CRANFIELD UNIVERSITY

TAHIRU AZAAVIELE LIEDONG

THE IMPACT OF MANAGERIAL POLITICAL TIES ON COST OF DEBT AND INSTITUTIONAL RISK EXPOSURE: EVIDENCE FROM GHANA

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Supervisor: Dr Tazeeb Rajwani

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Abstract

This thesis integrates social capital and institutional theories with corporate governance insights to explore the impact of managerial political ties on access to finance, cost of debt and institutional risk exposure. Drawing on an extensive and rigorous assessment of the literature, using a unique set of survey data from 179 firms operating in Ghana, and employing robust analytical techniques, this thesis comprises three interrelated empirical studies which make significant contributions to knowledge.

The first empirical study examines the impact of political ties on access to finance and cost of debt. It shows that political ties are positively related to interest rates charged by commercial banks. This positive relationship is weakened by managerial financial ties, and strengthened by borrowing from privately owned banks and the appointment of Big Four audit firms. Altogether, the findings reveal that while political ties enhance access to finance, they increase the cost of debt. They suggest that institutional lapses in emerging countries increase lenders' perceptions of corporate governance erosion in politically connected firms, hence the high interest rates these firms are charged when they borrow.

The second empirical study investigates the effect of political ties on institutional risk exposure. The findings show that political ties do not reduce risk exposure. The findings also show that while industry regulation and public affairs functions affect the strength of the relationship between political ties and institutional risk exposure, corporate social responsibility (CSR) does not. In sum, the findings suggest that the conjectured efficacy of political ties in risk reduction is illusive. The third empirical study explores mediation in the political ties-cost of debt relationship. The findings reveal a negative impact of political ties on corporate governance, and show that political ties increase cost of debt by reducing financial reporting quality and increasing the risk exposure of firms.

Through the three empirical studies, this thesis contributes to Corporate Political Activity (CPA) literature, social capital theory and institutional theory. It accentuates the contingent value of political ties and addresses the salient and overlooked *"how"* question in CPA research. It also fills the lack of insight into the complementarity between CPA and CSR. On the social capital and institutional fronts, this thesis deepens insight into the interactive effects of different types of social capital and highlights how institutional development and organizational legitimacy moderate the value of network ties in emerging countries.

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List of Abbreviations

AFRC	Armed Forces Revolutionary Council
CEO	Chief Executive Officer
CFA	Confirmatory Factor Analysis
CHRAJ	Commission for Human Rights and Administrative Justice
CIMO	Context-Intervention-Mechanism-Outcome
CMV	Common Method Variance
CPA	Corporate Political Activity
CSR	Corporate Social Responsibility
EFA	Exploratory Factor Analysis
EOCO	Economic and Organized Crime Office
FATF	Financial Action Task Force
GIPC	Ghana Investment Promotion Center
GYEEDA	Ghana Youth Employment and Empowerment Agency
HIPC	Highly Indebted Poor Country
IMF	International Monetary Fund
MMDAs	Metropolitan, Municipal and District Assemblies
NGO	Non-Governmental Organization
NLC	National Liberation Council
PA	Public Affairs
PAC	Political Action Committee
PNDC	Provisional National Defence Council
SADA	Savanna Accelerated Development Authority
SSA	Sub-Saharan Africa
SSNIT	Social Security and National Insurance Trust
PPP	Public Private Partnership

Chapter 1 Introduction

Organizational theorists have argued that managerial actions are hugely embedded in networking relationships (Granovetter, 1985). These relationships create social capital, a valuable resource useful for leveraging or exploiting other resources (Li and Zhang, 2007) and for enhancing firm performance (Acquaah, 2007). The term "social capital" refers to the sum of resources, actual or virtual, that accrue to an individual or organization as a result of the development and maintenance of personal and social networking relationships (Granovetter, 1973; Granovetter, 1985; Lin, 2001). The central proposition of social capital theory suggests that networking relationships have a significant positive impact not only on individuals, but also on firms (Coleman, 1988b; Nahapiet and Ghoshal, 1998a; Moran, 2005). Building on this proposition, researchers have argued that the business and political connections of managers have implications for firm performance (Peng and Luo, 2000; Acquaah, 2007; Boso et al., 2013). They also argue that the importance of social capital is higher in weak institutional environments (Sheng et al., 2011; Talavera et al., 2012). It is therefore not surprising that social capital and institutional theories are often integrated to study management phenomenon in emerging countries (Boso et al., 2013)

A few studies have explored the role of social capital in credit markets, especially in emerging countries where social ties are prevalent. Specifically, these studies argue that managerial business and political ties enable firms to access private equity or get loans from banks (Khwaja and Mian, 2005; Talavera et al., 2012; Yeh et al., 2013; Batjargal and Liu, 2004). However, it is not still clear whether political ties enable firms to get loans at low interest rates. The link between social capital and cost of debt in emerging countries is important because the business environments in emerging countries are plagued by institutional voids which make networking relationships important for entrepreneurs (Talavera et al., 2012). It is widely argued that social networking relationships serve as substitute for the fledgling market supporting institutions in these countries (Xin and Pearce, 1996; Park and Luo, 2001; Li and Zhang, 2007). The link is also important because in emerging countries, access to finance and cost of debt pose significant obstacles for firm survival and growth (Beck and Demirguc-Kunt, 2006).

Importantly, social capital research has largely overlooked the complementariness of different networking relationships in credit markets. Studies have explored business and political ties, but separately, and this has limited our understanding of the combinative effect

of different social ties. This thesis draws upon social capital and institutional theories to examine the impact of political and financial ties on access to finance and cost of debt in Ghana. As research on political ties and connections is situated within the CPA research field, the empirical positioning of this thesis will be better understood through a review of the CPA literature.

CPA research has expanded rapidly over the past few years. Springing out from non-market strategy (Baron, 1995a; Baron, 1995b), CPA is defined as "corporate attempts to shape government policy in ways favourable to the firm" (Hillman et al., 2004 p. 838). It is also defined as "any deliberate firm action intended to influence governmental policy or process" (Getz, 1997, pp. 32-33). Generally, CPA captures the efforts that firms exert to manage their dependency relationships with government (Pfeffer and Salancik, 1978; Kotter, 1979; Hillman, 2005). Firms operate within political jurisdictions (Boddewyn and Brewer, 1994) and are therefore exposed to the consequences of political decisions (Stigler, 1971) such as corporate taxes (Osterloh and Debus, 2012), business laws (North, 1990) and expropriation (Minor, 1994; Williams, 1975; Frynas and Mellahi, 2003). This exposure motivates them to influence the interaction between politics and their economic environments (Hillman et al., 1999; Buchholz, 1992). While it is undisputed that firms have long been involved in policy making processes (Broadbent, 2000; Hillman et al., 2004), it was until recently that scholarly research began to keep pace with the practice.

Early CPA research focused on three main areas – antecedents, types and strategies. Early scholars were interested in understanding the determinants of CPA. In other words, they wanted to understand why some firms are politically active than others. Studies on the antecedents of CPA have shown that firm size, industry regulation, diversification, foreign ownership, organizational structures, industry concentration and institutional factors influence the participation of firms in politics (Hillman and Keim, 1995; Hansen and Mitchell, 2000; Hersch and McDougall, 2000; Hillman, 2003; Schuler et al., 2002; Blumentritt, 2003; Hillman et al., 2004; Lawton et al., 2013b). In addition to exploring antecedents, early scholars were interested in identifying the different types of political behaviours (Weidenbaum, 1980; Boddewyn and Brewer, 1994; Meznar and Nigh, 1995). They were also interested in understanding the strategies and tactics used by firms to influence government policy (Baysinger et al., 1985; Keim and Zeithaml, 1986; Hillman and Hitt, 1999) as well as the approaches and levels of CPA (Hillman and Hitt, 1999).

In recent times however, the focus of CPA research has shifted from antecedents and strategies to the impact of political strategies on firm performance. An increasing number of studies have asked the question: *Does political activity improve firm performance?* Researchers have found different answers to the question. In other words, the answer to the question is not unanimous. While some studies found positive effects (De Figueiredo and Silverman, 2006; Claessens et al., 2008; Cooper et al., 2010; Wu et al., 2012b), others reported negative outcomes (Chaney et al., 2011; Carretta et al., 2012). However, evidence from systematic reviews conclusively shows that CPA does more good than harm to firms' bottom lines (Hillman et al., 2004; Lawton et al., 2013a; Rajwani and Liedong, 2015). Nonetheless, further research is needed to help resolve this "paradox" (Lux et al., 2011), for as it stands our knowledge of the impact of CPA on firm performance is still vague and incomplete (Hadani and Schuler, 2013).

The growing interest in the relationship between CPA and firm performance has centred on some very common performance outcomes such as stock returns (Goldman et al., 2009; Cooper et al., 2010; Huber and Kirchler, 2013), return on sales (Fan et al., 2007; Hadani and Schuler, 2013), return on investment (Niessen and Ruenzi, 2010; Mathur and Singh, 2011), effective tax rates (Adhikari et al., 2006; Richter et al., 2009), leverage levels (Khwaja and Mian, 2005; Fraser et al., 2006), accruals quality (Chaney et al., 2011), interest revenues (Carretta et al., 2012), academic earmarks (De Figueiredo and Silverman, 2006), anti-dumping proceeds (Lee and Baik, 2010), government contracts (Witko, 2011), corporate bailouts (Faccio et al., 2006), trade mission participation (Schuler et al., 2002) and regulatory influence (McKay and Webb-Yackee, 2007). The foregoing show that firm performance has been examined using different measures, but there is still room for the effect of CPA on other performance measures to be investigated. For instance, the impact of political activity on capital structure and cost of debt capital remains under-explored (Fraser et al., 2006; Rajwani and Liedong, 2015).

Though the increased research focus on CPA and organizational performance is welcome, some aspects of this research agenda require significant attention. First, review of the literature reveals that the performance outcomes that are often investigated are "distant" from the direct influence of political strategies. This distance perhaps underlies the limited ability of CPA researchers to provide plausible explanations for the causal mechanisms of their findings (Puck et al., 2013) as linkages may be improbable or unconvincing. Consequently, the lack of credible treatise of mediation along this line of inquiry curtails deep understanding

(Guo et al., 2014; Rajwani and Liedong, 2015). Second, it is worth noting that CPA research has been conducted in both developed and emerging countries. However, most emerging country CPA studies are conducted in a few Asian countries such as China, Indonesia, Philippines, Taiwan, and Thailand (Chizema et al., 2015; Fan et al., 2007; Fraser et al., 2006; Hassan et al., 2012; Johnson and Mitton, 2003; Khwaja and Mian, 2005; Peng and Luo, 2000). What is quite intriguing is that even though emerging countries have high-risk business environments (Henisz and Zelner, 2010; Puck et al., 2013), CPA research conducted in these countries tends to focus on financial performance and overlooks other context-relevant and intermediate outcomes such as risk exposure and cost of debt which consequently affect performance. The proposition that political strategies can reduce the exposure of firms to uncertainty (Baysinger, 1984; Hillman & Hitt, 1999) is not supported by adequate empirical proof, but empirical research has overlooked this intermediate relationship.

1.1 Research Motivation and Research Questions

In emerging countries, limited access to finance is a major impediment to private sector development (Beck and Demirguc-Kunt, 2006; Beck et al., 2008). High interest rates and increased demand for collateral discourage a lot of firms from seeking loans (Aryeetey, 1998; Abor and Biekpe, 2007b). Further, poor financial literacy has made it difficult for firms to develop bankable projects (Adomako et al., 2016) while unstructured governance and poor institutionalization of management processes have made banks reluctant to advance loans to firms (PwC, 2013). Credit is therefore severely rationed (Jaffee and Russell, 1976; Stiglitz and Weiss, 1981). In the rationing process, network relationships and social capital play an important role (Uzzi, 1999; Berger and Udell, 1995; Hernández-Cánovas and Martínez-Solano, 2010). In essence, firms with connections to bank officials (Dygryse and Van Cayseele, 2000) or politicians (Chan et al., 2012; Cull et al., 2015) are more likely to receive credit.

Despite the role of social capital in debt financing, and given that politics and business are intertwined (Du and Girma, 2010), it is surprising that studies have rarely examined the effect of managerial political ties on cost of debt. The interest rates firms are charged when they borrow have a profound impact on performance. This is because high interest payments do not only reduce profitability. They can also cause financial distress. The few studies that have investigated the association between CPA and cost of debt have reported mixed findings,

triggering a debate as to whether or not politically connected firms receive preferential treatment when accessing debt financing. While there is some unanimity that politically connected firms are highly leveraged (Khwaja and Mian, 2005; Fraser et al., 2006; Claessens et al., 2008; Onder and Ozyildirim, 2011; Saeed et al., 2015), there is disagreement about the impact of political connections on cost of debt (Bliss and Gul, 2012; Houston et al., 2014; Chen et al., 2014). Consequently, our understanding of the role of political connections in debt financing is incomplete.

Additionally, the mechanisms through which political connections affects firm performance have received little empirical attention (Lux et al., 2011; Guo et al., 2014). As mentioned previously, majority of studies do not explicate mediation. Even if they do, the mechanisms are conjectured. Among the studies that have examined the impact of CPA on cost of debt, none empirically addresses mediation. This leaves us guessing the processes through which political activity affects debt financing outcomes. A commonly mentioned but unverified mediator in CPA studies is risk. Proponents argue that political activity reduces the exposure of firms to uncertainty, which leads to superior competitive advantage and performance (Meznar and Nigh, 1995; Hillman et al., 1999). However, neither the relationship between CPA and risk exposure nor the mediating role of risk exposure in the relationship between CPA and firm performance or cost of debt has been empirically proven.

Moreover, risk exposure has not received significant attention in mainstream strategy research. This is mainly due to risk being treated as an international business issue with little or no ramifications for local firms. MNEs may encounter high risks in their host countries, but local firms also face political and institutional challenges. Recent work shows that institutional lapses will impact local firms as much as they will impact foreign firms (Wocke and Moodley, 2015). There is therefore the need for scholarship to break away from this track by conceiving institutional risk as constraints that affect both local and foreign firms. In this respect, a re-conceptualization of the local-foreign dichotomy in institutional or political risk research needs to be instigated and developed.

The aforementioned limitations and gaps in the literature motivate this research. Positioned to contribute to the literature on CPA and debt financing, this thesis addresses three main questions:

1. What is the impact of managerial political ties on access to finance and cost of debt?
2. What is the impact of managerial political ties on institutional risk exposure?

3. What mechanisms mediate the relationship between political ties and cost of debt?

Beside these three main questions, other questions focusing on moderation effects are also investigated. Specifically, the effects of managerial financial ties, borrowing from government-owned banks, financial representation on corporate boards, and the appointment of Big Four auditors (PricewaterhouseCoopers, KPMG, Deloitte and Ernst & Young) on the relationship between political ties and cost of debt are examined. Similarly, the effects of CSR, public affairs and industry regulation on the relationship between political ties and institutional risk exposure (constraints or barriers to growth and investment) are examined.

This thesis is positioned within social capital theory (Granovetter, 1985; Nahapiet and Ghoshal, 1998a; Lin, 2001) and institutional theory (Scott, 2001; DiMaggio and Powell, 1983; Dieleman and Sachs, 2008; Doh et al., 2012). It draws on the complementarity between social capital and institutional logics (Peng and Luo, 2000; Acquaah, 2007), and in doing so, incorporates insights from corporate governance to examine the contingent value of political ties in credit markets. Such a multi-theoretical approach to studying non-market strategy deepens knowledge and extends theory beyond single lenses and paradigms (Mellahi et al., 2016).

1.2 Research Setting and Methods

Even though there have been calls for management and strategy research to focus on new settings such as Africa and the Middle East (Hoskisson et al., 2000; Wright et al., 2005; Mellahi and Mol, 2015; Klingebiel and Stadler, 2015), majority of strategy and CPA studies are still set in developed countries. Consequently, little is known about strategic management in Africa. More precisely, our stock of knowledge on the performance implications of strategy in Africa is limited (Mellahi and Mol, 2015). In recent times, scholars have begun giving emerging markets some attention, particularly with respect to the exploration of the impact of political connections on firm performance (Rajwani and Liedong, 2015). However, this attention is not evenly distributed across the emerging world. For instance, there are hardly CPA studies that focus on countries in sub-Saharan Africa. Similarly, North Africa and the Middle East have received little attention from CPA scholars. Emerging markets share similar characteristics such as weak regulatory environments (Acquaah, 2007), but they may have unique institutional and social frameworks that differentiate them from one another (Boso et al., 2013). Consequently, it could be erroneous to generalize findings from China,

Malaysia, Indonesia, or Thailand to every other emerging country. The African continent has interesting phenomena that have not yet been explained using extant theory, and thus presents opportunities for researchers to foray into empirical blind spots that can alter theory (Klingebiel and Stadler, 2015).

This thesis is set in Ghana, a country in sub-Saharan Africa. She has a population of 27 million (2014 estimate). Classified as a lower middle income country by the World Bank, Ghana's GDP was US$38.62 billion as of 2014. I chose Ghana as the context of this thesis for important reasons. First, Ghana is peaceful and politically stable, but just like every other country in the sub-region, she is institutionally weak. Regulations are not always applied as expected. In fact, most of them exist only on paper and some are outdated. Moreover, most of the regulatory documents are not easily accessible by the public. Powers of the government are separated, but checks and balances are largely ineffective. Consequent of these institutional weaknesses, uncertainty is rife in the country. Institutional voids have not only worsened the country's macroeconomic fundamentals, but they have also harmed private sector development. For instance, pervasive corruption and economic mismanagement have been cited among the reasons why public debt stock soared from GH¢ 9.5 billion to GH¢94.5 billion between 2008 and 2015, a figure representing over 70% of GDP (Alhassan, 2015). Also, unfavourable tax administration, bribery and corruption have discouraged entrepreneurs from participating in the formal sector (Koto, 2015). With a weak institutional environment, Ghana is a suitable context for examining institutional risk exposure.

Second, credit is expensive and rationed in Ghana (Ahiawodzi and Sackey, 2010; Robson et al., 2013; Awunyo-Vitor et al., 2014). Over the years, the interest rate regime has become unfriendly to businesses. For instance, in the three years between September 2011 and September 2014, Ghana's monetary policy rate increased from 12.5% to 21% while the 91-day Treasury bill rate surged up from 10.67% to 25.79%. The interbank lending rate, which is the overnight rate at which banks lend to one another, took a giant leap from 10.6% to 24.2% in the same period. Correspondingly, inflation soared from 8.84% in 2012 to 17.7% in 2015. This upward trajectory in interest rates, and of course inflation, has placed dire constraints on firms that want to access credit. Ghana's high interest rate regime provides an interesting context for ascertaining the effect of political ties on cost of debt.

Third, corporate governance is poor in Ghana. There are so many organizations in the country that have never filed annual returns since their incorporation (Registrar General's

Department, 2015). Company laws are flouted with reckless abandon. The institutions that should monitor and regulate the private sector are incapacitated (World Bank, 2005). Corporate boards in the country are mere "instruments of management" (Tsamenyi et al., 2007) because boards are rarely committed to shareholder value maximization. Rather, board members are mostly concerned with the financial and private benefits that are associated with their positions. These lapses in governance have implications for firm performance. As this thesis tests the moderation effects of corporate governance, Ghana presents a setting that allows for the impact of good and bad governance to be examined.

In emerging countries, archival data is difficult to obtain (Wright et al., 2005). Moreover, corporate political activity data is rarely available from secondary sources (Hillman and Wan, 2005). A survey was therefore used to collect data. A structured questionnaire was developed and shared with renowned scholars for evaluation (Fowler, 1995). The questionnaire was then piloted in three stages to test the validity of the questions vis-à-vis the Ghanaian environment (Mesquita and Lazzarini, 2008). Following previous studies, various techniques were employed to maximize the response rate. First, assurances of anonymity were made to all the respondents (Acquaah, 2007). Second, offers were made to share the results upon completion (Chan, 2005). Third, endorsements for the survey were sought from reputable organizations in Ghana (Hillman, 2003; Hillman and Wan, 2005). Endorsements were obtained from the Ghana Investment Promotion Centre (GIPC), the Association of Ghana Industries (AGI) and the Ghana Association of Bankers (GAB). These endorsees were strategically chosen to give credibility to the study. GIPC, an agency under the Office of the President of Ghana, is responsible for promoting private sector development and attracting foreign investment into the country. AGI is business group made up of over 1200 small, medium and large scale firms operating in Ghana. GAB is the umbrella association for all commercial banks operating in Ghana.

Data was collected from Chief Executive Officers (CEOs), Managing Directors (MDs) and Directors of Finance and Administration. The sample consisted of 300 large and medium-sized firms selected from the Association of Ghana Industries Directory (Abor and Biekpe, 2007a; Adomako et al., 2016), Ghana Business Directory (Appiah-Adu, 1998; Appiah-Adu and Blankson, 1998; Acquaah, 2007; Boso et al., 2013), Ghana company register (Adomako et al., 2016) and Ghana Club 100 (Ofori and Hinson, 2007). After several visits and phone calls, 179 questionnaires were collected, representing a final response rate of 59.6%. Common method variances were checked and the reliability of the constructs was tested

using statistical techniques, including exploratory and confirmatory factor analyses. Consequently, robust, hierarchical, moderated and mediated regression analyses were done to derive the findings.

1.3 Summary of Findings and Contributions

This thesis contains three empirical studies, each answering one of the three research questions. The first empirical study examines the relationship between managerial political ties, access to finance and cost of debt. The findings reveal that political ties are positively associated with access to finance and cost of debt, suggesting that while political ties enable firms to get loans, they do not reduce interest rates. The result about access to finance is consistent with prior studies (Claessens et al., 2008; Khwaja and Mian, 2005; Chan et al., 2012; Saeed et al., 2015; Cull et al., 2015). However, the result about cost of debt is counterintuitive, though it is consistent with a previous study done in Malaysia (Bliss and Gul, 2012). The negative impact of political ties on cost of debt can be attributed to high leverage and likelihood of financial distress in connected firms (Khwaja and Mian, 2005; Saeed et al., 2015), unwarranted risk taking and moral hazard problems in connected firms (Boubakri et al., 2013), political constraints faced by banks in enforcing loan obligations against connected firms, and the adverse effect CPA has on firm performance (Hadani and Schuler, 2013).

Additionally, the findings show that even though managerial political ties and managerial financial ties, separately, are positively associated with cost of debt, their combination or interaction is associated with low interest rates. This result suggests that both types of managerial ties complement each other. At best, political ties create access to loans (Yen et al., 2014) while financial ties overcome political affiliation barriers and evoke empathy in the determination of loan terms. In another sense, financial ties compensate for the indirectness of political ties in the credit market. Interestingly, and contrary to expectations, the findings also reveal that the appointment of Big Four auditors does not increase banks' confidence in the financial reporting of politically connected firms. Rather, these appointments strengthen beliefs that financial malfeasance can still be hidden. Big Four audit firms play important roles for governments, either as tax policy advisors or project managers. Such roles lead them to develop ties to politicians, which can make them sympathetic and accomplices to the diversionary practices of politically connected firms. Details of this study are contained in Chapter 5.

The second empirical study investigates the impact of political ties on institutional risk exposure. The findings show that political ties are insignificantly associated with risk exposure. Even when institutional risk is disaggregated into three types (regulatory, administrative and direct controls), political ties are still insignificant. These results, consistent with previous findings (Puck et al., 2013), show that the popularly postulated effectiveness of CPA in uncertainty reduction (Hillman et al., 1999) could be an illusion. Peering deeper, the results show that while public affairs functions are effective for reducing regulatory risk, they are not effective for reducing exposure to administrative risk and direct controls. Similarly, CSR is effective for reducing administrative risk and not regulatory risk or direct controls. Surprisingly, the interactive effect of CPA and CSR on risk exposure is insignificant. This finding does not support the concept of complementarity between government affairs and social responsibility (Hond et al., 2014; Zhao, 2012; Hadani and Coombes, 2015; Ungericht and Hirt, 2010; Morsing and Roepstorff, 2015; Liedong et al., 2015). Instead, it highlights the likelihood of "cannibalization" if the two activities are combined (Liedong et al., 2015) or not aligned properly (Hond et al., 2014). In-depth results of this study can be found in Chapter 6.

The third and final empirical study investigates the processes through which political ties affect debt financing outcomes. Specifically, it examines the mediating roles of institutional risk exposure, financial reporting quality, non-financial disclosure, social network expansion and board independence. The findings reveal a negative relationship between political ties and corporate governance (i.e. financial reporting, disclosure, and board independence), and confirm previous concerns about the quality of governance in politically connected firms (Guedhami et al., 2014; Fan et al., 2007; Gul, 2006; Effiezal et al., 2011). With respect to mediation, the results show that poor financial reporting quality and exposure to institutional constraints account for the high cost of debt experienced by politically connected firms. A detailed discussion of this study can be found in Chapter 7.

Together, the findings show that political ties can be harmful to organizational performance (Okhmatovskiy, 2010; Sun et al., 2012; Hadani and Schuler, 2013). They do not only reflect how the cost of developing and maintaining political ties can exceed the resultant benefits (Peng and Luo, 2000; Park and Luo, 2001; Chung, 2012), but they also show how the value of political ties is contingent on institutional strength and corporate governance. Consequently, this thesis makes important contributions to the CPA literature, social capital theory and institutional theory. First, it contributes to knowledge by showing that CPA has

mixed value in credit markets. In specific terms, this thesis demonstrates that political connections are like a “double-edged” sword capable of enhancing access to finance but also capable of increasing cost of debt. The thesis also provides empirical evidence to show that not only is the conjectured impact of CPA on risk exposure illusional, but also the complementarity between CPA and CSR warrants a deeper conceptualization. Moreover, the empirical treatise of mediation provides newer and deeper insights into the effect of political connections in credit markets by shifting the focus from contingency to process (Peng and Luo, 2000; Guo et al., 2014).

Second, this thesis contributes to social capital theory. It conceptualizes and differentiates between types of managerial ties, and by doing so disaggregates and captures the nuances in social capital (Peng and Luo, 2000). The findings contradict the dominant view that social capital improves organizational performance in emerging countries (Peng and Luo, 2000; Acquaah, 2007; Boso et al., 2013) and support the view that building and maintaining network relationships could involve considerable costs (Peng and Luo, 2000; Park and Luo, 2001; Chung, 2012). This thesis highlights the negative perceptions associated with some types of social capital, particularly political ties, and demonstrates how visibility can exacerbate the negative effect of these ties in emerging countries. It also addresses the paucity of research into the interaction or complementarity of different types of network relationships, and therefore extends knowledge about the dynamic value of social capital.

Third, the findings of this thesis contribute to institutional theory in a significant manner. They contradict the widely held view that the value of social capital is more prominent in weak institutional environments (North, 1990; Acquaah, 2007; Luo et al., 2008). They also reveal that the value of social capital depends on the level institutional development of the industry from which the value will be gained, not the overall institutional development of the country (Sheng et al., 2011). In this respect, political ties are less valuable when favours are sought from clients or partners operating in institutionally stronger industries such as the banking industry, regardless of whether the overall institutional development of the country is weak or strong. This thesis refines a key tenet of institutional theory by de-scaling from a macro-view of institutional development to an industry-view of institutional development. Additionally, this thesis suggests that organizational legitimacy from political ties could have a negative impact on firms (Barreto and Baden-Fuller, 2006). Besides theoretical contributions, the findings of this thesis have implications for managers, development agencies and governments of emerging countries.

1.4 Structure of the Thesis

The rest of the thesis proceeds as follows. In Chapter 2, I systematically review the literature on CPA and firm performance by using the CIMO-logic (Denyer et al., 2008; Pilbeam et al., 2012) to explore the contexts, strategies, outcomes and mechanisms of political activity. I also delve deeper into the literature on CPA, access to finance, cost of debt and risk. Following this rigorous review, I problematize the literature and identify gaps in order to strategically position the thesis. Consequently, I develop research questions and define the theoretical framework for the thesis. A paper from the systematic review was published in *Journal of World Business* (ABS 4).

In Chapter 3, I justify my decision to use Ghana as the context for this thesis. This chapter covers the history and political system of Ghana. It also covers institutional development, regulatory development, macroeconomic performance, and corporate governance in Ghana. As this thesis is about access to loan finance, I also present an overview of the financial and banking industry in Ghana. All of this information is then synthesized and used to explain why situating this study in Ghana makes theoretical sense.

In chapter 4, I discuss the methodological approach used in the thesis. I start by presenting my ontological and epistemological stance. I then outline the research strategy and design. Thereafter, I discuss and justify why I used survey to collect data. I present detailed information on the questionnaire design, pilot testing, sampling procedure, sources of data and sample characteristics. Measures to address common method biases are also discussed. Additionally, all the variables/constructs and their measures are described and the techniques or approaches used to test their reliability and validity are presented.

Chapter 5 is the first empirical chapter of this thesis. Here, I present and discuss findings on the relationship between managerial political ties, access to finance and cost of debt. I also present findings on interesting and insightful moderating effects[1]. In chapter 6, I examine the relationship between political ties and institutional risk exposure. I also examine how this relationship is contingent on public affairs functions and industry regulation. More

[1] A paper from chapter 5 was published in the 2015 Academy of Management *Best Paper Proceedings.* Same paper was a finalist for Best Student Paper of the Social Issues in Management (SIM) Division at the Academy of Management. Another paper from this chapter was presented at the 2015 Strategic Management Society (SMS) Conference in Denver. At this conference, the paper was nominated for three prizes - Best Paper Prize, Best Student Paper Prize and Best Paper for Practice Implications.

importantly, I test the complementarity between managerial political ties and CSR. A paper based on the content of this chapter was published in *Group & Organization Management* (ABS 3*) and was selected into the *Editor's Choice Collections*, a list of noteworthy manuscripts of the journal.[2]

Chapter 7 contains the third empirical study. Here, I investigate the mediating mechanisms in the political ties-cost of debt relationship. In Chapter 8, I bring all the empirical chapters into perspective and discuss the overall contribution of the thesis. I also discuss the practical implications of the findings. Consistent with convention, I outline the limitations of the thesis and explore directions for future research. In Chapter 9, I draw the curtains on the thesis with a summary of the findings and a closing note on the contributions. I also present a summary of how the content of this thesis has been/is being disseminated. I sign off with a personal reflection of the challenges faced during the field work (data collection) and a comment on my personal development over the course of the PhD.

[2] Another paper based on chapter 6 was presented at the 2015 Strategic Management Society (SMS) Conference in Denver. A revised version of this same paper is currently under consideration for publication (2nd Round) at *British Journal of Management* (ABS 4).

Chapter 2 Literature Review

In this chapter, I systematically review literature on the impact of CPA on firm performance, access to finance and cost of debt[3]. I start by presenting a brief theoretical positioning of the thesis. I also present a detailed empirical positioning by defining CPA within the context of non-market strategy and exploring the relationship between different political strategies and firm performance. In doing this, I take into consideration the context, strategies, mechanisms and outcomes reported in previous studies. From this broader review, I delve deeper into the effect of CPA on access to finance, leverage levels, cost of debt and risk exposure. Consequently, I outline the gaps and problems that give impetus to my research. I conclude the chapter with an overview of the different theories that have been used in CPA-firm performance studies, and describe (in detail) the theoretical framework that informs my thesis.

2.1 Theoretical Positioning of the Thesis: An Overview

Organizational theorists have argued that managerial actions are hugely embedded in networking relationships (Granovetter, 1985). These relationships create social capital, a valuable resource useful for leveraging or exploiting other resources (Li and Zhang, 2007) and for gaining competitive advantage (Baker, 1990). The term "social capital" refers to the sum of resources, actual or virtual, that accrue to an individual or organization as a result of the development and maintenance of personal and social networking relationships (Granovetter, 1973; Granovetter, 1985; Lin, 2001). The central proposition of social capital theory suggests that networking relationships have a significant positive impact not only on individuals, but also on firms (Coleman, 1988b; Nahapiet and Ghoshal, 1998a; Moran, 2005). In this respect, there are two main perspectives for examining the effect of social capital: the micro-micro link and micro-macro-link. While the micro-micro-link focuses on the impact of networking ties on managers and employees (Krackhardt, 1990; Brass and Burkhardt, 1993; Belliveau et al., 1996; Tsai and Ghoshal, 1998; Seibert et al., 2001; Moran, 2005), the micro-macro link focuses on the effect of managerial ties on organizational performance (Gulati, 1995; Nahapiet and Ghoshal, 1998; Peng & Luo, 2000).

[3] A paper from the systematic review was published in *Journal of World Business* (ABS 4). Permission was obtained from the journal to re-use the content of the paper in this thesis.

Building on the micro-macro link, management researchers have argued that the social capital of managers can affect firm performance (Park and Luo, 2001; Li and Zhang, 2007; Nee, 1992a), competitive advantage (McEvily and Zaheer, 1999), business survival (Pennings et al., 1998), and organizational flexibility (Leana and Van Buren, 1999). A common argument in social capital studies suggests that networking relationships are more important and prevalent in emerging countries than in developed countries (Peng and Luo, 2000). For instance, Li et al. (2007) argue that because of institutional voids in emerging countries, managers rely on personal ties and connections to navigate through market transactions. Xin and Pearce (1996) also argue that networking relationships are substitutes for market supporting institutions, and are therefore valuable in emerging countries. Social ties affect the flow of resources (Park and Luo, 2001) and create opportunities for knowledge acquisition (Acquaah, 2007) and opportunity recognition (Guo et al., 2014) in these countries. Clearly, these arguments establish a link between social capital and institutional theory. According to Sheng et al. (2011), social capital in emerging countries will remain a valuable resource as long as institutional development remains weak.

Though social capital researchers have explored a couple of organizational outcomes, there is still an important topic which warrants significant attention – the link between social capital and cost of debt in emerging countries. This link is interesting in the sense that the business environments in emerging countries are plagued by institutional voids which make networking relationships important for entrepreneurs (Talavera et al., 2012). The link is also interesting because in emerging countries, access to finance and cost of debt pose significant obstacles for firm survival and growth (Beck and Demirguc-Kunt, 2006). Empirically, relationship lending studies have argued and shown that bank-firm relationships affect access to finance and interest rates in bank-based economic systems (Uzzi, 1999; Berger and Udell, 1995; Dygryse and Van Cayseele, 2000; Hernández-Cánovas and Martínez-Solano, 2010). However, these studies mainly focus on relationship duration, and hence do not capture social capital in its truest form. Other studies have shown that the social capital of entrepreneurs affects access to financing (Talavera et al., 2012) and private equity (Batjargal and Liu, 2004), but they either do not account for moderation or they do not focus on the most important source of financing for firms in emerging countries – bank loans.

To date, social capital research has largely overlooked the complementary role of networking relationships in credit markets. Many studies examine either the direct or indirect effects of various types of social capital (Peng and Luo, 2000; Acquaah, 2007) but not the combinative

effect of social capital. As networking relationships are substitutes for weak market supporting institutions in emerging countries (Xin and Pearce, 1996; Park and Luo, 2001), the scope of these relationships is important because firms need to develop ties to the multitude of important stakeholders within their business environments (suppliers, competitors, government, etc.). While it is important to understand the unique effect of each type of networking relationship, it is even more important to understand the combined effect of different networking relationships. Are different types of networking relationships complements or substitutes? Do different networking relationships "cannibalize" one another? Does one type of social tie erode the gains of other social ties? These are some of the salient questions that require the attention of social capital researchers.

This thesis draws upon social capital theory to examine the impact of networking relationships on cost of debt and institutional risk exposure in Ghana, sub-Saharan Africa. It examines the combinative effect of two types of social capital - managerial political ties and managerial financial ties. As the research uses data from an emerging country plagued by institutional voids and poor corporate governance, this thesis further examines the moderating and mediating influence of governance quality and institutional risk in the relationship between social capital and cost of debt. Essentially, this thesis integrates social capital theory, institutional theory, and corporate governance insights to understand the effect of social ties in credit markets. In the next sections, I empirically position the thesis by reviewing the literature on nonmarket strategy, CPA-firm performance and CPA-access to finance. Later in the chapter, a more detailed theoretical positioning of the thesis is revisited and discussed (in section 2.8).

2.2 Non-market Strategy

Since the seminal work of Baron (1995a), strategy research has differentiated between market and non-market environments and between market and non-market strategies. Baron defines the market environment as "those interactions between the firm and other parties that are intermediated by markets or private agreements" and non-market environment as "those interactions that are intermediated by the public, stakeholders, government, the media, and public institutions" (p.47). He argued that while market strategy - a set of concerted efforts taken in the market environment – improves a firm's economic performance, non-market strategy improves a firm's overall performance. This led to the coining of the term "integrated strategy" which consists of both market and non-market components (Baron,

1995a). Firms do not only compete in the market environment but also in the non-market environment. The two markets are different (Boddewyn and Brewer, 1994; Bonardi et al., 2005; Hillman and Keim, 1995). The market environment consists of suppliers, customers and competitors while the non-market is composed of social, political, and cultural stakeholders who can either constrain or enhance firm performance (Doh et al., 2012). Both market and non-market environments need to be managed for a firm to succeed or gain superior competitive advantage (Baron, 1995a; Baron, 1999; Baron, 1995b; Lawton and Rajwani, 2011). Figure 2-1 shows the main elements of the non-market environment.

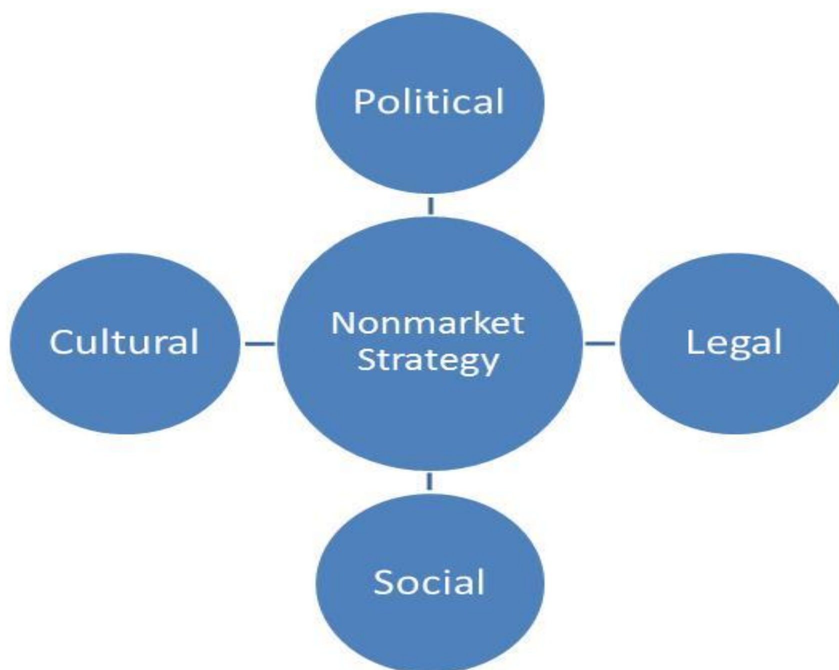

Figure 2-1 Elements of the Non-market Environment

Baron (1995a) outlined four components of the non-market environment: issues, institutions, interests and information. Issues are the matters that a non-market strategy seeks to address. These could range from tax laws to export/import regulations. Institutions are the organizations or agencies that formulate government policy and regulation. Interests are individuals or organizations concerned with an issue. Information is the knowledge that interest groups have pertaining to an issue. Typically, different interest groups compete for policy favours in the non-market environment (Getz, 1997; Getz, 2002) by supplying information to institutions or government agencies (Hillman and Hitt, 1999). As described by

some researchers, the policy-making process works like a market, with demanders on one side and suppliers on the other side (Bonardi et al., 2005; Hillman and Keim, 1995). Individuals and firms are demanders of policy while politicians and regulators are the suppliers. As it is with product and service markets (i.e. market environment), there is a price in policy markets. Regulators or politicians have professional or personal needs and will be motivated to supply favourable policies when those needs are met. Hillman and Hitt (1999) posit two primary needs of the supply side: information and personal incentives. Politicians and regulators need information to formulate policy; politicians need money to finance their campaigns and seek re-election. Firms that are able to meet the needs of the supply side are better placed to influence public policy.

Within the non-market environment, two main strategies or activities are developed and deployed by firms. They are CPA and corporate social responsibility (CSR). While CPA involves concerted efforts and tactics deployed by firms to influence policies and regulations (Lux et al., 2011; Hillman et al., 2004), CSR entails actions that improve social welfare (McWilliams and Siegel, 2001; McWilliams et al., 2006). Even though CSR might seem altruistic, it has intended or unintended positive effects on firm performance. For instance, studies show that CSR confers legitimacy on firms (Park et al., 2014), enhances corporate reputation (Hond et al., 2014) and strengthens trust between firms and their stakeholders (Liedong et al., 2015), culminating in improved firm performance. Table 2-1 summarizes non-market strategies and their respective environments of influence.

Table 2-1 Non-market Strategy

Non-market Strategy	Environment	Activity	Key Text
Corporate Political Activity	Political, Legal, Regulatory	Firms attempt to shape their regulatory and political environments	Hillman & Hitt (1999); Hillman & Keim (1986); Bonardi et. al (2005, 2006)
Corporate Social Responsibility	Social, Cultural	Firms attempt to influence society which in turn influences political actors responsible for policy making. Firms build a constituency of supporters by being good corporate citizens and contributing to societal welfare	Ioannou & Serafeim (2012); Campbell (2007); Jackson & Apostolakou (2010); McWilliams & Siegel (2001); Scherer & Palazzo (2011)

Interest in non-market strategy, both in practice and research, has risen over the past few years (Mellahi et al., 2016; Doh et al., 2012; Bonardi et al., 2006). However, the two strands of non-market strategy - CSR and CPA - have been studied in isolation due to the different and multiple disciplines within which they are explored. For instance, non-market strategy is examined from the theoretical perspectives of economics, sociology, political science, ecology and management (Getz, 2002), all of which are different. The fragmented nature of the subject has created 'silos' which hardly interact (Mellahi et al., 2016). Despite early suggestions that CSR can be used as a strategy to obtain political favours (Hillman et al., 2004), it is only recently that scholars begun to synthesize non-market strategy literature across different theoretical perspectives (Mellahi et al., 2016), explore the complementarity of the two strands (Liedong et al., 2015; Hadani and Coombes, 2015; Hond et al., 2014) and examine the use of CSR to establish political connections (Lin et al., 2015) or the linkage between political connections and corporate philanthropy (Li et al., 2015). Some scholars have suggested that CSR may strengthen CPA (Marquis and Qian, 2014; Rehbein and Schuler, 2015b), reduce barriers to political entry (Wang and Qian, 2011) or reduce the negative effect of CPA (Liedong et al., 2015; Sun et al., 2012). Others have hinted at the fact that CPA and CSR are not mutually exclusive (Jamali and Mirshak, 2010). For instance, literature on the political effects of CSR, collectively termed "political CSR", extols the role firms play in strengthening institutions, promoting laws and regulations, and providing basic amenities (Frynas and Stephens, 2015; Scherer et al., 2013; Scherer and Palazzo, 2011; Scherer and Palazzo, 2007). In developing countries where governments struggle or fail in the provision of infrastructure or the protection of basic human rights, CSR essentially becomes CPA (Morsing and Roepstorff, 2015). Generally, these new research trajectories aim to integrate CSR and CPA, and offer a comprehensive and elaborate understanding of non-market activity.

2.3 Peering into CPA: Approaches and Levels of Participation

There is hardly any firm whose operations are not affected by government policy or regulations (Hillman et al., 1999; Stigler, 1971), yet the role of government in business has not received adequate scholarly attention (Capron and Chatain, 2008; Lawton and Rajwani, 2011; Hillman et al., 2004). The acquisition and deployment of only market resources will struggle to deliver sustainable competitive advantage if adequate attention is not paid to non-market strategy (Schuler, 1996). As global competition surges, an integrated strategy which

combines both market and non-market factors has become the best way to go (Baron, 1995a; Boddewyn, 2003). Businesses have become concerned about the impact of politics on their performance and are using political strategies to extend their spheres of influence in order to survive or become competitive (Bowman et al., 2000; Lawton et al., 2013a; McWilliams et al., 2002).

Research on CPA mainly focuses on: 1) the types of CPA; 2) the antecedents of CPA; and 3) CPA and firm performance. The antecedents of CPA are among the most researched topics in the extant literature. Hillman et al. (2004) classified the determinants of CPA into four groups namely: firm; industry; issue; and institutional. Size is the foremost determinant of CPA (Hillman et al., 2004; Lux et al., 2011). It is argued that large firms are politically active due to the resources and capabilities at their disposal (Mitchell et al., 1997; Hansen and Mitchell, 2000; Hillman, 2003; Schuler, 1996; Hart, 2001; Oliver and Holzinger, 2008; Capron and Chatain, 2008; McWilliams et al., 2002). Firms with a large proportion of revenue from government sales are also more likely to engage in CPA (Hansen and Mitchell, 2000; Hadani, 2011). Ownership influences political activism as foreign-owned firms are cautious not to be identified as influencing political processes in other countries. Consequently, these firms are largely invisible with their CPA (Hansen and Mitchell, 2000). Investigating the nature of firm diversification as a determinant of political activism, Hillman (2003) noted that conglomerates are more active in broad policy issues while related-diversified firms have the flexibility to participate in specific/narrow policy issues. Industry-wise, due to the free-rider problem (Olson, 1971; Murphy et al., 1993), firms in small or concentrated industries are more politically active since they are able to share the cost and benefits of political actions with other firms (Hersch and McDougall; Schuler, 1996; Hillman, 2003; Grier et al., 1991; Grier et al., 1994). Institutional characteristics such as forms of government, corruption, and corporatism/pluralism also influence the way firms conduct CPA (Hillman and Keim, 1995). While there is a consensus on what drives CPA, there is hardly any on the impact of CPA on firm performance.

Aggregately, policy decisions are skewed towards business interests (Bernhagen and Brauninger, 2005). In capitalist economies, the private sector drives economic growth through employment and tax revenue. Aware that the dire consequences of policies that are inimical to business interests can affect their re-election fortunes, politicians tend to accommodate the preferences of the private sector in policy formulation. This has caused an increased involvement of firms in policy making. According to Grossman and Helpman

(1994), politicians are maximizing agents who pursue interests of their own rather those of society. They argue that campaign contributions are able to cause politicians to alter policies to suit the interests or preferences of contributing firms, and hence conclude that regulations are for sale. Earlier works such as Saltzman (1987) found that PAC contributions influenced congressional voting on labour issues in the United States. Similarly, Stratmann (1991) reported that campaign contributions have a significant influence on the voting behaviour of legislators. These studies cast some evidence on the relationship between business and politics, particularly the influence of interest groups in policy making.

However, the power of firms to influence policy is limited under some circumstances. For instance, when policy issues are of interest to many groups and individuals, policy favours are difficult to obtain (Hillman and Keim, 1995). Issue salience and wide participation leaves little discretion to politicians and policy makers (Bonardi and Keim, 2005; Schuler, 2008). Election issues and old policy issues are also hard to influence (Bonardi and Keim, 2005). It is worth noting that the literature examining the limits of firms in the policy process does not consider the impact of political governance. Autocratic and military governments limit the power of the firm. Under these political regimes, elections are not important and firms which unduly interfere in government processes face threats of expropriation. In democratic societies, it is argued that competition among politicians is attractive to firms but competition among bureaucrats is unattractive (Bonardi et al., 2006; Sawant, 2012). This is because intense political rivalry makes politicians sensitive to firms while bureaucratic rivalry largely maintains the status quo (Bonardi et al., 2005). This argument assumes that firms oppose the status quo, hence overlooking the fact that in policy markets there are factions that advocate for change and those that defend existing policies. The latter faction would find bureaucrat competition highly desirable for the defence of policy and maintenance of the status quo.

2.3.1 Approaches to CPA

There are two approaches to CPA – transactional and relational. A transactional approach to political activity is short term (Hillman and Hitt, 1999). Firms which adopt this approach await the development of a salient issue before embarking on a strategy to influence it in a favourable way (Buchholz, 1992). Such an issue-by-issue orientation of strategy is reactive (Keim and Baysinger, 1993) and does not attempt to impact policy issues until they are out there in the public domain. A transactional approach to corporate political activity can be

likened to the transactional form of leadership (Bass, 1985) where the focus is on the achievement of specific objectives (Hargis et al., 2011).

The relational approach, however, “attempts to build relationships across issues and overtime” (Hillman and Hitt, 1999, p. 828). These relationships are forward looking and proactive, and can be called upon by the firm as and when policy issues arise. The adoption of relational approach implies that firms build political capital (Shaffer and Hillman, 2000), or relational capital (Hadani and Schuler, 2013) with politicians or regulators and use this capital when the need arises. Literature on strategic networks emphasizes the importance of social and professional relationships for the management of external dependencies (Gulati et al., 2000; Gulati, 1998). The reliance of firms on government for policy is one of such dependencies that need to be managed (Pfeffer and Salancik, 1978; Getz, 1997). As the policy process is made up of demanders and suppliers (Hillman and Keim, 1995; Bonardi et al., 2005), a relational approach facilitates the development of trust between firms and politicians (Hillman and Hitt, 1999) and subsequently creates the social capital (Nahapiet and Ghoshal, 1998b) needed to influence policy outcomes.

2.3.2 Levels of Participation in CPA

Firms participate in CPA at different levels. In his seminal work, Olson (1965) identified two levels at which firms and interest groups influence public policy: 1) individual; and 2) collective. Hillman and Hitt (1999) define individual action as “solitary efforts by individuals, or individual companies in this case, to influence public policy” and collective action as “the collaboration or cooperation of two or more individuals or firms in the policy process” (p.830). This distinction is similar to what is reported in market strategy literature whereby firms choose to pursue market opportunities alone or co-act with others. In the market environment, collaboration enables firms to share risks and reduce resource commitments (Burgers and Kim, 1993; Ang, 2008). These benefits of collaboration are the same in the non-market environment. Typical examples of collective action are those involving trade associations, unions and industry groups.

2.4 CPA and Firm Performance: A Systematic Review

In reviewing the literature on CPA and firm performance, I followed the systematic approach posited by Tranfield et al. (2003) and Petticrew and Roberts (2006). Systematic review is an evidence-based approach which originated from medical sciences and healthcare. It is used to

assess knowledge and improve decision making (Tranfield et al., 2003). In management research and social sciences, this approach is new and is yet to gain popularity. Management reviews are typically narrative reviews which mostly provide descriptive accounts of the literature, and they differ significantly from systematic reviews which adopt "a replicable, scientific, and transparent process…" and provide an "audit trail of reviewers' decisions, procedures and conclusions (Tranfield et al., 2003, p. 209). Hence systematic reviews attempt to reduce reviewer bias as much as possible and provide a critical account of evidence (see appendices for the journal article selection process). This review applied the Context-Intervention-Mechanism-Outcome (CIMO) logic (Denyer et al., 2008; Pilbeam et al., 2012). Hence, the next sections will cover political strategies, how they affect firm performance, and their underlying mechanisms. They will also cover how political strategies and firm performance vary with institutional contexts.

2.4.1 Political Strategies

There is hardly any consensus on the list of political strategies that firms employ to influence public policy (Hillman and Hitt, 1999). Earlier work on political strategies dwelled on popular strategies such as campaign contributions and lobbying (Baysinger et al., 1985), but a multitude of political strategies are replete in the literature. For instance, Keim and Zeithaml (1986) identified five strategies they claim are common to many firms: constituency building, campaign contributions, lobbying, advocacy advertising, and coalition building. Similarly, Hillman and Hitt (1999) reported three generic strategies under which various tactics can be grouped. Quiet recently, Liedong et al. (2015) conducted a systematic review of the CPA-firm performance literature and identified three categories of strategies. Despite the heterogeneity of political strategies, the common ones are financial, relational and informational.

The financial strategies mostly studied in CPA include political action committee (PAC) and "soft money" contributions. They are meant to provide financial incentives to politicians (Hillman and Hitt, 1999) and enable firms to gain access to decision makers (Witko, 2011). While it may seem that PAC contributions and "soft money" mean the same thing, the two are technically different (Ansolabehere et al., 2004). Soft money contributions are non-candidate specific donations from individuals, corporations and special interest groups to political parties (Cooper et al., 2010). They are for broad party building purposes and not for supporting specific political candidates (Schuler et al., 2002; Hersch et al., 2008). "Soft

money" contributions are advantageous because they are not highly regulated or restricted, have no caps (Schuler et al., 2002), and can be targeted at the executive branch where key policy decisions are made. "Soft money" contributions were used by firms until the 2000s when they were stopped and illegalized (Hadani and Schuler, 2013). While majority of studies do not make the distinction between the two types of contributions, a few do. For instance, Hadani and Schuler (2013) collectively term both contributions "corporate political investments". Schuler et al. (2002), on the other hand, makes a rare distinction between them. Other studies (Kim, 2008; Hadani and Schuler, 2013) examined lobbying expenditures which are also technically different from PAC and "soft money" contributions.

In the United States, PAC contributions characterize the political landscape. They allow individuals and firms to contribute to support or oppose political candidates or parties, and are therefore important determinants of US election outcomes. Most empirical studies on CPA have looked at PAC contributions (Hersch and McDougall, 2000; Hansen and Mitchell, 2000; Ansolabehere et al., 2002; Bond, 2004; Buchholz, 1992; Cooper et al., 2010; Hadani and Schuler, 2013; Claessens et al., 2008; Yoffie, 1987).

Relational strategy is the most complex and subjective of all political strategies. Generally, this strategy entails the establishment of relationships with politicians, mostly through co-opting them into corporate boards (Hillman, 2005; Goldman et al., 2009; Carretta et al., 2012; Hadani and Schuler, 2013), through business executives and top shareholders entering politics (McGuire et al., 1988; Hillman et al., 1999; Kim, 2008), or through informal and social relationships (Adhikari et al., 2006; Fraser et al., 2006). The common construct used is "political connections" which is defined differently by different authors. Table 2-2 presents a summary of some key definitions of political connections in the literature. It can be seen that there is subjectivity in the definitions. While some studies (Faccio et al., 2006; Chaney et al., 2011) cast a wider net through broad framing of the construct, others adopt a narrow focus (Adhikari et al., 2006; Hassan et al., 2012). The broader definitions are able to capture data at all levels of the political echelon, but only when such data is obtainable. There is difficulty in collecting data about firms' political connectedness because this information is private, protected and hardly available to the public (Hassan et al., 2012). In recent times, scholars have differentiated between different levels of political ties. For instance, Zheng et al., (2015), in their study of firm survival and performance in China, drew a distinction between central political ties (connections to central government) and local political ties (connections to local governments).

Table 2-2 Definitions of Political Connections

Study	Definition of Political Connection
Adhikari et al. (2006)	"a firm's directors or major shareholders have informal ties with leading politicians through personal encounters"
Boubakri et al. (2012)	"a company is politically-connected if at least one member of its board of directors (BOD) or its supervisory board is or was a politician, that is, a member of parliament, a minister or any other top appointed-bureaucrat"
Chaney et al. (2011)	"A company is classified as politically connected if, at some point between 1997 and 2001, at least one of its large shareholders (anybody directly or indirectly controlling at least 10% of votes) or top directors (CEO, chairman of the board, president, vice-president, or secretary) is a member of parliament, a minister or a head of state, or is tightly related to a politician or party."
Faccio et al. (2006)	"a company is defined as politically connected if at least one of its top officers (defined as the company's chief executive officer, chairman of the board (COB), president, vice-president, or secretary of the board) or a large shareholder (defined as anyone controlling at least 10% of the company's voting shares) was head of state (i.e., president, king, or prime minister), a government minister (as defined below), or a member of the national parliament, as of the beginning of 1997."
Faccio (2006)	"a company is connected with a politician if one of the company's large shareholders or top officers is: (a) a member of parliament (MP), (b) a minister or the head of state, or (c) closely related to a top official."
Hassan et al. (2012)	Firms linked to the prime minister and deputy prime minister
Sun et al. (2011)	Firms with "ownership ties to the Shanghai government and board members with career experience in municipal government"
Wu et al. (2012)	"We define a CEO as politically connected if he or she is currently serving or formerly served in the government or military."
Yeh (2013)	"(1) the firm was founded or run by the political party; (2) the political party is one of the firm's large shareholders; (3) the chairman or CEO publicly supports the presidential candidate representing a certain political party, participates in or has his/her employees participate in the presidential campaign or was described by at least one major newspaper as being supportive of a certain political party; and (4) one of the firm's large shareholders, directors or top officers is/was a member of parliament, a minister or a top government official"

Political connections are a valuable resource (Leuz and Oberholzer-Gee, 2006; Faccio, 2006; Niessen and Ruenzi, 2010). They reduce uncertainty (Hillman et al., 1999) and allow firms to gain private information about policy (Hadani and Schuler, 2013). These benefits, among others, confer a competitive advantage on connected firms over their unconnected peers through the process of rent extraction from government (Hassan et al., 2012). Relational

strategies are common in the literature. Perhaps, their emergence and dominance in the CPA field can be attributed to their prevalence in most parts of the world.

Before laws and regulations are passed and implemented, they are first drafted into proposals for approval. At this stage, firms and other interest groups are able to make inputs by providing specific information about policy preferences to decision makers (Hillman and Hitt, 1999). According to McKay and Webb-Yackee (2007), different interest groups compete to influence policy decisions by using information at their disposal. Informational strategy involves "efforts by political professionals or company executives to establish communication channels with regulatory bodies, regulators and their staff" (Keim and Zeithaml, 1986, p.830). The aim of this strategy is to monitor the regulatory environment and provide information to influence policies in a favourably way. Informational strategies include lobbying (Lo, 2003), petitions (Marsh, 1998) and comments (McKay and Webb-Yackee, 2007). These strategies are not targeted at politicians, but at government agencies where policy issues are initiated and drafted into proposals for parliamentary and executive approval. Information strategies are the least investigated CPA strategies.

The context within which CPA is done or investigated seems to have an impact on the choice of strategy. First, financial strategies involving PAC and "soft money" contributions are dominant in the United States. Only a few countries in the world have laws that require campaign contributions to be disclosed to the public (Claessens et al., 2008). Even if such laws exist, they are not strictly adhered to. Moreover, the financial statements of political parties are not freely available to the public in most countries. As a result, majority of studies that investigate financial strategies use data from United States where there is transparency in political financing. However, advancement in some emerging countries has made the study of campaign financing possible. For instance, Claessens and colleagues (2008) were able to investigate the impact of campaign contributions in Brazil. It needs mentioning that Brazil is one of those few countries where corporate donations to political parties are recorded. This context-strategy relationship is strongly connected to the quality of institutional structures. In countries where laws are enacted to regulate and control corporate political activism which includes political donations, it is relatively easier to gather information on campaign contributions or study financial strategies.

Similarly, in countries where there are rules that govern the policy making process, it is easier to investigate information strategies. As noted by McKay and Webb-Yackee (2007), the

United States Administrative Procedure Act of 1946 requires all agencies to publicly publish proposed rules and solicit comments from the public before adopting them. This "notice and comment" window provides opportunity for firms to influence the final rules (Lo, 2003). On the flip side, there are hardly any of such regulations in countries with weak institutions and this makes it difficult or impossible for firms to use or for researchers to study informational strategies. It is therefore plausible to argue that financial and informational strategies are impacted by institutional and regulatory development.

Relational strategies are studied in many different contexts, ranging from developing to developed countries, emerging to industrialized countries, and capitalist to transition economies. Whilst these strategies are common across the world, they are more prevalent in emerging countries where institutional development is weak and fragile (Wu and Cheng, 2011). The ease with which rents can be extracted from political patronage in emerging countries encourages business owners to enter politics and motivates firms to connect with politicians (Imai, 2006; Fraser et al., 2006; Bunkanwanicha and Wiwattanakantang, 2009; Hassan et al., 2012). Wu and Cheng (2011) argue that political connections play a much more important role in emerging markets than in developed markets due to the existence of institutional voids in the former (Khanna and Palepu, 2000). In China which is an emerging and transition country, the government plays an important role in resource allocation (Peng and Luo, 2000). Owing to the enormous influence of central governments and their unpredictability in emerging countries such as China, firms establish relationships with politicians in order to manage uncertainty (Hillman et al., 1999) and to gain access to government controlled resources (Wu and Cheng, 2011). The literature also cites that political connections, formal and informal, are more prevalent in "relationship-based capitalisms" (Fraser et al., 2006) where cronyism and personal relationships determine the allocation of capital resources (Johnson and Mitton, 2003). Malaysia (Adhikari et al., 2006; Bliss and Gul, 2012) and China (Sun et al., 2011) are commonly labelled as relationship-based economies, but most countries in Africa, Asia and the Middle East also exhibit traits of relationship-based economies.

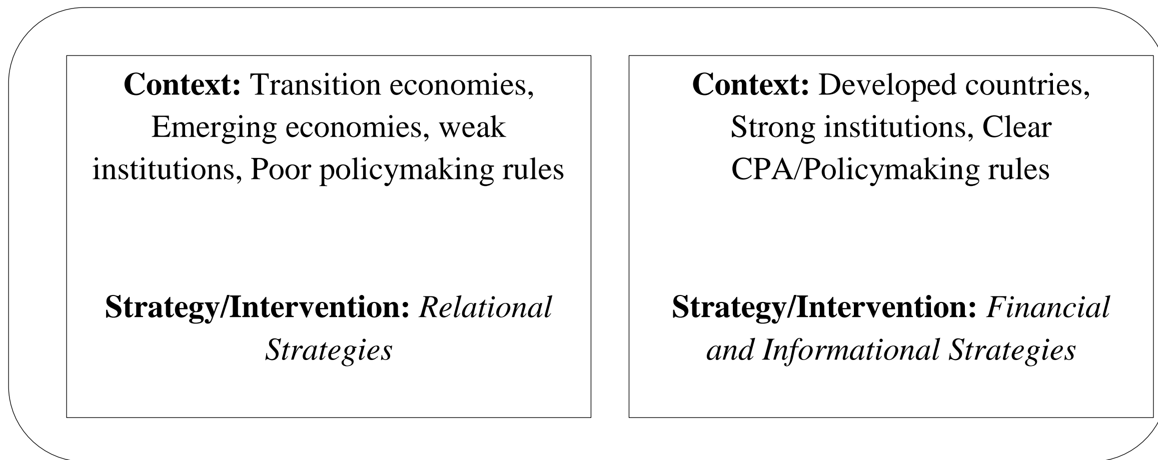

Figure 2-2 Context and Political Strategies

2.4.2 CPA and Firm Performance

Three distinct categories of firm performance outcomes can be identified in the literature – stock, operating and policy performances. Stock market performance entails the measurement of cumulative abnormal returns (CARs) and Buy-and-Hold abnormal returns (BHARS). The popular methodology used to measure this type of firm performance is event study. Using this method, researchers investigate how stock markets react to political events. These political events include the appointment of politicians to corporate boards (Hillman, 2005; Goldman et al., 2009; Carretta et al., 2012; Hadani and Schuler, 2013), the sudden death of politicians (Brown, 1996) or the transition of political power (Jayachandran, 2006; Yeh et al., 2013). Other stock market performance measures include Tobin q (Wu et al., 2012a) and cost of equity (Boubakri et al., 2012b). Event study methodology thrives on the assumption that capital markets are efficient. This assumption cannot be met in under-developed capital markets, hence the few studies applying this methodology to investigate political connections in emerging countries.

Operating performance draws on accounting data contained in annual reports. While measures such as return on sales (ROS) (Fan et al., 2007; Hadani and Schuler, 2013), return on investment (ROI) (Niessen and Ruenzi, 2010; Mathur and Singh, 2011), effective tax rates (ETR) (Adhikari et al., 2006; Richter et al., 2009), cost of debt (Bliss and Gul, 2012), leverage (Khwaja and Mian, 2005; Fraser et al., 2006), accruals quality (Chaney et al., 2011),

and interest revenues (Carretta et al., 2012) have been used to examine operating performance, the dominant measures include return on assets (ROA) and return on equity (ROE). Operating performance variables are "backward looking" and hardly capture intangible political capital (Hillman, 2005). Hence, they could be misleading.

As noted in previous reviews (Hillman et al., 2004; Lux et al., 2011), policy performance is another outcome of CPA. However policy performance, which measures the performance of firms in the policy arena, is the least studied of all the outcomes in the literature. Studies examining this type of outcome either investigate the voting patterns of politicians (Liebman and Reynolds, 2006), the difference between proposed and adopted agency rules (McKay and Webb-Yackee, 2007), government bailouts (Faccio et al., 2006) or the outcomes of petitions (Marsh, 1998; Lee and Baik, 2010). Table 2-3 summarizes the key constructs and variables that have been used to measure performance.

Table 2-3 Performance Outcome Constructs and Variables

Performance	Variable(s)	Key Studies
Operating performance	ROA, ROE, ROI, ETR, interest revenues, debt maturity, acquisition premium, interest rates, sales, leverage	Peng and Luo (2000); Bliss and Gul (2012); Richter et al. (2009); Mathur and Singh (2011); Lu (2011); Claessens et al. (2008); Yeh et al. (2012); Leuz and Oberholzer-Gee (2006)
Stock performance	CARs, BHARs, Cost of equity, Tobin Q	Hillman (2005); Cooper et al. (2010); Boubakri et al. (2012b); Goldman et al. (2010); Hadani and Schuler (2013)
Policy-related performance	Government contracts	Witko (2011)
	Anti-dumping proceeds	Lee and Baik (2010)
	Trade mission participation	Schuler et al. (2002a)
	Roll call voting	Liebman and Reynolds (2006); McKay and Webb-Yackee (2007)
	Government bailout	Faccio et al. (2006)
	Subsidy	Lin et al. (2015)
	Academic earmarks	De Figueiredo and Silverman (2006)

2.4.3 Positive Performance Outcomes

The reviewed literature suggests that there is a positive relationship between CPA and firm performance. Majority of studies provide evidence to show that CPA adds value to firms. In Malaysia, Adhikari et al. (2006) found that politically connected firms pay lower effective taxes than non-connected firms. This finding is consistent with Richter et al. (2009) who

reported that in the United States, firms that lobby more in a given year pay lower effective tax rates in the next year. Wu et al. (2012b) also reported similar evidence for China where firms with politically connected managers pay lower tax rates. Politically connected firms have easier and preferential access to financing (Leuz and Oberholzer-Gee, 2006; Fraser et al., 2006; Claessens et al., 2008; Boubakri et al., 2012a; Hassan et al., 2012), are highly leveraged (Fraser et al., 2006), and have longer debt maturities (Boubakri et al., 2012a). They experience an increase in stock returns following positive political announcements (Hillman, 2005; Chen et al., 2013) and record higher market values and ROA (Peng and Luo, 2000; Imai, 2006; Muttakin et al., 2015). The magnitude of stock returns, whether raw or risk-adjusted, is higher for firms that operate in regulated industries and also for firms that are connected to higher ranking politicians (Civilize et al., 2015).

Political connections are also reported to facilitate trade expansion (Lu, 2011), increase sales and profitability (Ozcan and Gunduz, 2015), increase the likelihood of government bailout (Faccio et al., 2006), reduce business failure (Zheng et al., 2015) and allow firms to pay relatively lower premiums to acquire privatized enterprises (Tu et al., 2013). Campaign contributions have been shown to increase the number of government contracts firms win (Witko, 2011), the likelihood of firms to participate in foreign trade missions (Schuler et al., 2002) and the likelihood of legislators to vote according to firms' preferences (Liebman and Reynolds, 2006; McKay and Webb-Yackee, 2007). Lobbying is associated with higher academic earmarks (De Figueiredo and Silverman, 2006), antidumping regulations and increased market value of firms (Marsh, 1998). In sum, most studies show a positive relationship between CPA and firm performance. Some of the studies that report a positive impact of CPA are summarized in the CIMO framework in Table 2-4.

Table 2-4 CPA and Positive Firm Performance

	Adhikari et al. (2006)	**Cooper et al. (2010)**	**de Figueiredo and Silverman (2006)**	**Dean et al. (1998)**	**Fraser et al. (2006)**	**Goldman et al. (2009)**	**Hillman et al. (1999)**	**Peng and Luo (2000)**
Country context	Malaysia	U.S	U.S	U.S	Malaysia	U.S	U.S	China
Political Strategy								
Financial (PAC/Political contributions/Soft money)		✓	✓	✓				
Relational (Politically connected boards/CEOs/Top Management Teams)	✓		✓		✓	✓	✓	✓
Informational (Petitions/Comments)								
Mechanism implied by theory								
Changes in resources and capabilities (resourced based view theory)							✓	✓
Mis/alignment of business and political interests; un/profitable investment; managerial self-aggrandizement (agency theory)		✓	✓			✓		
Co-optation of external dependencies; yielding to dependencies (resource dependency theory)							✓	✓
Corruption & Cronyism; buffering institutional constraints (institutional theory)	✓				✓			
Preferential treatment; influence and access to government (social capital/network theory)	✓			✓	✓			✓
Outcomes								
Stock performance		✓				✓	✓	
Operating performance	✓				✓			✓
Policy influence			✓	✓				

2.4.4 Negative Performance Outcomes

While majority of studies report a positive CPA-firm performance relationship, there are other studies which report evidence to the contrary. For instance, using United States data, Aggarwal et al. (2011) found that “soft money” donations are negatively correlated with returns. They also found that donating firms are involved in more acquisitions and record lower abnormal returns on acquisition announcements. Similarly, Hadani and Schuler (2013) reported evidence to suggest that CPA has a negative impact on market value. Politically connected firms record poor accounting performance after privatization (Boubakri et al., 2008) and after initial public offerings (Fan et al., 2007). Connected firms also have poor accruals quality (Chaney et al., 2011) and are charged higher interest rates on loans (Bliss and

Gul, 2012). Moreover, politicians on boards of Italian banks exert a negative impact on interest revenues, loan quality, and capitalization level (Carretta et al., 2012). Similarly, Malaysian firms with politically-connected boards have low financial values (Yusoff et al., 2015). Some of the studies that report a negative impact of CPA are summarized in the CIMO framework in Table 2-5

Table 2-5 CPA and Negative Firm Performance

	Aggarwal et al. (2011)	**Bliss and Gul (2012)**	**Carretta et al. (2012)**	**Chaney et al. (2011)**	**Fan et al. (2007)**	**Hadani and Schuler (2013)**
Country Context	U.S	Malaysia	Italy	Multiple	China	U.S
Strategy/Intervention						
Financial (PAC/Political contributions/Soft money)	✓					✓
Relational (Politically connected boards/CEOs/Top Management Teams)		✓	✓	✓	✓	✓
Informational (Petitions/Comments)						
Mechanism implied by theory						
Changes in resources and capabilities (resourced based view theory)						
Mis/alignment of business and political interests; un/profitable investment; managerial self-aggrandizement (agency theory)	✓			✓	✓	✓
Co-optation of external dependencies; yielding to dependencies (resource dependency theory)			✓			✓
Corruption & Cronyism; changes to institutional barriers (institutional theory)		✓				
Preferential treatment; influence and access to government (social capital/network theory)		✓				
Outcomes						
Stock performance	✓				✓	✓
Operating/Accounting performance		✓	✓	✓	✓	✓
Policy influence						

2.4.5 No Impact and Mixed Outcomes

Some studies do not find a significant relationship between CPA and firm performance. For example, Ansolabehere et al. (2004) found no benefits from campaign donations while Hersch et al. (2008) argue that campaign contributions do not create any financial capital. Other studies measured multiple outcomes and reported mixed outcomes. According to Faccio et al. (2006), while politically connected firms are able to influence bailout policies, they record poor operating performance. Similarly, Tu et al. (2013) reported that while connected firms pay lower premium to acquire quality firms during privatization, they record lower operating and stock performance in the post privatization period. Zheng et al. (2015)

found that connections to central government politicians do not enhance superior performance or buffer against business failure.

In summary, empirical evidence suggests that CPA is positively related to firm performance. However, the few studies that report contradictory evidence seem to cast a doubt on this stance. As argued by Hadani and Schuler (2013) and suggested by Lux et al. (2011), the evidence is not complete and further studies are required.

2.4.6 Theoretical Mechanisms Underpinning the CPA-Firm Performance Relationship

Five theoretical mechanisms through which CPA impacts firm performance are identified in the literature. They include resource-based view (RBV) (Barney, 1991), agency (Jensen and Meckling, 1976), resource dependency (Pfeffer and Salancik, 1978), institutional (Scott, 2005) and social capital theories. Some of these mechanisms are explicitly cited while others are implied from the arguments put forward by the studies. These mechanisms are summarized in Table 2-6.

Social capital is frequently implied or used for explaining the outcomes of CPA in emerging countries. The establishment of political connections enables firms to build social capital which enables them to extract rent from government. These rents are in the form of preferential access to finance (Claessens et al., 2008; Yeh et al., 2013) or government contracts (Witko, 2011). Social or political capital is more pronounced in relationship-based capitalisms (Adhikari et al., 2006; Fraser et al., 2006; Bliss and Gul, 2012) where favouritism and cronyism (Johnson and Mitton, 2003) are common. Personal level political capital adds value to firms (Sun et al., 2011) and informal connections allow government to confer private benefits on firms (Fraser et al., 2006). Campaign contributions also build social capital and facilitate access to politicians (Kim, 2008; Witko, 2011). Drawing on RBV, some studies argue that the co-optation of directors into corporate boards adds to the resource base of firms (Hillman, 2005) and this allows firms to exploit their policy environments (Niessen and Ruenzi, 2010).

While social capital and RBV theories are mostly associated with the positive outcomes of CPA, agency theory is used to explicate both positive and negative outcomes. For instance, Hadani and Schuler (2013) argue that because firms are not required to disclose political spending, information asymmetry occurs between managers and shareholders and this leads to negative firm performance. They also posit that managers could pursue CPA for self-

aggrandizement. Clearly, this represents a misalignment of interests between managers and shareholders. Political connections may create an agency problem whereby politicians use corporate resources to pursue political and social goals to the detriment of shareholder value (Fan et al., 2007; Wu et al., 2012a). Campaign contributions may also be unprofitable investments which add no value to firms (Ansolabehere et al., 2004; Hersch et al., 2008). On the flipside, Jayachandran (2006) suggests that firms target their contributions towards politicians who have interests aligned to theirs. This ensures that when elected, the politicians invariably pursue the interests of the firms. In federal agency rule making, firms comment and petition in order to make their policy preferences known to regulators and policymakers, and because of the agencies' desire to avoid litigations, they align the final rules with the interests of the commenters (McKay and Webb-Yackee, 2007).

Related to agency theory, some studies highlight corporate governance as a mechanism that determines CPA outcomes, particularly in financial markets. Bliss and Gul (2012) argue that politically connected firms are charged higher interest rates due to their perceived riskiness. This finding is corroborated by Fraser at al. (2006) and Claessens et al. (2008) who found that connected firms carry more debt. High leverage increases financial distress and the risk of bankruptcy, hence higher interest rates on loans (Bliss and Gul, 2012).

Majority of the studies in emerging and transition economies point to cronyism and favouritism (Johnson and Mitton, 2003), corruption (Khwaja and Mian, 2005) and institutional support (Guo et al., 2014) as mechanisms through which political connections affect firm performance. For instance, Faccio et al. (2006) found that the value of political ties is derived from corrupt practices. Similarly, Fisman (2001) argue that corruption underlies political rent extraction. Poor institutional development results in weak systems of checks and balances (Bunkanwanicha and Wiwattanakantang, 2009) and the prevalence of relationship-based capital systems (Fraser et al., 2006) which allow for private benefits to be obtained. In China where the government controls many aspects of the stock market (Francis et al., 2009) and allocates resources (Peng and Luo, 2000), there is incentive for preferential treatment to be accorded to politically connected firms (Wu et al., 2012b; Yeh et al., 2013). Institutional theory thus underlies most of the CPA studies in developing countries.

Resource dependency posits that firms co-opt external dependencies in order to reduce uncertainty (Hillman, 2005). However, the resource dependence logic used by studies to explain the mechanism through which CPA impacts performance is different. The mechanism

used in CPA concerns the coercion or the yielding of other market actors to the demands of politically connected firms. The dependency of other market actors on government or politicians makes them yield to political pressures to extend favourable treatment to politically connected firms (Faccio et al., 2006). For instance, in a study of Pakistani banks, Khwaja and Mian (2005) note that politicians threaten bank officials with transfers, removals, or promotions if they do not yield to their demands. This institutional lapse coupled with corruption makes politically connected firms benefit preferential lending (Claessens et al., 2008) and low or no collaterals on lending (Yeh et al., 2013).

Table 2-6 Summary of Theoretical Mechanisms

Theory	Explanation of Mechanism
Resourced based view theory	Changes in resources and dynamic capabilities
Agency theory	Mis/alignment of business and political interests; mis/alignment of managerial and shareholder interests; un/profitable investments; managerial self-aggrandizement
Resource dependency theory	Co-optation of external dependencies; yielding to the pressures of dependency
Institutional theory	Corruption & cronyism; changes to institutional barriers
Social capital/network theory	Preferential treatment; influence, and access to government

2.4.7 The Impact of Context on Performance Outcomes

From the literature, there seems to be a connection between context and firm performance outcomes. Majority of the studies conducted in Asia and South America argue that CPA improves firm performance. For instance, in Brazil, Claessens et al. (2008) found that campaign contributions positively impact stock and operating performances. However, a few studies (Fan et al., 2007; Bliss and Gul, 2012) reported a negative impact of CPA on performance in Malaysia and China. In North America and Europe, CPA may be beneficial but recent evidence shows it either destroys value (Aggarwal et al., 2011; Carretta et al., 2012; Hadani and Schuler, 2013) or does not add value (Ansolabehere et al., 2004; Hersch et al., 2008). In general, the findings across different countries and regions suggest that institutional characteristics could have a bearing on CPA outcomes. It appears there is more value from CPA in weak institutional environments.

2.4.8 Strategy and Performance Outcomes

Financial strategies are associated with mixed outcomes, even though majority of the studies that investigate campaign contributions found a positive relationship between CPA and performance. Some studies (Aggarwal et al., 2011; Hadani and Schuler, 2013) show evidence to suggest a negative impact of financial strategies on stock and operating performances. Most studies on financial strategies measure policy and stock performances. In contrast, majority of studies investigating relational strategies measure operating and stock performances. These studies also report a positive CPA-firm performance relationship except for a few (Boubakri et al., 2008; Chaney et al., 2011; Bliss and Gul, 2012; Carretta et al., 2012) which report negative outcomes. The only strategy that has a unanimous positive relationship with performance is informational strategy. It can thus be argued that firms should exert more effort in the policy arena where the chances of success are high. In Table 2-7, I summarize the dominant performance outcome types and dominant performance outcome directions for each of the three CPA strategies.

Table 2-7 Intervention-Performance Outcomes

Strategy	Dominant Outcome Type	Dominant Outcome Direction
Financial	Policy Influence	Positive
Relational	Operating performance	Positive
Informational	Stock performance	Positive

2.4.9 Outcome Type and Outcome Direction

Mixed findings are found for operating and stock performances, though the outcomes are largely positive. Operating performance records the most negative outcomes. Studies found that politically connected firms are charged higher interest rates on loans (Bliss and Gul, 2012), have low accruals quality (Chaney et al., 2011) and poor ROS (Hadani and Schuler, 2013). Connected banks have poor loan portfolios and record low interest revenues (Carretta et al., 2012). Other studies reached similar conclusions for operating performance (Faccio et al., 2006; Fan et al., 2007). Using abnormal returns and market value, a couple of studies found that CPA has a negative impact (Fan et al., 2007; Aggarwal et al., 2011; Hadani and Schuler, 2013) and a non-significant impact (Ansolabehere et al., 2004; Hersch et al., 2008) on stock performance Interestingly, most studies investigating policy performance found that CPA is able to influence policy decisions in ways favourable to the firm. For instance,

contributions influence senate roll call vote (Steagall and Jennings, 1996; Liebman and Reynolds, 2006; Mian et al., 2010) while political connections shape government subsidy decisions (Lee and Baik, 2010; Wu and Cheng, 2011; Lin et al., 2015) and protect firms from competition (Evans and Sherlund, 2011). At this juncture, it is plausible to argue, based on the literature, that informational strategies and any other strategies targeted at policy influence are usually successful. There is a higher chance for CPA to influence policy outcomes than operating or stock performance.

In Figure 2-3, solid lines show the dominant relationship between outcome type and outcome direction. The broken lines show the other relationships. It can be seen that policy performance does not have any relationships with other directions except the positive direction.

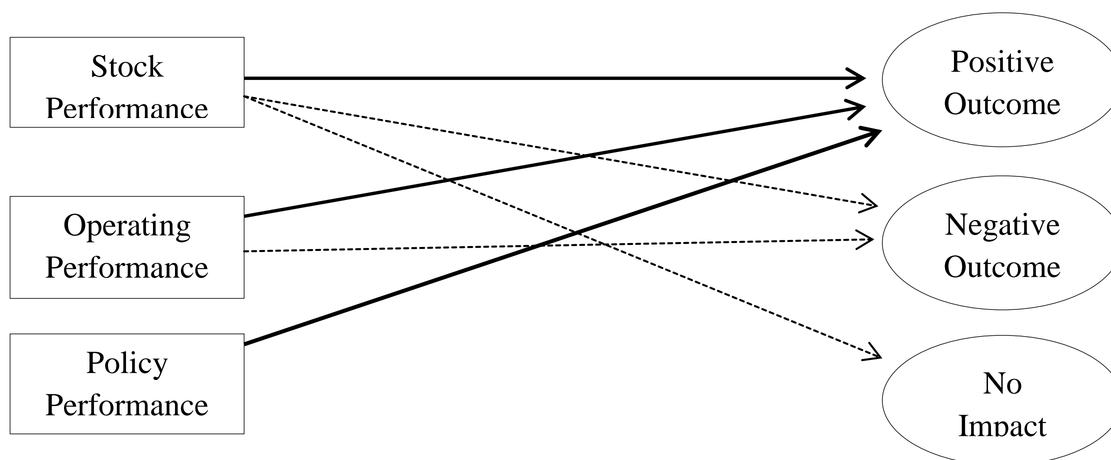

Figure 2-3 Outcome Type-Outcome Direction

2.5 CPA, Access to Finance and Cost of Debt

As firm-specific characteristics are instrumental in financing decisions (Rajan and Zingales, 1995), the impact of CPA in credit markets is worthy of research attention. However, only a small body of empirical research has considered the function or utilization of political ties in debt financing (See Table 2-8). Leuz and Oberholzer (2006) examined the role of political connections in the financing strategies of firms in Indonesia, and argue that domestic opportunities available to politically connected firms discourage these firms from seeking financing in foreign capital markets. Global financing imposes extra costs on firms as they have to abide by the regulations that govern foreign capital markets (Siegel, 2005). Local

political patronage offsets the benefits of global financing and enables connected firms to access financing at lower costs (Leuz & Oberholzer-Gee, 2006). Political connections and global financing are therefore alternatives for obtaining low cost financing. Though both are associated with some cost, establishing political ties in home country seems the cheaper option for firms (Leuz and Oberholzer-Gee, 2006).

Indeed, studies have shown that politically connected firms have easier and preferential access to financing. For instance, Claessens et al. (2008) investigated the relationship between campaign contributions and access to finance in Brazil and found that firms that contribute to political campaigns witness an increased growth in bank leverage. They also found a negative but insignificant relationship between campaign contributions and the growth in the ratio of interest expense to total sales, indicating that contributions might lower cost of debt. These findings are corroborated by Chen et al. (2014) who found that politically connected firms in Taiwan have large loan books and pay lower interest rates. Connected lending, sometimes called "memo-lending" is a common phenomenon in emerging countries where poor corporate governance practices are predominant. In Pakistan, Khwaja and Mian (2005) note the prevalence of "social lending" whereby banks lend money to socially efficient, but risky ventures. They found that politically connected firms are granted 45% more loans and have a 50% higher default rate than their non-connected peers. Such preferential treatment in the debt market escalates with the power of the politician(s) to whom firms are connected (Saeed et al., 2015).

Substantial evidence of reduced financing constraints for politically connected firms has been recorded in China. Chan et al. (2012), in their study of listed Chinese firms, found that politically connected firms have no financing constraints whereas non-connected firms experience significant constraints in obtaining investment financing. Similarly, Cull et al. (2015) demonstrate that government connections are associated with substantially less financing constraints. They show that connected firms are less likely to fund investments using internally generated cash flows. Li et al. (2008a) also found that political party membership helps private entrepreneurs to obtain loans from financial institutions. Some studies even go further to establish how reduced financing constraints, through political connections, play a significant role in innovation efficiency (Song et al., 2015). Others show how connections to corrupt bureaucrats give firms a comparative advantage in obtaining long term debt as well as how this advantage erodes upon termination of the ties (Fan et al., 2008). In Taiwan, Shen and Lin (2015) and Yen et al. (2014) documented a significant mitigation of

financial constraints and an increase in investment for firms connected to the ruling political party. Essentially, all of these studies reveal the extent to which credit allocation in emerging or developing countries is impacted by connections to politicians and governments (Desai and Olofsgard, 2011).

Even in the developed countries where CPA is not expected to be significantly beneficial to firms (Goldman et al., 2009), political ties are highly valued in the credit market. According to Houston et al. (2014) who studied the political ties of S&P 500 companies in the U.S, firms with politicians on their boards are associated with lower cost of debt. They found that board political ties reduce the average loan spread by approximately 13 to 20 basis points. In Italy, Infante and Piazza (2014) found that politically connected firms that borrow from banks with politicians on their boards benefit from low interest rates. They also revealed that interest rates are lower when loan officers have greater autonomy and when banks are located in local areas where the incidence corruption is higher. Their findings do not only hint at the existence of agency problems and collusion between loan officers and politicians, but they also buttress calls for the rotation of loan officers in order to make lending and creditworthiness reports accurate (Hertzberg et al., 2010)

Table 2-8 Summary of Studies on CPA, Access to Finance and Cost of Debt

Study	Political Strategy	Country Context	Main Findings
Claessens, Feijen & Laeven (2008)	Financial (campaign contributions)	Brazil	Campaign contributions are associated with increase in leverage following elections. They are also associated with an increase in stock returns following announcement of positive election results. Though insignificant, there is a negative relationship between campaign financing and interest expense
Houston, Jiang, Lin & Ma (2014)	Relational (politicians on corporate boards)	United States	Politically connected firms, especially those that depend on government procurement contracts or face foreign competition, pay a lower loan spread than their non-connected peers. Also, banks are less likely to impose capital expenditure and liquidity covenants on connected firms
Khawaja & Mian (2005)	Relational (politicians as directors of firms)	Pakistan	Politically connected firms borrow 45% more than non-connected firms. They also have a 50% higher default rate. Preferential treatment is higher when the politicians are stronger or powerful, or when connected firms borrow from government banks.
Yeh, Shu & Chiu (2013)	Relational (firm owned by political party, shareholders leading members in political parties)	Taiwan	Politically connected firms benefit from long-term non-collateral loans from government-owned banks. The extent of this favourable treatment varies with the power or control the ruling party has in congress
Infante & Piazza (2014)	Relational (board member or executive is a member of a political body)	Italy	Firms with politicians on their boards are charged lower interest rates when they borrow from national and local banks. Additionally, banks with politicians on their boards give preferential treatment to politically connected firms.
Bliss & Gul (2012)	Relational (large shareholder or top official is a member of parliament, minister or head of State)	Malaysia	Politically connected firms are charged higher interest rates. They are also highly leveraged and are more likely to report a loss

Beside the impact of CPA on leverage and interest rates, political ties are also able to generate other non-rate benefits. For instance, politically connected firms have longer debt maturities (Boubakri et al., 2012a; Chen et al., 2014). These firms are able to contract long term loans which are valuable, especially when credit supply is scarce (Charumilind et al., 2006). They are also able to obtain bank lines of credit (Luo and Ying, 2014). The high prevalence of long-term loans indicates the greater access political connected firms have to finance (Saeed et al., 2015). Moreover, politically connected firms do not require collateral to obtain credit from banks (Yeh et al., 2013), suggesting that political capital perhaps replaces physical-asset collaterals. Connections to government, through ownership or stockholding, reduce the exposure of firms to lending corruption (Barth et al., 2009). Connected firms have strong bargaining power when negotiating loans with banks, especially in countries where bank supervisory agencies are less powerful and are prone to capture and manipulation by politicians (Beck et al., 2006b)

A common finding in the literature concerns the role of government-owned banks in the provision of economic rent to politically connected firms. In most countries, governments own or have controlling/significant stakes in banks (La Porta et al., 2002). Even though the last few decades have witnessed significant privatization of state-owned enterprises (SOEs), the phenomenon of state ownership of enterprises, including banks, is far from over as governments continue to retain control of some privatized firms in what some scholars refer to as "partial privatization" (Fan et al., 2007; Tu et al., 2013). Besides retention of control through shareholding (Wu et al., 2012b), governments appoint politicians to the boards of privatized SOEs in order to keep the bond and embeddedness alive. In government-owned banks, it is politicians who determine the constitution of the Board and top management teams. With such governance arrangements, bank managers become puppets who are expected to kowtow to the whims and caprices of politicians. Failure of managers to comply with political directives is met with threats of transfer, demotion or removal (Khwaja and Mian, 2005). As agency theory posits, managers (agents) of government-owned banks are coerced or are expected to satisfy the preferences of politicians (principals). In election years, government-owned banks increase their lending relative to private banks (Dinc, 2005; Micco et al., 2007), with most of the loans going to firms located in the areas where the incumbent political party has strong support (Sapienza, 2004).

Though it is widely held and believed that political connections are associated with preferential access to credit and low cost of debt, there are a few dissident views. In

Malaysia, Bliss and Gul (2012) reported results that contradict the effectiveness of political ties in reducing cost of debt. They show that politically connected firms are charged high interest rates. They cite heightened perceptions of riskiness in connected firms (Johnson and Mitton, 2003; Gul, 2006) as a probable reason for their findings.

2.5.1 CPA and Preferential Loans: Exploring the Mechanisms

Unlike the literature body that explores the association between CPA and firm performance, studies examining the effect of political ties on debt financing have attempted to theoretically explain the mechanisms underlying the relationship. These mechanisms are four-fold. First, researchers argue that government ownership of banks creates an implicit requirement for loan officers and bank executives to honour the preferences of politicians (Yeh et al., 2013). Since agents are largely subject to the demands of principals, as posited by agency theory (Jensen and Meckling, 1976), government-owned banks are captives of government officials. Any acts of insubordination are penalized with dismissal or demotion (Khwaja and Mian, 2005). Consequently, politically connected firms are treated favourably by government-owned banks (Chen et al., 2014). Even in countries where private banks are dominant, political connections can still yield some benefits through regulation, persuasion or the dynamics of dependency (La Porta et al., 2002; Lashitew, 2014).

Second, studies highlight the effect of institutional and financial development in the CPA-cost of debt relationship. Weak institutions and high levels of corruption make it possible for politicians to influence lending decisions (Barth et al., 2009; Luo and Ying, 2014). Owing to weak regulatory systems, lack of law enforcement and rampant government interference in developing countries (Allen et al., 2005), banks' lending policies follow government directives and discriminate in favour of politically connected firms (Brandt and Li, 2003; Firth et al., 2009). It is not surprising that most studies about CPA and debt financing are set in emerging countries where arguments of credit misallocation and huge involvement of the State in the private sector are not farfetched. In Pakistan where politicians and the private sector are highly linked, it is estimated that about 50% of total credit in the country reaches firms with political connections (Saeed et al., 2015). Directed lending is a common phenomenon in most emerging or developing countries (Brandt and Li, 2003). This phenomenon will continue to exist until financial sector development, competition and efficiency erode the gains of political connections (Lashitew, 2014).

Third, Houston et al. (2014) suggested the "bank channel" as a possible mechanism through politically connected firms may benefit low interest charges on loans. The bank channel hypothesis argues that banks will give preferential treatment to connected firms in order to gain an indirect access to the corridors of political and regulatory power. Having access to politicians, through lending relations with connected firms, could avail some economic benefits to the banks, such as winning underwriting business (Butler et al., 2009) or contracts (Witko, 2011) from governments or even participating in government foreign trade missions (Schuler et al., 2002).

Fourth, increased riskiness has been posited as the reason why politically connected firms are charged high interest rates (Bliss and Gul, 2012). The main thrust of this argument lies in the fact that connected firms are highly leveraged (Fraser et al., 2006; Claessens et al., 2008), have a higher propensity to have negative equity and are characterised by CEO duality (CEO and board chairperson are the same person) (Bliss and Gul, 2012). Essentially, the riskiness argument bodes well with corporate governance concerns that are commonly anticipated or observed in connected firms (Guedhami et al., 2014; Cheng et al., 2015). There is a reported high propensity for connected firms to publish false accounting and financial information (Gul, 2006). Table 2-9 summarizes the commonly espoused mechanisms in CPA, access to finance and cost of debt literature.

Table 2-9 Mechanisms in CPA-Access to Finance Research

Mechanism	Mechanism in Practice	Key Texts
Political Capital	Political connections improve firm performance (through stock returns, government contracts, etc.) hence enhance creditworthiness	Houston, Jiang, Lin & Ma (2014)
Political Coercion and Agency	Government-owned banks are expected or are coerced to extend favours to politically connected firms	Khwaja & Mian (2005)
Weak Institutions	Corruption and collusion between politicians and bank officials results in preferential treatment for politically connected firms	Infante & Piazza (2014); Johnson & Mitton (2003); Khwaja & Mian (2005)
Inherent Riskiness	Politically connected firms are highly leveraged and are more likely to report losses or falsify their financial reports	Bliss & Gul (2012); Gul 2006)

2.6 CPA, Uncertainty and Risk Exposure

Emerging countries around the world, despite their heterogeneity, share a common characteristic – high level of risk owing to weak institutional frameworks (Henisz and Zelner, 2010; Khanna et al., 2005; Puck et al., 2013). Firms operating in emerging countries therefore have a high exposure to uncertainty or risk. Miller (1992) proposed five types of uncertainty. They include: 1) political uncertainty arising from regime changes; 2) government policy instability; 3) macroeconomic uncertainty; 4) social uncertainties; and 5) natural uncertainties. The first four types of uncertainty, together, underscore institutional risk. In CPA studies, government policies such as nationalization or expropriation; trade protection; earnings repatriation restrictions; import, export and currency restrictions; subsidies; and capital controls have been established as common sources of risk. Risks increase economic and transaction costs (North, 1990; Williamson, 1991), endanger survival, reduce competitiveness, and consequently affect firm performance (Hillman and Hitt, 1999). Hence, it is imperative for firms to manage their exposure or insulate themselves from the risks in their environments (Hillman et al., 1999; Meznar and Nigh, 1995). To do this, CPA is argued to be effective (Doh et al., 2012; Hillman et al., 1999).

Rarely have studies empirically examined the effect of CPA on risk exposure, yet many researchers claim that risk reduction is a CPA outcome that ultimately affects firm performance. To the best of my knowledge, only one study has attempted to investigate this relationship. In their study, Puck et al. (2013) surprisingly found reverse and insignificant relationships between political strategies and risk exposure among multinational enterprises (MNEs) operating in emerging countries. Their findings challenge prior affirmative and theoretical assumptions (Hillman et al., 1999), and thus open up opportunities for further inquiry into the topic. Other studies have addressed topics that are tangential to risk exposure. For instance, some studies have examined the antecedents of corporate risk-taking, and have established that politically connected firms take higher risks (Boubakri et al., 2013). Consequently, it is believed that investors may perceive connected firms as risky investments (Pantzalis and Park, 2014). Other studies have noted that risk moderates or determines CPA and organizational behaviour (Schwens et al., 2011; White et al., 2015). For instance, it is argued that privately-owned firms in countries with high expropriation risk are conservative about reporting financial losses in order to prevent "benevolent" governments from intervening and taking over ownership (Bushman and Piotroski, 2006; Bushman et al., 2004).

However, this conservatism in earnings management does not apply to politically connected firms because of their "immunity" from expropriation (Batta et al., 2014).

Generally within the management field, the topic of risk exposure has been relegated to international business studies. Consequently, risk, to a large extent, is mainly examined among multinational enterprises (MNEs) and mostly considered in the discussion of foreign direct investment (Frynas et al., 2006; Schwens et al., 2011; Puck et al., 2013). While it is agreeable that MNEs may encounter high risks in their host countries, the trend of limiting risk exposure to MNEs is harmful, as it entrenches and reinforces a misleading assumption that only MNEs face political and institutional challenges. Weak regulatory structures, poor enforcement regimes, bureaucratic red-tape and corruption among other institutional lapses will impact local firms as much as they will impact foreign firms (Wocke and Moodley, 2015).

2.7 Research Gaps

Reviewing the CPA literature has not only improved our knowledge of the CPA-firm performance relationship, but it has also facilitated the identification of gaps in the extant literature. First, there is a controversy surrounding the impact of CPA on firm performance. Among management researchers, there is a burgeoning interest in the outcomes of corporate political activity (Hillman et al., 1999; Chizema et al., 2015; Faccio, 2006; Goldman et al., 2009; Hillman, 2005; Marsh, 1998). Consequently, the performance implications of CPA have received increased research attention, but the findings are inconsistent. While some studies report a positive impact (Claessens et al., 2008; Cooper et al., 2010; Witko, 2011; Wu et al., 2012a), others report a negative impact (Carretta et al., 2012; Hadani and Schuler, 2013). However, consensus from systematic reviews of the literature suggests that, in general, CPA does more good than harm to firm performance (Hillman et al., 2004; Lawton et al., 2013a; Rajwani and Liedong, 2015; Mellahi et al., 2016). Nevertheless, further research is required to resolve this "paradox" and improve our understanding of the link between CPA and firm performance, for as it stands our knowledge of this topic is incomplete (Hadani and Schuler, 2013)

Second, there is a need for research to examine the link between CPA and outcomes that ultimately effect organizational financial performance. One of such outcomes is the cost of debt. It has been noted that one of the biggest impediments to firm growth and performance is

lack of access to external financing, such as bank loans (Beck & Demirguc-Kunt, 2006). This suggests that firms with access to cheap debt are able to finance their growth and gain competitive advantage. Despite this strategic importance, surprisingly, extant research has paid little attention to the link between CPA and cost of debt, especially in emerging markets where access to finance is difficult and interest rates are likely to vary depending on firms' political connections. The few studies which touched on this topic reported mixed findings (Bliss and Gul, 2012; Chen et al., 2014; Onder and Ozyildirim, 2011; Houston et al., 2014; Lashitew, 2014). While it is generally agreed that connected firms have access to finance and are thus highly leveraged, there is no consensus regarding the impact of political connections on cost of borrowing. Hence, it is still unclear whether politically connected firms receive preferential treatment in credit markets.

Technically, access to finance is different from cost of debt, but extant research has mainly focused on access to finance and leverage levels. It is true that access to finance is a constraint for firm growth (Beck and Demirguc-Kunt, 2006), but recent evidence shows that majority of loan applicants receive funds irrespective of rationing processes (Vos et al., 2007). The important issue, therefore, concerns the terms of the loans (Rostamkalaei and Freel, 2016). In this respect, it is possible that firms willing to pay high interest charges will have unimpaired access to credit. In fact, anecdotal evidence shows that acceptance to pay high interest rates is a determinant of the rationing process. Since most firms are getting loans, it behoves that the focus of research shifts from credit access to credit terms, and central to credit terms is the price of loans.

Moreover, the few studies that have examined the political tie-cost of debt relationship are set within the contexts of Asia, Europe and the United States, with no contribution from Africa where CPA is rarely researched. Generally, not much is known about the impact of strategy on firm performance in Africa (Mellahi and Mol, 2015). Yet, institutional differences between countries suggest that investigating the topic in different contexts could add new dimensions and introduce fresh insight and impetus to the debate. With the current limitation of the topic to a few countries, it is not clear to what extent the findings can be generalized. Additionally, mediation and moderation effects have received limited consideration in political strategy research (Guo et al., 2014; Rajwani and Liedong, 2015), thus constraining insight into the contingent value of political activity in emerging credit markets.

Third, the argument that risk moderates CPA-firm performance relationship is common in the literature (Bliss and Gul, 2012; Kim et al., 2012; Pantzalis and Park, 2014). However, empirical proof is generally lacking. What studies do is examine the annual reports of politically connected firms, use the reported figures to estimate cost of debt and then take a position on the riskiness of the firm based on the results. Other studies dwell on the implicit guarantees that governments offer to politically connected firms. By doing this, the risk mechanism becomes a mere speculation that could be true or false. It is possible for banks to come under political coercion to lend to risky but connected firms (Khwaja and Mian, 2005). It is also possible that banks, through their own objective and independent risk assessments, perceive connected firms to be risky but profitable (Houston et al., 2014) and hence lend to them. Whichever way this argument swings cannot be determined by conjecture or postulation as is done in the literature, but by an empirical investigation of the impact of CPA on firm riskiness. Does CPA reduce or increase risk exposure? This relationship has to be determined before risk can be argued as a mechanism of the CPA-cost of debt relationship. Particularly, the few studies that have posited risk as a mechanism in the CPA-cost of debt relationship have argued their case from a corporate governance perspective (Bliss and Gul, 2012), hence have only explored internal risk. Houston et al. (2014), in their borrower channel hypothesis, suggest that political connections could reduce cost of debt by reducing external risk exposure, but they do not offer an empirical proof. In emerging countries where the business environments are risky, external risk merits specific attention in the CPA-cost of debt relationship because of how it impacts firm survival and performance.

Additionally, more mechanisms of CPA need to be explored and examined. Currently, there is a huge interest in investigating the relationship between CPA and firm performance, but little emphasis is placed on understanding the underlying mechanisms (Rajwani and Liedong, 2015; Guo et al., 2014; Lux et al., 2011). There are only a few studies (Peng and Luo, 2000; Hadani and Schuler, 2013) that explicitly and theoretically discuss mechanisms through which political activism impacts firm performance. In debt financing, there is room to empirically explore and test the mechanisms that translate political connections into preferential access to finance.

This thesis is positioned to address the aforementioned research gaps, and hence addresses the following questions:

1. What is the impact of managerial political ties on access to finance and cost of debt?

2. What is the impact of managerial political ties on institutional risk exposure?
3. What mechanisms mediate the relationship between political ties and cost of debt?

Cost of debt is an important topic because most private firms, even in developed countries, rely almost exclusively on loan financing (Brav, 2009). This leaves the performance of these firms prone to adverse price movements in the credit market. Using survey data from Ghana where private firms dominate, this thesis offers insight from a weak institutional environment. Importantly, the data captures "soft" variables such as political and financial ties, and other information that is hardly available to the public. This primary data enables this thesis to transcend the trajectory of current CPA research, into realms that make significant contributions to theory and practice. Essentially, the thesis takes unique moderation and mediation effects into account and tests how the impact of political ties is strengthened or weakened by other relevant factors previously overlooked by extant literature.

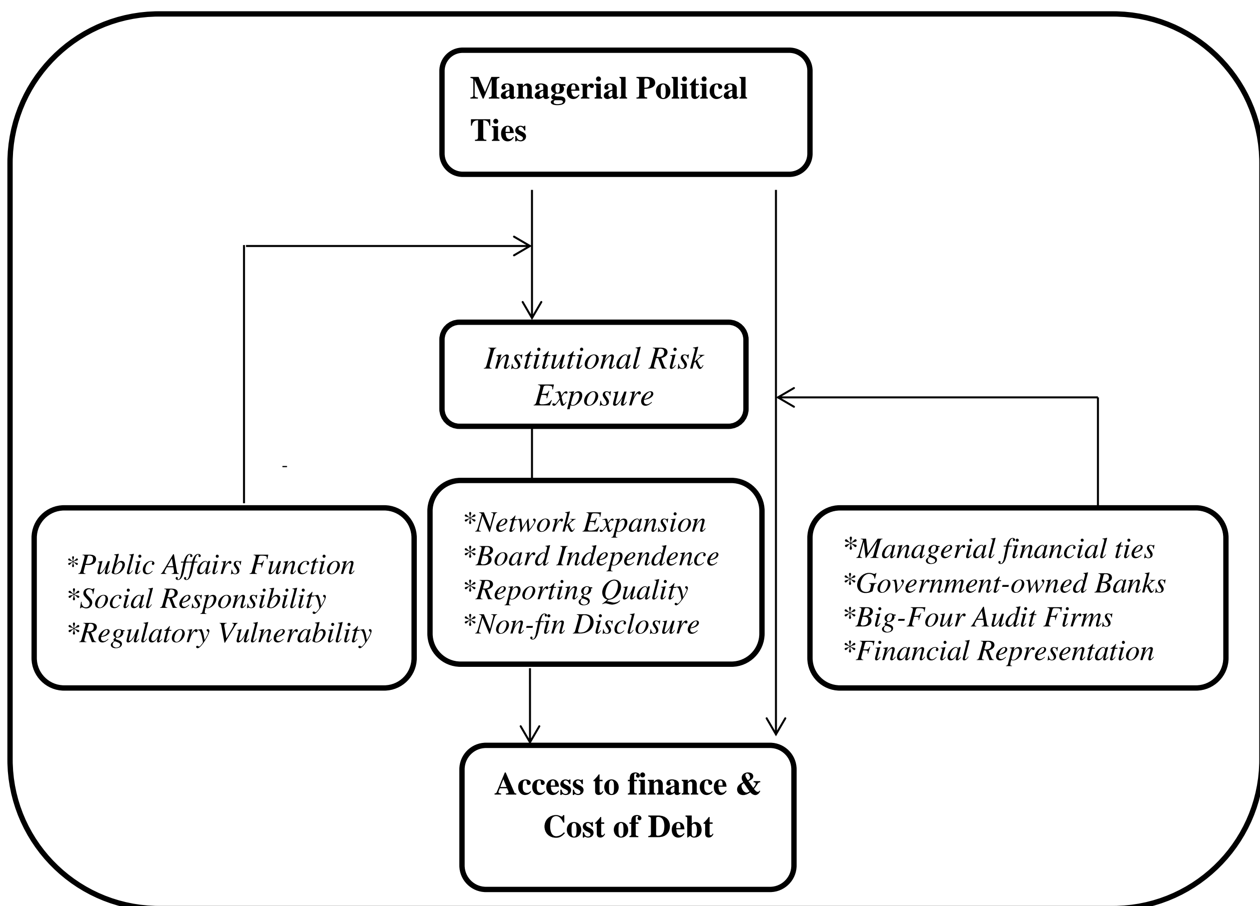

Figure 2-4 Overall Research Model

As shown in the overall research model (Figure 2-4), this thesis comprises of three empirical parts. First, I examine the effect of managerial political ties on access to finance and cost of debt. In doing this, I also capture the extent to which this effect is contingent on managerial financial ties, borrowing from government-owned banks, financial representation on corporate boards, CEO duality and the appointment of Big Four auditors (PricewaterhouseCoopers, KPMG, Deloitte and Ernst & Young). Second, I examine the relationship between political ties and institutional risk exposure (investment climate constraints or barriers to growth) in order to find empirical proof for the widely postulated effect of CPA on risk reduction. My analysis account for the moderating effects of public affairs functions, corporate social responsibility and regulatory vulnerability. Third, I test for mechanisms of the CPA-cost of debt relationship. The mechanisms explored are largely ignored in the literature, but are very important in emerging country contexts where institutions are fragile and corporate governance is poor. Particularly, I test the mediating roles of institutional risk exposure, financial reporting quality, non-financial disclosure, social network expansion and board independence. Altogether, these three empirical tests deepen knowledge about the value of political connections in credit markets.

2.8 Theoretical Framework

CPA research draws on several theories (Getz, 1997). As mentioned previously, this is because CPA is examined by scholars from different disciplines ranging from sociology to management, and these scholars typically use theories that are central to their disciplines. For instance, within the political science discipline, CPA is informed by interest group theory. In economics, CPA is explained using transaction cost and collective action theories. In sociology, CPA is understood using social capital and institutional theories. In management, resource-based view, resource dependency and agency theories are the dominant theoretical foundations.

These different theories cover various facets of CPA, including the reasons why firms do CPA, the nature of CPA and performance outcomes of CPA. For instance, institutional environments have been identified to impact strategic decisions (Peng, 2003; Oliver, 1991; Peng, 2002) and corporate political activity (Hillman and Keim, 1995; Lawton et al., 2013a; North, 1990; Doh et al., 2012). According to Hillman and Hitt (1999) and Barron (2011), firms in corporatist countries where consensus and cooperation are valued (Wilson, 1990) are more likely to choose a relational approach to CPA. Institutional theory has also been used to

explain why some political strategies are dominant in particular countries or why the benefits of CPA are more pronounced in some contexts (Rajwani and Liedong, 2015). The theory of collective action (Olson, 1965) has been applied to show that the choice of individual action or collective action is influenced by the costs and benefits of CPA (Keim and Zeithaml, 1986). Firms that believe a political action will bring private benefits will likely take individual action. However, if benefits are collective, firms will prefer collective action so that they can share the costs of political action with other beneficiaries. This prevents the free-rider problem (Yoffie, 1987) whereby firms are not motivated to participate in the provision of a public good provided they are not excluded from the resultant benefits (Olson, 1971). Studies examining the antecedents of CPA have used resource-based view theory to explain why large firms are politically active (Masters and Keim, 1985; Hillman, 2003; Hillman et al., 2004; Lawton et al., 2013b) and the resource dependency theory to understand why firms in highly regulated industries do more CPA (Grier et al., 1994). The commonly used theories in CPA research are summarized in Table 2-10

In recent times, there has been an increase in calls for a multi-theoretical approach in the study of non-market strategy (Mellahi et al., 2016). With respect to CPA, the call for researchers to expand intellectual horizons to cover relevant theories was made about two decades ago (Getz, 1997). Consequently, in the hypotheses of most CPA-firm performance or CPA-cost of debt studies, a couple of theories can be found. For instance, hypotheses predicting that political connections reduce cost of debt when firms borrow from government-owned banks (Khwaja and Mian, 2005; Lashitew, 2014) can be argued to be theoretically rooted in social capital and agency theories. Similarly, predictions or arguments that the benefits of political connections are higher in highly corrupt countries (Faccio, 2006) can be positioned within social capital and institutional theories. Essentially, multiple theories are drawn upon to understand CPA. According to Mellahi et al. (2016), there is a swing towards a multi-theoretical approach in studying non-market strategy – an increase from about 20% in the 2000-2004 period to about 30% in the 2010-2014 period.

Subsequently, this thesis uses social capital and institutional theories and in doing so, draws on corporate governance insights to develop the hypotheses and interpret the results. Figure 2-5 depicts how these theories are combined to inform and address the research questions. It also shows the theoretical positioning of the thesis.

Table 2-10 Theories of CPA

Theory	Application in CPA	Key Texts
Interest Group Theory	Firms are politically active in order to prevent the domination of the policy arena by competing or rival interest groups.	Salisbury (1983); Mundo (1992); McKay & Webb-Yackee (2007)
Collective Action Theory	Inability to preclude other firms from the benefits of CPA results in a collective approach to lobbying. Large firms in concentrated industries are more likely to capture more benefits of CPA, hence they are willing to lobby solitarily even if smaller firms will benefit from their actions	Masters & Keim (1985) Keim & Zeithaml (1986); Lenway & Rehbein (1991);
Transaction Cost Economics	Firms use intermediaries when political or policy issues are infrequent or less important to their survival or profitability, but they internalise CPA when the issues are salient and frequent Firms tend to influence policy issues collectively through trade associations when industry interests converge, but act alone when their interests are specific and diverge from industry preferences	Littlejohn (1986); Kaufmann, Englander & Marcus (1993); Sawant (2012)
Social Capital Theory	Personal-level relationships between managers and politicians can enable firms gain competitive advantage	Peng & Luo (2000); Acquaah (2007); Adhikari, Derashid & Zhang (2006)
Institutional Theory	Firm are politically active in developing countries in order to buffer any investment climate constraints or reduce political risks that may adversely affect business. The level of political participation, choice of political strategy and benefits of CPA are affected by institutional frameworks and culture	Hillman & Hitt (1999); Henisz & Zelner (2005); Puck, Rogers & Mohr (2013); Barron (2011); Faccio (2006)
Resource Dependency & Agency Theory	Firms are politically active in order to manage their dependency relationship with politicians. They co-opt politicians into corporate boards, finance campaigns or develop ties with government officials to ensure that that policies are aligned with their business interests	Pfeffer & Salacik (1972;1978); Hillman (2005)
Resource-Based View	Resource-endowed firms are politically active. They have money to donate to PACs. They also have dynamic capabilities to pre-empt or adjust to policy issues	Hersch & McDougall (2000); Lawton, Rajwani & Doh (2013);

Research on political ties is deeply rooted in social capital theory. Social capital is defined as the sum of resources, actual or virtual, that accrue to an individual or organization as a result of the development and maintenance of personal and social networking relationships (Granovetter, 1973; Granovetter, 1985; Lin, 2001). These relationships provide value to individuals or firms by allowing them to exploit the resources embedded in social connections (Acquaah, 2007; Acquaah, 2011). Social capital can be developed through schooling, family ties and informal associations (e.g. guanxi, keiretsu). Early application of social capital theory was limited to the effect of social relationships on individual behaviour, effectiveness and career growth (micro-micro link) (Krackhardt, 1990; Burt, 1992; Brass and Burkhardt, 1993; Belliveau et al., 1996; Tsai and Ghoshal, 1998; Seibert et al., 2001). Peering into the micro-micro link, the externalities of social capital can be categorized into two levels – first-order and second-order effects (Burt, 2007; Galunic et al., 2012). While first-order effects are the direct and personal gains from social capital, second-order effects are the spillovers that individuals experience through the social capital of others. Even till date, the micro-micro link is still popular. For instance, recent studies have explored the effect of social capital on employee innovation (Carnabuci and Dioszegi, 2015), knowledge-sharing (Choi, 2016) and managerial performance (Ahearne et al., 2014).

While research on the first-order effects of social capital still go on unabated, researchers have extended the influences of social capital to the organizational level and have examined the micro-macro link (Gulati, 1995; Nahapiet and Ghoshal, 1998; Peng & Luo, 2000). This micro-macro link whereby the personal networks of senior managers can affect firm-level outcomes is the bedrock of this thesis. Indeed, several studies have revealed that social capital improves organizational performance. For instance, entrepreneurship research shows that social capital increases entrepreneurs' access to information (Birley, 1985) and financial resources (Batjargal, 2003; Baron and Markman, 2003). Social capital also confers legitimacy on entrepreneurs, gives them competitive edge (McEvily and Zaheer, 1999) and enhances new venture performance (Stam and Elfring, 2008). In the general field of management, research shows that social capital leads to the development of human capital (Coleman, 1988a), facilitates access to private and public financial resources (Florin et al., 2003), enables organizational flexibility, collectiveness and commitment (Leana and Van Buren, 1999) and reduces the likelihood of business failure (Pennings et al., 1998). Across the value or supply chain of firms, social capital can be value-adding. For instance, social capital with customers increases brand loyalty and revenues (Park and Luo, 2001) while social capital

with suppliers enhances access to quality inputs, fast delivery and favourable trade financing terms (Peng and Luo, 2000). Even social capital with competitors can lead to innovation and collaboration (von Hippel, 1988; Park and Luo, 2001). Due to these benefits, managers spend a lot of time developing interpersonal relationships (Mintzberg, 1973). On the flipside however, studies highlight the potential of social capital to destroy value. It is argued that strong networking relationships could stifle innovation in organizations (Coleman, 1990; Leana and Van Buren, 1999), increase rigidity and inertia to change (Gargiulo and Benassi, 2000) and lead to groupthink in decision making and negotiations (Janis, 1981).

The micro-macro link of social capital has received some attention in CPA research. Almost all the studies examining the impact of political ties on firms (connections to ministers, presidents, senior bureaucrats, members of parliament) implicitly draw on network or social capital theory, but only a few explicitly acknowledge the theory. This, perhaps, is because majority of the studies on CPA-firm performance are authored by academics within finance and economics disciplines where social capital is not a popular theoretical foundation. In management and political science disciplines, the role of social capital in lobbying has been noted. Peng and Luo (2000) and Acquaah (2007) drew on social capital to frame their studies of managerial political ties in China and Ghana respectively. Similarly, Chamlee-Wright and Storr (2011) examined how lobbying for Federal support following hurricane Katrina in the U.S was influenced by the social capital of community leaders.

From a contingency perspective, some researchers have investigated how the value of social is strengthened or weakened by peer size , industry type (Peng and Luo, 2000; Rowley et al., 2000), and firm size (Peng and Luo, 2000). Extending this contingency perspective to institutions, researchers agree that even though social capital influences individual and organizational outcomes in many parts of the world, its prominence is higher in developing countries (Nee, 1992b; Peng and Luo, 2000). Developing countries have relationship-based capital systems (Adhikari et al., 2006; Francis et al., 2009) whereby social relations influence outcomes in economic markets (Peng and Heath, 1996). In these countries, the ineffectiveness of market-supporting institutions in facilitating information access and economic exchange enhances the need for developing social capital which replaces insufficiently developed institutions (Peng and Luo, 2000; Acquaah, 2007; Acquaah, 2011). As noted, some countries have achieved rapid economic growth despite being bedevilled by weak institutions (Boisot and Child, 1996; Peng and Luo, 2000), and hence have defied the logic that growth is facilitated by strong institutions (North, 1990). Basically, there is a strong

link between social capital theory and institutional theory, and the main thrust is that social capital is much more important in weak institutional contexts where mutual trust replaces regulations and arms-length contracts. My thesis, set in the sub-Saharan country of Ghana, therefore draws on both of these theories.

Delving deeper into the focus of this thesis, social capital and institutional theories have been applied to understand the dynamics of debt financing. In countries with weak institutions and poorly developed financial markets and systems, access to external financing is difficult, especially for small firms (Beck et al., 2006a; Beck et al., 2008). In these countries also, banks are the main source of credit for medium and large-scale firms (Luo and Ying, 2014; Santikian, 2014). This is because other non-bank sources of financing such as stock markets and venture capital firms are barely existent. The resultant pressure on the banks to meet the financing needs of firms, coupled with the rampant poor corporate governance practices, low transparency and weak creditor rights in developing countries, leads to credit rationing (Stiglitz and Weiss, 1981). In this rationing process, banks are influenced either by their social capital with firms (Uzzi, 1999; Rowley et al., 2000) or by the firms' social capital with others, particularly politicians (Lashitew, 2014). "Relationship lending" literature reveals that bank-firm relationships increase the exchange of information between both parties (Bhattacharya and Thakor, 1993; Bhattacharya and Chiesa, 1995) and reduce information asymmetry (Petersen and Rajan, 1994; Petersen and Rajan, 1995; Petersen and Rajan, 1997), a major market failure that makes bank financing problematic in developing countries. As information asymmetry and moral hazard are reduced and trust is fostered, banks' cost of monitoring borrowers reduces (Boot, 2000; Carletti, 2004), hence resulting in lower borrowing costs and improved firm performance (Uzzi and Gillespie, 2002).

Going beyond bank-firm relationships, this thesis captures politician-bank-firm relationships. These relationships are important in developing and transition economies where governments own banks and politicians play a significant role in the allocation of resources. The ability of politicians to coordinate directed lending will only diminish when regulatory institutions are strengthened and financial markets are developed (Lashitew, 2014). Unfortunately, most developing countries, particularly those sub-Saharan African countries, still have fledgling markets, despite making progress in the last few decades. Consequently, the impact of political connections on access to finance and cost of debt in emerging/developing countries will continue to be an interesting topic for finance and non-market strategy scholars.

It is believed that the micro ties senior managers establish with influential politicians can enable their organizations to reduce exposure to uncertainty and allow then to exploit macro opportunities (Luo and Zhao, 2013; Puck et al., 2013). This belief is based on the new institutional economics perspective (North, 1990; Williamson, 2000) which emphasizes the effect of political governance on institutional structures (Doh et al., 2012) and the strong link between political or regulatory uncertainty and non-market strategy (Kingsley et al., 2012; White et al., 2015). It is also based on the notion that political stakeholder management in emerging markets revolves around social ties and networks (Dieleman and Sachs, 2008; Rajwani and Liedong, 2015).

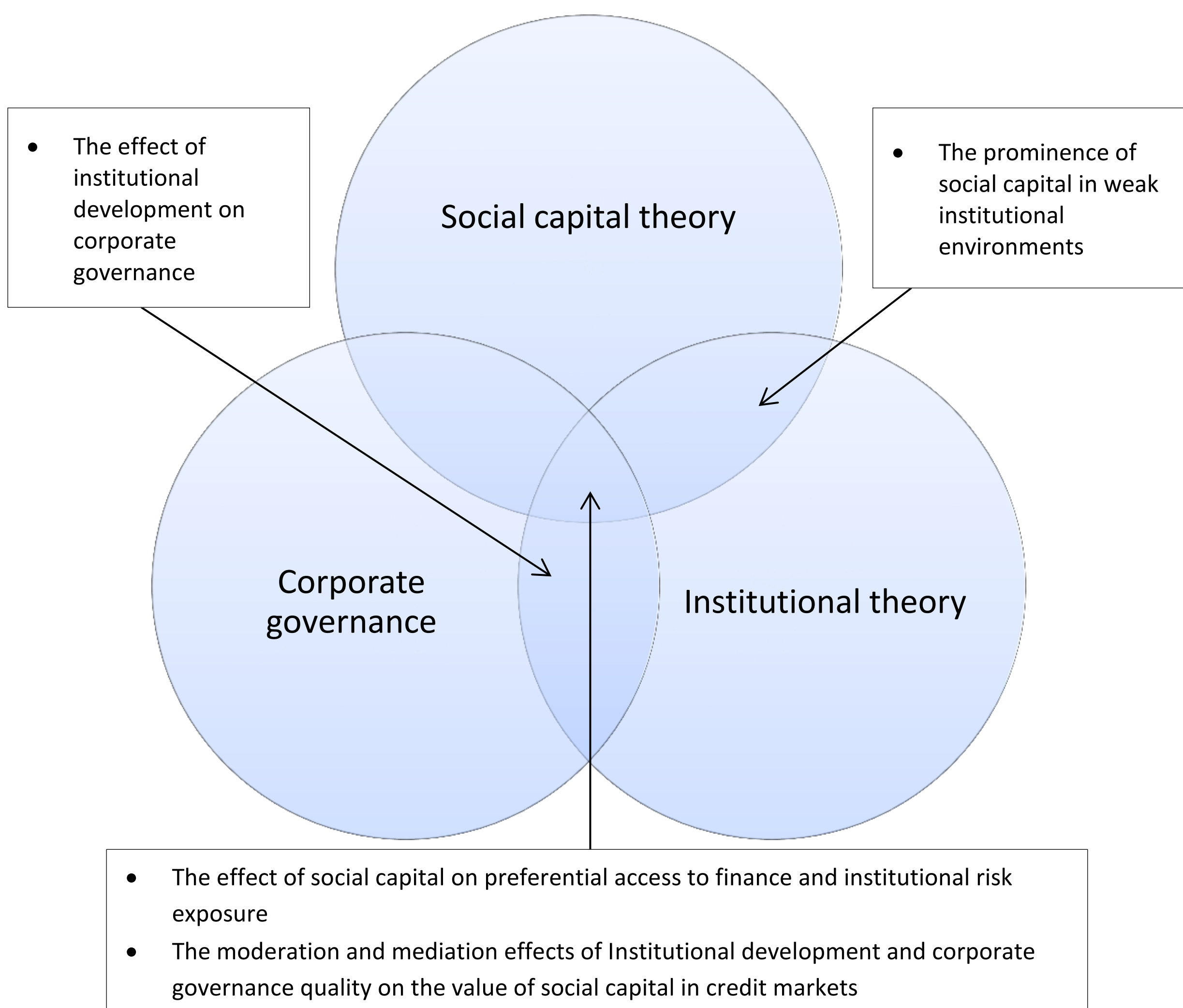

Figure 2-5 Theoretical Positioning of the Thesis

2.9 Chapter Summary

In this chapter, I reviewed the literature on non-market strategy, CPA and firm performance. I show the two strands of non-market strategy and highlight the increasing calls for their integration. I then peer into the approaches, levels of participation and strategies of CPA. My systematic review of the literature, which was published in *Journal of World Business* (ABS 4), yielded mixed results about the impact of CPA on various measures of firm performance, including cost of debt. The review also revealed that the type of political strategy used by firms or studied by researchers is affected by institutional development. Some gaps and problems were identified. First, it is still not clear whether CPA improves performance. Particularly, there is scanty research on the effect of political connections on cost of debt. The few studies that have examined the topic have failed to show conclusive evidence. Additionally, these studies miss important moderating variables that could affect access to finance and cost of debt.

Second, the mechanisms through which CPA affects cost of debt are rarely articulated. The few studies that try to explicate causation do not show any empirical proof of mediation. For instance, empirical evidence for the popularly postulated mediating role of risk in firm performance and cost of debt is still lacking. Third, most of the studies examining CPA, firm performance and cost of debt are set in either developed countries or a few emerging countries in Asia. Consequently, not much is known about CPA in Africa or the Middle East. Positioned to address these gaps, this thesis attempts to clarify the contested impact of political ties on cost of debt by using firm-level survey data from Ghana, sub-Saharan Africa. It also seeks to examine the efficacy of political ties in institutional risk reduction, as well as the mediating roles of risk exposure, financial reporting and disclosure, social network expansion and board independence in the CPA-cost of debt relationship. As CPA is informed by multiple theoretical foundations, this thesis draws on social capital and institutional theories as well as corporate governance insights.

Chapter 3 Research Setting – The Ghana Context

The main aim of this chapter is to offer a concise and systematic argumentation to support the positioning of the study within the Ghanaian context. Consequently, this chapter provides relevant information about the setting of this thesis. It begins with an overview of Ghana's history and political system. It then explores Ghana's institutional and economic development before delving into the state of financial services, banking and access to finance in the country.

3.1 Republic of Ghana

The Republic of Ghana is a country located in sub-Saharan Africa. It is a sovereign, unitary and democratic nation in the sub-region of West Africa. According to the World Bank, the country has a population of approximately 27 million people. It is a lower middle income and multicultural country with different ethnic and religious groups (Ghana Statistical Service, 2012). Table 3.1 shows some facts and figures about the country.

Table 3-1 Facts and Figures – Ghana

Indicator/Variable	Fact
Capital city	Accra
Population	26.79 million (2014 estimate)
Official Language	English
Government	Unitary Constitutional Republic
Area	238,535 km^2
Currency	Ghana Cedis (GHS or GH¢)
Calling Code	+233
Time Zone	GMT (UTC+0)
Income Level Classification	Lower Middle Income Country (LMIC)
Gini Coefficient	0.43
Human Development Index	0.579
Poverty Headcount (% of population)	24.2%
Life Expectancy	61 years (2013 estimate)

Source: Compiled by Author

Since attaining independence from the British on 6th March 1957, Ghana has experienced political turmoil and upheavals. A series of military and civilian governments run the country alternatingly until 1992 when a new constitution was enacted and multi-party elections were held. Since then, Ghana has consolidated her democracy and has peacefully gone to the polls on five occasions – in 1996, 2000, 2004, 2008, and 2012. Under the current constitution, Ghana runs a presidential system of government. Multi-party, presidential and parliamentary elections are organized by an independent Electoral Commission every four years. A count of 50% +1 is required for an outright win, otherwise a re-run is organized. In Ghana, there is strong unity between incumbent local and central government politicians. This means that even connections to the lowest ranking local government politician can still yield significant benefits to firms. Historically, the party that wins the presidential election usually has the majority of MPs and hence controls parliament. The consequence is that rent extraction, through political connections, goes unchecked, unstopped or unscrutinised.

3.2 Corruption and Public Sector Efficiency in Ghana

According to Transparency International (2016), 41 of the 47 SSA countries in its Corruption Perceptions Index (CPI) scored below 50 on a scale ranging from 0 to 100 where 0 is "highly corrupt" and 100 is "very clean". Ghana scored a CPI of 47. Another recent report by the World Economic Forum ranked Ghana 98th out of 144 countries on a global measure of irregular payments and bribes made in public contracts and transactions (WEF, 2014). The high prevalence of corruption in Ghana is supported by weak checks and balances. The constitution empowers parliament to remove the President, Vice President and even the Speaker of Parliament (Lindberg and Yongmei, 2009). However, due to the frequent dominance of parliament by the party that wins the presidential elections as well as the strong cohesion within the governing party (Stapenhurst and Pelizzo, 2012), parliament rubber-stamps the activities and decisions of the executive. Consequently, public accountability is very low. The issue of low accountability is exacerbated by weaknesses in institutionalizing public sector performance systems in the country (Dodoo, 1997; Ohemeng, 2009; Ohemeng, 2011). Vague standards of performance render the Ghanaian public sector highly inefficient (Haruna, 2003; Gyimah-Boadi, 1990), culminating in deplorable service delivery and management. For instance, per WEF ratings, Ghana ranks 110th out 144 countries for infrastructural development. With respect to electricity supply, Ghana is 112th (WEF, 2014). Using data from Ghana, Tanzania and Kenya, Faruq and colleagues (2013) show that these institutional lapses, including bureaucracy and corruption, hinder firm productivity.

Politicization of the Ghanaian public sector is phenomenon that further weakens accountability (Haruna, 2003). Supporters of the ruling party are mostly placed in public agencies and departments. Particularly, there is a trend in Ghana whereby the youth of political parties, popularly called "foot soldiers", are offered civil service employment as compensation for their contribution to the agenda of their parties. Such politically motivated hiring practices accentuate and perpetuate inefficiency and poor performance (Owusu, 2005). Additionally, the public sector is poorly financed, has low wages and hence struggles to recruit, retain and motivate top talent (Antwi and Analoui, 2008; Antwi and Phillips, 2013). Consequently, moonlighting – the phenomenon of holding multiple jobs to earn more money – is very common in the Ghanaian public sector (Owusu, 2005), especially among political hires who double as political party agents. As commitment and dedication is divided, the quality of public service falls, therefore unleashing negative implications for business and society (Adhikari et al., 2006).

3.3 Regulatory Development

Regulatory development in Ghana has improved over the years, but it has not reached an acceptable level. As noted by the African Development Bank, private sector development in Africa is hindered by disabling investment climates and non-supporting "soft" infrastructure (African Development Bank, 2013). In Ghana, regulatory lapses manifest in five ways. First, even though there are policies governing the private and public sectors, these policies are not applied or implemented as expected. Second, the various laws and policies regulating and governing both private and public sectors in the country are not readily available to the public. Ideally, the websites of State ministries and government agencies should contain regulations that fall within their scopes or jurisdictions. Unfortunately, online repositories for policy documents are barely existent. It is therefore difficult to know the "rules of the game" in Ghana. This problem is exacerbated by the fact that some regulations have to be purchased. According to the World Bank, Ghana is one of the few countries where the private sector has to purchase building or construction regulations (World Bank, 2016). Not only does monetizing what should be public knowledge an obstacle to entrepreneurship, but it also increases the cost of doing business. Third, most of the regulations in the country exist only exist on paper. For instance, on paper it should take an entrepreneur an average of 14 days to register or start a business in Ghana (World Bank, 2016). However in reality, it takes weeks and months. Fourth, some regulations in Ghana are known to be outdated; the rules are not

amended to reflect changes in global and international standards or socio-economic movements. In addition to outdated laws, Ghana has grey areas that are not covered by regulation. For instance, there was no protection scheme for clients of banks and deposit-taking institutions until recently when a deposit protection bill was brought before parliament for approval (Ernst & Young, 2015). Finally, there is limited scope for private sector participation in policy making. Consequently, the executive and legislative arms of government enact policies that are unfavourable to firms. For instance, in 2014, government announced a 17.5% value added tax on selected financial transactions (Dzawu, 2014) without adequate consultation with opinion leaders and financial sector.

3.4 Economy of Ghana

From being a Highly Indebted Poor Country (HIPC) and benefiting from debt relief from the World Bank and International Monetary Fund (IMF), Ghana reached the per-capita income threshold required for classification as a lower middle income country in July 2011. Since then however, GDP annual growth and GDP per capita annual growth have been on a recession. GDP growth declined from a high of 14.05% in 2011 to 3.99% in 2014. Huge fiscal imbalances and budget deficits have led to a build-up of public debt. As of June 2015, the country's debt stock reached GH¢ 94.5 billion, representing 70.9% of GDP (Alhassan, 2015). Clearly, Ghana's debt stock has become unsustainable. This, coupled with rising inflation (18.9% as of May 2016) and a depreciating currency, has created an unfavourable environment for business. The economy is projected to grow at around 6% in 2016. This projection is based on increased oil production, private sector investment and improved public infrastructure (African Development Bank, 2015). However, declining crude prices will make it difficult or impossible for the country to meet this growth target. Other oil producing countries such as Nigeria and Saudi Arabia are already faced with budget deficits due to declining oil revenues.

3.5 Corporate Governance in Ghana

Corporate governance in Ghana is poor. Processes, structures and lines of accountability are poorly developed and implemented (Bokpin, 2009; Agyeman et al., 2013), leaving room for misappropriation and mismanagement of corporate resources. All corporate bodies in Ghana are governed by the Companies Code 1963 (Act 179) which, among other things, stipulates principles for annual general meetings (AGMs), corporate disclosure, financial reporting, and

the appointment of boards of directors and auditors. However, most registered companies do not follow the rules. A couple of governance issues in Ghana are worth discussing. First, as the Companies' Code is not clear on the distinction between executive and non-executive directors, most firms in Ghana have more executive directors than non-executive directors. In fact, some firms do not have non-executive directors, and this renders the supervision of Management teams difficult, if not impossible (Abor and Fiador, 2013). Moreover, the criteria for appointing board members and evaluating board performance are not institutionalized or well-defined (Simpson, 2014). Appointments to boards are hardly merit-based. Second, the phenomenon whereby one person serves as both CEO and board chairperson (CEO Duality) is very common among Ghanaian firms (Abor and Biekpe, 2007a). Though CEO duality allows for unity of command in organizations, it raises concerns about supervision and monitoring of management teams (Krause et al., 2014), and thus captures the possibility of power abuse and mismanagement in Ghanaian enterprises. As a result, Ghana's Securities Commission recommended that the roles of CEO and chairman should be separated (Securities and Exchange Commission, 2010). Third, transparency and disclosure are lacking in the country. According to Agyei-Mensah (2016), firms in Ghana do not disclose enough internal control information in their annual reports. This makes it difficult for stakeholders to determine the quality of corporate governance in the firms, culminating in high information asymmetry (Agyeman et al., 2013). Not surprising, a World Bank study noted that in Ghana, there is weak enforcement of the disclosure of material events and related party transactions (World Bank, 2005).

3.6 Banking and Access to Finance in Ghana

As of June 2016, there were 29 commercial banks in Ghana - 12 owned by Ghanaians and 17 owned by foreign nationals. Three of the 12 Ghanaian-owned banks are wholly controlled by the government. The government also has significant stake in four other privately-held banks. In Ghana, access to finance is limited due to constraints on both the supply and demand sides of the credit market. On the supply side, poor enforcement regimes and weak creditor rights have made it difficult for banks to meet the credit needs of firms and households. Similarly, lack of competition among banks in the country has stifled financial innovation necessary to expand access. Additionally, the lack of credit referencing bureaus, or the limited use of the existing few, has rendered credit checks impossible or ineffective and has thus excluded many credible enterprises that have yet to develop credit histories. Moreover, alternative

sources of financing, such as the secondary markets, private placements, securitizations, invoice financing, crowd funding and venture capital funds are either under-development or non-existent, hence putting a lot of pressure on the banks. All of these factors have led to credit rationing (Awunyo-Vitor et al., 2014; Robson et al., 2013), particularly for small and medium size enterprises (Tagoe et al., 2005; Abor and Biekpe, 2006) which make up over 90% of all registered firms in Ghana (PwC, 2013). For these small enterprises, bank loans account for less than a quarter of their total debt financing (Abor and Biekpe, 2007b). On the demand side, high cost of debt and increased demand for collateral have prevented firms from seeking financing (Aryeetey, 1998; Abor and Biekpe, 2007b). Further, poor financial literacy has made it difficult for firms to develop bankable projects (Adomako et al., 2016) while unstructured governance and poor institutionalization of management processes have made banks wary and conservative (PwC, 2013).

Particularly noteworthy is the "unfriendly" interest rate regime in Ghana. Ghana has been recognised as one of the countries in the world with very high interest rate spreads (Aboagye et al., 2008). Over the past few years, the central bank has raised the monetary policy rate in order to mop up cash, break the inertia of inflation and arrest the decline of the local currency. Correspondingly, the prevailing risk-free rates, measured by the interest rates for the 91-day, 182-day and 1-year government bills and notes have increased too. As shown in Table 3-2, the policy rate and Treasury bill rates almost doubled in the six-year period between 2010 and 2015. Interbank lending rates also increased significantly between 2013 and 2015, from 16.28% to 25.29%. Typically, banks choose between 1) investing in government securities; 2) lending to other banks or, 3) lending to firms and individuals. Since the first option is risk-free, and the second option is safer and secure, firms and individuals must accept to pay interests higher than the rates on government securities or interbank lending, and this places constraints on the private sector.

Table 3-2 Interest Rate Movements in Ghana

Year	Monetary Policy Rate	One-year Treasury Note Rate	182-Day Treasury Bill Rate	91-day Treasury Bill Rate
2010	13.50%	12.65%	12.66%	12.25%
2011	12.50%	11.30%	11.25%	10.67%
2012	15.00%	22.90%	22.88%	22.90%
2013	16.00%	17.00%	18.66%	19.22%
2014	21.00%	22.50%	26.39%	25.79%
2015	26.00%	23.00%	24.35%	22.79%

Source: Bank of Ghana

3.7 Chapter Summary and Context Justification

This chapter has presented an overview of Ghana, and has covered topics on the economic, political and institutional landscape of the West African country. It has also covered issues pertaining to banking, financial services and access to finance in the country. In this final section, I synthesize and summarize the discussion so far to emphasize and justify why I chose Ghana as the setting or context for investigating managerial political ties, institutional risk exposure and cost of debt. The reasons for my choice are underpinned by theory and inspired by real phenomenon, and they include the following.

First, there is barely any strategy research in sub-Saharan Africa. Though there have been calls to expand strategy research in emerging countries beyond the nations in Asia, Eastern and Central Europe (Hoskisson et al., 2000; Wright et al., 2005), Africa has received little research attention. Up till now, the situation is not any different. Though there is a lot of unexplored management phenomena in Africa that are worth studying (Mellahi and Mol, 2015), management research is generally lacking on the continent (Klingebiel and Stadler, 2015). The few emerging countries where CPA has been researched are predominantly China, Malaysia, Indonesia and Brazil. Emerging countries may exhibit similar institutional characteristics such as weak market supporting institutions and weak legal structures (Khanna and Palepu, 1997; Luo, 2004), but there are still differences between them (Acquaah, 2007), which make it implausible to draw any far-reaching generalizations based on studies done in Asia. In Ghana and the rest of Africa, research culture is weak. This is because the business schools in most universities in the country are young and fledgling, and hence tend to place a stronger emphasis on teaching over research. The existing scanty management studies have not explored CPA or business-government relations.

Second, institutional voids in sub-Saharan Africa have led to economic problems, poverty and political instability. Sub-Saharan Africa is the poorest geographic region in the world. It is home to some of the poorest countries in the world and has a high rate of political instability owing to frequent military intervention in politics. Ghana and other countries in this impoverished region are saddled with pervasive corruption, weak legal and regulatory structures and ineffective enforcement regimes which create uncertainty in the business environment. These institutional lapses render the investment climate unfriendly and volatile. Per data from the World Bank, Bank of Ghana and Ghana's Ministry of Finance, the country's economy has taken a nosedive in recent years. For instance, between 2008 and 2015, public debt stock soared from GH¢ 9.5 billion to GH¢94.5 billion. The current ballooned figure represents over 70% of GDP. Similarly, inflation skyrocketed from 9.5% in 2010 to 17.7%% at the close of 2015. In 2014, the local currency, Ghana cedi, depreciated by 31.2% and was ranked by Reuters as one of the worst performing African currencies of the year. These economic woes, which are often attributed to poor governance and fiscal indiscipline, are institutional rooted and their ramifications for firms are significant (Anaman and Agyei-Sasu, 2012). Institutional voids have been noted to motivate entrepreneurs to choose the informal sector over the formal sector (Lacko, 2000; Torgler and Schneider, 2009). More precisely, unfavourable tax administration, bribery and corruption spur the informal sector (Koto, 2015) which, according to Ghana Statistical Service, employs over 80% of workforce in the country. The Ghanaian formal sector is laden with uncertainty, red-tape and rigidities which harm business performance or kill entrepreneurial aspirations. The sad part of the spectacle is that firms have limited opportunities to influence regulations or policy outcomes. Commenting on government bills and proposals is yet to be institutionalized. At best, only a few draft proposals are published on Parliament's website.

Adding to institutional lapses and uncertainty are the strings that are usually attached to the loans and grants developing countries such as Ghana receive from Bretton-woods institutions - The World Bank and the IMF. Ghana and other sub-Saharan economies are still implementing World Bank/IMF recommended structural programs which include banking reforms, privatizations, import controls, foreign exchange controls and subsidies. These changes create uncertainty in business environments, culminating in increased transaction costs. In August 2014, Ghana applied for a bailout from the IMF to revamp its failing currency and boost its ailing economy. The three-year bailout program, valued at about $918 million (IMF, 2015), holds uncertainties for businesses. Already, the program has led to a

freeze on public sector employment, removal of subsidies, introduction of new taxes and a host of policy uncertainties. To empirically examine the postulation that CPA reduces uncertainty (Hillman et al., 1999) will require a setting where uncertainty is rife. This makes Ghana a highly suitable context.

Third, managing uncertainty in emerging countries requires firms to develop political connections (Hillman and Hitt, 1999; Puck et al., 2013) which serve as substitute for the poorly functioning market supporting institutions (Lashitew, 2014). According to Henisz and Zelner (2010), there are no effective checks and balances in emerging countries. This suggests that governments of these countries have a high propensity to harm business interests, hence making it imperative for firms to establish and manage relationships with politicians and governments. Political connections are thus expected to be more prevalent in emerging countries where social capital and networking relationships shape economic exchange (Peng and Heath, 1996; Peng and Luo, 2000; Acquaah, 2011). In Ghana, political connections exist. Identifying these political connections is mandatory for financial institutions in the country. The United Nations Convention against Corruption (UNCAC) and the Financial Action Task Force (FATF) require countries to ensure that financial institutions implement systems for identification and verification of politically exposed persons (PEPs). The central bank of Ghana classifies PEPs as higher-risk customers. Banks are therefore required to identify PEPs (politicians, senior bureaucrats and their families or close associates) through their customer due diligence (CDD) processes (Bank of Ghana, 2011). They are also required to monitor PEPs and their associates to prevent them from abusing their offices and laundering corruption proceeds. Consequently banks make efforts to identify political ties of the senior managers of borrowing firms, and they are able to identify these ties because in most emerging countries such as Ghana: 1) politically connected firms that want to borrow often get introduced to lenders by politicians; 2) It is common to find politicians following up so that lenders approve loans for connected firms; and 3) strong and visible family, social and ethnic ties make political ties obvious to lenders. In sum, the existence and possibility of banks in Ghana to identify political ties allows for the causality between CPA and loan decisions to be established, thus making the country appropriate for this study.

Fourth, in Ghana, credit financing is expensive and inaccessible. The interest rate regime has become unfriendly to businesses. For instance, in the five years between September 2011 and December 2015, Ghana's monetary policy rate increased from 12.5% to 26% while the 91-

day Treasury bill rate surged up from 9.37% to 22.79%. The interbank lending rate, which is the overnight rate at which banks lend to each other, took a giant leap from 10.6% to 25.29% in the same period. Moreover, net interest spreads are very high in the country (Aboagye et al., 2008), partly because bank executives are motivated to extract excess rent in the form bonuses, salaries and directors' fees from high interest charges (Mensah and Abor, 2014). This upward trajectory in interest rates has placed dire constraints on firms that want to borrow. As one of the motivations for building up political connections is to obtain preferential access to financing (Li et al., 2008a; Yeh et al., 2013; Lashitew, 2014; Chen et al., 2014), Ghana's high interest rate regime provides an interesting context for ascertaining the effect of political ties on interest rates.

Fifth, the Ghana government wholly owns about 3 of the registered and licensed commercial banks in the country. The government, through its agencies and the national pension Trust, has significant shareholding in at least four other banks. This phenomenon is not strange, because in developing and transition countries where government ownership of enterprises is prevalent (Okhmatovskiy, 2010), governments own banks (La Porta et al., 2002). What is interesting is that government-owned banks tend to extend favours to politically connected firms (Khwaja and Mian, 2005). These banks defy the social and agency roles for which they are established (Sapienza, 2004) and become avenues for the direction of resources to political supporters and friends (Li et al., 2008a; Lashitew, 2014). As the State owns or controls some of the banks, Ghana provides a suitable context to examine whether government-owned or affiliated banks extend favourable credit terms to firms with political ties.

Finally, there are concerns about corporate governance in politically connected firms (Gul, 2006; Guedhami et al., 2014). It is believed that firms with connections to governments take governance less seriously. In Ghana, corporate governance is poor. Institutional lapses have weakened supervisory agencies and rendered enforcement ineffective. Firms have existed for years and decades without filing any annual returns at the Registry. Processes to ensure accountability and financial prudence do not exist, and if they do, they are not effectively implemented. As governance is argued as a mediator of the CPA-firm performance relationship, particularly in the credit market (Bliss and Gul, 2012), the Ghanaian context is suitable for empirically examining the role of governance moderators and mediators such as the quality of financial reporting, board independence, and the level of non-financial disclosure.

Table 3-3 summarizes the pertaining conditions in Ghana and how these conditions make the Ghanaian context highly suitable for this doctoral research. Taking the comments of Klingebiel and Stadler (2015) into account, I find Ghana to be theoretically appropriate for addressing the research questions of this thesis and for altering or contributing to theory.

Table 3-3 Justification of the Ghana Context

Ghana…	Hence Ghana…
Is an emerging country where social capital and interpersonal relationships moderate outcomes in economic markets	Has political connections that have not been explored, but are worth studying
Experiences high corruption, weak enforcement of regulations and has weak State institutions, culminating in high uncertainty and investment climate constraints	Is suitable for addressing the impact of political connections on institutional risk exposure
Has poor economic growth, crippling inflation, high public debt stock, and high interest rates	Is suitable for addressing the impact of political connections on cost of debt
Has under-developed or non-existent alternative sources of financing, hence there is increased pressure on banks	Is suitable for addressing the impact of political connections on credit rationing and interest rates
Has a weak corporate governance culture underpinned by poor monitoring and supervision by the relevant authorities	Is suitable for addressing the moderating and mediating role of corporate governance on cost of debt

Chapter 4 Data and Methodology

This chapter describes the tools, techniques and methods used to address the research questions asked in this thesis. It proceeds as follows. First, I discuss my philosophical perspective and outline the ontological and epistemological assumptions that underpin my research approach. Next, I discuss and justify my research strategy. Thereafter, I explain how data was collected and analysed. In doing so, I provide detailed accounts of how the survey instrument was designed; the data collection techniques used; the methods used to ensure reliability; and how the data was coded and analysed.

4.1 Philosophical Perspective

Academic research is located within paradigms – theoretical and philosophical perspectives which provide different ways of connecting ideas and experiences of people in the social world (Blaikie, 2007). Simply, a paradigm is the representation of the "entire constellation of beliefs, values and techniques, and so on shared by the members of a community" (Kuhn, 1970, p. 175). Blaikie (2007) identified 10 research paradigms, based on ontological assumptions about the nature of reality and epistemological assumptions about ways of gaining knowledge. In detail, ontology is a branch of philosophy that is concerned with the constitution or nature of social reality. Theories of social reality fall into two categories, namely idealist and realist. While the idealist theories assume that the external world has no independence from human thoughts, the realist theories assume that social phenomena exist independently of the human observer (Bhaskar, 1979; Collier, 1994; Blaikie, 2007). Epistemology is a theory of the methods through which people gain knowledge about things around them (Blaikie, 2000; Chia, 2002). It is a philosophical stance for establishing what can be known, how meaning is given to social phenomena, and what criteria is used to judge the accuracy and adequacy of knowledge (Crotty, 1998). Researchers attach meaning to social phenomena in three ways: 1) objectivism whereby social phenomena have meaning; 2) subjectivism whereby human observers impose meaning on social phenomena; and 3) constructivism whereby meaning is constructed through interactions between human observers and social phenomena (Crotty, 1998; Blaikie, 2007). Table 4-1 summarizes some of the common ontological and epistemological assumptions used in social science research.

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Table 4-1 Summary of Philosophical Perspectives

	Ontological Assumptions
Shallow Realist	External reality consists of objects or events that can be observed. The role of science is to discover these objects which exist independent of human observers. What observers see is what is there; everybody can observe reality
Conceptual Realist	External reality consists of objects or events that are independent of human observers, but these objects can only be known or discovered not by experience but by reason or use of thought. Only rational thinking persons can observe reality
Cautious Realist	External reality consists of objects or events that can be observed. The role of science is to discover these objects which exist independent of human observers, but it is difficult for humans to perceive reality accurately due to imperfections of the human senses.
Depth Realist	Reality consists of three levels – experience (empirical), observation (actual) and mechanisms/structures (real). Reality is a social arrangement and a product of material but unobservable relationship structures.
Idealist	Reality is a creation of the mind. What is real is real because observers believe it is real. Reality is therefore subjective, and could differ from person to person. There are fundamental differences between the natural and social worlds.
Subtle Idealist	Reality is independent and social phenomena are observable, but interpretations of reality are based on human construction and are therefore subjective. This ontology shares features of the shallow realist and idealist ontologies
	Epistemological Assumptions
Empiricism	Knowledge comes from observing the world around us. Objective observation of the external world can lead to an accurate representation of the world in scientific concepts and theories. Any idea that cannot be confirmed by observation must be left out of scientific accounts of the world.
Rationalism	The path to knowledge rests on the examination of "thought" itself and the structure of the human mind. Behind a world that can be "seen" lies a world of thought that needs to be understood
Falsification	Knowledge comes from critical evaluation of theories through rigorous testing. Researchers impose theories on the world and use data to refute false theories in order to draw closer to the truth
Neo-realism	Understanding social phenomena requires a determination of the mechanisms responsible for producing what happens in the empirical or observable world. This epistemology places more emphasis on explanation of causation.
Constructionism	Knowledge is the outcome of people making sense of their experiences, observations or encounters with the physical world or with other people.

Source: Compiled and adapted from Blaikie (2007)

To a very large extent, researchers are rarely explicit about their ontological and epistemological assumptions. These assumptions may not be articulated, but they are embedded in the methods used to address research questions (Blaikie, 2007). Nevertheless, ontology and epistemology remain contentious topics in social science research. The question of whether the natural and social worlds are similar or different and whether or not they can be studied using same methods has stirred animated debates. According to Blaikie (2000), ontological and epistemological assumptions influence concepts, theories, type of data collected, methods of analysis, and interpretations of research findings. In this respect, philosophical perspectives have cascading effects on the core elements of social research.

My ontology and epistemology are respectively rooted in cautious realism and falsification. I share the positivist philosophy that reality consists of observable events or things that are both independent of humans and are controlled by natural and social laws (Bhaskar, 1979; Collier, 1994). Humans' direct contact with independent and observable events provides valid knowledge (Hammersley, 1992). Therefore, only what is observable or can be perceived by human senses is considered real and worthy of scientific attention (Blaikie, 2007). The role of scientific research is to discover empirical regularities (Sayer, 2000) and draw universal generalizations to ease our understanding of the world. However, I do not agree that humans or scientific research can perceive or make accurate sense of external reality because of the frailties or imperfections of human senses (Blaikie, 2007). Thus, researchers need to be cautious or critical of their work or interpretations. Following from my cautious realism ontology, I share the view that it is difficult, if not impossible, to determine whether theories are true. The possible solution is to test proposed theories with data and refute those that cannot be proved (Popper, 1959; Popper, 1972). In falsification, critique is essential for strengthening scientific enquiry and for establishing the truth.

In this thesis, I build on the cautious realism ontology and the falsification epistemology to investigate how social capital, institutional and corporate governance logics can be used to understand how political ties affect cost of debt and institutional risk exposure. I believe this philosophical stance is useful for my research for two reasons. First, even though political connections exist, they are soft in nature and may not be captured or observed accurately. Hence, caution is required, especially when objective data is unavailable. Second, the animated debates about the outcomes of CPA (Rajwani and Liedong, 2015; Mellahi et al., 2016) reinforce the need for continuous falsification of existing or proposed CPA theories in order to reveal the "true" effect of CPA on organizational performance.

4.2 Research Strategy

According to Blaikie (2000), a research design must answer three basic questions: 1) what will be studied; 2) why will it be studied; and 3) how will it be studied. Among other things, the third question involves designing a research strategy. A research strategy, sometimes called a logic of enquiry, is necessary to ensure a researcher adopts a consistent and valid approach to answer research questions (Blaikie, 2000). It provides a starting point for addressing a research problem, and is one of the most important decisions researchers must make.

Blaikie (2000, 2007) identified four major strategies used in social science research, namely inductive, deductive, retroductive, and abductive strategies. Each of these strategies has its own philosophical and theoretical foundations, a unique set of ontological and epistemological assumptions, and a different logic of generating new knowledge. The inductive strategy is popularly used for conducting experiments. It starts with data collection, followed by data analysis and then the development of generalizations which are used to explain patterns (Hempel, 1966). This strategy is based on realist ontology which assumes that the world is made up of observable events that can be represented by universal propositions (Blaikie, 2007). Epistemologically, knowledge is created through objective human observation and experimentation (Mukherji and Albon, 2015) devoid of any preconceptions or biases (Durkheim, 1964; Harre, 1972). Inductive strategy is deeply rooted in physical and natural sciences where the major aim is to establish general laws. The retroductive strategy aims at exploring mechanisms and underlying structure to explain observed phenomenon. It is associated with the philosophical approach of Scientific Realism (Harre, 1977; Bhaskar, 1979) and is used to seek explanations (Buchanan and Bryman, 2009). The abductive strategy is used to understand social life through the accounts of social actors (Blaikie, 2000). Table 4-2 summarizes Blaike's research strategies.

Consistent with my realist ontology and epistemology, I chose the deductive strategy for this thesis. The deductive strategy, also known as the *hypothetico-deductive* method, is a method of conjecture and refutation. It was developed by Karl Popper (1959), the founding father of Critical rationalism (Blaikie, 2000; Ormerod, 2009). This strategy shares the same ontological assumptions with the positivist philosophical perspective, but derives its ontological and epistemological assumptions from cautious realism, falsification and critical rationalism (Blaikie, 2000). According to critical rationalism, nature and reality consist of

essential uniformities and complex causal relationships. This realist ontological assumption suggests that the aim of science is to find universal statements that truly describe the facts of nature or observed states of affairs (Blaikie, 2000). Popper (1959) argued that a theory holds unless proved otherwise. Hence the deductive strategy rests heavily on rigorous testing aimed at refuting rather than confirming theories (Faran and Wijnhoven, 2012). In this sense, a theory that is not capable of being tested cannot be called scientific. Similarly, for a theory to be scientific, it must be possible to falsify it. Epistemologically, theories are developed to account for observation, not derived from them. Researchers impose theories on the world, and use data and objective testing to reject false ones. Observations are therefore theory-dependent. In other words, observations are made from a reference point of view. Tentative questions and hypotheses are necessary to provide direction for data collection (Bryman, 2012). The kind of data collected is informed by theoretical ideas (Popper, 1972).

Table 4-2 Comparism of Research Strategies

	Inductive	**Deductive**	**Retroductive**	**Abductive**
Aim	To establish generalizations and patterns	To test theories and to eliminate false ones	To discover underlying mechanisms	To describe and understand social life
Ontology	Cautious, depth or subtle realist	Cautious or subtle realist	Depth or subtle realist	Idealist or subtle realist
Epistemology	Conventionalism	Falsification or Conventionalism	Neo-realism	Constructionism
Starting Point	Data	Theory	Theory	Data
Objectives:				
Exploration	Major			Major
Description	Major			Major
Explanation	Minor	Major		
Prediction	Moderate	Major		
Understanding				Major
Evaluation	Moderate	Moderate	Moderate	Moderate
Assess impacts	Moderate	Moderate	Moderate	Moderate

Source: Compiled by author based on Blaikie (2000, 2007)

Applying the deductive strategy to my thesis, I started by reviewing the literature and developing hypotheses that predict the direct and moderated impact of managerial political ties on cost of debt and institutional risk exposure. I also developed hypotheses to predict the

mediating mechanisms in the relationship between political ties and cost of debt. After, I collected relevant data and subjected my hypotheses to empirical scrutiny. Even though critical rationalism and the deductive strategy have been criticised for being too logical and stifling scientific creativity (Feyerabend, 1978; Blaikie, 2007), they provide a basis for the use of quantitative methods. Indeed, most questionnaire-based studies, like mine, use the deductive strategy (Blaikie, 2000)

4.3 Research Design

It is difficult to obtain archival or objective data in emerging countries (Wright et al., 2005). But over the past few years, increased public listing, proper data management and institutional strengthening in some emerging countries in Asia and the Americas have made secondary data available to researchers. In most African countries however, access to secondary data remains a problem (Klingebiel and Stadler, 2015). Bringing Ghana into context, there is no single comprehensive public register of firms in the country (Buame, 1996; Adomako et al., 2016). Similarly, there are not many databases that contain corporate information. The few public sources of firm-level information in Ghana are the Stock Exchange and company annual reports, but these sources have their limitations. For example, the Ghana Stock Exchange is small with only 42 listed companies, 10 of which are financial stocks. Private and informal firms, which are not mandated to disclose information to the public or publish their annual reports, dominate the business landscape. As stock market data and bank annual reports are the most readily available public information, scholarly research in Ghana is dominated by financial studies (Aboagye et al., 2008; Bokpin and Isshaq, 2009; Isshaq et al., 2009; Biekpe, 2011; Fiador, 2013). Strategy and management research is generally lacking in Ghana, just as it is in the rest of Africa (Mellahi and Mol, 2015).

Generally, CPA data is rarely available from secondary sources (Hillman and Wan, 2005), especially in emerging countries. In Ghana, archival data on political directorships is non-existent. In the same vein, data on corporate contributions to political parties is hard to obtain. Though the Political Parties Act 2000 requires all political parties to file annual returns and disclose their sources of funds, these annual reports are only accessible after paying a fee (Electoral Commission, 2015). Moreover, it is unlikely to obtain detailed information of companies that make donations to the political parties since this information is aggregated and reported. Therefore, the most possible way to study CPA in Ghana is to examine political ties, and since ties are "soft" in form, I used a survey to collect cross-sectional data. For

reasons already mentioned, surveys are the commonest tools used by researchers in Ghana (Ofori and Hinson, 2007; Acquaah, 2007; Acquaah, 2011; Kuada and Hinson, 2012; Robson et al., 2013; Adomako et al., 2016). Surveys have also been used to study CPA in other emerging countries (Peng and Luo, 2000; Puck et al., 2013; White et al., 2015). In the absence of archival data, it is acceptable to use self-reported information from reliable respondents (Peng and Luo, 2000).

Cognizant of the fact that objective financial data would strengthen some of my measures, I tried to follow earlier studies (Agyei-Mensah, 2016) and use annual reports of companies published in Ghana Club 100 (GC100), an annual list of the 100 best performing companies in the country compiled by the Ghana Investment Promotion Centre (GIPC) – an agency under the Office of the President. However, I found that majority of the companies in GC100 were not eligible to be included in my sample. This is because the GC100, since its launch in 1998, has always been dominated by banks, savings and loans companies and microfinance institutions. I also contacted the Registrar General's Department to request access to the annual returns filed by firms but my request was not granted for obvious reasons. First, there are unresolved issues (anonymity, etc.) about whether the reports of private companies should be made available for research purposes. Second, manual record keeping at the registry (World Bank, 2005) has made information search cumbersome, if not impossible. Hence the registry does not entertain the inconvenience. It is therefore not surprising that studies have occasionally drawn sample frames from the Registry (Boso et al., 2013) but have rarely used actual financial data from the Registry.

4.4 Survey Design

I designed a structured questionnaire containing only closed-ended questions because such questions provide uniformity (Babbie, 1990), enhance comparability (Bryman, 2012) and make processing easier (Brace, 2013). Open-ended questions could have returned results irrelevant to my intent and made coding difficult and time consuming. Such questions also require greater effort from respondents, which can put off prospective participants (Bryman, 2012). However, the danger with close-ended questions is the tendency to overlook some important items and miss interesting responses not covered by fixed answers (Bryman, 2012). Nonetheless, I employed strategies to ensure that the survey items measured the intended constructs. The questions were ordered so that less sensitive ones were asked first. Questions on political ties and financial information, the most sensitive set of questions, were asked

later. I used headings to enable respondents make sense out of the questions at every sub-section (Babbie, 1990).

The questionnaire development started with a review of survey-based studies. I first searched for existing scales which I could adopt or adapt. When I did not find a scale for a construct, I resorted to creating one using insights from the literature. In this respect, all scales included in the questionnaire are theoretically grounded. Important issues and general rules of thumb about ambiguous, long, leading, double-negative and double-barrelled questioning; the use of technical jargons; and questionnaire layout, aesthetics and length were all taken into consideration when designing the questions (Oppenheim, 1992; Timming, 2009; Dillman et al., 2009; Bryman, 2012). I also wrote a cover letter, co-signed by my supervisor, to introduce the purpose and significance of the survey. In this letter, our email addresses and phone numbers were stated and respondents were encouraged to contact us if they have any queries or need clarification.

After designing the questionnaire, I shared it with some finance and non-market strategy experts in the UK, US and Netherlands to check whether the items were appropriate for the constructs I wished to examine (Fowler, 1995). This was aimed to help in early identification of any validity problems (Galan et al., 2007). Two interesting suggestions were made by the experts. First, they recommended that I include questions that ask for objective financial information in order to accurately measure my financial variables. Second, they suggested that I replace "corporate political activity" with a more simplified term so that the respondents can understand. They also mentioned that the word "political" could restrain managers and harm response rate. I revised the survey accordingly, by requesting financial information and replacing CPA with "business-government relations", a less "frightening" term that is common among Ghanaians.

After addressing the comments of the experts, I followed best practice by putting the questionnaire through three phases of pilot testing in Ghana (Bryman, 2012; Brace, 2013). In the first stage, the questionnaire was self-administered to 10 senior managers to test whether the questions were understandable and also to test the validity of the questions vis-à-vis the Ghanaian environment (Mesquita and Lazzarini, 2008). At this stage, I found that most of the respondents skipped questions about Hillman & Hitt's (1999) 18 items which I intended to use to measure political strategies (Hillman and Wan, 2005; Puck et al., 2013). I also found that questions asking for financial data (actual amounts) were not answered. To understand

why these questions were skipped, I launched the second phase of pilot testing. In this stage, I selected and conducted face-to-face interviews with five of the 10 senior managers who participated in the first phase. The interviews enabled me to collect more information on (a) content validity; (b) ease of comprehension; and (c) discomforting and sensitive questions that might lower response rate. Some of the responses, shown below, proved useful as they helped me to refine the survey instrument.

"The questions on business-government relations are very prying. The level of detail requested is discomforting. As a matter of fact, it was difficult for me to disclose all of that detail regarding our connections with government and our involvement in politics" (Pilot Respondent B)

"We treat accounting information very confidential. As a private company, we don't disclose our financials to third parties except to our regulators or shareholders" (Pilot Respondent F)

Through the interviews, I realised that the questions respondents disapproved (and hence didn't answer) could harm the quality of responses for other questions or even the response rate of the entire survey. Hence, I replaced Hillman and Hitt's (1999) 18 items with a different scale of questions adapted from the literature. I replaced the questions that asked for hard financial data with scales. Afterwards, I entered the third phase of piloting where I re-tested the revised instrument with a different set of 10 senior managers. The response rate was good as no questions were skipped. This revised instrument was the final questionnaire used for data collection between August 2014 and December 2014 (see Appendix). As best practice, the 20 organizations involved in the pilot testing were excluded from the final sample (Bryman, 2012).

4.5 Sample and Data

There are not many comprehensive databases containing records of firms operating in Ghana (Buame, 1996). A couple of databases exist online, but their reliability is questionable as they fail to regularly update their records. I therefore used multiple databases to draw the sample, just like other studies have done in the past (Robson et al., 2013). Following prior studies, I developed the sampling frame from the Association of Ghana Industries Directory (Abor and Biekpe, 2007a; Adomako et al., 2016), Ghana Business Directory (Appiah-Adu, 1998; Appiah-Adu and Blankson, 1998; Acquaah, 2007; Boso et al., 2013), Ghana company register (Adomako et al., 2016) and Ghana Club 100 (Ofori and Hinson, 2007). To ensure

that the sampled firms are operational, I verified their tax paying status from a list of corporate tax payers obtained from the Ghana Revenue Authority. This verification was necessary since many inactive firms exist in Ghanaian company databases.

To be included in the sample, firms had to meet four important requirements. First, firms must be operational in Ghana for at least three years (Appiah-Adu and Blankson, 1998). This is to ensure that only "going-concerns" and viable firms are included in the research. Second, they must have borrowed from bank(s) in Ghana within the last three years (between 2011 and 2013). This requirement was used because the survey made reference to the past three years as the time frame for responses, a strategy aimed at avoiding biased responses based on one-off positive or negative experiences (Mesquita and Lazzarini, 2008; White et al., 2015). It was also aimed to capture potential lagged effects and reduce causal ambiguity. A similar approach was used by Robson et al. (2013) to explore credit rationing in Ghana. Third, contact information (phone number or email) must be available for the firms (Boso et al., 2013). Fourth, firms must have at least 5 employees. This minimum size requirement does not only reflect sample conventions in Ghanaian research (Robson et al., 2013; Boso et al., 2013), but it also ensures that "one-man" firms which are unlikely to have physical presence or offices are excluded from the sample.

Prior to data collection, I drafted 500 companies to conduct pre-screening, verify physical addresses and contact information. During this process, I could not find phone numbers or emails addresses for some of the firms. Similarly, physical addresses were barely available, as anticipated. After the pre-screening, 368 firms remained. Next, I tried to contact these firms on telephone to introduce the study and solicit their participation (Adomako et al., 2016). Some of the phone numbers contained in the directories did not exist. Also, some of the firms I managed to reach confirmed addresses different from the ones contained in the directories. This experience confirmed the obsolescence of the company directories in Ghana. On failing to reach a firm, I searched online or contacted associates to assist me locate or contact the firm. In the end, 300 companies were reachable and agreed to participate. This sample is relatively large when compared with similar studies conducted in Ghana (e.g. 232 firms for Appiah-Adu and Blankson, 1998; 200 firms for Acquaah, 2007; and 100 firms for Kuada and Hinson, 2012).

Data was collected from Chief Executive Officers (CEOs), Managing Directors (MDs) and Directors of Finance and Administration at the sampled firms between August 2014 and

December 2014. These executives were chosen as the respondents for a number of reasons. First, they are best positioned to have an overall picture of their organizations (Appiah-Adu and Blankson, 1998), including information about corporate governance, investment climate constraints and debt financing. Second, they have the best appreciation of their firms' political and business connections. Hence, they are usually the main respondents in social capital and CPA studies (Peng and Luo, 2000; Acquaah, 2007; Boso et al., 2013). Third, political connections are developed by corporate executives and are usually identified and defined at the top management level (Fisman, 2001; Faccio, 2006). During data collection, I developed a rota detailing name of firm; date questionnaire was delivered; agreed date for collection; follow-up contact number; and date the questionnaire was collected. This enabled me to track the data collection exercise.

It would have been cost effective to administer the survey online, but poor internet access and unreliable connectivity in Ghana made this impossible. Moreover, most firms in Ghana do not have websites and official email accounts. Furthermore there is no database that contains details and email addresses of senior managers in Ghana. According to the World Bank, only 12.3% of Ghana's population had internet access in 2013. In this regard, email culture, even in large organizations, is poor. Using the post did not also seem a good idea as postal services are slow and ineffective in Ghana. Mail delivery to physical addresses is difficult because address systems are poorly developed. Most organizations use post boxes which they check infrequently. Hence, the questionnaires and cover letters were delivered on-site and dates to collect the completed questionnaires were agreed with the respondents (an average of two days after delivery). When possible, I collected completed surveys on the day of delivery. On-site delivery enabled me to develop relationships and acquaintances which are crucial in emerging countries where trust influences survey participation. Surveys were self-administered so that respondents could have the time to consider their responses or look up more information (Brace, 2013). This "lax timing" and convenience is particularly important when respondents are asked to provide information for an entire firm. Moreover, self-administration ensures uniformity and anonymity (Dunning and Cahalan, 1973) and eliminates the effect of variability present in interviewer-administration (Bryman, 2012). The major downside of self-administration is high risk of missing data and the lack of opportunity for respondents to probe the questions. Also, the ease of respondents to read the whole questionnaire affects the true independence of the questions (Bryman, 2012; Brace, 2013). Nonetheless, as discussed next, I employed tactics to address these issues.

Following previous studies, I sought to maximize response to the survey through assurances of anonymity and confidentiality (Acquaah, 2007), offers to share results upon completion (Chan, 2005) and endorsements (Rochford and Venable, 1995; Hillman, 2003; Hillman and Wan, 2005). Often, researchers mistake anonymity and confidentiality to be the same, but they are different. Assurances of anonymity mean the researcher will be unable to identify the respondents and non-respondents of a survey while confidentiality mean the researcher will not divulge information to third parties (Babbie, 1990). In my case, I did not need to know the names of the senior managers who completed the questionnaires for their firms, but I needed to know which firms responded to the survey so that I can follow up in events of non-response. Hence, I assured anonymity to the respondents, and confidentiality to the firms. Assurances of anonymity are important in Ghana where corporate secrecy is common.

Due to the lack of objective secondary data for management research in Ghana, most researchers use surveys. Consequently, firms are usually ladened and inundated with too many questionnaires, resulting in respondent fatigue and nonchalance. It was therefore imperative for me to distinguish my survey from the pack, and to do that, I obtained endorsements from the Ghana Investment Promotion Centre (GIPC), the Association of Ghana Industries (AGI) and the Ghana Association of Bankers (GAB). These endorsees were strategically chosen to give credibility to the study. GIPC, an agency under the Office of the President of Ghana, is responsible for promoting private sector development and attracting foreign investment into the country. Its role in the Ghanaian business environment is significant. AGI is a business group made up of over 1200 small, medium and large scale firms operating in the manufacturing industry in Ghana. A powerful pressure group, AGI represents its members in policy discourses with government. GAB is the national association of banks operating in Ghana. Among its aims are to represent the banking community and to ensure a healthy performance of the industry, particularly in the area of credits. Though I expected the endorsements to improve response rates, I did not expect the endorsees to influence the responses. This is because respondents did not have to answer questions about the endorsees or about normative standards and values. Moreover, assurances of anonymity were enough to quell any fears of discrimination from the endorsees. A sample of the endorsement request is contained in Appendices.

Following the suggestion of Bryman (2012) to use monetary incentives to improve response rates, my supervisor agreed to offer senior managers who completed the survey a 30% discount on his executive development programme "*Creating Strategic Advantage*". This

programme is designed to teach and support managers to develop effective strategies for their firms, and we thought it was a relevant incentive for our target respondents. Our discount decision was firmly grounded on empirical evidence that monetary inducements encourage high response rates (Armstrong, 1975; Hansen, 1980; Zagorsky and Rhoton, 2008). In our case, the discount was aimed to have a twin effect: 1) increase participation in the research; and 2) create business for Cranfield School of Management through increased enrolment for the programme.

After several visits and phone calls, 188 surveys were collected. Nine surveys were unusable because they were poorly completed, leaving a final sample of 179. The final response rate of 59.6% compares favourably with other studies that have employed surveys in Ghana (e.g. 53% for Acquaah, 2007 and 37% for Appiah-Adu, 1998) or studies that have used surveys to examine CPA (e.g. 12% for Puck, Rogers and Mohr, 2013; 39% for Guo et al., 2014; 31.75% for Peng & Luo, 2000). Table 4-3 summarizes the stages of the sampling process.

Table 4-3 Sampling Process

Sampling Process	Sample Size
Initial stratified random sample	500
Sample after removing firms without contact information	368
Effective sample after telephone solicitations	300
Final sample after removing incomplete questionnaires	179

4.6 Sample Characteristics

As shown in Tables 4-4 and 4-5, the sample is made up of firms from 21 industries, and is thus highly representative of the private sector landscape in Ghana. The petroleum industry dominates with 35 firms, representing 19.6% of the entire sample. Publishing, airline and telecommunication industries contribute the lowest with 3 firms each. There are 99 local firms (55.3%) and 80 foreign owned firms (44.7%) in the sample. Majority of the firms (62%) borrowed from private banks only while only a few appointed a Big Four auditor (21.8%) within the three-year period covered by this study. These statistics are expected because there are more private banks in Ghana. Also, majority of the firms are expected to struggle to pay the high fees charged by top audit firms. It is interesting to note that only

22.3% of the firms in the sample have an employee or ex-employee from the financial services industry on their corporate boards. Unsurprisingly, 54.2% of the firms indicated that the CEO and the Board Chairman is the same person, which supports claims that CEO duality is highly prevalent in Ghana (Abor and Biekpe, 2007a; Abor and Fiador, 2013).

Table 4-4 Industry Distribution of the Sample

Industry	Frequency	Percent	Cumulative Percent
Agriculture/Agribusiness	4	2.2	2.2
Airline	3	1.7	3.9
Automobile	9	5.0	8.9
Chemicals	4	2.2	11.2
Fast-moving Consumer Goods	15	8.4	19.6
Telecommunications	3	1.7	21.2
Building & Construction	16	8.9	30.2
Education	5	2.8	33.0
Electricity & Energy	6	3.4	36.3
Foods, Drinks & Beverages	5	2.8	39.1
Hotels & Hospitality	6	3.4	42.5
Information Technology	4	2.2	44.7
Equipment Manufacturing	16	8.9	53.6
Mining & Minerals	6	3.4	57.0
Petroleum	35	19.6	76.5
Pharmaceuticals	9	5.0	81.6
Rubber & Plastics	7	3.9	85.5
Packaging, Distribution & Transportation	11	6.1	91.6
Publishing & Stationery	3	1.7	93.3
Steel	8	4.5	97.8
Textiles	4	2.2	100.0
Total	**179**	**100.0**	

Table 4-5 Sample Frequencies

Variable	Descriptors	Frequency	Percentage
Ownership	Local	99	55.3
	Foreign	80	44.7
Borrowing	Government Bank	68	38
	Private Bank	111	62
Auditing	Big Four Auditors	39	21.8
	Non-Big Four Auditors	140	78.2
Board	Financial Representation	40	22.3
	Non-Financial Representation	139	77.7
Management	CEO Duality	97	54.2
	CEO/Chair Separation	82	45.8
Structure	Public Affairs Function	111	62
	No Public Affairs Function	68	38

Table 4-6 shows some important descriptive information about the sample. On average, firms in the sample borrowed from three banks between 2011 and 2013. This statistic depicts how multiple banking relationships are the norm in Ghana. Rarely do organizations or individuals use the services of a single financial institution. The longest duration of a loan is 60 months (5 years) and the average is 16 months (a little over a year). It is interesting to see that firms borrow for as short as two months, perhaps not because they want it that way but because of high credit rationing in the country. Age of the firms varies from five years to 79 years, with a standard dispersion of about 12.5 years. On the average, the sample is 19 years old. The highest cost of borrowing is 35% and the average is 24%. A few firms in the sample however borrowed from banks for as low as 17%. Nevertheless, cost of debt is generally high. Besides the high interest rates charged by the banks, access to finance is limited. The mean score of 3.44 for access to finance is below the average for the 7-point Likert scale (which is 3.5).

A look at the mean values for managerial political ties and managerial financial ties reveals an interesting but unsurprising phenomenon. The data shows that firms seem to be more connected to politicians than they are to bank executives. This is because the power wielded by politicians in emerging countries is huge and can affect many outcomes, including loan market decisions. In Ghana, political ties can generate idiosyncratic and exclusive benefits, hence most individuals or organizations feel "secured" when they have such connections.

Table 4-6 Some Important Descriptive Statistics

Variable	Mean	Std. Deviation	Minimum	Maximum
Credit relationships	3.82	1.57	2	9
Duration of loans (months)	16.74	14.49	2	60
Value of collateral	4.91	1.71	1	7
Firm Performance	4.96	1.13	2.57	6.86
Managerial Political Ties	3.90	2.19	1	7
Managerial Financial Ties	3.03	0.95	1	7
Institutional Holding	2.08	1.51	1	5.83
Regulation	0.42	0.49	0	1
Interest Rate	0.24	0.04	0.17	0.35
Board Independence	0.15	0.13	0	0.5
Firm Size	4.56	0.62	3.09	5.86
Firm Age	19.17	12.62	5	79
Social Network Expansion	1.88	1.39	1	6
Access to Finance	3.44	1.58	1	7
Financial Reporting Quality	5.83	1.19	1	7
Non-financial Disclosure	2.00	0.74	1	4.5

4.7 Addressing Common Method Variance

In survey research, Common Method Variance (CMV) is an important concern (Sea-Jin et al., 2010). CMV is defined as “variance that is attributable to the measurement method rather than to the constructs the measures represent” (Podsakoff et al., 2003, p.879). Its presence can generate Type I and Type II errors and lead to systematic measurement errors. I addressed common method variance (CMV) by using seven methods at different stages of the study – questionnaire design, administration, and data analysis. First, because of the financial divergence potential (Hadani and Schuler, 2013; Guedhami et al., 2014), cronyism and corruption (Johnson and Mitton, 2003; Leuz and Oberholzer-Gee, 2006; Gul, 2006) associated with political ties, firms might be unwilling to disclose their political ties. I was therefore very careful with the wording of the questions. As much as possible, questions were diligently phrased to reduce social desirability bias (Podsakoff et al., 2003). I also availed my questionnaire for peer and expert evaluations, and ensured that ambiguous and unfamiliar terms were excluded (Harrison et al., 1996; Lindell and Whitney, 2001). Besides carefully wording the questions, I chose self-administration over interviewer-administration in order to reduce the high incidence of social desirability bias that is often associated with face-to-face interviews (Kellner, 2004; Brace, 2013).

Second, I measured my main independent and dependent variables using different scale ends (Podsakoff et al., 2003). While a Likert scale was used to measure political ties, cost of debt was measured as a rate (%). In some cases, I measured the same variable or construct using different criteria (Galan et al., 2007). For instance, I measured cost of debt as a rate (%) and also as a perceptual measure in order to avoid potential CMV since my independent variable is a perceptual measure (Sea-Jin et al., 2010). Additionally, the questions were ordered to reduce the likelihood of CMV across the independent, dependent and control variables (Barden et al., 2005). By ensuring that questions about the dependent and independent variables do not follow sequentially, I made it difficult for respondents to "create" variable correlations that could bias their responses (Wiklund and Shepherd, 2005; Sea-Jin et al., 2010).

Third, I followed earlier suggestions and reverse-phrased some of the questions (Field, 2013) by adding negative particles such as "not" and "no" (Swain et al., 2008) in order to reduce acquiescence bias whereby respondents agree or disagree with statements regardless of content or without scrutiny (Winkler et al., 1982). In essence, when all statements are positively-worded, there is a high tendency for yea-saying respondents to agree than to disagree (Wang et al., 2015). Reverse-phrasing works like a cognitive "speed ramp" which requires respondents to read more carefully (Kamoen et al., 2011) and be more controlled in their cognitive processing (Hinkin, 1995). Though some studies argue that reverse phrasing or negation of questionnaire items can lead to mis-response (Swain et al., 2008) and reliability problems (Barnette, 2000), there is evidence to show that it improves internal consistency by preventing biases in mean scores (Merritt, 2012), hence its acceptance and popular use in survey research (Allen and Meyer, 1990; Marsh, 1996; Billiet and McClendon, 2000). I suspected a high rate of acquiescence bias in Ghana because of the increased use of questionnaires and the expected respondent fatigue, thus my decision to negate some of the items so that respondents will read the questions more carefully.

Fourth, I delivered two surveys, to be independently completed by two different managers (CEOs and the deputies), to each sampled firm (Lee and Miller, 1999) in order to control for common rater biases (Podsakoff et al., 2003). Only 10 firms returned both questionnaires and inter-rater agreements were measured using Cohen's kappa (Cohen, 1960). The kappa statistic for all ten firms was statistically significant, and ranged from .818 to .944, indicating that responding managers had a "very good" agreement (Altman, 1991). Responses were thus averaged to derive a representative response for each of those 10 firms. In general, the high

level of agreement suggests that the remaining data from single respondents is reliable, as has been shown by other studies (Miller et al., 1997; Peng and Luo, 2000; Barden et al., 2005; White et al., 2015). In Ghana, single-respondents are commonly used to examine firm-level issues (Acquaah, 2007; Ofori and Hinson, 2007; Boso et al., 2013). In my case, I believe using multi-respondents per firm was out of the "norm".

Fifth and related to the above, I advised that while questions on political and social ties, governance and institutional risk should be answered by CEOs/MDs or their deputies, questions requesting financial information should be answered by financial controllers, finance directors or accountants (Acquaah, 2007). This approach followed recommendations to reduce single-rater bias by sourcing information on dependent, independent and control variables from different sources (Carraher et al., 2008; Sea-Jin et al., 2010).

Sixth, even though it was difficult to obtain secondary data, I triangulated some of the primary data using information from secondary sources. In management research, some topics can only be studied using perceptual measures, therefore limiting data options (Doty et al., 1993). For political ties, that was the case; triangulation was impossible in Ghana. But for financial measures, I tried to collect objective data and I was able to do this for the few publicly listed firms in my sample. With little success, I was also able to convince a few private firms to allow me see their annual report(s) on the spot.

Finally, the inclusion of moderation effects in most of my hypotheses reduces the effect of CMV. According to management scholars and methodologists, complex interactions are not predicted by CMV (Doty et al., 1993; Dooley and Fryxell, 1999). Complex relationships are likely to be out of respondents' cognitive maps (Harrison et al., 1996). Also, they are less likely to be part of respondents' theories-in-use (Sea-Jin et al., 2010). Because respondents are not able to guess the interactions that will be tested, they are not able to respond in a socially desirable matter (Murray et al., 2005) and this reduces the likelihood of CMV (Aiken and West, 1991).

I tested for non-response bias using the approach of Armstrong and Overton (1977) whereby I compared early and late-arriving completed surveys. I defined late-arriving questionnaires as those completed surveys I obtained after Week 10 of the data collection exercise. I had to constantly follow up to get them back. In some cases, I had to re-deliver questionnaires because the respondents could not locate the ones I delivered to them earlier. T-tests revealed

no significant difference for any key items or variables, thus ruling out the existence of systemic non-response bias.

4.8 Variables and Measures

Mentioned earlier, objective data is unavailable or difficult to obtain in emerging countries (Hoskisson et al., 2000), particularly when it relates to financial performance (Amoako-Gyampah and Boye, 2001) or political activity. In Ghana particularly, objective data is limited or unavailable because most of the firms are privately owned and do not provide information to the public; only 42 companies are listed on the stock exchange. I therefore relied on self-reported data for two reasons. First, subjective data is appropriate in situations where objective data is unavailable (Peng and Luo, 2000; Acquaah, 2007). Second, there is usually a strong and significant positive correlation between objective and subjective data (Dess and Robinson, 1984). In this respect, I adapted the measures in the survey from scholarly, peer-reviewed, published studies, and triangulated the primary data with secondary data where possible. Following previous survey-based studies conducted in Ghana (Acquaah, 2007; Kuada and Hinson, 2012; Boso et al., 2013; Adomako et al., 2016), all perceptual scales were measured on a seven-point Likert scale, and the scores of the items were averaged to create composite variables. Firms were asked to provide average responses for the past three years (2011 to 2013) in order to help minimize the effect of annual fluctuations (Roth, 1992) and annual variability in perceptions and experiences (Mesquita and Lazzarini, 2008)

In the next sections, I describe the variables and measures that have been used in all three empirical analyses of this thesis. To make the presentation clearer, the variables have been grouped under three headings: 1) Dependent Variables; 2) Independent variables; and 3) Control variables. A summary of these variables can be found in Table 4-7.

4.8.1 Dependent Variables

Cost of Debt: The corporate bond market in Ghana is barely existent. Just as it pertains in most emerging countries (Johnson and Mitton, 2003; Fraser et al., 2006), the main source of financing for firms in Ghana is bank borrowing. On my last check in February 2016, only two corporate bonds were traded on the Ghana Stock Exchange. Following Dygryse and van Cayseele (2000), Bliss & Gul (2012), and Infante and Piazza (2014), I measured cost of debt as the interest rate firms are charged when they borrow. Respondents (financial directors and

accountants) were asked to state their firms' three-year average interest rate on loans obtained from banks operating in Ghana (converted to decimal units for multivariate analysis). As mentioned previously, a Likert was also used to measure perceptions of level of interest rates. After determining that the numerical interest rates and perceptual level of interest rates are significantly and positively correlated, I decided to use the numerical rate. Any loans from banks outside of Ghana were excluded. Of course, local political connections could be useful for international borrowing but conventional wisdom holds that local political patronage yields stronger financing benefits on home turf (Leuz and Oberholzer-Gee, 2006). Considering how interest rate regimes differ across the world, excluding foreign borrowing allowed for a robust and fair comparison across the firms.

Access to Finance: Access to finance ($\alpha = 0.96$) is a big impediment to private sector development in emerging countries, particularly in Africa (Aryeetey, 1998; African Development Bank, 2013). Following previous studies, I measured this variable using four items. First, two items (positive and negative) were taken from Wiklund and Shepherd (2003; 2005) to measure the extent to which managers are satisfied with their firms' access to debt finance and the adequacy of debt finance for their firm's development. These items have been used in other studies (Adomako et al., 2016). Second, drawing on credit rationing literature (Jaffee and Russell, 1976; Stiglitz and Weiss, 1981), it became apparent that when access to finance is constrained and credit is being rationed, banks either: 1) refuse to grant credit; 2) grant credit but reduce the amount; or 3) grant the full amount. Since all firms in the sample have borrowed in the last three years, the first option is not relevant to this study, but the second and third options are. I therefore adapted one item from Robson et al. (2013) to measure the extent to which firms are given the full loan amounts they apply for. Loan proceeds less than the full amount will suggest credit rationing. Third, when firms harbour fears that their loan applications will be rejected, they become discouraged to apply for credit (Kon and Storey, 2003; Han et al., 2009). This negative feeling impedes access to finance; hence I developed a subjective item from Raturi and Swamy (1999) to measure the extent to which firms are discouraged to apply for bank loans due to fears of refusal. All four items for this variable are measured on a seven-point Likert scale ranging from (1) "strongly disagree" to (7) "strongly agree".

Institutional Risk Exposure: Drawing on previous studies (Schwens et al., 2011; Puck et al., 2013) and incorporating insights from The World Bank Enterprise Survey (WBES) and the International Country Risk Guide (ICRG) methodology, I developed an 11-item scale for

Institutional Risk Exposure (α = *0.90*). Firms were asked to indicate the extent to which certain political, economic and legal factors are obstacles to their operations, on a scale ranging from (1) “minor obstacle” to (7) “major obstacle”. While previous studies, particularly international business (IB) studies have treated institutional risk at the country or industry level (see Schwens et al., 2011), I conceptualized and operationalized this construct at the firm level for a salient reason. Insights from resource-based view theory suggest that firms are not equally resourced; while some are resource-rich, others are resource-constrained. Due to this heterogeneity, perceptions or exposure to business barriers will differ among firms even if they operate in the same country or industry. More precisely, varying embeddedness in political networks or implementation of CSR practices will cause firms to have different views of their business environments. Using this same logic, Wocke and Medley (2015) examined uncertainty of firms in the South African Health Sector. Puck and colleagues (2013) also examined the exposure of multinational firms in emerging countries. Both studies measured risk exposure as a firm-level variable, not a national or industry-level variable.

4.8.2 Independent Variables

Managerial Political Ties: The study initially intended to use Hillman and Hitt’s (1999) 18 items as applied by other studies (Hillman and Wan, 2005; Puck et al., 2013) to measure political strategies but pilot studies and interviews revealed that firms in Ghana were uncomfortable with the level of detail requested or exposed by the items, and therefore did not respond to the questions. Hence I followed Peng & Luo (2000), Li, Poppo, & Zhou (2008b) and Guo et al. (2014) and developed a three-item scale to measure *Managerial political ties* (α = *0.94*). Respondents were asked to indicate their level of agreement with (a) investing in building ties with government officials (b) spending time dealing with government officials and (c) making efforts to ensure good relations with government officials. These were measured on a scale ranging from (1) “strongly disagree” to (7) “strongly agree”.

Managerial Financial Ties: This variable is original and has not been previously used. The measures were therefore developed through insights from the literature. The closest variable to financial ties is *business ties* which previous studies measure as the extent to which managers interact with counterparts including suppliers, competitors, customers and distributors (Peng and Luo, 2000; Yiu et al., 2007; Boso et al., 2013). This business ties

measure has little relevance for my research because it is generic. With my focus on ties to managers in the financial services industry, I measured *managerial financial ties* (α = *0.87*) by asking respondents to indicate the extent to which they have developed relationships with managers of various institutions including commercial banks, mutual funds, pension funds and the central bank on a scale from (1) "very little" to (7) "very much".

Corporate Social Responsibility: CSR is a non-market strategy which can complement CPA in risk reduction (Hond et al., 2014; Liedong et al., 2015). Since actual measures of CSR are difficult to obtain (Carroll, 2000), particularly in emerging countries, I measured *CSR* (α = *0.80*) by adopting the subjective items and scale developed by Turker (2009). This scale comprehensively captures firms' CSR to society, natural environment, future generations, employees, customers and government. It has been widely used by other researchers (cited by 445 studies as of February 2016). Respondents were asked to indicate their level of agreement with the items on a scale ranging from (1) "strongly disagree" to (7) "strongly agree".

Government-owned bank, Big Four Auditor, PA Function, **and** ***Financial representation*** were defined by dummy variables, coded 1 for respectively borrowing from government-owned banks, appointing Big Four auditors, having a public/government affairs department, and having a past or current employee of the financial services industry on the corporate board. For government-bank borrowing, firms were asked to indicate whether they have borrowed from the three State-owned banks (Ghana Commercial Bank, Agricultural Development Bank and National Investment Bank) within the past three years. For Big Four variable, firms were asked to indicate whether or not they have sought the services of any of the Big Four auditors (PricewaterhouseCoopers, KPMG, Deloitte and Ernst & Young) within the past three years. To pry deeper into government bank borrowing and financial representation, firms were asked to state the proportion of loans (in relation to total loans) they obtained from State-owned banks. They were also asked to indicate the number of board members with financial experience and their cumulative wealth of financial experience.

Regulation: Following Hadani & Schuler (2013), *regulation* is defined by a dummy, coded 1 for firms operating in highly regulated industries (telecommunications, mining, oil and gas, chemicals, pharmaceuticals, utilities).

Social Network Expansion: The desire by banks to expand their social networks, particularly their networks of politicians, can mediate the relationship between political ties, access to

finance and cost of debt. *Social network expansion* (α = *0.96*) is an original variable that has not been used in previous studies. To measure it, I asked respondents to indicate how frequent banks relate with their firms in the following ways: a) soliciting referrals and introductions to elected officials from their firm's executives, b) requesting direct support from their firm's executives in order to affect a policy issue, and 3) utilizing the networks of their firm's executives to mobilize grassroots support for a policy issue. These were measured on a seven-point Likert scale ranging from (1) "strongly disagree" to (7) "strongly agree".

Financial Reporting Quality: There is rampant non-compliance in filing annual returns by firms in Ghana. There are also concerns about the quality of financial reporting in connected firms. This variable therefore aims to capture the responsibility of firms to stakeholders, including government and investors. There is no consensual definition of financial reporting quality (Chen et al., 2011). Prior studies have measured reporting quality (α = *0.91*) by studying accounting data, specifically accruals quality (Garrett et al., 2014; Filip et al., 2015; Abbott et al., 2016), but due the absence of accounting data, I measured this variable using a scale of statements developed from the literature. Defining reporting quality as 'the usefulness of financial statements to investors, creditors, managers, and all other parties contracting with the firm" (Ball and Shivakumar, 2005, p.84) and acknowledging the different elements of reporting quality (Givoly et al., 2010; Chen et al., 2011), I asked firms to indicate their level of agreement with statements about a) financial reports meeting reporting standards; b) financial reports prepared in a timely manner; c) expenditure and losses recognized immediately they occur; and d) revenues deferred until they are verified. Respondents were asked to indicate their level of agreement to the statements on a scale ranging from (1) "strongly disagree" to (7) "strongly agree". My measurement of this variable covers the key issues in financial reporting quality, including earnings management, accounting conservatism and reporting standards (Givoly et al., 2007; Chen et al., 2011), and satisfies the requirement that no single item can capture reporting quality (Givoly et al., 2010). Putting mediation into perspective, quality reporting is expected to lead to lower cost of debt.

Non-Financial Disclosure: A scan of the literature revealed that there is no existing scale for measuring non-financial disclosure. Guided by EU Non-financial reporting guidelines, UN Global Compact, and OECD Guidelines for Multinational Enterprises, I developed an original measure for this variable (α = *0.86*). Respondents were asked to indicate the extent to which they agree that their firms voluntarily disclose information on related party

transactions, conflicts of interests, external risk assessments, and anticorruption and bribery. The items were measured using a scale ranging from (1) “strongly disagree” to (7) “strongly agree”.

Board Independence: Following previous studies (Abor and Biekpe, 2007a; Kyereboah-Coleman and Amidu, 2008; Bokpin, 2009; Bokpin and Isshaq, 2009; Abor and Fiador, 2013), I defined board independence as the ratio of independent/non-executive directors to total number of board members. Respondents were asked to state the size of the corporate board and the number of non-executive directors on the board. **CEO duality** was measured as a dummy variable, taking the value of 1 for firms with CEO and board chairperson positions occupied by an individual and 0 if otherwise.

4.8.3 Contingency/Control Variables

I controlled for a number of variables that can influence: 1) firms’ ability to acquire low cost debt, and 2) firms exposure to institutional risk exposure. The following control/contingency variables are used in this thesis. While some apply to all three empirical analyses, others are specific to particular studies.

Financial Performance: Strong financial performance can reduce cost of debt for firms. I tested this by including the variable *Financial Performance* ($\alpha = 0.93$). Private firms in Ghana and in other emerging countries are often reluctant to provide financial information (Amoako-Gyampah and Boye, 2001). Like previous researchers (Acquaah, 2007), my request for objective financial data was unsuccessful. I therefore followed other studies (Li and Zhang, 2007; Acquaah, 2007; Guo et al., 2014) and asked respondents to rate the performance of their firms vis-à-vis their competitors on seven items (return on assets, return on equity, return on sales, growth in productivity, growth in market share, growth in sales and growth in net income) measured on a scale ranging from (1) “much worse” to (7) “much better”. This approach of using subjective measures of firm performance is popular in survey research (Park and Luo, 2001; Murray et al., 2005; Boso et al., 2013). By asking firms to compare themselves to their competitors, industry effects are minimized (Dess et al., 1990). It is worth reiterating that the financial performance data was solicited from a different set of respondents (finance directors and accountants) in order to minimize common method variance.

Institutional Shareholders: Institutional shareholders, through their large shareholdings, are able to monitor firms, take corrective actions, and reduce agency costs (Schleifer and Vishny, 1986). Managers of firms that have large institutional shareholding are more likely to focus on shareholder wealth and less likely to seek personal gains (McConnell and Servaes, 1990; Almazan et al., 2005). Consequently, institutional shareholding improves firm performance (Smith, 1996; Elyasiani and Jia, 2010) and reduces cost of debt (Elyasiani et al., 2010). The large stakes of institutional shareholders also motivates them to help their firms succeed, which includes providing the necessary guidance or assistance for the firms to overcome institutional constraints and risks. I therefore included *Institutional ownership* ($\alpha = 0.94$) as a control variable in all three empirical studies. Due to the absence of objective data which most studies use to measure institutional ownership (Hoskisson et al., 2002; Goranova et al., 2010; Hsiang-Lan et al., 2014), I measured this variable by asking respondents to indicate the extent to which Pension Funds, Mutual Funds, Insurance companies, Charities, and Private Equity Firms hold shares in their companies on a Likert scale ranging from (1) "very low" to (7) "very high". The typology of institutional investors used for the scale was adapted from Bennett et al. (2003). With little success, I also asked respondents to state the total percentage of shares owned by institutions (David et al., 2001).

Credit Relationships: As embeddedness in dense networks facilitate information exchange and facilitate access to finance (Uzzi, 1997; Uzzi, 1999), firms that borrow from multiple banks may benefit low interest rates since competition between the banks may reduce rent extraction and prevent a single bank from charging above-market rates (Von Thadden, 1994; Dygryse and Van Cayseele, 2000). Conversely, multiple borrowing relationships may signal low borrower quality (Bris and Welch, 2005) and can lead to high interest rates. I measured *credit relationships* by asking respondents to state the number of banks in Ghana from which their firms have borrowed funds.

Collateral Value: Collaterals provide security for loans. Highly valued collaterals could therefore improve access to finance and reduce interest rates (Talavera et al., 2012; Cull et al., 2015). Due to the general lack of data on collateral values, previous studies have used dummies (Dygryse and Van Cayseele, 2000; Chen et al., 2014) and total fixed assets (Talavera et al., 2012) or ratio of fixed assets to total assets (Yeh et al., 2013) as proxies for collateral. In my study, a dummy would not be useful since almost all firms in Ghana have to pledge collateral for loans. Also, financial data on total assets was unavailable. I therefore measured *Collateral value* by asking respondents to indicate the perceived value of collateral

(in relation to total assets) their firms pledged for loans on a scale from (1) “very low” to (7) “very high”.

Ownership: Firm ownership can have implications for access to finance and exposure to risk. In emerging countries, foreign firms or subsidiaries of foreign firms are expected to be better governed than local firms. This expectation is grounded in political-CSR whereby multinational enterprises (MNEs) promote institutional entrepreneurship and development (Scherer and Palazzo, 2011; Frynas and Stephens, 2015). They also have access to finance in their home countries, and hence should not rely much on local sources of finance in host countries. Banks will therefore treat foreign firms favourably. Conversely, the liability of foreignness is well documented in international business literature (Bell et al., 2012; Wocke and Moodley, 2015). Among other things, it is believed that foreign firms have a high exposure to risk, particularly discrimination and expropriation (Puck et al., 2013). To account for the effects of foreignness, I included *Ownership* which was defined by a dummy variable, coded 1 for foreign firms (more than 50% of the firm held by a foreign investor) and 0 for local firms (50% or more of the firm held by a local investor).

Firm Age: Firm age can facilitate the acquisition of knowledge and experience (a steep learning curve) which can help reduce cost of debt. Moreover, long existence can enable firms to build long-term relationships with lenders or develop good credit histories (Bliss and Gul, 2012). Firm age has also been used as a proxy for visibility (Hansen and Mitchell, 2000), credibility (Hillman et al., 1999; Hillman, 2003), and reputation (Boddewyn and Brewer, 1994; Dygryse and Van Cayseele, 2000), all of which positively affect firm performance (Wocke and Moodley, 2015) and improve access to finance. With respect to risk exposure, longevity can enable a firm develop important relationships (Acquaah, 2007) and build a strong constituency (Keim and Baysinger, 1988) which can be used to overcome institutional constraints and other liabilities (Wocke and Moodley, 2015). Following previous studies (Hillman, 2003; Acquaah, 2007; Wocke and Moodley, 2015), I measured *Age* as the number of years the firm has been operational in Ghana.

Firm Size: Size has implications for all three empirical analyses of this thesis. First, size is a proxy for information opaqueness and information asymmetry (Han et al., 2009). As the collection of private information for small firms is costly (Ang, 1991), cost of debt is expected to be high. Second, size is an antecedent of CPA (Hillman et al., 2004) and a proxy for resource endowment (Boddewyn and Brewer, 1994; Hillman and Hitt, 1999). Not only

does the possession of vast resources improve creditworthiness, but it also helps firms to engage with politicians in order to reduce uncertainty (Hillman, 2003). Following previous studies (Peng and Luo, 2000; Murray et al., 2005; Acquaah, 2007; Yiu et al., 2007; Boso et al., 2013), *Firm size* was operationalized as the logarithm of the number of employees.

Insert Table 4-7 here. See page 102

4.9 Construct Validity and Reliability

Validity and reliability are important issues that need to be addressed in research. In simple terms, reliability refers to the consistency of a measure of a concept while validity refers to how well an indicator (or set of indicators) gauge or measure a concept (Bryman, 2012). Because survey studies usually measure latent constructs using scales of multiple items, questionnaires must be robustly designed (Brace, 2013). I performed several tests to ensure that that my constructs are reliable and valid. First and prior to statistical tests, most of the measures for the constructs were obtained, adapted or developed from the literature, thus ensuring reliability and validity (Murray et al., 2005). I also insisted that only senior managers completed the questionnaire. This approach during the survey administration stage was to ensure that accurate information is collected from appropriate respondents (Peng and Luo, 2000). On the average, respondents worked at their respective companies for 6.5 years, suggesting that they are knowledgeable of their firms' debt profile and political ties.

Second, I performed an exploratory factor analysis (EFA) on all relevant survey items using the Varimax (orthogonal) rotation method to measure construct validity (Acquaah, 2007), item appropriateness (White et al., 2015) and unidimensionality of the constructs and their measurement items (Murray et al., 2005; Field, 2013). I started by assessing the individual factor structure for the constructs. To do this, I performed EFA on each and every construct (Yiu et al., 2007). As shown in Table 4-8, all items loaded significantly on their underlying factors. The amounts of variance explained by the items are high, ranging from 67.58% to 93.02%. Internal consistency of the items was measured for all scales using Cronbach's alpha. A Cronbach coefficient of 0.70 was typically considered adequate (Nunnally, 1978), but this minimum acceptable reliability was revised upwards to 0.80 (Nunnally, 1993). All of the scales have reliability scores even above the revised threshold (the lowest and highest Cronbach alphas are 0.86 and 0.96 respectively).

Insert Table 4-8 here. See page 103

Following the EFA on individual constructs, I performed a global EFA on the major constructs to assess their true uniqueness and unidimensionality (Acquaah, 2007; White et al., 2015). This time, all items relating to the main constructs were included in the factor analysis. Following Kaiser's (1960) criterion which has become the default in most statistical software packages and the convention in EFA (Field, 2013), only factors with eigenvalues of 1 and above were retained. The results, in Table 4-9, show that the items load on seven distinct factors (constructs) as previously defined, with loadings ranging from 0.74 to 0.91. These loading are high above the conventional cut-off of 0.40 used or suggested by researchers (Field, 2013; White et al., 2015). Sample size can affect the accuracy of EFA results (Comrey and Lee, 1992). I therefore assessed the adequacy of the sample to provide a stable factor solution by studying the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (Kaiser, 1970). KMO measures the ratio of the squared correlations to the squared partial correlations between variables. Values closer to 1 indicate that an adequate factor solution can be obtained from the sample (Field, 2013). The KMO statistic was 0.82, which is well above the recommended 0.50 (Kaiser, 1974). Moreover, as the factor loadings are above 0.60, the sample is adequate and reliable (Guadagnoli and Velicer, 1988). I further performed the Bartlett's test of sphericity to confirm that the correlation matrix of the data is significantly different from an identity matrix. In sum, high loadings, coupled with high Cronbach alphas, support convergent validity and show that the measurement items used in the survey are reliable (Hair et al., 1998).

Even though the global EFA analysis shows that one factor does not emerge from the data and hence suggests common method variance is not a problem, I still performed the Harman's (1967) single factor test by loading the dependent and independent variables into another EFA. If CMV is present, one factor is expected to emerge from the EFA or one factor is expected to account for much of the variance in the data (Podsakoff and Organ, 1986). The EFA revealed multiple factors, with Factor 1 accounting for 15.41% of the variance. This shows that variance in the data cannot be attributed to a single factor (Podsakoff et al., 2003). I also observed the scree plot of the EFA (Li and Zhang, 2007) to further confirm the factor structure of the survey, and to ensure that CMV is not a problem.

Insert Table 4-9 here. See page 104

Third, I subjected the identified factor structure of the constructs to hypothesis testing by performing Confirmatory Factor Analysis (CFA). CFA is different from exploratory factor analysis (EFA) because it is theory-driven. In this respect, CFA requires a researcher to develop hypotheses about factor structures prior to any statistical analysis. In survey studies, researchers first explore factor structures using EFA before they employ CFA techniques to confirm or check the consistence of the measurement items underlying a factor. Following prior studies and accepted conventions in survey research (Murray et al., 2005; Boso et al., 2013; White et al., 2015), I tested the priori hypotheses about the relatedness of the survey items to the constructs. In CFA, besides checking the fit statistics of the measurement models, two important statistics of reliability are worth calculating. They are: 1) Average Variance Extracted; and 2) Composite Reliability.

Composite reliability (CR) is a measure of the overall reliability of a construct (Fornell and Larcker, 1981). It estimates the extent to which a set of items share in the measurement of a latent construct (Hair et al., 1998). In essence, CR is a measure of the reliability of a set of heterogeneous but similar items. Traditional reliability measures such as the Cronbach alpha are obtained under assumptions that all factor loadings and error variances are constrained to be equal to 1, and thus may under or overestimate reliability (Raykov, 1997; Raykov, 1998; Raykov, 2001). For instance, the Cronbach alpha is typically interpreted as a lower-bound estimate of reliability, and could be misleading if constructs are multidimensional (Miller, 1995). CR varies from 0 to 1, where high scores denote strong reliability. Conventionally, a reliability of 0.70 is considered adequate. Following earlier studies (Murray et al., 2005; Yiu et al., 2007), I used the approach of Fornell and Larcker (1981) to compute CR:

$$\text{CR} = \frac{(\sum standardized\ loading)^2}{(\sum standardized\ loading)^2 + (\sum indicator\ measurement\ error)}$$

Average Variance Extracted (AVE) measures the amount of variance captured by the measurement items of a construct in relation to the variance caused by random measurement error (Fornell and Larcker, 1981). Similar to CR, AVE varies from 0 to 1. Extracted variances above 0.50 indicate that the measurement items and the construct are valid (Fornell

and Larcker, 1981; Dillon and Goldstein, 1984; Bagozzi, 1991). I used the approach of Fornell and Larcker (1981) to compute AVE:

$$\text{AVE} = \frac{\sum(standardized\ loading^2)}{\sum(standardized\ loading^2)+\sum(indicator\ measurement\ error)}$$

As shown in Table 4.10, the computed CR and AVE for the constructs are above the generally accepted thresholds of 0.70 (for CR) and 0.50 (for AVE) (Fornell and Larcker, 1981; Hair et al., 1998). These results confirm that the measures and constructs are reliable for use in further analyses. Measurement models were specified for all the empirical studies of this thesis. The fit statistics (CFI, NFI, IFI, and RMSEA) and X^2 significance were interpreted according to generally accepted rules (Bentler and Bonett, 1980; Anderson and Gerbing, 1988). The results show that the models fit the data. High factor loadings and high AVE values (above construct correlations) provide support for convergent validity and discriminant validity (Fornell and Larcker, 1981; Murray et al., 2005).

Insert Table 4-10 here. See page 105

4.10 Overview of Analytical Approach

The questionnaires were coded and entered into IBM's Statistical Package for Social Sciences (SPSS) for onward analysis. The sample size of 179 is large enough for regression analysis, per the rule of thumb of 10 cases for each predictor (Field, 2013). I applied the sample size assumption of the central limit theorem and employed parametric analysis (Lumley et al., 2002; Field, 2013). To establish association between dependent and independent variables, hierarchical multiple, moderated and mediated regression analyses were performed.

In order to ensure robustness of the Models, I performed casewise diagnostics to check the residuals for bias using a stringent criterion of ±2 instead of the default criterion of ±3 in SPSS. The results show that around 95% of the cases have standardized residuals within the criterion, a finding consistent with ordinary samples (Field, 2013). I also checked whether any cases exert undue influence over the parameters of the Models by analysing Cook's distances (Cook and Weisberg, 1982), Mahalanobis distances (Barnett and Lewis, 1978) and leverage (Stevens, 2002). I found no influential cases. As recommended in moderated

regressions, I mean centred the variables (lower-order terms) before creating the interactions (higher-order terms) (Aiken and West, 1991; Cohen et al., 2003). There were no problems of multicollinearity as Variance Inflation Factors (VIFs) were less than 10 (Bowerman and O'Connell, 1990; Hair et al., 1998; Field, 2013).

Additionally, I checked for problems of endogeneity by measuring autocorrelation of the residuals of the predictor variables using the Durbin-Watson test (Durbin and Watson, 1951). The result for all the Models is closer to 2, indicating that serial correlation does not affect the robustness of the findings (Field, 2013). This approach showed that endogeneity from auto-regression or autocorrelation does not affect the findings of this thesis.

To further check the robustness of the models and to avoid any negative implications of violating normality and homoscedasticity assumptions, I re-run the regressions by performing bootstrapping using 1000 bootstrapped samples and estimating a 95% bias corrected and accelerated confidence interval for the coefficients (Elfron and Tibshirani, 1993; Wright et al., 2011). The significance of the coefficients did not change dramatically in the bootstrapped Models, indicating that the coefficients are an accurate estimate of the true population (Field, 2013).

Table 4-7 Summary of Variables and Measures

Variable	Measure	Source
Managerial Political Ties	Three-item scale (see questionnaire in Appendix)	Peng & Luo (2000); Guo et al. (2014); Li et al. (2008)
Managerial Financial ties	Four-item scale (see questionnaire in Appendix)	Original, but developed from literature (Peng and Luo, 2000; Yiu et al., 2007; Boso et al., 2013)
Cost of Debt	Three-year average interest rate on loans	Dygryse and van Cayseele (2000); Bliss & Gul (2012); Infante and Piazza (2014)
Access to Finance	Four item scale (see Appendix	Wiklund and Shepherd (2003; 2005); Robson et al. (2013); Raturi and Swamy (1999)
Institutional Risk Exposure	11-item scale (See questionnaire in Appendix)	Schwens et al. (2011); Puck et al. (2013); World Bank Enterprise Survey (WBES); International Country Risk Guide (ICRG) methodology
Corporate Social Responsibility	18-item scale (See questionnaire in Appendix)	Turker (2009)
Government-bank borrowing	Binary whereby 1 = borrowing from State-owned banks and 0 = otherwise	Khwaja & Mian (2005)
Big Four Auditor	Binary whereby 1 = audited by a Big Four firm and 0 = otherwise	Developed from literature (Effiezal et al., 2011; Guedhami et al., 2014)
PA Function	Binary whereby 1 = having a public affairs department and 0 = otherwise	Developed from literature (Lawton et al., 2014)
Financial Representation	Binary whereby 1 = having a financial expert on the board and 0 = otherwise	Developed from literature (Hillman, 2005)
Size of Financial Representation	Number of Financial Representatives	Developed from literature (Stearns and Mizruchi, 1993; Sisli-Ciamarra, 2012)
Depth of Financial Representation	Combined experience (years) of Financial Representatives	Developed from literature (Stearns and Mizruchi, 1993; Sisli-Ciamarra, 2012)
Regulation	Binary whereby 1 = highly regulated industry and 0 = otherwise	Hadani & Schuler (2013)
Social Network Expansion	Three-item measure (see questionnaire in Appendix)	Original, but developed from literature (Hillman, 2005; Houston et al., 2014)
Financial Reporting Quality	Four-item scale (see questionnaire in Appendix)	Original, but developed from literature (Givoly et al., 2010; Chen et al., 2011)
Non-financial Disclosure	Four-item scale (see questionnaire in Appendix)	Original, but developed from literature (EU Non-financial reporting guidelines, UN Global Compact, OECD Guidelines)
Board Independence	Ratio of non-executive directors to board size	Abor & Biekpe (2007); Bokpin (2009)
Firm Performance	Seven-item scale (see questionnaire Appendix)	Acquaah (2007); Guo et al. (2014)
Credit Relationships	Number of banks from which firms borrow	Original, but developed from literature (Dygryse and van Cayseele, 2000)
Collateral Value	Perceived value of collateral in relation to total assets	Yeh et al. (2013); Talavera et al. (2012)
Ownership	Binary whereby 1 = foreigner owning more than 50% of firm and 0 = otherwise	Adapted from Acquaah (2007)
Firm Age	Years the firm has been operational in Ghana	Hillman (2003)
Firm Size	Natural log of number of employees	Acquaah (2007); Boso et al. (2013)
Institutional Holding	Six-item scale (see questionnaire in Appendix) Proportion of shares held by institutions	Developed from literature (Bennet et al., 2003; David et al. 2001)

Table 4-8 Constructs, Measures and Reliability

Construct	Measurement Items	Factor Loadings	Variance Explained (%)	Cronbach Alpha
Managerial Political Ties			89.14	0.94
	Spending time dealing with gov't affairs	0.95		
	Investing in relationships with gov't officials	0.94		
	Maintaining good relationships with gov't officials	0.94		
Managerial Financial Ties			71.65	0.87
	Ties to Mutual Funds	0.87		
	Ties to Bank of Ghana	0.84		
	Ties to Commercial Banks	0.84		
	Ties to Pension Funds	0.84		
Access to Finance			88.89	0.96
	Access to finance adequate	0.95		
	Discouraged to apply for loans	0.95		
	Full loan amounts given by banks	0.94		
	Access to finance insufficient	0.94		
Firm Performance			72.98	0.93
	Return on assets	0.90		
	Growth in net income	0.89		
	Growth in productivity	0.88		
	Growth in sales	0.88		
	Return on sales	0.86		
	Growth in market share	0.83		
	Return on equity	0.75		
Institutional Holding			79.47	0.94
	Shares held by Pension Funds	0.93		
	Shares held by Insurance companies	0.92		
	Shares held by Mutual Funds	0.91		
	Shares held by Endowment Funds	0.89		
	Shares held by Charities	0.87		
	Shares held by Private Equity Firms	0.84		
Financial Reporting Quality			79.56	0.91
	Expenses and losses recognised immediately	0.92		
	Financial reporting done timely	0.90		
	Revenues deferred until verified	0.89		
	Financial reports meet acceptable standards	0.86		
Non-financial Disclosure			70.18	0.86
	Disclosure of conflicts of interest	0.85		
	Disclosure of anti-corruption policy	0.85		
	Disclosure of related party transaction	0.84		
	Disclosure of external and business risk assessments	0.81		
Social Network Expansion			93.02	0.96
	Banks utilizing political network of company executives	0.98		
	Banks soliciting company assistance on policy issues	0.97		
	Banks soliciting political referrals from company	0.95		

Table 4-9 Global Factor Analysis

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7
Firm Performance							
Growth in productivity	**.88**				.14		-.13
Return on assets	**.87**	.13	-.16		.14		
Growth in sales	**.87**				.20		
Growth in net income	**.85**	.16			.16		.13
Growth in market share	**.84**						
Return on sales	**.81**	.19			.16		.10
Return on equity	**.74**	.20	-.14				
Institutional Holding							
Shares held by Mutual Funds		**.92**	-.11				
Shares held by Pension Funds	.14	**.90**	.24				
Shares held by Charities		**.87**	-.11	.13			
Shares held by Insurance companies	.28	**.87**	.19				
Shares held by Endowment Funds	.15	**.84**	.32				
Shares held by Private Equity Firms	.12	**.83**					
Managerial Financial Ties							
Ties to Comm. Banks		-.19	**.83**		-.15		.15
Ties to Pension Funds	-.11	.14	**.80**	.14			.16
Ties to Mutual Funds			**.80**	.24	-.13		
Ties to Bank of Ghana		.14	**.78**	.12	-.14		
Access to Finance							
Access to finance insufficient			.16	**.91**			
Full loan amounts given by banks		.13	.19	**.89**		-.15	.12
Access to finance adequate		.11	.20	**.89**		-.14	.16
Discouraged to apply for loans		.17	.19	**.87**		-.17	.21
Financial Reporting Quality							
Revenues deferred until verified					**.89**		-.11
Financial reporting done timely	.17				**.89**		
Expenses and losses recognised immediately	.16		-.15		**.87**	.18	
Financial reports meet acceptable standards	.23	.17			**.80**	.12	
Non-financial Disclosure							
Disclosure of conflicts of interest to shareholders				-.11	.11	**.82**	-.12
Disclosure of related party transaction to shareholders					.13	**.81**	-.13
Disclosure of external and business risk assessments to shareholders				-.19		**.81**	
Disclosure of anti-corruption policy to shareholders		-.11				**.79**	-.25
Managerial Political Ties							
Maintaining good relationships with gov't officials			.32	.27		-.22	**.82**
Spending time dealing with gov't affairs			.29	.29		-.30	**.79**
Investing in building relationships with gov't officials	.11		.32	.20	-.12	-.36	**.77**
Eigen value	7.91	6.88	3.77	2.88	2.49	1.95	1.08
Percentage of variance explained	15.41	14.45	13.28	10.70	9.63	9.19	6.63
Percentage of cumulative variance explained	15.41	29.86	43.13	53.83	63.46	72.65	79.28

Table 4-10 Results of Confirmatory Factor Analysis

Construct	Measurement Items	Factor Loading	T-value
Managerial political ties			
(AVE = 0.84; CR = 0.94)	Spending time dealing with gov't affairs	0.93	19.91
	Investing in building relationships with gov't officials	0.91	(Fixed)
	Maintaining good relationships with gov't officials	0.91	18.99
Managerial Financial Ties			
(AVE = 0.63; CR = 0.90)	Mutual funds	0.83	(Fixed)
	Bank of Ghana	0.78	11.06
	Commercial banks	0.77	10.93
	Pension funds	0.76	10.78
Access to Finance			
(AVE = 0.85; CR = 0.96)	Access to finance is adequate	0.93	(Fixed)
	Discouraged to apply for loans	0.93	23.29
	Full loan amounts given by banks	0.92	22.2
	Access to finance is insufficient	0.91	21.38
Firm Performance			
(AVE = 0.69; CR = 0.94)	Growth in net income	0.88	13.97
	Growth in sales	0.87	13.82
	Growth in productivity	0.86	13.62
	Return on assets	0.86	13.54
	Return on sales	0.83	12.88
	Growth in market share	0.81	(Fixed)
	Return on equity	0.68	9.98
Institutional Holding			
(AVE = 0.75; CR = 0.95)	Shares held by Pension funds	0.94	(Fixed)
	Shares held by Insurance companies	0.92	22.73
	Shares held by Endowment funds	0.88	20.09
	Shares held by Mutual funds	0.86	18.76
	Shares held by Charities	0.81	15.93
	Shares held by Private equity firms	0.77	14.44
Financial Reporting Quality			
(AVE = 0.73; CR = 0.91)	Financial reporting done timely	0.89	12.97
	Revenues deferred until verified	0.88	12.69
	Expenses and losses recognised immediately	0.86	12.4
	Financial reports meet acceptable standards	0.77	(Fixed)
Non-financial Disclosure			
(AVE = 0.60; CR = 0.86)	Disclosure of conflicts of interest	0.81	10.64
	Disclosure of related party transactions	0.78	(Fixed)
	Disclosure of anti-corruption policy	0.78	10.32
	Disclosure of external and business risk assessments	0.72	9.51
Social Network Expansion			
(AVE = 0.90; CR = 0.96)	Banks utilizing network of company executives	0.98	32.06
	Banks soliciting company assistance on policy issues	0.95	(Fixed)
	Banks soliciting referrals from company executives	0.91	23.15

Chapter 5 Managerial Political Ties, Access to Finance and Cost of Debt

This chapter presents empirical evidence to address the first research question of the thesis: *What is the impact of managerial political ties on access to finance and cost of debt?* It explores the impact of government connections on the ease of obtaining loans and the interest rates charged on loans. As argued in the literature review (chapter 2), there is scanty research on this topic. There is also a lack of management research focusing on Africa (Mellahi and Mol, 2015; Klingebiel and Stadler, 2015). Subsequently, not much is known about the role of political ties in credit markets, particularly in emerging countries in sub-Saharan Africa. This chapter therefore fills a gap in the literature, and examines very important issues affecting most firms in Ghana and Africa – access to finance and cost of borrowing (Beck and Demirguc-Kunt, 2006; Beck et al., 2006a; Aboagye et al., 2008; African Development Bank, 2013; Adomako et al., 2016). In the next sections, I develop the hypotheses, define the general estimation models, present and discuss the results.

5.1 Hypotheses Development

In this section, I develop hypotheses predicting relationships between political ties, access to finance and cost of debt. The hypotheses do not only speculate the direct relationship between political ties and the outcome variables, but they also predict moderation effects of CEO duality, managerial financial ties, borrowing from government banks, financial representation on boards and the appointment of Big Four auditors.

Managerial Political Ties, Managerial Financial Ties and Access to Finance

Prior research shows that politically connected firms are highly leveraged (Khwaja and Mian, 2005; Saeed et al., 2015). These firms have large loan books (Claessens et al., 2008; Chen et al., 2014), with a larger proportion of their loans obtained from government banks (Dinc, 2005; Saeed et al., 2015). The extent of bank leverage typically varies with the strength, intensity or depth of the political connections (Khwaja and Mian, 2005). In this respect, firms connected to high-ranking politicians such as Presidents, Prime Ministers and Ministers of State get more loans from banks. Politically connected firms also face less financing constraints (Chan et al., 2012; Yen et al., 2014) as they are able to fund investments using

external sources of financing (Cull et al., 2015). Essentially, they do not rely on internally generated funds or retained earnings to fund future growth and innovation (Song et al., 2015).

Based on aforementioned evidence, I argue that if politically connected firms are highly leveraged, then they must have easy access to finance. They must have sufficient loan finance to fund their operations, which indicates that their loan applications are usually successful and the full loan amounts they seek are given by the banks. Additionally, I argue that these firms do not fear bank rejection and are therefore not discouraged to apply for loans. The ability of political connections to improve firms' bottom-line (Rajwani and Liedong, 2015) or the tendency for politicians to coerce banks to give financing favours to connected firms (Khwaja and Mian, 2005) are significant reasons that could make banks yield to the credit demands of connected firms. In Ghana, there is anecdotal evidence that political connections influence credit allocation decisions (Osabutey, 2012). I therefore hypothesize that:

> H1: There is a positive relationship between managerial political ties and access to finance

Political ties are just one type of social capital (Acquaah, 2007). In emerging countries, business ties also shape firm performance (Boso et al., 2013). These ties can influence the extent to which firms are able to exploit entrepreneurial opportunities (London and Hart, 2004), hence they affect firm performance (Luo et al., 2008; Chung, 2012). In this regard, connections to managers in the financial services industry can be useful for obtaining loans. There is a body of literature about relationship lending (Charumilind et al., 2006; Beck et al., 2006b; Zambaldi et al., 2011), and the general conclusion from this literature is that relationships with bank executives reduces information asymmetry, enhances creditworthiness and increases the likelihood of firms getting credit (Uzzi, 1999). In Ghana and many other sub-Saharan countries, "who" you know is more important than "what" you know (Takyi-Asiedu, 1993). Essentially, connections to others within the business environment can be useful and value-adding (Florin et al., 2003; Boso et al., 2013), and for the purposes of debt financing, ties to bankers offer a channel for unparalleled access to credit. Thus, I argue that

> H2: There is a positive relationship between managerial financial ties and access to finance

Managerial Political Connections, CEO Duality and Access to Finance

There are arguments and counter-arguments about the impact of CEO duality on corporate governance. Nevertheless, there are many who discourage the practice, including regulators and governance activists who pressure firms to separate the roles of CEO and Board Chair (Yang and Zhao, 2014). Opponents of CEO duality argue that the oversight responsibility of the Board is compromised when an individual holds both CEO and board chair positions (Bliss and Gul, 2012; Fama and Jensen, 1983), and this leads to conflicts of interest and agency problems (Berg and Smith, 1978). Research shows that duality is associated with insufficient or poor voluntary disclosure (Samaha et al., 2015), value-eroding conglomeration (Kim et al., 2009), high levels of executive compensation (Conyon and Peck, 1998; Chen et al., 2010), low dividend pay-out (Abor and Fiador, 2013), CEO power entrenchment (Finkelstein and Hambrick, 1996; Goyal and Park, 2002) and poor firm performance (Shleifer and Vishny, 1997; De Jonghe et al., 2012; Fiador, 2013).

In Ghana where corporate governance is poor and credit is rationed accordingly (Ahiawodzi and Sackey, 2010; Robson et al., 2013; Awunyo-Vitor et al., 2014), CEO duality is expected to negatively affect access to loan finance. Concentration of power in dual CEOs leaves corporate boards largely ineffective to monitor and supervise the activities of Management (Finkelstein and Hambrick, 1996; Bliss et al., 2011). Abuses of power or misappropriation by CEOs go unchecked because board members become captives of inside executives (Rashid, 2013). As a result, lenders' perceptions of risk increases (Bliss and Gul, 2012) and creditworthiness declines for firms that do not separate the offices of the CEO and the Board Chairperson. I therefore hypothesize that:

H3a: There is a negative relationship between CEO duality and access to finance

Additionally, I argue that CEO duality will be particularly harmful to politically connected firms that want to borrow money from banks. Two reasons underpin my argument. First, there are concerns that CEOs of politically connected firms can use corporate resources to pursue their personal political agendas to the detriment of shareholder value (Aggarwal et al., 2011; Hadani and Schuler, 2013). These CEOs can also use their connections to help their firms fly under the radar of regulatory bodies (Yu and Yu, 2011). Second, duality worsens the already fragile governance architecture in politically connected firms. Concentrating power in a politically connected CEO weakens the internal structures that could put him/her in check. Specifically, the board becomes a "vessel of endorsement", making it easy for executives to

extract economic rent. The “invincibility” of political connections, coupled with weak oversight and poor monitoring in firms with CEO duality makes connected firms riskier in the eyes of lenders. I therefore hypothesize the following:

> H3b: The positive relationship between political connections and access to finance is weakened when connected firms have CEO duality.

Managerial Political Ties and Cost of Debt

Political ties enable firms to exploit their policy environments (Niessen and Ruenzi, 2010) and obtain factor and capital resources critical to their survival and growth (Nee, 1992a; Capron and Chatain, 2008). Ties to government enable firms to obtain key resources (Wu et al., 2012a) which help them to develop their competitive capabilities (Xin and Pearce, 1996) and facilitate their recognition of institutional entrepreneurial opportunities (Guo et al., 2014). Stock markets are particularly very responsive to these connections as firms that establish them witness appreciations in their stock values (Hillman et al., 1999; Goldman et al., 2009). Increase in stock value is indicative of positive performance expectations, suggesting that investors associate political connections with profitability or superior firm performance (Boubakri et al., 2012b). Banks and other financial institutions are attracted to profitable ventures and financially sound clients. They penalize poorly performing firms by increasing the price of loans or by requesting high-value collaterals or loan guarantees (Francis et al., 2005). As political ties improve firms’ bottom lines, banks perceive politically connected firms as creditworthy, and hence lend to them at low rates.

Through political ties, firms are able to take control of their environments and alter most of the dynamics. Political ties also enable firms to know the intentions and behaviours of policy makers and politicians (Hadani and Schuler, 2013) and facilitate easy access to information that is otherwise costly to obtain. The consequent reduction of information asymmetry lessens the risks to which firms are exposed and reduces default risk, culminating in low interest rates. Moreover, the high propensity for government to bail out politically connected firms provides an implicit guarantee (Faccio et al., 2006). Credit guarantees are obviously the most critical indicator of a borrower’s credit rating (Honohan, 2010; Kuo et al., 2011), and such guarantees coming from government are highly accepted. In finance literature, government securities are the popular proxies for risk-free assets. This is undoubtedly because there is a belief that governments can raise taxes or print more money to meet their financial obligations. Hence, the implicit government guarantees that politically connected

firms receive from politicians make them less risky and enable them to access credit at low cost.

The quest for political access can also motivate banks to lend cheaply to politically connected firms in exchange for favours from politicians (Houston et al., 2014; Chen et al., 2014). Sometimes too, politicians coerce banks into lending cheaply to connected firms (Khwaja and Mian, 2005). Even the quest for political invisibility can encourage banks to use cheap loans to strengthen relations with connected firms, use these firms to gain indirect access to politicians and covertly exert political influence. Hence, I hypothesize that political ties reduce the interest rate firms are charged by banks when they borrow.

H4: Managerial political ties are negatively related to interest rates

The Moderating Effect of Managerial Financial Ties

Management literature reveals that managerial business ties improve firm performance (Peng and Luo, 2000; Sheng et al., 2011) through the acquisition of knowledge, exploitation of strategic resource complementarities and effective governance (Dyer and Singh, 1998). This suggests that cost of debt can be influenced not only by political ties but also by financial ties to managers in the financial services industry, especially in emerging countries where inter-organizational transactions are underpinned by social ties (Khanna and Rivkin, 2006). Indeed, research shows that social capital with managers of banks and private equity firms has an impact on bank financing and access to private equity (Batjargal and Liu, 2004; Talavera et al., 2012).

According to Peng and Luo (2000), emerging markets have a fascinating context where social capital compensates for the lack of market supporting institutions. The ineffectiveness of market institutions in facilitating information access and economic exchange strengthens the significance of social capital in emerging countries (Acquaah, 2007). The absence of strong institutions creates what some researchers call “relationship-based capitalism” (Fraser et al., 2006; Adhikari et al., 2006; Sun et al., 2011; Bliss and Gul, 2012) whereby social capital influences outcomes in economic markets.

Social capital facilitates access to novel information (Moran, 2005). It also facilitates the sharing of high quality information and tacit knowledge between firms (Uzzi, 1999; Rowley et al., 2000). Through frequent interactions and the sharing of information, firms learn about each other and become increasingly interdependent. This improves transparency and reduces

information asymmetry (Cheng et al., 2014). As information asymmetry is reduced through close personal ties, mutual trust and reciprocity are fostered (Larson, 1992; Gulati, 1995; Moran, 2005). Extending the aforementioned arguments to lending relationships suggests that a firm's cost of debt should vary with the strength of its financial ties. As corporate governance is weak in emerging countries, information asymmetry between lenders and borrowers is predominant. It is important to note that information asymmetry presents one of the greatest obstacles in lending transactions (Zambaldi et al., 2011). In most circumstances, it leads to credit rationing (Jaffee and Russell, 1976; Stiglitz and Weiss, 1981) as banks are more comfortable to expand credit or extend favours to firms whose information they have accumulated overtime or can easily obtain through relationships (Rauch and Hendrickson, 2004). Financial ties are therefore able to secure cheap debt in weak institutional contexts where corporate governance culture is poor and transparency is low.

Additionally, social capital plays a controlling role in lending transactions, especially when the propensity for opportunism is high. Opportunistic behaviour is a common problem in partnerships and arms-length transactions (Kale and Singh, 2000). Even though formal contractual agreements are used to govern partner behaviour and curb opportunism, these agreements are often ineffective as they do not cover all possible contingencies (Rowley et al., 2000). Consequently, loan agreements, which are arms-length in nature, are liable to exploitation. However, it is believed that strong financial ties can serve as social control mechanisms for lenders to govern the behaviour of borrowers. The trust that results from financial ties places a psychological onus on borrowing managers to respect and abide by loan terms. As banks executives believe that they can control the behaviour of borrowing firms through social ties and hence have little or no fear of default (Uzzi, 1999), they are able to charge low interest rates. A dense network of financial ties can also enable firms to access loan market information from different sources. This information can then be used to bargain for cheaper debt from a preferred lender (Baker, 1990; Petersen and Rajan, 1994). In essence, financial ties can lead to loan deals predicated on trust rather than on performance information contained in financial statements. The foregoing arguments indicate that managerial financial ties are able to secure cheap debt in weak institutional contexts where corporate governance culture is poor, transparency is low and opportunism is high. These ties reduce information asymmetry, promote trust and support social control in credit markets – functions not served by political ties. I therefore hypothesize that when political and financial ties are combined, cost of debt is lower.

H5: Managerial financial ties strengthen the negative relationship between managerial political ties and interest rates

The Moderating Effect of Borrowing from Government-owned Banks

The argument that government-owned banks accord debt financing favours to politically connected firms is common in the literature (Sapienza, 2004; Dinç, 2005; Charumilind et al., 2006; Jackowicz et al., 2013; Lashitew, 2014; Chen et al., 2014). In most government-owned banks, politicians appoint members of the management team (Khwaja and Mian, 2005), and they often appoint elected officials and other people with political backgrounds to the boards of the banks (Fan et al., 2007; Wang and Qian, 2011). In such organizational structures, bank executives become political puppets and sycophants who are expected to obey the instructions of politicians. Failure to comply with political directives is met with threats of transfer, demotion or removal (Khwaja and Mian, 2005). It is therefore not surprising that politically connected firms are highly leveraged (Yeh et al., 2013). In emerging countries such as Ghana, weak institutional development further strengthens the grip politicians have over State-owned enterprises, including government-owned and affiliated banks. A tight control over the operations of these banks allows politicians to strengthen their power using financial resource allocations (Rajan and Zingales, 2003). Due to information asymmetry, it is often easy to disguise the political motivations behind loan decisions in weak institutional environments (Yeh et al., 2013).

On the flip side, privately-owned banks are not expected to give preferential treatment to politically connected firms. The governance architecture of privately-owned banks might make it difficult for political ties to yield any undue benefits. In principle, the principal-agent relationship existing between politicians and government-owned banks does not apply to privately-owned banks. Privately owned banks are not expected to mix shareholder value with the pursuit of government objectives. They are also less likely to pursue politically motivated social lending because they have little or no obligations towards politicians or governments. In fact, because of the costs of political embeddedness (Okhmatovskiy, 2010; Sun et al., 2012), privately-owned banks might penalize politically connected firms with high interest rates. In Ghana, these banks do not have enough political "leverage" to pursue or take recovery actions against connected firms when loans go bad (see Osabutey, 2012), hence they are likely to charge high interest rates for the high risk. Thus I hypothesize the following:

H6a: The negative relationship between managerial political ties and interest rates is strengthened when firms borrow from government-owned banks.

H6b: The negative relationship between managerial political ties and interest rates is weakened when firms borrow from private-owned banks.

The Moderating Effect of Financial Representation

Outside directors play an important role in firms (Boyd, 1990; Hillman, 2005). They provide advice and counsel to firms; offer communication channels between firms and the external environment; facilitate preferential access to resources; and confer legitimacy on firms (Selznick, 1949; Pfeffer and Salancik, 1978; Daily and Dalton, 1994). The composition of corporate boards, to a very large extent, also impacts performance. Financial representation or the presence of bankers on corporate boards reduces cost of debt and increases firm's use of debt financing (Stearns and Mizruchi, 1993; Sisli-Ciamarra, 2012; Slomka-Golebiowska, 2014). It reduces information asymmetry and facilitates corporate monitoring, which make it possible for banks to comfortably grant loan favours to firms.

In Ghana, corporate governance practices are weak and have led commercial banks to ration credit (Ahiawodzi and Sackey, 2010). The Companies Code (1963) which regulates all firms in the country, and the Securities Industry Law (PNDCL 333) which regulates listed firms, are not strictly followed. For instance in 2012, two firms were suspended from the Ghana Stock Exchange for not holding Annual General Meetings. Corporate Boards, which should protect the interests of shareholders, have become "instruments of management" as members mainly seek the favours and financial benefits associated with board membership. Because managers' and Board members' compensation rarely includes stock options, there is hardly any genuine alignment of managerial and shareholders' interests (Tsamenyi et al., 2007). These governance problems are more serious in politically connected firms which can use their political ties to cover up malfeasance or avoid penalization by regulators (Yu and Yu, 2011). Financial representation on boards can therefore be a good strategy for banks to monitor and ensure that firms are well governed so that they do not default in loan repayments. Such representations also reduce information asymmetry, reduce credit risk and enable firms with political ties to acquire low-rate loans. Even when financial representatives are retired or not affiliated to the bankers of their firms, their clout and social capital within the financial services industry can be valuable in the credit market. I hypothesize that:

H7: The negative relationship between managerial political ties and the interest rate is strengthened when firms have financial representation on their boards.

The Moderating Effect of Big Four Auditors

Among the many corporate governance concerns regarding politically connected firms is the high propensity of these firms to falsify their financial reports and mislead outside investors. Political connections increase the perception that corporate insiders could exploit and plunder corporate resources (Guedhami et al., 2014) and conceal their malfeasance by distorting financial information (Shleifer and Vishny, 1994) to suppress corruption and politically motivated diversionary practices. Firms rarely report their corporate political investments (Hadani and Schuler, 2013), which suggests that managers could tunnel funds into unprofitable or self-aggrandizing schemes (Ansolabehere et al., 2004; Aggarwal et al., 2011). A recent study (Chaney et al., 2011) found that the quality of earnings information reported by politically connected firms is poorer than that of non-connected firms. Yet, fraudulent politically connected firms that distort or conceal financial information are not detected early enough. These firms also experience less monitoring by regulators (Yu and Yu, 2011). The foregoing arguments suggest that transparency and corporate governance in politically connected firms is poor. Yet, these firms strive to create positive perceptions of their governance practices in order to show that they are not abusing or exploiting their ties to politicians.

The appointment of a Big Four auditor sends positive signals to the outside world that financial reports are accurate. Big Four auditors have a global presence and a global reputation to protect (Humphrey et al., 2009). Their quest for good reputation motivates them to apply uniform standards in discharging their duties (Guedhami et al., 2014). Such high standards lead to stricter monitoring which prevents suppression or distortion of financial information (Gul, 2006; Effiezal et al., 2011). As previously mentioned, corporate governance standards are often weak in emerging markets. For politically connected firms in emerging countries, these governance standards are perceived to even be weaker because of the diversionary and cover-up potential of political ties. I therefore hypothesize that the appointment of a Big Four auditor could improve perceptions of governance, enhance reputation and consequently lower cost of debt of politically connected firms. I propose that:

H8: The negative relationship between managerial political ties and the interest rates is strengthened when firms appoint a Big Four auditor.

Figure 5-1 shows the research model for examining the relationship between political ties and access to finance while Figure 5-2 shows the model for examining the relationship between political ties cost of debt. The sign next to each hypothesis indicates the predicted direction of the relationship. For moderation, (+) represents a strengthening effect while (–) represents a weakening effect.

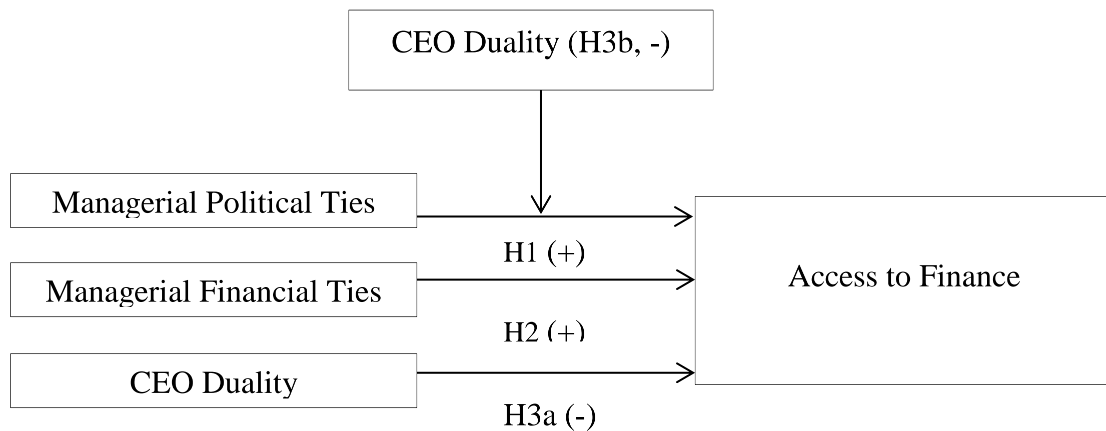

Figure 5-1 Research Model - Political Ties and Access to Finance

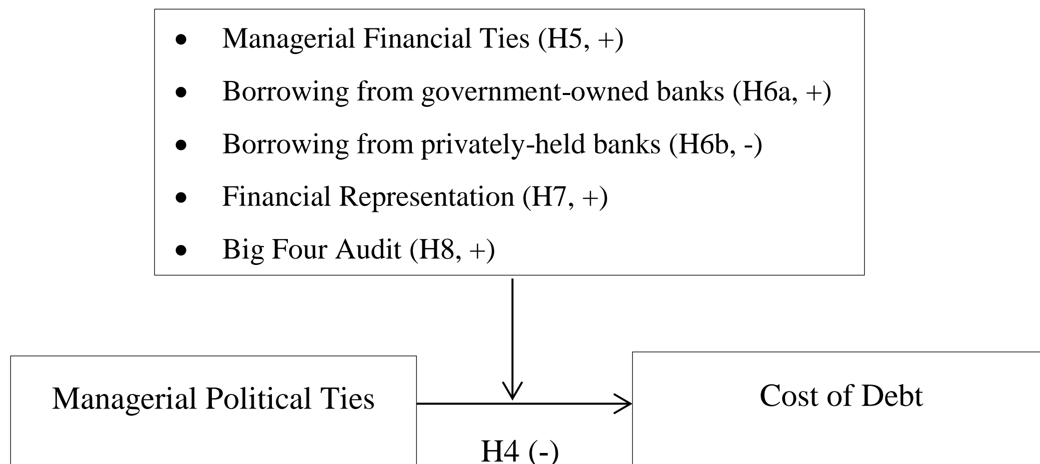

Figure 5-2 Research Model - Political Ties and Cost of Debt

5.2 Data, Analysis and Descriptive Statistics

Mentioned and discussed in Chapter 4, data for this study comes from a survey of firms operating in Ghana. Where possible, the primary data was triangulated with secondary data. In the sample of 179 firms, 55.3% of the firms are locally owned. Also, majority of the firms borrow from privately-owned banks. These banks are the majority in the country (26 private banks versus 3 State-owned banks). CEO duality is prevalent as 54.2% of the firms do not have separate roles for CEO and Board Chairperson. With respect to ties, firms have stronger ties to politicians than they have to bank executives (interpreted using the mean statistic). This is not surprising considering that politicians command enormous influence in emerging countries (Khwaja and Mian, 2005; Saeed et al., 2015). Cost of borrowing is high as firms can be charged interest rates as high as 35%. 21 industries, ranging from mining to textiles, are represented in the sample. On the average, the firms have been operating in Ghana for 19 years.

Measures were taken to address common method variance, validity and reliability of the scales and variables. As some of the constructs in this study are new and have not been validated by previous studies, an exploratory factor analysis (EFA) was done to identify the factor structure of the data. Thereafter, a confirmatory factor analysis (CFA) was done to test and confirm the constructs. The results of the CFA, which include the items, their respective loadings and T-values, average variance extracted (AVE) and composite reliability (CR), are shown in Table 5-1. As can be seen, the AVE and CR scores exceed the minimum thresholds of 0.50 and 0.70 respectively (Fornell and Larcker, 1981; Hair et al., 1998).

Insert Table 5-1 here. See page 130

To examine the relationship between the independent and dependent variables, multiple moderated hierarchical regression analyses were performed. The following model was used to estimate the relationship between managerial political ties and access to finance.

$$ACCESS = b_1\ INST + b_2\ AGE + b_3\ OWN + b_4\ SIZE + b_5\ PERF + b_6\ FINREP + b_7\ DUAL + b_8\ MFT + b_9\ MPT$$

Where:

ACCESS = Access to finance
INST = Institutional holding (shares held by institutional investors)
AGE = Age of firm
OWN = Firm ownership (dummy coded)
SIZE = Size of firm (logarithm of number of employees)
PERF = Firm performance (7-point Likert scale)
FINREP = Financial representation on corporate boards (dummy coded)
DUAL = CEO Duality (dummy coded)
MFT = Managerial financial ties (7-point Likert scale)
MPT = Managerial political ties (7-point Likert scale)

The dependent variable of this regression equation is access to finance (ACCESS) and the main independent variables are political ties (MPT) and financial ties (MFT). CEO duality (DUAL) moderates the relationship between MPT and ACCESS. Firm age, firm size, financial representation, institutional holding, and firm performance are treated as controls and are expected to be positively associated with ACCESS. Ownership is also included to capture the likelihood of foreign liability in the Ghanaian credit market. A detailed description of these variables and their anticipated impact on the outcome variables of this study can be found in Chapter 4.

Prior to estimating the association between political ties, access to finance and cost of debt, I followed prior studies (Murray et al., 2005; Boso et al., 2013; White et al., 2015) and used SPSS AMOS to specify the measurement model by performing a confirmatory factor analysis (CFA) on the main variables. I first run a two-factor model on the latent variables: access to finance and political ties. I then run a five-factor model by adding financial ties, firm performance and institutional holding to the two-factor model. The results, shown in Table 5-4, show a good fit for the two-factor model (CFI = 0.99, NFI = 0.99, IFI = 0.99, RMSEA = 0.05) and for the five-factor model (CFI = 0.98, NFI = 0.96, IFI = 0.98, RMSEA = 0.06).

Insert Table 5-4 here. See page 132

To examine the relationship between managerial political ties and cost of debt - measured using interest rates charged on loans, I used the following estimation model.

$$INT = b_1\ INST + b_2\ AGE + b_3\ OWN + b_4\ SIZE + b_5\ PERF + b_6\ COL + b_7\ REL + b_8\ GOB + b_9\ FINREP + b_{10}\ BIGFOUR + b_{11}\ MFT + b_{12}\ MPT$$

Where:

INT = Interest rate
INST = Institutional holding (shares held by institutional investors)
AGE = Age of firm
OWN = Firm ownership (dummy coded)
SIZE = Size of firm (logarithm of number of employees)
PERF = Financial performance (7-point Likert scale)
COL = Value of collateral pledged for loans (7-point Likert scale)
REL = Credit relationships
GOB = Borrowing from government-owned banks (dummy coded)
FINREP = Financial representation on corporate board (dummy coded)
BIGFOUR = Appointment of Big Four auditors (dummy coded)
MFT = Managerial financial ties (7-point Likert scale)
MPT = Managerial political ties (7-point Likert scale)

Here, the dependent variable is the interest charged on loans (INT). As in the model for access to finance, institutional holding, firm age, ownership, firm size, and firm performance are the control variables. The only additions to the controls are collateral value (COL) and credit relationships (REL) which are expected to impact cost of loans. Managerial financial ties, borrowing from government-owned banks and private banks, financial representation and Big Four auditors are treated as contingency/moderator variables. The main independent variable is political ties (MPT).

5.3 Results

Table 5-2 reports the means, standard deviations and correlation coefficients among the variables used in examining access to finance and cost of debt. The correlation matrix reveals significant correlations between the dependent and independent variables. However, it shows no unreasonably large correlations (r =.9 or above) (Berry, 1993; Tabachnick and Fidell, 2014). The largest correlation coefficient is 0.66. This "ball park" method suggests that multicollinearity does not affect the robustness of the findings (Field, 2013). Moreover, the Variance Inflation Factor (VIF) and Tolerance statistics support the absence of multicollinearity (Myers, 1990). I followed the approach of Ambos et al (2010) and checked discriminant validity by comparing the square root of the average variance explained (AVE) of each construct (Table 5-3) with the squared correlation between construct pairs. As the AVE values are consistently larger than the correlations between the constructs, it can be firmly concluded that each construct has more internally extracted variance than the variance it shares with other constructs (Fornell and Larcker, 1981), thus indicating satisfactory

discriminant validity. In effect, each construct is undeniably different from the other constructs.

Insert Tables 5-2 and 5-3 here. See page 131 and 132

Table 5-5 presents the results of the hierarchical regressions used to estimate the association between political ties and access to finance, and test hypotheses 1 to 3 accordingly. In Model 1, which tests the association between control variables and access to finance, institutional holding has a significant positive relationship (Model 1: $\beta = 0.32$, $p < 0.01$) while foreign ownership has a significant negative relationship (Model 1: $\beta = -0.72$, $p < 0.05$) with access to finance. These results suggest that firms whose shares are held by institutional investors have greater access to loan finance. However, foreign firms have reduced access to loans from banks in Ghana. All the other control variables are insignificant. Specifically, financial representation, firm size, firm age and financial performance do not affect access to finance. This contradicts the findings of Ahiawodzi and Sackey (2010) who found that profitability significantly influences credit rationing.

In Model 2, where the contingency variables are introduced, the results show that CEO duality is negatively related to access to finance (Model 2: $\beta = -1.81$, $p < 0.01$) while having ties to managers in the financial services industry has a positive effect on ease of obtaining loans (Model 2: $\beta = 0.39$, $p < 0.01$). These results are highly significant at the 1% level. Moreover, the inclusion of these two variables improved the Model F from 4.28 to 24.73. Essentially, the findings suggest that having an individual who serves as both CEO and Board Chairperson constrains access to finance; hence I find support for Hypothesis 3. The result reflects the negativity or riskiness of CEO duality (Berg and Smith, 1978; Fiador, 2013). On the flipside, developing and maintaining strong social ties with officials at the central bank, commercial banks, mutual and pension funds enhances access to credit. I therefore find support for Hypothesis 2. This finding is consistent with the arguments of social capital theorists and with previous studies which found that business ties improve firm performance (Luo et al., 2008; Acquaah, 2011; Boso et al., 2013) and increase access to bank loans (Uzzi, 1999).

In Model 3, I test hypotheses 1, which predicts that political ties are positively associated with access to finance. The results show that political ties are, indeed, positively related to credit (Model 3: $\beta = 0.19$, $p < 0.01$). I find support for hypothesis 1. This finding reflects the general sentiment that connected firms receive preferential treatment and are thus highly leveraged (Khwaja and Mian, 2005; Claessens et al., 2008; Saeed et al., 2015). The inclusion of MPT also improved the R^2 (56%) and Model F (25.96), thus suggesting the significant impact this variable has on access to finance. In Model 4 however, the result for the moderating impact of CEO duality is not significant and perhaps not worth discussing (Model 4: $\beta = 0.09$, $p > 0.1$). Nonetheless, the result provides "partial" support for hypothesis 3b. This is because CEO duality actually weakens the significant positive effect political ties alone have on access to finance (Model 4: $\beta = 0.15$, $p < 0.05$).

Insert Table 5-5 here. See page 132

Based on the finding that CEO duality weakens the positive effect that political ties have on access to credit, I conducted further tests to examine the association between political ties and CEO duality. The rationale is to establish whether politically connected firms are aware of the negative impact of duality, and to determine the likelihood that these firms have a dual CEO. If connected firms know about the repercussions of duality, they are more likely to separate the positions of CEO and board Chair. Hence a negative relationship is expected to exist between political ties and duality. I performed a binary logistic regression to test this hypothesis. Logistic regression is chosen because the dependent variable (CEO duality) is binary (yes or no). Table 5-6 shows the correlation matrix for all the regressors. Correlations between the variables are significant, but they are not large to suggest that there is a multicollinearity problem (Berry, 1993). Since SPSS does not produce collinearity diagnostics for logistic regressions, I followed the recommendations of Field (2013) and re-run the logistic Models as linear Models. The variance factors (VIF) are below the cut-off threshold of 10 (Myers, 1990) and tolerance is above 0.1 (Field, 2013). Also, the residuals and distance scores did not reveal any multicollinearity problems.

Insert Table 5-6 here. See page 133

The results of the logistic regression are shown in Table 5-7. Panel A captures the predictive effects of the control variables on CEO duality. While the directions of the coefficients are

not surprising, almost all the relationships are not significant, except ownership (Panel A: β = -0.83, $p < 0.05$) which has an odds ratio of 0.44. The interpretation is that foreign firms are less likely to have CEO duality. In Panel B, the political ties variable was added to the model and a significant negative relationship was observed (Panel B: β = -0.37, $p < 0.01$). The odds ratio of 0.69 suggests that as political ties become stronger or deeper, CEO duality is less likely to manifest. These findings indicate that connected firms perhaps know about the negative perceptions or effect of CEO duality, and are therefore less likely to give absolute control and power to one individual.

Insert Table 5-7 here. See page 133

Moving on from examining access to finance, I investigated the impact of political ties on cost of debt. Indeed, the ease of accessing loan finance differs from the cost of loan finance. It is therefore important to consider both in order to capture an elaborative picture about the effect of political ties in credit markets. The results for hypotheses 4 to 8 are shown in Table 5-8.

In Model 1, where I test the relationship between the control variables and interest rates, four results are significant. First, institutional ownership is negatively associated with interest rates (Table 5-8 Model 1: β = -0.006, $p < 0.05$). This result suggests that firms whose shares are held by institutional investors are charged low interest rates. The result also supports the hypothesis that institutional shareholders are able to effectively monitor managers, ensure good governance practices in firms (Shleifer and Vishny, 1997) and reduce cost of borrowing (Bhojraj and Sengupta, 2003; Elyasiani et al., 2010). Second, foreign ownership is also negatively associated with interest rates (Table 5-8 Model 1: β = -0.017, $p < 0.01$), suggesting that foreign firms are charged low rates. Third, value of collateral is positively related to interest rates. This result is counter-intuitive, but it is not very surprising because some theoretical models of collateral and credit guarantees demonstrate that collateral is associated with risky borrowers (Boot et al., 1991; Boot and Thakor, 1994; Berger and Udell, 1995). It is therefore consistent with previous studies that argue that collateral is positively related to cost of borrowing (Berger and Udell, 1990; Booth, 1992; Hernández-Cánovas and Martínez-Solano, 2010). Fourth, a strong association exists between credit relationships and interest rates (Table 5-8 Model 1: β = 0.010, $p < 0.01$), indicating that firms with multiple creditors are charged higher rates. This finding is consistent with the information monopoly

hypothesis which argues that the cost of monitoring incurred by banks increases when firms borrow from multiple creditors, hence the high interest rates on loans (Rajan, 1992; Von Thadden, 1994; Dygryse and Van Cayseele, 2000)

In Model 2, where the contingency variables are included, the results show that borrowing from government-banks and having financial representation on boards are negatively related to interest charges (Table 5-8 Model 2: $\beta = -0.037$, $p < 0.01$ for government-owned bank; and $\beta = -0.017$, $p < 0.05$ for financial representation). These findings are consistent with previous studies (Stearns and Mizruchi, 1993; Slomka-Golebiowska, 2014). Surprising and contrary to expectation, financial ties are positively associated with interest rates (Table 5-8 Model 2: $\beta = 0.009$, $p < 0.01$). This result contradicts the theory of relationship lending (Berger and Udell, 1995; Uzzi, 1999), and suggests that financial ties alone are not enough to secure cheap loans. The result for Big Four auditors is not significant.

Model 3 tests hypothesis 4 which predicts that political ties are negatively related to interest charged on debt. On the contrary, the results show that political ties are positively related to interest rates (Table 5-8 Model 3: $\beta = 0.007$, $p < 0.01$), indicating that firms with political connections are charged high interest rates. This finding does not support hypothesis 4, but it is consistent with Bliss and Gul (2012) who reported a positive association between political connections and cost of debt in Malaysia. It is worth noting that inclusion of the managerial political ties variable in the Model improved the amount and change in variance explained (Table 5-8 Model 3: adjusted $R^2 = 0.58$; change in adjusted $R^2 = 0.09$, $p < 0.01$), indicating that political ties are significantly related to cost of debt.

To test the moderating effect of the contingency variables on cost of debt (hypotheses 5-8), I incorporated interaction terms into Models 4-8. In Model 4, the interaction between political ties and financial ties has a significant negative relationship with interest rate (Table 5-8 Model 4: $\beta = -0.003$, $p < 0.05$). This result supports hypothesis 5, and shows that financial ties strengthen the negative effect of political ties on cost of debt. Following Puck et al. (2013) and White et al. (2014), I further probed the nature of the interaction by performing simple slopes analysis (Aiken and West, 1991). The results (Figure 5-3) show a significant change in the slope of the regression lines (growing negatively steeper) as financial ties change from low (mean-1SD) to high (mean+1SD), thus supporting hypothesis 5.

In models 6, 7 and 8, I included interaction terms that have lower-order binary and continuous variables. Before discussing the results, it is important to note that the coefficients

of these interaction terms represent the difference between the groups for each binary variable. In essence, the coefficients of the interaction terms are not interpreted as the final effect. Rather, their statistical significance will indicate whether the coefficient of the continuous lower order term (managerial political ties in this study) is worth reading. Hypothesis 6a predicts that firms with political ties benefit low interest rates when they borrow from government-owned banks while hypothesis 6b predicts that firms with political ties are charged high interest rates when they borrow from private-owned banks. In Model 5, the coefficient of MPT*GOB is significant (re-worded MPT*POB for easy reading; Table 5-8 Model 5: $\beta = -0.006$, $p < 0.05$). This result indicates that there is a significant difference in the effect of political ties when borrowing from government-owned banks versus borrowing from private-owned banks. Following the guidelines for the interpretation of interaction terms involving dummies (Hardy, 1993)[4], I read the beta for MPT which represents the effect of political ties on interest rates when GOB = 0 (i.e. borrowing from private-owned banks). This result is significant (Model 5: $\beta = 0.008$, $p < 0.01$) and shows that politically connected firms are charged high rates when they borrow from private-owned banks, hence providing support for hypothesis 6b. To test hypothesis 6a, I followed the approach of Hadani & Schuler (2013) and created a new dummy called POB by recoding of the *government-owned bank* variable so that borrowing from government banks = 0 and borrowing from private-owned banks = 1. This way, I could observe the effect of political ties when firms borrow from government-owned banks. The interaction MPT*POB is significant (re-worded MPT*GOB for easy reading; Table 5-8 Model 6: $\beta = -0.006$, $p < 0.05$) but the coefficient for MPT is insignificant (Table 5-8 Model 6: $\beta = 0.003$, $p > 0.1$). Thus, I find no support for hypothesis 6a.

In Model 7, I performed the reverse-coding described above and included the interaction term MPT*FINREP to test hypothesis 7. The interaction term is significant ($\beta = 0.007$, $p < 0.05$), but the coefficient for MPT is insignificant (Table 5-8 Model 7: $\beta = -0.001$, $p > 0.1$), thus providing no support for the hypothesis. In Model 8, I test hypothesis 8 which predicts that the effect of political ties on cost of debt will be strengthened when firms appoint a Big Four auditor. The reverse-coded interaction term MPT*BIGFOUR is significant (Table 5-8 Model 8: $\beta = -0.011$, $p < 0.01$). The coefficient for MPT is also significant (Table 5-8 Model 8: $\beta = 0.016$, $p < 0.01$), surprisingly indicating that the effect of political ties on cost of debt is

[4] When a model contains an interaction term which is the product of a continuous variable and a dummy variable, coefficients on the lower-order continuous term are interpreted as the effect of the continuous variable only and only when the dummy variable is 0. The results correspond with the group = 0

weakened by the appointment of Big Four auditors and hence providing no support for hypothesis 8.

Insert Table 5-8 here. See page 134

Insert Figure 5-3 here. See page 136

5.4 Robustness Check

To further check the robustness of the models and to avoid any negative implications of violating normality and homoscedasticity assumptions, I re-run the regressions by performing bootstrapped regressions using 1000 bootstrapped samples and estimating a 95% bias corrected and accelerated confidence interval for the coefficients (Elfron and Tibshirani, 1993; Wright et al., 2011). Bootstrapping does not rely on assumptions of normality of the data (Field, 2013). The results of the bootstrapped Models are presented in Table 5-9. Compared with the non-bootstrapped Models, the significance levels of a few variables changed in the bootstrapped Models, but not dramatically. For instance, in Models 1 and 4, the significance of *ownership* and *institutional holding* changed from 1% to 5%. No previously significant coefficients became insignificant and no previously insignificant coefficient became significant in the bootstrapped Models. In sum, findings from the robust regression suggest that the coefficients are an accurate estimate of the true population (Field, 2013)

Insert Table 5-9 here. See page 135

5.5 Discussion of Findings

This chapter presented empirical findings about the impact of managerial political ties on access to finance and cost of debt in Ghana. It also examined the extent to which this impact is contingent on CEO duality, financial ties, borrowing from government-owned banks, financial representation on corporate boards, and the appointment of Big Four auditors. Consistent with social capital theory, the findings reveal the value-adding potential of networking relationships in credit markets. Networking relationships enable firms to develop social capital, a dominant resource that substantially shapes business activity in emerging

countries (Acquaah, 2011; Boso et al., 2013). Ties to politicians and managers of lending and supervising agencies of the financial services sector open doors to loans through varied ways. For instance, political ties allow firms to exploit the dependency relationship between banks and politicians, with the former either subdued into acquiescence (Khwaja and Mian, 2005) or willingly accepting to give credit to connected firms in return for favours from the latter (Houston et al., 2014). Also, ties to financial industry managers reduce information asymmetry, avail private information of firms to banks and consequently improves creditworthiness (Berger and Udell, 1995; Uzzi, 1999). Although banks treat social capital favourably, they are wary of CEO duality. In effect, duality erodes the value of political ties. Absolute control resulting from duality raises serious governance questions, particularly in weak institutional environments (Fiador, 2013).

A major and interesting revelation of this study is that while political ties enhance access to credit, they do not reduce interest rates. Contrary to prediction, the results indicate that political ties are associated with high cost of debt. However, firms that develop financial ties in addition to political ties experience low interest rates. The results also show that firms with political ties are charged high interest rates when they appoint Big Four auditors. Next, I offer explanations for these counterintuitive findings.

First, studies have documented the harmful effect of CPA on firm performance (Fan et al., 2007; Aggarwal et al., 2011). Political activity leads to unwarranted risks-taking which makes corporate failure more likely (Faccio et al., 2006). Also, politically connected firms are highly leveraged (Fraser et al., 2006) and are susceptible to financial distress or low profitability (Yazdanfar and Ohman, 2015). They are therefore penalized in the debt market either through high interest rates or impaired access to credit (Opler and Titman, 1994). Research has shown that distress has significant repercussions for firms. For instance, distressed firms typically incur costs of reorganization and restructuring, and of course damage to their reputation (Almeida and Philippon, 2008). They also experience low market values, loss of sales and low profitability as customers and business partners shun them (Andrade and Kaplan, 1998). Moreover, political activity opens up opportunity for managers to use corporate resources to pursue self-serving interests (Hadani and Schuler, 2013), a situation that can lead to distrust of the firm by external stakeholders (Liedong et al., 2015). These arguments suggest that lenders are cautious when dealing with politically connected firms. They compensate the risk of dealing with "failure-prone" politically connected firms through high loan pricing or stringent covenants.

Second, there is a high likelihood that government will bailout firms with political ties (Faccio et al., 2006; Blau et al., 2013). This likelihood provides an implicit guarantee of survival and protection for connected firms, culminating in a moral hazard problem whereby connected firms take less caution in their dealings because of their belief that government will come to their rescue in times of need. This moral hazard problem could cause banks to charge higher rates when lending to firms with political ties.

Third, a common institutional void in Ghana and other emerging countries is weak regulatory structures (Henisz and Zelner, 2010) and selective application of the "Rule of Law". In these countries, the enforcement of creditor rights is weak (Claessens and Yurtoglu, 2013). Generally, in environments where there is weak enforcement of creditor rights, banks charge high loan rates (Qian and Strahan, 2007; Bae and Goyal, 2009). For firms with political ties, banks may charge higher rates because in emerging countries, litigants rarely win legal battles against parties with government backing. Government support for firms with political ties further weakens the negligible rights banks have to enforce loan obligations.

The problem of weak creditor rights is more serious for private-owned banks. These banks, by their governance structure, do not have ties to politicians and hence do not have political backing as compared to government-owned banks. The immense power of government coupled with a poor corporate governance culture in Ghana may cause the banks to charge higher rates to firms with political ties because their debt recovery power could be curtailed by politicians in events of default (see Osabutey, 2012). Moreover, as they do not encounter coercion as compared to government-owned banks (Khwaja and Mian, 2005), private-owned banks do not accord undue value to political ties.

While the literature generally agrees that politically connected firms have preferential access to finance and are thus highly leveraged (Yeh et al., 2013), same agreement has not been reached with respect to the impact of political ties on cost of debt (Rajwani and Liedong, 2015). It is therefore deductible that access to finance does not necessarily lead to low cost of debt. Politicians may be able to help firms acquire loans, but they are not always able to get the firms low interest rates. Bank executives who do not belong to the same political party or share the same political ideologies with incumbent politicians may agree to advance loans to politically connected firms, but penalize the firms with high interest rates to compensate for being coerced or "persuaded" to create the loans. In sub-Saharan Africa, this situation is exacerbated by the acrimony, violence and tensions that fraught political rivalry. Financial

ties, mostly social in nature, permeate the animosity of political diversity and enable firms to acquire low cost debt. Moreover, the effect of political ties on cost of debt is distant because politicians do not directly lend to firms. This distance may not lead to a strong effect of political ties on cost of debt because political agents may not or cannot always see to the interests of politicians. Since bank executives create loans, financial ties may have a direct effect on cost of debt. The directness of financial ties therefore compensates the indirectness of political ties, hence leading to low loan rates.

The appointment of Big Four auditors was expected to reduce cost of debt for connected firms, but the results proved otherwise. Politically connected firms are more likely to appoint Big Four auditors (Guedhami et al., 2014). These Big Four auditors charge high fees when dealing with connected firms because of the high risk of financial malfeasance inherent in these firms and the extra work they have to do (Gul, 2006; Effiezal et al., 2011). I argue that such high fees could harm the financial performance of the firms and culminate in high interest rates. Also, the appointment of a high-fee-charging Big Four auditor could make banks hold perceptions of extravagance by firms. Moreover, Big Four audit firms, such as PwC and Ernst & Young, are among the largest lobbyists in the United States, based on lobbying expenditure[5]. Having developed their own political capabilities, these audit firms are able to connect with the governments of their host countries. In fact, these firms are engaged in advisory roles by governments, especially on tax policy. Owing to their political activity, Big Four auditors may be lax with politically connected firms and stringent with non-connected firms. Such ties to government make it likely for banks to see the possibility of Big Four audit firms being sympathetic to firms with political ties. The effect is that financial malfeasance could still be hidden or misrepresented, hence high interest rates for the high risk.

Generally, the findings of this study are consistent with studies that document the "dark side" of social capital (Gu et al., 2008; Li et al., 2009; Chung, 2012). The obligations social networks place on organizations and the resources organizations commit to build and maintain network relationships can have adverse effects on performance (Park and Luo, 2001; Luo et al., 2008). The findings also show that the value of social capital in weak institutional environments is moderated by corporate governance. In essence, the findings reflect how perceptions of governance in institutionally-voided settings are worsened by

[5] Reported by the Center for Responsive Politics

political ties. By integrating social capital and institutional theories with governance insights, this study makes significant contributions which are discussed in Chapter 8.

5.6 Chapter Summary

In this chapter[6], I presented empirical findings about the relationships between managerial political ties, access to finance and cost of debt. I developed four hypotheses to test the association between political ties and access to finance and six hypotheses to test the association between political ties cost of debt. The results show that political ties enhance access to finance. They also show that CEO duality weakens this enhancing effect. In essence, when duality is present in firms, political ties are unable to improve access to credit. Further analysis revealed that politically connected firms are less likely to have CEO duality, suggesting that these firms are, perhaps, aware of the negative consequences of duality. On the topic of cost of debt, I found a positive relationship between political ties and interest rates. This positive relationship is, however, weakened by managerial financial ties, indicating that while political ties alone increase cost of debt, the combination of political and financial ties reduces interest rates. I also found that borrowing from private banks and the appointment of Big Four auditors have negative effects on the interest rates charged to politically connected firms.

In sum, the results show that even though political ties can increase access to loan finance, they do not reduce the cost of loans. In that sense, this study reveals both the value and liability of political ties in the Ghanaian credit market, and in doing so it captures the moderating effects of corporate governance and institutional dynamics.

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[6] A paper from this chapter was published in the 2015 Academy of Management *Best Paper Proceedings.* Same paper was a finalist for Best Student Paper of the Social Issues in Management (SIM) Division at the Academy of Management. Another paper from this chapter was presented at the 2015 Strategic Management Society (SMS) Conference in Denver. At this conference, the paper was nominated for three prizes - Best Paper Prize, Best Student Paper Prize and Best Paper for Practice Implications. Currently, a manuscript based on the content of this chapter is being developed for submission to *Academy of Management Journal* (ABS 4*).

Table 5-1 Confirmatory Factor Analysis of Measures

Construct	Measurement Items	SFL	T-value
Managerial political ties (AVE = 0.84; CR = 0.94)	Spending time dealing with gov't affairs	0.93	19.91
	Investing in building relationships with gov't officials	0.91	(Fixed)
	Maintaining good relationships with gov't officials	0.91	18.99
Managerial Financial Ties (AVE = 0.63; CR = 0.90)	Ties to Mutual funds	0.83	(Fixed)
	Ties to Bank of Ghana	0.78	11.06
	Ties Commercial banks	0.77	10.93
	Ties Pension funds	0.76	10.78
Access to Finance (AVE = 0.85; CR = 0.96)	Access to finance is adequate	0.93	(Fixed)
	Discouraged to apply for loans	0.93	23.29
	Full loan amounts given by banks	0.92	22.2
	Access to finance is insufficient	0.91	21.38
Firm Performance (AVE = 0.69; CR = 0.94)	Growth in net income	0.88	13.97
	Growth in sales	0.87	13.82
	Growth in productivity	0.86	13.62
	Return on assets	0.86	13.54
	Return on sales	0.83	12.88
	Growth in market share	0.81	(Fixed)
	Return on equity	0.68	9.98
Institutional Holding (AVE = 0.75; CR = 0.95)	Shares held by Pension funds	0.94	(Fixed)
	Shares held by Insurance companies	0.92	22.73
	Shares held by Endowment funds	0.88	20.09
	Shares held by Mutual funds	0.86	18.76
	Shares held by Charities	0.81	15.93
	Shares held by Private equity firms	0.77	14.44

Note: AVE = Average Variance Extracted; CR = Composite Reliability

Table 5-2 Correlation Matrix: Political Ties, Access to Finance and Cost of Debt

	Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	Access to Finance	3.44	1.58	1															
2	Interest Rate	0.24	0.04	.27***	1														
3	Managerial Political Ties (MPT)	3.90	2.19	.50***	0.45***	1													
4	Managerial Financial Ties (MFT)	3.03	0.95	.40***	0.28***	0.54***	1												
5	Government Bank (GOB)	0.38	0.49	-0.15	-0.57***	-0.20***	-0.14**	1											
6	Big Four Auditor (BIGFOUR)	0.22	0.41	-0.06	0.13*	0.01	0.11	-0.19**	1										
7	Ownership	0.45	0.50	-0.20***	-0.33***	-0.05	-0.05	0.32***	0.04	1									
8	Financial Representation (FINREP)	0.22	0.42	-0.10	-0.44***	-0.10	-0.27***	0.35***	-0.06	0.38***	1								
9	Credit Relationships	3.82	1.57	0.03	0.42***	0.11	0.21***	-0.29***	0.24***	-0.13*	-0.25***	1							
10	Value of collateral	4.91	1.71	0.07	0.22***	0.01	0.02	-0.04	-0.08	-0.29***	0.06	0.06	1						
11	Loan Duration	16.74	14.49	0.15**	0.38***	0.26***	0.23***	-0.15**	0.26***	-0.05	0.00	0.10	-0.17**	1					
12	Firm Performance	4.96	1.13	0.06	-0.01	0.09	-0.09	0.02	-0.12	-0.10	0.26***	-0.10	0.27***	0.11	1				
13	Institutional Holding	2.08	1.51	0.24***	-0.23***	0.06	0.13*	0.10	-0.26***	0.13*	0.24***	-0.28***	-0.04	-0.23***	.29***	1			
14	Firm Age	19.17	12.62	0.04	-0.02	0.22***	0.11	0.10	-0.01	0.12	0.07	-0.16**	-0.03	0.05	0.03	0.03	1		
15	Firm Size	4.56	0.62	0.04	0.00	0.00	-0.06	0.00	0.02	0.11	0.20**	0.09	0.01	0.13*	0.19**	-0.03	0.14*	1	
16	CEO Duality (DUAL)	0.54	0.50	-0.66***	-0.21***	-0.37***	-0.26***	0.19**	0.05	0.17**	0.09	-0.05	-0.02	-0.08	-0.05	-0.07	-0.10	-0.03	1

N = 179; ***Correlation is significant at the 1% level (2-tailed); **Correlation is significant at the 5% level (2-tailed); *Correlation is significant at the 10% level (2-tailed)

Table 5-3 Constructs, Reliability and Discriminant Validity

Construct	Average Variance Extracted (AVE)	Square Root of AVE	Composite Reliability (CR)	Cronbach Alpha
Managerial Political Ties	0.84	0.92	0.94	0.94
Managerial Financial Ties	0.63	0.79	0.9	0.87
Access to Finance	0.85	0.92	0.96	0.96
Firm Performance	0.69	0.83	0.94	0.93
Institutional Holding	0.75	0.87	0.95	0.94

Table 5-4 Measurement Model

Model	**X^2**	**DF**	**X^2/DF**	**RMSEA**	**NFI**	**IFI**	**CFI**	**P-value**
Two-factor	19.4	13	1.49	0.05	0.99	0.99	0.99	0.11*
Five-Factor	86	41	2.09	0.06	0.96	0.98	0.98	0.02**

Note:
Two-factor: Access to Finance; Managerial Political Ties. Five-factor: Access to Finance; Managerial Political Ties; Managerial Financial Ties; Firm Performance; Institutional Holding
RMSEA = Root Mean Square Error of Approximation; NFI = Normed Fit Index; IFI = Incremental Fit Index
CFI = Comparative Fit Index
* = Not significant at 10% level
** = Not significant at 1% level

Table 5-5 Results - Managerial Political Ties and Access to Finance

Variables	Access to Finance			
	Model 1	Model 2	Model 3	Model 4
Control Variables				
Institutional Holding	0.32***	0.20***	0.22***	0.21***
Firm Age	0.01	-0.01	-.010	-0.01
Firm Size	0.23	0.16	0.18	0.16
Ownership	-0.72**	-0.41**	-0.42**	-0.44**
Firm Performance	-0.07	-0.05	-0.10	-0.09
Financial Representation	-0.36	0.07	0.04	0.10
Contingency Variables				
CEO Duality (DUAL)		-1.81***	-1.61***	-1.61***
Managerial Financial Ties (MFT)		0.39***	0.17	.17
Predictor Variable				
Managerial Political Ties (MPT)			0.19***	0.15**
Interaction				
MPT*DUAL				0.09
Model Statistics				
Adjusted R^2	0.10	0.52	0.56	0.56
Change in R^2	0.13***	0.41***	0.04***	.000
Model F	4.28***	24.73***	25.96***	23.53***

Table 5-6 Correlation Matrix: Managerial Political Ties and CEO Duality

	Variable	Mean	SD	1	2	3	4	5	6	7	8	9
1	CEO Duality	.54	.50	1								
2	Managerial Political Ties	3.90	2.19	-0.37***	1							
3	Institutional Holding	2.08	1.51	-0.07	0.06	1						
4	Firm Size	4.56	.62	-0.03	0.00	-0.03	1					
5	Firm Age	19.17	12.62	-0.10	0.22***	0.03	0.14*	1				
6	Non-executive Directorship	.72	.61	0.14*	-0.15**	-0.28***	0.39***	-0.02	1			
7	Board Size	4.50	2.02	-0.02	0.14*	-0.10	0.58***	0.04	0.62***	1		
8	Regulation	.42	0.49	-0.02	.090	-0.07	0.10	-0.05	0.06	0.07	1	
9	Ownership	.45	0.50	.17**	-.050	0.13*	0.11	0.12	0.02	-0.06	-0.17***	1

N = 179; ***Correlation is significant at the 1% level (2-tailed); **Correlation is significant at the 5% level (2-tailed); *Correlation is significant at the 10% level (2-tailed)

Table 5-7 Logistic Regression Results: Managerial Political Ties and CEO Duality

Panel A

	CEO Duality		95% C.I. Odds Ratio	
		Odds Ratio	Lower	Upper
Institutional Holding	-0.08	0.93	0.74	1.15
Firm size	-0.18	0.84	0.45	1.55
Firm Age	-0.02	0.98	0.95	1.01
Non-Executive Directorship	0.73	2.08	1.05	4.12
Board Size	-0.12	0.89	0.71	1.11
Regulation	-0.02	0.98	0.51	1.86
Ownership	-0.83**	0.44	0.23	0.84

Note: ** $p < 0.05$

X2 = 14.89, $p < 0.05$; R2 = 0.08 (Cox & Snell), 0.11 (Nagelkerke)

Panel B

	CEO Duality		95% C.I. Odds Ratio	
		Odds Ratio	Lower	Upper
Institutional Holding	-0.09	0.92	0.73	1.16
Firm size	-0.40	0.67	0.35	1.30
Firm Age	-0.01	0.99	0.96	1.02
Non-Executive Directorship	0.30	1.35	0.63	2.86
Board Size	0.06	1.06	0.83	1.36
Regulation	-0.20	0.82	0.41	1.63
Ownership	-0.90**	0.40	0.20	0.82
Managerial Political Ties	-0.37***	0.69	0.58	0.82

Note: ** $p < 0.05$; *** $p < 0.01$

X2 = 14.89, $p < 0.05$; R2 = 0.18 (Cox & Snell), 0.24 (Nagelkerke)

Table 5-8 Results - Managerial Political Ties and Cost of Debt

Variables	Interest Rate [a]							
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Control Variables								
Institutional Holding	-0.006**	-0.007***	-0.006***	-0.006***	-0.006***	-0.006***	-0.007***	-0.007***
Age	0.000	0.000	0.000	0.000	0.000	0.002	0.000	0.000
Ownership	-0.017***	-0.002	-0.00	-0.001	0.002	0.003	0.002	0.006
Size	-0.003	.000	.001	0.003	0.003	0.002	0.002	-0.001
Financial Performance	0.002	0.004	-0.002	0.004	0.002	0.004	0.003	0.001
Value of collateral	0.004*	0.004***	0.005***	0.005***	0.004***	0.004***	0.004***	0.004***
Credit relationships	0.010***	0.004*	0.004**	0.004**	0.004**	0.004**	0.005***	0.006***
Contingency Variables								
Government-owned banks (GOB)		-0.037***	-0.031***	-0.027***	-0.031***	-0.034***	-0.029***	-0.035***
Financial Representation (FINREP)		-0.017**	-0.020***	-0.025***	-0.017**	-0.017**	0.025***	-0.019***
Big Four Audit (BIGFOUR)		-0.006	-0.002	-0.002	-0.002	-0.002	-0.003	-0.003
Managerial Financial Ties (MFT)		0.009***	-0.002	0.002	0.001	0.000	-0.003	-0.003
Predictor Variable								
Managerial Political Ties (MPT)			0.007***	0.007***	0.008***	0.003	0.001	0.016***
Interactions [b]								
MPT*MFT				-0.003*				
MPT*POB					-0.006**			
MPT*GOB						0.006**		
MPT*FINREP							0.007**	
MPT*BIGFOUR								-0.011***
Adjusted R^2	0.26	0.49	0.58	0.58	0.59	0.59	0.59	0.62
Change in R^2	0.29***	0.23***	0.09***	0.01**	0.01**	0.01**	0.01***	0.04***
Model F	9.49	15.65	20.15	19.12	19.54	19.54***	19.36***	21.91***

Note:

N = 179. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$ (two-tailed significance tests). VIF scores are below 10

[a] Interest rate is unstandardized, hence all values are unstandardized coefficients expressed in three decimal places in order to reveal small differences. Expressing coefficients in two decimal places will suppress effects.

[b] Before creating the interactions terms, the lower-order terms were mean centred. Where necessary, reverse-coding was done before creating interaction terms that include dummy variables

Table 5-9 Bootstrapped OLS Regression: Managerial Political Ties and Cost of Debt [c]

Variables	Interest Rate							
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Control Variables								
Institutional Holding	-0.006**	-0.007***	-0.006***	-0.006**	-0.006***	-0.006***	-0.007***	-0.005***
Age	0.000	0.000	0.000	0.000	0.000	0.002	0.000	0.000
Ownership	-0.017**	-0.002	-0.00	-0.001	0.002	0.003	0.002	0.006
Size	-0.003	.000	.001	0.003	0.003	0.002	0.002	-0.001
Financial Performance	0.002	0.004	-0.002	0.004	0.002	0.004	0.003	0.001
Value of collateral	0.004*	0.004***	0.005***	0.005***	0.004***	0.004***	0.004**	0.004***
Credit relationships	0.010***	0.004*	0.004**	0.004**	0.004**	0.004**	0.005**	0.006***
Contingency Variables								
Government-owned banks (GOB)		-0.037***	-0.031***	-0.027***	-0.034***	-0.034***	-0.029***	-0.035***
Financial Representation (FINREP)		-0.017**	-0.020***	-0.025***	-0.017**	-0.017**	0.025***	-0.019***
Big Four Audit (BIGFOUR)		-0.006	-0.002	-0.002	-0.002	-0.002	-0.003	-0.003
Managerial Financial Ties (MFT)		0.009**	-0.002	0.002	0.001	0.000	-0.003	-0.003
Predictor Variable								
Managerial Political Ties (MPT)			0.007***	0.007***	0.008***	0.003	0.001	0.016***
Interactions								
MPT*MFT				-0.003*				
MPT*POB					-0.006**			
MPT*GOB						0.006**		
MPT*FINREP							0.007***	
MPT*BIGFOUR								-0.011***
Adjusted R^2	0.26	0.49	0.58	0.58	0.59	0.59	0.59	0.62
Change in R^2	0.29***	0.23***	0.09***	0.01**	0.01**	0.01**	0.01***	0.04***
Model F	9.49	15.65	20.15	19.12	19.54	19.54***	19.36***	21.91***

Note:
N = 179. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$ (two-tailed significance tests). VIF scores are below 10

[a] Interest rate is unstandardized, hence all values are unstandardized coefficients expressed in three decimal places in order to reveal small differences. Expressing coefficients in two decimal places will suppress effects.

[b] Before creating the interactions terms, the lower-order terms were mean centred. Where necessary, reverse-coding was done before creating interaction terms that include dummy variables

[c] Bootstrapped results are based on 1000 bootstrapped sample

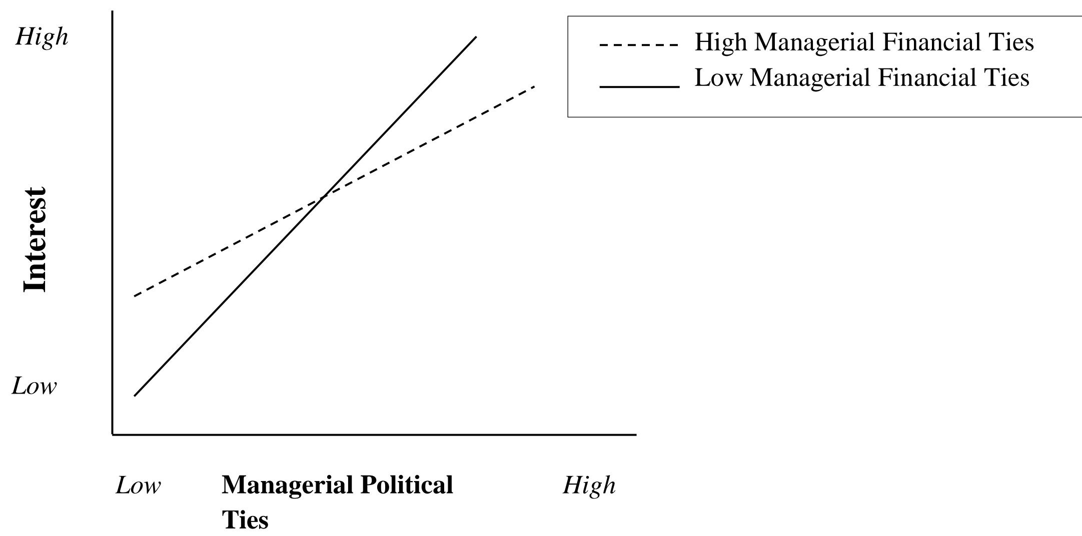

Figure 5-3 Managerial financial ties as a moderator

Chapter 6 Managerial Political Ties and Institutional Risk

The proposition that CPA reduces the exposure of firms to risk or uncertainty has existed in the non-market strategy literature for decades (Baysinger, 1984; Hillman et al., 1999). As argued in Chapter two, there are numerous studies that have theorized the mediating or moderating role of risk in the outcomes of CPA and the impact of uncertainty on CPA (White et al., 2015). However, little empirical research has been conducted to prove or disprove the theory that CPA reduces the exposure of firms to risk. In this chapter, I address this significant gap in the literature by presenting empirical findings on the association between political ties and institutional risk exposure. As this thesis aims to explore the mediating role of risk in the relationship between political ties and cost of debt, I found it imperative to give adequate attention to this important topic that has been overlooked for a long time. In the next sections, I develop testable hypotheses, define the general estimation model for the analyses, and discuss the findings.

6.1 Hypotheses Development

In developing the hypotheses, moderation effects are considered. Specifically, the moderating roles of PA functions, regulation and CSR on the relationship between political ties and risk exposure are proposed. With CSR in the framing, this study hypothesizes and tries to operationalize well-reasoned calls for research to advance our understanding of the link between non-market strategy and organizational outcomes by integrating both CPA and CSR activities (Hond et al., 2014; Liedong et al., 2015; Mellahi et al., 2016). Indeed, there is a lack of empirical research that focus on the complementarity or combinative effect of the two strands of non-market strategy.

Political Ties and Institutional Risk

Firms and governments exhibit a typical principal-agent relationship whereby the former are principals and the latter are agents (Getz, 1997). This relationship might be implicit and informal but as noted, not all principal-agent contracts are formalized (Jensen and Meckling, 1976). That said, governments are expected to act in the best interest of their constituents (including firms) but this does not always happen owing to several reasons such as high costs of monitoring government and lack of information by politicians (Lord, 1995). In emerging countries, firms face even greater institutional risks owing to the volatility and fragility of the institutions in these countries (Luo, 2004). However, agency problems between firms and

government are surmountable through political activity (Keim and Baysinger, 1993; Getz, 1997). For instance, Jayachandran (2006) argues that firms target their contributions towards politicians whose interests are aligned with theirs. This ensures that when elected, politicians invariably pursue the interests of supportive firms. In federal agency rule making, firms comment and petition in order to make their policy preferences known to policy agencies. To avoid litigations, the agencies align final policies with the interests of the commenters (McKay and Webb-Yackee, 2007).

The alignment of business and government interests reduces uncertainty as firms would not have to worry about unexpected policy or regulatory developments (Hillman et al., 1999). The ability to use political connections to shape government policies or influence the vote on legislations (Steagall and Jennings, 1996; Liebman and Reynolds, 2006) empowers firms to take control of their environments. Through political ties, firms get to know the intentions of policymakers (Hadani and Schuler, 2013). They also gain access to information that is otherwise costly or difficult to obtain. The consequent reduction of information asymmetry lessens the risks to which firms are exposed and facilitates futuristic planning. When firms have access to politicians, they are able to support policies that promote their business interests or prevent the passage of detrimental regulations (Doh et al., 2012).

Moreover, the high propensity for governments to bail out politically connected firms (Faccio et al., 2006; Blau et al., 2013) serves as an implicit guarantee of protection from shocks or voids in the environment. Politically connected firms may perform poorly, but their probability of bankruptcy is low because they receive government support (Kostovetsky, 2015). This highlights the issue of moral hazard whereby firms perceive low exposure to risk because they receive political insulation. In emerging countries such as Ghana where the number or power of independent veto players is typically low (Henisz, 2004; Henisz and Delios, 2004), the "rules of the game" are unclear, and legal frameworks are premature (Li, 2005; White et al., 2015), politicians can fast track snail-paced bureaucratic processes and clear up major institutional obstacles that affect firms. I therefore hypothesize that:

> H1: In emerging countries, managerial political ties are negatively related to institutional risk exposure

The Moderating Effect of Corporate Social Responsibility

In essence, most political strategies are targeted at politicians. While this choice of target is rational, it is problematic. Regardless of the fact that governments are powerful, engaging with politicians only will not address every risk in the business environment. According to Miller (1992), uncertainty can arise from social causes – the public and society. For instance, non-governmental organizations (NGOs) and their supporters can pressure firms, especially MNEs, to make "satisfactory" contributions to society if they perceive these firms are not doing enough (Kostova and Zaheer, 1999; Puck et al., 2013). NGOs are influential and instrumental in policy making, as highlighted by multi-stakeholder initiative (MSI) studies (Rasche, 2012; Mena and Palazzo, 2012; Moog et al., 2015). Moreover, communities and the public can revolt against firms they believe are unethical, irresponsible or untrustworthy (Liedong et al., 2015). In democratic countries where politicians get their mandate from the electorate, the will of the public becomes the cause of government as politicians will struggle to grant policy favours to firms in the face of overwhelming public resentment. Indeed, the discretion politicians have in policymaking is curtailed when policy issues become salient among voters (Schuler, 2008). Hence, when firms are plagued by public dislike, political ties cannot do much to reduce institutional risk exposure.

To strengthen the effectiveness of political ties in reducing risk exposure, CSR could be instrumental. There are little legal obligations for firms to engage in CSR activities in emerging or developing economies (Hamann et al., 2005). Thus CSR fulfils a moral obligation and has a better chance of appealing to the sensibilities of the public. It enhances corporate reputation (Hond et al., 2014; Hur et al., 2014) and confers legitimacy on firms (Park et al., 2014). Because of its strong emphasis on philanthropy and social welfare, CSR fills development gaps, especially in developing countries (Scherer and Palazzo, 2011). Socially responsible firms are therefore trustworthy (Pivato et al., 2008; Hillenbrand et al., 2013), have large and strong constituencies and are less likely to face resentment (Liedong et al., 2015). They are also more likely to be perceived as well governed due to their high visibility (Hond et al., 2014).

Within the last decade, political CSR – which refers to CSR with intended or unintended political impact (Frynas and Stephens, 2015) - has received significant attention from management scholars (Scherer and Palazzo, 2011; Morsing and Roepstorff, 2015). Beyond providing basic infrastructure for communities, and contributing to national and global

regulation (Scherer and Palazzo, 2007; Margolis and Walsh, 2003), CSR enables firms to develop trustworthy relationships with community actors and politicians (Liedong et al., 2015). This resultant trust does not only facilitate the entry of firms into political arenas (Wang and Qian, 2011), but it also builds social capital and reduces the exposure of firms to negative institutional effects, particularly adverse policy, discrimination, witch-hunting or community revolts.

CSR therefore has a positive impact on the risk exposure of firms, regardless of whether this risk is politically or socially driven. At worst, CSR will make managers feel insulated from institutional constraints because of the public goodwill associated with benevolent practices. In developing countries such as Ghana, public perceptions of firms are positively influenced by the level of support and moral obligations the firms have towards communities (Ofori and Hinson, 2007; Kuada and Hinson, 2012). At best, CSR will give managers the audacity to push institutional boundaries or the impetus to engage with relevant stakeholders in order to overcome institutional voids. The chance of success in policy influence or risk reduction is higher for firms that are socially responsible (Hond et al., 2014; Liedong et al., 2015).

But more importantly, CSR can complement political ties by addressing the social roots of institutional risk. As noted previously, political ties address political and policy uncertainties. Yet there are instances when these uncertainties are initiated by the public or when corporate influence in policymaking is abhorred by society (Milyo et al., 2000), especially in emerging countries where the dark side of political activity – corruption, bribery, nepotism, etc. - is more likely to manifest (Lawton et al., 2013a). Strong public resentment renders political ties ineffective in institutional risk reduction.

In emerging economies, a firm’s engagement in CSR activities sends a signal that it possesses slack resource to address social problems. This signals the health of the organization. Drawing on resource dependency logic, Mellahi et al. (2016, p.158) argued that the positive performance effects from the CSR and political ties complementarities “are pronounced when governments control critical resources on which the organization is dependent”. It is reasonable to argue that CSR moderates the negative effects of political ties on institutional risk exposure for several reasons. First, recent research on the link between CSR and CPA in emerging economies suggests that engagement in CSR activities helps firms obtain political legitimacy, and thereby increases their chances of obtaining government subsidies and support (Lin et al., 2015). Second, political actors in emerging economies tend to reward

firms for their CSR activities (Rehbein and Schuler, 2015a). Third, as argued by Mellahi et al. (2016), strong political ties may help firms legitimise and publicise their CSR activities Having a high profile politician opening a CSR initiative is likely to attract media coverage, thereby increasing firms' visibility and ratings by key stakeholders (Lawton et al., 2014). Similarly, CSR may "serve as a buffer" to the potentially risky effects of political connections (Mellahi et al., 2016) and may amplify the positive effects of political ties (Sun et al., 2012). I therefore argue that combining CSR and political ties helps firms to develop trust with political and social stakeholders, quell public resistance, and consequently reduce their risk exposure. Thus, I hypothesize that:

> H2a: Corporate social responsibility is negatively related to institutional risk exposure

> H2b: In emerging countries, the negative relationship between managerial political ties and institutional risk exposure strengthens with higher levels of social responsibility.

The Moderating Effect of Public Affairs Function

Corporate public affairs departments (PAs) offer channels for interaction between firms and their external environments (Griffin and Dunn, 2004). PAs focus on the creation and maintenance of a specific set of external stakeholder relationships (Lawton et al., 2014). A PA serves as a window in and a window out of firms (Adams, 1976). As a window in, it increases transparency and trust between a firm and its stakeholders. As a window out, it shapes the opinions of experts, politicians, and the public at large. PA departments therefore act as the internal-external links for firms (Griffin and Dunn, 2004). Firms with PA departments have formalized their interaction with the environment and have included the PA function into their organizational structures. Such formalization leads to strategic planning, implementation, coordination, execution, and evaluation of the firms' political strategies. Indeed, when firms are properly designed or structured, they will be more effective in managing external dependency (Kotter, 1979) and risk (Dieleman and Boddewyn, 2012).

For firms with PA functions, their interaction with politicians and the general public is not ad hoc or transactional but planned and relational. They are more likely to ensure that their political activity yields favourable outcomes, as research suggests that the presence of PAs contribute to the influence and power firms exert in their environments (Lawton et al., 2013b). Moreover, the existence of a PA indicates a firm's recognition of the need to interact

with the environment and signals its commitment to engage with external stakeholders such as government (Griffin and Dunn, 2004). Indeed, the dynamism and significant influence of politics on economic environments and business performance has led some non-market scholars to suggest that firms should appoint Chief External Officers and task them with overseeing political and social issues (Doh et al., 2014). In emerging countries, the importance of PA functions is yet to be recognized as most firms, especially the locally owned ones, are not strategically organized to address external affairs. This implies that not all firms will be effective at managing institutional risk. Those with PA functions will be better at addressing the concerns of many stakeholders, including government, and hence will have low perceptions of institutional risk exposure.

Agency problems have repercussions for corporate outcomes (Jensen and Meckling, 1976), and of course for institutional risk exposure. As previously noted, the imperfect agency relationship between firms and governments (Getz, 1997) is a problem that can be addressed by monitoring elected representatives (Lord, 1995). However, monitoring and enforcing agency contracts, implicit or explicit, require time and involve costs (Oviatt, 1988; Lord, 1995), and hence cannot be done by all principal parties. As the efficacy of political strategies is dependent on organizational resource endowments (Oliver and Holzinger, 2008), including the formal organizational structures through which strategies are implemented (Keim and Baysinger, 1988), it is reasonable to expect that PA departments will be adequately resourced to monitor government policies and ensure that corporate risk exposure is reduced. Consequently I hypothesize that:

> H3: In emerging countries, the negative relationship between managerial political ties and institutional risk exposure strengthens with the presence of PA functions or departments in firms

The Moderating Effect of Industry Regulation

Regulation has been noted to be one of the strongest impetus for corporate political activity (Mitchell et al., 1997; Hansen and Mitchell, 2000). Firms in highly regulated industries have high stakes in government policy (Lang and Lockhart, 1990), and hence are actively involved in politics (Stigler, 1971). As regulations increase uncertainty and affect their profitability and competitiveness (Hillman et al., 2000), these firms have the motivation to ensure that government’s policies serve their interests (Hadani and Schuler, 2013). They are able to protect or promote their interests by establishing formal and informal relationships with

politicians (Hillman and Hitt, 1999; Peng and Luo, 2000). Through these relationships, they gain access to the nexus of regulatory power and obtain first-hand information (Pfeffer, 1972) which enables them to manage their dependency on government (Keim and Zeithaml, 1986; Hillman and Hitt, 1999). The foregoing arguments suggest that political ties will be stronger for firms in regulated industries. Along this line, I argue that as ties are stronger for regulated firms, their exposure to institutional risk should be lower. Conversely, it is possible that high uncertainty in regulated industries could set-off perceptions of high risk exposure, even if firms are strongly connected to politicians. After all, uncertainty exhorts the development of political ties (Hillman, 2005; White et al., 2015). Taking these different viewpoints into account, I hypothesize the following:

> H4a: In emerging countries, the negative relationship between political ties and institutional risk exposure strengthens with high levels of regulation

> H4b: In emerging countries, the negative relationship between political ties and institutional risk exposure weakens with high levels of regulation

Figure 6-1 presents the research model for examining the relationship between managerial political ties and institutional risk exposure. The sign next to each hypothesis indicates the predicted direction of the relationship. For moderation, (+) represents a strengthening effect while (–) represents a weakening effect.

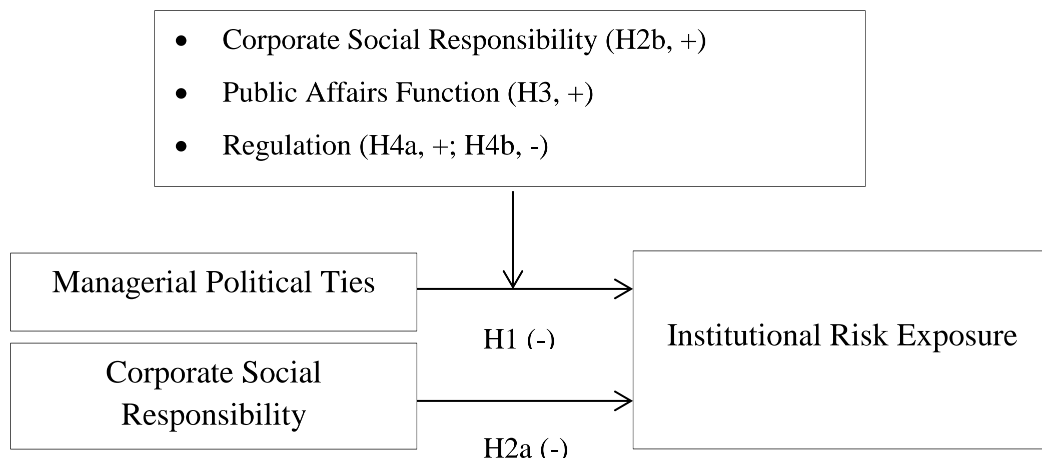

Figure 6-1 Research Model - Managerial Political Ties and Institutional Risk

6.2 Data and Analysis

The data for this study comes from a survey of firms operating in Ghana. Details of the sources of data and the collection process are contained in Chapter 4. During design and administration of the survey, measures were taken to address common method variance (CMV), validity and reliability of the scales and variables. Additionally, statistical tests were conducted after the data was collected to ensure CMV does not affect the results. In the sample, 55.3% of the firms are locally owned. Also, majority of the firms have a public affairs department or function. In an emerging country such as Ghana, this finding may be surprising but considering that majority of the firms in the sample are medium and large scale enterprises, it is not strange. 21 industries, ranging from mining to textiles, are represented in the sample. On the average, the firms have been operating in Ghana for 19 years.

To examine the relationship between the independent and dependent variables, multiple moderated hierarchical regression analyses were performed. Where interaction terms are used, the continuous lower-order terms/variables were mean-centred prior to the creation of the interactions (Aiken and West, 1991). The following model was used to estimate the relationship between managerial political ties and institutional risk exposure.

$$RISK = b_1\ INST + b_2\ AGE + b_3\ OWN + b_4\ SIZE + b_5\ PA + b_6\ CSR + b_7\ REG + b_8\ MPT$$

Where:

RISK = Institutional Risk
INST = Institutional holding (shares held by institutional investors)
AGE = Age of firm
OWN = Firm ownership (dummy coded)
SIZE = Size of firm (logarithm of number of employees)
PA = Public Affairs Function (dummy coded)
CSR = Corporate social responsibility (7-point Likert scale)
REG = Regulated industries (dummy coded)
MPT = Managerial political ties (7-point Likert scale)

Institutional risk (RISK) is the dependent variable of the regression model above while the main independent variable is political ties (MPT). Public affairs function (PA), social responsibility (CSR) and regulation (REG) are treated as moderators of the relationship between MPT and RISK. Detailed argumentations of how these moderations are expected to

work can be found in the hypotheses. Firm age, firm size, ownership, and institutional holding are the control variables which are expected to have an impact on risk exposure. For example, older firms, through their acquisition of local knowledge and experience, can avoid risks while institutional shareholders, by virtue of their large stakes, may have a stronger motivation to help their firms overcome institutional constraints. Additionally, large firms have large exposures to the business environment while foreign firms are liable to the costs and hazards of foreignness.

As some of the constructs in this study are new and hence have not been validated by previous studies, I performed a series of analyses to establish and confirm the factor structures and reliability of these new constructs. First, I followed conventional practice and performed a global exploratory factor analysis (principal components and Varimax rotation) to understand the factor structure of the latent items (Acquaah, 2007). As shown in Table 6-1, the exploratory analysis revealed five factors: 1) political ties; 2) institutional holding; 3) institutional risk – regulation; 4) institutional risk – administrative; and 5) institutional risk – controls. Together, these factors explained 81.18% of total variance in the data. The main highlight of the factor structure lies in the confirmation that risk is a multi-faceted construct (Puck et al., 2013), and as expected, three factors emerged for this construct. These factors capture institutional risk arising from regulatory and legal uncertainty, administrative obstacles, and direct controls.

Insert Table 6-1 here. See page 153

Following prior studies (Murray et al., 2005; Boso et al., 2013; White et al., 2015), I confirmed the factor structure of these constructs by performing a confirmatory factor analysis (CFA). Additionally, CFA allowed me to calculate further measures of reliability such as the average variance extracted (AVE) and composite reliability (CR). Table 6-2 shows the constructs and their reliability measures, as derived from the CFA. As can be seen, the AVE and CR scores exceed the minimum thresholds of 0.50 and 0.70 respectively (Fornell and Larcker, 1981; Hair et al., 1998). Subsequently, a three-factor CFA confirmed the existence of a single construct for institutional risk (CFI = 0.94, NFI = 0.92, IFI = 0.93, RMSEA = 0.05, $p > 0.05$), hence the three types of risk were combined into an overall risk exposure construct ($\alpha = 0.90$) as was done by Puck et al. (2013). The high factor loadings, as shown in Table 6-2, support convergent validity (Hair et al., 1998). Also, the fit statistics

(CFI = 0.95, NFI = 0.96, IFI = 0.98, RMSEA = 0.05, p > 0.05) show that the measurement model fits the data well.

Insert Table 6-2 here. See page 154

6.3 Results

Table 6-3 reports the means, standard deviations and correlation coefficients among the variables. The correlation matrix reveals significant correlations between the dependent and independent variables. Even though the correlations are significant, the coefficients are not very large (above 0.90) to suggest a problem of multicollinearity (Tabachnick and Fidell, 2014). The table also shows the largest variance inflation factor (VIF) for each variable. The VIFs are less than 10, which confirm that the analyses are not affected by multicollinearity (Myers, 1990). More precisely, the highest VIF is 1.42. As the square-root of the average variance extracted (AVEs) for the constructs are larger than the correlations between construct pairs, I found strong support for discriminant validity (Fornell and Larcker, 1981; Murray et al., 2005; Ambos et al., 2010). Finally, the Cronbach alphas for the constructs are well above the minimum threshold of 0.70 (Nunnally, 1978), and thus support internal consistency and reliability.

Insert Table 6-3 here. See page 155

In Table 6-4, Model 1 shows the associations between the control variables and institutional risk exposure. The Model reveals that institutional holding is negatively associated with institutional risk exposure (Model 1: β = -0.15, $p < 0.01$). It also shows that firm size is positively associated with risk exposure (Model 1: β = 0.15, $p < 0.1$). When interpreted, these results suggest that institutional holders are able to reduce the exposure of firms to risk. They also suggest that large firms have a high exposure to investment constraints. In Model 2 where the contingency variables are added, the results show that PA functions and CSR are negatively associated with institutional risk exposure (Model 2: β = -0.52, $p < 0.01$ for PA functions; and Model 2: β = -0.10, $p < 0.1$ for CSR). The findings suggest that firms with public affairs departments and firms that are socially responsible perceive low risk exposure. The findings also show that regulation is positively associated with risk exposure (Model 2: β = 0.47, $p < 0.1$), indicating that firms operating in highly regulated industries such as mining,

pharmaceuticals, and petroleum are susceptible to uncertainties arising from weak institutional frameworks. In Model 3, I test H1 which predicts that political ties are negatively associated with risk exposure. The results show that political ties have a positive but insignificant association with risk exposure (Model 3: $\beta = 0.04$, $p > 0.1$), hence providing no support for H1. This finding, though consistent with previous studies (Puck et al., 2013), casts doubts over the positive postulations about the effectiveness of CPA in reducing uncertainty (Hillman et al., 1999; Hillman et al., 2004).

In Models 4, 5 and 6, I tested for interaction effects. The moderation effect of CSR on the relationship between political ties and risk exposure is insignificant (Model 4: $\beta = 0.04$, $p > 0.1$) and thus warrants no further analysis. I therefore find no support for H2. In models 5 and 6, I follow the interpretation of interaction terms that have dummy variables as lower-order terms (Hardy, 1993)[7]. The interaction term MPT*PA (PA coding reversed) is significant (Model 5: $\beta = -0.18$, $p < 0.01$) and the coefficient for MPT is also significant (Model 5: $\beta = 0.10$, $p < 0.05$), indicating that firms that are politically connected and have public affairs functions perceive high risk exposure. Hence I find no support for H3. Similarly, the variables MPT*REG and MPT are significant (Model 6: $\beta = -0.20$, $p < 0.01$ and Model 6: $\beta = 0.15$, $p < 0.01$ respectively). While these results do not support H4a which proposes that politically connected firms operating in regulated industries are exposed to lower risk, they support H4b which predicts that industry regulation weakens the negative relationship between political ties and institutional risk exposure. In effect, connected firms in regulated industries perceive high exposure to investment climate constraints.

Insert Table 6-4 here. See page 156

Subsequently, I conducted further tests to examine the association between political ties, CSR, public affairs and regulation and the three types of institutional risk – regulatory, administrative and controls. The rationale is to investigate whether these variables, particularly political ties, has a significant relationship with a specific type of risk. Additionally, disaggregation of the risk construct might reveal nuances that are concealed by the combined institutional risk measure. Indeed, the results reveal interesting nuances. In Table 6-5, the results for the three types of institutional risk are shown. It can be seen that

[7] When a model contains an interaction term which is the product of a continuous variable and a dummy variable, coefficients on the lower-order continuous term are interpreted as the effect of the continuous variable only and only when the dummy variable is 0. The results correspond with the group = 0

institutional holding (β = -0.13, $p < 0.05$) and public affairs function (β = -1.03, $p < 0.01$) have a negative association with regulatory institutional risk, indicating that these variables can enable a firm to buffer or bridge regulatory obstacles or uncertainties. However, the main predictor variable, managerial political ties, has no significant association with this type of risk (β = -0.003, $p > 0.1$), though the direction of the coefficient is negative. While CSR has a significant impact on the combined risk construct, it plays an insignificant role in regulatory risk. The results also show that foreign firms have less exposure to administrative risk (β = -0.59, $p < 0.01$). Similarly, socially responsible firms have less exposure to administrative risk (β = -0.30, $p < 0.01$). In contrast, firms in highly regulated industries have a high exposure to this risk ((β = 0.70, $p < 0.01$). With respect to exposure to direct controls, only institutional holding is significant (β = -0.18, $p < 0.01$).

Insert Table 6-5 here. See page 156

Robust regression techniques were employed to test the rigour of the Models. Specifically, I re-run the Models using 1,000 bootstrapped samples and estimating a 95% bias corrected and accelerated confidence interval for the coefficients (Elfron and Tibshirani, 1993; Wright et al., 2011). The results did not change in any dramatic fashion as no previously significant variables became insignificant. Table 6-6 shows the bootstrapped Models. Compared with the non-bootstrapped Models (Table 6-4), the only changes include CSR becoming significant at the 10% level (Table 6-6 Model 5: β = -0.08, $p < 0.1$) and the significance of political ties changing from 1% to 5% (Table 6-6 Model 6: β = 0.15, $p < 0.05$). It is worth mentioning that the change in significance of CSR is not important because a similar result was established in Model 2 when the variable was first introduced to the analysis.

Insert Table 6-6 here. See page 157

6.4 Discussion of the Findings

The CPA literature is replete with claims that political strategies reduce firms' exposure to uncertainty (Baysinger, 1984; Hillman and Hitt, 1999). These postulations are deeply rooted in beliefs that political connections enable firms to obtain exclusive and first-hand information about policy (Pfeffer, 1972) or gain access to the corridors of regulatory power

(Hillman, 2005). In emerging countries, the postulations are based on the belief that political ties can replace inefficient and insufficiently developed market supporting institutions (Peng and Luo, 2000; Acquaah, 2007; Acquaah, 2011). Unfortunately, I did not find evidence to support the efficacy of political ties in institutional risk reduction. Political ties had no significant association with the combined institutional risk measure or the three types of institutional risk – regulatory, administrative, and controls. Essentially, the argument that political connections reduce uncertainty is unsupported. The surprising results of this study, particularly the insignificant relationships and the significantly positive moderation effects, merit profound attention. I draw on institutional insights to explain the findings.

Considering the fact that the elements of institutional risk in emerging countries are mostly policy oriented (hence macro), I argue that political strategies with a strong focus on institutional entrepreneurship (DiMaggio, 1988; Dacin et al., 2002) will be more effective for the creation of new institutions or the transformation of existing institutions in emerging countries, and hence will be more suitable to reduce institutional risk exposure. Such political strategies are informational in form and include lobbying and petitioning. Unfortunately, they have limited scope and application in emerging countries where the structures for private sector participation in policymaking are lacking (Rajwani and Liedong, 2015). Rather, relational strategies such as political ties are predominant (Dieleman and Sachs, 2008). Though political ties can facilitate access to the polity, they may not effective for addressing institutional voids. In essence, political access is not the same as political influence (Kim, 2008; Liedong et al., 2015). I argue that more is required, beyond access, to instigate institutional entrepreneurship. Political ties may not be useful for buffering against investment climate constraints because managers fail to further exploit their access to the polity. In highly regulated industries which are characterised by high uncertainty, perceptions of the helplessness of political ties in risk reduction are even stronger. For firms in these industries, the need to file frequent paper work results in their managers having frequent interactions or making frequent visits to public offices, thus exposing them to the exploitative demands of public officials. It is therefore not surprising to find that highly regulated firms have a high exposure to administrative risk – bribery, corruption, and bureaucratic red tape.

Additionally, political ties are more likely to offer idiosyncratic benefits which cannot be assured or guaranteed in the future. As institutional voids become entrenched and political ties are ineffectual for institutional entrepreneurship, firms may only use their ties to overcome or avoid institutional lapses every time they are encountered, but the lapses will

remain and will recur in the future. Consequently, all recurring lapses will present new situations in which firms have chances of success and failure. In effect, firms survive by the day. Such surviving-by-the-day mentality of managers obviously accounts for the insignificant association between political ties and institutional risk exposure. Moreover, political strategies are largely targeted at government officials and are therefore less effective for engaging with other stakeholders who can influence business environments. This argument may create the impression that combining political ties with CSR - which addresses non-political stakeholders - will significantly reduce risk exposure. Yet, the attempt to establish an integrated non-market strategy for risk reduction failed as no moderating effect of CSR was found. Hence a strong argument of complementarity cannot be supported. The significant effect of CSR on risk exposure did not bear on the interaction of MPT and CSR, highlighting the assertion of a trade-off from combining social responsibility and political activity (Liedong et al., 2015). Essentially, the positive perceptions associated with CSR become tainted by the negative perceptions of political ties. Social capital with the public (through CSR) is viewed positively than social capital with politicians (through political ties), arguably because in most developing countries such as Ghana, CPA is associated with corruption (Lawton et al., 2013a).

The MPT*PA result is very surprising, but explicable. PA functions increase the visibility of firms. This visibility can increase transparency and reduce risk exposure as this study shows, but it can also expose firms to scrutiny by a wide range of stakeholders and thus increase risk exposure (Meznar and Nigh, 1995; Puck et al., 2013). CPA has a dark side i.e. bribery, corruption, etc. (Doh et al., 2012; Lawton et al., 2013a), hence public perception of political ties is not always positive and most managers know this. Once public resentment builds and politicians become prompted to respond accordingly, government policy change becomes possible and likely. Therefore, perceptions of risk exposure will increase when politically connected firms become visible to many stakeholders through their PA activities. Moreover, the overwhelming power of politicians in emerging countries, as a result of poor checks and balances (Henisz and Delios, 2004), may lure managers into thinking that developing ties with politicians is enough. Such thinking could lead to less dedication towards PA activities which are more effective in institutional risk reduction. On the flipside, the visibility PA activities give to CSR does not increase risk exposure. In fact, the direction of the CSR*PA result is negative, as expected, but only insignificant. These findings highlight the different effect of visibility on CSR and CPA. Essentially, visibility of political ties has negative

consequences for firm outcomes in weak institutional environments. These findings also have implications for the theorized complementarity of CPA and CSR. The big question that arises is whether the gains of CSR are eroded by CPA.

Another very interesting thing this study reveals is the differential impact CSR, public affairs and industry regulation have on the three types of institutional risk – regulatory, administrative and controls. Non-market scholars argue that PA activities can buffer the environment and affect regulatory issues (Lawton et al., 2014). This is because they create channels of influence through communication with important external stakeholders such as government officials (Adams, 1976), and therefore offer an opportunity for firms to influence public policy. Unsurprisingly, I found empirical support for these arguments. However, PA functions are not effective in reducing other types of institutional risk such as administrative risk and controls.

CSR, as expected, has no direct effect on regulatory issues (Liedong et al., 2015), but it reduces firms' exposure to administrative obstacles such as corruption, bribery, informal payments and bureaucratic red tape. CSR signals that a firm is well governed and well behaved in society (Hond et al., 2014), and thus discourages extortions and demands for informal payments. Moreover, positive public perceptions towards socially responsible firms in Ghana (Ofori and Hinson, 2007; Kuada and Hinson, 2012) suggest that public officials, who are part of the general public, will be willing to fast-tract administrative processes for these firms, hence a low exposure of socially responsible firms to bureaucratic red tape.

On a different note, highly regulated firms are highly exposed to regulatory and administrative risks. These firms have impetus to develop strong political connections (Hillman et al., 2004; Lux et al., 2011) which should reduce their exposure to risk, but as this study finds, political connections are ineffective. The turbulence that is associated with new regulations, coupled with the extortions and bureaucracy associated with frequent filings at public agencies do not help the cause of these firms. In sum, CSR and PA functions reduce overall institutional risk, but they do not reduce all three types of institutional risk. Similarly, regulation increases exposure to overall institutional risk, but it does not increase exposure to risk from controls. Managerial political ties have no effect on either type of institutional risk.

Integrating social capital and institutional theories, this study makes significant contributions to non-market strategy literature. Generally, the findings show that political ties are unable to buffer constraints in weak institutional environments, and thus resonate with studies that

show that political ties and social capital could be harmful to organizational outcomes (Li et al., 2009; Chung, 2012). The findings also fail to support the notion of complementarity between CSR and CPA (Hadani and Coombes, 2015; Liedong et al., 2015).

6.5 Chapter Summary

This chapter explored and presented results on the association between managerial political ties and institutional risk exposure[8]. Though prior studies postulated the effectiveness of CPA on uncertainty reduction, I found no empirical evidence to back those claims. The results suggest that political ties have an insignificant association with risk. Even when institutional risk is disaggregated into its constituent elements (regulatory, administrative, and controls), political ties are still insignificant. These findings lead to a plausible conclusion that the conjectured ability of CPA to reduce risk may only be illusional, not real. CSR, PA functions and industry regulation were hypothesized to strengthen the effectiveness of political ties in risk reduction, but the findings revealed no effects at best and negative effects at worse. To be specific, the interaction between CSR and political ties is insignificant and thus raises questions about the complementarity between CSR and CPA (Hond et al., 2014; Liedong et al., 2015). Moreover, instead of interacting with political ties to reduce risk, PA functions and regulation rather increase the risk exposure of politically connected firms, hence highlighting how regulatory vulnerability and visibility affect perceptions of susceptibility to institutional risk.

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[8] A theoretical paper from the content of this chapter was published in *Group & Organization Management* (ABS 3*) and was selected into the *Editor's Choice Collections*, a list of noteworthy manuscripts of the journal. Another paper out of this chapter was presented at the 2015 Strategic Management Society (SMS) Conference in Denver. The paper was nominated for three prizes - Best Paper Prize, Best Student Paper Prize and Best Paper for Practice Implications. A revised version of this same paper is currently under consideration for publication (2nd Round) at *British Journal of Management* (ABS 4).

Table 6-1 Global Exploratory Factor Analysis

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Institutional Holding					
Shares held by Pension Funds	**.921**	-.129			
Shares held by Mutual Funds	**.915**				
Shares held by Insurance companies	**.906**	-.139			
Shares held by Endowment Funds	**.895**		.131	-.135	
Shares held by Charities and Foundations	**.849**	-.120			
Shares held by Private Equity Firms	**.812**	-.168		.269	
Institutional Risk - Regulations					
Obstacles posed by labour regulations		**.917**		.105	.104
Obstacles posed by licensing and permit requirements	-.189	**.887**			.217
Obstacles posed by customs and trade regulations	-.104	**.880**			.140
Obstacles posed by judicial system	-.108	**.841**		.218	
Obstacles posed by tax regulations	-.123	**.803**	.119	.184	.215
Managerial Political Ties					
Investing in building relationships with gov't officials			**.939**		
Spending time dealing with gov't affairs			**.936**		
Maintaining good relationships with gov't officials			**.933**		
Institutional Risk - Administrative					
Obstacles posed by corruption and bribery		.243	-.138	**.839**	
Obstacles posed by bureaucracy or red tape		.145		**.824**	.148
Obstacles posed by contract repudiation	.212	.145		**.724**	.291
Institutional Risk - Controls					
Obstacles posed by price controls	-.109	.138		.253	**.830**
Obstacles posed by import and export controls		.427	.132	.249	**.745**
Obstacles posed by currency controls	-.145	.415	.334		**.668**
Eigen value	6.45	4.3	2.78	1.75	1.29
Percentage of variance explained	24.26	21.58	14.23	11.23	9.86
Percentage of cumulative variance explained	24.26	45.85	60.09	71.32	81.18

Note: Principal component Analysis; Varimax Rotation

Table 6-2 Results of Confirmatory Factor Analysis

Construct	Measurement Items	Factor Loading	T-value
Managerial political ties			
(AVE = 0.84; CR = 0.94)	Spending time dealing with gov't affairs	0.93	19.91
	Investing in building relationships with gov't officials	0.91	(Fixed)
	Maintaining good relationships with gov't officials	0.91	18.99
Institutional Risk - Regulation			
(AVE = 0.73; CR = 0.94)	Obstacles posed by licensing and permit requirements	0.93	16.54
	Obstacles posed by labour regulations	0.9	15.66
	Obstacles posed by customs and trade regulations	0.87	14.85
	Obstacles posed by judicial system	0.83	(Fixed)
	Obstacles posed by tax regulations	0.81	13.25
Institutional Risk - Administrative			
(AVE = 0.60; CR = 0.88)	Obstacles posed by corruption and bribery	0.82	(Fixed)
	Obstacles posed by bureaucracy or red tape	0.77	8.04
	Obstacles posed by contract repudiation	0.65	7.58
Institutional Risk - Controls			
(AVE = 0.61; CR = 0.90)	Obstacles posed by import and export controls	0.96	(Fixed)
	Obstacles posed by currency controls	0.76	9.58
	Obstacles posed by price controls	0.65	8.46
Institutional Holding			
(AVE = 0.75; CR = 0.95)	Shares held by Pension funds	0.94	(Fixed)
	Shares held by Insurance companies	0.92	22.73
	Shares held by Endowment funds	0.88	20.09
	Shares held by Mutual funds	0.86	18.76
	Shares held by Charities	0.81	15.93
	Shares held by Private equity firms	0.77	14.44

Note: AVE = Average Variance Extracted; CR = Composite Reliability

Table 6-3 Descriptive Statistics and Correlations

		Mean	SD	Cronbach Alpha	1	2	3	4	5	6	7	8	9	Highest VIF
1	Institutional Risk	2.92	0.97	0.90	1									
2	Managerial Political Ties (MPT)	3.90	2.19	0.94	0.16**	1								1.19
3	Social Responsibility (CSR)	4.99	1.37	0.80	0.03	0.19**	1							1.44
4	Public Affairs (PA)	0.62	0.49	-	-0.19**	-0.09	-0.11	1						1.33
5	Regulation (REG)	0.42	0.49	-	0.23***	0.09	0.12	0.08	1					1.07
6	Institutional Holding	2.08	1.51	0.94	-0.19***	0.06	-0.23***	0.28***	-0.07	1				1.19
7	Firm Age	19.17	17.14	-	0.06	0.36***	0.00	0.26***	-0.05	0.27***	1			1.42
8	Firm Size	4.56	0.91	-	0.14*	0.12*	0.10	0.33***	0.06	0.11	0.26***	1		1.21
9	Foreignness	0.45	0.50	-	-0.11	-0.05	-0.37***	0.15**	-0.17**	0.13*	0.19**	0.03	1	1.23

Note: *** p < 0.01; ** p < 0.05; * p < 0.1 (Two-tailed significance)

Table 6-4 Regression Results - Managerial Political Ties and Institutional Risk

Variables	Institutional Risk Exposure					
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Control Variables						
Institutional Holding	-0.15***	-0.12**	0.13**	-0.13***	-0.13***	-0.14***
Firm Age	0.01	0.01**	0.01	0.01**	0.01	0.01
Firm Size	0.15*	0.22***	0.22***	0.22***	0.20**	0.23***
Foreignness	-0.22	-0.19	-0.19	-0.17	-0.16	-0.06
Contingency Variables						
Public Affairs (PA)		-0.52***	-0.49***	-0.47***	-0.48***	-0.51***
Social Responsibility (CSR)		-0.10*	-0.11*	-0.06	-0.08	-0.08
Regulation (REG)		0.47***	0.46***	0.48***	0.43***	0.44***
Predictor Variable						
Managerial Political Ties (MPT)			0.04	0.01	0.10**	0.15***
Interactions[a]						
MPT*CSR				0.04		
MPT*PA					-0.18***	
MPT*REG						-0.20***
Model Stats						
Adjusted R^2	0.06	0.16	0.16	0.16	0.19	0.20
Change in R^2	0.08***	0.11***	0.01	0.01	0.03***	0.04***
Model F	3.90***	5.66***	5.10***	4.80***	5.53***	5.80***

Note:
N = 179. *** p < 0.01; ** p < 0.05; * p < 0.1 (two-tailed significance tests). VIF scores are below 10
[a] Before creating the interactions terms, the lower-order terms were mean centred. Where necessary, reverse-coding was done before creating interaction terms that include dummy variables

Table 6-5 Managerial Political Ties and Disaggregated Risks

Variables	Institutional Risk Exposure		
	Regulatory	Administrative	Control
Control Variables			
Institutional Holding	-0.13**	-0.02	-0.18***
Age	0.01*	0.004	0.002
Size	0.30***	0.14	0.15
Ownership	0.06	-0.59***	-0.04
Contingency Variables			
Public Affairs (PA	-1.03***	0.13	-0.21
Social Responsibility (CSR)	-0.002	-0.30***	0.006
Regulation (REG)	0.56***	0.70***	0.04
Predictor Variable			
Managerial Political Ties (MPT)	-0.003	0.012	0.14
Model F	6.93***	5.80***	3.43***

Note:
N = 179. *** p < 0.01; ** p < 0.05; * p < 0.1 (two-tailed significance tests). VIF scores are below 10

Table 6-6 Bootstrapped Regression Results: Political Ties and Institutional Risk[a]

Variables	Institutional Risk Exposure					
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Control Variables						
Institutional Holding	-0.15***	-0.12**	0.13**	-0.13***	-0.13***	-0.14***
Age	0.01	0.01**	0.01	0.01**	0.01	0.01
Size	0.15*	0.22***	0.22***	0.22***	0.20**	0.23***
Ownership	-0.22	-0.19	-0.19	-0.17	-0.16	-0.06
Contingency Variables						
Public Affairs (PA		-0.52***	-0.49***	-0.47***	-0.48***	-0.51***
Social Responsibility (CSR)		-0.10*	-0.11*	-0.06	-0.08*	-0.08
Regulation (REG)		0.47***	0.46***	0.48***	0.43***	0.44***
Predictor Variable						
Managerial Political Ties (MPT)			0.04	0.01	0.10**	0.15**
Interactions[b]						
MPT*CSR				0.04		
MPT*PA					-0.18***	
MPT*REG						-0.20***
Model Stats						
Adjusted R^2	0.06	0.16	0.16	0.16	0.19	0.20
Change in R^2	0.08***	0.11***	0.01	0.01	0.03***	0.04***
Model F	3.90***	5.66***	5.10***	4.80***	5.53***	5.80***

Note:
N = 179. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$ (two-tailed significance tests). VIF scores are below 10
[a] Bootstrapped results are based on 1000 bootstrapped sample
[b] Before creating the interactions terms, the lower-order terms were mean centred. Where necessary, reverse-coding was done before creating interaction terms that include dummy variables

Chapter 7 Mediation: Managerial Political Ties-Cost of Debt Relationship

The relationship between CPA and firm performance has received attention, but the mediating mechanisms of this relationship have remained under-explored (Guo et al., 2014; Rajwani and Liedong, 2015; Mellahi et al., 2016). At best, researchers resort to mere conjecture to explain mediation in their empirical findings. While this is a good step towards theorization, the lack of empirical verification or proof starves us of deep understanding of the mechanisms through which CPA translates into value-adding or value-eroding outcomes (Lux et al., 2011). Consequently, this chapter seeks to transcend conjecture by hypothesizing and testing mediation in the relationship between managerial political ties and cost of debt. Such analysis will broaden knowledge of the role of political ties, or CPA in general, in credit markets.

7.1 Hypotheses Development

The hypotheses developed and presented in this section predict financial reporting, voluntary non-financial reporting, institutional risk exposure, social network expansion, and board independence as mediators that underlie the effect of political ties in credit markets.

The Mediating Role of Social Network Expansion

Banking is one of the most highly regulated industries (Hadani and Schuler, 2013). Studies have shown that highly regulated industries are politically active (Grier et al., 1994; Hillman, 2005). This is because firms in these industries have high stakes in government action (Kim, 2008). Banks would therefore need political connections to be able to influence the regulations and policies that affect them. But as there is heterogeneity in the strength, intensity or scope of political ties (Meznar and Nigh, 1995; Hillman et al., 2004; Mathur and Singh, 2011; Lux et al., 2011), all banks will not have same level of connections to politicians. Consequently, the political networks of banks will differ in size or strength. Banks that need to expand their social network of politicians could nurture closer ties to politically connected firms in order to effectively access and utilise the already-existing political networks of those firms. Access to politicians is necessary for political influence (Bonardi et al., 2005; Hadani, 2011; Liedong et al., 2015), hence less connected banks will be willing to develop close ties to connected firms by using cheap loans (Houston et al., 2014).

Cheap loans may promote the development of cordial relationships. These cordial relationships will facilitate the development of trust (Gulati, 1995), and culminate in the firms granting the banks access to their political networks. Connected firms may therefore serve as conduits for banks to establish indirect connections to arenas of political and regulatory power.

The argument above does not assume that banks will lend cheaply to gain political access only when they do not have connections of their own. In fact they might be connected, but the opportunity to expand their political network would be attractive. After all, large constituencies are effective in policy influence (Baysinger et al., 1985; Hillman and Hitt, 1999; Keim and Zeithaml, 1986). Besides access to the political networks of firms, banks could also get connected firms to support their policy programs. As "powerful" players in policy arenas, connected firms can support banks' policy petitions or even lobby regulations that affect banks. Essentially, banks desire to expand their own social networks and build large political constituencies for influencing policy issues can motivate them to lend cheaply to politically connected firms. I therefore hypothesize that:

> H1: Social network expansion mediates the relationship between managerial political ties and cost of debt

The Mediating Role of Institutional Risk Reduction

Exposure to institutional constraints such as bribery, corruption, policy uncertainty, and import/ export controls harm business performance. In emerging countries, these constraints are abundant (Khanna et al., 2005; Acquaah, 2007; Puck et al., 2013), implying that business performance in these countries is constantly under threat. Proponents of non-market strategy, particularly CPA, argue that firms' participation in policy processes reduces exposure to institutional constraints and uncertainty (Pfeffer and Salancik, 1978; Hillman and Hitt, 1999; Hillman et al., 2004), and consequently improves performance (Hillman, 2005). Building off this argumentation, I posit that the exposure of politically connected firms to institutional risk has a strong bearing on cost of debt.

Banks consider the future performance of firms in their credit decisions. Essentially, it is not only backward-looking financial reports that are taken into account. Future prospects are also important as they are used to gauge repayment ability. It is for this reason that banks typically lend to firms with viable future projects or strong proposals (Adomako et al., 2016). But

future prospects very much depend on prevailing external conditions, and hence are dependent on firms' capability to buffer or bridge threats or uncertainty in the external environment (Meznar and Nigh, 1995; Adler and Kwon, 2002; Hillman, 2005). Political connections mitigate threats, reduce the likelihood of corporate failure or dissolution, and increase sales growth (Zheng et al., 2015). As politically connected firms can use their ties to reduce threats and uncertainty facing their businesses, there is a high chance that these firms will survive, be competitive and successful. Consequently, banks will treat politically connected firms favourably, since their lower exposure to institutional risk signals positive future prospects. This expectation is stronger in developing countries such as Ghana where uncertainty is high and barriers in the business environment are many.

> H2: Institutional risk exposure mediates the relationship between managerial political ties and cost of debt

The Mediating Role of Financial Reporting Quality

In developed countries, the expectation that firms will prepare financial reports according to acceptable standards can be taken for granted. In emerging countries however, it could be wrong to have such an expectation. Prior research shows that in countries with bank-based financial systems, there is low relevance and demand for financial information (Ali and Hwang, 2000). Also, in countries where there is low investor protection and concentrated ownership, the quality of financial reporting is poor (Ball et al., 2000). Unfortunately, developing countries such as Ghana exhibit all of these traits – bank-oriented financial systems, low investor protection and concentrated ownerships (Chen et al., 2011).

Poor financial reporting can affect the ability of firms to raise debt capital. Recent evidence shows that high quality financial reporting is positively related to investment efficiency (Chen et al., 2011), a quality valued by investors. When assessing credit applications, banks usually want to see properly prepared financial reports which comply with acceptable disclosure standards. They also like to see that the reports are audited regularly and annual returns are filed with the Registrar General. However in Ghana and many other countries around the world, most firms are closely held by individuals or families (Nagar et al., 2011), so the need to prepare financial reports is low. Mentioned previously, rampant non-compliance in filing annual returns by firms in Ghana compelled the Registrar to launch a nation-wide inspection in 2015 (Registrar General's Department, 2015). Banks are knowledgeable about the poor book-keeping culture in emerging countries and thus scrutinize

the financial reports of loan applicants. Those with poor accounting information have high agency and information risk (Lin et al., 2014), and are either denied credit, charged high interest rates or made to pledge huge collateral (Rajan and Winton, 1995; Bharath et al., 2008)

The advantage for politically connected firms comes from evidence that they are more likely to appoint reputable and global audit firms to evaluate their financial records (Guedhami et al., 2014), and they have the resources to meet the high fees charged by these audit firms. The appointment of top auditors is intended to address questions about the quality of financial reporting in politically connected firms (Gul, 2006; Chaney et al., 2011; Effiezal et al., 2011). Such appointments also increase transparency and ensure that financial disclosure meets national and international standards. In politically connected firms, directors' compensation is an avenue for tunnelling corporate funds (Arlen and Weiss, 1995), but around the world, this information is either not reported or not comprehensive (Adithipyangkul et al., 2011; Melis et al., 2015). However, a recent study in China showed that CEO compensation is both disclosed and lower in politically connected firms (Chizema et al., 2015). This finding suggests that there is transparency and little or no self-aggrandizement in connected firms, partly because these firms are more aligned with governments' social and equity policies (Chizema et al., 2015) and partly because they appoint quality and top auditors to screen their books and manage their financial reporting, which leaves no room for corruption or financial malfeasance.

Moreover, research on the role of financial literacy in financing and investment (Yoong, 2011; Lusardi and Mitchell, 2011; Tokar, 2015; Allgood and Walstad, 2016) suggest that people with financial knowledge are more likely to engage in recommended financial practices (Hilgert et al., 2003). They are also able to prepare budgets (Greenspan, 2002), prepare quality financial reports (Drexler et al., 2014) and manage debt effectively (Lusardi and Tufano, 2009). As a result, financial literacy is a factor that influences banks' credit decisions in emerging countries (Miller et al., 2009; Adomako et al., 2016). Taking these facts into account, I argue that resource endowments in politically connected firms suggests that these firms are capable of recruiting qualified and experienced financial management experts who will not only be able to evaluate the viability of projects, but will also be able to prepare accurate financial reports. I therefore hypothesize that:

H3: Financial reporting quality mediates the relationship between managerial political ties and cost of debt

The Mediating Role of Non-Financial Disclosure

Non-financial disclosures allow for an overall picture of firm performance to be painted. These disclosures cover environmental matters, respect for human rights, anti-bribery and corruption (EU, 2016). Currently in the EU, only listed firms with more than 500 employees are mandated to disclose non-financial information. For all other firms, such disclosures are voluntary. In emerging countries where majority of the firms are privately held, voluntary disclosures are not common (Ta, 2012). In Ghana, corporate governance structures, related party transactions, risk evaluation, internal and external assessments are rarely disclosed by firms (World Bank, 2005; Agyei-Mensah, 2016). Similarly, new developments that have implications for firm performance are either not reported at all or not reported timely. This weak non-financial disclosure culture in Ghana and other emerging countries can be attributed to the failure or inability of firms to create and maintain corporate websites and other channels of disclosure. Banks and other investors usually look up corporate information prior to making loan decisions (Bharath et al., 2008), hence having an online site where information or updates can be posted augers well for loan applicants. In very risky environments and for highly leveraged firms, past financial information may not be informative of future cash flows, hence banks use non-financial and governance information to support decision making (Bhojraj and Sengupta, 2003).

Politically active firms are large and resourceful (Hersch and McDougall, 2000; Masters and Keim, 1985; Hillman, 2003), and therefore have the capacity to maintain and update corporate websites. Moreover, they are likely to have press offices, public affairs departments or government affairs directorates (Lawton et al., 2014), and hence are likely to frequently interact with external stakeholders. These interactions with external stakeholders increase visibility and recognition, reduce information asymmetry and boost investor confidence (Huang and Wei, 2012). Furthermore, connected firms are more likely to operate in highly regulated industries, and hence may be bound by mandatory non-financial disclosure requirements. The foregoing arguments are supported by evidence that large firms and firms with internet visibility are more likely to make risk disclosures (Allini et al., 2016). Consequently, banks are expected to be positively influenced by the high level of visibility and non-financial disclosure by politically connected firms. I therefore hypothesize that:

H4: Non-financial disclosure mediates the relationship between managerial political ties and cost of debt

The Mediating Role of Board Independence

Board size and board composition have been explored by prior studies (Boyd, 1990; Hillman et al., 2000; Hillman, 2005; Harris and Raviv, 2008), so is the link between firm size and board diversity (Boone et al., 2007; Lehn et al., 2009). It is argued that large firms have an increased demand for administrative and supervisory roles in order to ensure organizational efficiency. Similarly, large firms need more linkages to various elements of the external environment (Pfeffer, 1972; Hillman et al., 2000), and thus have larger boards (Arnegger et al., 2014). In emerging countries where property rights protection is weak, firms have larger boards in order to buffer institutional voids (Chen, 2015). The advantages of large boards are not far-fetched. For example, they are able to secure critical resources (Goodstein et al., 1994) and provide quality counsel to CEOs and Management teams (Zahra and Pearce, 1989). A large board also increases the number of board interlocks (Bazerman and Schoorman, 1983), facilitates capital acquisition (Stearns and Mizruchi, 1993), and reduces risk taking (Wang, 2012; Huang and Wang, 2015). More importantly, a large board enables a firm to create committees to monitor different aspects of its operations. Additionally, a large board is more likely to have independent/outside directors than a small board.

In finance literature, a large proportion of non-executive directors is associated with low spreads and bond yields (Bhojraj and Sengupta, 2003; Lin et al., 2014). This is because these outside directors provide effective monitoring. For example, it is argued that firms with outside directors can make more efficient corporate decisions (Rosenstein and Wyatt, 1990; Cotter et al., 1997), control CEO compensation (Boyd, 1994), and easily fire an under-performing CEO (Weisback, 1988). Also, the likelihood of financial statement fraud is lower in these firms (Beasley, 1996; Aliyu and Ishaq, 2015). Because of the information disadvantage of outside directors, they pay more attention to defaults than project pay-offs, and their decisions tend to favour creditors (Lin et al., 2014). Consequently, board independence is associated with lower cost of debt (Francis et al., 2012). Bringing the discussion above into context, politically connected firms are typically large (Lux et al., 2011), and are therefore likely to have larger boards and benefit from multiple board interlocks. Their large boards also imply they may have more non-executive, independent or outside directors to monitor activities and operations. As was shown in Chapter 5, connected

firms are less likely to have CEO duality. These positive governance attributes translate into lower cost of debt (Lin et al., 2014). I therefore hypothesize that:

> H5: Board independence mediates the relationship between managerial political ties and cost of debt

Figure 7-1 presents the research model for the examining mediation in the relationship between managerial political ties and cost of debt. These mediators are hypothesized to reduce the cost of debt of politically connected firms.

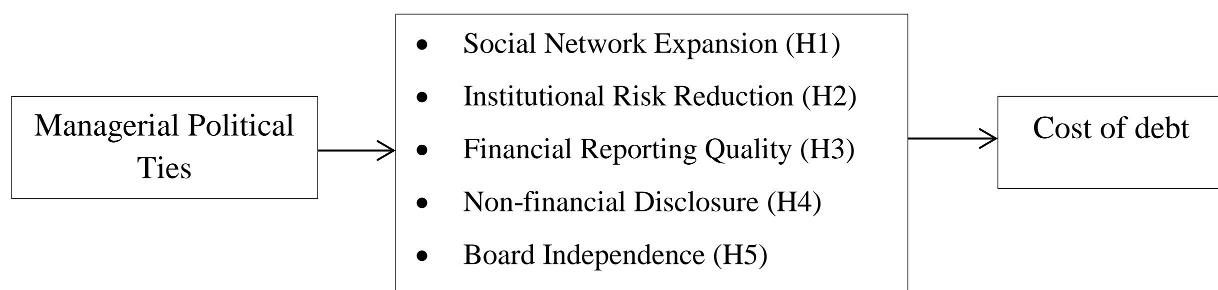

Figure 7-1 Research Model for Mediation

7.2 Data and Analysis

As with the previous chapters, and indeed, the entire thesis, the data for this study comes from a survey of 179 firms operating in Ghana. In Chapter 4, details of the sources of data and the collection process were presented. Measures to address common method variance (CMV), validity and reliability of the scales and variables during design and administration of the survey are also explained in Chapter 4. In the sample, 55.3% of the firms are locally owned. Also, majority of the firms have a public affairs department or function. In an emerging country such as Ghana, this finding may be surprising but it is expected considering that majority of the firms in the sample are medium and large scale enterprises. 21 industries, ranging from mining to textiles, are represented in the sample. On the average, the firms have been operating in Ghana for 19 years. Also, majority of the firms borrow from privately-owned banks. These banks are the majority in the country (26 private banks versus 3 State-owned banks). Cost of borrowing is high as firms can be charged interest rates as high as 35%.

To examine whether institutional risk, financial reporting quality, non-financial disclosure, social network expansion and board independence mediate the relationship between political ties and cost of debt, I followed the approach of Guo et al. (2013) and performed mediation tests using hierarchical regression techniques. Going by this regression approach, I followed the general recommendations of Baron and Kenny (1986), Judd and Kenny (1981) and James and Brett (1984) and did the analyses in four stages. In the first stage, I checked whether the independent variable (political ties) is significantly related to the dependent variable (interest rate). In the second stage, I checked if there were significant relationships between the independent variable (political ties) and the mediator variables (institutional risk, financial reporting quality, non-financial disclosure, social network expansion, and board independence). In the third stage, I regressed each of the mediator variables on the dependent variable (interest rates) while controlling for the independent variable (political ties) to check whether any significant relationships exist. In the final stage, I combined the mediator variables that were significant in the third stage with the independent variable (political ties) in a single regression Model to check whether the effects of the mediators on the dependent variable (interest rates) are independent of one another. These four stages are illustrated in Figure 7-2.

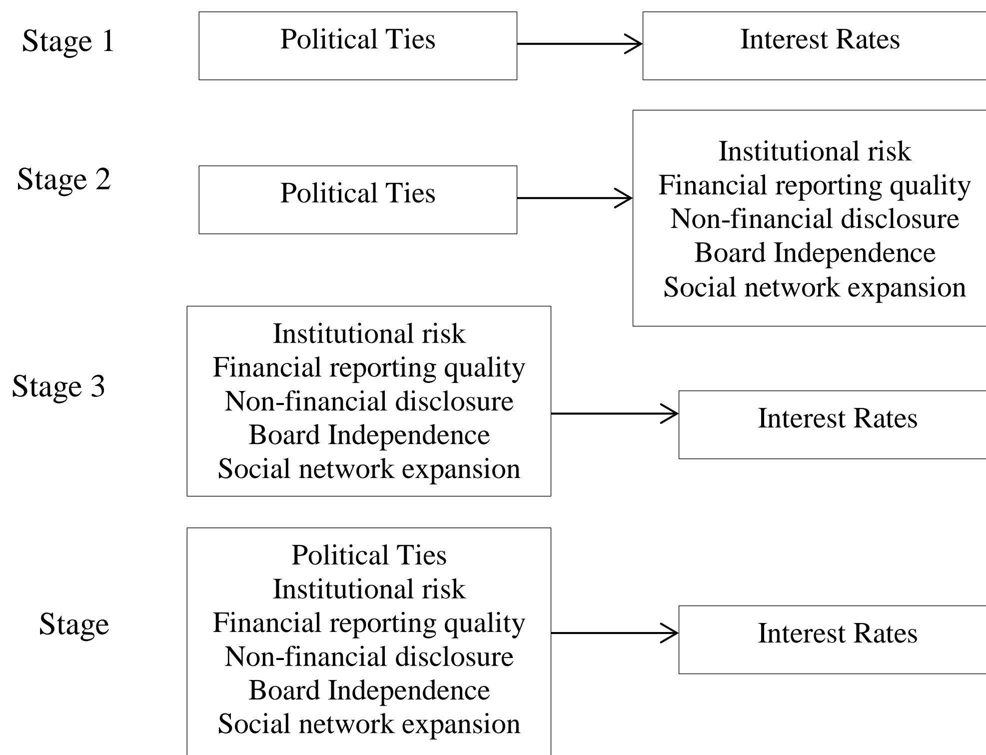

Figure 7-2 Stages of Mediation Tests

A variable must be significant in a previous stage in order to be included in a subsequent stage. This particularly applies to the mediator variables. To illustrate, if the relationship between political ties and a mediator variable is insignificant, that mediator variable is omitted from further analyses. In the same vein, if the relationship between any of the mediator variables and interest rates is insignificant, that mediator variable is omitted from further tests. This implies that by the time a researcher reaches stage 4, only significant mediator variables should remain in the analysis.

Prior to testing for mediation, an exploratory factor analysis (EFA) was done to check the factor structure of constructs, with specific interest in the mediator constructs because they are new and have not been previously validated. A global factor analysis of the independent construct and invalidated mediator constructs returned five factors. The constructs, as conceptualized, were not different from the individual EFA structures. All five factors accounted for a cumulative variance of 82.12%. Table 7-1 shows the results.

Insert Table 7-1 here. See page 173

Thereafter, a confirmatory factor analysis (CFA) was performed to confirm the factor structure of the constructs. The results of the CFA, which include the items, their respective loadings and T-values, average variance extracted (AVE) and composite reliability (CR), are shown in Table 7-2. As can be seen, the AVE and CR scores exceed the minimum thresholds of 0.50 and 0.70 respectively (Fornell and Larcker, 1981; Hair et al., 1998), thus confirming reliability of the constructs. High factor loadings combined with satisfactory fit indices (CFI = 0.96, NFI = 0.95, IFI = 0.97, RMSEA = 0.05, $p > 0.05$) indicate that the measurement model fits the data well.

Insert Table 7-2 here. See page 174

7.3 Results

The means, standard deviations, correlation coefficients and other statistics are shown in Table 7-3. The correlation matrix reveals significant correlations between the variables. However, there are no large correlations above 0.90. The largest correlation coefficient is

0.65. This “ball park” method suggests that multicollinearity does not affect the robustness of the findings (Berry, 1993; Tabachnick and Fidell, 2014). Moreover, the Variance Inflation Factor (VIF) scores are less than 10, and hence support the absence of multicollinearity (Myers, 1990; Field, 2013). Furthermore, the Cronbach alphas for the constructs are well above the minimum threshold of 0.70 (Nunnally, 1978), and thus support internal consistency and reliability. I followed the approach of Ambos et al (2010) and checked discriminant validity by comparing the square root of the average variance extracted (AVE) of each construct (Table 7-3) with the correlation between construct pairs. The AVE values are consistently larger than the correlations between the constructs, indicating that each construct has more internally extracted variance than the variance it shares with other constructs (Fornell and Larcker, 1981). This indicates satisfactory discriminant validity and confirms that each construct is different from the other constructs.

Results for the first and second stages of the mediation test are shown in Table 7-4. In this Table, it can be seen that the relationship between political ties and interest rate is significant (Model 1: $\beta = 0.008$, $p < 0.01$). Similarly, the relationship between political ties and each of the mediator variables is significant (Models 2 to 6). Peering deeper, the results show that political ties are positively associated with risk exposure (Model 2: $\beta = 0.069$, $p < 0.05$) and social network expansion (Model 5: $\beta = 0.405$, $p < 0.01$), suggesting that stronger ties lead to increased perceptions of risk exposure and high utilization of the political connections of firms by banks. However, political ties are negatively related to financial reporting quality (Model 3: $\beta = -0.096$, $p < 0.05$), non-financial disclosure (Model 4: $\beta = -0.169$, $p < 0.01$), and board independence (Model 6: $\beta = -0.009$, $p < 0.05$), suggesting poor governance in connected firms.

Insert Tables 7-3 and 7-4 here. See pages 175 and 176

As the mediator variables are significantly related to the independent variable, they are included in the next stages where their association with interest rates is tested. The results for these next stages (stages three and four) are shown in Table 7-5. Here, only institutional risk exposure (Model 6: $\beta = 0.005$, $p < 0.1$) and financial reporting quality (Model 6: $\beta = -0.006$, $p < 0.01$) have a significant association with interest rate. The directions of their coefficients are also interesting. Obviously, a high exposure of risk is expected to make banks seek additional return in the form of high interest rates, hence the positive relationship. Also, when

financial reporting is accurate, information asymmetry is reduced and cost of debt is expected to be lower. In Model 6 where the significant moderators (institutional risk and financial reporting quality) and political ties are regressed on interest rates, the results are significant, and hence show that both variables mediate the relationship between political ties and cost of debt. I therefore find support for H2 and H3. However, only partial mediation is present as political ties are still significant in the Model. In effect, strong political ties lead to increased risk exposure, hence the high interest rates charged to connected firms. Similarly, strong political ties lead to poor financial reporting quality, hence the high interest rates charged to connected firms.

Insert Table 7-5 here. See page 177

7.4 Discussion of the Results

Mediation in the relationship between political ties and cost of debt was tested using five variables. Of these five variables, only two are significant. Nevertheless, this study has explored a nascent topic and the findings reveal how the impact of political ties in credit markets is realized, and by doing so, has shed light on the under-explored mechanisms of CPA (Lux et al., 2011; Rajwani and Liedong, 2015).

The first thing worth mentioning is the negative relationship between political ties and very important governance variables, namely financial reporting quality, non-financial disclosure and board independence. Politically connected firms are usually large and resourceful (Masters and Keim, 1985; Meznar and Nigh, 1995; Hansen and Mitchell, 2000; Hillman, 2003), hence they are expected to appoint very reputable auditors (Guedhami et al., 2014) to evaluate their financial records. They are also expected to have corporate websites or maintain highly effective public affairs departments to engage with external stakeholders and disclose non-mandatory information. Moreover, evidence that most connected firms operate in highly regulated industries (Hansen and Mitchell, 2000) suggests that these firms may be mandated to disclose non-financial information. Therefore, positive relationships between political ties and the corporate governance variables were hypothesized, but the results showed otherwise. The findings are, however, consistent with prior studies in three ways. First, concerns have been documented about the proneness of politically connected firms to financial manipulations (Gul, 2006; Guedhami et al., 2014). These firms are more likely to

misreport their accounts in order to conceal politically motivated malfeasances (Effiezal et al., 2011). Second, evidence shows that the quality of accounting information disclosed by connected firms is lower when compared to that of non-connected firms (Chaney et al., 2011). Third, politically connected firms make donations to political parties and candidates but do not report this spending in their financial statements or even disclose it to their shareholders (Aggarwal et al., 2011), a phenomenon that can culminate in personal managerial imperatives influencing CPA (Igan et al., 2011; Hadani and Schuler, 2013). In sum, the poor governance in connected firms is explicable.

The result that is perhaps very surprising is the positive mediating effect of institutional risk exposure. While the relationship between political ties and risk was insignificant in the previous chapter (Chapter 6), it is positive and significant in this chapter (most likely because of the different controls used), suggesting that political ties increase cost of debt by increasing the risk exposure of firms. Essentially, strong political ties lead to high risk exposure, culminating in high interest rates. Two conclusions derive from this result. First, politically connected firms are exposed to high institutional risk, perhaps because they operate in highly regulated industries where the environment is turbulent (Hansen and Mitchell, 2000). This turbulence motivates the development of political ties. Second, as was established in Chapter 6, the development of political ties does not reduce the risk exposure of firms. In essence, the postulated effectiveness of political ties in risk reduction (Hillman and Hitt, 1999) cannot be empirically supported. Whether firms with strong political ties operate in industries fraught with uncertainty or whether high uncertainty triggers the development of strong political ties is inconsequential to the conclusion that the role of CPA in risk reduction could be illusionary. This is because the data covered a window of three years, and thus captured the lagged effect political ties are expected to have on organizational outcomes. Banks seem to be wary about the likelihood of contract repudiation and political witch-hunting suffered by connected firms when there is a change of government, and hence use high interest rates to compensate for the risk. Considering that the time frame of the responses (2011-2013) covers Ghana's 2012 general election (November 2012) and the death of a sitting president (July 2012), it is not strange that banks' evaluation of uncertainty and the potential liabilities of politically connected firms perhaps influenced the pricing of loans.

Non-financial disclosure, board independence and social network expansion were insignificant mediators. Considering the institutional and governance challenges in Ghana, it is perhaps still early to expect banks to factor non-mandatory information into their loan

pricing decisions. Low internet penetration in Africa and lack of resources make it difficult for firms to run websites where they can disclose non-financial information and publish press releases about their businesses. Hence, even though connected firms do not disclose non-financial information, banks rarely take this into account when setting interest rates. Similarly, board independence is generally low among firms in most African countries (Abor and Biekpe, 2007a; Bokpin and Isshaq, 2009; Abor and Fiador, 2013), and therefore does not seem to be an important factor influencing the way banks price their loans. Also, it seems banks do not consider opportunities for political network expansion when making loan decisions. Operating in arguably the most regulated industry in the world, it is plausible to expect banks to develop their own political connections in order to influence the policy issues they face. Consequently, the political networks of connected firms are not valuable in their loan decisions. This finding challenges the dependency hypothesis (e.g. Houston et al. 2014) and suggests that firms in regulated industries have no motivations to accord favours to connected firms in return for access to the political networks of the connected firms or for favours from politicians.

In sum, only institutional risk exposure and financial reporting quality mediate the political ties-cost of debt relationship. The significant negative relationship between political ties and interest rates arises because political ties increase risk exposure and reduce the quality of financial information. This study makes important contributions to the literature. It provides deep insights by integrating social capital and institutional theories with corporate governance insights to demonstrate mediation in the relationship between CPA and cost of debt in a weak institutional environment.

7.5 Chapter Summary

In this chapter, I examined and presented findings on mediation in the relationship between managerial political ties and cost of debt. A mix of institutional, social capital and governance related variables were hypothesized as the mechanisms through which CPA exerts an influence in credit markets. Employing hierarchical regressions and following the guidelines for testing mediation (Judd and Kenny, 1981; Baron and Kenny, 1986), I found that institutional risk exposure and financial reporting quality play significant mediating roles in the pricing of loans given to politically connected firms. In specific terms, political ties are associated with high exposure to investment climate constraints which subsequently lead to high interest rates. Similarly, political ties are associated with low quality financial reporting.

Low reporting quality increases information asymmetry between banks and firms, and leads to high interest rates on loans. These findings do not support any of the hypotheses of this study, but they are consistent with prior literature.

Table 7-1 Global Factor Analysis

	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Institutional Holding					
Shares held by Pension Funds	**.926**				
Shares held by Mutual Funds	**.913**				
Shares held by Insurance companies	**.908**	.106	.107		
Shares held by Endowment Funds	**.884**				.113
Shares held by Charities and Foundations	**.864**				
Shares held by Private Equity Firms	**.841**		-.109		
Financial Reporting Quality					
Financial reporting done timely		**.896**	-.140		
Expenses and losses recognised immediately		**.892**		.174	-.109
Revenues deferred until verified		**.892**			
Financial reports meet acceptable standards	.176	**.843**		.110	
Social Network Expansion					
Banks soliciting company assistance on policy issues			**.928**	-.129	.222
Banks utilizing political contacts and network of company executives			**.913**	-.134	.294
Banks soliciting political referrals from company		-.139	**.884**	-.110	.299
Non-Financial Disclosure					
Disclosure of conflicts of interest to shareholders		.123	-.123	**.840**	
Disclosure of related party transaction to shareholders		.137	-.184	**.810**	-.104
Disclosure of external and business risk assessments to shareholders				**.801**	-.205
Disclosure of anti-corruption policy to shareholders		.106	-.119	**.792**	-.227
Managerial Political Ties					
Maintaining good relationships with gov't officials			.292	-.209	**.885**
Spending time dealing with gov't affairs			.381	-.289	**.811**
Investing in building relationships with gov't officials			.417	-.334	**.767**
Eigen value	5.89	4.89	2.77	1.98	1.34
Percentage of variance explained	24.05	16.07	15.11	14.86	12.01
Percentage of cumulative variance explained	24.05	40.12	55.24	70.1	82.12

Note: Principal Component Analysis; Varimax Rotation

Table 7-2 Results of Confirmatory Factor Analysis

Construct	Measurement Items	Factor Loading	T-value
Managerial political ties			
(AVE = 0.84; CR = 0.94)	Spending time dealing with gov't affairs	0.93	19.91
	Investing in building relationships with gov't officials	0.91	(Fixed)
	Maintaining good relationships with gov't officials	0.91	18.99
Institutional Holding			
(AVE = 0.75; CR = 0.95)	Shares held by Pension funds	0.94	(Fixed)
	Shares held by Insurance companies	0.92	22.73
	Shares held by Endowment funds	0.88	20.09
	Shares held by Mutual funds	0.86	18.76
	Shares held by Charities	0.81	15.93
	Shares held by Private equity firms	0.77	14.44
Financial Reporting Quality			
(AVE = 0.73; CR = 0.91)	Financial reporting done timely	0.89	12.97
	Revenues deferred until verified	0.88	12.69
	Expenses and losses recognised immediately	0.86	12.4
	Financial reports meet acceptable standards	0.77	(Fixed)
Non-financial Disclosure			
(AVE = 0.60; CR = 0.86)	Disclosure of conflicts of interest	0.81	10.64
	Disclosure of related party transactions	0.78	(Fixed)
	Disclosure of anti-corruption policy	0.78	10.32
	Disclosure of external and business risk assessments	0.72	9.51
Social Network Expansion			
(AVE = 0.90; CR = 0.96)	Banks utilizing network of company executives	0.98	32.06
	Banks soliciting company assistance on policy issues	0.95	(Fixed)
	Banks soliciting referrals from company executives	0.91	23.15

Note: AVE = Average Variance Extracted; CR = Composite Reliability

Table 7-3 Correlations and Descriptive Statistics

		Mean	SD	Cronbach Alpha	1	2	3	4	5	6	7	8	9	10	11	12	Largest VIF
1	Managerial Political Ties	3.90	2.19	0.94	1												1.09
2	Institutional Risk	2.92	0.97	0.9	0.16**	1											1.35
3	Financial Reporting Quality	5.83	1.19	0.91	-0.15**	-.121	1										1.06
4	Non-financial Disclosure	2.00	0.74	0.86	-0.50***	-0.15**	0.24***	1									1.42
5	Social Network Expansion	1.88	1.39	0.96	0.65***	-.020	-0.19***	-0.30***	1								1.95
6	Board Independence	0.15	0.13	-	-0.18**	.130	.040	.090	-0.19**	1							1.14
7	Institutional Holding	2.08	1.51	0.94	.060	-0.193***	.100	-0.04	.080	-0.28***	1						1.1
8	Firm Age	19.17	12.62	-	0.22***	.020	.030	-0.10	0.16**	-0.05	.030	1					1.13
9	Firm Size	4.56	0.62	-	.002	-.010	.070	.040	-0.08	0.13*	-0.03	0.14*	1				1.05
10	Ownership	0.45	0.50	-	-0.05	-.110	.002	.090	-0.09	.060	0.13*	.120	.110	1			1.150
11	Value of collateral	4.91	1.71	-	.010	-0.38***	.010	-0.005	0.208***	-0.04	-0.04	-0.03	.010	-0.30**	1		1.07
12	Credit Relationships	3.82	1.57	-	.110	0.15**	-0.05	-0.05	.080	.120	-0.28***	-0.16**	.090	-0.13*	.060	1	1.18

Note: N = 179; ***Correlation is significant at the 1% level (2-tailed); **Correlation is significant at the 5% level (2-tailed); *Correlation is significant at the 10% level (2-tailed)

Table 7-4 Mediation Test - First and Second Paths[a]

	Dependent Variables					
	Interest Rate (Model 1)	Institutional Risk Exposure (Model 2)	Financial Rep Quality (Model 3)	Non-financial Disclosure (Model 4)	Social Network Expansion (Model 5)	Board Independence (Model 6)
Independent Variable						
Managerial Political Ties	0.008***	0.069**	-0.096**	-0.169***	0.405***	-0.009**
Control Variables						
Institutional Holding	-0.007***	-0.108**	0.093	-0.007	0.051	-0.022***
Firm Age	0.000	0.001	0.006	0.000	0.004	0.000
Firm Size	-0.001	0.001	0.138	0.034	-0.198	0.024
Ownership	-0.016***	-0.403***	-0.082	0.108	0.008	0.020
Value of collateral	0.004**	-0.256***	0.004	0.009	0.165***	-0.002
Credit Relationships	0.007***	0.057	0.003	0.005	0.021	0.005
Model Summary						
F value	19.64***	8.81***	1.18	8.51***	22.45***	3.69***
Adjusted R^2	0.44	0.24	0.01	0.23	0.46	0.10

Note:
N = 179. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$ (two-tailed significance tests). VIF scores are below 2
[a] The first path tests the relationship between the dependent and dependent variable (Model 1). The second path tests the relationship between the independent variable and the mediator variables (Models 2 – 6)

Table 7-5 Mediation Test – Third and Fourth Paths[a]

	Dependent Variable					
	Interest Rate (Model 1)	Interest Rate (Model 2)	Interest Rate (Model 3)	Interest Rate (Model 4)	Interest Rate (Model 5)	Interest Rate (Model 6)
Independent Variables						
Managerial Political Ties	0.008***	0.008***	0.008***	0.009***	0.008***	0.007***
Mediator Variables						
Institutional Risk	0.005*					0.004*
Financial Reporting Quality		-0.006***				-0.005**
Non-financial Disclosure			-0.003			
Social Network Expansion				-0.002		
Board Independence					-0.023	
Control Variables						
Institutional Holding	-0.006***	-0.006***	-0.007***	-0.007***	-0.007***	-0.005***
Firm Age	0.000	0.000	0.000	0.000	0.000	0.000
Firm Size	-0.001	0.000	-0.001	-0.001	0.000	0.000
Ownership	-0.013**	-0.016***	-0.015***	-0.015***	-0.015***	-0.014***
Value of collateral	0.005***	0.004**	0.004**	0.004**	0.004**	0.005***
Credit Relationships	0.007***	0.007***	0.007***	0.007***	0.007***	0.007***
Model Summary						
F value	17.95***	18.70***	17.19***	17.20***	17.36***	17.19***
Adjusted R^2	0.45	0.46	0.44	0.44	0.44	0.47

Note:

N = 179. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$ (two-tailed significance tests). VIF scores are below 2

[a] The third path tests the relationship between the mediator variables and dependent variables while controlling for the independent variable (Models 1-5). The fourth path tests the relationship between the independence of the significant mediator variables (Model 6)

Chapter 8 Discussion and Contribution to Knowledge

This PhD thesis focused on the outcomes of corporate political activity (CPA). Specifically, it examined the relationships between managerial political ties, cost of debt and institutional risk exposure in Ghana, sub-Saharan Africa. It also explored the mechanisms that mediate the relationship between political ties and cost of debt. As argued in Chapter 3, Ghana is an interesting context that presents opportunities for contributing to literature in the nascent fields of non-market strategy and corporate political activity. The entire thesis comprises of one systematic review and three empirical studies. The next paragraphs summarize and integrate these studies.

The first part of the thesis is a systematic review of the literature on CPA and firm performance. This review applied the Context-Intervention-Mechanism-Outcome (CIMO) logic (Denyer et al., 2008; Pilbeam et al., 2012) to scrutinize the contexts within which CPA is done, the various strategies used by firms, the outcomes of the political strategies, and the mechanisms underpinning the outcomes. After meticulously reviewing peer-reviewed papers, I found that the impact of CPA on firm performance is mixed, though majority of the reviewed studies reported positive results. I also found that while the relationships between context, political strategies and performance outcomes are clear in the literature, the mechanisms underlying these relationships are less clear. Moreover, I found that most CPA studies are done in a few countries in Europe, the Americas and Asia, without much attention paid to the Middle East and Africa. The findings of this review set the trajectory for the rest of the thesis. Aiming to make a significant contribution to the literature, I framed the research questions and positioned the thesis to address the gaps I identified from the systematic review. Specifically, I found that the impact of CPA in credit markets and the mediating mechanisms of CPA are under-studied. Accordingly, I found these gaps worth exploring in an emerging market setting.

Following the systematic review, I did three empirical studies. The first study is an examination of the relationship between managerial political ties and cost of debt in Ghana. Using survey data from 179 firms, I found that political ties are positively related to interest rates. This positive relationship is weakened by managerial financial ties, and strengthened by borrowing from private-owned banks and the appointment of Big Four audit firms. Detailed findings of this study are contained in Chapter 5. The second empirical study examines the popularly postulated effect of political ties on risk reduction. Among other things, I found an

insignificant association between political ties and institutional risk exposure. This association is moderated by visibility and regulatory vulnerability. I also found that the interaction between political ties and CSR is insignificant in risk reduction. The results of this study can be found in Chapter 6. The final study addresses the paucity of mediation in political strategy studies by empirically investigating the underlying mechanisms of the political ties-cost of debt relationship. The findings, which are detailed in Chapter 7, show that the political ties-cost of debt relationship is mediated by institutional risk exposure and financial reporting quality. The results for all hypotheses tested in the three empirical studies are summarized in Table 8-1.

Figure 8-1 illustrates the overarching model of the thesis and shows the three empirical parts. Together, all the parts contribute to resolve paradoxes and deepen understanding of the outcomes of political ties.

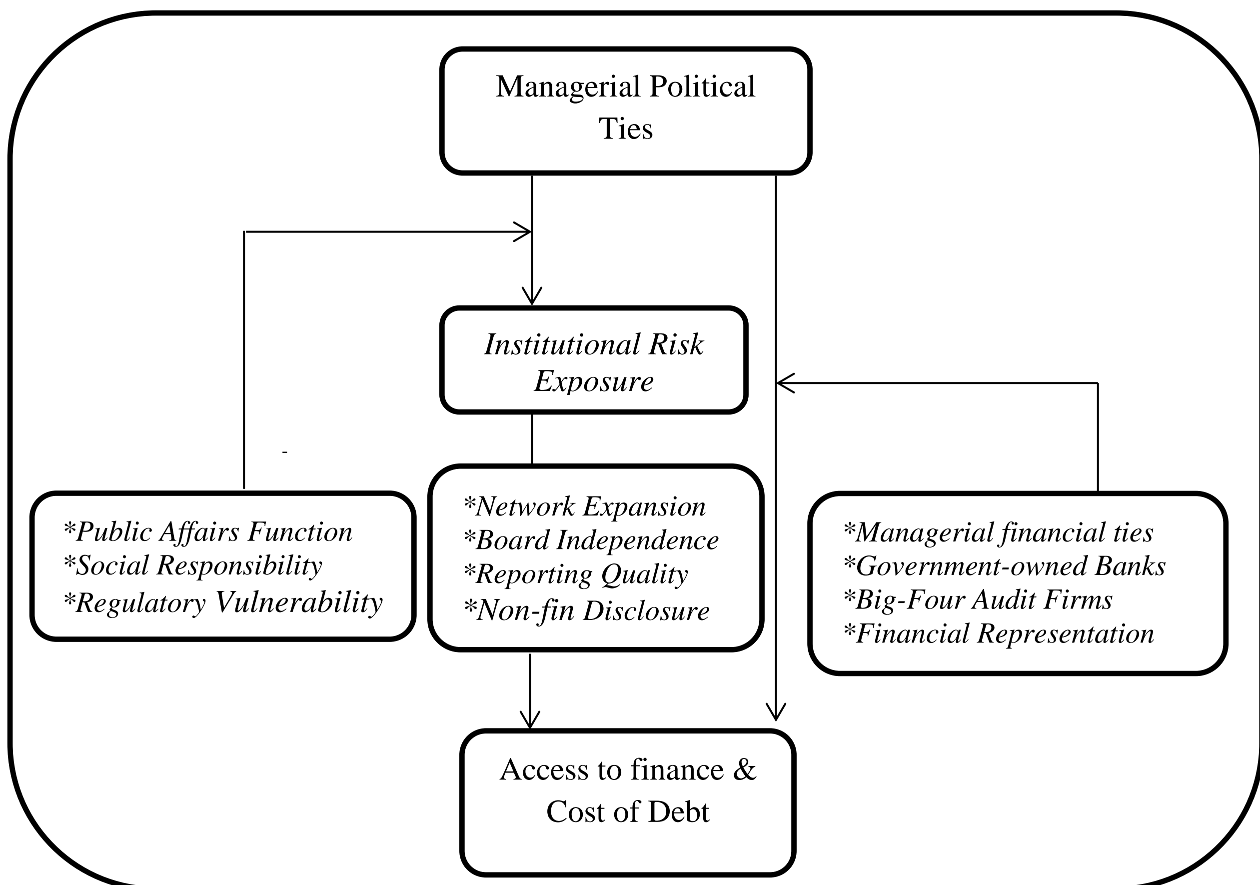

Figure 8-1 Overall Research Model

Table 8-1 Summary of Hypotheses and Results

Hypothesis	Detail	Outcome
Empirical Study 1 - Political Ties, Access to Finance & Cost of Debt		
Hypothesis 1	Political ties are positively related to access to finance	Supported
Hypothesis 2	Financial ties are positively related to access to finance	Supported
Hypothesis 3a	CEO duality is negatively related to access to finance	Supported
Hypothesis 3b	CEO duality weakens the positive relationship between political ties and access to finance	Unsupported
Hypothesis 4	Political ties are negatively related to interest rates	Unsupported
Hypothesis 5	Financial ties strengthen the negative relationship between political ties and interest rates	Supported
Hypothesis 6a	Borrowing from government owned banks strengthens the negative relationship between political ties and interest rates	Unsupported
Hypothesis 6b	Borrowing from privately owned banks weakens the negative relationship between political ties and interest rates	Supported
Hypothesis 7	Financial representation strengthens the negative relationship between political ties and interest rates	Unsupported
Hypothesis 8	Appointment of Big Four auditors strengthens the negative relationship between political ties and interest rates	Unsupported
Empirical Study 2 - Political Ties and Institutional Risk Exposure		
Hypothesis 1	Political ties are negatively related to institutional risk exposure	Unsupported
Hypothesis 2a	Corporate social responsibility is negatively related to institutional risk exposure	Supported
Hypothesis 2b	CSR strengthens the negative relationship between political ties and institutional risk exposure	Unsupported
Hypothesis 3	PA functions strengthen the negative relationship between political ties and institutional risk exposure	Unsupported
Hypothesis 4a	Regulation strengthens the negative relationship between political ties and institutional risk exposure	Unsupported
Hypothesis 4b	Regulation weakens the negative relationship between political ties and institutional risk exposure	Supported
Empirical Study 3 - Mediation in Political Ties-Cost of Debt Relationship		
Hypothesis 1	Social network extension mediates the relationship between managerial political ties	Unsupported
Hypothesis 2	Institutional risk exposure mediates the relationship between managerial political ties	Supported
Hypothesis 3	Financial reporting quality mediates the relationship between managerial political ties	Supported
Hypothesis 4	Non-financial disclosure mediates the relationship between managerial political ties	Unsupported
Hypothesis 5	Board independence mediates the relationship between managerial political ties	Unsupported

8.1 Contribution to Knowledge

In this section, I discuss how this thesis contributes to knowledge. As the entire thesis is made up of distinct but interrelated studies which have overlapping implications for theory, I have organized my claims to knowledge according to themes, not studies. In this respect, the discussion in this section will focus on the thesis' overall contribution to: 1) CPA and non-market strategy literature; 2) social capital theory; and 3) institutional theory.

8.1.1 Contributions to CPA and Non-market Strategy Literature

This thesis makes important contributions to non-market strategy literature. First, the systematic review deepens understanding of the relationship between political ties and firm performance. It integrates and synthesizes highly fragmented literature to offer deep insights into the topic by contextualizing the outcomes of CPA and also exploring the often-ignored underlying mechanisms of those outcomes (Lux et al., 2011). This review, which was published in a highly ranked journal *(ABS 4)*, is the first to systematically investigate the impact of CPA on firm performance. It is also the first to do so using the CIMO-logic (Denyer et al., 2008; Pilbeam et al., 2012). Applying the CIMO-logic revealed that CPA and its effect on firm performance vary in different institutional contexts.

Second, this thesis extends political ties literature to emerging credit markets. The effect of political ties on cost of debt has not received adequate attention despite the importance of capital for firms. The few studies that have investigated this topic have reported mixed findings and have ignited an on-going debate (Bliss and Gul, 2012; Lashitew, 2014; Houston et al., 2014). My thesis joins this nascent debate and attempts to clarify the contested effect of political ties on access to finance and loan pricing. The results show that politically connected firms have easy access to loan finance and are therefore more likely to be highly leveraged (Fraser et al., 2006; Claessens et al., 2008). However, these firms are charged high interest rates by banks, a finding that is consistent with a previous study conducted in Malaysia (Bliss and Gul, 2012). Various governance factors, including CEO duality and Big Four auditors, moderate these results. This thesis therefore extends the contingency perspective of CPA (Peng and Luo, 2000; Li and Zhang, 2007; Sheng et al., 2011) and provides evidence to back not only the value-adding potential of CPA (Peng and Luo, 2000; Hillman, 2005; Hersch et al., 2008; Goldman et al., 2009) but also the cost of political embeddedness (Sun et al., 2010; Okhmatovskiy, 2010; Sun et al., 2012). Using same data, this thesis shows that CPA could be

a "double-edged" sword, capable of enhancing and capable of harming performance. Particularly, the findings depict that CPA has a differential impact on even very closely related outcomes such as access to finance and cost of debt.

Third, this thesis contributes to the CPA literature by enhancing our understanding of the effect of political ties on risk exposure. Though researchers have postulated that CPA reduces uncertainty (Hillman and Hitt, 1999; Hillman et al., 1999), empirical proof has been lacking. This study reveals no significant association between political ties and risk exposure. However, it shows that regulation and public affairs functions, depicting vulnerability and visibility respectively, increase the institutional risk exposure of politically connected firms. Consequently, this study shows that political ties lack the force of institutional entrepreneurship (Battilana et al., 2009). While they create access to the polity, they are not effective for addressing policy-related institutional voids. This thesis highlights the two-pronged nature of CPA, which differentiates between access and effect (Kim, 2008; Liedong et al., 2015). This thesis also highlights the important role of visibility in the risk exposure of politically connected firms (Puck et al., 2013). Moreover, this thesis demonstrates that the conjectured ability of CPA to reduce risk exposure might only be illusional, not real.

Furthermore, this thesis is among early studies to empirically examine the complementarity between CPA and CSR. These two strands of non-market strategy have been treated as "silos" which hardly interact (Mellahi et al., 2016), but researchers have posited that they can be integrated for high firm performance (Hond et al., 2014; Liedong et al., 2015; Hadani and Coombes, 2015). For instance, some scholars have suggested that CSR strengthens CPA (Marquis and Qian, 2014; Rehbein and Schuler, 2015b), reduces barriers to political entry (Wang and Qian, 2011) or weakens the negative effect of CPA (Liedong et al., 2015; Sun et al., 2012). In spite of these positive arguments, this thesis finds no evidence to support complementariness. The findings show that while CSR reduces perceptions of risk exposure, it becomes ineffective when combined with CPA, thereby suggesting the existence of "cannibalization" in an integrated non-market strategy whereby one activity erodes the gains of the other. The findings also demonstrate that in institutionally complex environments such as Ghana and similar countries, a proper alignment is required to realize the gains of CPA and CSR; otherwise value-erosion will occur (Hond et al., 2014). Taking everything into account, this study does not only fill the lack of insight into this interesting topic, but it also tests the proposition that CSR is a political act (Hillman et al., 2004; Morsing and Roepstorff, 2015). Along this line, it makes a valuable addition to the political-CSR literature.

Fourth, this thesis enhances understanding of *how* political ties affect cost of debt. One of the notable shortcomings in the CPA literature is the limited treatise of mediating mechanisms (Lux et al., 2011; Guo et al., 2014). In the past, most researchers were mainly interested in answering the "*what"* questions but not the "*how"* questions (Liedong et al., 2015). In recent times however, studies have begun to explore the mechanisms through which CPA impacts firm outcomes (Mellahi et al., 2016), but most of these studies are theoretical. By empirically examining the mediating role of institutional risk, financial and non-financial disclosures, board independence and social network expansion in the political ties-cost of debt relationship, this thesis addresses a pertinent issue in the literature. It transcends simple conjecture of mediation as is commonly done in existing research, and uncovers two important mediators that translate political ties into high cost of debt: institutional risk exposure and financial reporting quality. Specifically, political ties lead to high interest rates because they either increase or fail to reduce the exposure of firms to institutional risk and also because they instigate financial misconduct and poor financial reporting. The results do not support the proposition that political ties can affect performance outcomes by reducing uncertainty in a firm's environment (Hillman et al., 1999), but they are consistent with negative concerns about the quality of financial management and reporting in politically connected firms (Guedhami et al., 2014; Effiezal et al., 2011; Gul, 2006; Chaney et al., 2011). They confirm the link between CPA and governance, and show how the two factors interplay to influence outcomes in credit markets. Altogether, this study provides new and deeper insights into the effect of political connections in credit markets by shifting the focus from contingency to process (Peng and Luo, 2000; Guo et al., 2014).

8.1.2 Contributions to Social Capital Theory

This study addresses important concerns about previous research on social capital and makes significant contributions to the literature. First of all, this thesis conceptually and empirically differentiates between two types of managerial ties which are relevant in credit markets – political ties and financial ties. The results show that these ties are associated with high interest rates. However, when they are compared (in terms of betas), it is revealed that political ties have a more devastating effect on cost of debt, indicating that banks in Ghana appear to adopt a stricter, tougher and negative stance on the creditworthiness of politically connected firms. On the average, political ties seem to be more important to firms in Ghana, just as they are in China (Peng and Luo, 2000), but they are associated with poor corporate governance. These results contradict the dominant view that social capital improves

organizational performance in emerging countries (Peng and Luo, 2000; Acquaah, 2007; Boso et al., 2013). Rather, they support the view that building and maintaining network relationships could involve considerable costs (Peng and Luo, 2000; Park and Luo, 2001; Chung, 2012) and may lead to negative perceptions about firms. More precisely, this thesis shows that in Ghana, the cost of maintaining network relationships exceeds the favours received in lending transactions. Similarly, network relationships do not buffer barriers or constraints in the environment. More importantly, this thesis highlights the negative connotations or perceptions associated with some types of social capital, particularly political ties, and demonstrates how visibility can exacerbate the negative effect of these ties in emerging countries. In sum, this thesis reveals a negative side of social capital and calls for a deeper examination of the value of different types of network relationships.

Second, even though existing social capital studies have focused on the network relationships managers have with stakeholders in market and non-environment environments (e.g. competitors, suppliers, customers, financiers, government officials, etc.), these studies have treated the different types of social capital as stand-alone silos which either have a direct effect on organizational outcomes (Peng and Luo, 2000; Park and Luo, 2001; Acquaah, 2007; Yiu et al., 2007) or a moderating or indirect effect on other relationships (Luo et al., 2008; Chung, 2012). Rarely have studies examined the interaction between different types of social capital. This thesis follows the approach of Boso et al. (2013) who integrate business and social network ties in their examination of entrepreneurial and market orientations in Ghana. It provides fine-grained insights into the combinative effect of political ties and financial ties on cost of debt. The results show that political ties and financial ties have an unfavourable impact on cost of debt, but when they are combined the impact is favourable. Essentially, social capital from financial ties plays an important role in lending transactions not only by facilitating access to information, but also by downplaying political differences and reducing political animosity between politicians and lending managers. In emerging countries such as Ghana, the two types of social capital are complementary and necessary in the credit market. This study therefore captures unique moderation effects and extends knowledge about the dynamic value of social capital (Boso et al., 2013). In doing so, it flags up the need for research to seriously look into the interactive effects of different types of social capital.

8.1.3 Contribution to Institutional Theory

The findings of this thesis add knowledge to institutional theory in two ways. First, it is widely held that in developing or emerging countries where legal and regulatory institutions are weak and commercial regulations are poorly enforced (Khanna et al., 2005; Henisz and Zelner, 2010; Puck et al., 2013), social capital plays an important role in market transactions (North, 1990; Acquaah, 2007; Luo et al., 2008). An extension of this view, and of course a key tenet of institutional theory, captures the belief that as market-supporting institutions become stronger, the relevance of social capital reduces (Sheng et al., 2011). This thesis acknowledges the aforementioned views, but departs from them.

The results indicate that social capital does not reduce the cost of debt for firms operating in Ghana, an institutionally voided emerging country. The important argument that emanates from these results suggests that the ability of social capital to enhance organizational value is not dependent on the overall institutional development of a country, but on the extent of institutional advancement and quality of corporate governance in the industry from which the benefit or favour of network ties will be received. In other words, it is the level of institutional development of the industry to which the clients of a firm belong which matters for the value of social capital, not the general institutional development of the country. In advancing this argument, this thesis acknowledges that industries are always at different stages of development. In Ghana, just like other countries, the financial services industry is highly regulated (Hadani and Schuler, 2013). It is therefore institutionally stronger, has clearly stipulated rules and procedures, and is relatively well-governed compared to other industries in the country. As a result, political ties are not accorded undue favours from banks. To conclude on this contribution, this thesis refines a key tenet of institutional theory by de-scaling from a macro-view of institutional development to an industry-view of institutional development. Essentially, political ties are less valuable when favours are sought from clients or partners operating in institutionally stronger industries.

Second, scholars argue that the development of political ties leads to the attainment of organizational legitimacy (Baum and Oliver, 1991; Hillman, 2005; Guo et al., 2014) whereby an organization's behaviours are aligned with its institutional environment (Suchman, 1995; Scott, 2001; Deephouse and Carter, 2005). This alignment, which can be attained by transacting with external stakeholders (Pfeffer and Salancik, 1978; Rao et al., 2008), is particularly more important for firms in weak institutional environments (Ahlstrom et al.,

2008). However, this thesis argues that high legitimacy can result in maintenance of the status quo as firms become unwillingly to change business models and logics that are already accepted by stakeholders (Guo et al., 2014). This inertia to change stifles innovation and harms firm performance. Additionally, high legitimacy could be costly because it fosters frequent government intervention in the form demands to support public services or sponsor public programs beyond business sense (Barreto and Baden-Fuller, 2006). Consequently, banks' assessment of the future prospects of politically connected firms is not positive, hence the high interest rates charged on loans given to these firms. This thesis therefore supports the view that high levels of institutional and regulatory legitimacy could have adverse effects on organizational outcomes.

Bringing the bigger picture into perspective, this thesis recognizes the importance of institutional theory for conducting business in emerging countries (Hoskisson et al., 2000; Peng, 2003), as well as the complementarity between institutional theory and social capital theory (Peng and Luo, 2000; Acquaah, 2007). Importantly, it acknowledges the moderating and mediating roles corporate governance plays in the complementarity between social capital and institutional logics. In effect, this thesis interprets the effect of political ties on cost of debt and institutional risk exposure by blending social capital theory, institutional theory and governance insights.

Finally, and to a lesser extent, this thesis makes a methodological contribution. It introduces new constructs - *financial ties, institutional risk exposure, financial reporting quality, non-financial disclosure and social network expansion* – which could be used in future research. Furthermore, this thesis shows that survey scales are contextual. The popular and validated scale for CPA (Hillman and Hitt, 1999; Hillman and Wan, 2005; Puck et al., 2013) failed to work in Ghana, demonstrating how institutional development and corporate governance affect the practice and measurement of CPA. Setting the precedence, I believe that future CPA studies in sub-Saharan Africa will find my thesis' context-relevant measures useful.

On a general note, this thesis extends political strategy research to sub-Saharan Africa where strategy and management research is lacking (Mellahi and Mol, 2015). There is stronger need for political ties in high uncertainty environments such as Ghana (Hillman and Hitt, 1999; Puck et al., 2013). Indeed, political ties are predominant in emerging countries (Rajwani & Liedong, 2015). However, most emerging-country political activity studies have been conducted in a few Asian countries, hence limiting generalizations across the developing

world. Heeding to the calls for strategy research to be extended to Africa and the Middle East (Hoskisson et al., 2000; Wright et al., 2005), this research is set in Ghana, a sub-Saharan Africa. Not only does the Ghanaian context allow for plausible generalization of the findings to other countries within the sub-region, but it also allowed for the introduction of new variables that contribute to knowledge through the exploration of African phenomena that are beyond the scope of extant theory (Klingebiel and Stadler, 2015).

8.2 Implications for Practice

Besides making theoretical contributions, this thesis also has implications for practice. First, it enlightens managers about the benefits and costs of political and financial ties. Evidence from the research suggests that politically connected firms in emerging countries are disadvantaged in credit markets because lenders hold negative perceptions about the way they are governed. Managers of politically connected firms should therefore strengthen corporate governance so as to quell the vile views of financial misconduct and corruption that are often associated with deep political embeddedness in weak institutional environments. Importantly, managers need to ensure that financial reports are accurate, informative and of good quality. This will improve information asymmetry between firms and banks, and drive down interest rates. Alternatively, firms could establish and nurture social ties with managers of financial institutions. Such ties will breed trust, reduce information asymmetry and enable politically connected firms to get cheap loans. They will also break political barriers and reduce the negative effects of political ties on loan decisions.

Second, this thesis sensitizes managers about the ineffectiveness of political ties in reducing institutional risk exposure. Emerging countries have high-uncertainty environments (Henisz and Delios, 2004). Firms in these countries have a high exposure to risk which can be managed using political strategies (Getz, 1993; Hillman and Hitt, 1999). Yet, the findings show that not all strategies reduce uncertainty. Political ties are particularly ineffective because they either create access to the polity but have no influence or they yield short-term idiosyncratic benefits. In essence, political ties alone are not enough. I argue that managers who want to overcome the entrenched barriers and constraints in institutionally-voided countries should employ strategies that promote institutional entrepreneurship to enable them change their institutional environments (Maguire et al., 2004; Battilana et al., 2009). I suggest that firms use informational strategies such as lobbying or petitioning. They are effective for policy and regulatory influence and for shaping business environments. Though the policy-

making process in most emerging countries does not offer many opportunities for firms to be involved (Rajwani and Liedong, 2015), this thesis encourages firms to comment on policy issues through petitions and press conferences.

Third and related to the point above, this thesis identified three types of institutional risk: regulatory, administrative and controls. It is important for managers to understand the type of risk their firms are exposed to, as this will be the first step in determining the appropriate intervention to use in addressing the exposure. The findings of this study suggest that creating and maintaining vibrant public affairs departments is effective for reducing regulatory institutional risk, but not for reducing administrative institutional risk. They also show that doing CSR is effective for reducing administrative institutional risk, but not for reducing regulatory institutional risk. These findings imply that when firms find themselves constantly battling with changing and unpredictable regulatory environments, public affairs departments are needed to help manage dependency relationships with relevant external stakeholders. However, when firms are exposed to bribery and corruption, CSR is needed. This is because the positive public perceptions towards socially responsible firms in developing countries such as Ghana (Ofori and Hinson, 2007; Kuada and Hinson, 2012) suggest that public officials will be willing to fast-tract administrative processes for these firms without demanding informal payments. Because corruption is endemic and pervasive in developing countries, this thesis recommends that all firms should develop CSR strategies in order to overcome administrative obstacles.

Fourth, this thesis has implications for non-governmental organizations (NGOs) and multinational agencies such as The World Bank, International Monetary Fund (IMF) and the United Nations (UN). These organizations advocate that corporate citizenship is necessary for socio-economic growth in emerging countries. To that effect, the private sector is encouraged to play an active role in policy making processes. While corporate citizenship is important, it could lead to CPA or the development of political connections (Alzola, 2013; Scherer et al., 2013) which, as this thesis found, have a negative effect on firms' debt financing. Considering that access to finance and cost of debt are important factors affecting the private sector in most developing countries, the implications of corporate citizenship could be dire. This thesis therefore suggests that the strengthening of State institutions and corporate governance should precede campaigns for corporate citizenship. This is because until institutions are strengthened, the repercussions of political activity will discourage corporate citizenship. Similarly, until corporate governance is improved, banks will continue to see

active corporate citizens as risky clients. The bottom line here is that development partners must first support institutional development and promote good corporate governance initiatives before calling on firms to get involved in policy making.

Finally, this thesis has implications for national development policy. Public private partnerships (PPPs hereafter) have been christened as appropriate for facilitating socio-economic development (Hayllar, 2010; Spielman et al., 2010). However, the potential of PPPs has not been realized in many other countries, especially in the very poor ones in Africa. While existing literature has noted causes of the abysmal performance and negligible impact of PPPs in developing countries (Poulton and Macartney, 2012; Golooba-Mutebi, 2012), a very important issue has been left unaddressed. PPPs are a platform for business-government interactions; hence they open up opportunities for businesses to develop political connections and wield political influence. While corporate political connections are good access to the polity, and perhaps for institutional entrepreneurship (Scherer and Palazzo, 2011; Scherer et al., 2013), they have a dark side manifested through institutional lapses such as bribery, corruption and cronyism (Sun et al., 2012; Doh et al., 2012). These lapses stir up negative perceptions of PPP partner firms and expose the firms to adverse business effects and political liabilities such witch-hunting and discrimination from subsequent opposition governments. The success of PPPs in developing countries is therefore dependent on the extent to which State institutions and regulatory frameworks legitimize and control CPA. Enacting laws to control political campaign contributions and political directorships as well as maintaining public databases or websites detailing business involvement in politics will promote transparency (Jun et al., 2014), legitimize and brighten up the dark side of CPA, improve perceptions and reduce political witch-hunting. These would, in turn, make PPPs attractive to firms.

8.3 Limitations

Although this thesis presents findings that enrich our knowledge of CPA, it is subject to some limitations. First, as a survey-based study, I used cross-sectional and self-reported data. Survey restricted my ability to collect adequate data for sophisticated quantitative analysis such as instrumental variable (IV) regressions. However, using a survey allowed me to measure managerial ties which are "soft" in nature. Survey also allowed me to measure other variables for which no secondary data is available or accessible in Ghana. In the analyses, the absence of autocorrelation of the residual errors reduced endogeneity. However, endogeneity

from other sources such as measurement errors and omitted variables could still affect the results. I tried to collect objective data for some of the variables, but without success. It is worth noting that other studies have encountered a similar problem in emerging countries (Peng and Luo, 2000; Park and Luo, 2001; Acquaah, 2007). In Africa, access to financial information is limited (Klingebiel and Stadler, 2015). Despite this limitation, the inter-rater tests performed on the data indicated that the self-reported data is reliable. Also, triangulation of the primary data with secondary data was done for firms that are publicly listed on the Ghana Stock Exchange. Nonetheless, access to financial reports and objective information would have availed other important variables for the investigation of this financial topic. Additionally, even though the constructs used in this thesis were developed from the literature and were subjected to rigorous validity and reliability tests, they could still be affected by measurement errors. The results must therefore be interpreted with caution.

Second, even though two questionnaires were delivered to two different managers of each sampled firm in order to address single-rater bias (Podsakoff et al., 2003), only 10 firms returned both questionnaires. As mentioned earlier, the kappa statistic for all ten firms was statistically significant and ranged from .818 to .944, indicating that responding managers had a “very good” agreement (Altman, 1991). However, common method variance (CMV) could affect the other 169 firms that returned a single questionnaire. Even though firm-level studies have shown that data from single respondents are reliable (Miller et al., 1997; Peng and Luo, 2000; Barden et al., 2005; White et al., 2015), I believe that the reliability of the data used in this thesis would have been stronger if all the firms returned both questionnaires.

Third, this thesis may suffer from CMV because the data was collected using one questionnaire (Podsakoff et al., 2003). In essence, the data was not collected in stages. Some previous studies employed a one-year or two-year lag when collecting survey data for dependent and independent variables (Acquaah, 2007; Boso et al., 2013). The main rationale for doing this is to account for the time it takes for the independent variable to have an effect on the dependent variable. Bringing this rationale into the context of this thesis, a lagged research design would have meant that enough room is allowed for political ties to influence risk exposure or interest rates. I could not use a lagged design for obvious reasons (limited registration time to finish the PhD), but I followed prior studies (Mesquita and Lazzarini, 2008; White et al., 2015) and used a three-year frame for the questions (2011-2013) in order to capture lagged effects. This three year framing was also used to address causal ambiguity.

Nevertheless, I advise readers to take caution when interpreting the results because of potential reverse causality, particularly in the CPA-risk exposure study.

Finally, this thesis is context-specific. In other words, it is focused on firms operating in Ghana only. Though Ghana shares similar characteristics with other developing countries (Acquaah, 2007; Boso et al., 2013), there are unique institutional and contextual elements across different developing countries. As a result, caution needs to be taken when generalizing the findings and conclusions to other developing countries in or out of sub-Saharan Africa. Despite the afore-discussed limitations, this thesis makes valuable contributions to theory and practice.

8.4 Directions for Future Research

Examination of the relationship between political ties, access to finance, cost of debt and institutional risk exposure has opened up new avenues for future research into non-market strategy. First, as this thesis focuses solely on one political strategy (political ties), the effects of other strategies are missed. It would therefore be insightful for future studies to expand the scope of CPA and compare the impact of different political strategies on cost of debt and risk exposure. Even though campaign financing and lobbying have limited formal use in emerging countries (Rajwani & Liedong, 2015), it is possible for some firms to draw on them over time if they find that political ties are ineffective. In doing this comparative analysis, it will be particularly useful for researchers to conduct longitudinal analyses to track how firms may abandon or vary the intensity of their strategies to levels necessary and sufficient to obtain loan favours, start institutional entrepreneurship or reduce risk exposure. Additionally, future studies could conduct comparative analyses among developing countries. That way, institutions-based or nation-level effects can be tested. Obviously, nation-level macroeconomic factors such as exchange rates and inflation affect interest rates. Similarly, banking factors such as liquidity requirements, reserve ratios and policy rates affect access to finance and interest rates. Undisputedly, these factors differ from country to country. Therefore, studies that use cross-country samples and nation-level variables could significantly contribute to our knowledge of the effects of political ties in credit markets.

Second, future studies are encouraged to extend the focus of this study to other measures of cost of debt, particularly non-rate terms. Previous studies have explored the impact of political connections on debt maturity (Chen et al., 2014) and collateral (Yeh et al., 2013), but

there is room to investigate the effect of political and financial ties on other interesting outcomes, such as restrictive lending covenants. Such extensions will significantly enhance the function of social capital in loan financing and augment the generalizability of the findings of this thesis.

Third, other factors could be moderating the effect of political ties on cost of debt. In Ghana and sub-Saharan Africa, royalty is highly respected and valued. Kings and traditional rulers command great respect, even from politicians. Unlike political rulers who are limited to terms, traditional rulers rule for their lifetimes. It is therefore likely that royal ties, through their longevity and lasting value, could moderate the cost of debt for firms with political ties. I therefore encourage future studies to examine this moderator to enhance our understanding of the contingent value of political ties in Africa. Similarly, even though this study accounts for some factors that can affect risk perceptions or exposure of firms to investment climate constraints, it does not account for others. For instance, highly diversified firms encounter a broad range of policy issues whose management, often times, results in conflicts (Shaffer & Hillman, 2000). These firms may therefore have high risk perceptions. Also, firms with poor financial performance may be more sensitive to institutional lapses as these lapses further amplify their fragility. Future studies could examine the impact of these factors, including others, on institutional risk exposure.

Fourth, considering the negative effect Big Four auditors have on politically connected firms in Ghana, it would be interesting for future studies to investigate whether this finding holds in other institutional contexts. It would also be insightful for future studies to explore the reasons why politically connected firms are more likely to appoint Big Four auditors (Guedhami et al., 2014) even when such appointments do not seem to be valuable in credit markets (Fortin and Pittman, 2007). To do this, a qualitative approach will be required to gather information about managers' rationales and thought-processes.

Fifth, previous studies have conceptualized the complementarity between CPA and CSR (Hond et al., 2014; Liedong et al., 2015; Hadani and Coombes, 2015). However, evidence from this thesis does not support complementarity between these two strands of non-market strategy. As research on the combinative effects of CPA and CSR is increasing (Mellahi et al., 2016), this thesis calls on researchers to look beyond the positive effects of combining CPA and CSR. Along this line, future research should begin to examine whether there is cannibalization, rather than complementarity, between the two activities. Does CSR or CPA

erode the gains of the other? Does the alignment of CSR and CPA matter for realizing any gains from their combination? Are CPA and CSR complements or substitutes? These questions should lie at the heart of future research agenda. I encourage empirical research to continue to explore this topic, not only in the examination of risk exposure, but in the study of other organizational outcomes.

Sixth and related to the above, current research has touched on the impact of different types of social capital on organizational outcomes (Acquaah, 2007; Li et al., 2009; Chung, 2012), but only a few studies have investigated the combinative effects of the different types of social capital. As this thesis finds, the separate effects of different ties could be different from their combined effects. The interaction between types of social capital is therefore a viable agenda future research should explore to enrich our understanding of the dynamic and contingent value of network relationships.

Seventh, this thesis adopted a positive approach with respect to the mediating mechanisms of the political ties-cost of debt relationship. However, there is a “dark side” of CPA (Lawton et al., 2013a) which can affect organizational outcomes. In this respect, future research could explore these “dark” mechanisms. For instance, prior research has noted that politically connected firms obtain favours from banks in Pakistan because bank officials are coerced and threatened to act according to the preferences of politicians (Khwaja and Mian, 2005). I encourage studies to investigate how such “dark” mechanisms mediate the performance of politically connected firms in credit markets.

Finally, the results reveal that PA moderates institutional risk. Though the inclusion of PA is interesting, the measurement of this variable using a dummy leaves room for further investigation. A distinction must be made between having a PA department and performing PA functions. The efficacy of a PA, to a large extent, depends on its size and resource endowments (Lawton et al., 2013). In reality, firms may have PAs in their structures, but the PAs may not be functional or effective. I therefore encourage future studies to measure PA using a scale and not a dummy. If objective data is available, it will be better to measure this variable using the number of employees working in public affairs departments or the budgetary allocations for public affairs. Other dummy variables such as borrowing from government-banks could also be measured using informative scales or objective data.

Chapter 9 Concluding Remarks

This thesis examined the relationship between managerial political ties, access to finance, cost of debt and institutional risk exposure in Ghana, sub-Saharan Africa. It also investigated the mediating mechanisms in the political ties-cost of debt relationship. The entire thesis was positioned following a systematic review of the literature (Rajwani and Liedong, 2015) which revealed the existence of inconsistencies in the outcomes of CPA (Hadani and Schuler, 2013); the lack of research into cost of credit as an outcome of CPA; the paucity of studies looking into the mechanisms of CPA (Lux et al., 2011); and the lack of strategy studies in Africa and the Middle East (Hoskisson et al., 2000; Wright et al., 2005; Mellahi and Mol, 2015; Klingebiel and Stadler, 2015). Integrating social capital theory (Granovetter, 1985; Nahapiet and Ghoshal, 1998a; Lin, 2001; Adler and Kwon, 2002), institutional theory (North, 1990; Scott, 2001; Dieleman and Sachs, 2008; Doh et al., 2012) and corporate governance insights, this thesis hypothesizes interesting and nuanced relationships, uses survey data from 179 firms operating in Ghana, and employs robust quantitative techniques to derive counterintuitive results, reach insightful conclusions, and make significant contributions to knowledge.

On the topic of access to finance and cost of debt, the findings of this thesis show that political ties enhance access to finance. They also show that CEO duality weakens this enhancing effect. Further analysis revealed that politically connected firms are less likely to have CEO duality, suggesting that these firms could be aware of the negative consequences of duality. Contrary to prediction, the results show a positive relationship between political ties and interest rates. This positive relationship is, however, weakened by managerial financial ties, hence indicating that the combination of political and financial ties reduces interest rates. Borrowing from private banks and the appointment of Big Four auditors were found to have negative effects on the interest rates charged to politically connected firms. In sum, the results show that even though political ties can increase access to credit, they do not reduce the cost of credit. In that sense, this thesis reveals both the value and liability of social capital in credit markets, and in doing so it captures the moderating effects of corporate governance and institutional dynamics.

With respect to institutional risk exposure, the results suggest that political ties have an insignificant association with risk. Though prior studies have postulated the effectiveness of CPA on uncertainty reduction (Hillman et al., 2004), this thesis found no empirical evidence

to back those claims. Even when institutional risk is disaggregated into its constituent elements (regulatory, administrative, and controls), political ties are still insignificant. These findings lead to a plausible conclusion that the conjectured ability of CPA to reduce risk may only be illusionary, not real. CSR, PA functions and industry regulation were hypothesized to strengthen the effectiveness of political ties in risk reduction, but the findings revealed opposite effects. Precisely, the interaction between CSR and political ties is insignificant and thus raises questions about the complementarity between CSR and CPA (Hond et al., 2014; Liedong et al., 2015). Moreover, instead of interacting with political ties to reduce risk, PA functions and regulation rather increase the risk exposure of politically connected firms, hence highlighting how regulatory vulnerability and visibility affect perceptions of susceptibility to institutional risk.

Institutional risk exposure, social network expansion, financial reporting quality, non-financial disclosure and board independence were hypothesized as the mechanisms through which CPA exerts an influence in credit markets. However, this thesis found that only institutional risk exposure and financial reporting quality play significant mediating roles in the pricing of loans given to politically connected firms. More precisely, political ties are associated with high exposure to investment climate constraints, which subsequently lead to high interest rates. Similarly, politically connected firms are associated with poor financial reporting, and are therefore penalized with high interest rates due to information asymmetry.

Discussed in the previous chapter, this thesis makes significant contributions to knowledge. By integrating social capital and institutional theories with governance insights, it enhances our knowledge of the contingent value of social capital, the interactions between social capital, institutional and governance logics, the combinative effects of non-market strategies, and the mediating mechanisms of CPA. Because the contributions are very salient, some parts of this thesis have already been published in reputable journals. Others have been presented at conferences, nominated for prizes or have won prizes at conferences. The next section details the dissemination of this thesis.

9.1 Research Dissemination

Knowing very well that the "currency" of academia is publication, I have worked earnestly to disseminate my research since joining the PhD programme. My efforts have yielded some positive results. So far, working closely with my ever-supportive supervisor Dr Tazeeb

Rajwani, I have two papers published in high-impact journals (ABS 4 and ABS 3*) and many others accepted and presented at major conferences. I also have a paper under review at *British Journal of Management* (2nd Round) and other manuscripts being developed for submission to reputable journals. The following sub-sections detail my publications, conference papers and research-related awards and honours.

Peer-reviewed Publications

Liedong, T.A., Rajwani, T. & White III, G.O. (2015) "The Contingent Value of Managerial Political Ties in Private Debt Financing: Evidence from Ghana" In Humphrey J. (Ed), *Proceedings of the Seventy-fifth Annual Meeting of the Academy of Management***.** Online ISSN: 2151-6561

Rajwani T. & Liedong T.A. (2015) "Political activity and firm performance within nonmarket research: A review and international comparative assessment." *Journal of World Business*, *50 (2),* pp. 273-283 (***ABS 4)***

Liedong T.A, Ghobadian A, Rajwani T, & O'Regan, N. (2015) "Toward a view of complementarity: Trust and policy influence effects of corporate social responsibility and corporate political activity". *Group & Organization Management, 40 (3), pp. 405-427 (**ABS 3*)***

Papers under Review

Liedong, T.A., Rajwani, T., & Mellahi, K. "Reality or Illusion? The efficacy of managerial political ties in institutional risk reduction" *British Journal of Management* **(ABS 4; 2nd Round)**

Work in Progress

Liedong, T.A., Rajwani, T., White III, G.O. & Mellahi, K. "The contingent value of managerial political ties in private debt financing: Evidence from Ghana" for submission to *Academy of Management Journal* **(ABS 4*)**

Liedong, T.A. & Rajwani, T. "The effect and mechanisms of managerial political ties in credit markets" for submission to *Corporate Governance: An International Review (**ABS 3*)***

Liedong, T.A. & Rajwani, T. "Political ties and auditor choice: Insights from an emerging country" for submission to *Journal of Accounting & Public Policy* **(ABS 3)**

Liedong, T.A. & Rajwani, T. "Is Politics a Dirty Word? Exploring the Ethicality of Corporate Political Activity" for submission to *Business & Society* **(ABS 3)**

Conference Papers

Liedong, T.A. (2015). "Reality or Illusion: The efficacy of managerial political ties in institutional risk reduction." *Strategic Management Society (SMS) Annual Conference*, Denver, 3-6 October 2015
Nominated for Best Conference Paper Award, Best Conference PhD Paper Prize and Best Conference Paper Prize for Practice Implications

Liedong, T.A., Rajwani, T. & White III, G.O. (2015). "Political ties and cost of debt in sub-Saharan Africa: A study of Ghana" *Strategic Management Society (SMS) Annual Conference*, Denver, 3-6 October 2015
Nominated for Best Conference Paper Award and Best Conference Paper Prize for Practice Implications

Liedong, T.A. (2015). "Measuring the ethicality of corporate political activity: A scale development study" *British Academy of Management Conference*, Portsmouth, 8-10 September 2015

Liedong, T.A. (2015). "Political ties and cost of debt: Unpacking the relationship and mediating mechanisms" *British Academy of Management Conference*, Portsmouth, 8-10 September 2015

Liedong, T.A., Rajwani, T., & White III, G. (2015). "The Contingent Value of Managerial Political Ties in Private Debt Financing: Evidence from Ghana." *Academy of Management Annual Meeting*, Vancouver, 7-11 August 2015.
Selected for Best Paper Proceedings, Runner-Up for Best Student Paper Award – Social Issues in Management (SIM) Division of the Academy of Management

Liedong, T.A. & Rajwani, T. (2015) "Political Connections and Preferential Access to Finance: A Conceptual Explication" *6th International Research Meeting in Business and Management*, Nice (France), 2-3 July 2015

Liedong, T.A. & Rajwani, T. (2015) "Is Corporate Political Activity Virtuous? An Empirical Exploration" *6th International Research Meeting in Business and Management*, Nice (France), 2-3 July 2015

Liedong, T.A. & Aghanya, D. (2015). "Regulatory Impact on Technological Development and Financial Inclusion: Evidence from Nigeria" *15th International Conference on Technology, Policy and Innovation*, Milton Keynes (UK), 17-19 June 2015

Liedong, T.A. & Aghanya, D. (2015). "Public-Private Partnerships, Corporate Political Activity and E-Governance: An Integrative Framework" *15th International Conference on Technology, Policy and Innovation*, Milton Keynes (UK), 17-19 June 2015

Liedong, T.A. & Rajwani, T. (2015). "Does the type of politician matter? Peering into the effect of political connections on firm performance" *UEBS Strategy Conference*, Edinburg, 30 April -1 May 2015

Liedong, T.A. & Rajwani, T. (2015). "Answering the "how" question: Contingent mediation in the relationship between political connections and cost of debt" *UEBS Strategy Conference*, Edinburg, 30 April -1 May 2015

Workshops

2016 *Studying Elites in Africa: Methodological Concerns and Solutions,* ESRC Research Methods Festival, University of Bath (upcoming event on 6th July, 2016)

2015 Strategic Management Society (SMS) Junior Faculty/Doctoral Workshop, St Gallen, Switzerland

Case Studies under Preparation

Longevity at Fan Milk: *This case study explores the dynamic capabilities that have enabled Fan Milk Ghana Limited to create value and endure for decades, even in the face of adverse market conditions.*

Dangote Group: The African Giant: *This case tracks the growth and conglomeration of Nigeria's Dangote Group, as well as the influence of the Group's founder and CEO, Aliko Dangote.*

Research-Related Awards and Honours

2015 Best Reviewer Prize, *Business Ethics: A European Review*

2015 Nomination for Best Conference Paper Prize, Best Conference PhD Paper Prize and Best Conference Paper Prize for Practice Implications, SMS Annual Conference

2015 Runner-Up, Best Student Paper Award, Social Issues in Management (SIM) Division of the Academy of Management

2015 Outstanding Reviewer Award, *Journal of Strategy & Management*

2015 Academy of Management Best Paper Proceedings

2015 Editor's Choice Collections (noteworthy manuscripts of the journal), *Group & Organization Management*

2013 Director's Prize for Overall Best Student, MRes Management Research, Cranfield School of Management

9.2 Personal Reflection - Challenges of the Field Work

Ebola Virus Disease (EVD) posed a significant challenge during data collection. As mentioned previously, questionnaires were delivered on-site. Physical contact had to be made at the firms and this sometimes involved shaking hands with respondents in order to establish a relationship with them and gain their trust (and of course improve response rate). Handshaking is an important aspect of social interaction in Ghana. Even the EVD epidemic did not dissuade people from this practice and norm. I was therefore exposed to the deadly virus, but my fears were abated by the fact that there were no confirmed EVD cases in Ghana at the time.

There were also issues of outright rejections as some firms refused to accept the questionnaire. A lack of secondary data in Ghana means that most researchers rely on interviews and surveys to collect information. This suggest that firms receive many surveys or interview requests within any given period of time, a situation that has resulted in respondent fatigue and caused many firms to lose interest in participating in research projects. It was therefore very difficult to get buy-in from the firms.

Regardless of these challenges, I was able to collect the data and complete this thesis. The PhD has impacted my life in significant ways. First, I have learned to write for large audiences (through publications and conferences papers). Second, I have learned how to give constructive feedback to others (through reviewing for journals) and handle criticism of my own work (by addressing reviewer comments on my papers). Moreover, I have strengthened my interpersonal skills and have connected with academics in other institutions and countries (through co-authorships and collaborations). These skills, gained from the PhD, will open doors for me as I transition from studentship into academia.

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Appendices

Appendix A: Questionnaire

CRANFIELD UNIVERSITY

School of Management

Cranfield UNIVERSITY School of Management

Corporate Non-Market Strategy Research

<u>*TO BE COMPLETED BY A MANAGER OR MEMBER OF THE MANAGEMENT TEAM*</u>

Research Overview and Consent Form:

This research project aims to examine business-government relationships and investment climate constraints in Ghana. The findings of this study will provide Management with a deep and useful insight into strategies used by firms in Ghana. Policy recommendations will also benefit government and business/industry associations.

I kindly request your cooperation in completing the attached survey <u>which should take less than 30 minutes</u>. Your participation, while voluntary, is crucial to the success of this study. By returning this survey you are giving consent to participate. Should you choose to complete the questionnaire, I hope you will give your best effort and answer **<u>ALL</u>** questions. <u>Your responses will be anonymous and confidential</u>. <u>An executive summary of the research findings will be sent to your firm upon completion of the project</u>.

If you want to know more about this research study, please call +44 (0) 1234 751122 (office), +44 (0) 78 817 49715 (mobile), or email at <u>tahiruazaaviele.liedong@cranfield.ac.uk</u> (email). This project has been approved by Cranfield University and endorsed by the Ghana Association of Bankers (GAB), Association of Ghana Industries (AGI) and Ghana Investment Promotion Centre (GIPC).

Sincerely,

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CORPORATE NON-MARKET STRATEGY, INSTITUTIONAL CONDITIONS AND ACCESS TO FINANCE IN GHANA

SURVEY FORM

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School of Management
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SECTION 1: CORPORATE PROFILE

1. Name of Company ______________________________
2. Year of Incorporation in Ghana ______________________________
3. Primary Industry ______________________________
4. Number of Employees ______________________________
5. How long have you been employed at this company? ______________________________
6. The revenues of your company are derived from how many products/services? ______________
7. Who are the owners of your company? **Foreigners** ☐ **Locals** ☐ **Joint (50%-50%)** ☐
8. Does your company have a corporate/public affairs or relations department? **Yes** ☐ **No** ☐

NOTE: ***The Subsequent Questions Make Reference to the Past Three Years. Please respond with the following Years in Perspective: 2011, 2012, and 2013***

SECTION 2: INFORMAL AND SOCIAL TIES

Please *circle* the number best describing the extent to which you and your company have developed *informal personal ties and connections* to *managers and executives* of the following organisations/institutions during the past three years	**Very little**						**Very much**
Commercial banks	1	2	3	4	5	6	7
Bank of Ghana	1	2	3	4	5	6	7
Credit bureaus	1	2	3	4	5	6	7
Mutual Funds	1	2	3	4	5	6	7
Pension Funds	1	2	3	4	5	6	7

SECTION 3: CORPORATE GOVERNANCE

Please *circle* the number best describing the extent to which your company is *transparent* with respect to its dealings and operations in Ghana

	Strongly disagree						Strongly agree
Financial information disclosed in accordance with accounting and financial standards	1	2	3	4	5	6	7
Financial reports are prepared and disclosed in a timely manner	1	2	3	4	5	6	7
Annual audit conducted by an independent, competent, and qualified auditor	1	2	3	4	5	6	7
Remuneration policy for Board members and senior executives is not disclosed	1	2	3	4	5	6	7
Related party transactions are not disclosed	1	2	3	4	5	6	7
Conflict of interest issues are disclosed to relevant stakeholders	1	2	3	4	5	6	7
Expenses and losses recognized and recorded immediately they occur	1	2	3	4	5	6	7
Revenues deferred until they are verified	1	2	3	4	5	6	7
External and business risk assessments are disclosed	1	2	3	4	5	6	7
Bribery and anti-corruption policy is disclosed to relevant stakeholders	1	2	3	4	5	6	7

Within the last three years, have your company's books and accounts been audited by any of the following firms?

Deloitte	Yes ☐	No ☐
KPMG	Yes ☐	No ☐
Ernst and Young	Yes ☐	No ☐
PricewaterhouseCoopers	Yes ☐	No ☐

Please *circle* the number best describing the extent to which the following institutions have held *stock/shares* in your company during the past three years

	Not at all						Very High
Pension Funds	1	2	3	4	5	6	7
Mutual Funds	1	2	3	4	5	6	7
Endowment Funds	1	2	3	4	5	6	7
Charities and Foundations	1	2	3	4	5	6	7
Private Equity Firms	1	2	3	4	5	6	7
Insurance Firms	1	2	3	4	5	6	7

A] How many people serve on the Board of Directors of your company? _______________

B] How many Board Members **do not** hold executive positions in the company? ______________

C] In your company, are the offices of the Board Chairperson and CEO/Managing Director occupied by one person? **Yes** ☐ **No** ☐

SECTION 4: DEBT PROFILE (LOANS FROM BANKS OPERATING IN GHANA)

What is the average **interest rate** (%) on the loans of your company over the past three years? ______

How many banks have your company established credit relationships with or borrowed from over the past three years? ______________

What is the average **duration** (months) of your company's loans over the past three years? _________

Using the past three years as a reference, please *circle* the number best describing your company with respect to the following	**Very low** ... **Very high**
Value of the collateral pledged for loans in relation to total assets	1 2 3 4 5 6 7
Level of indebtedness to financial institutions in relation to total assets	1 2 3 4 5 6 7
Level of interest paid on loans	1 2 3 4 5 6 7
Use of credit lines (revolving loans)	1 2 3 4 5 6 7

Using the past three years as a reference, please *circle* the number best describing the extent to which your company has *borrowed* money from the following banks	**Not at all** ... **Very much**
Ghana Commercial Bank (GCB)	1 2 3 4 5 6 7
National Investment Bank (NIB)	1 2 3 4 5 6 7
Agricultural Development Bank (ADB)	1 2 3 4 5 6 7

SECTION 5: BANK RELATIONSHIPS

A] Are there any current or former employees of commercial banks or other financial institutions in Ghana serving on your company's Board of Directors? **Yes** ☐ **No** ☐

B] If your answer to [A] is yes, please indicate how many board members have financial sector experience _________________

C] Please indicate the cumulative years of experience of all board members with financial experience _________________

Please indicate the *frequency* with which *commercial banks* have related with your company in the following ways over the past three years	**Never**						**Frequently**
Banks requesting or utilising support of your company to affect a political, policy or social issue (E.g. signing a petition)	1	2	3	4	5	6	7
Banks utilizing the contacts and network of your company's Board of Directors or executives to mobilize grassroots support for a policy issue	1	2	3	4	5	6	7
Banks sponsoring or supporting your company to publish reports or hold press conferences on policy issues	1	2	3	4	5	6	7
Banks soliciting referrals, introductions and recommendations to elected officials or regulators from your company's Board of Directors or executives	1	2	3	4	5	6	7

SECTION 6: ACCESS TO FINANCE

Please indicate the extent to which you *agree or disagree* with the following statements about your company	**Strongly disagree**						**Strongly agree**
Access to credit is sufficient and adequate for our business	1	2	3	4	5	6	7
We are discouraged to apply for loans because we fear our applications will be rejected	1	2	3	4	5	6	7
We are given the full loan amounts we apply for	1	2	3	4	5	6	7
Access to credit is insufficient and inhibits our business	1	2	3	4	5	6	7

SECTION 7: INVESTMENT CLIMATE CONDITIONS

Using the past three years as a reference, please *circle* the number best describing the extent to which the following present an *obstacle* to the operations of your company in Ghana

	No obstacle						Major obstacle
Custom and trade regulations	1	2	3	4	5	6	7
Labour regulations	1	2	3	4	5	6	7
Licensing and permit requirements and procedures	1	2	3	4	5	6	7
Court/legal/judicial system	1	2	3	4	5	6	7
Tax administration	1	2	3	4	5	6	7
Bribery, extortions, and informal payments (corruption)	1	2	3	4	5	6	7
Bureaucracy or slow public sector machinery	1	2	3	4	5	6	7
Import and export restrictions	1	2	3	4	5	6	7
Currency controls	1	2	3	4	5	6	7
Price controls	1	2	3	4	5	6	7
Expropriation (e.g. cancellation or postponement of contracts)	1	2	3	4	5	6	7

SECTION 8: CORPORATE SOCIAL RESPONSIBILITY

Please indicate the extent to which you *agree or disagree* with the following statements about your company

	Strongly disagree						Strongly agree
Our company does not participate in activities which aim to protect and improve the quality of the natural environment	1	2	3	4	5	6	7
Our company makes investment to create a better life for future generations	1	2	3	4	5	6	7
Our company implements special programs to minimize its negative impact on the natural environment.	1	2	3	4	5	6	7
Our company targets sustainable growth which considers future generations.	1	2	3	4	5	6	7
Our company supports nongovernmental organizations working in problematic areas.	1	2	3	4	5	6	7
Our company contributes to campaigns and projects that promote the well-being of the society	1	2	3	4	5	6	7
Our company encourages its employees to participate in voluntarily activities	1	2	3	4	5	6	7
Our company emphasizes the importance of its social responsibilities to the society	1	2	3	4	5	6	7
Our company policies encourage the employees to develop their skills and careers	1	2	3	4	5	6	7

Please indicate the extent to which you *agree or disagree* with the following statements about your company	**Strongly disagree**						**Strongly agree**
The management of our company is not concerned with employees' needs and wants.	1	2	3	4	5	6	7
Our company implements flexible policies to provide a good work & life balance for its employees	1	2	3	4	5	6	7
Managerial decisions regarding the employees are usually unfair.	1	2	3	4	5	6	7
Our company supports employees who want to acquire additional education	1	2	3	4	5	6	7
Our company respects consumer rights beyond the legal requirements.	1	2	3	4	5	6	7
Our company provides full and accurate information about its products to its customers.	1	2	3	4	5	6	7
Customer satisfaction is highly important for our company	1	2	3	4	5	6	7
Our company does not pay its taxes on a regular and continuing basis	1	2	3	4	5	6	7
Our company complies with legal regulations completely and promptly	1	2	3	4	5	6	7

SECTION 9: BUSINESS-GOVERNMENT RELATIONS

To what extent do you agree with the following with respect to your company during the past three years?	**Strongly Disagree**						**Strongly Agree**
Investing heavily in building relationships with government officials	1	2	3	4	5	6	7
Spending a lot of time dealing with government affairs	1	2	3	4	5	6	7
Making efforts to maintain good relationships with influential government officials	1	2	3	4	5	6	7

SECTION 10: FIRM PERFORMANCE

Please *evaluate* your company's performance *compared* to your *major competitors* within the past three years

	Much worse						Much better
Growth in market share	1	2	3	4	5	6	7
Growth in net income	1	2	3	4	5	6	7
Growth in sales	1	2	3	4	5	6	7
Growth in productivity	1	2	3	4	5	6	7
Return on assets	1	2	3	4	5	6	7
Return on sales	1	2	3	4	5	6	7
Return on equity	1	2	3	4	5	6	7

--The End--

Thank you very much for your time and effort.

Appendix B: Survey Endorsement Request Sample

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School of Management

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Cranfield, Bedfordshire
MK43 0AL England
Tel: +44 (0) 1234 750111

Executive Director,
Association of Ghana Industries
2nd Floor Addison House
Trade Fair Centre, Accra
Ghana

27th June, 2014

Dear Sir/Madam,

REQUEST FOR SURVEY RESEARCH ENDORSEMENT

We write to solicit your support and endorsement of our research project titled "Corporate Non-market Strategy, Institutional Conditions and Access to Finance in Ghana". Approved by Cranfield University, this research is part of the Doctoral project of Mr Tahiru Azaaviele Liedong, a proud Ghanaian with an unrelenting determination to contribute to Ghana's economic development.

This research project aims to examine how corporate participation in policy, political and civic processes impacts the exposure of firms to investment climate constraints. The project will also investigate the impact of corporate political engagement on corporate governance, access to finance and cost of debt of firms operating in Ghana. We intend to use surveys to collect data from registered firms across the country between August 2014 and December 2014.

The findings of this project will be significant for the various stakeholders of private sector development in Ghana. Firms will understand the strategic value of civic and political participation while business associations, government and its development partners will benefit from the private sector policy recommendations that this project will proffer. Indeed, this project stands to make a substantial contribution to the development of Ghana, specifically in the areas of private sector development, corporate governance and investment promotion.

We would be grateful to have your endorsement of our survey. We believe that having you as a partner will not only mean that we acknowledge your relevance and contributions to the subject of our project, but will also help to facilitate the consolidation of our various efforts to promote private sector development in Ghana. To this end, a written approval and support for our survey will suffice (letter or email). We will share our findings and recommendations with your good office.

Enclosed are the short biographies of the researchers. Thank you in advance for your support.

Sincerely,

Mr. Tahiru Azaaviele Liedong *(Correspondent)*
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Appendix C: Received Endorsement Sample

GHANA INVESTMENT PROMOTION CENTRE
(OFFICE OF THE PRESIDENT)

22nd July, 2014

MR. TAHIRU AZAAVIELE LIEDONG
DOCTORAL RESEARCHER
CRANFIELD SCHOOL OF MANAGEMENT CRANFIELD,
BEDFORD, MK43 0AL
UNITED KINGDOM.

Dear Mr. Tahiru

RE: REQUEST FOR SURVEY RESEARCH ENDORSEMENT

I have been directed to acknowledge receipt of you letter on the above subject and to inform you that the Centre has after careful consideration decided to endorse your research.

As promised in your letter, we wish you would make available to us the results of your findings.

We wish you all the best and assurance of our cooperation.

KOFI SAKYIAMA ANTIRI
DIRECTOR, RESEARCH & BUSINESS DEVELOPMENT
FOR: CHIEF EXECUTIVE OFFICER

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Appendix D: Systematic Review Paper Selection Process

Title Screening	➢ Started with 2,454 articles after removing all duplicates ➢ 1,523 titles related to entirely different research areas such as public-private partnerships, NGOs, Development, Capital Control, etc. Examples of titles include: *"Reasons for implementing public private partnership projects", "Stakeholder management for public private partnerships", "Investments in rent-seeking", "Changes in Korean Corporate Governance: A Response to Crisis", "The influence of UK NGOs on the common agricultural policy"* ➢ 668 titles related to the research area but did not relate or refer to the review question. These titles related to the types and determinants of political strategies, and to political organization for lobbying. Some examples of such titles include: *"Were lobbyists on income tax accounting influenced by income strategies?", "Who Gave Soft Money? The Effect of Interest Group Resources on Political Contributions", "Competition and political organization: Together or alone in lobbying for trade policy?", "Firm-level determinants of political influence", "Constituency building as the foundation for corporate political strategy", "Are firms' lobbying strategies universal? Comparison of lobbying by French and UK firms"* ➢ 2 articles were eliminated because they related to state/municipal lobbying and not corporate level political activity. Example: *"Fiscal Federalism, State Lobbying and Discretionary Finance: Evidence from India"* ➢ In total, 2,193 papers were eliminated because they didn't address the review question
Abstract Screening	➢ Started with 261 articles after title screening ➢ 58 articles were eliminated because they related to different research areas ➢ 89 were eliminated because they related to the research area but did not address the research question. Examples include: "*Latino Political Connectedness and Electoral Participation", "Political Connections: The Missing Dimension in Leadership", "The Contingent Value of Corporate Political Ties"* ➢ A total of 147 articles were eliminated, retaining 114 articles.
Full text Screening	➢ Started with 141 articles (114 from databases, 25 from cross-referencing, and 2 from recommendations by supervisor) ➢ 67 articles from the databases and 5 from cross-referencing were eliminated because they were not related to the research question. These papers focused on state enterprises, political strategies and antecedents of CPA. Others were conceptual, or did not address a specific political strategy. Examples of titles include: *"High-level politically connected firms, corruption, and analyst forecast accuracy around the world", "Cross-border political donations and Pareto-efficient tariffs", Firm Level Performance Implications of Nonmarket Actions* ➢ A total of 72 articles were excluded at this stage, retaining 69 articles.
Quality Screening	➢ Quality screening was conducted for 69 articles ➢ 13 articles (2 from cross-referencing and 11 from the databases) were eliminated due to issues with methodology and trustworthiness ➢ The final sample contained 56 articles (18 from cross-referencing, 2 from recommendations, and 36 from the databases)