

# New study links political connections to corporate corruption

September 21 2010

---

While most citizens recognize that corruption is "bad," the average citizen is unaware of the benefits enjoyed by politically connected firms, or how common government favors are worldwide. In the U.S., many citizens were outraged at the provision and size of bailouts for "too big to fail" banks. A new study from the journal *Financial Management* claims that not only does corruption exist in the corporate world, but that political connections are extremely important for corporate success.

Author Mara Faccio studied several thousand firms from forty-seven countries. She classifies a politically-connected firm as "A company where at least one of its large shareholders (anyone controlling at least ten percent of voting shares) or one of its top officers (CEO, president, vice-president, chairman, or secretary) is a member of parliament, a minister, or is closely related to a top politician or party."

Faccio claims, "Politically connected firms have higher leverage (in the form of preferential loans), pay lower taxes, have regulatory protection, are eligible for government aid, and have stronger market power. They differ more dramatically from their peers when their political links are stronger, and in more corrupt countries, although these characteristics can be observed worldwide."

Faccio alleges that connected firms appear to enjoy substantial favors from their governments, which further indicates that the distortions in the allocation of public resources are common in both emerging and [developed countries](#). Faccio, "My study affects day-to-day [corporate](#)

decisions. It is unfortunate that firms with no political ties appear to be at a disadvantage. Those in leadership at politically connected firms need to think about how their choices affect the long-term operations of their business, and the business and political world at large."

Provided by Wiley

Citation: New study links political connections to corporate corruption (2010, September 21) retrieved 20 March 2024 from <https://phys.org/news/2010-09-links-political-corporate-corruption.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--