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Politically connected firms and the cash flow sensitivity of cash: International evidence

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ABSTRACT

This paper examines the role of political connections on the cash flow sensitivity of cash using a sample of international firms. The finding reveals that the cash flow sensitivity of cash is lower for politically connected firms than their non-connected counterparts, which is supportive of the precautionary motive of cash holdings. Further analyses reveal that the result is driven by political connections that are made through the directors of the firms and with members of parliament, as well as by differences in country-level institutional infrastructure. Overall, the empirical results corroborate that of previous studies on the relevance of the precautionary motive of cash holdings.

JEL Classification: F50; F54; G15; G34

Keywords: Political connections, Cash flow sensitivity of cash, Precautionary motive of cash holdings, Financial constraints, Country-level institutional infrastructure

1. Introduction

According to a recent article in Harvard Business Review by Govindarajan et al. (2024), the non-financial U.S. firms' cash holdings amount to US$6.9 trillion, which represents around 20 percent of the total assets. They attribute this phenomenon to the precautionary motive of cash holdings. Anecdotal evidences further highlight the importance of liquidity management (in the form of saving cash out of current cash flows) for companies. For example, in late 2020, AMC Entertainment Holdings warned that the company could run out of cash to pay for its day to day operations, which could push it to bankruptcy due to the onset of the COVID-19 pandemic. It eventually resorted to issuing additional equity to mitigate the liquidity issue.

At the same time, political connections have also been found to be crucial in shaping corporate policies. The recent debacle involving the decision by the U.S. legislators to ban TikTok from the apps stores in the U.S. highlights the important nexus between politics and business, despite TikTok (and its parent company, ByteDance, which is based in China) having spent millions on lobbying U.S. federal government officials.[1]

As liquidity management represents a key corporate decision for managers, it is important to examine how political connections affect cash savings decision, especially for international firms. Almeida et al. (2004) suggest that the cash flow sensitivity of cash provides a better measure for the role of financial constraints on firms' cash savings behavior. Using a sample of international firms from 26 countries, the results from the cross-sectional regressions of cash savings on political connections are supportive of the prediction from the precautionary motive of cash holdings. Specifically, the results suggest that managers of politically connected firms display a tendency to save less cash from their cash flows than their non-connected counterparts, even after controlling for other determinants of cash savings as well as estimation methods.

[1] "How TikTok and its parent company spent over $13 million on struggling lobby campaign", published on https://www.cnbc.com/2023/03/31/tiktok-bytedance-spent-millions-on-lobbying-congress.html

Additional tests further explore the mechanisms or channels that drive the relationship between political connections and cash savings decision. In particular, the negative association between political connections and the cash flow sensitivity of cash is more pronounced for firms located in countries with strong legal protection of investors and high capital market development, and firms where the political connections are made through the directors of the firms and with members of the parliament.

Overall, this study provides an important contribution to the literature on political connections and corporate liquidity management. It highlights that political connections provide an alternative channel of access to external financing, which is an important factor that drives a firm's cash savings decision.

2. Literature review and hypothesis development

Several studies have explored the need for firms to invest in political capital. Faccio (2006) finds that connected firms do extract benefits from their ties to politicians, leading to an increase in firm value upon the announcements of new connections being established. Connected firms also tend to enjoy preferential debt contracts from banks and subsidies from the government and are more likely to be bailed out when they run into financial distress (Faccio et al., 2006). However, connected firms report poorer quality of accounting information than do non-connected firms are less transparent and more likely to report poorer quality accounting information (Chaney et al., 2011).

The seminal work of Keynes (1936) forms the fundamental theory behind a firm's decision to hold cash. The precautionary motive theory suggests that having sufficient internal cash reserves acts as a buffer to protect a firm against any cash shortfalls and allow it to invest in projects with good investment potentials without having to rely on costly external financing.

Almeida et al. (2004, 2021) further develop a measure, called "the cash flow sensitivity of cash" to relate financial constraints to firm's liquidity policies. Specifically, they predict and find that financially constrained firms have more tendencies to save cash out of current cash flows, as compared to those that are not financially constrained.

The precautionary motive offers a compelling proposition as to why the cash savings decisions that may be taken by managers of politically connected firms may differ from that of non-connected firms. A recent study by Chen et al. (2023) documents that politically connected firms are in a better position to negotiate with suppliers and credits for longer payment terms as well as delay in the payment of interest and principal debts. In addition, Tee (2018) find that the cost of debt is lower for connected firms.

These findings suggest that politically connected firms face less pressure to save cash out of their current cash flows for operational purposes as they can raise external financing more conveniently than non-connected firms, which leads to the first part of Hypothesis 1 (H1a) stated as follows:

H1a. *Under the trade-off theory (the pecking order theory), the cash flow sensitivity of cash is negatively (not) associated with political connections.*

Cash is the most vulnerable asset that entrenched managers can siphon off from the firm (Myers and Rajan, 1998). Several studies have examined the importance of corporate governance mechanisms on the determinants of cash holdings as well as valuation of cash holdings. Studies by Dittmar et al. (2003), Kalcheva and Lins (2007), Shin et al. (2018), Chen et al. (2020), La Rocca et al. (2022), and Hyun et al. (2024) document evidences that political connected firms suffer from more severe agency problems, leading to higher cash holdings and lower market valuation.

In this respect, the agency motive of cash holdings implies that connected firms are more likely to save larger cash reserves out of cash flows, which leads to the second part of Hypothesis 1 stated as follows:

H1b. *Under the agency cost theory, the cash flow sensitivity of cash is positively associated with political connections.*

In addition, the phenomenon of cronyism stemming from the existence of political connections tends to be more rampant among firms in emerging markets as well as firms located in countries with weak legal protection and high levels of corruption. If entrenchment is the motive for controlling shareholders to hoard excessive cash, the relation between political connections and cash savings should be different for emerging versus developed countries as well as countries with high versus low level of legal protection and corruption. This leads to Hypothesis 2 below:

H2. *The association between the cash flow sensitivity of cash and political connections is different for firms in countries with institutional infrastructure.*

3. Data source and variable construction

The main variable in this study is *CONNECTED***,** a dummy variable representing politically connected firms. Faccio (2006). The classification of a politically connected firms considers not only connections to the political leaders (king, president, or prime minister of a country), but also to ministers, members of parliament or a political party. This variable has been extensively used in the existing literature examining the impact of political connections on various corporate decisions (see Faccio et al., 2006; Chen et al., 2010; Chaney et al., 2011).

The political connections data are then matched with financial data from Refinitiv Worldscope database. Similar with the existing studies, we further exclude firms with missing firm-year

observations on the firm specific financial variables, financial firms (SIC codes between 6000 and 6999), small firms (those with book value of total assets of less than US$10 million), and those countries with zero connected firms. The screening process results in a final sample of 24,278 firms from 26 countries.[2] Table 1 reports the sample distribution, which comprises of 186 (114) politically connected firms in the developed (emerging) markets.

[Insert Table 1 here]

There is a wide range of variation in the number of connected firms across our sample countries. The U.K. has the largest number of connected firms (86), followed by Malaysia (51). Connected firms are found to be more prevalent in East Asian countries, with a total of 138 connected firms.

The last two columns of Table 1 present the two institutional variables employed in this study. LEGAL is an index of legal protection and is calculated as the average of the investor protection index (INVPRT) from La Porta et al. (2006) and the anti-self-dealing index (ANTISELF) from Djankov et al. (2008).[3] LEGAL ranges from 0.13 (Mexico) to 0.91 (Hong Kong), with an average of 0.51 and a standard deviation of 0.23.

A firm's cash savings (*CCASH*) is computed as the change in cash and cash equivalents from year *t*-1 to year *t*, divided by total assets at the end of year *t. CF* is cash flow and is calculated as earnings before extraordinary items plus depreciation and amortization divided by total assets (both at the end of year *t*). *Q* is Tobin's *Q* and is calculated as the market value of the equity plus the book value of liabilities divided by total assets. Other financial variables include *CAPX* (capital investment), *CSTD* (change in short-term debt), and *SIZE* (firm size). The definitions are detailed

[2] This figure is about half of the original list of 541 connected firms due to the screening procedure we implement. Nevertheless, the number of connections in this paper is comparable to the 209 firms used by Chaney et al. (2011).

[3] See La Porta et al. (2006) and Djankov et al. (2008) for details on the construction of these two indices.

in the Appendix. All the control variables are winsorized at the 1% and 99% levels to mitigate the problem due to outliers.

Table 2 reports that only 1.8% of the sample firms are politically connected, with a standard deviation of 13%. The mean (median) value of CCASH are 0.7% (0.2%), indicating a very small value in terms of cash savings, while the standard deviation is 0.10. As for the other main financial variables, the mean (median) values (medians) of CF and Q are 0.08 (0.10) and 1.61 (1.2), while the standard deviations are 0.16 and 1.24, respectively.

[Insert Table 2 here]

4. Empirical results

4.1. Determinants of cash savings

Following the empirical construct by Almeida et al. (2004), Khurana et al. (2006), and Kusnadi and Wei (2011), Equation (1) below is estimated using ordinary least squares (OLS) to examine whether political connections affects cash savings decision of international firms:

$$CCASH_{i,t} = a_0 + a_1 CONNECTED_i + b_1 CF_{i,t} + b_2 (CONNECTED_i \times CF_{i,t}) + b_3 Q_{i,t} + b_4 CAPX_{i,t} + b_5 CSTD_{i,t} + \sum c_j Industry_i^j + \sum d_k Country_i^k + \sum e_t Year_t + u_i, \quad (1)$$

where the dependent variable is cash savings (*CCASH*)), u_i is an error term, and all other variables are as defined earlier. Industry dummies (c_j), country dummies (d_k), and year dummies (e_t) are included to control for the respective industry, country, and year fixed effects. The industry classification follows that of Fama and French (1997). The reported *t*-statistics in all tables are based on White's heteroskedasticity-corrected standard errors, clustered by firm (unless stated

otherwise). The coefficient of *CONNECTED* (a_1) measures the effect of political connections on cash savings. The coefficient of interest is the interaction coefficient between political connections and cash-flow (*CONNECTED´CF*) which measures the incremental effect of political connections on the cash-flow sensitivity of cash.

Column (1) of Table 3 reports that while cash savings are not associated with political connections, the interaction coefficient is found to be negative (magnitude = −0.064) and statistically significant at the 1% level. The result is consistent with the prediction of **H1a** and implies that managers of connected firms do not need to save more cash out of current cash-flows, as they possess greater abilities to obtain the external financing needed (from their connections) to fund future investment projects.

[Insert Table 3 here]

Holding other variables constant, connected firms exhibit on average a lower cash flow sensitivity of cash by about 41%, compared to those for non-connected firms.[4] Moreover, when CF increases by one standard deviation (0.156), the cash savings of connected firms will increase by 1.4%, as compared to an increase of 2.4% for non-connected firms.[5] In addition, CF, Q, and CSTD are positively associated with cash savings; while SIZE and CAPX exhibit negative relation with cash savings. In general, the signs of the coefficients are largely consistent with the earlier studies (see Khurana et al., 2006; Kusnadi and Wei, 2011).

[4] The decrease in cash-flow sensitivity of cash is calculated as 0.064/0.156 * 100% = 41%.

[5] The calculation is as follows: the increase in cash savings for non-connected firms = 0.156 x 0.156 = 2.4%. The corresponding increase for connected firms = (0.156 – 0.064) x 0.156 = 1.

In columns (2) and (3), Eq. (1) is estimated using weighted least squares (WLS) regression and country-level clustering. The interaction coefficient continues to be negative and statistically significant at least at the 10% level.

A series of sensitivity analyses is conducted to ensure that the results are robust to alternative samples. First, in order to alleviate the concern that our empirical finding may be driven by observations from large countries, the three countries (U.S., U.K., and Japan) that dominate the sample are removed. Second, East-Asian firms are removed. Third, the period of 1997–1998 is removed due to the Asian Financial Crisis, Fourth, the sample is partitioned into two: 1997–2001 and 2002–2006. Fifth, the results may be driven by the potential endogeneity between cash savings and political connections. This is addressed by performing a Heckman (1976) two-step regression. Essentially, the dependent variable in the first step of the regression is the probability that a firm is politically connected (which equals 1 in the year when the firm established political connections and 0 otherwise). The independent variables are instruments which prior studies have found to be significant in influencing a firm's decision to establish political connections, such as firm size, cash holdings, cash flow, leverage, market-to-book equity, sales growth, the LEGAL index. Cash holdings is not associated with the decision to establish political connections. Subsequently, the predicted value of the political connections variable from the first step of the regression is used as an independent variable in the second step of the regression on cash savings.

The results from these sensitivity analyses are reported in Table 4. In summary, the main finding is unchanged and complements recent studies that highlight the importance of the precautionary motive of cash holdings (Cunha and Pollet, 2020; Sun et al., 2023; Govindajaran et al., 2024). It also supports the findings of Chen et al. (2023) in that being politically connected offers the advantage of having stronger negotiating power with suppliers and creditors so that

there is less incentives for connected firms to save cash out of current cash flows for operational purposes.

[Insert Table 4 here]

4.2. Potential explanations

This subsection attempts to analyze the underlying mechanisms that can potentially explain the finding of a negative relationship between political connections and the cash flow sensitivity of cash. First, five additional dummy variables are constructed: (i) CONN_OWN which equals 1 if the connection was established through one of the largest shareholders and 0 otherwise, and (ii) CONN_DIR which equals 1 if the connection was established through the top director and 0 otherwise.[6] Likewise, CONN_LEADER, CONN_MP, and CONN_CLOSE are used to represent companies in which at least one of the largest shareholders or top directors of the company is a leader of the country, a member of parliament, or a close relative or friend of at least one top politician, respectively.[7] The interaction variable (CONNECTED × CF) in Eq. (1) is replaced with (CONNTYPE × CF) where TYPE refers to the different types of political connections as defined above) and the equation is re-estimated using OLS regression model. The results in Table 5 reveal that only the interaction coefficients *CONNDIR × CF and CONNMP × CF* are statistically significant at least at the 10% level. Therefore, the negative relationship between political connections and the cash flow sensitivity of cash is driven mainly by the connections established through the directors of the firms and with the members of parliament.

[Insert Table 5 here]

[6] The firms that established their political connections through the owner and the director of the firm, respectively, represent 0.7% and 1.1% of all firms in our sample.

[7] The firms who have one of their largest shareholders or top directors as a leader of the country, a member of the parliament, or a close relative of at least one top politician, respectively, represents 0.7%, 1.0%, and 0.5% of all firms in our sample.

Second, following the classification of market development introduced by Fernandes and Ferreira (2009), the sample comprises of 18 developed and 8 emerging markets. For the other two institutional variables, the median of each variable is used to partition the sample into two sub-groups: low legal protection if *LEGAL* is below the median and high legal protection otherwise. Eq. (1) is then estimated on the two groups simultaneously.

The results are reported in Table 6. As observed in columns (1) and (4), firms in the developed markets and countries with strong legal protection display negative cash flow sensitivity of cash. Meanwhile, the interaction coefficient is not significant in the emerging markets (column (2)) and countries with legal protection (column (3)). Moreover, the difference in the interaction coefficient of between the two sub-samples is significant for both country-level partitioning variables (with all p-values < 0.01). Therefore, the results are consistent with the prediction of H2 that the presence of strong institutions has a moderating effect on the incentives of politically connected firms to save cash out of their cash flows. Specifically, they are also supportive of Kusnadi and Wei (2011) in that the cash flow sensitivity of cash is negatively associated with the strength of legal protection afforded to minority shareholders.

[Insert Table 6 here]

5. Conclusions

This study uses an international sample to examine the impact of political connections on firms' decisions to save cash out of their cash flows. The evidence reveals that there exists a negative and significant association between political connections and the cash flow sensitivity of cash. More relevantly, the results from the cash savings regressions suggest that political connections represent an important channel to facilitate more convenient access to external financing. This finding is robust to alternative estimation methods and sample specifications. Additional findings also suggest that the main result is driven by political connections that are made through the directors

of the firms and with members of parliament, as well as by differences in country-level institutional infrastructure.

Overall, the findings are supportive of the precautionary motive of cash holdings and expands the literatures on both political connections and cash holdings. They also provide additional insight to both regulators and industry practitioners on the increasingly important role played by political connections in influencing corporate decisions taken by international firms. One potential area for future research will be to examine how political uncertainty can influence the cash flow sensitivity of cash.

CRediT authorship contribution statement
Yuanto Kusnadi: Writing – review & editing, Writing – original draft, Methodology, Investigation, Formal analysis, Data curation, Conceptualization.

Declaration of competing interest
The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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Appendix
Definitions of variables

Variable name	Description
Firm-level variables	
CONNECTED	A connection dummy variable, which equals 1 for politically connected firms, and 0 otherwise.
CCASH	Cash savings, which is the change in cash and cash equivalents from year *t*-1 to year *t* divided by total assets at the end of year *t*.
CF	Cash flow, which is income before extraordinary items plus depreciation and amortization divided by total assets.
Q	Tobin's *Q*, which is measured as market value of assets plus book value of liabilities divided by book value of total assets.
CAPX	Capital investment, which is capital expenditures divided by total assets.
CSTD	Change in short-term debt, which is the change in short-term debt from year *t*-1 to year *t* divided by total assets at the end of year *t*.
SIZE	Natural logarithm of book value of total assets, used as a proxy for firm size.
DIVD	A dividend dummy variable, which equals 1 for firms that paid dividends during the financial year, and 0 otherwise.

Institutional variables	
EMERGING	An emerging market dummy variable, which equals 1 for countries in the emerging markets, and 0 otherwise.
CORRUPT	The corruption index for the year 2001, from Corporate Transparency International.
LEGAL	The legal protection index, calculated as the average of the investor protection index (from La Porta et al., 2006) and the anti-self-dealing index (from Djankov et al., 2008).

Table 1
Sample Distribution and Country-Level Institutional Variables

This table presents the distribution of all firms (both connected and non-connected firms) and politically connected firms for each country in year 2001 and country-level institutional variables. *CORRUPT* is the corruption index for year 2001, from Corporate Transparency International. *LEGAL* is the legal protection index, calculated as the average of the investor protection index (from La Porta et al., 2006) and the anti-self-dealing index (from Djankov et al., 2008).

Country	All firms	Connected firms	*CORRUPT*	*LEGAL*
Developed Markets				
Austria	123	1	1.93	0.16
Belgium	142	2	1.36	0.31
Denmark	177	3	2.36	0.41
Finland	171	2	2.54	0.47
France	950	12	1.46	0.43
Germany	879	4	1.72	0.14
Hong Kong	856	3	1.44	0.91
Ireland	98	1	1.55	0.64
Israel	177	2	1.25	0.66
Italy	304	15	0.89	0.31
Japan	3,948	26	1.38	0.46
Portugal	87	2	-0.49	-0.49
Singapore	606	8	2.50	0.89
Spain	177	3	1.66	0.46
Sweden	388	3	2.48	0.36
Switzerland	252	3	2.22	0.29
UK	2,303	86	2.17	0.87
US	7,581	10	1.77	1.77
Emerging Markets				
India	674	6	-0.21	0.68
Indonesia	247	23	-1.09	0.58
Malaysia	890	51	0.18	0.84
Mexico	181	7	-0.39	0.14

Philippines	131	2	-0.49	0.52
South Korea	1,069	5	0.45	0.42
Taiwan	1,432	5	0.72	0.56
Thailand	435	15	-0.34	0.59
Mean	922.23	11.54	1.68	0.51
Std Dev	1,591.12	18.67	0.72	0.39

Table 2
Descriptive Statistics

Panel A of this table presents the descriptive statistics for the measure of firm-level political connections and control variables. *CONNECTED* is a dummy variable which equals 1 for firms with connections to the politicians and 0 otherwise. *CCASH* is cash savings, calculated as the change in cash and cash equivalents from year *t*-1 to year *t* divided by total assets at the end of year *t*. *CF* is cash flow, calculated as income before extraordinary items plus depreciation and amortization divided by total assets. *Q* is Tobin's *Q*, calculated as the market value of equity plus book value of liabilities, divided by total assets. *CAPX* is capital investment, calculated as capital expenditures divided by total assets. *CSTD* is change in short-term debt, calculated as the change in short-term debt from year *t*-1 to year *t* divided by total assets at the end of year *t*. *SIZE* is the natural logarithm of the book value of total assets (in million US dollars). Panel B of Table 2 presents the distribution of means of *CCASH* for politically connected and non-connected firms in each country.

Panel A: Descriptive statistics

Variables	N	Mean	Median	Std Dev	Min	Max
CONNECTED	135,254	0.018		0.131		
CCASH	135,254	0.007	0.002	0.104	-0.384	0.417
CF	135,254	0.077	0.096	0.156	-0.661	0.414
Q	135,254	1.604	1.198	1.232	0.499	7.817
CAPX	135,254	0.053	0.036	0.057	0.000	0.340
CSTD	135,254	0.002	0.000	0.077	-0.317	0.280
SIZE	135,254	19.277	19.044	1.806	16.260	24.262

Panel B: Mean *CCASH* for Connected and Non-Connected Firms

Country	Non-Connected firms	Connected firms	Difference
Austria	0.004	-0.001	-0.005
Belgium	0.009	0.045	0.036
Denmark	0.000	-0.001	-0.002
Finland	0.005	-0.002	-0.008
France	0.010	0.007	-0.002
Germany	0.006	0.007	0.001
Hong Kong	0.018	0.017	-0.001
India	0.015	0.004	-0.011
Indonesia	0.006	0.007	0.001
Ireland	0.014	0.000	-0.014
Israel	0.011	0.015	0.004
Italy	0.005	0.003	-0.002
Japan	0.001	-0.001	-0.002
Malaysia	0.004	0.000	-0.004
Mexico	0.003	-0.004	-0.007
Philippines	0.004	0.005	0.001
Portugal	0.004	0.008	0.004
Singapore	0.014	-0.002	-0.016
South Korea	0.009	0.006	-0.003
Spain	0.009	0.045	0.036
Sweden	0.010	-0.010	-0.020
Switzerland	0.005	0.018	0.013
Taiwan	0.005	0.010	0.005
Thailand	0.017	-0.002	-0.019
U.K.	0.009	0.002	-0.007
U.S.	0.005	0.017	0.012
Mean	0.008	0.007	
Std Dev	0.005	0.013	

Table 3

Regression Results of Cash Savings on Political Connections

This table presents the OLS regression results of cash savings (*CCASH*) on political connections (*CONNECTED*) and other control variables. *CCASH* is defined as the change cash and cash equivalents from year *t*-1 to year *t* divided by total assets at the end of year *t*. *CONNECTED* is a dummy variable which equals 1 for politically connected firms and 0 otherwise. All other variables are as defined in the Appendix. The *t*-statistics for each coefficient is reported in parentheses and is based on White's heteroskedasticity-corrected standard error (clustered by firm, unless otherwise stated). ****, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Variable	(1) Country FE	(2) Fama-MacBeth	(3) WLS	(4) Country Clustering
CONNECTED	0.001	-0.000	0.001	0.001
	(0.27)	(-0.10)	(0.24)	(0.21)

CONNECTED´CASH	**-0.064*** (-2.99)**	**-0.064*** (-3.07)**	**-0.058*** (-3.05)**	**-0.064* (-1.80)**
CF	0.156*** (45.49)	0.151*** (7.91)	0.153*** (45.09)	0.156*** (15.81)
Q	0.016*** (36.32)	0.014*** (9.38)	0.015*** (36.09)	0.016*** (11.40)
SIZE	-0.001*** (-7.72)	-0.001*** (-3.31)	-0.001*** (-7.00)	-0.001** (-2.73)
CAPX	-0.213*** (-35.26)	-0.195*** (-18.91)	-0.201*** (-34.32)	-0.213*** (-7.44)
CSTD	0.061*** (13.83)	0.058*** (5.55)	0.063*** (15.61)	0.061** (2.78)
Country fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Year fixed effects	YES	NO	YES	YES
Adjusted R^2	0.100		0.095	0.100
Number of firm-year observations	135,254	135,254	135,254	135,254

Table 4
Alternative Samples and Sample Periods

This table presents the OLS regression results of cash savings (*CCASH*) on political connections (*CONNECTED*) and other control variables using alternative samples and sample periods. *CCASH* is defined as the change cash and cash equivalents from year *t*-1 to year *t* divided by total assets at the end of year *t*. *CONNECTED* is a dummy variable which equals 1 for politically connected firms and 0 otherwise. All other variables are as defined in the Appendix. The *t*-statistics for each coefficient is reported in parentheses and is based on White's heteroskedasticity-corrected standard error (clustered by firm, unless otherwise stated). ****, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1) Exclude US, UK, and Japan	(2) Exclude East-Asian firms	(3) Exclude 1997-1998	(4) 1997-2001	(5) 2002-2006
CONNECTED	0.000	0.006*	0.001	-0.001	0.001
	(0.06)	(1.65)	(0.35)	(-0.14)	(0.38)

CONNECTED´CF	**-0.048****	**-0.111*****	**-0.071*****	**-0.067****	**-0.058****
	(-2.36)	**(-4.16)**	**(-3.06)**	**(-2.37)**	**(-2.12)**
CF	0.140***	0.158***	0.157***	0.154***	0.159***
	(31.88)	(39.05)	(42.06)	(31.94)	(34.01)
Q	0.014***	0.016***	0.017***	0.016***	0.016***
	(24.53)	(31.65)	(35.85)	(26.81)	(24.83)
SIZE	-0.001*** (-	-0.001*** (-	-0.001*** (-	-0.001*** (-	-0.001***
	8.78)	5.68)	7.62)	3.68)	(-7.00)
CAPX	-0.175***	-0.229***	-0.215***	-0.232***	-0.202***
	(-26.27)	(-29.05)	(-31.77)	(-25.90)	(-25.75)
CSTD	0.080***	0.026***	0.066***	0.038***	0.080***
	(16.71)	(4.29)	(13.96)	(6.01)	(13.42)
	YES	YES	YES	YES	YES
	YES	YES	YES	YES	YES
Country fixed effects	YES	YES	YES	YES	YES
Industry fixed effects					
Year fixed effects					
	0.085	0.102	0.105	0.107	0.096
	95,563	84,390	113,847	60,080	75,174
Adjusted R^2					
Number of firm-year observations					

Table 5
Different types of political connections

This table presents the OLS regression results of cash savings (*CCASH*) on different types of political connections (*CONNECTED_TYPE*) and other control variables using alternative samples and sample periods. *CCASH* is defined as the change cash and cash equivalents from year *t*-1 to year *t* divided by total assets at the end of year *t*. *CONNECTED_TYPE* is a dummy variable which equals 1 for politically connected firms that were established through the owner of the firm (*CONN_OWN*), the director of the firm (*CONN_DIR*), the leader of the country (*CONN_LEADER*), members of parliament (*CONN_MP*), and close relatives (*CONN_CLOSE*) and 0 otherwise. All other variables are as defined in the Appendix. The *t*-statistics for each coefficient is reported in parentheses and is based on White's heteroskedasticity-corrected standard error (clustered by firm, unless otherwise stated). ****, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)
	CONN_DIR	*CONN_OWN*	*CONN_LEADER*	*CONN_MP*	*CONN_CLOSE*
CONN_TYPE	-0.003	0.004	-0.005	0.007**	-0.005
	(-0.62)	(1.38)	(-1.17)	(2.44)	(-1.09)

CONN_TYPE´CF	**-0.020**	**-0.100*** **	**0.010**	**-0.122*** **	**0.007**
	(-0.59)	**(-4.34)**	**(0.29)**	**(-5.66)**	**(0.17)**
CF	0.156***	0.156***	0.156***	0.156***	0.156***
	(45.50)	(45.61)	(45.46)	(45.64)	(45.50)
Q	0.016***	0.016***	0.016***	0.016***	0.016***
	(36.29)	(36.36)	(36.29)	(36.37)	(36.29)
SIZE	-0.001*** (-	-0.001*** (-	-0.001*** (-	-0.001*** (-	-0.001***
	7.92)	7.79)	7.93)	7.85)	(-7.93)
CAPX	-0.213***	-0.213***	-0.213***	-0.213***	-0.213***
	(-35.25)	(-35.26)	(-35.25)	(-35.26)	(-35.25)
CSTD	0.061***	0.061***	0.061***	0.061***	0.061***
	(13.85)	(13.87)	(13.87)	(13.87)	(13.87)
	YES	YES	YES	YES	YES
	YES	YES	YES	YES	YES
Country fixed effects	YES	YES	YES	YES	YES
Industry fixed effects					
Year fixed effects					
	0.100	0.100	0.100	0.100	0.100
	135,254	135,254	135,254	135,254	135,254
Adjusted R^2					
Number of firm-year observations					

Table 6
Cross-Sectional Variations

Panel A of this table presents the OLS regression results of cash savings (*CCASH*) on political connections (*CONNECTED*) and other control variables for different samples partitioned by firm-level financial constraints (*SIZE* and *DIVD*). Panel B of Table 4 presents the corresponding results for different samples partitioned by country-level institutional infrastructure (*EMERGING*, *CORRUPT*, and *LEGAL*). *CCASH* is defined as the change cash and cash equivalents from year *t*-1 to year *t* divided by total assets at the end of year *t*. *CONNECTED* is a dummy variable which equals 1 for politically connected firms and 0 otherwise. All other variables are as defined in the Appendix. The *t*-statistics for each coefficient is reported in parentheses and is based on White's heteroskedasticity-corrected standard error (clustered by firm, unless otherwise stated). ****, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Firm-level Financial Constraint

	SIZE		*DIVD*	
	(1)	(2)	(3)	(4)
	Large Firms	Small Firms	Non Dividend-Paying	Dividend Paying
CONNECTED	0.002	-0.007	-0.014***	0.006**
	(0.57)	(-1.52)	(-3.54)	(2.20)

CONNECTED´CF	**-0.043***	-0.041	-0.023	**-0.062****
	(-1.82)	(-1.26)	(-0.65)	**(-3.06)**
CF	0.093*** (15.77)	0.176*** (43.34)	0.187*** (43.82)	0.126***
	0.012***	0.020*** (34.04)	0.022***	(18.95)
Q	(18.52)	0.002***	(36.07)	0.008***
	-0.001*** (-5.68)	(3.03)	0.000	(13.23)
SIZE	-0.144***	-0.259***	(1.18)	-0.001*** (-
	(-20.13)	(-29.07)	-0.246***	3.84)
CAPX	0.094***	0.038***	(-24.33)	-0.175***
	(16.16)	(6.35)	0.049***	(-26.76)
CSTD			(7.90)	0.086***
	YES	YES		(14.73)
	YES	YES	YES	
	YES	YES	YES	YES
Country fixed effects			YES	YES
Industry fixed effects	0.072	0.121		YES
Year fixed effects	67,772	67,482	0.136	
			57,123	0.064
Adjusted R^2 Number of observations				78,131

Panel B: Country-level Institutions

	EMERGING		*CORRUPT*		*LEGAL*	
	(1)	(2)	(3)	(4)	(5)	(6)
	Developed Markets	Emerging Markets	High	Low	Low	High
CONNECTED	0.007**	-0.009**	0.005	-0.005	0.004	-0.001
	(2.19)	(-2.39)	(1.41)	(-1.44)	(0.78)	(-0.31)

CONNECTED´CF	**-0.117*** (-4.68)**	0.022 (0.76)	**-0.112*** (-4.09)**	0.008 (0.29)	-0.053 (-1.15)	**-0.067*** (-2.87)**
CF	0.162*** (42.14)	0.126*** (20.32)	0.164*** (39.85)	0.129*** (24.10)	0.143*** (22.08)	0.160*** (39.77)
Q	0.017*** (35.19)	0.010*** (10.11)	0.017*** (31.90)	0.014*** (18.27)	0.016*** (20.74)	0.016*** (30.03)
SIZE	-0.001*** (-9.39)	0.001*** (3.04)	-0.001*** (-7.36)	-0.001*** (-2.98)	-0.001*** (-6.52)	-0.001*** (-5.02)
CAPX	-0.237*** (-31.68)	-0.143*** (-15.09)	-0.247*** (-29.03)	-0.161*** (-20.33)	-0.173*** (-17.52)	-0.232*** (-30.28)
CSTD	0.056*** (9.97)	0.068*** (10.22)	0.029*** (4.42)	0.094*** (17.09)	0.093*** (14.20)	0.042*** (7.26)
Country fixed effects	YES	YES	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES	YES	YES
R-squared	0.107	0.071	0.107	0.089	0.100	0.102
Number of observations	107,735	27,519	78,054	57,200	54,921	80,333