Institutions, Political Activities & Business Practices

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How do economic actors reduce uncertainty caused by their institutional environment?
Political Institutions Shape Economic Activity

Political science and economic research has focused on growth and development.

Management research has focused on firm strategies and behavior.
Judicial Independence Shapes Economic Relationships

If courts are not independent and effective, contract enforcement is weak and uncertain.
Firms Adjust Practices to Reduce Contracting Risks

Firms can internalize operations rather than outsource to others.

Firms can require prepayment rather than extend credit.
Claim: Political Activities Can Help Reduce Contracting Risks

Lobbying firms seek to cultivate political influence.

Government actors may be able to help secure transactions or ensure favorable legal rulings.
Independent courts make political influence less useful for reducing exposure to contracting risks.
Institutions Constrain Political Influence

Independent courts make political influence less useful for reducing exposure to contracting risks.
The Conditional Effects of Political Influence

Firms with political influence have less need to adjust their business practices when judicial independence is low.
Empirical Predictions

Non-Independent Courts $\rightarrow$ lobbying associated with more outsourcing and credit

Independent Courts $\rightarrow$ lobbying not associated with more outsourcing and credit
Data & Research Design

World Bank Enterprise Surveys, 2002-2005

Representative firm surveys in 40+ developing countries
Dependent variables:
outsourcing production element

firm allows sales on credit
Lobbying: lobbied in last 2 years?

Courts: latent judicial independence (LJI)

Main interest: lobbying × courts
Data & Research Design

Control variables:
- ownership, firm size & age,
- certification, exporter,
- competition, prevalence of graft,
- economy size, gdppc, political
- constraints, city size

Empirical strategy:
- multilevel multilevel modeling
Under Weak Courts, Firms that Lobby More Likely to Risk New Outsourcing

<table>
<thead>
<tr>
<th>DV: Outsourcing Production</th>
<th>(1)</th>
<th>(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lobbying</td>
<td>0.065 (0.015)***</td>
<td>0.060 (0.015)***</td>
</tr>
<tr>
<td>Judicial Independence (JI)</td>
<td>−0.062 (0.057)</td>
<td>−0.074 (0.066)</td>
</tr>
<tr>
<td>Lobbying × JI</td>
<td>−0.067 (0.025)***</td>
<td>−0.069 (0.026)***</td>
</tr>
</tbody>
</table>

Number of Observations       | 15,949 | 14,470 |
Number of Countries           | 34     | 34     |
All Control Variables?        | No     | Yes    |
Marginal Effects of Lobbying: Outsourcing

-0.05 - 0.00 - 0.05 - 0.10
Marginal Effect of Lobbying
Low Medium High
Judicial Independence

Graph showing the marginal effect of lobbying on judicial independence, with levels ranging from low to high.
Under Weak Courts, Firms that Lobby More Likely to Extend Credit

<table>
<thead>
<tr>
<th>DV: Sales on Credit</th>
<th>(1)</th>
<th>(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lobbying</td>
<td>0.153 (0.025)***</td>
<td>3.961 (1.925)**</td>
</tr>
<tr>
<td>Judicial Independence (JI)</td>
<td>0.278 (0.134)**</td>
<td>21.026 (10.422)**</td>
</tr>
<tr>
<td>Lobbying $\times$ JI</td>
<td>$-0.187$ (0.042)***</td>
<td>$-6.592$ (3.205)**</td>
</tr>
</tbody>
</table>

Number of Observations: 14,408
Number of Countries: 34
DV Coding: binary, cont.
Marginal Effects of Lobbying: Credit

Judicial Independence

-0.10
-0.05
0.00
0.05
0.10
0.15
0.20

Marginal Effect of Lobbying
Low Medium High

Graph showing the marginal effects of lobbying on judicial independence.
Thank you in advance for comments and suggestions.

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