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.

Institutions Constrain Political Influence

Independent courts make political influence less useful for reducing exposure to contracting risks.

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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 $\longrightarrow$ **lobbying associated with more outsourcing and credit**

Independent Courts $\longrightarrow$ **lobbying not associated with more outsourcing and credit**

Data & Research Design

World Bank Enterprise Surveys, 2002-2005

Representative firm surveys in 40+ developing countries

Data & Research Design

Dependent variables:

outsourcing production element

firm allows sales on credit

Data & Research Design

Lobbying:

lobbied in last 2 years?

Courts:

latent judicial independence (LJI)

Main interest:

lobbying $\times$ **courts**

Data & Research Design

Control variables:

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

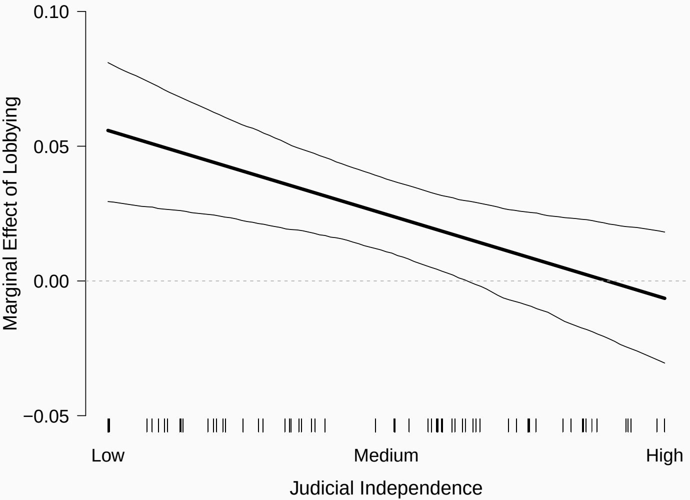
Empirical strategy:

multilevel multilevel modeling

Under Weak Courts, Firms that Lobby More Likely to Risk New Outsourcing

DV: Outsourcing Production	(1)	(2)
Lobbying	0.065 (0.015)***	0.060 (0.015)***
Judicial Independence (JI)	−0.062 (0.057)	−0.074 (0.066)
Lobbying $\times$ JI	−0.067 (0.025)***	−0.069 (0.026)***
Number of Observations	15,949	14,470
Number of Countries	34	34
All Control Variables?	No	Yes

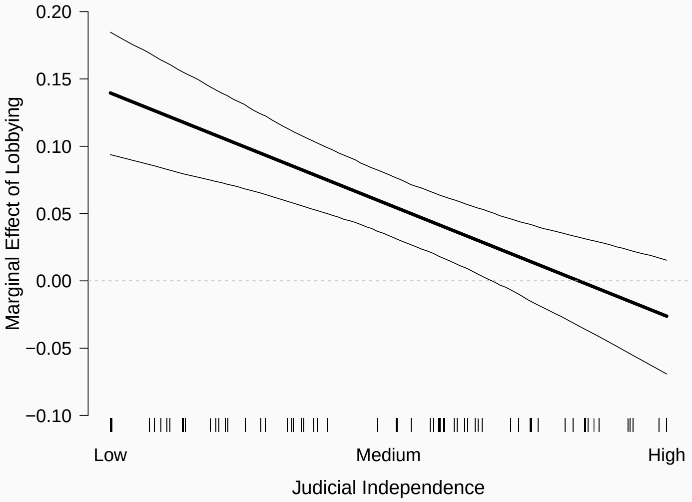
Marginal Effects of Lobbying: Outsourcing



Under Weak Courts, Firms that Lobby More Likely to Extend Credit

DV: Sales on Credit	(1)	(2)
Lobbying	0.153 (0.025)***	3.961 (1.925)**
Judicial Independence (JI)	0.278 (0.134)**	21.026 (10.422)**
Lobbying × JI	−0.187 (0.042)***	−6.592 (3.205)**
Number of Observations	14,408	14,408
Number of Countries	34	34
DV Coding	binary	cont.

Marginal Effects of Lobbying:Credit



Thank you in advance for comments and suggestions.

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