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Political Connections and Family Firms: A Systematic Review of literature

Abstract

Family firms are the dominant form of business globally and some researchers and studied its different aspects under resources based view (RBV) theory, another important resource under consideration worldwide is political connections of businesses, these ties are very helpful in achieving business goals. The purpose of this study is to do a systematic review of the studies on family firms and political connections covering different aspects as performance, debt, dividend and investment policy. The "preferred reporting items for systematic reviews and meta-analyses (PRISMA)" by Shamseer et al., 2015 was used for the review. Top three journals of family firms were considered for the review and moreover some key words were also used to search articles from google scholar that were eligible to be added in the search. This review revealed that out of total 391 articles initially shortlisted was ultimately filtered to 4 articles only that studied these specific variables and moreover it was also revealed that none of the 4 articles were published in the top journals of family firms that show the gap in literature. This study concludes that many aspects of family firms have been studied but political connections of family firms is an understudied domain and specifically corporate financial decisions in this regard is totally uncovered are of research yet.

Keywords:

Family firms, political connections, systematic review, resource based view.

Introduction

From last three decades it is debatable whether family firms perform better than their counter parts or not and also about what are the conditions that make family firms different from counter parts (Naldi et al. 2007; McConaughy et al. 2001; Cucculelli and Micucci 2008; Sraer and Thesmar 2007; Eddleston et al. 2007). Comparatively, since past two decades a parallel debate is also going on about which firm perform better either having political connections or not having political connections, in addition also about what are the cost and benefits associated with both (Houston et al. 2014; Boubakri et al. 2012; Hung et al. 2017; Adhikari et al. 2006; Harymawan 2018; Wu et al. 2012; Gray et al. 2016).

The present study is about to review the literature of these two variables using resource based view (RBV). Neubaum, (2018) & De Massis, Sharma, Chua, and Chrisman (2012), stated that in the past two decades family business research has been emerging rapidly. Number of top-tier management journal manifest increasingly published studies on family business studies (Kotlar, Signori et al., 2018; Neckebrouck et al., 2018). In addition, De Massis et al. (2018) also stated that distinctive characteristics and behaviour of accumulating body of knowledge, and outcomes of family enterprises has been emerging.

Wei, Wu, Li, & Chen, (2011) found that merits and demerits of family firm co-exist. Furthermore, it is specified that financial decision making is affected by family management that depends largely on family participation in the management (Portal & Basso, 2015).

Recent Research trends are on the impact of political connection (PCONN) on quality of financial statement has been increasing with the entry of lot of politicians in the business field (Chaney et al., 2011), corporate governance characteristics (You and Du, 2012), the equity cost (Boubakri, Guedhami, Mishra and Saffar, 2012), financing decisions (Boubakri, Cosset and Saffar, 2012), and strategies of social responsibilities (Lin et al., 2014).

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Comparatively the effect of PCONN on the value of the company and the performance has been examined by other researchers (Li et al., 2008; Jacowicz et al., 2014; Gilabert, 2011). However, the results of past researches are mixed.

Rehman (2006), highlighted that since long time most of the politicians in Pakistan have been concerned with domestic businesses. Moreover, after independence era several business organizations have been controlled and owned by Pakistani politicians in different sectors of the economy, i.e. banking sectors, textile, and fertilizers.

The national interest has been increasingly impacted through ignoring the official responsibilities by the politicians in pursuance of profit maximization for their personal business. Furthermore, past studies predicted that sacrifice of the minority shareholders' interest and severe agency problems has been resulted from the businesses that are linked with politicians (Ashraf and Ghani, 2005; Khwaja and Mian, 2005).

In 2002,2008 and 2013, the national general election of Pakistan had been contested by the politicians who were actively connected with businesses also. "Several governments such as Yousaf Raza Gilani, Mian Nawaz Sharif and Shaukat aziz comprised of ministers from business groups of large family. These included Anwar Saifullah (Member of National Assembly, 2002-2007) from the Saifullah Group, Asif Ali Zardari (former President of Pakistan) from the Zardari Group, Pervaiz Elahi (Chief Minister of Punjab, 2002-2007)of the Chauhdry Group, Ahmad Mukhtar, (Water and Power Minister) of Service Industries, Shahid Nazir (Member of National Assembly, 2002-2007) of Kohistan Transport, Humayun Akhtar Khan (Minister of Trade and Commerce, 2002-2007) of Riaz Bottlers, Jehangir Khan Tareen (Member of National Assembly, 2013-2017) of JDW Sugar Mills and Mian Shahbaz Sharif (current Chief Minister of Punjab) of Ittefaq Foundries (Rehman, 2006)."

There is conflict between personal business interest and national interest in many countries where politicians connected with personal business ventures. Faccio, (2010) stated that, it is criticized regularly that politicians with businesses prioritize their personal interest by using political influence. Studies in china that is an emerging market depicts that political connection of the firm for favourable decision making in corporate litigation are critical (Firth et al., 2011), initial public offerings promotion and approval (Piotroski and Zhang, 2014; Liu et al., 2013) and the succession of family firm (Xu et al., 2015), including other things. These studies highlight importance of political connections and role of these connections in the prosperity of firm.

It is showed that companies' values and performance are improved by political connections. These political connections on one hand could be explained as favours and advantages get by these companies through political ties and secondly, the tendency of investors by investing in these companies to get benefits from advantages associated with political connected companies (Maaloul, Chakroun, and Yahyaoui, 2018).

Yasser (2011) argued that social and economic importance of family firms has now largely been recognized. The proportion of family firms to registered companies is the measure of their authoritativeness; according to an estimation in UK that is 75 percent and more than 95 percent in India, Far and Middle East and Latin America.

According to family firm institute, in European Union 9 percent of GDP is accounted from family businesses. Moreover, in turnover 1 trillion euro and 5 million jobs are created through family firms in Europe. In this respect the article of Anderson and Reeb (2003) is most-cited, according to their study listed family firms performed better than nonfamily firms.

It is agreed by several authors that active involvement of founders enable family firms to perform better than the non-family counterparts (Adams, Almeida, & Ferreira, 2009; Barontini&Caprio, 2006; McConaughy, Walker, Henderson, & Mishra, 1998; Fahlenbrach, 2004; Morck et al., 1988; Villalonga& Amit, 2006). Thus, that particular issue fail to receive unequivocal support at all. But according to Azila-Gbettor, Honyenuga, Berent-Braun, & Kil, (2018), earlier studies on family ownership have produced mixed results when it comes to performance and corporate financial decisions.

The tendency of research in family business is increasing rapidly, several aspects of this domain have been covered but financial decision making aspect is still underestimated. Additionally, the area of dividend and investment decisions is rather left uncovered (Motylska-Kuzma, 2017).

Previous studies find out the political connection effect on value of the firm (Fisman, 2001), quality of financial reporting (Chaney et al., 2011), the rate of taxes (Adhikari et al., 2006), finance access (Claessens et al., 2008), and equity capital and cost of debt (Bliss and Gul, 2012; Boubakri et al., 2012).

Liu, & Tian (2010) conducted a study in China and found that family firms of china faced difficulty in financing and connectedness of political family firm' term of interaction between political connections and disproportional ownership, while political connection show positive effect on leverage ratio and a negative relationship is also highlighted between disproportional ownership structure and leverage ratio of founding-family. So, disproportional ownership impact on leverage ratio indicated as a substitute impact between founding-family ownership and political connections.

According to agency theory dividend considered as a procedure to mitigate the risk of expropriation of wealth for the minority shareholders, that show more presence in family firm as compare to non-family firm. While comparing both non-family firm and family firms, mixed results have been found in terms of family firm levels of dividend payout based on studies of agency theory. Some writers indicate higher payouts (Lau & Block, 2014; Setia-Atmaja et al., 2009; Isakov&Weisskopf, 2015; Setia-Atmaja, 2010; Pindado et al., 2012; Yoshikawa & Rasheed, 2010), while others found the opposite (Wei et al., 2011; Gugler, 2003).

A study in China highlight that politically connected firms offer greater dividend than non-politically connected firms (Su, Fung, Huang, and Shen, 2014). Particularly, it has been indicated that firms having political connections pay higher cash dividend, that predict greater profitability of firm in light of the firm's market power. Wahab, and Abdul (2016) argued that there is an inclination by politically connected firms to pay lower dividends.

The available family businesses literature, hardly discuss family ownership insights and its impact on sensitivity of investment cash flow, specifically in Asia context. However Gugler, Muller, Yurtoglu, and Zulehner (2003) concluded based on available prior research studies that there exist mixed results about this phenomenon.

A study by Maaloul, Chakroun, and Yahyaoui, (2018), showed that PCONN improve companies' value and performance. The benefits are twofold, companies take benefits from political ties and also the PCONN make firms charming for investors because of the benefits they get.

The purpose of this study is to systematically collect and review the evidence of development in the field of family firms and political connections with reference to performance and different financial decisions reported in the literature. There are a few studies on review of literature on different aspects of family business but as political connections with reference to family business is not a saturated area of research so there is no review of literature available yet. This study address following questions:

Q1. How many studies reported the relationship between family firms and PCONN?

Q2. To know specifically which aspects are being studied when studied the relationship between family firms and PCONN?

Q3. To know how many studies specifically studied PCONN and family firms with reference to performance and corporate financial decisions?

Methodology

The review was done following the "preferred reporting items for systematic reviews and meta-analyses (PRISMA)" instructions (Shamseer et al., 2015).

Search strategy

A systematic search strategy was followed: ("family business" OR "family firms" OR "firm performance" OR "investment decisions" OR "financial decisions" OR "debt decisions") AND (political connections* OR political ties*). A search was performed in three top specialized journals of family business, i.e. Family Business Review (RBV), journal of Family Business Strategy and journal of Family Business Management, having impact factor 5.212, 3.927, 0.518 respectively. A hand searching was also carried out based on review articles and a few key studies. It included a backward and forward citation search in Google Scholar.

Inclusion and exclusion criteria

The eligible studies for this review included research works that reported Studies from year 2015 and onward were made a part of the review. Only articles in English language were chosen. Research articles were included from the above stated sources only.

Scanning was done in two parts, firstly title/abstract was studied and then the studies which seemed related were studied completely. This resulted in the selection of 04 studies for including in the review. A data extraction form was completed for each eligible study to collect information on the research objectives identified earlier.

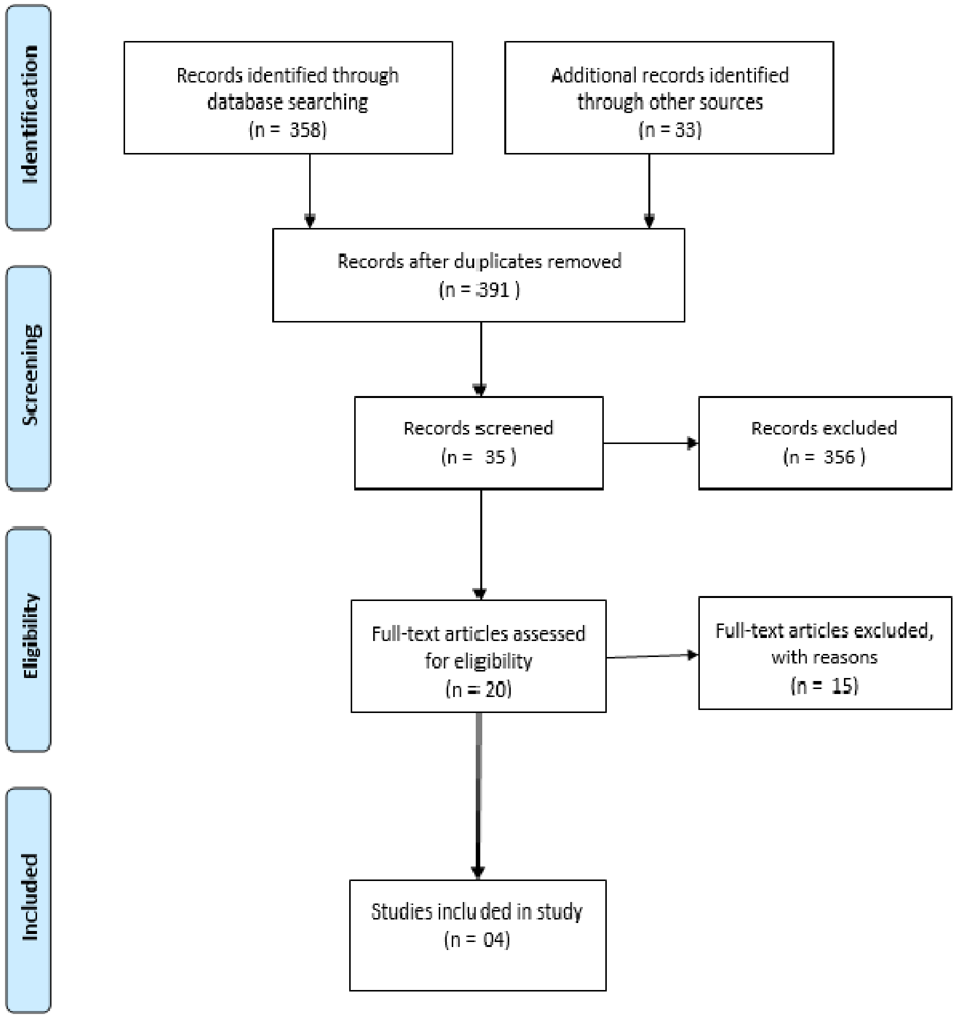

Figure 1

Results and discussions

Initially the top three journals of family research were analyzed from 2015 to 2021 and in total 358 articles were published during this time period and with above mentioned key words in methodology 33 articles from google scholar were also retrieved that were most relevant. After thorough screening only four articles were considered for review because studies have been done separately on family business different aspects like performance, dividend, debt, investment policies, siblings and spouse/ family involvement in business, succession, social emotional wealth. Most recent studies are focusing on CEO compensation and CEO characteristics impact, psychological ownership, Transgenerational communication, gender of controlling family member impact, merger & acquisition in family businesses, tax behaviors and technology advancement in family business.

Several aspects of political connections are also studied in literature like performance, earning quality, corporate governance, financial reporting, audit fee, business transformation, social network, religious belief, risk reporting, executive compensation, tax avoidance, tariff evasion, tax aggressiveness, dividend payout, cash holdings, financial constraints and investment and corporate financial decision making.

After reviewing the literature this study concludes that combined research should be conducted on political connections and family firms considering them both important resources of the company.

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