of listed corporations are politically connected. In Ireland, Malaysia, Russia, Thailand, and the United Kingdom, connected corporations account for more than 20 percent of the market capitalization. In Russia, connected firms actually represent 86.75 percent of the market capitalization, and in the U.K. they represent 39.02 percent. Some 59.8 percent of connections involve top directors, while 40.2 percent of cases involve large shareholders. In 15.2 percent of cases, the connection is with the country's leader or a minister; in 60.5 percent of cases the connection is with a member of parliament. Finally, in 24.3 percent of cases (mostly concentrated in Malaysia and Indonesia) the connection consists of a close relationship with a politician.

[Table II goes about here]

## **II. Where are connections more common?**

I start by examining connections from a country perspective. I identify a number of variables that are possibly associated with connections, and initially assess this association from a univariate perspective.

A few caveats are in order. First, the count of connections (especially due to the narrow definition adopted) may be far from comprehensive. For many countries, data on ownership are lacking, and families may control firms through nominee accounts or shell entities. Similarly, disclosure regulations differ significantly across countries. To limit the impact of these factors, I investigate only large shareholders, i.e., those who control at least 10 percent of votes—a level of control that forces disclosure basically everywhere.

Second, in some countries connections with local officials may be more important than connections with central government officeholders. This problem may be particularly

pronounced in decentralized countries. There is no comprehensive and accurate information on the names of those involved at different levels of local government.

Finally, in different countries, different instruments may be used to approach political officials. I focus on a direct measure of connections that is observable for all countries. Other instruments, such as campaign contributions or PAC-type organizations, are not observable for most countries.

## **A. Variable definitions and preliminary results.**

### *A.1. Connections.*

I use two variables to measure the diffusion of political connections at the country level. The first is the ratio “% of firms connected to a minister or MP.” This ratio is computed as the number of firms connected to a minister or MP, excluding cases of close relationships, divided by the total number of firms listed in a country. In my sample, this ratio ranges from a minimum of 0 percent in Argentina, Brazil, the Czech Republic, New Zealand, Norway, Peru, Poland, South Africa, and Venezuela to a maximum of 12 percent in Russia.

The second ratio, “% of firms connected to a minister, MP, and close relationships,” is the number of all connected firms (including cases of close relationships) divided by the total number of firms listed in a country. This ratio ranges from a minimum of 0 percent in Argentina, Brazil, the Czech Republic, New Zealand, Norway, Peru, Poland, South Africa, and Venezuela to a maximum of 22.08 percent in Indonesia. (Appendix B provides a detailed description of all variables, and some descriptive statistics.)

[Table III goes about here]

### *A.2. Corruption.*

I use three indexes adopted in other studies as proxies for corruption. Different proxies are motivated by the fact that these indexes reflect perceived corruption (rather than effective

corruption, which is not observable), and therefore may be biased. All corruption indexes are rescaled from 0 to 10, so that lower scores correspond to lower levels of corruption.

“*Corruption (I)*,” is the Business International Corporation (Economist Intelligence Unit) assessment of the “degree to which business transactions involve corruption and questionable payments.” This assessment is based on questionnaires returned by BI’s network of correspondents and analysts based in the countries covered. This index is used by Mauro (1995), among others.

“*Corruption (II)*” is International Country Risk’s assessment of the corruption in government. Higher scores indicate that “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.” This index is used by La Porta *et al.* (1998) and Fisman and Gatti (2000).

“*Corruption (III)*” is defined as the exercise of public power for private gains. It 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 from a large number of survey respondents regarding the quality of governance in industrial and developing countries, as well as the opinion of non-government organizations, commercial risk rating agencies, and think-tanks during 1997 and 1998. This variable comes from Kaufmann *et al.* (1999a and 1999b).

Since ratios of connected firms are by construction constrained between 0 and 100 percent, in my estimation I employ a Tobit model.

As reported in Table III, only the first proxy of corruption is (positively and) significantly associated with the “% of firms connected to a minister or MP.” The relationship is significant for two out of three proxies of corruption when the ratio of “% of

*firms connected to a minister, MP, and close relationships*’ is the measure of connections. Whichever dependent variable is used, the explanatory power of corruption is not exceptionally high. The  $R^2$  of the regressions goes from a minimum of 1 percent to a maximum of 30 percent, depending on the proxy for corruption and on the measure of connections used.

### A.3. *Quality of legal environment.*

I use two proxies to measure the quality of a country’s legal environment. The “*efficiency of the judicial system*” is an assessment of the “efficiency and integrity of the legal environment as it affects business, particularly foreign firms” produced by the country-risk rating agency, Business International Corporation. It “may be taken to represent investors’ assessments of conditions in the country in question.” The index is scaled from 0 to 10, with lower scores for lower efficiency levels. This index is used in several other studies, beginning with La Porta *et al.* (1998).

“*Rule of law*” is an assessment of the law and order tradition in the country produced by the country-risk rating agency, International Country Risk. It also is scaled from 0 to 10, with lower scores for lower efficiency levels.

Ex-ante, one would expect countries with better legal systems to display lower levels of connections. In fact, good legal regimes should be associated with more transparency of regulation, uniform application of the law, and rigorous enforcement of penalties associated with violations of the law. In line with this expectation, for both proxies of quality of the legal environment, I find that countries with better legal systems exhibit a lower level of connections, although no relationships between quality of the legal environment and connections are significant.

#### A.4. *Economic development.*

I use the (log of) “*GDP (per capita)*” (gross domestic product (in US\$) on a purchasing power parity basis divided by population as of 1999) as a proxy for economic development. Mauro (1995) and Treisman (2000) suggest that more developed countries have lower degrees of corruption. The results reported in Table III accord with these expectations. More developed countries also display a lower incidence of connections (again results lack statistical significance).

#### A.5. *Bureaucracy.*

I use two proxies for bureaucracy. “*Regulation of entry*” summarizes the number of procedures as well as the official time and cost necessary to establish a new firm. This measure is intended to capture “barriers to entry” (Djankov *et al.*, 2002). The index ranges from 2 in Canada, the country with the least regulation of entry, to 16 in France and Russia, the two countries with the greatest regulation. Overall, countries with a high degree of regulation of entry are expected to display a higher frequency of connections. Furthermore, connections in these countries are expected to be particularly valuable in providing private benefits to connected firms. These benefits are expected to arise especially in terms of monopolistic or quasi-monopolistic positions.

The second proxy, “*business regulation index*,” is an index of regulation policies related to opening a business (on a scale from 1 to 5). A low score indicates that regulations are straightforward and applied uniformly to all businesses and that regulations are less of a burden to business. This index comes from the Heritage Foundation’s “1997 Index of Economic Freedom.”

Both proxies of bureaucracy are associated with a higher frequency of connections at the country level (although in no case is the relationship significant). Likely, factors other than

pure bureaucracy influence the convenience of becoming connected as well as the “optimal” type of connections. For example, as bureaucracy becomes greater, we may expect connections at different levels of government, as well as corruption, to increase. Connections with central government officials may represent both a too expensive and a too slow way to circumvent bureaucracy.

#### *A.6. Culture.*

I use “% *Protestant*”, Protestants as a fraction of the total population, as my first proxy for culture. Treisman (2000) uses this same variable, and a similar proxy is used in Stulz and Williamson (2001). Previous studies suggest that religious traditions condition cultural attitudes. Like La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1999) and Treisman (2000), who find that countries with a Protestant tradition are better governed, I find that connections decline with the fraction of Protestants in a country. This finding holds for both measures of connections.

A second proxy for culture is the “*number of daily newspapers (per 1,000 people)*.” A third measure is the proportion of children of official school age (as defined by the national education system) enrolled in school to the population of that age. Neither of these two measures is significantly associated with connections.

#### *A.7. Government structure.*

I use two proxies for government structure. “*Democratic in all years since 1950*” is an indicator variable that takes the value of 1 if (1) the executive is elected; (2) the legislature (or at least its lower house) is elected; (3) more than one party contests elections; and (4) during the last three elections of the executive there has been at least one turnover of power between parties. This variable comes from Treisman (2000). Democratic systems might discourage connections, because political opponents have an incentive to discover and

publicize abuses of office. Of course, connections may be seen as less valuable if officials can be voted out. Results provide support for the view that democratic systems are associated with cleaner government, while non-democratic systems provide more incentive for the accumulation of benefits by top politicians. In fact, democracies are associated with a lower incidence of connections. The relationship, however, is not statistically significant.

“*Decentralization*” is the total expenditures of sub-national (state and local) governments divided by total spending by all levels of government (state, local, and federal). The variable ranges in my sample from 4.7 percent in Malaysia to 48.6 percent in Canada. This variable, compiled in the “Government Finance Statistics Yearbook” by the International Monetary Fund, is used in Fisman and Gatti (2000).

Results show that there is no significant association between connections and decentralization. Recall, though, that the measures of connection used here look only at the relationship between firms and central governments (or federal parliaments); they do not include relationships with local officials, which may well be more important in decentralized countries.

#### *A.8. Government intervention in the economy.*

I use “*expenditure, total (% of GDP)*,” as a proxy for government intervention in the economy (in forms other than regulation). This variable is the ratio of total government expenditures (including both current and capital expenditures) to GDP (averaged over 1987-1999). Its source is the World Bank. Total expenditures are lowest in Argentina, where they represent 13.4 percent of GDP, and highest in Hungary, representing 50.7 percent of GDP.

One might expect connections to be more important in countries whose governments play a major role in the economy. This should happen because the public sector would be more likely to be a counterpart of the company in transactions (in particular, a client), and/or because in countries with high state intervention, connections may be sought as a way to

lessen competition with government-owned firms. I actually find that connections are negatively associated with the degree of government intervention in the economy. The relationship, however, is always insignificant.

#### *A.9. Openness.*

I use two proxies to measure the openness of the economy. The idea is that governments presumably have more discretionary power in less open economies, and the benefits of connections will presumably be greater. The first variable is “*cross-border restrictions*,” a dummy that takes the value of one if there is any restriction on the purchase of foreign securities or outward direct investment in a specific country, and zero otherwise. This variable is built upon the International Monetary Fund’s “Exchange Arrangements and Exchange Restrictions.” After corruption, this is the variable that explains connections the most. The results show that countries that restrict foreign (financial) investment by residents have a higher incidence of political connections. The second measure is the ratio of direct foreign investment over GDP, “*foreign direct investment, net inflows (% of GDP)*.” This second variable is positively although insignificantly related to connections.

#### **B. Robustness checks.**

Several of the explanatory variables are highly correlated with one another, and it is difficult to disentangle their individual effects. For example, the average correlation coefficient between proxies for corruption and the (log of) GDP (per capita) is -0.87. Similarly, the average correlation coefficient between the corruption measures and the rule of law is -0.80. These very high correlations prompt the univariate approach in the first place.

From the univariate estimates, it becomes clear that only a few variables are able to explain connections. Thus, in this further step, I include only variables that are significant in

the univariate tests, namely, corruption, % Protestant, and cross-border restrictions. In the multivariate regressions, no variable is significant.

I further assess the validity of the results using two alternative estimation methodologies: ridge regression and stepwise regression. Ridge regression analysis is generally used when the independent variables are highly intercorrelated, so that stable estimates for the regression coefficients cannot be obtained via ordinary least square methods. Ridge regressions artificially reduce correlations, and hence the variance of parameter estimates, so that more stable (yet biased) coefficient estimates can be computed. Results obtained with this alternative estimation technique fail to exhibit any significance.

In a stepwise approach, independent variables are individually added to the model at each step of the regression until the best regression model is obtained. Under the stepwise approach, only corruption remains significant in explaining connections.

### **C. Is corruption really different from connections?**

To test whether connections merely reflect corruption, I distinguish between connections through firm owners and connections through directors. It seems more likely that a company could bribe a politician by offering a position as director rather than by offering a majority stake in the firm. Malay firms, for example, have attempted to maintain protection of industrial production for the domestic market by offering directorships to influential officials (Gomez and Jomo, 1997, p. 41). While I can clearly identify in the news 48 cases of politicians newly appointed to boards, I find no case in which politicians were offered equity stakes. It is more common that large shareholder entrepreneurs enter politics from business (e.g., Berlusconi and Agnelli in Italy) or that politicians exploit their positions to start a business (e.g., Mahathir, Suharto).

The results reported in Table IV show that it is no more likely that politicians in highly corrupt countries will be appointed members of a company's board of directors; rather, the

opposite is true. In highly corrupt countries, company controlling shareholders are more likely to assume core political positions. This result confirms that connections capture something other than corruption.

[Table IV goes about here]

At the same time, the finding that connections are positively related to corruption is intriguing. It has two possible explanations. First, it may be that in some countries corruption is not helpful enough to obtain significant benefits, so businesspeople need to become personally involved in politics to gain more advantage (in this sense, connections would emerge as a consequence of corruption). It may also be that corruption develops as a response to political connections. That is, companies that are not politically connected need to bribe politicians in order to obtain some minimum benefits necessary to ensure the survival of the firm. Without a good instrument to predict connections, it is not possible to draw any conclusion on the direction of causality.

### **III. What benefits do connections provide?**

The next step is to assess whether, at the firm level, connected firms enjoy significant benefits. I can look at three types of benefits: (i) (easy) access to debt financing, (ii) tax benefits, and (iii) market power.

Three factors work against finding evidence of benefits. First, benefits may be provided to unlisted firms connected to politicians. It is reasonable to expect that politicians provide benefits mainly to unlisted firms they control in that, first, they would not want to share the benefits with other shareholders and, second, they would want to keep this activity relatively secret, in order to avoid political consequences. 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 the case for barriers to entry and tax relief. Stigler (1971) discusses several such cases in the U.S.

Third, since several connected firms may operate as monopolies (or quasi-monopolies), their financial ratios will be exactly the same as those of their peers. For all these reasons, the measures reported below will understate the true level of benefits.

#### **A. Access to debt financing.**

Anecdotal evidence suggests that connected firms enjoy easier access to the debt market (especially from banks).<sup>8</sup> I take leverage as a proxy for access to debt financing. Examples have suggested that connected firms can get easy financing from state-controlled banks or with the support of the state, even though they are not worth this extra credit.

- “*Leverage*” is the ratio of long-term debt (excluding the current portion of long-term debt; pensions; deferred taxes; 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,

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<sup>8</sup> 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 French government (US\$40 million), via a cash contribution. In 1992, the French government further committed to Pinault by acquiring a 25 percent stake in Pinault through its controlled bank Crédit Lyonnais for an investment of 2 billion FF. 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).

minority interest, long-term debt, non-equity reserves, and deferred tax liability in untaxed reserves.

In all basic regressions, a company is defined as “*connected*” if its controlling shareholder or one of its top directors sits in a national parliament, holds office in the government, is head of state, or is closely related to a top politician/political party.

I further refine the connection variable in order to differentiate types of connections. I split the connection dummy in three alternative ways. First, following earlier classification definitions, connections may be through a director or through a large shareholder (“the owner”). “*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 through the owner*” is a dummy that equals 1 if a company’s controlling shareholder sits on 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.

Alternatively, connections may be split into connections with a minister (or chief of state), connections with a member of parliament, and connections through close relationships as follows: “*Connected to king, president, or minister*” is a dummy that equals 1 if a controlling shareholder or top director of the company holds a government office, is king or president of the country. “*Connected to MP*” is a dummy that equals 1 if a controlling shareholder or top director of the company sits in a national parliament. “*Close relationships*” is a dummy that equals 1 for connections due to (i) friendship, (ii) former heads of state or prime ministers (and their relatives), (iii) directorships held by current politicians during 1997 who have left the firm, (iv) connections with foreign politicians, and (v) well-known cases of relationships with political parties.

A final way to distinguish between connection types is based on the political experience of the politician involved. “*Connected to “seasoned” politician*” is a dummy that equals 1 if the relevant connection was a politician in or before 1987 (i.e., has at least ten years of tenure as a politician in 1997).<sup>9</sup> “*Connected to “unseasoned” politician*” is a dummy that equals 1 if the connected politician was appointed after 1987.

All regressions henceforth, unless specified otherwise, 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).<sup>10</sup> <sup>11</sup> Appendix B, Panel B, provides a detailed description of these control variables.

[Table V goes about here]

Each Panel in Table V refers to different sets of regressions, using different measures of connections.<sup>12</sup> The results show that connected firms have significantly higher leverage than non-connected ones. Furthermore, leverage is higher when connections are stronger. For example, the excess leverage is 4.36 percent for firms connected through their owner, and 1.49 percent for firms connected through a director. Leverage is highest in cases of close relationships (8.43 percent), next-highest for firms connected to the king, the president, or a minister (2.55 percent), and lowest for connections with a member of parliament (1.03

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<sup>9</sup> The date of initial appointment of each politician is determined from sources listed in Appendix A, Panel G, and integrated with Lexis-Nexis. When I cannot identify the initial year of appointment, I classify the firm as connected to an “unseasoned politician.”

<sup>10</sup> Lists of privatized firms are obtained from SDC Platinum; Bortolotti, Fantini and Siniscalco (2001); Dewenter and Malatesta (1997, appendix available at [www.afajof.org/Pdf/supplements/ap5080.pdf](http://www.afajof.org/Pdf/supplements/ap5080.pdf)), and Megginson, Nash and Van Randenborgh (1994).

<sup>11</sup> I use Extel, Worldscope, Claessens *et al.* (2000), Faccio and Lang (2002), and the 2000 “Fortune 500 Global List” to identify government ownership.

<sup>12</sup> 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

percent). Connection to a seasoned politician (rather than to an unseasoned politician) is associated with higher leverage (4.15 vs. 3.60 percent). Results are robust to the exclusion of financial companies. 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 significant. For companies connected with a minister, however, the average interest rate on debt is lower by 1.14 percentage points (p-value = 0.05), again supporting the view that connections with more influential politicians are worth more.

## **B. Tax benefits.**

Tax relief is another sort of benefit.<sup>13</sup>

- The variable “*tax*” is defined as the ratio of Income Taxes / Pretax Income  $\times 100$ .<sup>14</sup>

Table V, Panel A, column 2 indicates that connected firms enjoy low taxation. The difference between the tax rate of connected versus unconnected firms is -0.78 percent (a negative coefficient indicates lower taxation). The difference is not statistically significant, but results are significant for two subgroups of firms that display stronger connections. The tax differential is -2.58 percent for companies connected through their owner, and -2.93

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precise event date be identified, so I am forced to adopt the approach of looking at benefits cross-sectionally.

<sup>13</sup> 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). 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).

<sup>14</sup> I exclude companies with negative earnings, as well as companies that display a tax rate above 100 percent.

percent for firms connected to a seasoned politician. Connection with the king, president, or a minister is not associated with higher benefits; these firms surprisingly exhibit insignificantly higher taxation.

One problem with analysis of taxation is that tax breaks may be granted industry-wide, rather than for one connected firm. If this is the case, these results would be biased toward insignificance. To assess this possibility, I rerun all simulations eliminating industry dummies (results are not reported for space reasons). Industry-level benefits do not seem common. Results are in fact essentially unchanged after the exclusion of industry dummies.

### **C. Market power.**

Market power may be related either to a real monopolistic position, or to some advantage in obtaining concessions or licenses. Anecdotes on market power are legion.<sup>15</sup> I chose to look at industry concentration:

- “*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).<sup>16</sup> I use market cap instead of sales because my sample includes financial companies.<sup>17</sup>

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<sup>15</sup> 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).

<sup>16</sup> Since this variable is already defined at the country- and industry-level, in the regressions I do not control for country and industry effects.

<sup>17</sup> Results are similar if I use sales instead of market capitalization and exclude financial companies.

The market share variable provides the strongest evidence in support of the hypothesis that connections provide significant benefits. Connected firms enjoy a significantly higher market share of 6.66 percent. Market share is notably higher when the connection is through the owner (11.68 percent) rather than through a director (2.40 percent), although in both cases the benefit is significant.

Similarly, benefits are higher when the connection is through close relationships (14.27 percent), than when it is with the king, president or a minister (8.82 percent). Benefits are least when connections are with a member of parliament (2.47 percent). In all cases, the benefits derived are significant.

Finally, firms connected with a seasoned politician enjoy greater market share (9.64 percent) than firms connected with an unseasoned politician (5.61 percent). These results confirm once again that stronger connections provide greater benefits.

#### **D. Country-level results.**

Table VI provides some country-level evidence. This analysis is important because politicians are not equal in all countries. For example, in the British system, a member of parliament has no unusual power because voting occurs by party, while representatives in the U.S. are important people in their own right. Since in many countries there are just a handful of connected firms, I focus on countries that are among the top five 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. I exclude Ireland from the resulting set of countries because it has only two connected firms.

For all the seven remaining countries 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 these countries connected firms display a lower rate of taxation. Taxation is significantly lower only in

Russia, where connected firm tax rates display an amazing discount of 73.26 percent. Finally, for five of the seven countries, connected firms display higher market share. This relationship is significant only in the Russian and Thai samples.

[Table VI goes about here]

I assess the robustness of the U.K. results by differentiating connections with members of the House of Lords (HL) and connections with members of the House of Commons (HC).<sup>18</sup> Connections with members of the House of Commons provide relatively higher benefits in terms of leverage (the coefficient of the connection dummy is 7.33 percent for members of the HC (p-value = 0.09), and 2.81 percent for members of the HL), and in terms of market power (coefficients of 2.25 percent for members of the HC and 1.49 percent for members of the HL). Connections with members of the HL do provide higher benefits in terms of tax discounts; for this variable, the coefficient of the connection dummy is -0.33 percent for members of the HC, and -1.06 percent for members of the HL.

#### **E. Where are the benefits of connections greatest?**

The payoff of connections will likely depend on the level of political development of a country, and especially the degree of enforcement of the law, which can be proxied by some index of corruption (see La Porta *et al.*, 1998). In fact, if a member of the U.K. parliament gets caught providing benefits to her friends, she will almost certainly be punished; in Indonesia this is unlikely to be the case. Furthermore, I have shown that firms are more likely to establish connections in countries with higher corruption levels. Do they do so because benefits are greater in those countries?

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<sup>18</sup> Although its members are not elected, the House of Lords plays a key role in revising and initiating legislation, and monitoring government activities. It also represents the highest Court of Appeal in the United Kingdom.

To test whether connections are particularly beneficial in countries with higher levels of corruption, I construct a number of interaction dummies between the connection dummies and the corruption indexes. Table VII reports the results for “Corruption III”, since this index is available for all the countries in the study. Table VII shows that connections generally provide more benefits to firms operating in highly corrupt systems.

For example, in the leverage regression, the coefficient of the interaction between the general connection variable and corruption is 0.88 (significant at the 1 percent level). Recalling that the corruption index ranges from 0 to 10, this means that the leverage ratio of connected firms is higher by 8.8 percentage points in countries with the highest level of corruption (compared to leverage ratios in countries with the lowest levels of corruption). 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 (coeff. = 1.96, p-value < 0.001).

Table VII also confirms that the type of connection matters. For all types of benefits analyzed, a connection through the owner, rather than through directors, provides greater benefits when corruption increases. Also, close relationships provide the greatest benefits (in highly corrupt countries) in terms of both access to financing and market share. This suggests that, in highly corrupt systems, connected firms use subtle ways to obtain personal benefits. In less corrupt countries this is not possible, likely because the risk of getting caught and punished is significant.

Finally, both for seasoned and unseasoned politicians, benefits of connections increase with corruption.

[Table VII goes about here]

#### **IV. The value of connections.**

If benefits of connections exceed the costs, then connections will increase firm value. In several instances, benefits will not outweigh the costs of connections. For example, firms managed by politicians may suddenly become poor performers because politicians lack the skills needed to run a successful company. Similarly, firms may lose a very skilled manager when their shareholder-manager enters politics. In addition, connected firms may possibly have to devote substantial resources to their rent-seeking activities, which may well eliminate any advantage from the rents they receive.

Shleifer and Vishny (1994) observe that officials will be willing to provide subsidies to firms, but not for free; they will want firms to pay them back by pursuing particular social policy goals. Costs may potentially be huge, enough to totally offset the extent of benefits.

To answer whether connections add value, I run an event study around announcements of (i) directors or dominant shareholders entering politics, and (ii) politicians joining boards. If connections add value, such announcements should be associated with a positive cumulative abnormal return (CAR).

Several factors limit the available sample. First, stock price series must be available on Datastream. Second, dates of appointments or of elections must be identifiable. Finally, it must be possible to verify whether a particular politician was a director ahead of time, as well as whether someone later appointed a director was already a politician at that time. Both Datastream and Lexis-Nexis provide little coverage back in time.

The absence of data forces exclusion of many very interesting cases, like those involving several companies related to Suharto (first in power in 1967), the King of Thailand (1946), Mahathir (1981), several Russian politicians, and all politicians who came to power longer ago when stock prices and/or press releases are not available. As the benefits enjoyed by

firms in these particular countries have been found to be particularly great, the event study test results will understate the true value of connections.

Although I use all international data-sources covered in Lexis-Nexis, The Financial Times, and The Economist, and other sources listed in Appendix A, Panel G I can clearly identify only 206 cases.<sup>19</sup>

I compute abnormal returns using the market model, and estimate parameters using returns from day -260 to day -40 prior to the announcement date. Stock prices and stock market indexes come from Datastream. The event window goes from day -2 to day +2. Results are similar over alternative event windows. The event date is defined as the election date (or the date of appointment, if different) for directors/owners, and as the first day the appointment as director was announced in the press, in the case of politician appointment.

[Table VIII goes about here]

For the whole sample, the announcement of a new connection results in a positive but insignificant value increase of 0.22 percent ( $p$ -value = 0.48). One could expect to find lack of significance for the whole sample of announcements however, as over half of them are observations in the U.K., where I have shown benefits are negligible. Rather, since benefits are far greatest in countries with high corruption, connections there should result in higher value.

Thus, in Panel B, I split the results based on corruption. In highly corrupt countries (i.e., those with a corruption index above the sample median), the 5-day average CAR is +1.28 percent, and it is statistically significant ( $p$ -value = 0.02). This suggests that the value of connections in highly corrupt countries may be even greater than that documented in Fisman

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<sup>19</sup> The country distribution is as follows: 1 case (each) in Belgium, Canada, Chile, and Malaysia; 2 cases in Australia, Finland, the Philippines; 3 cases in Sweden, and Portugal; 4 cases in Germany, Mexico, and Thailand; 5 cases in Switzerland; 6 cases in Singapore; 7 cases in the US; 12 cases in France; 14 cases in Italy; 28 cases in Japan; 104 cases in the U.K.

(2001), who reports an average price drop of  $-0.60$  percent around rumors of worsening health conditions for Indonesian President Suharto.

Why don't all entrepreneurs enter politics then? First, political positions are limited in number. In my sample there are 19,884 firms, but only 42 positions as prime minister. Additionally, there is only one such office in each country. The chance of becoming a member of parliament is certainly higher, but I have shown that benefits associated with connections with MPs are relatively modest. Still, almost 30 percent of Canadian members of parliament are businesspeople!

Finally, entering politics is worthwhile *only* in countries with high corruption. In countries with low corruption, connections are in fact associated with an insignificant price decline of  $-0.47$  percent ( $p\text{-value} = 0.21$ ). So, establishing connections is the best option only in countries where connections are associated with economically and statistically significant benefits.

## **V. Conclusion.**

I have established several findings on the relationship between politics and finance by looking at connected corporations in a sample of 42 countries. Even by a narrow definition of political connections in terms of top directors or controlling shareholders and key political roles, I find that these relationships are quite widespread. Overall, 532 firms are politically linked; these firms represent 2.68 percent of all listed corporations, and 7.76 percent of the world's market capitalization. Linkages are particularly widespread in countries with higher levels of corruption.

Connected companies extract significant benefits in terms of high leverage, low taxation, and high market share. On average, leverage is 3.2 percentage points higher in connected corporations. Connected firms also enjoy lower taxation by 0.78 percentage points. Finally,

they display much greater market power, with a differential market share of 6.66 percent compared to non-connected firms. These results are generally consistent across countries.

Benefits become more important when political links are stronger. Higher benefits accrue when companies are connected through owners (rather than directors), through close relationships, or with a minister (rather than a member of parliament), or a seasoned politician. Benefits are greater when the firm operates in countries with higher degrees of corruption.

Finally, stock prices increase by 1.28 percent upon announcement of a new connection in a highly corrupt country. In those countries, benefits indeed result in higher value. In less corrupt countries, any benefit of connections is associated with no significant value impact.

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Figure 1: The Agnelli family group (Italy). Political link: Senator Giovanni Agnelli.

This figure describes the structure of the Agnelli family group, the largest Italian business group. All control stakes of at least 5% are reported. Ownership (cash-flow) stakes are denoted by “O” and control (voting) stakes by “C.”

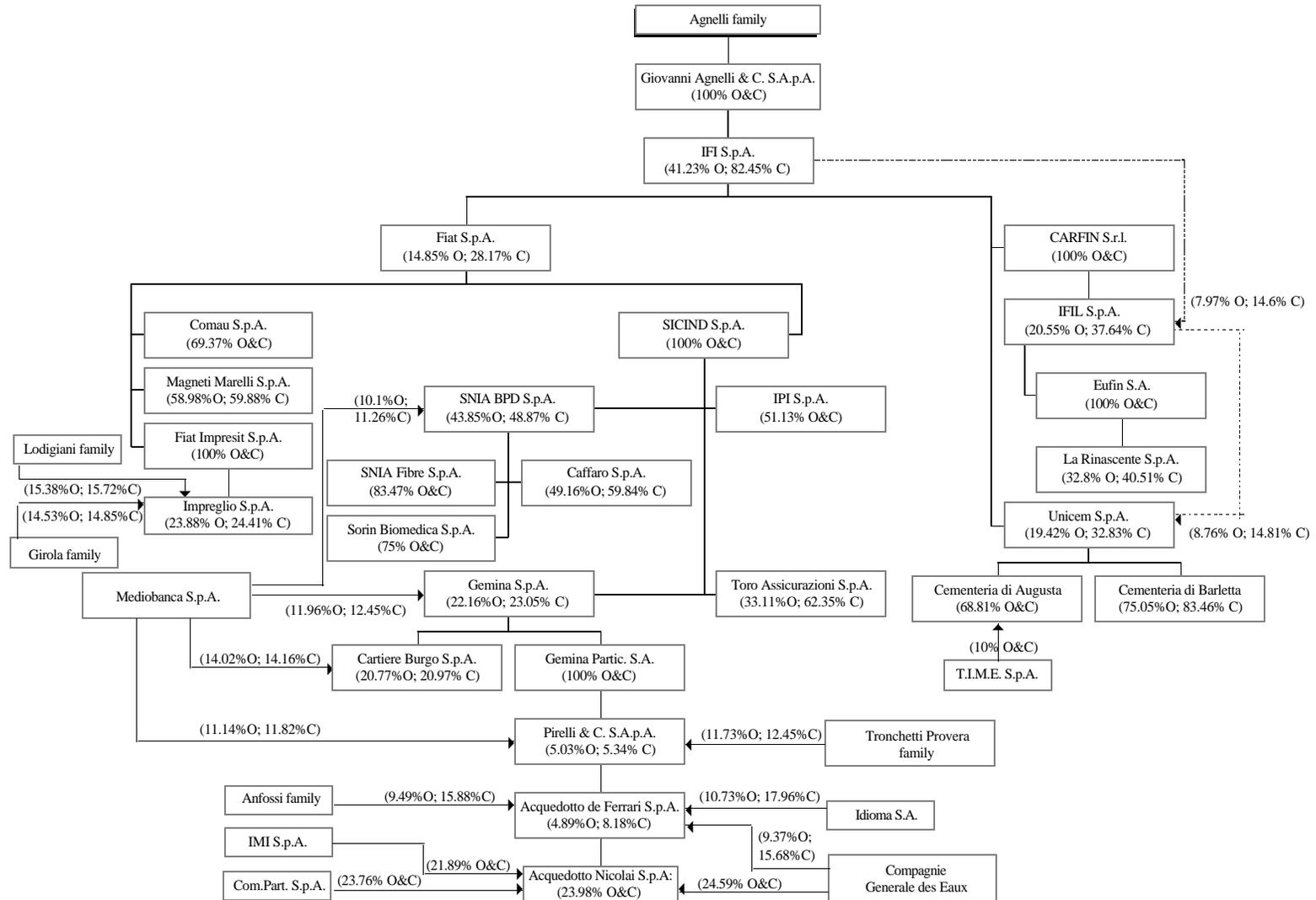


Table I. Classification of connections by types.

	Of which:								Total	( <i>%</i> )
	Connections with MPs	Connections with ministers	Closely related firms	Cases of friendship	Former heads of state or prime ministers	Directorships covered by current politicians in 1997	Foreign politicians	Political parties		
Connections through the owner	45	64	131	10	6	0	2	113	240	40.2
Connections through a top director	316	27	14	1	5	2	6	0	357	59.8
Total	361	91	145	11	11	2	8	113	597	
( <i>%</i> )	60.5	15.2	24.3	1.8	1.8	0.3	1.3	18.9		

Table II. Country distribution of firms with political connections.

“No. of firms with available data” is the number of firms covered in Worldscope. “No. of firms connected to a minister or MP” is the number of firms whose controlling shareholder or top manager is a member of parliament or government, excluding the cases of close relationships. “% of firms connected to a minister or MP” is the ratio of firms connected to a minister or MP as proportion of the total number of firms in a given country. “No. of firms connected to a minister, MP, and close relationships” is the number of firms whose controlling shareholder or top manager is a member of parliament or government, plus all identified cases of close relationships. “% of firms connected to a minister, MP, and close relationships” is the ratio of all connected firms as proportion of the total number of firms in a particular country. “Total number of connections” is the overall number of connections identified in a given country. If two directors of the same company sit as ministers, the number of connections would be two, while the number of connected firms would be one. “Ownership” and “directorship” denote whether the company is connected through the owner or through a top director.

	No. of firms with available data	No. of firms connected to a minister or MP	% of firms connected to a minister or MP	No. of firms connected to a minister, MP, and close relationships	% of firms connected to a minister, MP, and close relationships	Connected firms as % of market capitalization	Total number of connections	Of which:			
								Ownership		Directorship	
								N	%	N	%
Argentina	38	0	0.00	0	0.00	0.00	0	.	.	.	.
Australia	287	2	0.70	2	0.70	0.32	2	0	0.0	2	100.0
Austria	110	1	0.91	1	0.91	0.25	1	0	0.0	1	100.0
Belgium	157	6	3.82	6	3.82	18.77	6	0	0.0	6	100.0
Brazil	167	0	0.00	0	0.00	0.00	0	.	.	.	.
Canada	534	7	1.31	7	1.31	2.53	7	0	0.0	7	100.0
Chile	89	2	2.25	2	2.25	1.43	2	0	0.0	2	100.0
Czech Rep.	63	0	0.00	0	0.00	0.00	0	.	.	.	.
Denmark	228	7	3.07	7	3.07	2.52	7	0	0.0	7	100.0
Finland	132	2	1.52	2	1.52	0.14	2	0	0.0	2	100.0
France	914	16	1.75	20	2.19	8.03	22	10	45.5	12	54.5
Germany	840	11	1.31	13	1.55	1.20	16	5	31.3	11	68.8
Greece	153	1	0.65	1	0.65	0.09	1	0	0.0	1	100.0
Hong Kong	405	3	0.74	8	1.98	2.33	8	5	62.5	3	37.5
Hungary	27	1	3.70	1	3.70	2.81	1	0	0.0	1	100.0
India	323	9	2.79	9	2.79	1.83	10	2	20.0	8	80.0
Indonesia	154	12	7.79	34	22.08	12.76	34	34	100.0	0	0.0
Ireland	82	2	2.44	2	2.44	22.83	3	0	0.0	3	100.0
Israel	55	2	3.64	2	3.64	8.13	2	0	0.0	2	100.0

Italy	233	24	10.30	24	10.30	11.27	29	21	72.4	8	27.6
Japan	2,395	31	1.29	32	1.34	1.34	35	4	11.4	31	88.6
Malaysia	445	23	5.17	88	19.78	28.24	94	87	92.6	7	7.4
Mexico	94	6	6.38	8	8.51	8.14	8	2	25.0	6	75.0
Netherlands	238	1	0.42	1	0.42	0.01	1	0	0.0	1	100.0
New Zealand	50	0	0.00	0	0.00	0.00	0	.	.	.	.
Norway	206	0	0.00	0	0.00	0.00	0	.	.	.	.
Peru	37	0	0.00	0	0.00	0.00	0	.	.	.	.
Philippines	114	1	0.88	5	4.39	16.16	6	5	83.3	1	16.7
Poland	57	0	0.00	0	0.00	0.00	0	.	.	.	.
Portugal	101	3	2.97	3	2.97	2.00	3	1	33.3	2	66.7
Russia	25	3	12.00	5	20.00	86.75	7	2	28.6	5	71.4
Singapore	229	18	7.86	18	7.86	2.59	19	10	52.6	9	47.4
South Africa	212	0	0.00	0	0.00	0.00	0	.	.	.	.
South Korea	313	7	2.24	8	2.56	8.95	8	1	12.5	7	87.5
Spain	200	3	1.50	3	1.50	0.82	3	1	33.3	2	66.7
Sweden	280	3	1.07	3	1.07	1.02	3	0	0.0	3	100.0
Switzerland	243	6	2.47	6	2.47	0.69	7	0	0.0	7	100.0
Thailand	279	23	8.24	42	15.05	41.62	46	37	80.4	9	19.6
Turkey	84	1	1.19	1	1.19	0.14	1	0	0.0	1	100.0
UK	2,149	154	7.17	154	7.17	39.02	189	13	6.9	176	93.1
US	7,124	6	0.08	14	0.20	4.94	14	0	0.0	14	100.0
Venezuela	18	0	0.00	0	0.00	0.00	0	.	.	.	.
All countries	19,884	397	2.00	532	2.68	7.76	597	240	40.2	357	59.8

Table III: Determinants of the frequency of connections

Tobit estimates. Horizontal lines separate different regressions. Similarly, each column refers to a different regression. “% of firms connected to a minister or MP” is the ratio of firms connected to a minister or MP as proportion of the total number of firms in a given country. “% of firms connected to a minister, MP, and close relationships” is the ratio of all connected firms as proportion of the total number of firms in a particular country. Standard errors (s.e.) are computed using Huber/White correction for heteroskedasticity. All regressions are run with an intercept (not reported for space reasons). a, b, c: Significantly different from zero at the 1%, 5%, or 10% level.

	Dependent variable: % of firms connected to a minister or MP		% of firms connected to a minister, MP, and close relationships		N obs.
	Coeff. (s.e.)	R <sup>2</sup> adj.	Coeff. (s.e.)	R <sup>2</sup> adj.	
Corruption					
Corruption (I)	0.418 b (0.20)	0.08	1.288 a (0.42)	0.30	38
Corruption (II)	0.328 (0.24)	0.01	0.996 c (0.55)	0.11	38
Corruption (III)	0.223 (0.37)	0.03	0.915 (0.69)	0.05	42
Quality of the legal environment					
Efficiency of the judicial system	-0.228 (0.26)	0.04	-0.793 (0.58)	0.07	38
Rule of law	-0.140 (0.27)	< 0	-0.600 (0.50)	0.02	42
Economic development					
Ln{GDP (per capita)}	-0.397 (0.84)	< 0	-2.534 (1.79)	0.06	42
Bureaucracy					
Regulation of entry	0.118 (0.15)	< 0	0.188 (0.26)	< 0	42
Business regulation index	0.728 (0.90)	< 0	1.696 (1.66)	< 0	42
Culture					
% Protestant	-0.033 c (0.02)	0.02	-0.064 b (0.03)	0.01	42
Daily newspapers (per 1,000 people)	-0.002 (0.01)	< 0	-0.007 (0.01)	< 0	42
School enrollment, secondary (% net)	0.010 (0.03)	< 0	-0.007 (0.07)	< 0	40
Government structure					
Democratic in all years since 1950	-0.019	< 0	-0.007	< 0	42

	(1.12)		(0.07)		
Decentralization	-0.031 (0.05)	< 0	-0.127 (0.11)	< 0	35
	Government intervention in the economy				
Expenditure, total (% of GDP)	-0.005 (0.05)	< 0	-0.101 (0.09)	< 0	41
	Openness				
Cross-border restrictions	2.240 c (1.33)	0.05	6.284 b (2.77)	0.18	40
Foreign direct investment, net inflows (% of GDP)	0.205 (0.32)	< 0	0.235 (0.48)	< 0	41

Table IV: Corruption and frequency of connections through owners or directors

Tobit estimates. “% of politically connected listed firms connected through the owner” is the ratio of firms connected through their owner as proportion of the total number of firms listed in a particular country. “% of politically connected listed firms connected through a director” is the ratio of firms connected through a director as proportion of the total number of firms listed in a particular country. Standard errors (s.e.) are computed using Huber/White correction for heteroskedasticity. All regressions are run with an intercept (not reported because of space reasons). a, b, c: Significantly different from zero at the 1%, 5%, or 10% level. Horizontal lines separate different regressions. Similarly, each column refers to a different regression.

Dependent variable:	% of politically connected listed firms connected through the owner		% of politically connected listed firms connected through a director		N
	Coeff. (s.e.)	R <sup>2</sup> adj.	Coeff. (s.e.)	R <sup>2</sup> adj.	
Corruption (I)	14.502 a (3.91)	0.30	-16.614 a (6.20)	0.12	38
Corruption (II)	14.655 a (4.82)	0.17	-18.541 b (7.35)	0.11	38
Corruption (III)	12.051 c (6.59)	0.03	-27.538 a (9.46)	0.17	42

Table V: Benefits of connections

Tobit results. 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 ( $\ln\{mkcap\}$ ). “Leverage” and “Tax” regressions include country and industry dummies. Industry is defined according to Campbell (1996). Coefficients for control variables are not reported for space reasons. “Leverage” is defined as long-term debt (excluding the current portion of long term debt; pensions; deferred taxes; minority interest) over 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. “Tax” is income taxes over pretax income  $\times 100$ . “Market share” is the firm’s market capitalization over the total market capitalization of all firms in the same country and two-digit SIC industry (%). Standard errors (s.e.) (reported in parentheses below the coefficients) are computed using Huber/White correction for heteroskedasticity. a, b, c: Significantly different from zero at the 1%, 5%, or 10% level. Each Panel refers to separate regressions. Similarly, each column refers to a different regression.

	Leverage	Tax	Market share
Panel A: General results			
Connected	3.160 b (1.29)	-0.775 (0.88)	6.660 a (1.23)
Panel B: Director vs. shareholder connection			
Connected through the owner	4.364 b (1.97)	-2.579 c (1.47)	11.683 a (2.00)
Connected through a director	1.489 (1.61)	0.272 (1.03)	2.403 c (1.46)
Panel C: Connections with members of parliament vs. connections with ministers			
Connected to king, president, or minister	2.551 (3.82)	0.693 (2.65)	8.815 a (3.27)
Connected to MP	1.027 (1.61)	-1.037 (1.01)	2.470 c (1.39)
Close relationships	8.426 a (2.35)	-0.765 (2.05)	14.269 a (2.73)
Panel D: Connections with “long-term” vs. “short-term” politicians			
Connected to “seasoned” politician	4.153 b (2.08)	-2.928 c (1.69)	9.638 a (2.14)
Connected to “unseasoned” politician	3.599 c (1.72)	0.006 (1.20)	5.607 a (1.90)
Memo items:			
N. Obs. Panels A-D	15,865	12,175	15,872
Country dummies	Yes	Yes	No
Industry dummies	Yes	Yes	No

Table VI: Country-level regressions

Tobit results. 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 ( $\ln\{mkcap\}$ ). The market share regressions control for all these effects except industry. All regressions include an intercept. Coefficients for these control variables are not reported for space reasons. “Leverage” is defined as long-term debt (excluding the current portion of long term debt; pensions; deferred taxes; minority interest) over 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. “Tax” is income taxes over pretax income  $\times 100$ . “Market share” is the firm’s market capitalization over the total market capitalization of all firms in the same country and two-digit SIC industry (%). Standard errors (s.e.) (reported in parentheses below the coefficients) are computed using Huber/White correction for heteroskedasticity. a, b, c: Significantly different from zero at the 1%, 5%, or 10% level. Horizontal lines separate different regressions. Similarly, each column refers to a different regression.

	Leverage	Tax	Market share
Indonesia			
Connected	4.169 (6.07)	-1.596 (6.51)	-5.205 (7.28)
R <sup>2</sup> adj.; N. Obs.	0.03; 116	<0; 66	<0; 106
Italy			
Connected	-12.112 b (5.53)	-3.791 (3.49)	4.126 (5.53)
R <sup>2</sup> adj.; N. Obs.	0.20; 177	<0; 149	0.04; 177
Japan			
Connected	0.574 (4.78)	-4.074 (2.62)	2.178 (1.65)
R <sup>2</sup> adj.; N. Obs.	0.02; 2,322	0.01; 1,786	0.16; 2,322
Malaysia			
Connected	10.501 a (2.46)	-0.679 (2.51)	1.123 (2.94)
R <sup>2</sup> adj.; N. Obs.	0.04; 418	0.06; 300	0.11; 418
Russia			
Connected	9.609 a (2.79)	-73.265 b (31.26)	99.854 a (35.46)
R <sup>2</sup> adj.; N. Obs.	0.49; 11	0.19; 8	<0; 11
Thailand			
Connected	20.439 a (7.53)	-3.395 (5.38)	-9.200 b (4.39)
R <sup>2</sup> adj.; N. Obs.	0.07; 204	<0; 119	0.27; 204
UK			
Connected	3.556 (2.36)	-1.172 (1.15)	2.346 (1.74)
R <sup>2</sup> adj.; N. Obs.	0.05; 1,416	0.04; 1,199	0.15; 1,416

Table VII: Comparative benefits across countries

Tobit results. Horizontal lines separate different regressions. Similarly, 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” and “Tax” regressions include country and industry dummies. Industry is defined according to Campbell (1996). Coefficients for these control variables are not reported for space reasons. “Leverage” is defined as long-term debt (excluding the current portion of long term debt; pensions; deferred taxes; minority interest) over 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. “Tax” is income taxes over pretax income  $\times 100$ . “Market share” is the firm’s market capitalization over the total market capitalization of all firms in the same country and two-digit SIC industry (%). The proxy for corruption employed is Corruption (III). Standard errors (s.e.) are computed using Huber/White correction for heteroskedasticity. a, b, c: Significantly different from zero at the 1%, 5% or 10% level.

	Leverage	Tax	Market share
Panel A: General results			
Connected $\times$ Corruption	0.876 a (0.33)	-0.274 (0.26)	1.961 a (0.30)
Panel B: Director vs. shareholder connection			
Connected through the owner $\times$ Corruption	0.934 b (0.40)	-0.493 (0.31)	2.305 a (0.38)
Connected through a director $\times$ Corruption	0.375 (0.53)	0.130 (0.39)	1.055 b (0.45)
Panel C: Connections with members of parliament vs. connections with ministers			
Conn. To king, president, or minister $\times$ Corruption	0.909 (0.68)	-0.097 (0.46)	1.667 a (0.59)
Connected to MP $\times$ Corruption	-0.111 (0.53)	-0.434 (0.40)	1.032 b (0.41)
Close relationships $\times$ Corruption	1.681 a (0.47)	-0.203 (0.43)	2.790 a (0.51)
Panel D: Connections with “long-term” vs. “short-term” politicians			
Connected to “seasoned” politician $\times$ Corruption	1.021 b (0.48)	-0.559 (0.44)	2.110 a (0.44)
Connected to “unseasoned” polit. $\times$ Corruption	1.064 c (0.58)	0.268 (0.40)	2.369 a (0.57)
Memo items:			
N. Obs. Panels A-D	15,865	12,175	15,872
Country dummies	Yes	Yes	No
Industry dummies	Yes	Yes	No

Table VIII: The value of connections

Abnormal (%) returns are computed using the market model. Parameters are estimated using daily returns from day  $-260$  to day  $-40$  relative to the announcement date. The event window goes from day  $-2$  to day  $+2$ . The event date is defined as the election date (or date of appointment of the politician, if different) in the case of directors/owners appointed as politicians, and as the first day the appointment was announced in the press, in the case of appointment of politicians on the board. a, b, c: Significantly different from zero at the 1%, 5% or 10% level. P-values are reported in parentheses.

	N. Obs.	Average CAR (%)	(p-value)
Panel A: Overall results.			
Whole sample	206	0.22	(0.48)
Panel B: Results by level of corruption.			
Countries with corruption above sample median	81	1.28 b	(0.02)
Countries with corruption equal to or below sample median	125	-0.47	(0.21)

## Appendix A. Data sources

	Panel A: Data sources for parliaments	Panel B: Data sources for governments
General sources	<a href="http://www.ipu.org/english/parlweb.htm#t">http://www.ipu.org/english/parlweb.htm#t</a>	<a href="http://www.gksoft.com/govt/en/world.html">http://www.gksoft.com/govt/en/world.html</a> CIA, 2001, "Chiefs of State" (available at: <a href="http://www.cia.gov/cia/publications/chiefs/">http://www.cia.gov/cia/publications/chiefs/</a> )
1. Argentina	<a href="http://www.congreso.gov.ar">http://www.congreso.gov.ar</a> <a href="http://www.senado.gov.ar">http://www.senado.gov.ar</a> <a href="http://www.diputados.gov.ar/">http://www.diputados.gov.ar/</a> <a href="http://www.hcdn.gov.ar/Principal.html">http://www.hcdn.gov.ar/Principal.html</a>	<a href="http://www.gksoft.com/govt/en/ar.html">http://www.gksoft.com/govt/en/ar.html</a>
2. Australia	<a href="http://www.aph.gov.au/house/">http://www.aph.gov.au/house/</a> <a href="http://www.aph.gov.au/senate/">http://www.aph.gov.au/senate/</a>	<a href="http://www.gksoft.com/govt/en/au.html">http://www.gksoft.com/govt/en/au.html</a>
3. Austria	<a href="http://www.parlinkom.gv.at">http://www.parlinkom.gv.at</a>	<a href="http://www.gksoft.com/govt/en/at.html">http://www.gksoft.com/govt/en/at.html</a>
4. Belgium	<a href="http://www.fed-parl.be">http://www.fed-parl.be</a> <a href="http://www.parl-fed.be">http://www.parl-fed.be</a> <a href="http://www.dekamer.be/">http://www.dekamer.be/</a> <a href="http://www.lachambre.be/">http://www.lachambre.be/</a> <a href="http://www.senate.be/">http://www.senate.be/</a>	<a href="http://www.gksoft.com/govt/en/be.html">http://www.gksoft.com/govt/en/be.html</a>
5. Brazil	<a href="http://www.camara.gov.br">http://www.camara.gov.br</a> <a href="http://www.senado.gov.br">http://www.senado.gov.br</a> <a href="http://www.interlegis.gov.br/">http://www.interlegis.gov.br/</a>	<a href="http://www.gksoft.com/govt/en/br.html">http://www.gksoft.com/govt/en/br.html</a>
6. Canada	<a href="http://www.parl.gc.ca">http://www.parl.gc.ca</a>	<a href="http://www.gksoft.com/govt/en/ca.html">http://www.gksoft.com/govt/en/ca.html</a>
7. Chile	<a href="http://www.congreso.cl">http://www.congreso.cl</a> <a href="http://www.camara.cl/">http://www.camara.cl/</a> <a href="http://www.senado.cl/">http://www.senado.cl/</a>	<a href="http://www.gksoft.com/govt/en/cl.html">http://www.gksoft.com/govt/en/cl.html</a>
8. Czech Republic	<a href="http://www.psp.cz">http://www.psp.cz</a> <a href="http://www.senat.cz">http://www.senat.cz</a>	<a href="http://www.cia.gov/cia/publications/chiefs/chiefs49.html">http://www.cia.gov/cia/publications/chiefs/chiefs49.html</a>
9. Denmark	<a href="http://www.folketinget.dk">http://www.folketinget.dk</a> <a href="http://www.ft.dk/">http://www.ft.dk/</a>	<a href="http://www.gksoft.com/govt/en/dk.html">http://www.gksoft.com/govt/en/dk.html</a>
10. Finland	<a href="http://www.eduskunta.fi">http://www.eduskunta.fi</a>	<a href="http://www.gksoft.com/govt/en/fi.html">http://www.gksoft.com/govt/en/fi.html</a>
11. France	<a href="http://www.assemblee-nationale.fr/">http://www.assemblee-nationale.fr/</a> <a href="http://www.senat.fr">http://www.senat.fr</a>	<a href="http://www.gksoft.com/govt/en/fr.html">http://www.gksoft.com/govt/en/fr.html</a>
12. Germany	<a href="http://www.bundestag.de">http://www.bundestag.de</a> <a href="http://www.bundesrat.de">http://www.bundesrat.de</a>	<a href="http://www.gksoft.com/govt/en/fr.html">http://www.gksoft.com/govt/en/fr.html</a>
13. Greece	<a href="http://www.parliament.gr">http://www.parliament.gr</a>	<a href="http://www.gksoft.com/govt/en/gr.html">http://www.gksoft.com/govt/en/gr.html</a>
14. Hong Kong	<a href="http://www.chinabusiness.com/govern/npc.htm">http://www.chinabusiness.com/govern/npc.htm</a>	<a href="http://www.gksoft.com/govt/en/cn.html">http://www.gksoft.com/govt/en/cn.html</a> <a href="http://www.gksoft.com/govt/en/hk.html">http://www.gksoft.com/govt/en/hk.html</a>
15. Hungary	<a href="http://www.mkogy.hu">http://www.mkogy.hu</a>	<a href="http://www.cia.gov/cia/publications/chiefs/chiefs78.html">http://www.cia.gov/cia/publications/chiefs/chiefs78.html</a>
16. India	<a href="http://alfa.nic.in">http://alfa.nic.in</a> <a href="http://parliamentofindia.nic.in/">http://parliamentofindia.nic.in/</a>	<a href="http://www.gksoft.com/govt/en/in.html">http://www.gksoft.com/govt/en/in.html</a>
17. Indonesia	<a href="http://www.dpr.go.id/">http://www.dpr.go.id/</a>	<a href="http://www.gksoft.com/govt/en/id.html">http://www.gksoft.com/govt/en/id.html</a>
18. Ireland	<a href="http://www.irlgov.ie/oireachtas/">http://www.irlgov.ie/oireachtas/</a>	<a href="http://www.gksoft.com/govt/en/ie.html">http://www.gksoft.com/govt/en/ie.html</a>
19. Israel	<a href="http://www.knesset.gov.il">http://www.knesset.gov.il</a> <a href="http://www.israel-mfa.gov.il/gov/knesset.html">http://www.israel-mfa.gov.il/gov/knesset.html</a>	<a href="http://www.gksoft.com/govt/en/il.html">http://www.gksoft.com/govt/en/il.html</a>
20. Italy	<a href="http://www.parlamento.it">http://www.parlamento.it</a> <a href="http://www.camera.it/">http://www.camera.it/</a> <a href="http://www.senato.it/senato.htm">http://www.senato.it/senato.htm</a>	<a href="http://www.gksoft.com/govt/en/it.html">http://www.gksoft.com/govt/en/it.html</a>

21. Japan	<a href="http://www.shugiin.go.jp">http://www.shugiin.go.jp</a> <a href="http://www.sangiin.go.jp">http://www.sangiin.go.jp</a>	<a href="http://www.gksoft.com/govt/en/jp.html">http://www.gksoft.com/govt/en/jp.html</a>
22. Malaysia	<a href="http://www.parlimen.gov.my">http://www.parlimen.gov.my</a>	<a href="http://www.gksoft.com/govt/en/my.html">http://www.gksoft.com/govt/en/my.html</a>
23. Mexico	<a href="http://www.camaradediputados.gob.mx">http://www.camaradediputados.gob.mx</a> <a href="http://www.senado.gob.mx">http://www.senado.gob.mx</a>	<a href="http://www.gksoft.com/govt/en/mx.html">http://www.gksoft.com/govt/en/mx.html</a>
24. Netherlands	<a href="http://www.parlement.nl">http://www.parlement.nl</a> <a href="http://www.dds.nl/overheid/pdc/">http://www.dds.nl/overheid/pdc/</a> <a href="http://www.eerstekamer.nl/">http://www.eerstekamer.nl/</a>	<a href="http://www.gksoft.com/govt/en/nl.html">http://www.gksoft.com/govt/en/nl.html</a>
25. New Zealand	<a href="http://www.parliament.govt.nz">http://www.parliament.govt.nz</a>	<a href="http://www.gksoft.com/govt/en/nz.html">http://www.gksoft.com/govt/en/nz.html</a>
26. Norway	<a href="http://www.stortinget.no">http://www.stortinget.no</a>	<a href="http://www.gksoft.com/govt/en/no.html">http://www.gksoft.com/govt/en/no.html</a>
27. Peru	<a href="http://www.congreso.gob.pe/index.htm">http://www.congreso.gob.pe/index.htm</a>	<a href="http://www.gksoft.com/govt/en/pe.html">http://www.gksoft.com/govt/en/pe.html</a>
28. Philippines	<a href="http://www.congress.gov.ph/">http://www.congress.gov.ph/</a> <a href="http://www.dbm.gov.ph/gov_dir/senate_dir.htm">http://www.dbm.gov.ph/gov_dir/senate_dir.htm</a>	<a href="http://www.da.gov.ph/">http://www.da.gov.ph/</a>
29. Poland	<a href="http://www.sejm.gov.pl">http://www.sejm.gov.pl</a> <a href="http://www.senat.gov.pl">http://www.senat.gov.pl</a>	<a href="http://www.cia.gov/cia/publications/chiefs/chiefs141.html">http://www.cia.gov/cia/publications/chiefs/chiefs141.html</a>
30. Portugal	<a href="http://www.parlamento.pt">http://www.parlamento.pt</a>	<a href="http://www.gksoft.com/govt/en/pt.html">http://www.gksoft.com/govt/en/pt.html</a>
31. Russia *	<a href="http://www.duma.ru/deputats/list/frmlist.htm">http://www.duma.ru/deputats/list/frmlist.htm</a> <a href="http://www.council.gov.ru/sostav/members/spisok.htm">http://www.council.gov.ru/sostav/members/spisok.htm</a>	<a href="http://www.cia.gov/cia/publications/chiefs/chiefs145.html">http://www.cia.gov/cia/publications/chiefs/chiefs145.html</a>
32. Singapore	<a href="http://www.gov.sg/parliament/">http://www.gov.sg/parliament/</a>	<a href="http://www.gksoft.com/govt/en/sg.html">http://www.gksoft.com/govt/en/sg.html</a>
33. South Africa	<a href="http://www.parliament.gov.za">http://www.parliament.gov.za</a>	<a href="http://www.gksoft.com/govt/en/za.html">http://www.gksoft.com/govt/en/za.html</a>
34. South Korea	<a href="http://www.assembly.go.kr">http://www.assembly.go.kr</a>	<a href="http://www.gksoft.com/govt/en/kr.html">http://www.gksoft.com/govt/en/kr.html</a> <a href="http://www.gksoft.com/govt/en/kp.html">http://www.gksoft.com/govt/en/kp.html</a>
35. Spain	<a href="http://www.congreso.es">http://www.congreso.es</a> <a href="http://www.senado.es">http://www.senado.es</a>	<a href="http://www.gksoft.com/govt/en/es.html">http://www.gksoft.com/govt/en/es.html</a>
36. Sweden	<a href="http://www.riksdagen.se">http://www.riksdagen.se</a>	<a href="http://www.gksoft.com/govt/en/se.html">http://www.gksoft.com/govt/en/se.html</a>
37. Switzerland	<a href="http://www.parliament.ch">http://www.parliament.ch</a>	<a href="http://www.gksoft.com/govt/en/ch.html">http://www.gksoft.com/govt/en/ch.html</a>
38. Thailand	<a href="http://www.parliament.go.th">http://www.parliament.go.th</a>	<a href="http://www.gksoft.com/govt/en/th.html">http://www.gksoft.com/govt/en/th.html</a>
39. Turkey	<a href="http://www.tbmm.gov.tr">http://www.tbmm.gov.tr</a>	<a href="http://www.gksoft.com/govt/en/tr.html">http://www.gksoft.com/govt/en/tr.html</a>
40. UK	<a href="http://www.parliament.uk">http://www.parliament.uk</a>	<a href="http://www.gksoft.com/govt/en/gb.html">http://www.gksoft.com/govt/en/gb.html</a>
41. US	<a href="http://www.congress.gov">http://www.congress.gov</a> <a href="http://www.senate.gov">http://www.senate.gov</a> <a href="http://www.house.gov">http://www.house.gov</a>	<a href="http://www.gksoft.com/govt/en/us.html">http://www.gksoft.com/govt/en/us.html</a>
42. Venezuela	<a href="http://www.asambleanacional.gov.ve/ns/integra.asp">http://www.asambleanacional.gov.ve/ns/integra.asp</a>	<a href="http://www.cia.gov/cia/publications/chiefs/chiefs189.html">http://www.cia.gov/cia/publications/chiefs/chiefs189.html</a>

\* Transliteration from the Cyrillic made through the web site <http://www.cifirica.ru/>

### Panel C: Data sources for ownership structures

General data Ownership data are gathered from country sources listed below, and integrated with Extel, Worldscope, Claessens *et al.* (2000) for Asian countries, Faccio and Lang (2002) for Western European countries; These same sources as well as the 2000 "Fortune 500 global list" are used to identify government-ownership; Lists of privatized firms are obtained from SDC Platinum; Bortolotti, Fantini and Siniscalco (2001); Dewenter and Malatesta (1997, appendix available at [www.afajof.org/Pdf/supplements/ap5080.pdf](http://www.afajof.org/Pdf/supplements/ap5080.pdf)); and Megginson, Nash, and Van Randenborgh (1994). Group-affiliation data are taken from Extel, Worldscope, Claessens *et al.* (2000), and Faccio and Lang (2002).

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Australia	Australian Stock Exchange, 1997, "ASX All Ordinary Index. Company Handbook," Sydney, N.S.W. <a href="http://www.companies.govt.nz/search/cad/dbssiten.main">http://www.companies.govt.nz/search/cad/dbssiten.main</a>
Austria	Wiener Börse, 2001, "Yearbook 2000," Österreichische Vereinigung für Finanzanalyse, Wien
Belgium	Banque Bruxelles Lambert, 2000, "Actionariat des Sociétés Belges cotées à Bruxelles," Department Etudes et Stratégie. <a href="http://www.stockexchange.be/enindex.htm">http://www.stockexchange.be/enindex.htm</a>
Brazil	Sao Paulo Stock Exchange, "Brazil Company Handbook", edition 2000/2001
Czech Republic	Securities Center of the Czech Republic, 2001, Data on significant shareholdings.
Denmark	Hugin, Annual Report CD (1998) ( <a href="http://www.huginonline.com">http://www.huginonline.com</a> )
Finland	Helsinki Media Blue Book, "Major Finnish Companies Internet Database" ( <a href="http://www.bluebook.fi/en/tuotteet/haku/majorfinnishcompanies.html">http://www.bluebook.fi/en/tuotteet/haku/majorfinnishcompanies.html</a> ) <a href="http://www.huginonline.com">http://www.huginonline.com</a>
France	<a href="http://www.bourse-de-paris.fr/fr/index_fs.htm?nc=2&amp;ni=6&amp;nom=marche">http://www.bourse-de-paris.fr/fr/index_fs.htm?nc=2&amp;ni=6&amp;nom=marche</a> Herald Tribune (1997), "French Company Handbook 1997," SFB -Paris Bourse
Germany	Commerzbank (1997), "Wer gehört zu wem" ( <a href="http://www.commerzbank.com/navigate/date_frm.htm">http://www.commerzbank.com/navigate/date_frm.htm</a> ) Bundesaufsichtsamt für den Wertpapierhandel, "Major Holdings of Voting Rights in Officially Listed Companies," December 2000 <a href="http://www.ase.gr/">http://www.ase.gr/</a>
Greece	
Hong Kong	Asian Company Handbook (1998)
Indonesia	Asian Company Handbook (1998)
Ireland	<a href="http://www.hemscott.com/equities/company/">http://www.hemscott.com/equities/company/</a>
Italy	<a href="http://www.consob.it/trasparenza_soc_quot/trasp_soc_quot.htm">http://www.consob.it/trasparenza_soc_quot/trasp_soc_quot.htm</a>
Japan	Toyo Keizai Shanposha, 2001, "Japan Company Handbook", Tokyo, Japan, Summer Edition.
Malaysia	Asian Company Handbook (1998)
Mexico	"Mexico Company Handbook 97", Reference Press, Inc.
New Zealand	Datex, 2001, "New Zealand Directory of Shareholders"
Norway	<a href="http://www.huginonline.com">http://www.huginonline.com</a> Company web sites from: <a href="http://www.ose.no/english/">http://www.ose.no/english/</a>
Philippines	Asian Company Handbook (1998)
Poland	Polish SEC, <a href="http://www.kpwig.gov.pl/tr-ang.htm">http://www.kpwig.gov.pl/tr-ang.htm</a> , 2001, Data on significant shareholdings.
Portugal	Bolsa de Valores de Lisboa e Porto, 2000, "Sociedades Cotadas 1999", CD-rom
Singapore	Asian Company Handbook (1998)
South Korea	Asian Company Handbook (1998)
Spain	<a href="http://www.cnmv.es/english/cnmve.htm">http://www.cnmv.es/english/cnmve.htm</a>
Sweden	<a href="http://www.huginonline.com">http://www.huginonline.com</a>
Switzerland	Union Bank of Switzerland (1998), "Swiss Stock Guide 96/97," Zurich
Thailand	Asian Company Handbook (1998)
Turkey	Istanbul Stock Exchange, 2001, "Yearbook of Companies", available at: <a href="http://www.ise.org">http://www.ise.org</a>
UK	<a href="http://www.hemscott.com/equities/company/">Http://www.hemscott.com/equities/company/</a>
US	<a href="http://www.sec.gov/">http://www.sec.gov/</a>

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**Panel D: Data sources for board composition:**

Extel, Lexis-Nexis proxy statements (US corporations), and Worldscope

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**Panel E: Data sources on political corruption, financial scandals, political connections:**

Forbes, 2000 and 2001, "World's Richest People"

*The Economist*, various issues.

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**Panel F: Data sources on family affiliation:**

Agrawal, Anup and Charles R. Knoeber, 2001, "Do some outside directors play a political role?" *Journal of Law and Economics*, 44: 179-198.

Backman, Michael, 1999, "Asian eclipse: Exposing the dark size of business in Asia," Wiley & Sons (Asia)

Fisman, Raymond, 2001, "Estimating the value of political connections," *American Economic Review*, 91:1095-1102.

Forbes, 2000 and 2001, "World's Richest People" (available at <http://www.forbes.com/people/2001/06/21/billionairesindex.html> ).

Forbes, 2001, "The Forbes Four Hundred" (Richest Americans) (available at <http://www.forbes.com/2001/09/27/400.html> ).

Fortune, 2001, Fortune's 50 most powerful women in American business, October 15, 2001.

Fortune, 2001, The global power 50, October 15, 2001.

Gomez, Edmund Terence, and K.S. Jomo, 1997, "Malaysia's political economy: Politics, patronage and profits," Cambridge University Press.

Johnson, Simon, and Todd Mitton, 2002, "Cronyism and capital controls: Evidence from Malaysia," *Journal of Financial Economics*, forthcoming.

The Stationery Office, 2001, Register of Members' Interests, downloadable from <http://www.publications.parliament.uk/pa/cm200001/cmregmem/memi02.htm>

**Panel G: Election dates**

Central Intelligence Agency, 2001, "The World Factbook 2001," available at <http://www.cia.gov/cia/publications/factbook/>

"Elections around the world," available at <http://www.electionworld.org/>

House of Lords, 2001, "New members announced since 24 October 2000," available at <http://www.publications.parliament.uk/pa/ld/ldinfo/meminf.htm>

House of Lords, 2001, "Peer, party & date they became. "

<http://www.polisci.com/world/nation/>

<http://www.rulers.org/>

Lexis-Nexis

*The Economist*, various issues.

"World Political Leaders 1945-2001," available at <http://www.terra.es/personal2/monolith/00index.htm>

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## Appendix B: Definition of variables

Variable	Description	Summary statistics		
		Mean	Min	Max
<b>Panel A: Macro variables</b>				
% of firms connected to a minister or MP	Firms connected to a minister or MP, excluding the cases of close relationships, over the total number of firms listed in a given country.	2.6	0.0	12.0
% of politically connected listed firms	Connected firms as proportion of the total number of firms listed in a particular country. Connections here including cases of close relationships.	3.8	0.0	22.1
% Protestant	Protestants as fraction of the total population. Source: Treisman, 2000 and Central Intelligence Agency, 2001, "The World Factbook 2001," <a href="http://www.cia.gov/cia/publications/factbook/">http://www.cia.gov/cia/publications/factbook/</a>	18.2	0.0	97.8
Business regulation index	An index of regulation policies related to opening a business (on a scale from 1 to 5). Rescaled so that a low score indicates that regulations are straightforward and applied uniformly to all businesses and that regulations are less of a burden to business. The score refers to the index in 1997. Source: 1997 Index of Economic Freedom ( <a href="http://www.heritage.org/index/">http://www.heritage.org/index/</a> ).	2.7	1.0	4.0
Common law	Dummy that equals 1 if the legal origin of the country's company law or commercial code is the English common law, and 0 otherwise. Source: La Porta <i>et al.</i> , 1998, and Central Intelligence Agency, 2001, "The World Factbook 2001," <a href="http://www.cia.gov/cia/publications/factbook/">http://www.cia.gov/cia/publications/factbook/</a>	0.31	0.0	1.0
Corruption (I)	Business International's (Economist Intelligence Unit) assessment of 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. Scale from 0 to 10; the original scale is inverted so that lower scores correspond to lower levels of corruption. Source: Mauro, 1995.	2.2	0.0	8.5
Corruption (II)	International Country Risk's assessment of the corruption in government. Higher scores indicate "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." Average of the months of April and October of the monthly index between 1982 and 1995. Scale from 0 to 10; the original scale is inverted so that lower scores correspond to lower levels of corruption. Source: La Porta <i>et al.</i> , 1998.	2.5	0.0	7.9
Corruption (III)	Corruption 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". Originally scaled from about -2.5 to 2.5; rescaled from 0 to 10, with higher scores for higher corruption. Source: Kaufmann <i>et al.</i> (1999a and 1999b), <a href="http://www.worldbank.org/wbi/governance/datasets.html#dataset">http://www.worldbank.org/wbi/governance/datasets.html#dataset</a>	3.3	0.7	6.6
Cross-border restrictions	Dummy that equals 1 if there is any restriction on the purchase of securities or outward direct investment in a specific country. Source: IMF, "Exchange Arrangements and Exchange Restrictions."	0.27	0.0	1.0
Daily newspapers (per 1,000 people)	Daily newspapers refer to those published at least four times a week, per 1,000 people. Average 1987-1999. Source: World Bank, <a href="http://sima-ext.worldbank.org/query/">http://sima-ext.worldbank.org/query/</a>	225	0.0	758
Decentralization	Total expenditure of sub-national (State and local) government over total spending by all levels (State, local and central) of government. Source: "Government Finance Statistics Yearbook," International Monetary Fund; average between 1990 and 1995 (or the latest available year)	23.3	4.7	48.6

Democratic in all years since 1950	Democratic if (1) the executive is elected, (2) the legislature (at least its lower house) is elected, (3) more than one party contests elections, and (4) during the last three elections of the executive there has been at least one turnover of power between parties. Source: Treisman, 2000	0.5	0.0	1.0
Efficiency of the judicial system	Assessment of the “efficiency and integrity of the legal environment as it affects business, particularly foreign firms” produced by the country-risk rating agency Business International Corporation. It “may be taken to represent investors’ assessments of conditions in the country in question.” Average between 1980-1983. Scale from 0 to 10, with lower scores for lower efficiency levels. Source: La Porta <i>et al.</i> , 1998	7.9	2.5	10.0
Expenditure, total (% of GDP)	Total expenditure includes both current and capital expenditures. It does not include government lending or repayments to the government or government acquisition of equity for public purposes. Data are shown for central government only. Average 1987-1999. Source: World Bank, <a href="http://sima-ext.worldbank.org/query/">http://sima-ext.worldbank.org/query/</a>	30.9	13.4	50.7
Foreign direct investment, net inflows (% of GDP)	Foreign direct investment is net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy. Average 1987-1999. Source: World Bank, <a href="http://sima-ext.worldbank.org/query/">http://sima-ext.worldbank.org/query/</a>	2.2	0.0	10.9
Ln {GDP (per capita)}	(Natural log of) Gross domestic product (in US\$) on a purchasing power parity basis divided by population; computed for 1999. Source: World Bank, <a href="http://sima-ext.worldbank.org/query/">http://sima-ext.worldbank.org/query/</a>	9.5	7.7	10.4
Regulation of entry	Number of different steps that a start-up has to comply with in order to obtain a legal status, i.e., to start operating as a legal entity. Source: Djankov <i>et al.</i> , 2002.	9.4	2.0	16.0
Rule of law	Assessment of the law and order tradition in the country produced by the country-risk rating agency International Country Risk. Average of the months of April and October of the monthly index between 1982 and 1995. Scale from 0 to 10, with lower scores for lower efficiency levels. Source: La Porta <i>et al.</i> , 1998, and World Bank, <a href="http://www.worldbank.org/wbi/governance/datasets.html#dataset">http://www.worldbank.org/wbi/governance/datasets.html#dataset</a>	7.4	2.5	10.0
School enrollment, secondary (% net)	Net enrollment ratio is the ratio of the number of children of official school age (as defined by the national education system) who are enrolled in school to the population of the corresponding official school age. Secondary education completes the provision of basic education that began at the primary level, and aims at laying the foundations for lifelong learning and human development, by offering more subject- or skill-oriented instruction using more specialized teachers. Based on the International Standard Classification of Education, 1976 (ISCED76) and 1997 (ISCED97). Average 1987-1999. Source: World Bank, <a href="http://sima-ext.worldbank.org/query/">http://sima-ext.worldbank.org/query/</a>	75.1	17.4	97.3

**Panel B: Micro variables**

Connected	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; 0 otherwise.	0.03	0	1
Connected through a director	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; 0 otherwise.	0.02	0	1
Connected through the owner	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; 0 otherwise	0.01	0	1
Connected to “seasoned” politician	Dummy that equals 1 if the connected politician was first appointed in or before 1987; 0 otherwise.	0.01	0	1
Connected to	Dummy that equals 1 if the connected politician was first appointed after 1987; 0	0.01	0	1

“unseasoned” politician	otherwise.			
Connected to king, president or minister	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; 0 otherwise.	0.004	0	1
Connected to MP	Dummy that equals 1 if a controlling shareholder or top director of the company sits in a national parliament; 0 otherwise.	0.016	0	1
Close relationships	Dummy = 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.	0.008	0	1
Dually-listed	Dummy that equals 1 if the company is listed on at least two stock markets, 0 otherwise	0.21	0	1
Industry	The industrial classification is based on Campbell (1996). 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), 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).	—	—	—
Interest rate	Interest expense on debt <sub>t</sub> / [(Short-term debt and current portion of long-term debt <sub>t</sub> + Long-term debt <sub>t</sub> + Short-term debt and current portion of long-term debt <sub>t-1</sub> + Long-term debt <sub>t-1</sub> )/2] × 100. Long-term debt does not include the current portion of long-term debt, pensions, deferred taxes, and minority interest.	8.33	0.00	139.6
Leverage	Long term debt (excluding the current portion of long term debt; pensions; deferred taxes; minority interest) / Total capital × 100. Total capital is the sum of common equity, preferred stock, minority interest, long-term debt, non-equity reserves and deferred tax liability in untaxed reserves.	24.43	0.00	99.92
Ln{MkCap}	Natural log of market capitalization (defined as market price as of year end × common shares outstanding)	12.15	3.69	19.29
Market share	Firm’s market capitalization over the total market capitalization of all firms in the same country and two-digit SIC industry code (%)	9.39	0.00	100.0
Market-to-book	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.	1.62	0.18	14.87
Privatized	Dummy that equals 1 if the company is a privatized firm, 0 otherwise	0.01	0	1
ROE	[(Net income before preferred dividends – preferred dividend requirement) / Last year’s common equity] × 100	6.75	-461	484
State	Voting stake held by the central and local government. 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.	0.01	0	1
Stock price return	Total stock price return = [(Market price as of year end + dividends per share + special dividend quarter 1 + special dividend quarter 2 + special dividend quarter 3 + special dividend quarter 4) / (Last year’s year-end market price) - 1] × 100	11.67	-99.5	923.6
Tax	Income Taxes / Pretax Income × 100	32.76	0.00	99.54