

Erste Bank Award for Research on Central and Eastern Europe

Awardees 2016: Klaus Gugler und Josef Zechner

### **Political Connections and Firms' Performance in CEEC**

Abstract: The effect of political connections on firm performance, valuation and cost of funding has recently received increasing attention in the academic finance literature. Central and Eastern European countries (CEEC) provide an ideal setting to explore these issues. In this project we empirically explore four main questions. First, we are interested to empirically investigate the prevalence of politically connected firms in CEEC. Anecdotal evidence indicates that “systematic exchanges of favors” between politicians and firms impact the value to these firms. However, establishing political connections is not costless at least for the minority shareholders since the politicians extract some rents from the firms. Therefore, our second goal is to determine the effect of political connections in CEEC on firms' performance. Third, we aim to explore the impact of political connections conditional on ultimate ownership. In particular, we are interested to study whether family firms rely more on relations with the rulers than non-family firms. Finally, we would like to study the effects of different events (recent financial crisis, EU accession dates, changes in power as a result of local or general elections) on the performance of connected companies and compare it to that of their unconnected peers.

