ARTICLE IN PRESS

Communist and Post-Communist Studies xxx (2017) 1–17

Contents lists available at ScienceDirect

Communist and Post-Communist Studies

journal homepage: www.elsevier.com/locate/postcomstud

Politically connected firms in Poland and their access to bank financing

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ARTICLE INFO

Article history:
Available online xxx

Keywords:
Political connections
Bank financing
Global financial crisis

ABSTRACT

This paper characterizes politically connected firms and their access to bank financing. We determine that the relationship between political connections and access to long-term bank loans is weaker in Poland than in other emerging economies. The most probable explanation for this result is related to the instability of the political climate in Poland. We find that only certain kinds of political connections, such as recent connections, positively influenced access to bank financing during the sample period from 2001 to 2011. Moreover, we obtain also some evidence that the value of political connections increased during the 2007 crisis period and onward.

1. Introduction

The literature on political connections among firms is abundant. However, the existing evidence based on experiences from non-European emerging economies or developed countries is not directly applicable to post-transitional Central Europe as a result of the historical, cultural, and institutional specificity of these countries. Our study therefore fills a gap in the literature by characterizing politically connected firms and their access to bank financing in the context of a post-communist economy. The issue of politically connected firms' potentially privileged access to bank loans—and, consequently, the uneven playing field among firms—has important policy implications, as more than one-third of the listed companies in Poland were politically connected during the 2001–2011 period.

The existing literature offers several explanations for the widespread presence of politically connected firms in both developing and mature economies. These explanations can be broadly divided into three categories. The first group stems from the seminal resource dependence theory by Pfeffer and Salancik (1978). In this approach, political connections facilitate access to scarce and valuable resources, such as bank loans or government contracts. Political connections also compensate for the institutional vacuum that frequently characterizes emerging countries (Allen et al., 2006), help firms cope with economic uncertainty or moral hazard problems (Li and Zhang, 2007), and constitute a form of insurance against negative external shocks (Faccio et al., 2006; Blau et al., 2011). The second group of explanations underlines the role of politicians' or a government's goals. Accordingly, from this perspective, political connections are considered a method of using firms'

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https://doi.org/10.1016/j.postcomstud.2017.10.003
0967-067X/

Please cite this article in press as: Hasan, I., et al., Politically connected firms in Poland and their access to bank financing, Communist and Post-Communist Studies (2017), https://doi.org/10.1016/j.postcomstud.2017.10.003

resources to win or maintain political support, an alternative to means of controlling strategically important enterprises through capital engagement (Boubakri et al., 2008; Wu and Cheng, 2011; Wu et al., 2012) or a mechanism enabling the stabilization of undemocratic regimes (Choi and Thum, 2009). The third and final group of reasons for creating political connections and investing in their durability is related to managers' interests. Firms' relationships with politicians constitute an important part of the social capital brought in by directors, as these relationships are difficult to replicate and, consequently, may improve firms' competitive positions (Peng and Luo, 2000; Li and Zhang, 2007; Li et al., 2008).

The study directly tests the validity of the first group of explanations in the context of a post-transitional European economy by investigating whether politically connected firms in Poland play an important role in the economy and have greater access to bank financing. We believe that the Polish economy constitutes an appropriate context for such an investigation. The reasons are twofold. First, all European post-transitional countries, owing to their historical legacies, are known for frequent intersections of political and business interests (Kowalewski and Rybinski, 2011). Second, the existing literature on political connections heavily relies on datasets from China and other Asian countries or Latin American economies, and therefore, previous findings—however relevant—are not necessarily applicable to Central European countries.

Using a comprehensive dataset, we establish that the relationship between political connections and access to bank financing was complex in Poland in the years from 2001 to 2011. The results moderately support the predictions based on resource dependence theory and only partially correspond to findings in the literature. We find that the sheer existence of political connections generally does not privilege firms in the bank loans market. However, recent political connections, that is, those created through persons who left politics a few years ago, have a stronger and more stable impact on access to bank financing. Moreover, ties to local authorities are less valuable than connections with central government officials. Unexpectedly, neither the role of politically connected directors within a firm nor the number of a firm's political relations affects the structure of liabilities. When we account for the different conditions of the loan market during the non-crisis and global financial crisis periods, we find some evidence that the importance of political connections increased from 2007 onward, despite the institutional changes fostered by Poland's accession to the EU in 2004. With respect to the frequency and characteristics of politically connected firms in Poland, however, our results are consistent with the existing evidence from other emerging economies. We find that during the 2001–2011 period, 37% of listed companies in Poland had personal political connections in at least one financial year, and that politically connected entities are larger, located closer to Warsaw, and more frequently in regulated and strategically important industries than their competitors. Even though our evidence is based on Polish data, we believe that our results have a wider appeal: our results are relevant to other Central European post-transitional countries in particular and supplement the literature on political connections in general.

Our study contributes to the existing literature in three ways. First, this study fills an important gap in the literature concerning the functioning of politically connected firms. As mentioned above, to the best of our knowledge, the frequency of political connections and their impact on access to bank financing has not been thoroughly studied in the literature in the specific context of Central European post-transitional countries.[1] Second, the study verifies and develops some previous claims about the number and share of politically connected firms in Poland from cross-country studies (Faccio, 2004, 2006), which are by their nature necessarily less detailed. Third, our empirical analysis is based on a unique, hand-collected dataset concerning political connections. This dataset is dynamic and allows us to characterize connections along several dimensions, such as the age of political connections, level of political connections (national or local), political experience of firms' employees and positions held by connected employees (on supervisory boards or management teams), and to assess the changes in importance of political connections brought about by the macroeconomic situation and institutional reforms.

The remainder of the paper is organized as follows. Section 2 concentrates on the frequency and characteristics of political connections. It reviews the relevant literature, presents our data, and describes our empirical findings for the Polish economy. Section 3 focuses on the impact of political connections on long-term debt availability. Once more, we begin with a literature review to develop our own hypotheses. Then, we present the empirical design and results. Section 4 discusses the main conclusions and underlines that the most probable explanation for our results is related to the instability of the political climate in Poland.

2. The frequency of political connections

2.1. Literature review

We identified in the literature three works describing at length the frequency of political connections among firms. Faccio (2004, 2006) and Boubakri et al. (2008) analyzed the frequency of political connections in the international context, while Kang and Zhang (2012) focused on the US market only. However, many other researchers have provided brief statements concerning the share of politically connected enterprises in their samples. It is worth stressing that most previous studies have examined the factors responsible for the creation of political connections, rather than the sheer existence of political connections. In addition to the aforementioned authors, the factors affecting the probability of being a politically connected firm were established by Agrawal and Knoeber (2001) for US firms, by Xin and Pearce (1996) and Li et al. (2006) for Chinese firms, and by Bunkanwanicha and Wiwattanakantang (2009) for Thai firms. Despite this considerable research effort, our

[1] Some preliminary results concerning these issues were presented in Polish in Jackowicz (2013).

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