

Politicking Behaviour of Indian Firms

Rishman Jot Chahal^{1,*} and Wasim Ahmad¹

¹*Department of Economic Sciences, Indian Institute of Technology
Kanpur, Kanpur- 208016, India.*

Abstract

This paper examines the effect of political connections against the backdrop of low business freedom and weak market institutions in the world's largest democracy. We study the potential effects of a market friction, particularly political connection for India's mixed economic set-up. This study proposes a broad definition to examine the nature and consequences of these connections through different channels including Members of Parliament (MPs) and contributions to the national political parties. Using Standard & Poor's Bombay Stock Exchange (S & P BSE) Index for 500 firms, we find that political connections have a positive effect on firms profitability and access to credit which varies with the strength of connection. Further, we find that this strength effect differs with the firm's size as large-cap firms do not indicate this effect and are benefitted significantly from all channels of connections. Mid-cap and small-cap firms showed significant strength effect and are not benefitted substantially from MPs.

JEL Classification: H7; K0; P2; P3

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^aCorresponding author: E-mail address: rishman@iitk.ac.in, Tel.: +91-9500074125.

^bE-mail address: *wasimad@iitk.ac.in*

1 Introduction

The issue of the extent of government involvement in markets is contentious. Traditionally, economists view that governments intervention in the markets or controlled markets lead to the market failure and believed in laissez-faire policy ([Smith \(1776\)](#)). However, economists such as [Stiglitz \(1989\)](#) believed that market failures can be ameliorated through government involvement by establishing non-market institutions. But the intervention should be with a caution as it may give rise to various market frictions. This study examines the nature and consequences of the market frictions, particularly a firm's political connection, with reference to India's mixed market economy. These results complement the literature on market frictions by demonstrating how political connections can be used to influence the firm's financial activities in a controlled market.

[Shleifer and Vishny \(1994\)](#) and [Choi and Thum \(2009\)](#) provide the theoretical explanations of the positive impact of political connections from political and institutional perspectives. The political perspective postulates that government owned enterprises are used by politicians to fulfill their political ambitions. The institutional perspective suggests that under certain institutional conditions, autocratic regimes use firm's rent to survive and in return firm's get access to cheaper credit and profitable markets. Several empirical studies (see [Kroszner and Stratmann \(1998\)](#), [Agrawal and Knoeber \(2001\)](#), [Fisman \(2001\)](#), [Johnson and Mitton \(2003\)](#), [Dinc \(2005\)](#), [Khwaja and Mian \(2005\)](#), [Leuz and Oberholzer-Gee \(2006\)](#), [Faccio \(2006\)](#), [Claessens et al. \(2008\)](#), [Faccio \(2010\)](#), [Cooper et al. \(2010\)](#), [Su and Fung \(2013\)](#)) and [Boubakri et al. \(2008\)](#)) confirmed the evidence of positive effect of political connections in the markets.

The completely free markets do not operate in today's modern economies but countries with proper institutional set up and well defined property rights do coincide with the definition. The 2017 Index of Economic Freedom ranks India at 143rd position, implying lack of economic and business freedom in the world's largest democracy as compared to various other emerging economies (see Fig.1 for Business Freedom Score). Additionally, at a time when the Indian economy is passing through the phase of Twin-

Balance Sheet (TBS) syndrome owing to the unprecedented rise in corporate debt default and Non-Performing Assets (NPAs) of commercial banks, it is important to examine the genesis of TBS in the light of business-politics nexus. According to Economic Survey of India (2016-17), the unscrupulous borrowing by Indian corporates has been cited as the prime reason for TBS crisis. The genesis of TBS crisis can also become one of the anecdotal evidence of corporate political connections in India. Thus, understanding the relative significance of political connections in Indian markets is important for deriving possible policy responses and reforms.

This study proposes a broad definition and examines the nature and consequences of political connections in Indian markets. The identification of politics-business connection in India’s case may require utmost care because of the existence of multiple decision-making bodies (Fisman (2001)). In this light, political connections are defined in two ways: First, based on the conventional classification that whether a Member of Parliament (MP) is part of any business group or firm. Second, to circumvent the void of MP linked political connections, financial contributions in the form of political donations from these companies are taken into account. Fig. 2 illustrates the identification and effect of political connections found in the literature. Overall, the results of this study suggests that political connections have a positive effect on a firm’s profitability and access to credit, which varies with the type of connections the firm hold. The firms donating to multiple

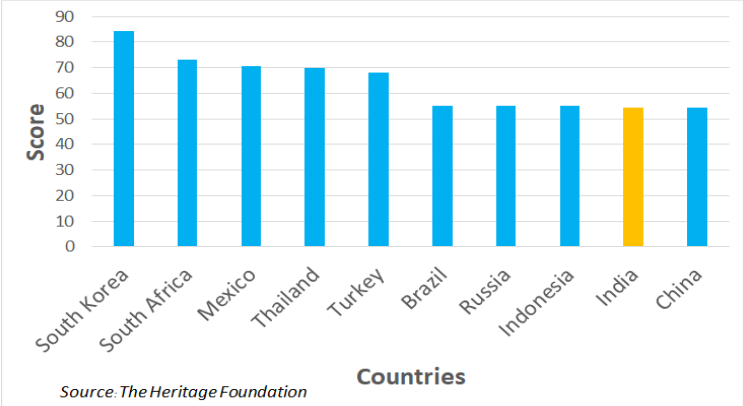


Figure 1: Business Freedom Score (Median)

political parties are benefited more in the decentralized structure of the Indian economy. Further, the degree of effect differs with the firm's size.

In this study, first, by using firm-level data we confirmed that for Indian firms there exists a positive relationship between a firm's political connections, its leverage and credit access as found in the literature. However, the effect of such connections remains positive for tax benefits, while insignificant for the firm's profitability. As there exists weaker results for a broad definition of political connections with an additional difficulty of an appropriate proxy, the study tried to include each leeway of forming connections.

This leads to the second part of the study where different channels of forming political connections are included. While the results for leverage and credit access for CONMP (Connections through MPs), CONCONTRI (Connections through donations to the political parties), CONTRI1 (donating to a single party) and COTRI2 (donating to both the parties) are consistent with the results at aggregate level, tax benefits and profitability results remain mixed and differs with the type of connection a firm holds.

Finally, a series of empirical specifications for large-cap, mid-cap and small-cap firms, divided on the basis of their size (market capitalization) to further test the hypothesis for each section. This helps to look at the effect of political connections at each level in the economy.

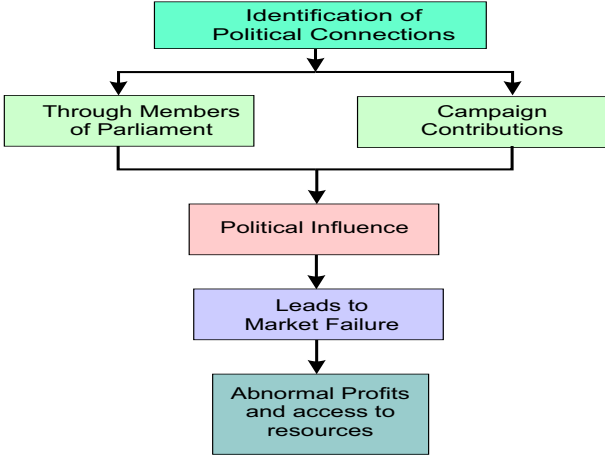


Figure 2: Identification of Political Connections

2 Literature and Hypotheses

The firms have an incentive to be politically connected. A wide range of studies focused on this issue both at the country level as well as at global level. [Shleifer and Vishny \(1994\)](#) find that the firms owned by politicians behave differently than firms owned by managers (private entrepreneurs). The two-way flow of bribe comes into picture. The manager held firms are given subsidies to accomplish political objectives while managers give bribes to politicians to not to seek policy goals. Thus, the politically owned companies extract rents. [Agrawal and Knoeber \(2001\)](#) suggest that firms for which political connections matter a lot (involves sales to government, exports, greater lobbying), generally have outside directors in their board with political or law background and have a significant role to play.

Almost all studies (to the best of our knowledge) support the evidence of higher debt dependence of politically connected firms (PCFs). [Khwaja and Mian \(2005\)](#) investigate political connections of the firms by their access to bank loans and defaults. The paper focuses on the degree, nature and monetary costs of the loans provision and finds that PCFs have higher loan access and default rate as compared to non-politically connected firms (NPCFs) in Pakistan. [Leuz and Oberholzer-Gee \(2006\)](#) find that firms connected to Suharto (President of Indonesia) have easy credit access so, they are more leveraged and less likely to have publicly traded foreign securities. [Faccio \(2006\)](#) finds that government bailed out PCFs have a higher leverage than their non-connected peers. [??](#) find in the case of Malaysian economy that PCFs have higher leverage and cost of debt. [Blau et al. \(2013\)](#) examine the political connections of banks during 2008 Troubled Asset Relief Program (TARP) for US economy. and find that PCFs were not only more likely to receive the TARP but also a higher amount than NPCFs.

Thus, soft budget and easy access to credit indicates that PCFs are more leveraged or are more indebted as compared to their non-connected counterparts which leads to the following hypothesis:

Hypothesis 1: Politically connected firms are highly leveraged owing to their preferential

treatment over non-connected peers.

Faccio (2010) emphasises over the tax benefits enjoyed by PCFs. The definition of the variable used in the study is given in subsection 3.4 which is similar to the one used by Faccio. However, it further highlights certain limitations with analyzing taxation and specifies it to differ with the company's profitability i.e. taxes could be lower due to lower profitability and not due to political connections. Thus, only a lower or insignificant change in tax payments with high profitability might indicate some sought of political influence. Also, these results are further sensitive to the type of industry a firm operates as tax breaks are industry specific. Hence, the above discussion leads to the second hypothesis:

Hypothesis 2: Politically connected firms pay lower taxes compared to their non-connected peers, though their profits remains high.

Various empirical studies suggest that political connections affect a firm's performance or profitability. Johnson and Mitton (2003) find that Malaysia's capital control policy as adopted by Malaysian government after the financial crisis of 1998 is biased towards PCFs. Their gains after crisis are much higher than NPCFs. Mobarak and Purbasari (2006) finds that firms connected to President Suharto are more profitable and export-oriented. Li et al. (2008) find the role of firms or entrepreneurs, having a membership in the ruling Chinese Communist Party on the firm's private activities. The paper observes a positive effect of party connection on firm's performance. Su and Fung (2013) examine the impact of political connections on Chinese firms financial performance during 2004-2008. They find a positive relationship between political connections and firms' performance. The study finds that political connections are uniformly used by state-owned and private firms to seek special benefits. Shin et al. (2017) find that the benefits of PCFs overweights their cost in case of South Korea.

However, some studies contrast these results. Using the firm level data of 47 countries, [Faccio \(2010\)](#) reports that on an accounting basis, the NPCFs outshine the PCFs, though the latter enjoys higher leverage and market share compared to former. [Menozzi et al. \(2011\)](#) examine the performance of local utility bodies when their BOD (Board of Directors) members are politically connected. Using the data on 114 Italian local public utilities for the period 1994-2004, it finds that politically connected BOD members dominate in the local public utility units and has an adverse impact on their performance. At global level, [Faccio \(2006\)](#) finds political-corporate connections around the world and examine the addition of these connections to firm's value. The study finds that connections may not be common across countries but, are same for countries with similar corruption levels. The value of a firm increases with political connections, depending on the type of connection (strong or weak). This leads to the following hypothesis:

Hypothesis 3: The profitability of politically connected firms is different from their non-connected counterparts, which could also differ with the strength of connection.

Higher debt dependence of PCFs which indicates their greater credit access is already mentioned in the earlier discussions of the study. [Li et al. \(2008\)](#) has also looked from loans perspective and find that it is easy for private PCFs to obtain loans from government banks. [Yeh et al. \(2013\)](#) examine the linkage between political connections and preferential bank loans. Using event study approach, it finds that there is a positive dependence between the two in Taiwan. However, [Faccio et al. \(2006\)](#) conclude that PCFs are more likely to be bailed out during financial distress and with this implicit assumption these firms prefer long term debt. In a recent study, [Cheng and Leung \(2016\)](#) examine Chinese PCFs from economic and national interest and report that these firms are rebound from financial distress faster than NPCFs. Thus, long-term debt is a clear indication of political influence even within debt dependence of PCFs. Taking the case of real estate firms in China for the period 1998-2012, [Ling et al. \(2016\)](#) examine the impact of political connections on external financing, corporate investment, and financial perfor-

mance. It finds that political connections are positively related to the long-term bank loans and even to the corporate over-investment. Consequently, our last hypothesis is as follows:

Hypothesis 4: Politically connected firms have greater access to credit with a higher emphasis on long-term debt as compared to their non-connected peers.

3 Data and Variables

3.1 Sample Firms

The sample firms used in this study comprises the S & P BSE 500 index over a period of 14 years, from 2002 to 2015. Financial firms are excluded as they are expected to have higher leverage ratios as compared to non-financial firms which may bias the results. With this exclusion, the sample reduces to 419 firms. The sample includes large-cap, mid-cap and small-cap firms which makes it diverse and covers the impact of political connections for each cohort of the economy. The division of firms helps in controlling firm attributes like availability of collateral, human capital differences at all levels and ensures robust analysis. Names of firm's top officers (directors, chairperson, CEO, secretaries, large shareholders i.e. own more than 10 percent shares) and financial indicators are extracted from Centre for Monitoring Indian Economy (CMIE) Prowess IQ and Thomson Reuters DataStream databases.

3.2 Institutional background and matching of PCFs

3.2.1 Connections through members of Lok Sabha and Rajya Sabha

Lok Sabha (Lower House) and Rajya Sabha (Upper House) are two houses of Indian Parliament. The data of all the elected Lok Sabha and Rajya Sabha members since

1952 is taken from the website of Parliament of India¹. Names of all the members from 1952 are taken to reduce any discrepancy regarding the service term of elected politicians and senior officers as there is a possibility of a top officer to be elected as a Member of Parliament (MP) in the past but not holding any position at present, which is taken care. Thus, any senior officer who is not only in the period of study but also in past years is a Member of Parliament (MP) is said to be politically connected. A firm's BOD member is a politician if his/her full name exactly matches (i.e. first, middle and last names after removing initials²). Thus, a firm is said to be politically connected if at least one of its senior officers is or was a MP. It is measured by the variable CONMP. However, in the case of emerging economies like India weak institutional development and state control of resources also make other channels of building political connections significant. There exists a strong correlation between a firm's contribution and its future returns (Cooper et al. (2010)). Thus, to remove the ambiguity in the analysis such channels of political connections are also included.

3.2.2 Connections through Contributions to the National Political Parties

In India, there are seven national parties and only two i.e. Bhartiya Janta Party (BJP) and Indian National Congress (INC) of them are most prominent. These parties have their government at the state level under the umbrella groups called National Democratic Alliance (NDA) headed by BJP and United Progressive Alliance (UPA) by INC. The study includes the contributions to these parties only as others lack data. Above all, during the period of this study (2002-15) these two parties were in power at the center (2002-04 NDA, 04-14 UPA, 14-present NDA).

Following a Public Interest Litigation filed in 1999, the Supreme Court of India made it mandatory to disclose criminal, financial and educational background of candidates while nominations prior to the elections to bring transparency in the electoral

¹<http://parliamentofindia.nic.in/> accessed on January, 2017.

²Initials include Acharya, Adv., Begum, Captain, Choudhary, Dr., Hazi, Her Highness, Kumari, Khawaja, Mahanth, Maulana, Molana, Ms., Pandit, Principal, Prof., Qazi, Rajkumari, Rajmata, Retd., Sardar, Shri, Shriman, Smt., Sushree, Tai, Thakur, and Thol.

system. Political parties are also required to submit the list of donors, contributing above Rs. 20,000, to the Election Commission every year along with the details of donors like PAN number, mode of payment, etc. The data regarding the contributors is publically available at the website of Election Commission of India³ and provided by Association for Democratic Reforms (ADR).

The Election Commission of India supervises and regulates all the election-related activities in the country. This proves the highest level of credibility and reliability of the data. However, for India 75 percent of sources funding political parties are unknown as per ADR report (2013). Thus, by looking at the contribution source and its amount for each year will lead to huge Type I error i.e. correct exclusion. This is because there is a high possibility that a firm contributes through unknown channels. Even if for a particular year the contributor is known, there would be doubts against the amount of contribution as the firm may use both known and unknown sources. In order to minimize such errors while examining the impact of political connections on a firm's performance we define a firm to be politically connected if at least once the firm, or any of its subsidiary contributed to a national party. It is measured by the variable CONCONTRI.

However, these contributions do not weigh the strength of a political connection. Political alignment of firms happen through their contributions in the election campaigns (Jayachandran (2006); Ferguson and Voth (2008); Aggarwal et al. (2012) and benefits from these contributions are positively correlated with the number of candidates a firm supports (Cooper et al. (2010)). Thus, to measure the strength effect, we further divide the contributions into two categories:

Contributions to a Single National Political Party

The firms contributing to a single party (either BJP or INC) are defined to be weakly connected. This is because from 2002 to 2015, three Lok Sabha elections (2004, 2008, 2014) took place which lead to the change in Central Government twice. The change in government is considered an adverse shock for the firms supporting a single party if support

³http://eci.nic.in/eci_main1/PolPar/ContributionReports.aspx, accessed on March 2017.

support has been providing any benefits. It is measured by the variable CONTRI1.

Contributions to both the National Political Parties

The firms contributing to both the major national parties (BJP & INC) are treated as strongly connected as these firms are immune to change in government. It is measured by the variable CONTRI2.

However, this case has a possibility of Type I error as there might be firms who contribute to both the parties, but from known sources they seem to be contributing a single party or firms who always contribute from unknown sources. This possibility is minimized by the assumption that contributing through unknown sources for as long as 14 years is improbable. On the other hand, Type II error i.e. incorrect inclusion is also minimised as full names (first, middle and last) names are matched for CONMP and the name of a company is unique while measuring for CONCONTRI.

Thus, in this study a firm is said to be politically connected if at least once one of its top officer (CEO, Director, Chairperson, Secretary) or large shareholder is or was a Member of Parliament (MP) or the firm contributes at least once to any of the national party. It is measured by the variable CONN in the study. Table 1 provides the classification of connections for all as well as for each cohort of firms. Henceforth, the study analysis a broad range of firms over a longer period of time which provides a detailed understanding of differential effect of political connections.

3.3 Dependent Variables

To measure the extent of amelioration in the performance of PCFs, following variables are taken:

Leverage: Total debt as a percentage of total capital. [Cooper et al. \(2010\)](#) find that firms with higher leverage have a greater likelihood of participation in political processes. We expect leverage to be positively associated with PCFs (Hypo. 1).

Taxation (Tax): Total tax per unit of total income. [Faccio \(2010\)](#) finds that PCFs pay lower taxes as compared to their non-connected peers. Certain limitations of the variable may be that tax payments for a firm could be lower due to lower profitability of the firm or industry specific concessions provided by the State (Hypo. 2).

Profitability: Measured by return on assets (ROA) and profit after tax (PAT). ROA is the ratio of a company's net income to total assets and PAT refers to the profit after all direct and indirect taxes of a company. [Shleifer and Vishny \(1994\)](#) find that PCFs are provided favours in return of political benefits (e.g., locating their activities in politically desirable areas, over-employment etc.). Thus, these favors come with a price which at times dominate their returns. [Fisman \(2001\)](#), [Johnson and Mitton \(2003\)](#) also find that advantages from political connections eliminate as these firms have to devote substantial resources to get benefits. However, PCFs may outperform due to lower constraints in the production process and other benefits that they derive from connections ([Li et al. \(2008\)](#)) (Hypo. 3).

Access to credit: Measured by short-term debt and long term debt. [Khwaja and Mian \(2005\)](#) find that politically connected firms in Pakistan are given preferential treatment as they borrow 45 percent more and have 50 percent higher default rate. [Faccio et al. \(2006\)](#) conclude that during financial crisis, PCFs are more likely to be bailed out. With this implicit assurance it is expected that PCFs will have higher access to credit, at least for long-term debt as compared to NPCFs (Hypo. 4).

4 Methodology and Empirical Analysis

4.1 Methodology

In this section, two major techniques to deal with the panel data i.e. Fixed effect (FE) and Random effect (RE) are discussed briefly. Fixed effect model assumes that every individual panel has their characteristics or ability which may bias the estimates. So, to control this

bias FE model removes all the time-invariant variables. FE model is appropriate if we are focusing on a specific set of N firms or inference is restricted to these firms (Baltagi (2008)). However, Random effect model assumes that the variation across entities is random and allows generalizing the inferences beyond the sample.

Since, our econometric specification for examining the performance of PCFs is explained by a time invariant binary variable-POL (variable of interest) and other controls so, to preserve the POL, entity fixed effects are introduced in the model. This Least Square Dummy Variable Model (LSDV) controls the unobserved heterogeneity and estimates a pure effect of explanatory variables. Specifically, we estimate the following model:

$$Y_{it} = \alpha + \beta_1 POL_i + \beta_2 Firm\ Attributes_{it} + \beta_3 Country\ Control_t + \sum_{i=2}^N \gamma_i E_i + \sum_{t=2}^T \delta_t Time_t + \epsilon_{it} \quad (1)$$

where i stands for firms, t stands for years and Y represents various performance indicators as discussed in section 3.3. POL is a binary variable which represents different forms of political connections i.e. CONN, CONMP, CONCONTRI, CONTRI1 and CONTRI2. The variable is equal to 1 if a firm is politically connected by the respective definition of political connection. *Firm Attributes* include total production, operating expenses and state-owned dummy variable to control the state ownership of a firm. To identify these firm controls we refer to previous studies including Fan et al. (2007) and Boubakri et al. (2012) who find that state ownership could affect the firm's performance. Nevertheless, we supplement these variables with firm fixed effects computed by E which is a binary variable for entity fixed effects and T is used for time fixed effects. Although the study is only for a single country i.e. India, we include *Country Control* which is measured by Gross Fixed Capital Formation (constant LCU) to monitor the impact of internal improvements in a developing economy. Henceforth, our variable of interest is POL and we focus on the coefficient β_1 as it measures whether PCFs enjoy greater leverage, higher profitability, tax discounts and easy access to credit.

4.2 Preliminary Analysis

Table (2) presents the description for all the variables (dependent and independent) in the study. To minimise the endogeneity, various firm controls are included in the study. Assuming a Cobb-Douglas production function⁴, firm's total output is included to control their size. In order to control other factors which can affect the financial attributes like operating expenses (measured by raw materials and spares) is also included. [Cingano and Pinotti \(2013\)](#) find that factors employed by a firm could have an impact on production and thus its financial decisions. Since, India is a developing economy so, GFCF will take care the dynamic infrastructure changes within India which may significantly affect the firm's output. Table (3) presents a central tendency measure for all the variables and shows that mean difference across variables remain significant for PCFs and NPCFs. Non-CONN and CONN represent the politically non-connected and connected firms respectively, based on the definition of political connections in the study. Diff column indicates the mean difference in financial variables and other attributes between Non-CONN and CONN. The result shows that mean of financial variables remains favorable for PCFs as demonstrated by t-test. PCFs are highly leveraged and have greater access to credit which is in line with [Johnson and Mitton \(2003\)](#) for Malaysia; [Cull and Xu \(2005\)](#) for China; [Khwaja and Mian \(2005\)](#) for Pakistan. Lower tax payments (although insignificant) and high profitability (PAT) with a low return on assets (ROA) confirms [Faccio \(2010\)](#).

Thus, the preliminary results are consistent with our hypotheses regarding the effect of political connections where we have not included various potential determinants along with firm's size and connections strength.

⁴Commonly used Cobb-Douglas production function in macroeconomic modeling is $Y = f(K, L)$. $Y = K^\alpha L^\beta$ or $\ln(Y) = \alpha \ln(K) + \beta \ln(L)$.

4.3 Regression Analysis

4.3.1 Firms with atleast one political connection (any type)

Table (4) presents the multivariate regression results for (1). Here, POL is defined by the variable CONN and Model (1) indicates that PCFs possess higher leverage as compared to NPCFs. In particular, there is an increase in leverage by almost 3.012 units when a firm maintains political connection. To gauge the impact of tax benefits enjoyed by PCFs, the variable Tax in Model (2) shows that tax payments by PCFs remain positive and increases by 0.975 units. The result is in contrast to [Faccio \(2010\)](#) which is not surprising due to certain issues regarding the measurement of tax benefits (as mentioned above). Model (3) indicates profitability of the firms which remain insignificant for PCFs. Model (4) presents the credit access for these firms which remain high only for short term and insignificant for long term credit.

Thus, the results indicate that PCFs have higher leverage and greater access to credit with no significant effect of connections on their profitability and tax concessions. Nevertheless, the results are insensitive to the channel of forming connections.

4.3.2 Firms connecting through MPs

Political connection through MPs is measured by the variable CONMP for (1). In Table (5), Model (1) indicates that there is an increase in leverage by almost 3.012 units by maintaining connections with a MP. These results are consistent with extensive prior studies including [Cull and Xu \(2005\)](#) and [Boubakri et al. \(2012\)](#). PCFs enjoy tax benefits as their tax payments are lower even when they possess higher profits which is shown in Model (2). Positive PAT and negative Tax indicates that lower tax payments are not politically driven and confirms hypothesis 2. It is in line with [Adhikari et al. \(2006\)](#), [Faccio \(2006\)](#) and [Faccio \(2010\)](#), who find that PCFs pay lower taxes. In particular, the firms connected to MPs pay lower taxes which is in contrast to results for CONN.

Model (3) shows the profitability of firms where PAT increases by 2.143 units for firms maintaining connections with MPs where as ROA remains insignificant. [Mobarak and Purbasari \(2006\)](#) confirm the positive effect of political connections over firm's profitability. Model (4) presents the effect of political connections over the credit access of the firms and indicates that short term and long term debt increases by 2.485 and 3.434 units respectively for PCFs as compared to NPCFs. These results are consistent with [Dinc \(2005\)](#); [Khwaja and Mian \(2005\)](#) who find that PCFs have higher access to credit as compare to NPCFs and these benefits are mainly in case of long-term debt.

4.3.3 Firms connecting through Contributions

Connections through contributions to the political parties is measured by the variable CONCONTRI for (1) and Panel (A) of Table (6) presents the estimation results. These results are quite consistent with the previous ones as here too PCFs enjoy higher access to both short term and long term credit as compared to NPCFs. However, the results for leverage and profitability of the PCFs remains insignificant which means connections through contributions have no effect over these variables. They do not enjoy any tax benefits from their connections and pays 0.975 units higher than NPCFs ⁵.

These results suggest that connections through contributions have a weak effect over the firms leverage and profitability. However, to further look at this issue extensively the study divided the sample into two groups i.e. contribution to a single party and contribution to both the parties. This will ameliorate the effect of contribution connections and also undertake the differences in the strength of connections.

Contributions to a single party and both the parties are measured by variables CONTRI1 and CONTRI2 respectively in Panel (B). The results suggest that firms contributing to both the parties have higher access to credit as compared to those contributing to a single party. CONTRI2 is positive and significant for both short-term and long-term

⁵The result is in contrast to CONMP. However, [Li et al. \(2008\)](#) find tax to be positive and insignificant for PCFs.

debt which increases by almost 3.172 units and 3.903 units respectively as the connections are maintained with the both the parties. These results are consistent with [Dinc \(2005\)](#); [Khwaja and Mian \(2005\)](#); [Faccio \(2010\)](#); [Claessens et al. \(2008\)](#). However, leverage and profitability of PCFs remain positive and significant for both CONTRI1 and CONTRI2. Consequently, firms connected to both the parties enjoy higher political capital as compared to those connected to a single party due to their strong connections at each level in a federal economy.

Accordingly, the results conclude that with a broader definition for political connections, the outcome remains weak as compared to a precise definition ([Su and Fung \(2013\)](#)) which the study finds in the case of CONCONTRI. In contrast to CONMP, tax payments remain insignificant for both CONTRI1 and CONTRI2. Next, the study unveils the role of political connections for three different cohorts of the sample, divided on the basis of their size.

4.4 Effect of firm size on the benefits of political connections

To further explore the effect of political connections at disaggregate level, we rerun (1) for large-cap, mid-cap and small-cap firms in the sample. In particular, the firms are divided by their size or market capitalization to further remove the endogeneity in results. For instance, access to credit for large-cap firms could be higher than mid-cap or small-cap firms due to sizeable collateral rather than political connections.

4.4.1 Large-cap Firms

Table (7) reports the result of CONMP for politically connected large-cap firms (PCLFs) and find that PCLFs enjoy higher leverage, greater profitability, and favorable credit access. Long term debt increases by almost 5.607 units by maintaining connection with MPs which is much greater than short-term credit. This indicates that PCLFs prefer long term debt over short-term debt to reap the benefits of write off at the time of any

emergency which confirms hypothesis 4. Favorable PAT indicates the abnormal returns for PCLFs through their connection with MPs but no significant tax benefits.

To look at the effect of contributions to large-cap firms, Table (8) provides the result of CONCONTRI for PCLFs. In comparison to PCFs, the results are more sound for PCLFs implying higher connection benefits to large-cap firms from both the channels of connection. Panel (A) shows that PCLFs have higher leverage, earn favorable profits and have greater access to credit. However, Panel (B) shows that the strength of connections play a weaker role in case of large-cap firms. Firms with stronger connections do not enjoy significantly higher benefits as compared to those with weak connections. In fact, the coefficient of variables for CONTRI2 are lower than that for CONTRI1 (except for short term debt).

Overall, these results are robust for CONMP, CONCONTRI and complement CONTRI1 and CONTRI2 for PCFs which provide a strong evidence to believe that results at the aggregate level are not influenced by the composition of the sample. Nonetheless, benefits of contributions even to a single party in case of these firms lead to greater profitability and higher access to resources as compared to those contributing both the parties signify *no strength effect in case of large-cap firms*.

4.4.2 Mid-cap Firms

Mid-cap firms tend to have higher growth potential as compared to large-cap firms. In a developing economy with ill-functioning and weak market institutions, these firms are expected to build connections to extract higher profits. Table (9) shows that the benefits of politically connected mid-cap firms (PCMFs) through MPs remain weak with lower leverage and insignificant short-term debt. *Thus, PCMFs indicate high profitability with low credit dependence which shows their substantial efficiency over PCLFs.*

Further, Table (10) reports the effect over PCMFs when these connections are built through contributions to the political parties. Panel (A) indicates that PCMFs enjoy

considerable leverage and credit access with a sizeable amount of short-term debt. Short-term debt increases by 6.062 units for PCMFs whereas long-term debt increases by almost 2.411 units. This can also be taken as an indicator of *weak political influence in case of credit access as the coefficient of short-term debt leads the long-term debt* where a high proportion of long-term debt implies the greater possibility of write-offs for these firms (Khwaja and Mian (2005)). However, PCMFs leverage remains positive and significant which shows that their total debt as a proportion of total capital is higher than that of non-politically connected mid-cap firms (NPCMFs). *Thus, these results for CONCONTRI are robust and quite in line with large-cap firms.*

Panel (B) shows the effect of the strength of political connections on benefits enjoyed by PCMFs. In case of mid-cap firms, CONTRI1 and CONTRI2 both turns out to be positive and significant but results remain stronger for CONTRI2. *This indicates the existence of strength effect in case of mid-cap firms.* PCMFs contributing to both the political parties have higher leverage, higher profitability (ROA is negative, but PAT is positive) and favorable credit access. ROA for both CONTRI1 and CONTRI2 are negative remaining high for the former (confirmed by Ling et al. (2016)). Thus, in contrast to large-cap firms, mid-cap firms exhibit a substantial gap between CONTRI1 and CONTRI2 which provides a considerable evidence of political influence when firms themselves cannot affect the market with their large size.

On the basis of these results we can conclude that political connections provide extended benefits to the mid-cap firms supporting both the parties (CONTRI2) as compared to those supporting a single party (CONTRI1). This also indicates that a diversified definition to measure political connections is important in a country like India where numerous bodies are involved in decision making. In case of mid-cap firms, we have not seen any significant effect of political connections for CONMP but the results remain robust in case of CONCONTRI.

4.4.3 Small-cap Firms

Lastly, the study examines benefits of connections for small size firms where Table (11) reports that politically connected small-cap firms (PCSFs) have higher leverage and access to long-term credit. However, these firms have lower profitability which is shown by negative coefficient of CONMP for PAT. *This signifies that political connections through MPs are not profitable for these firms, yet it does have a positive effect on their access to credit.*

Table (12) reports the result of PCSFs when political connections are made through contributions to the national parties. Panel (A) shows that PCSFs have higher leverage, pay lower taxes and higher access to short-term debt. Lower tax for PCSFs might also indicate that PCSFs mainly enjoy tax concessions provided by the government as their are no profitability gains from connections but still they are paying lower taxes. *Again, we have seen weak results in the case of a complete or broad classification for political connections.*

Panel (B) shows the effect of the strength of connections for PCSFs. The results indicate that firms supporting to both the parties have higher leverage, greater profitability and credit access as compared to firms supporting a single party which is consistent with [Cooper et al. \(2010\)](#). *Thus, there is a presence of strength effect in case of small-cap firms.*

5 Conclusion

The study proposed a broader definition of political connections and tried to show the nature and consequences of these connections in India's mixed economic system. We use quite effortless techniques to empirically justify the effect of connections over firm's performance and their resource access. The analysis emphasize over the effect of connections through different channels including MPs and contributions to the national political parties. In a developing and mixed economy like India, we expect to have higher leverage and

greater abnormal profits and high credit access for PCFs.

Firms could differ in their performances due to their capabilities which may vary at different levels in the market like higher collateral with large-cap firms as compared to mid-cap and small-cap firms. Thus, to control this level effect or to look at the influence of political connections at the disaggregate level, firms are divided into three different cohorts (Large-cap, Mid-cap, and Small-cap) and assumed that firms possess similar capabilities in these groups. The results indicate that benefits from political connections not only differ with the strength and type of connections but they also differ with the firm's size.

Specifically, the results present that connections with MPs are robust only for large-cap firms where as results remain weak for mid-cap and small-cap firms. This also indicates that MPs act as a support only for large-cap firms which might be due to the firm's influential size as even they don't want to take risk with small firms. However, when connections are defined through contributions, firm's contributing to multiple parties are benefited more as compared to the firms supporting a single party.

Large-cap firms have higher leverage, greater profitability and credit access from all channels of connections with no strength effect. However, mid-cap firms show mixed results that differ with the channel of forming connection. Connections through MPs do not provide many advantages to these companies as compared to connections through contributions to multiple parties. Similarly, in the case of small-cap firms, the benefits are higher for firms contributing to various parties.

Thus, the findings suggests that political connections are opportune to business activities in a developing economy like India. Connections through different channels provide benefits to the firms but the intensity of these benefits differ with the strength of connections and size of the firms for the decentralized structure of Indian economy ([Fisman \(2001\)](#)). This indicates that to constrain the market failure or to diminish the role of political influence there is a need to develop market-supporting institutions.

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Tables

Table 1: Different connection attributes of firms

	Total Obs.	Members of Parliament				Contributions to the National Political Parties					
		CONN		CONMP		CONCONTRI		CONTRI1		CONTRI2	
		Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%
All Firms	419	124	29.59	20	4.77	110	26.25	51	12.17	59	14.08
Large-Cap	58	26	10.32	2	0.79	25	9.92	6	2.38	19	7.54
Mid-Cap	68	24	9.52	7	2.78	19	7.54	4	1.59	15	5.95
Small-Cap	126	30	11.9	7	2.78	24	10.32	19	7.54	7	2.78

Notes: Total Obs. are the firms registered in the Bombay Stock Exchange (BSE500), excluding financial and banking firms. Data for Large-Cap, Mid-Cap and Small-Cap firms is taken from CMIE database and only those firms are included which are listed in BSE. Thus, their sum is not equal to total observations of the sample. CONN stands for political connections based on the definition provided in the study. For different types of connections, CONMP stands for political connections build through MPs and CONCONTRI stands for firms contributing to any one of the national party at least once. To showcase the effect of the strength of connections we use CONTRI1 and CONTRI2 where CONTRI1 refers to firms contributing to a single party and CONTRI2 stands for firms contributing to both the political parties.

Table 2: Description of Variables

Variables	Obs.	Mean	Std. Dev.	Min	Max
<i>Financial Indicators</i>					
Leverage	4476	3.082	1.601	-4.605	8.290
Tax	5448	1.821	1.088	-4.605	6.684
ROA	4417	2.155	0.806	-3.912	5.007
PAT	5061	6.969	1.923	-2.302	12.521
Short term debt	4242	13.862	2.603	1.609	20.292
Long term debt	4202	14.505	2.719	1.098	20.985
<i>Firm Attributes</i>					
Total Cap	5532	6.205	1.711	-2.302	11.72
Labour	3182	7.975	1.351	2.197	12.782
Operating Exp	4394	8.246	2.098	-2.302	15.020
<i>Country control</i>					
GFCF	5866	30.709	0.395	29.949	31.196

Notes: We have taken natural logarithum of all the above mentioned variables. Definition of dependent variables is given in Section 3.4 of the study. ROA stands for return on assets and PAT stands for profit after tax of the firms. Total Cap and labour (used to measure total output) stands for total capital and number of employees respectively in a firm. Operating exp represents firm's operating expenses measured by raw materials and spares used in production. GFCF represents gross fixed capital formation in India from 2002-2015.

Table 3: Summary Statistics

Variables	Non-CONN	CONN	Diff	t-test(p-value)		
	Mean	Mean	Mean	Pr(T <t)	Pr(T > t)	Pr(T >t)
<i>Financial Indicators</i>						
Leverage	2.932	3.413	-0.481	0.000	0.000	1.000
Tax	1.836	1.789	0.047	0.928	0.145	0.072
ROA	2.179	2.104	0.075	0.998	0.004	0.002
PAT	6.836	7.283	-0.447	0.000	0.000	1.000
Short term debt	13.597	14.425	-0.828	0.000	0.000	1.000
Long term debt	14.164	15.232	-1.068	0.000	0.000	1.000
<i>Firm Attributes</i>						
Total Cap	6.111	6.429	-0.317	0.000	0.000	1.000
Labour	7.941	8.056	-0.116	0.014	0.027	0.987
Operating Exp	8.070	8.621	-0.551	0.000	0.000	1.000

Notes: CONN represents politically connected firms (PCFs). The t-test tests the difference in means between non-connected and connected firms where Pr(T <t) represents Ha: diff <0, Pr(| T | >| t |) represents Ha: diff ≠ 0, Pr (T >t) represents Ha: diff >0.

Table 4: General definition of Political Connection

Dependent Variable	Model 1	Model 2	Model 3		Model 4	
	Leverage	Tax	ROA	Profit	Short term debt	Long term debt
CONN	3.012*** (1.027)	0.975** (0.406)	0.706 (0.624)	0.868 (0.788)	2.485* (1.462)	-0.720 (1.327)
State	-3.169*** (0.651)	-0.122 (0.246)	-0.347 (0.396)	1.494*** (0.502)	2.830*** (0.941)	4.638*** (0.987)
<i>Firm Attributes</i>						
Total Cap	-0.0172 (0.0343)	0.00863 (0.0130)	0.0447** (0.0217)	0.305*** (0.0347)	-0.0454 (0.0498)	-0.116*** (0.0434)
Labour	0.145** (0.0654)	-0.0174 (0.0232)	0.0466 (0.0403)	-0.205*** (0.0467)	0.320*** (0.0952)	0.305*** (0.0829)
Operating Exp	-0.00247 (0.0386)	-0.0181 (0.0142)	0.0563** (0.0242)	-0.0788*** (0.0281)	-0.000618 (0.0553)	-0.00987 (0.0490)
<i>Country Control</i>						
GFCF	-0.496*** (0.124)	-0.118*** (0.0428)	-0.152** (0.0735)	-1.311*** (0.0778)	1.296*** (0.179)	0.831*** (0.159)
Constant	15.30*** (3.703)	5.957*** (1.275)	5.908*** (2.188)	46.57*** (2.339)	-30.46*** (5.341)	-16.07*** (4.757)
Firm dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,215	2,589	2,293	2,432	2,130	2,062
R-squared	0.706	0.818	0.542	0.875	0.779	0.838

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 5: Connection through MPs

Dependent Variables	Model 1	Model 2	Model 3		Model 4	
	Leverage	Tax	ROA	PAT	Short term debt	Long term debt
CONMP	3.012*** (1.027)	-1.344*** (0.399)	0.466 (0.617)	2.145*** (0.777)	2.485* (1.462)	3.434** (1.419)
State	3.306*** (0.758)	-0.176 (0.296)	-0.347 (0.396)	1.494*** (0.502)	2.830*** (0.941)	1.742 (1.301)
<i>Firm attributes</i>						
Total Cap	-0.0172 (0.0343)	0.00863 (0.0130)	0.0447** (0.0217)	0.305*** (0.0347)	-0.0454 (0.0498)	-0.116*** (0.0434)
Labour	0.145** (0.0654)	-0.0174 (0.0232)	0.0466 (0.0403)	-0.205*** (0.0467)	0.320*** (0.0952)	0.305*** (0.0829)
Operating Exp	-0.00247 (0.0386)	-0.0181 (0.0142)	0.0563** (0.0242)	-0.0788*** (0.0281)	-0.000618 (0.0553)	-0.00987 (0.0490)
<i>Country Control</i>						
GFCF	-0.496*** (0.124)	-0.118*** (0.0428)	-0.152** (0.0735)	-1.311*** (0.0778)	1.296*** (0.179)	0.831*** (0.159)
Constant	15.30*** (3.703)	5.957*** (1.275)	5.908*** (2.188)	46.57*** (2.339)	-30.46*** (5.341)	-16.07*** (4.757)
Firm dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,215	2,589	2,293	2,432	2,130	2,062
R-squared	0.706	0.818	0.542	0.875	0.779	0.838
Standard errors in parentheses						
*** p<0.01, ** p<0.05, * p<0.1						

Table 6: Connection through Contributions

Panel A: Contributions						
	Model 1	Model 2	Model 3		Model 4	
Dependent Variables	Leverage	Tax	ROA	PAT	Short term debt	Long term debt
CONCONTRI	0.553 (1.038)	0.975** (0.406)	0.466 (0.617)	0.868 (0.788)	2.485* (1.462)	3.903*** (1.316)
State	-3.169*** (0.651)	-0.122 (0.246)	-0.347 (0.396)	1.494*** (0.502)	2.830*** (0.941)	4.638*** (0.987)
<i>Firm Attributes</i>						
Total Cap	-0.0172 (0.0343)	0.00863 (0.0130)	0.0447** (0.0217)	0.305*** (0.0347)	-0.0454 (0.0498)	-0.116*** (0.0434)
Labour	0.145** (0.0654)	-0.0174 (0.0232)	0.0466 (0.0403)	-0.205*** (0.0467)	0.320*** (0.0952)	0.305*** (0.0829)
Operating Exp	-0.00247 (0.0386)	-0.0181 (0.0142)	0.0563** (0.0242)	-0.0788*** (0.0281)	-0.000618 (0.0553)	-0.00987 (0.0490)
<i>Country Control</i>						
GFCF	-0.496*** (0.124)	-0.118*** (0.0428)	-0.152** (0.0735)	-1.311*** (0.0778)	1.296*** (0.179)	0.831*** (0.159)
Constant	15.30*** (3.703)	5.957*** (1.275)	5.908*** (2.188)	46.57*** (2.339)	-30.46*** (5.341)	-16.07*** (4.757)
Firm dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	2,215	2,589	2,293	2,432	2,130	2,062
R-Squared	0.706	0.818	0.542	0.875	0.779	0.838

Panel B: Contributions to Single vs Both the Parties						
Variabes	Leverage	Tax	ROA	PAT	Short term debt	Long term debt
CONTRI1	3.012*** (1.027)	0.336 (0.402)	0.466 (0.617)	2.145*** (0.777)	-3.986*** (1.477)	5.613*** (1.314)
CONTRI2	2.846*** (1.018)	0.296 (0.399)	-0.170 (0.619)	1.855** (0.780)	3.172** (1.466)	3.903*** (1.316)
State	-3.169*** (0.651)	-0.122 (0.246)	-0.347 (0.396)	1.494*** (0.502)	2.830*** (0.941)	4.638*** (0.987)
<i>Firm Attributes</i>						
Total Cap	-0.0172 (0.0343)	0.00863 (0.0130)	0.0447** (0.0217)	0.305*** (0.0347)	-0.0454 (0.0498)	-0.116*** (0.0434)
Labour	0.145** (0.0654)	-0.0174 (0.0232)	0.0466 (0.0403)	-0.205*** (0.0467)	0.320*** (0.0952)	0.305*** (0.0829)
Operating Exp	-0.00247 (0.0386)	-0.0181 (0.0142)	0.0563** (0.0242)	-0.0788*** (0.0281)	-0.000618 (0.0553)	-0.00987 (0.0490)
<i>Country Control</i>						
GFCF	-0.496*** (0.124)	-0.118*** (0.0428)	-0.152** (0.0735)	-1.311*** (0.0778)	1.296*** (0.179)	0.831*** (0.159)
Constant	15.30*** (3.703)	5.957*** (1.275)	5.908*** (2.188)	46.57*** (2.339)	-30.46*** (5.341)	-16.07*** (4.757)
Firm dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	2,215	2,589	2,293	2,432	2,130	2,062
R-Squared	0.706	0.818	0.542	0.875	0.779	0.838

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 7: Connection through MPs for Large-cap firms

VARIABLES	Leverage	Tax	ROA	PAT	Short term debt	Long term debt
CONMP	2.943*** (1.034)	0.400 (0.353)	0.549 (0.608)	2.146*** (0.758)	2.520* (1.473)	5.607*** (1.279)
State	-3.169*** (1.062)	0.198 (0.361)	-0.435 (0.446)	1.815** (0.781)	-0.735 (1.506)	-2.157* (1.290)
Total Cap	-0.0130 (0.0410)	0.0290** (0.0135)	0.0204 (0.0243)	0.271*** (0.0400)	0.0349 (0.0591)	-0.116** (0.0502)
Labour	0.163** (0.0783)	-0.0471* (0.0241)	0.0974** (0.0461)	-0.234*** (0.0532)	0.210* (0.113)	0.322*** (0.0961)
Operating Exp	0.0115 (0.0498)	-0.0414** (0.0161)	0.0469 (0.0286)	-0.0459 (0.0349)	-0.0448 (0.0711)	-0.00972 (0.0613)
GFCF	-0.574*** (0.145)	-0.0790* (0.0443)	-0.148* (0.0820)	-1.392*** (0.0895)	1.363*** (0.208)	0.687*** (0.180)
Constant	17.50*** (4.277)	5.060*** (1.308)	5.652** (2.425)	49.22*** (2.663)	-31.74*** (6.168)	-11.72** (5.330)
Firm dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,597	1,874	1,717	1,796	1,545	1,489
R-squared	0.708	0.816	0.531	0.877	0.793	0.847

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 8: Connection through Contributions for Large-cap firms

Panel A: Contributions						
Dependent Variables	Leverage	Tax	ROA	PAT	Short term debt	Long term debt
CONCONTRI	2.943*** (1.034)	0.400 (0.353)	-0.235 (0.609)	2.015*** (0.760)	3.283** (1.474)	5.607*** (1.279)
State	3.261*** (0.760)	-0.177 (0.259)	-0.400 (0.418)	0.749 (0.557)	3.684*** (1.086)	1.790 (1.258)
<i>Firm Attributes</i>						
Total Cap	-0.0130 (0.0410)	0.0290** (0.0135)	0.0204 (0.0243)	0.271*** (0.0400)	0.0349 (0.0591)	-0.116** (0.0502)
Labour	0.163** (0.0783)	-0.0471* (0.0241)	0.0974** (0.0461)	-0.234*** (0.0532)	0.210* (0.113)	0.322*** (0.0961)
Operating Exp	0.0115 (0.0498)	-0.0414** (0.0161)	0.0469 (0.0286)	-0.0459 (0.0349)	-0.0448 (0.0711)	-0.00972 (0.0613)
<i>Country Control</i>						
GFCF	-0.574*** (0.145)	-0.0790* (0.0443)	-0.148* (0.0820)	-1.392*** (0.0895)	1.363*** (0.208)	0.687*** (0.180)
Constant	17.50*** (4.277)	5.060*** (1.308)	5.652** (2.425)	49.22*** (2.663)	-31.74*** (6.168)	-11.72** (5.330)
Firm dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	1,597	1,874	1,717	1,796	1,545	1,489
R-Squared	0.708	0.816	0.531	0.877	0.793	0.847

Panel B: Contributions to Single vs Both the Parties						
Variabes	Leverage	Tax	ROA	PAT	Short term debt	Long term debt
CONTRI1	2.943*** (1.034)	0.400 (0.353)	0.147 (0.368)	2.146*** (0.758)	2.520* (1.473)	5.607*** (1.279)
CONTRI2	2.380** (1.036)	-0.369 (0.353)	-0.235 (0.609)	2.015*** (0.760)	3.641** (1.450)	5.275*** (1.259)
State	3.261*** (0.760)	-0.177 (0.259)	-0.400 (0.418)	0.749 (0.557)	3.684*** (1.086)	1.790 (1.258)
<i>Firm Attributes</i>						
Total Cap	-0.0130 (0.0410)	0.0290** (0.0135)	0.0204 (0.0243)	0.271*** (0.0400)	0.0349 (0.0591)	-0.116** (0.0502)
Labour	0.163** (0.0783)	-0.0471* (0.0241)	0.0974** (0.0461)	-0.234*** (0.0532)	0.210* (0.113)	0.322*** (0.0961)
Operating Exp	0.0115 (0.0498)	-0.0414** (0.0161)	0.0469 (0.0286)	-0.0459 (0.0349)	-0.0448 (0.0711)	-0.00972 (0.0613)
<i>Country Control</i>						
GFCF	-0.574*** (0.145)	-0.0790* (0.0443)	-0.148* (0.0820)	-1.392*** (0.0895)	1.363*** (0.208)	0.687*** (0.180)
Constant	17.50*** (4.277)	5.060*** (1.308)	5.652** (2.425)	49.22*** (2.663)	-31.74*** (6.168)	-11.72** (5.330)
Firm dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	1,597	1,874	1,717	1,796	1,545	1,489
R-Squared	0.708	0.816	0.531	0.877	0.793	0.847

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 9: Connections through MPs for Mid-cap firms

Variables	Leverage	Tax	ROA	PAT	Short term debt	Long term debt
CONMP	-4.022*** (0.799)	0.0937 (0.146)	-0.0237 (0.380)	1.549*** (0.549)	-1.109 (1.132)	3.201** (1.384)
State	3.261*** (0.760)	-0.177 (0.259)	-0.400 (0.418)	0.749 (0.557)	3.684*** (1.086)	1.790 (1.258)
<i>Firm Attributes</i>						
Total Capital	-0.0130 (0.0410)	0.0290** (0.0135)	0.0204 (0.0243)	0.271*** (0.0400)	0.0349 (0.0591)	-0.116** (0.0502)
Labour	0.163** (0.0783)	-0.0471* (0.0241)	0.0974** (0.0461)	-0.234*** (0.0532)	0.210* (0.113)	0.322*** (0.0961)
Operating Exp	0.0115 (0.0498)	-0.0414** (0.0161)	0.0469 (0.0286)	-0.0459 (0.0349)	-0.0448 (0.0711)	-0.00972 (0.0613)
<i>Country Control</i>						
GFCF	-0.574*** (0.145)	-0.0790* (0.0443)	-0.148* (0.0820)	-1.392*** (0.0895)	1.363*** (0.208)	0.687*** (0.180)
Constant	17.50*** (4.277)	5.060*** (1.308)	5.652** (2.425)	49.22*** (2.663)	-31.74*** (6.168)	-11.72** (5.330)
Firm dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	1,597	1,874	1,717	1,796	1,545	1,489
R-Squared	0.708	0.816	0.531	0.877	0.793	0.847
Standard errors in parentheses						
***p<0.01, ** p<0.05, * p<0.1						

Table 10: Connection through Contributions for Mid-cap firms

Panel A: Contributions						
Dependent Variables	Leverage	Tax	ROA	PAT	Short term debt	Long term debt
CONCONTRI	2.945*** (0.609)	0.376* (0.204)	0.696 (0.617)	1.251 (0.773)	6.062*** (0.875)	2.411* (1.302)
State	3.261*** (0.760)	-0.177 (0.259)	-0.400 (0.418)	0.749 (0.557)	3.684*** (1.086)	1.790 (1.258)
<i>Firm Attributes</i>						
Total Capital	-0.0130 (0.0410)	0.0290** (0.0135)	0.0204 (0.0243)	0.271*** (0.0400)	0.0349 (0.0591)	-0.116** (0.0502)
Labour	0.163** (0.0783)	-0.0471* (0.0241)	0.0974** (0.0461)	-0.234*** (0.0532)	0.210* (0.113)	0.322*** (0.0961)
Operating Exp	0.0115 (0.0498)	-0.0414** (0.0161)	0.0469 (0.0286)	-0.0459 (0.0349)	-0.0448 (0.0711)	-0.00972 (0.0613)
<i>Country Control</i>						
GFCF	-0.574*** (0.145)	-0.0790* (0.0443)	-0.148* (0.0820)	-1.392*** (0.0895)	1.363*** (0.208)	0.687*** (0.180)
Constant	17.50*** (4.277)	5.060*** (1.308)	5.652** (2.425)	49.22*** (2.663)	-31.74*** (6.168)	-11.72** (5.330)
Firm dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	1,597	1,874	1,717	1,796	1,545	1,489
R-Squared	0.708	0.816	0.531	0.877	0.793	0.847

Panel B: Contributions to Single vs Both the Parties						
Variabes	Leverage	Tax	ROA	PAT	Short term debt	Long term debt
CONTRI1	0.545 (1.051)	-0.973*** (0.202)	-1.573*** (0.352)	-0.571 (0.441)	-4.279*** (1.497)	8.835*** (0.776)
CONTRI2	2.071*** (0.600)	0.376* (0.204)	-0.928*** (0.358)	3.087*** (0.439)	2.824*** (0.863)	7.271*** (0.779)
State	3.261*** (0.760)	-0.177 (0.259)	-0.400 (0.418)	0.749 (0.557)	3.684*** (1.086)	1.790 (1.258)
<i>Firm Attributes</i>						
Total Capital	-0.0130 (0.0410)	0.0290** (0.0135)	0.0204 (0.0243)	0.271*** (0.0400)	0.0349 (0.0591)	-0.116** (0.0502)
Labour	0.163** (0.0783)	-0.0471* (0.0241)	0.0974** (0.0461)	-0.234*** (0.0532)	0.210* (0.113)	0.322*** (0.0961)
Operating Exp	0.0115 (0.0498)	-0.0414** (0.0161)	0.0469 (0.0286)	-0.0459 (0.0349)	-0.0448 (0.0711)	-0.00972 (0.0613)
<i>Country Control</i>						
GFCF	-0.574*** (0.145)	-0.0790* (0.0443)	-0.148* (0.0820)	-1.392*** (0.0895)	1.363*** (0.208)	0.687*** (0.180)
Constant	17.50*** (4.277)	5.060*** (1.308)	5.652** (2.425)	49.22*** (2.663)	-31.74*** (6.168)	-11.72** (5.330)
Firm dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	1,597	1,874	1,717	1,796	1,545	1,489
R-Squared	0.708	0.816	0.531	0.877	0.793	0.847

Standard errors in parentheses
***p<0.01, ** p<0.05, * p<0.1

Table 11: Connections through MPs for Small-cap firms

Dependent variables	Leverage	Tax	ROA	PAT	Short term debt	Long term debt
CONMP	2.785*** (1.017)	-0.412 (0.348)	-0.262 (0.286)	-2.870*** (0.745)	2.465* (1.448)	2.658** (1.259)
State	3.261*** (0.760)	-0.177 (0.259)	-0.400 (0.418)	0.749 (0.557)	3.684*** (1.086)	1.790 (1.258)
<i>Firm Attributes</i>						
Total Capital	-0.0130 (0.0410)	0.0290** (0.0135)	0.0204 (0.0243)	0.271*** (0.0400)	0.0349 (0.0591)	-0.116** (0.0502)
Labour	0.163** (0.0783)	-0.0471* (0.0241)	0.0974** (0.0461)	-0.234*** (0.0532)	0.210* (0.113)	0.322*** (0.0961)
Operating Exp	0.0115 (0.0498)	-0.0414** (0.0161)	0.0469 (0.0286)	-0.0459 (0.0349)	-0.0448 (0.0711)	-0.00972 (0.0613)
<i>Country Control</i>						
GFCF	-0.574*** (0.145)	-0.0790* (0.0443)	-0.148* (0.0820)	-1.392*** (0.0895)	1.363*** (0.208)	0.687*** (0.180)
Constant	17.50*** (4.277)	5.060*** (1.308)	5.652** (2.425)	49.22*** (2.663)	-31.74*** (6.168)	-11.72** (5.330)
Firm dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	1,597	1,874	1,717	1,796	1,545	1,489
R-Squared	0.708	0.816	0.531	0.877	0.793	0.847
Standard errors in parentheses						
***p<0.01, ** p<0.05, * p<0.1						

Table 12: Connection through Contributions for Small-cap firms

Panel A: Contributions						
Dependent Variables	Leverage	Tax	ROA	PAT	Short term debt	Long term debt
CONCONTRI	2.645** (1.032)	-0.688** (0.349)	-0.210 (0.600)	0.0789 (0.748)	2.465* (1.448)	-0.710 (1.299)
State	3.261*** (0.760)	-0.177 (0.259)	-0.400 (0.418)	0.749 (0.557)	3.684*** (1.086)	1.790 (1.258)
<i>Firm Attributes</i>						
Total Capital	-0.0130 (0.0410)	0.0290** (0.0135)	0.0204 (0.0243)	0.271*** (0.0400)	0.0349 (0.0591)	-0.116** (0.0502)
Labour	0.163** (0.0783)	-0.0471* (0.0241)	0.0974** (0.0461)	-0.234*** (0.0532)	0.210* (0.113)	0.322*** (0.0961)
Operating Exp	0.0115 (0.0498)	-0.0414** (0.0161)	0.0469 (0.0286)	-0.0459 (0.0349)	-0.0448 (0.0711)	-0.00972 (0.0613)
<i>Country Control</i>						
GFCF	-0.574*** (0.145)	-0.0790* (0.0443)	-0.148* (0.0820)	-1.392*** (0.0895)	1.363*** (0.208)	0.687*** (0.180)
Constant	17.50*** (4.277)	5.060*** (1.308)	5.652** (2.425)	49.22*** (2.663)	-31.74*** (6.168)	-11.72** (5.330)
Firm dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	1,597	1,874	1,717	1,796	1,545	1,489
R-Squared	0.708	0.816	0.531	0.877	0.793	0.847

Panel B: Contributions to Single vs Both the Parties						
Variabes	Leverage	Tax	ROA	PAT	Short term debt	Long term debt
CONTRI1	2.128** (1.021)	-0.688** (0.349)	-0.210 (0.600)	0.0789 (0.748)	1.291 (1.452)	-0.710 (1.299)
CONTRI2	2.785*** (0.498)	0.333 (0.350)	0.842** (0.391)	0.983 (0.750)	2.594*** (0.683)	1.964*** (0.629)
State	3.261*** (0.760)	-0.177 (0.259)	-0.400 (0.418)	0.749 (0.557)	3.684*** (1.086)	1.790 (1.258)
<i>Firm Attributes</i>						
Total Capital	-0.0130 (0.0410)	0.0290** (0.0135)	0.0204 (0.0243)	0.271*** (0.0400)	0.0349 (0.0591)	-0.116** (0.0502)
Labour	0.163** (0.0783)	-0.0471* (0.0241)	0.0974** (0.0461)	-0.234*** (0.0532)	0.210* (0.113)	0.322*** (0.0961)
Operating Exp	0.0115 (0.0498)	-0.0414** (0.0161)	0.0469 (0.0286)	-0.0459 (0.0349)	-0.0448 (0.0711)	-0.00972 (0.0613)
<i>Country Control</i>						
GFCF	-0.574*** (0.145)	-0.0790* (0.0443)	-0.148* (0.0820)	-1.392*** (0.0895)	1.363*** (0.208)	0.687*** (0.180)
Constant	17.50*** (4.277)	5.060*** (1.308)	5.652** (2.425)	49.22*** (2.663)	-31.74*** (6.168)	-11.72** (5.330)
Firm dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	1,597	1,874	1,717	1,796	1,545	1,489
R-Squared	0.708	0.816	0.531	0.877	0.793	0.847

Standard errors in parentheses
***p<0.01, ** p<0.05, * p<0.1