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The impact of political connections on the value of Russian corporations

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1 Motivation

Often, developing and transition economies do not comply with the principles of classical economics. To get a profound understanding of such economies, their deep underlying mechanisms should be studied carefully. A clear example of such a mechanism could be **the personal connections of corporate stakeholders to government officials**. We know that 3% of the world's listed corporations representing around 8% of the world's stock market capitalization have owners and top officers who hold or have held the highest official posts (Faccio, 2006). Helping firms to get strategic competitive advantages and extract economic rent, political connections[1] are an alternative to the price mechanism in developing and transition markets.

Although Russia represents a good model for studying political connections as an important economic mechanism of emerging markets and transition economies, the role of political connections in the economy of Russia is not well-investigated. The few works attempting to evaluate the overall effect of political connections in Russia do not account for the econometric problems of reverse causality and simultaneity attributed to the problem of political connections in Russia, take into consideration narrow groups of stakeholders, companies, or politicians that are not able to reflect the overall picture, or focus on discrete effects of political connections rather than the overall effect (see, e.g., Berkowitz et al., 2014; Klarin & Ray, 2019; Lamberova & Sonin, 2018; Okhmatovskiy, 2010; Szakonyi, 2018). This research represents a study in Institutional Economics at the interface of Finance, Corporate Governance, Political Science, and Law, to fill this research gap.

2 Research objectives

The objective of this study is to investigate how political connections affect the prospects of Russian corporations by studying the value effects of corporate political connections.

[1] From now on, I use the terms *personal political connections*, *political connections*, and *corporate political connections* as contextual synonyms within this paper.

The research questions of this study are the following:

1) *Value of political connections*:
   - Are political connections beneficial or detrimental for Russian companies?
   - What is the financial effect of political connections?
   - Is there any difference between political connections through board members, executives, and owners in terms of the value effect?
2) *Distribution of political connections*:
   - How common are political connections for Russian corporations, and what is the scale of corporate political connections there?
   - Has the degree of political connectedness changed over the past 20 years in Russia?
   - What is the role of state ownership in political connections?
   - Are different sectors of the Russian economy similar or different in terms of political connections?
   - Are there any factors that allow predictions on the degree of political connectedness for a Russian company?

The research tasks that have been solved to answer the research question were:

1) To sum up the academic experience concerning political connections in order to work out a viable research strategy. This involves briefly outlining the research history, highlighting fundamental theories that underpin empirical studies in political connections, explaining basic constructs of studies in political connections, reviewing the current state of the art in empirical research on political connections, and focusing on the institutional settings of Russia in terms of political connections.
2) To come up with a relevant approach to defining, identifying, quantifying, and evaluating corporate political connections tailored to the institutional settings of Russia.

3) To evaluate the distribution of corporate political connections in Russia, including estimating the scales of political connections and how the degree of political connectedness changed over time in Russia, studying the role of various factors in the distribution of corporate political connections in Russia (including, but not limited to, state ownership, industry affiliation, and spatial location).
4) To estimate how political connections affect the prospects of Russian corporations by means of an event study. This involves evaluating the overall impact of political connections on the value of Russian corporations, studying the value effects of political connections across different groups of stakeholders (namely, owners, executives, and board members), exploring the effect of state ownership on the value of political connections, and estimating how the value effects of political connections evolved over time.

3 Literature review

The theory of rent-seeking (Krueger, 1974) suggests that corporations can use political connections as a substitute for the price mechanism (Civilize et al., 2015), helping them to get bailed out in case of emergency (S. H. Lee et al., 2018) and avoid bankruptcy (Halford & Li, 2019; Han & Zhang, 2018), to get access to debt funding (Y. He et al., 2019; Y. Wang et al., 2019) and stock funding (Li & Zhou, 2015), to obtain preferred regimes of debt funding (Bliss et al., 2018) and taxation (W. Wu et al., 2012), to receive government contracts (Goldman et al., 2013), to enter foreign markets (X. Wang et al., 2019), to foster innovation activities (Cheng et al., 2019), and enjoy other privileges. The resource-based view (Barney, 1991) says that firms can utilize political connections for a strategic competitive advantage (see Sun, Mellahi, et al., 2011) which results in the value-adding effect of political connections.

However, political connections entail political and social burdens (W. Wu et al., 2012), which represent certain types of opportunity costs incurred by

corporations due to making economically inefficient alternative choices influenced by politicization.

The political costs of corporate political connections include direct donations to political parties and campaigns (Da Silva et al., 2018; S. H. Lee et al., 2018) or extra premiums paid to politically connected directors (Banerji et al., 2018), the costs of opportunistic behavior when politicians use corporate funds to strengthen their political capital (Dang et al., 2018; Schweizer et al., 2019), the opportunity costs associated with the pressure to adopt strategies consistent with the political goals of the government and politicians to the detriment of corporate interests (Okhmatovskiy, 2010), or attracting top officers with weaker managerial qualifications (Fan et al., 2007), as well as other opportunity costs.

Social costs are incurred when political connections compel companies to forward their resources to accomplishing social interests like reducing unemployment (Q. Liu et al., 2019) and supporting schools and nurseries (W. Wu et al., 2012), spending funds for charity (Yang & Tang, 2018), or the inefficient provision of goods and services caused by fostering domestic sales but not exports to satisfy social demands (Cingano & Pinotti, 2013), especially during periods of economic crisis (Johnson & Mitton, 2003). All this leads to the value-destructive effect of political connections.

Thus, corporate political connections represent a double-edged sword; their total value effect depends on how effectively the benefits extracted from the competitive advantages of politicization offset the opportunity costs (Han & Zhang, 2018; K. Zhang & Truong, 2019). In this regard, the literature reveals some regularities determined by the social, political, and economic environment (Banerji et al., 2018; Faccio, 2006; Qin & Zhang, 2019). Recent studies suggest that political connections tend to show a greater positive effect in institutional environments with less developed market mechanisms (H. Wu et al., 2018), weaker corporate governance (Newton & Uysal, 2019), and higher rates of corruption (Faccio, 2006). The greater the degree of state intervention into the

economy, the greater the strength of the political connections in this economy (Banerji et al., 2018).

Russia has a range of its own specificities concerning the problem of political connections. Traditionally, international studies presume implicitly that incentives to establish political connections are from the corporations, while Russia has deep institutional roots of controlling the economy and establishing political connections on the state's own initiative (Frye & Iwasaki, 2011; Trifonov, 2018; Yakovlev et al., 2014). This implies that political connections in Russia represent a simultaneous and bilateral process; while corporations seek to establish political connections in order to get competitive advantages, the state simultaneously seeks to nationalize the most successful corporations and control them (Trifonov, 2018). The government and the corporate environment affect each other simultaneously while establishing political connections, introducing the econometric problems of simultaneity and reverse causality when it comes to the impact of political connections on firm value. Consequently, special research methods should be used.

Although Russia provides excellent institutional settings for studying corporate political connections, little is known about the role of corporate political connections in the Russian economy. Faccio showed Russia to be one of the most politicized economies, with politically connected firms representing 86.75% of the market capitalization, and the share of firms connected to ministers and members of parliament was 12% (Faccio, 2006). Even so, her sample was limited to only the 25 largest Russian companies. After Faccio, no comprehensive attempts have been made to evaluate how widespread are political connections in Russia. The few works attempting to esteem the value effect of corporate political connections in Russia either did not account for possible reverse causal effects of political connections and their simultaneous nature, took into consideration narrow groups of stakeholders which do not reflect the overall picture, or focus on discrete effects of political connections rather than the overall value effect (see, e.g., Berkowitz et al., 2014; Klarin & Ray, 2019; Lamberova & Sonin, 2018; Okhmatovskiy, 2010; Szakonyi, 2018). This study is to fill this research gap.

4 Methodology

4.1 Identification and quantification of political connections

This research relies on the methodology of (Faccio, 2006), quantifying political connections with a binary variable that takes the value 1 if a corporation has at least 1 politically connected person among its (a) supervisors, (b) executives, and (c) owners, and the value 0 otherwise. People were identified as politically connected if they have held a government post in past or present, or if they are in kinship with such a person. I focus on the following posts:

- ministers,
- members of both chambers of parliament,
- chiefs of the office of the president,
- advisors to the president,
- heads of federal executive branches (namely, federal services and federal agencies).

For comparability with other studies, separate subsamples were built, adopting the methodology of these studies in terms of political connections.

The political connections were revealed in two steps. First, I analyzed yearly and quarterly public corporate reports.[2] The reports reveal political connections by disclosing a list of executive and non-executive directors, describing their work experience over at least the past 5 years. Second, I mapped the names and years of birth of directors with the list of the top officials of Russia, collected manually from open sources, and covering around 5,000 persons from 1991 to 2015.[3] The matches were treated as political connections. A person was recognized as politically connected if political connections were revealed at any step of the analysis.

[2] Requirements for corporate disclosure in Russia are specified in Federal Law No 39-ФЗ ”On Stock Market” by 22.04.1996, and in Provision of the Central Bank of Russia No 454-П “On disclosure of information by issuers of securities” by 30.12.2014.

[3] The timeframe is this wide as within my research I treat political connections as an intangible asset that might have been accumulating over a long period of time.

The legislation requires Russian corporations to announce important events officially and publicly.[2] The types of events I focused on (specifically appointments of directors and large acquisitions of shares) are those announced. I found out about corporate reshuffles, changes in shareholder makeup, and exactly when these happened using official corporate announcements.

4.2 Evaluating the value effect of political connections

A good way to evaluate the total value effect of political connections is by means of an event study. A semblance of a natural experiment, the method of event study avoids the econometric problems reverse causality and simultaneity, discussed previously. Focusing on firm value as a synthetic indicator of efficiency, the method of event study gives an insight into the total effect of political connections rather than the private effects of those. It is the conventional methodological approach to evaluating the value of political connections (see Cheng & Sun, 2019; Dang et al., 2018; Faccio, 2006; Gray et al., 2016; Han & Zhang, 2018; L. He et al., 2014; J. S. Lee et al., 2019; Lehmann-Hasemeyer & Opitz, 2019; Lehrer, 2018; F. Liu et al., 2018; Su et al., 2013; Sun, Xu, et al., 2011; Tian et al., 2019; Y. Wang et al., 2019; K. Zhang & Truong, 2019; W. Zhang & Mauck, 2018, and many others).

Finance theory suggests that capital markets encapsulate all available information about firms in stock prices (Fama, 1970). Given this basic premise, event studies help to find out how certain events affect a firm's prospects by quantifying the impact of an event on the firm's stock price. The event study holds the following basic assumption:

A_1: *If political connections are important enough for Russian corporations, they affect the value of Russian corporations substantially, resulting in a statistically significant positive stock market reaction if political connections create value, and a statistically significant negative stock market reaction otherwise.*

Following (Faccio, 2006), I adopt the market-adjusted model based on the MOEX Russia Index (MICEX) with a 245-day estimation window to calculate

abnormal returns as described in (Brown & Warner, 1985). The following types of events are considered: appointments to supervisory boards, appointments to executive bodies, acquiring shares by an individual, acquiring shares by a state body, acquiring shares by a state corporation, acquiring shares by a SOE.[4] The event date is defined as the day of the official public announcement about corporate reshuffles or the purchase of shares. I use 3 event windows of different lengths, specifically a 3-day window (days -1 to 1 around the announcement), a 4-day window (days -2 to 1 around the announcement) and a 5-day window (days -2 to 2 around the announcement). To evaluate the statistical significance of my results, both parametric and non-parametric methods are used. For the parametric testing of significance, I apply the Cross-Sectional Test as described in (Brown & Warner, 1985). I use the Sign Test (Cowan, 1992) and the Wilcoxon Rank Test (Wilcoxon, 1945) as the non-parametric tests, following the methodology of the respective works.

The dataset includes 1,739 events in 204 corporations, of which 374 events in 81 corporations featured top Russian officials. The latter were divided into subsamples based on criteria including timeframes, corporate governance bodies, forms of ownership, and types of events.

5 Main findings

5.1 The distribution of political connections

Following the methodology of (Faccio, 2006) based on a similar subsample, I found that 57.1% of corporations were connected to Russian ministers or members of parliament in 2015. Specifically, 7.1% of the directors (39 persons) were not just politicians but top officials affiliated with the 3 main constitutional organs of state authority. Broadening the range of political posts up to heads of federal executive branches, heads of the office of the president, and advisors to the president, results in doubling the number of politically connected directors to 70 persons, or 12.8% of directors. The politically connected firms from this

[4] According to the legislation, state corporation is a special legal form of non-commercial organizations. This paper, therefore, distinguishes between state corporations and SOEs.

subsample represent 59.4% of the stock market capitalization.

The evaluations of political connectedness based on the subsample similar to (Faccio, 2006) can be complemented with those based on a larger sample. My main sample includes 204 companies, 56 of which (27.45% of the sample) have at least one top politician of Russia on the board as of 2015.

Russian state-owned enterprises (SOEs) and privately-owned enterprises (non-SOEs) should be considered separately from the perspective of political connections. The Chow test shows that the subsamples of SOEs and non-SOEs are statistically heterogeneous, meaning they can potentially be subordinated to different trends in terms of political connections.[5] A one-way ANOVA test yields the same results, showing a statistically significant difference in mean degrees of political connectedness between the subsamples of SOEs and non-SOEs at a confidence interval of 99%.[6]

Table 1 – Sample statistics on political connections through directorship

Company	SOEs	non-SOEs	Overall
Number of firms	64	140	**204**
Firms with politically connected directors	32	24	**56**
% of firms with politically connected directors	50.0	17.1	**27.5**
Number of politically connected directors	103	34	**137**
Politically connected directors per firm (average)	1.6	0.2	**0.7**
Max number of politically connected directors	11	3	**11**
Share of politically connected directors	9.5	2.1	**5.1**
Max share of politically connected directors	44.0	23.1	**44.0**

State ownership is associated with a higher degree of political connectedness. Table 1 shows that SOEs have more politically connected directors

[5] To test the statistical homogeneity of my sample, I regressed the indicators of political connections (a binary variable for politically connectedness though directorship, another binary variable for political connectedness through either directorship or ownership, number of politically connected directors, and share of politically connected directors) on board size. Board size was chosen for this, being an indicator tightly correlated with all the indicators of political connections (values of the pairwise coefficients of correlation range from 0.37 to 0.57 with the p-value 0.01 each). Studying residual sums of squares through the Chow Test indicates that the differences between the subsamples are significant (the F-test statistics equals to 11.69 with the p-value 0.01 and 2 degrees of freedom in a sample of 204 observations).

[6] The same model as in the Chow test was used in the one-way ANOVA.

in comparison with non-SOEs, numerically and proportionally (politically connected directors represent around 9.5% of all corporate directors in SOEs, against 2.1% in non-SOEs).

The degree of political connectedness could have substantially increased since 2011. This is based on a separate subsample that covers the set of companies continuously traded on the stock market throughout the full 5-year period of analysis.[7] The subsample shows that the number of politically connected directors increased by almost a quarter by 2016 in keeping with a corresponding increase in their share from 4.1% to 5.2% over the 5 years. Notably, there was a sharp increase in the number of politically connected directors on board by 2013, which grew into a steady trend afterward.

Firm age does not affect political connections in Russia, in contrast to the examples of Thailand, Indonesia, and the U.S., which show that older companies tend to be more politically connected (Civilize et al., 2015; Leuz & Oberholzer-Gee, 2006; Unsal et al., 2016). The coefficient of pairwise correlation between firm age[8] and the indicators of political connections is statistically insignificant in Russia.

Politically connected companies in Russia do not gravitate to the capital regions, although the study (Chaney et al., 2011) has revealed this dependence across 19 countries. However, an exception is the subsample of SOEs, which shows a statistically significant negative coefficient of pairwise correlation of -0.228 (p-value 0.1) between the distance of a company's headquarters[9] from Moscow in kilometers, and a binary variable indicating the presence of politically connected directors on the board. Neither the subsample of non-SOEs nor the main

[7] Naturally, the set of companies presented on the stock market in 2011 differs from that for the year 2015. To eliminate this effect, I made a subsample which includes companies continuously presented on the stock market throughout all the years analyzed in the sample. The subsample covers 188 firms like that.

[8] Using the term of firm's age, I refer to a difference between the date of incorporation and the day of December 31, 2015, expressed in full years.

[9] Referring to location of headquarters, I imply the address of official registration. According to Federal Law No 208-ФЗ "*On Joint-Stock Companies*" by 26.12.1995, the company's address of official registration corresponds to the seat of a permanent executive body.

sample responds to this in a statistically significant way.

Political connectedness differs by industry (Table 2). Taking the percentage of politically connected directors as the measure, the most politically connected industries are Aviation, Banking & Insurance, and Oil & Gas. The shares of politically connected directors in those industries are higher than the average rate of 5.2%.

Table 2 – The industrial patterns of political connections: the distribution of politically connected firms across industries[10] [11]

Industry	No firms	No politically connected firms					% of politically connected firms					% of politically connected directors				
		2011	2012	2013	2014	2015	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
Aviation	5	5	5	5	5	5	100.0	100.0	100.0	100.0	100.0	15.5	15.9	15.9	16.8	19.0
Banking & Insurance	10	4	5	6	5	7	40.0	50.0	60.0	50.0	70.0	12.2	13.8	13.8	12.2	15.5
Communications	8	4	4	4	4	4	50.0	50.0	50.0	50.0	50.0	0.0	3.2	3.2	4.0	3.0
Construction	5	3	3	3	4	4	60.0	60.0	60.0	80.0	80.0	1.4	2.7	2.7	5.4	4.9
Electric Power	53	33	32	31	31	31	62.3	60.4	58.5	58.5	58.5	2.3	3.1	3.1	3.7	3.6
Food	5	1	1	1	2	2	20.0	20.0	20.0	40.0	40.0	1.8	1.9	1.9	3.7	3.7
High Tech	5	2	2	3	3	3	40.0	40.0	60.0	60.0	60.0	2.3	2.3	2.3	3.4	2.2
Investment	8	1	1	1	1	1	12.5	12.5	12.5	12.5	12.5	0.0	0.0	0.0	0.0	0.0
Manufacturing (other)	16	4	4	4	4	4	25.0	25.0	25.0	25.0	25.0	1.4	1.4	1.4	1.4	2.0
Medicine & Pharmacy	5	1	1	1	1	1	20.0	20.0	20.0	20.0	20.0	0.0	0.0	0.0	0.0	0.0
Mechanical Engineering	15	8	8	8	7	7	53.3	53.3	53.3	46.7	46.7	5.0	5.5	5.5	5.1	4.5
Metallurgy	12	4	4	4	4	3	33.3	33.3	33.3	33.3	25.0	4.1	4.2	4.2	3.2	3.2
Mining: other	9	3	2	2	2	1	33.3	22.2	22.2	22.2	11.1	5.6	5.4	5.4	3.6	1.8
Mining: precious metals and stones	5	2	2	3	2	2	40.0	40.0	60.0	40.0	40.0	4.0	7.4	7.4	4.4	4.5
Oil, Oil Derivatives & Gas	14	8	8	8	8	8	57.1	57.1	57.1	57.1	57.1	5.6	5.6	5.6	6.1	9.0
Trade	4	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

[10] To find out the dynamics of politicization over the period of 2011 – 2015, eliminating the effect of changes in the set of companies, the previous subsample was used.

[11] I use my own industry classification based on an analysis of the sectoral homogeneity of political connections. The Aviation industry brings together aircraft firms and air transportation. Electric Power includes both power supply companies and power distribution companies. The High Tech industry concerns companies focusing on software, microelectronics, and device engineering. The Oil & Gas industry encompasses a broad range of companies associated with production, processing and distribution of hydrocarbon fuel. Manufacturing covers a broad specter of production enterprises that were not included in other groups. Broadcast companies, an agricultural producer and a hotel & event hall company make up the Miscellaneous group.

Industry	No firms	No politically connected firms					% of politically connected firms					% of politically connected directors				
		2011	2012	2013	2014	2015	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
Transport	4	3	2	1	1	1	75.0	50.0	25.0	25.0	25.0	4.3	2.1	2.1	0.0	1.9
Other (Miscellaneous)	5	1	1	1	1	1	20.0	20.0	20.0	20.0	20.0	4.3	6.1	6.1	7.0	7.0
Total	**188**	**87**	**85**	**86**	**85**	**85**	**46.3**	**45.2**	**45.7**	**45.2**	**45.2**	**4.1**	**4.7**	**4.7**	**4.8**	**5.2**

5.2 The value of political connections

The event study gives strong evidence that political connections exert an overall value-destructive effect on Russian corporations which is statistically significant (Table 3). In general, public announcements of political connections result in a statistically significant drop in stock prices by 1.34% on average within 5 trading days (p-value 0.01). The strength of the market reaction roughly coincides with the result of (Faccio, 2006), but the direction of market reaction is negative.[12]

The strength of market reactions differs across groups of stakeholders. The most negative response is to politically connected owners resulting in an average drop in stock prices by 1.83% (p-value 0.01) within 5 trading days. This can be explained from the perspective of corporate governance, given that owners are endowed with the largest corporate power among all types of stakeholders, and play a key role in Russian corporate governance (Dolgopyatova, 2007). Moreover, if the politically connected owner is an individual, the stock price declines by 4.33% on average (p-value 0.05) within 5 trading days. The same happens when a SOE acquires a stake in a Russian company: the stock market responds with an above-average decrease by 1.14% (p-value 0.1) within 3 trading days.

Generally, SOEs were more sensitive to political connections, showing a 1.42% decline in stock prices within 5 trading days around the announcements of political connections (p-value 0.01) against a stock price decline by 1.23% for non-SOEs (p-value 0.01). This could be because the financial market expects SOEs to

[12] Based on a sample of 47 countries, Faccio found that in general announcements of political connections result in a statistically significant increase in stock prices by 1.43% (Faccio, 2006).

bear larger social and political costs of political connections. However, SOEs are more stable when new politically connected shareholders appear. While the stock market reaction to politically connected owners is statistically insignificant for SOEs, appearing new politically connected owners in non-SOEs leads to a strong and statistically significant drop in stock prices by 4.0% (p-value 0.05). This seems natural given that the government already controls a blocking stake in SOEs. As a consequence, SOEs are more sensitive to political connections through directorship; appointments of politically connected directors cause a decline in stock prices which is almost 2 times stronger for SOEs (1.04% within 4 trading days with the p-value 0.1) in comparison to non-SOEs (0.55% within 4 trading days with the p-value 0.1). In total, the results suggest that state ownership moderates the value effect of political connections in a negative way.

Politically connected executives have a stronger influence on firm value than politically connected non-executives, as the market reaction shows. While the announcements of political connections through the former cause a drop in stock prices by 1.77% on average within 5 trading days (p-value 0.01), news about political connections through the latter lead to a milder decline in stock prices by 1.16% on average within 5 trading days (p-value 0.05).

From the perspective of corporate governance, this occurs because executives have broader opportunities to affect firm value directly, having the right to take current managerial decisions, while non-executives are supposed to play the role of passive supervisors.

The results suggest that political factors were less important before the events in Ukraine occurred in 2014. The strength of the market reaction after 2014 has got almost 5 times as high as it was before 2014. In reaction to political connections after 2014, stock prices drop by 2.40% on average within 5 trading days (p-value 0.05), while this had been just 0.46% on average within 5 trading days (p-value 0.05) before 2014. This is also larger than the average stock market response over the whole 5-year period.

Table 3 – Stock market reaction to political connections

Figure	N events	Market reaction, %			Significance (test statistics)[13]								
					Cross-sectional test (Brown & Warner, 1985)			Sign test (Cowan, 1992)			Wilcoxon test (Wilcoxon, 1945)		
		CAAR (-1; 1)	CAAR (-2; 1)	CAAR (-2; 2)	CAAR (-1; 1)	CAAR (-2; 1)	CAAR (-2; 2)	CAAR (-1; 1)	CAAR (-2; 1)	CAAR (-2; 2)	CAAR (-1; 1)	CAAR (-2; 1)	CAAR (-2; 2)
Overall													
Grand total	374	**-0.620**	**-0.926**	**-1.340**	-2.387 **	-3.247 ***	-2.618 ***	2.172 **	3.413 ***	3.723 ***	-1.716 *	-2.298 **	-2.834 ***
Directors (executives + non-executives)	309	**-0.554**	**-0.819**	**-1.236**	-1,856 *	-2,535 **	-2,041 **	0,967	2,560 **	2,674 ***	-1,071	-1,696 *	-2,137 **
Executive directors	44	**-0.651**	**-1.116**	**-1.771**	-1,746 *	-2,468 **	-3,415 ***	0,603	1,508	2,111 **	-0,586	-1,089	-1,989 **
Non-executive directors	266	**-0.542**	**-0.777**	**-1.157**	-1,587	-2,112 **	-1,656 *	0,858	2,207 **	2,085 **	-0,861	-1,351	-1,500
Owners	65	**-0.934**	**-1.431**	**-1.832**	-2,000 **	-2,514 **	-2,993 ***	3,101 ***	2,605 **	3,101 ***	-1,345	-1,580	-1,867 **
Types of owners													
State bodies	14	**-0.522**	**-1.647**	**-1.264**	-0,796	-2,024 **	-1,605	2,138 **	2,138 **	1,604	-0,644	-0,954	-0,644
State corporations	11	**0.497**	**1.028**	**-0.658**	0,374	0,809	-0,409	0,302	0,302	0,905	0,660	0,786	0,031
SOEs	29	**-1.139**	**-1.613**	**-1.603**	-1,844 *	-2,133 **	-2,027 *	2,043 **	1,671	1,671	-1,040	-1,024	-0,826
Individuals	11	**-2.347**	**-3.138**	**-4.334**	-1,618	-1,602	-2,065 **	1,508	1,508	2,111 **	-0,786	-0,849	-1,226

[13] * – significant within a 90% confidence interval;
** – significant within a 95% confidence interval;
*** – significant within a 99% confidence interval.

Figure	N events	Market reaction, %			Significance (test statistics)[13]								
					Cross-sectional test (Brown & Warner, 1985)			Sign test (Cowan, 1992)			Wilcoxon test (Wilcoxon, 1945)		
		CAAR (-1; 1)	CAAR (-2; 1)	CAAR (-2; 2)	CAAR (-1; 1)	CAAR (-2; 1)	CAAR (-2; 2)	CAAR (-1; 1)	CAAR (-2; 1)	CAAR (-2; 2)	CAAR (-1; 1)	CAAR (-2; 1)	CAAR (-2; 2)
SOEs													
Total	216	**-0.745**	**-0.965**	**-1.421**	-1.873 *	-2.228 **	-1.682 *	1.905 *	2.313 **	2.722 ***	-1.573	-1.637	-1.947 *
Directors (executives + non-executives)	171	**-0.797**	**-1.041**	**-1.565**	-1,638	-1.970 *	-1.482	0,841	1.759 *	2,065 **	-1,008	-1,291	-1.611
Executive directors	21	**-1.035**	**-1.826**	**-1.796**	-1,738 *	-2,405 **	-2.931 ***	0,655	1,528	1.964 *	-0,467	-0.959	-1,598
Non-executive directors	150	**-0.764**	**-0.931**	**-1.533**	-1,392	-1.571	-1,277	0,653	1.306	1.470	-0,762	-1,887	-1,058
Owners	45	**-0.545**	**-0.676**	**-0.871**	-1.161	-1.264	-1.541	2.534 **	1.640	1.938 *	-0.910	-0.774	-0.902
non-SOEs													
Total	158	**-0.450**	**-0.873**	**-1.229**	-1.567	-2.693 ***	-3.361 ***	1.114	2.546 **	2.546 **	-0.733	-1.502	-1.988 **
Directors (executives + non-executives)	138	**-0.253**	**-0.545**	**-0.828**	-0.884	-1.775 *	-2,352 **	0,511	1.873 *	1.703 *	-0.346	-0.976	-1.334
Executive directors	23	**-0.300**	**-0.467**	**-1.748**	-0.668	-0.977	-2.134 **	0.209	0.626	1.043	0.054	-0.290	-1.065
Non-executive directors	116	**-0.254**	**-0.579**	**-0.670**	-0.773	-1.638	-1,740 *	0,557	1.857 *	1.486	-0,341	-1,906	-1,990
Owners	20	**-1.807**	**-3.131**	**-3.995**	-1.697	-2.355 **	-2.822 **	1.789 *	2,236 **	2.683 **	-0.792	-1.294	-1,689

Figure	N events	Market reaction, %			Significance (test statistics)[13]								
					Cross-sectional test (Brown & Warner, 1985)			Sign test (Cowan, 1992)			Wilcoxon test (Wilcoxon, 1945)		
		CAAR (-1; 1)	CAAR (-2; 1)	CAAR (-2; 2)	CAAR (-1; 1)	CAAR (-2; 1)	CAAR (-2; 2)	CAAR (-1; 1)	CAAR (-2; 1)	CAAR (-2; 2)	CAAR (-1; 1)	CAAR (-2; 1)	CAAR (-2; 2)
Before 2014													
Total	205	**-0.084**	**-0.214**	**-0.464**	-0,377	-0,880	-1,761 **	0,070	1,187	1,327	-0,176	-0,244	-1,041
Directors (executives + non-executives)	177	**0.026**	**-0.114**	**-0.414**	0,116	-0,474	-1,569	0,676	0,977	1,278	0,255	-0,028	-1,064
Executive directors	26	**-0.873**	**-1.036**	**-1.859**	-1,729 *	-1,676	-2,971 ***	0,392	1,177	1,961 *	-0,404	-0,512	-1,625
Non-executive directors	152	**0.170**	**0.027**	**-0.187**	0,690	0,103	-0,660	0,811	0,649	0,649	0,555	0,271	-0,472
Owners	28	**-0.778**	**-0.841**	**-0.784**	-1,027	-0,932	-0,806	1,890 **	0,756	0,378	-0,547	-0,274	0,032
Since 2014													
Total	169	**-1.271**	**-1.790**	**-2.402**	-2,524 **	-3,250 ***	-2,223 **	3,154 ***	3,769 ***	4,077 ***	-2,224 **	-2,961 ***	-2,933 ***
Directors (executives + non-executives)	132	**-1.332**	**-1.765**	**-2.339**	-2,137 **	-2,613 **	-1,711 *	2,263 **	2,785 ***	2,611 **	-1,763 *	-2,311 **	-1,905 *
Executive directors	18	**-0.330**	**-1.231**	**-1.644**	-0,615	-1,894 *	-1,852 *	0,471	0,943	0,943	-0,108	-0,785	-0,908
Non-executive directors	114	**-1.491**	**-1.849**	**-2.449**	-2,083 **	-2,386 **	-1,553	2,248 **	2,622 ***	2,435 **	-1,760 *	-2,064 **	-1,630
Owners	37	**-1.052**	**-1.878**	**-2.626**	-1,796 *	-2,599 **	-3,457 ***	2,466 **	2,795 ***	3,781 ***	-1,099	-1,685	-2,379 **

It would be wrong to say that political connections were insignificant before 2014. To test this, I built a new subsample extending the range of politically connected posts to governors of Russian regions, members of regional parliaments, top officers of branches of federal authorities, rectors of federal universities, and top officers of state corporations. This sufficiently enhanced the significance, showing that after 2014 the stock market reacted to politically connected people who had held these posts with a statistically significant drop in stock prices by 0.69% within 5 trading days (p-value 0.05 from the parametric test versus p-value 0.01 from both non-parametric tests).

6 Contribution

The contribution of this study is the following:

1) The study evaluates the distribution of corporate political connections in Russia in a comprehensive way.
2) The research investigates the overall value effect of corporate political connections in Russia taking into consideration all relevant groups of stakeholders.
3) The paper provides evidence on the differences between politically connected owners, board members, and executives in terms of the value effect.
4) The work shows the limitations of the theory of rent-seeking, the most popular theory used to explain why firms establish political connections. Demonstrating that political connections are widely distributed in Russia despite their negative value effect, this paper shows that the theory of rent-seeking is not able to explain why political connections are established there.
5) The research proposes a novel conceptual framework for empirical studies in political connections. Although the vast majority of studies in political connections assume that firms establish political connections on their own initiative, this paper demonstrates this is not always true, and governments could play an important part in this process. The paper

suggests that the problem of political connections could constitute a complex bilateral process in developing and transition economies, especially post-communist economies noted for the important role played by the government in resource allocation. Focusing on the incentives of both the state and corporations, I suggest that political connectedness could represent a game of two players with conflicting interests over the use of a scarce resource jointly possessed by them. This game results in a current institutional balance between the economic pursuits of corporations, and the political and social goals of the government.

6) The paper proposes that in emerging economies, especially transition economies, corporate political connections can induce a conflict of interests between the government that pursues non-economic purposes, and the shareholders who adhere to value-maximizing behavior. The conflict of interest represents an agency conflict and takes the forms of both the principal-agent conflict when political connections are established at the level of board members and executives, and the principal-principal conflict (the multiple principal problem) when political connections are established on the basis of ownership.

7 The list of author's original articles

1) *Trifonov, Dmitri*. Political connections of Russian corporations: Blessing or curse? // Journal of Behavioral and Experimental Finance. 2021. Vol. 29. Article 100458
2) *Trifonov, Dmitri*. Political connections of Russian corporations: Blessing or curse? / National Research University Higher School of Economics. Series WP BRP "Basic research program". 2020. No. 230/EC/2020.
3) *Trifonov, Dmitri*. Политическая аффилированность в системе корпоративного управления: обзор международных исследований и их проекция на российскую корпоративную среду [Political connections in corporate governance: International studies review and

their implications for the Russian corporate environment] (in Russian) // Vestnik Moscovskogo Universiteta. Seria 6: Economica. 2018. T. 2. C. 118-148.

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