

# 3. POLITICAL CONNECTIONS: A LITERATURE REVIEW APPROACH

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## Political connections: a literature review approach

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### ABSTRACT

The aim of this study was to highlight the key finding of corporate political connections research. This study used 61 previous studies related to corporate political connections to develop a structured literature review. It was found that most studies were conducted in developing countries as they provided a unique institutional setting for conduct political connections research. In addition, a political connection is used as independent variables and the previous studies focuses on three related topics, which are corporate performance, corporate action, and loan and special rights. Literature review study become more important nowadays, as the number of empirical quantitative research amount has been increased lately. This analysis also has research and practical implementation for researcher, practitioners, and regulators.

### ABSTRAK

Tujuan dari penelitian ini adalah untuk menyoroti temuan utama dari penelitian koneksi politik perusahaan. Penelitian ini menggunakan 61 studi sebelumnya yang berkaitan dengan koneksi politik perusahaan untuk menyusun tinjauan pustaka ter-struktur. Kami menemukan bahwa sebagian besar studi dilakukan di negara berkembang karena menyediakan pengaturan kelembagaan yang unik untuk melakukan penelitian koneksi politik. Selain itu, koneksi politik digunakan sebagai variabel independen dan studi sebelumnya berfokus pada tiga topik terkait yaitu kinerja perusahaan, aksi korporasi, serta pinjaman dan hak khusus. Studi literatur menjadi semakin penting saat ini karena jumlah penelitian kuantitatif empiris yang semakin meningkat akhir-akhir ini. Analisis ini juga memiliki penelitian dan implementasi praktis untuk peneliti, praktisi, dan regulator.

### 1. INTRODUCTION

Unlike quantitative and qualitative studies, the usage of literature review is not a popular method in business, management, and accounting studies. Only a few literature reviews were on accounting, auditing, and corporate governance topic. Luft and Shields (2003) in one of seminal study used literature review as an approach to examine the relationship between variables within accounting management scope. This study adopts similar approach with several modifications to tailor the current condition of this topic.

Specifically, on corporate governance connection, the political connection shows it has a tremendous effect on corporate performance.

As far as authors examines, the first studies of political connection related to corporate that publish in reputable journals based on several indexer was conducted by Dinc (2005) and Khwaja and Mian (2005). They studied how politics influence government-owned banks (Dinc, 2005) and lender perceptions on politically connected firms (Khwaja and Mian, 2005). Both of those papers focused on loan size and characteristics.

As literature review' relevance has been increasing in recent years as well as their great contribution (Luft & Shields, 2003), the objective of this paper is to analyze and evaluate 61 research papers on corporate political connection and its similar type. Even though most of the earlier literature-review

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studies have been conducted on the corporate governance topic, as far as we concern, none were on the corporate political connection. This research review synthesizes a few major breakthroughs and displays them for useful discussion that will lead to a new research path.

In our review, the researchers identify 61 research and have also included some topics correlated with the corporate political connection such as political scandals and election year/region. Furthermore, the researchers separated research conducted in developing countries and developed countries, as developed countries tend to have stronger law enforcement related to politics and business, which diminishes the benefits of rent seeking of corporate political connection.

This review studies present useful data for researchers, regulators, and practitioners, which can hopefully in the future be a base for other researchers to conduct further literature review. As for practitioners, they should be aware of how the literature review result as it will provide fruitful benefits when implementing or evaluating the management process in their corporations. Last but not least, regulators can use the literature review' result to evaluate and monitor the implementation of current and future regulations in the context of corporate political connections.

This study is presented as to the following. The first section is about presenting the background of the corporate apolitical connection literature review. In the second section, we provide the literature review technique, followed by the third section, which shows the findings and discussion of the literature review. In our last section, we provide the conclusion, which points to current research restrictions and presents recommendations for future studies.

## 2. RESEARCH METHOD

This study employs a literature review methods from Luft and Shields (2003) with several modification. Mounting quantitative studies has been documented which focuses on firms' political connection. The abundant amount of study is a major indicator where political connection is a growing research trends that may held various potential to be furtherly extended. Unfortunately, as the researchers noted, there is no study specifically provides a list of political connection. The study that useful for articles mapping. The absence of literature study in political creates new problem which is

unambiguous pattern of existing explanatory links in the political connection studies.

This study examines the previous studies related to political connection of firms that publish in certain reputable journals. The researchers discussed the list of reputable journals in the next section. This study focuses on listing quantitative studies where the researchers identify what variable we can possibly connect with the firms' political connection. The researchers also identify every variable that already investigated before in political connection studies, it is either political connection variable as dependent, independent, moderating, or intervening variable. The, the researchers provided the detailed findings in Table 4. It provided separately from the main document. The researchers then listed the journal name, title, author(s), publication year, the list of dependent and independent variables.

## 4. DATA ANALYSIS AND DISCUSSION

### Data collection

Studies relevant to this research were identified by comparing international databases such as SSRN, Ebsco, Jstor, Emerald, Science Direct, etc. through the end of March 2019 with a targeted search for the following primary keywords: "political connection", "political participation", "political connected board", "corporate political activity" and related topics. As mentioned before, we focused on literature review of the corporate political connections and related topics research studies. Although the corporate political connection study was first published in 2005, the researchers only found a limited amount of quantitative research that examines the antecedents and descendents of corporate political connection, which makes a temporal limitation not useful. This study employed an approach that concentrates on research recommendations by content which stresses some major points for future studies similar to the approach Luft and Shields (2003) used.

The researchers only used top published journal articles to ensure the quality of the manuscripts. In order to select top-quality journals, we used three journal indexers, which are UT Dallas, Brigham Young University (BYU) Accounting, and Australia Business Deans Council (ABDC). We selected 24 top journals from UT Dallas, top business journals from BYU Accounting, and ranked A star on accounting and finance journals categories in

ABDC. The results we found totaled 61 studies that suited our requirements.

This study divided the corporate political connection studies into three categories based on their sample origin. It was found that most corporate political studies were conducted on developing countries (n=41) and followed with developing and developed countries (n=14); as for studies that had samples from more than one country, they were classified as developing and developed countries and last is developed countries (n=1). This category was used as some studies (Abd Rahman & Ku Ismail, 2016; Fung et al., 2015; Habib et al., 2017) indicates that developing countries (Malaysia, South Africa, Pakistan, Libya, Turkey, Indonesia, etc.), have provided certain advantages towards firms which select a board that has certain connections which include corporate political connection. It provides a unique institutional setting to conduct political connection studies consistent with the number of studies conducted is exceed two times than studies on developed countries.

The corporate political connection research has been published in very various journals, for example, Accounting review (n=1); Journal of Accounting and Economics (n=2); and Journal of Accounting Research (n=2). From Table 2, we can conclude that some finance journals such as the Journal of Corporate Finance (n=10) and the Journal of Financial Economics (n=12) dominate the studies in the context of corporate political connection.

The development of corporate political connection studies year by year is showing no certain trends (Table 3). We can conclude starts from 2014, the publication of corporate political connection amount starting bloom. While for 2019, we only documented 1 publication as we collect the data at the end of April 2019 so there are only 4 months' publications included in 2019.

#### Overview and discussion of literature review results

This study mapped the previous studies documented into six categories based on the

topic's category. Then, it provided a detailed overview of previous studies in the context of corporate political connection and its related topics on Table 4 that provided as supplementary materials. These topics derived from the antecedents or descendents of political connection studies as provided below:

- a. Good corporate governance and audit (n=7)
- b. Corporate action (n=13)
- c. Loan and special rights (n=12)
- d. Corporate performance (n=15)
- e. Corporate share (n=9)
- f. Tax and regulations (n=5)

Our documented prior studies are dominated with political connection as the independent variable (n=56); our documented previous studies show that mostly we document the effect of corporate political connection. The rest of the studies use the political connection as a dependent (n=4) and moderating/intervening variables (n=2). One study uses the political connection both as an independent and dependent variable in different regression models (Berkman et al., 2017).

The main strength of political connection studies is the correlation with corporate performance (Leuz and Oberholzer-Gee, 2006; Fan, Wong and Zhang, 2007; Li and Zhang, 2007; Boubakri, Cosset and Saffar, 2008; van Essen, van Oosterhout and Carney, 2012; Hung, Wong and Zhang, 2012; Amore and Bennesen, 2013; Brockman, Rui and Zou, 2013; Batta, Sucre Heredia and Weidenmier, 2014; Lee, Lee and Nagarajan, 2014; Muttakin et al., 2015; Xu et al., 2015; Zheng, Singh and Mitchell, 2015; Fung, Gul and Radhakrishnan, 2015; Hichem, 2015; Sojli and Tham, 2017; C. R. Chen et al., 2017; Xu, M. David and Hi Kim, 2018). Specifically, the study divides it into several categories of corporate performance such as firm value (Lee, Lee and Nagarajan, 2014; Fung, Gul and Radhakrishnan, 2015; Muttakin et al., 2015; C. R. Chen et al., 2017) and return ratio (Fan, Wong and Zhang, 2007; Boubakri, Cosset and Saffar, 2008; Amore and

**Table 1**  
**Literature Review Grouped by Sample Origin**

| Sample                           | Amount |
|----------------------------------|--------|
| Developing countries             | 37     |
| Developed countries              | 10     |
| Developing & developed countries | 14     |

Source: UT Dallas, BYU Accounting and ABDC

**Table 2**  
**Literature Review Grouped by Journals**

| Journal  | Amount |
|--|--------|
| Accounting Review                                | 1      |
| Accounting, Organization, and Society            | 1      |
| Administrative Science Quarterly                 | 1      |
| Auditing   | 1      |
| Contemporary Accounting Research                 | 5      |
| European Accounting Review                       | 1      |
| European Journal of Political Economy            | 1      |
| International Journal of Accounting              | 3      |
| Journal of Accounting and Economics              | 2      |
| Journal of Accounting Research                   | 2      |
| Journal of Banking and Finance                   | 4      |
| Journal of Business Ethics                       | 1      |
| Journal of Contemporary Accounting and Economics | 3      |
| Journal of Corporate Finance                     | 10     |
| Journal of Financial and Quantitative Analysis   | 1      |
| Journal of Financial Economics                   | 12     |
| Journal of International Business Studies        | 4      |
| Organization Science                             | 1      |
| Review of Finance                                | 1      |
| Strategic Management Journal                     | 4      |
| The Journal Of Finance                           | 1      |
| The Quarterly Journal of Economics               | 1      |

Source: UT Dallas, BYU Accounting and ABDC

Bennedsen, 2013; Brockman, Rui and Zou, 2013; Batta, Sucre Heredia and Weidenmier, 2014; Xu et al., 2015; Sojli and Tham, 2017). As for other studies, they examine the corporate political connection with a specific variable such as survival capabilities (Zheng, Singh and Mitchell, 2015), post overseas listing performance (Hung, Wong and Zhang, 2012) and other variables.

Another major point of political connection studies is corporate action. These studies examine the connection between strategic action of corporations whether they have a certain political connection or not. Bertrand et al. (2018) found that publicly traded firms managed by politically connected CEOs adjust their employment and plant creation (and destruction) practices in ways that are consistent with helping incumbent politicians in their bid for re-election. Schweizer, Walker and Zhang (2019) found that politically connected top managers are more motivated to carry out cross-border M&A deals than

their unconnected counterparts and are in a better position to handle the logistics, while Ferris, Houston and Javakhadze's (2016) studies also examine the correlation between political connection and merger activities. The other studies examine the contribution action including Corporate Social Responsibility (Tahoun, 2014; Lin et al., 2015; Zhang, Marquis and Qiao, 2016), disclosure (Al-Hadi, Taylor and Al-Yahyaee, 2016; Jung, Kim and Li, 2018), investment (Cull et al., 2015; Pan and Tian, 2017), and others (Chizema et al., 2014; Zhu and Chung, 2014; Kostovetsky, 2015).

In addition, loan and special rights have also become interesting topics for researchers regarding the political connection. Its main cause as political connection grand theory the study commonly based on rent-seeking theory. This will gain special treatment compared to firms that do not possess political connection. This study divided the topics into two: focus on the loan amount and its interest rate (Dinc, 2005; Khwaja and Mian, 2005; Claessens, Feijen

**Table 3**  
**Literature Review Grouped by Years**

| Year | Amount |
|------|--------|
| 2005 | 2      |
| 2006 | 3      |
| 2007 | 2      |
| 2008 | 3      |
| 2010 | 2      |
| 2011 | 2      |
| 2012 | 4      |
| 2013 | 3      |
| 2014 | 10     |
| 2015 | 9      |
| 2016 | 6      |
| 2017 | 8      |
| 2018 | 6      |
| 2019 | 1      |

Source: UT Dallas, BYU Accounting and ABDC

and Laeven, 2008; Houston, Jiang and Lin, 2011; Boubakri et al., 2012; Infante and Piazza, 2014; Liu, Luo and Tian, 2016; Bliss et al., 2018) and is focused on government special treatment (Faccio, Masulis and McConnell, 2006; Duchin and Sosyura, 2012; Blau, Brough and Thomas, 2013; Jiang et al., 2018).

Some previous political connections literature also shows some interest in the corporate stock topic. Mostly it is correlated with stock returns either its cumulative (Kim, 2013; Berkman et al., 2017; Lehrer, 2018) or in the form of Cumulative Abnormal Returns (Hung, Wong and Zhang, 2015; D. Chen et al., 2017). Other sub-topics include as capital structure (Desai, Fritz Foley and Hines, 2008), IPO activities (Piotroski and Zhang, 2014), and forecasting and recommendations (Chen, Ding and Kim, 2010; M. Christensen et al., 2016).

Another category rising, in terms of political connection studies, is good corporate governance (Chen et al., 2011; Braam et al., 2015; Du, 2017), auditing (Gul, 2006; Bliss, Gul and Majid, 2011; Habib, Muhammadi and Jiang, 2017b; He, Pan and Tian, 2018), certain regulations such SEC enforcement (Correia, 2014; Heese, 2019), and tax avoidance (Kim and Zhang, 2013; Christensen et al., 2015; Z. Lin et al., 2017). It indicates the researchers can identify the diversity of topics as in line with corporate political connection.

This also documented that most of the studies on political connection in top tier

journals were concerned with endogeneity problems. Then, the researchers can define broadly referring to situations in which an explanatory variable is correlated with the error term (Wooldridge, 2013). Commonly econometric techniques to deal with endogeneity problems are instrumental variables, difference-in-differences estimators, the regression discontinuity design, matching methods, panel data methods, and higher-order moments estimators (Roberts and Whited, 2013). In our literature review, we documented 32 studies using various techniques that aimed to address the endogeneity problems.

## 5. CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATION

One alternative research method that has become more common in the past years is literature review (Luft & Shields, 2003). This literature review study includes 61 previous empirical quantitative researches in the context of corporate political connection. Based on our analysis, the corporate political connection was mostly conducted on developing countries as it provides a unique institutional setting. We also documented that political connection was commonly used as an independent variable as it was classified as one of the corporate characteristics that can affect various other corporate variables. In addition, the topics related to political connection mostly used by researchers are corporate performance,

corporate action, and loan and special rights.

We hope that in the future, more researchers will conduct literature review on selected interesting accounting and business topics as its growing needs. Future literature review should include the detailed type of political connection such as political affiliation and the political connection variable level such as board corporate or national level. We also encourage that future literature review research include the lower-tier journals to provide a more comprehensive perspective on corporate political connection research.

This literature review research may provide a useful overview not only to researchers interested in corporate political connection issues, but also to business industries and regulators. This study can provide a practical implication as various documented corporate variables have a correlation with political connection characteristics such as corporate performance. This can serve as an indication for managers and shareholders carefully manage their political connections for their potential benefits. As for regulators, this study can help us know how political connections and lobbying practices can enormously influence business practices, especially for governments in developing countries.

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