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Institutions

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Firm Growth and Political Institutions*

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Abstract

Using a large sample of 115,534 firm-year observations from 46 countries over the period 1992 to 2007, we investigate the impact of political institutions on firms' growth. We find that high levels of political constraint spur firms' growth and that this positive impact is more pronounced in poor legal environments. Our results are economically significant and are robust to alternative measures of firms' growth, various proxies for political institutions, additional controls, alternative periods, and firm-level and country-level regressions. Our findings have broad implications for governments and policy-makers. Specifically, our results suggest that reforms aimed at improving political institutions in the country can significantly impact firms' growth and expansion. The weak impact of legal institutions on firms' growth when political constraints are at high levels suggests that it is indeed through improved political institutions that incentives to grow are channeled to firms.

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1. Introduction

Extant research posits that market imperfections create a wedge between a firm's internal and external cost of financing and thus constrain its ability to invest in potentially profitable projects. These constraints differ across countries and their magnitude has been shown to be a function of underlying legal and financial systems. Rajan and Zingales (1998), for instance, advance that financial development facilitates growth because it reduces the cost of external financing to firms that in turn become able to channel their increased external funds towards more profitable investments that contribute to higher firm growth thus contributing to country's economic growth. Providing the first micro-level evidence of this hypothesis, Demirgüç-Kunt and Maksimovic (1998) highlight the legal and financial systems characteristics that are associated with long-term financing of firms' growth. The authors show that a greater proportion of firms use external financing in countries where legal systems score high on an efficiency index, providing support for the legal view of finance and the primacy of legal systems in determining outcomes at the firm level (in the spirit of La Porta et al., 1998).

Recently, however, this legal view of finance has been debated. Specifically, several studies including Coffee (2001), Rajan and Zingales (2003), Roe (2006), Milhaupt and Pistor (2007), Keefer (2008), and Roe and Siegel (2008) suggest that political institutions play a pivotal role in explaining cross-country differences in financial development, which in turn determine the cost of firms' external financing.¹ For instance, Haber (2005) and Haber et al. (2008) argue that financial development is an outcome of specific rules and regulations which are the product of politics and political institutions. In

¹ Throughout the paper, we use political institutions and political rights interchangeably.

the same vein, Qi et al. (2010: 204) ascertain that “[s]ome scholars argue that our understanding of how legal institutions impact financial development and economic growth may be incomplete, and provide empirical evidence supporting the *primary importance* of political institutions.” In a nutshell, there is mounting evidence on the relevance of political institutions to economic and institutional outcomes.

In this paper, we provide the first firm-level evidence on the importance of political institutions to firm growth, and their interdependence with legal institutions to determine firms’ outcomes. We conjecture that political institutions condition firms’ growth even after taking into account the impact of legal institutions, as documented in Demirgüç-Kunt and Maksimovic (1998). Our understanding of the determinants of firm growth is crucial because it “[c]an provide insights into the dynamics of the competitive process, strategic behavior, the evolution of market structure, and even the growth of the aggregate economy” (Carpenter and Petersen, 2002: 298). Additionally, understanding firm growth determinants is important for the policy implications one can draw from such analysis. Indeed, any insights into what constrains firm innovation and growth will help governments design appropriate policies to tackle these issues and create investor-friendlier environments where firms can strive to grow and contribute to overall economic growth.

We posit that a country’s political institutions affect firm growth along both direct and indirect mechanisms (i.e., first-order and second-order effects, respectively). On the one hand, political institutions may directly affect firm growth through their impact on policy risk and uncertainty about future government policies. For instance, higher levels of political constraint are related to lower levels of corruption (or greater control of

corruption), making it relatively easier for firms to invest in growth (Rose-Ackerman, 2001). In countries with less predatory governments and more investor-friendly environments, firms do not need to shelter their cash for fear of expropriation, and are thus more likely to invest in growth (Caprio et al., 2013). In addition, under weaker political constraints and unstable political structure, the uncertainty about government future policies (i.e., policy risk) is higher. Investors and managers are particularly wary of policy reversals and radical swings in economic policies. In such cases, tighter political constraints and stable political structure constitute a way to build credibility and signal commitment, which will encourage firms to seek growth.

The above arguments suggesting that political institutions affect firms' propensity to invest and hence grow are echoed by the theoretical discussion put forward by Henisz (2004) on how discretionary policy-making (policy volatility or uncertainty) affects aggregate growth. The basic logic is that checks on governments impose constraints on government opportunism and secure property rights, which boosts investment, and therefore economic growth. The author further argues that "[c]hecks and balances on the discretion of policy-makers will be positively associated with policy stability, *ceteris paribus*" and that "[c]hecks and balances on the discretion of policy-makers will moderate the impact of macroeconomic shocks on policy outcomes" (Henisz, 2004: 7). He concludes that "[t]he conventional wisdom that holds that political and institutional checks and balances that constrain policymakers' discretion serve to limit policy volatility and thus encourage investment and economic growth appears well founded. In particular, non-conventional forms of revenue generation and capital expenditure appear particularly sensitive to the structure of a nation's political institutions" (Henisz, 2004: 17).

Similar arguments appear in North and Weingast (1989) who emphasize the importance of political institutions to economic growth and sustain that tighter political constraints (i.e., political institutions characterized by multiple veto points or checks and balances) “prevent policy reversals by raising the hurdle to policy changes.” The authors propose that political institutions characterized by checks and balances (tighter political constraints) allow governments to credibly commit not to engage in policy reversals, which reflects positively on investment. Focusing on the specific setting of privatization, Perotti (1995) also discusses policy risk. The author shows that in order to establish credibility in the economic reforms they are implementing and reduce policy risk, governments will need to signal their commitment not to intervene, through either regulation or taxation, in the environment of the newly privatized firms. More recently, Stasavage (2002) confirms that an increasing level of checks and balances in a country can increase policy stability and hence establish credibility. These arguments relating to policy risk and political institutions’ credibility suggest that the propensity of firms to grow can be directly affected by the political institutions in place.

In addition to this direct effect, political institutions may affect firms’ growth *indirectly* through a variety of channels at the country level (i.e., legal institutions, financial development), and the firm level (e.g., market imperfections, disclosure). We can describe the first country-level (macro) channels as follows: as shown by Demirgüç-Kunt and Maksimovic (1998), legal institutions condition the link between firm growth and financial development. Legal institutions, however, are shown to depend on the political institutions in place. For instance, by influencing a country’s political stability, political institutions also influence the constancy of the legal system (see, e.g., Rajan and Zingales,

2003; Roe and Siegel, 2008). We thus expect political institutions to affect firm growth through the legal system.

In the same vein, political institutions can affect firm growth through their impact on financial market development. As reported in Demirgüç-Kunt and Maksimovic (2002), the existence of well-developed markets provides easier access to capital for firms in need of financing for their investments. Further developing this idea, Khurana et al. (2006) argue that the access to a lower cost of external funds enhances liquidity, and improves the likelihood that the firm invests in highly profitable projects, hence in growth. Since firm growth depends on the cost of external financing, which itself depends on the level of financial markets development, we posit that political institutions may affect firm growth through their effect on financial development and/or legal institutions (as more developed financial markets are observed in more developed legal systems).

At the micro or firm level, political institutions can affect firms' growth through their impact on market imperfections, such as informational asymmetries and conflicts of interest (agency conflicts) between corporate insiders and investors (shareholders). These market imperfections that constrain firms' abilities to fund their investment projects and future growth are shown in the corporate finance literature to affect the efficiency of firms' investments and to vary across countries, and across legal and financial systems (Khurana et al., 2006; Stein, 2003). Information asymmetry, for instance, increases the cost of firms' external financing leading them to underinvest and forgo positive NPV projects (Myers and Majluf, 1984). This negative effect can be mitigated by a high-quality disclosure policy that reduces informational asymmetry and relaxes external financing constraints thus allowing firms to raise capital and invest in profitable projects and growth (Khurana et

al., 2006). Political institutions in this setting can affect the information environment of the firms along several lines. *First*, as shown by Bushman et al. (2004), the level of firm transparency (disclosure policy) is typically lower in less politically constrained environments. As a result, in such environments, investors will charge higher financing costs for firms, thus constraining their growth opportunities. *Second*, previous studies report that the cost of capital depends on the prevailing legal institutions (Hail and Leuz, 2006). In a nutshell, these arguments seem to suggest that political institutions impact the informational environment of firms, and hence their growth.

Also, as reported in the accounting literature, disclosure policy not only decreases informational asymmetry, it also acts as a corporate governance monitoring mechanism of agency conflicts helping to improve firms' ability to fund growth opportunities (Verrecchia, 2001; Bushman and Smith, 2001; Stein, 2003). Indeed, several studies show that disclosure policy is related to the realized growth rate of the firm. Bushman and Smith (2003: 68), for instance, contend that an expanded disclosure policy "contributes directly to economic performance by disciplining efficient management of assets in place (for example, timely abandonment of losing projects), better project selection, and reduced expropriation of investors' wealth by the managers." In a similar vein, agency conflicts can influence a firm's realized growth rate. Political institutions in their own right affect agency conflicts based on previous evidence that ownership concentration (La Porta et al., 1999) and the rules designed to protect minority shareholders (John et al., 2008) both depend on the country's legal environment.

For all these reasons, we posit that political institutions can affect firm growth through their indirect impact on market imperfections such as informational asymmetries

(i.e., disclosure policy) and agency conflicts –corporate governance- (e.g., between majority and minority shareholders).

To further deepen our understanding of the interaction between legal and political institutions in determining firm growth, we examine whether the association between political institutions and firm growth is conditioned by the quality of the country’s legal institutions. We posit that when legal institutions are inefficient, the impact of political institutions on firm growth will be stronger. As previously discussed, several studies contend that legal institutions are somewhat underpinned by political institutions. How both interact in determining firm growth is, however, still an open question. Roe (2006) and Roe and Siegel (2008) suggest that the enforcement of legal institutions is determined by the country’s political institutions. This is supported by Milhaupt and Pistor (2007) who argue that it is the political economy that determines the extent of a country’s stability and law enforcement, and by Eleswarapu and Venkataraman (2006) who report that “in authoritarian and dictatorial regimes, enforcement of laws will be more arbitrary.” These observations lead us to expect that both the political and the legal institutions will affect the resource allocation at the firm level leading us to question how these two interact in determining firm growth. We expect that the impact of political institutions on firm growth is more pronounced in settings where the prevailing legal institutions are weak since political institutions become the primary means to reduce market imperfections and policy risk that inhibit firms’ growth. This implication is particularly important from a policy making perspective.

Using a sample of 115, 534 firm-year observations from 46 countries over the period 1992 to 2007, we analyze how political constraints affect firms’ growth and provide

an answer to the following questions: Do political institutions affect firms' growth? How does cross-country variation in the legal environment affect the impact of political institutions on firms' growth? This paper builds on the methodology of Demirgüç-Kunt and Maksimovic (1998, 2002) to address these issues. Consistent with our predictions, we find that political institutions (proxied by Henisz's political constraints index) have a first-order effect on firm growth even after we control for a wide set of variables at the firm and country level. Specifically, firms from countries with political soundness exhibit higher growth rates. We also find that the role of political institutions in shaping firm growth is stronger in firms from countries with lower scores of legal institutions efficiency. Our results are robust to a battery of tests including alternative measures of firm growth, political institutions proxies, controlling for outliers, additional controls, and alternative periods. Our regressions are estimated as a country-year panel using a random effects estimator to reduce the sources of endogeneity (see also Demirgüç-Kunt and Maksimovic, 2002).

Our study contributes to the literature on several grounds. *First*, we supplement the literature on the cross-country differences in firm growth (Demirgüç-Kunt and Maksimovic, 1998, 2002) by adding to our understanding of the determinants of such differences. The link between political institutions (precisely, democracy) and economic growth was first explored by Barro (1996). Using more disaggregate data at the firm level, as we do allow us to better identify the channels through which this could actually happen. We are also able to add to the limited micro-level studies (Frye and Shleifer, 1997; Shleifer, 1997) that conjecture that the variation of property rights across countries results in differing levels of entrepreneurial investment, by identifying yet another explanation for

this cross-country variation, namely political institutions. Given that political systems differ across countries, we should expect that there are systematic cross-country differences in firms' ability to obtain external capital to finance investment and growth, once we control for cross-country differences in legal systems. Our results suggest that related studies on firm growth may have been capturing with their proxy of legal institutions the confounding effect of political institutions as well. In addition, as political institutions and economic growth might be affected by omitted variables, providing complementary evidence with more disaggregated data is important.

Second, we build on recent studies in the finance and accounting literature on the role of political institutions in shaping different firms' outcomes. Specifically, our paper complements the studies by (i) Qi et al. (2010), showing that political rights explain cross-country differences in the cost of debt; (ii) Boubakri et al. (2013) demonstrating that sound political institutions are associated with high corporate risk-taking behavior; (iii) Eleswarapu and Venkataraman (2006) suggesting that equity trading costs are higher in politically instable environments; and (iv) Roe (2003) showing that political institutions affect the degree of ownership concentration. We contribute to this literature by showing that sound political institutions are associated with international differences in firm growth.

Finally, we complement the recent strand of the literature on the interdependence between the legal and political institutions. Prior evidence is inconclusive: for instance, Qi et al. (2010) suggest that political and legal institutions are substitutes in explaining the cost of debt. Somehow, opposite evidence is provided by Keefer (2008) who finds that the role of political institutions dominates the role of legal institutions in financial sector development, and Roe (2006) who argues that political economy and political history are

more important than legal origin in shaping cross-country financial development. Our study relates to this work on the relative importance of political and legal institutions in credit markets and managerial behavior by examining their interactions in determining firm growth.

Our findings have broad implications for governments and policy-makers given the substantial resources that governments and international development and donor agencies are devoted to the creation and implementation of programs that assist firms' growth and expansion, in an effort to promote overall economic development. Specifically, our results suggest that reforms aimed at improving political institutions in the country can significantly impact firms' growth and expansion. The weak impact of the legal institutions on firm growth when political constraints are tighter suggests that it is indeed that incentives to grow can be channeled to firms through improved political institutions.

The remainder of the paper is organized as follows: Section 2 motivates the study and presents our hypotheses. Section 3 focuses on the research design and sample description, while Section 4 presents the empirical analysis. Robustness checks are developed in Section 5. Section 6 displays our analysis of the interaction between legal and political institutions in determining firm growth. Finally, Section 7 concludes.

2. Political Constraints and Firm Growth: Motivation and Hypotheses

We conjecture that political institutions/constraints may play an important role in determining firms' growth through different channels advanced in the existing corporate finance, accounting, and economics literature. We classify these potential channels of transmission according to their likely first-order or second-order effects on firm growth.

First-order effects stem directly from political institutions to firm growth, while second-order effects are channeled through macro-level (through legal institutions and financial development, for instance) and/or micro-level (through market imperfections) dimensions.

Starting with first-order effects, we conjecture that there is a potential direct effect of political institutions on firm growth: weak political constraints are associated with high policy risk, defined as the likelihood of policy reversals and government expropriation. Tighter political constraints, in turn, are related to a lower level of corruption (or greater control of corruption) making it relatively easier for firms to invest in growth. Caprio et al. (2013) find in this regard that corruption and government expropriation decrease firms' corporate holdings of cash and marketable securities leading them to adopt a sub-efficient asset allocation (and hence under-invest). Concurrently, Durnev and Fauver (2011) document an adverse effect of government repudiation (which characterizes weak political institutions with high policy risk) on firms' decisions. They specifically find that in countries with less predatory governments and more investor-friendly environments, firms do not need to shelter their cash for fear of expropriation, which makes them more likely to invest in growth. In addition, under weaker political constraints and unstable political structure, the uncertainty about government future policies (i.e., policy risk) is higher. Investors and managers are particularly wary of policy reversals and radical swings in economic policies. In such cases, tighter political constraints and stable political structure constitute a way to build credibility and signal commitment, which will encourage firms to seek growth. Pertaining theoretical arguments are found in North and Weingast (1989) and Henisz (2004).

Continuing with second-order effects, we consider the impact of political institutions on firm growth through market imperfections, and legal and financial development. Stein (2003) shows that market imperfections such as informational asymmetries and agency costs influence firms' growth through their impact on firms' investments efficiency. Demirgüç-Kunt and Maksimovic (1998) argue in the same vein that these distortions tend to constrain firms' access to lower-cost external financing, which in turn constrains firms' ability to pursue potentially profitable projects. The theoretical corporate finance literature similarly identifies the adverse selection costs resulting from information asymmetry as a factor that inhibits the propensity of firms to raise the external funds they need to pursue profitable investment projects. Precisely, the pecking order theory suggests that firms may be led to forgo positive NPV investment opportunities if they are liquidity-constrained and cannot raise external funds that appear to be mispriced due to informational asymmetries between corporate insiders and investors (Myers and Majluf, 1984).

The law and finance literature holds that more investor-friendly legal institutions affect the cost of external financing by reducing informational asymmetry. In this vein, Hail and Leuz (2006) provide evidence that cross-country differences in the cost of equity financing are related to differences in legal institutions. Relatedly, Bushman et al. (2004) show that the firm's information environment is conditioned by the quality of legal and political institutions. Examining the interaction between legal and political institutions in determining bond rating and bond yield spread, Qi et al. (2010) add to this literature by showing that strong political institutions are material in mitigating the negative impact of arbitrary government actions on bondholders' required return. Indeed, they find that sound

political institutions raise bond ratings and decrease yield spreads. Another argument that adds weight to our conjecture appears in a recent study by Boubakri et al. (2013) who report evidence that, around the world, the sounder the prevailing political institutions, the greater the risk-taking by firms. The authors find that more political constraints lead to more risk-taking by firms, especially in weaker legal environments, which should in turn positively affect their choice of investment projects and hence their subsequent growth. Findings by Qi et al. (2010) and Boubakri et al. (2013) confirm the argument in Milhaupt and Pistor (2007) that it is the political economy that determines whether the law of a country is stable and secure, and that the law does not work independently of the political system in determining economic outcomes at the firm level.

In addition, insights from the accounting literature suggest that informational asymmetries can be reduced by firms' disclosure policies, which also act as a corporate governance monitoring mechanism of insiders' decisions (e.g., Verrecchia, 2001). Both firm disclosure and firm-level corporate governance, which dictate firms' decisions, are found in the literature to depend on legal institutions (e.g., La Porta et al., 1998). Added to the evidence in Demirgüç-Kunt and Maksimovic (1998) that legal institutions positively affect firms' growth and financial development, these arguments suggest that political institutions are likely to indirectly affect firms' growth through their impact on legal institutions, financial market development, and market imperfections (i.e., informational asymmetry and agency costs). The above discussion leads us to posit that:

H₁: Strong political institutions positively affect firms' growth

Although the law and finance literature has predominantly advanced the role played by legal institutions in determining economic outcomes at both the country (i.e., financial

sector development) and firm level (i.e., firm disclosure, firm valuation), several recent studies suggest that political institutions might complement or substitute for legal institutions. For instance, legal and political institutions are shown to be substitutes in determining firms' cost of debt (Qi et al., 2010). The authors find that marginal improvements in political institutions produce greater reductions to the cost of debt for firms from weak legal systems than for those from well-developed legal systems, thus providing support for Milhaupt and Pistor (2007) who argue that the law does not work independently of the political system.

Because political institutions are related to political stability, which in turn affects the constancy of the legal system and the macro economy, we expect firms' growth to be fueled by sound political institutions that put heavy constraints on the government to avoid expropriation of firms' assets, even if the legal system weakly protects investors. As described in Djankov et al. (2003) and Glaeser and Shleifer (2003), the probability of expropriation of firms' assets (which decreases the incentives of firms to invest and grow) depends primarily on the political institutions in place. To assess the respective role of political and legal institutions in firms' growth, we test the following hypothesis:

H₂: The relation between sound political institutions and firms' growth is stronger in countries with weak legal institutions

3. Research Design

3.1 Sample Construction

We consider the firms covered by *Compustat Global* and *Compustat North America* over the 1992-2007 period. We exclude financial firms with SIC codes between

6000 and 6999 because their profitability ratios, leverage ratios, and growth rates are determined differently from those of non-financial firms, and because these firms are heavily regulated and hence highly sensitive to the design of a country's political institutions. The sample includes both active and inactive firms from 46 countries to mitigate concerns regarding survivorship bias of less growing firms.

After excluding firm-years with missing values on excess growth, political institutions, and the different control variables, we end up with a sample of 437 country-year observations representing 115,534 firm-year observations from 46 countries. These countries are: Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Chile, Colombia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, India, Indonesia, Ireland, Israel, Italy, Kazakhstan, Korea, Malaysia, Netherlands, New Zealand, Norway, Pakistan, Peru, Philippines, Poland, Portugal, Romania, Russia, Singapore, Slovakia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Turkey, the UK, and USA.

3.2 Variables Measurements

3.2.1 Firm Growth Estimates

We follow Demirgüç-Kunt and Maksimovic (1998, 2002) in estimating firm-level growth. Under certain assumptions, firms' external financing need, *EFN*, could be defined as:

$$EFN_t = A_t \cdot g_t - E_t \cdot b_t \cdot (1 + g_t) \quad (1)$$

where t indexes time, A stands for assets, g is growth, E is earnings after interest and taxes, and b is the plowback rate. In other words, the external financing need is the difference between the increase in assets and additions to retained earnings.

Using Equation (1), we successively present three measures of a firm's maximum constrained growth rate. The first measure, IG , is the maximum growth rate that can be financed by relying only on internal funds. Therefore, assuming that the firm retains all its earnings ($b=1$), equating EFN to zero, and solving Equation (1) for g , we obtain:

$$IG_t = \frac{ROA_t}{1 - ROA_t} \quad (2)$$

The second measure is the maximum growth rate that can be financed by relying only on internal funds and short-term borrowing, SFG . Therefore, assuming that the firm does not pay dividends ($b=1$), replacing assets with long-term capital (LTC), i.e., assets times one minus short-term liabilities to total assets, equating EFN to zero, and solving Equation (1) for g , we obtain:

$$SFG_t = \frac{ROLTC_t}{1 - ROLTC_t} \quad (3)$$

The third measure is the maximum growth rate that can be financed by relying only on internal funds and (short-term and long-term) debt financing, SG . Therefore, assuming that the firm retains all its earnings ($b=1$), replacing assets with book equity, equating EFN to zero, and solving equation (1) for g , we obtain:

$$SG_t = \frac{ROE_t}{1 - ROE_t} \quad (4)$$

For each country-year, we compute the proportion of firms whose inflation-adjusted growth rate in sales exceeds the maximum constrained growth rates defined above (Demirgüç-Kunt and Maksimovic, 1998). We denote these proportions XR_{IG} , XR_{SFG} , and XR_{SG} , respectively.

3.2.2 Political Institutions Variables

To properly examine the relation between political institutions and firms' growth, we select a political institution proxy that covers a large set of countries over a long time period and one that captures investors' ex-ante expectations. We use Henisz' (2010) political constraints index ($POLCONV$) as a measure of political institutions, where $POLCONV$ ranges from 0 to 1, with higher scores indicating greater political constraints and hence stronger political institutions. This measure is extensively used in the literature and has several advantages.² First, Henisz (2000) suggests that a major determinant of political institutions is the "government's ability to credibly commit not to interfere with private property rights." Therefore, an ideal measure of political institutions should not involve any constraints on policy change. Henisz' index takes into account various characteristics of political institutions, including the extent of constraints on veto players in the system and their political preferences. Second, Henisz' index captures investors' ex-ante views of restrictions on government behavior rather than ex-post government performance (see e.g., Qi et al., 2010). Third, Henisz' index is available for more than 200 countries and covers a long period until 2007. Finally, Henisz' index compares well with

² See, for example, Stulz (2005), Qi et al. (2010) and Boubakri et al. (2013) for the use of the political constraints index.

other proxies that have relatively small country and/or year coverage, while not exhibiting the drawbacks that characterize other widely used political indices.³

We rely also on two other variables from different sources to measure the strength of political institutions and to insure the accuracy of our measure. These are the executive indices of electoral competitiveness (*ELECOMP*) from the Database of Political Institutions by Beck et al. (2001) and the political rights and fairness of the political institutions index (*IPD*) which we obtain from the Institutional Profile Database.

3.2.3 Control Variables

Extant research (e.g., Demirgüç-Kunt and Maksimovic, 1998, 2002; Khurana et al., 2006, 2008) identifies several firm- and country-level variables that impact firms' excess growth. We control for different country-specific variables. Law and order (*LAW*), a proxy for the contracting environment and the legal effectiveness, is derived from the International Country Risk Guide Database. Stock market turnover (*TURNOVER*), a proxy for the level of stock market activity, is measured using the total value of shares traded divided by the market capitalization. The size of the banking sector (*BANK*), measured by the ratio of the domestic assets of deposit banks over GDP, capture the development of financial institutions. We include four additional variables describing the economic environment of each country. Inflation rate (*INFLATION*) captures complications in long-term financial planning arising from changes in the general level of prices. The real GDP per capita growth (*GDPC_GR*) measures economy-wide growth opportunities. Overall economic development is measured using the natural logarithm of GDP per capita (*GDPC*). The level of interference of the government in the economy is captured by the

³ Examples include the Economic Intelligence Unit, Alesina and Perotti (1996) socio-political instability measures, and Kaufmann et al. (2008) political stability indicator.

ratio of the total government subsidies over GDP (*SUBSIDIES*). Finally, we control for two firm-specific variables including the market-to-book ratio (*MTB*), a proxy of the firm-level growth opportunities, and net fixed assets to total assets (*NFA*), which captures capital-intensive firms. Additionally, we control in all the regressions for year fixed effects.

3.3 Descriptive Statistics

Table 1 reports the distribution of the number of observations (by firm-year and by country-year) and country averages of the variables of interest (*XR_SFG*, *XR_IG*, *XR_SG*, *POLCONV*, and *LAW*). The statistics show that our original sample is dominated by firms from the USA (28.58%), UK (10.51%), and Canada (9.76%). Each of the other countries represents less than 5% of the sample. Hence, using country-level regressions corrects for this disparity in the number of observations across countries. In terms of the growth estimates (*XR_IG*, *XR_SFG*, and *XR_SG*), the data indicate that firms incorporated in Kazakhstan, the Czech Republic, and Brazil exhibit lower growth rates compared to firms in Argentina, Israel, and Canada, which show the highest growth rates. Column 3 in Table 1 shows that in 23 countries out of 46, a majority of firms grow at rates that exceed *IG*, the maximum growth rate that can be financed by relying only on internal funds. These firms need to have access to external capital markets to grow. The highest proportions of such firms are in Slovakia, Israel, and Canada and the lowest proportions are in Kazakhstan, the Czech Republic and Brazil. Column 4 in Table 1 shows that the majority of firms in 21 of the 46 countries grow at rates that exceed *SFG*, the maximum growth rate that can be financed by relying only on internal funds and short-term borrowing. The highest incidence of such firms is in Romania, Israel, and Canada and the lowest in Kazakhstan,

the Czech Republic, Brazil, and Hungary. Column 5 shows that in all but 7 of the 46 countries, a majority of firms grow at rates that exceed *SG*, the maximum growth rate that can be financed by relying only on internal funds and debt financing. The highest proportions are in Argentina, Israel, and Canada and the lowest proportions are in Kazakhstan, Hungary, and Egypt. The political institutions proxy, *POLCONV*, displays also a disparity between the countries, with a maximum of 0.89 in Belgium and a minimum of 0 in Kazakhstan. The rule of law proxy, *LAW*, is also high in several countries, mainly Western countries along with Australia and New Zealand, and lowest in Colombia and South Africa. These statistics indicate that political and legal institutions are not homogenous across our sample countries, and thus confirm that cross-country analysis is appropriate for our investigation.

[Insert Table 1 about here]

Panel A of Table 2 reports descriptive statistics for the variables used in the analysis. Included are the mean, median, and standard deviation value for *XR_IG*, *XR_SFG*, and *XR_SG*, *POLCONV*, and the different control variables. The dependent variable *XR_IG* has mean, median, and standard deviation of 0.530, 0.543, and 0.159, respectively. *XR_SFG* has mean, median, and standard deviation of 0.482, 0.491, and 0.148, respectively. *XR_SG* has mean, median, and standard deviation of 0.415, 0.419, and 0.145, respectively. These statistics are similar in magnitude to those reported by Demirgüç-Kunt and Maksimovic (1998, 2002) and Khurana et al. (2006, 2008). In terms of country-level variables, the mean (median) value of our main proxy for political institutions (*POLCONV*) is 0.684 (0.753), with a standard deviation of 0.199. This suggests that the majority of the sample countries have strong political rights and sound institutions.

The results further show that our sample includes countries with varying degrees of quality of legal institutions as measured by the ICRG assessment of the rule of law. Indeed, the mean (median) for the variable *LAW* is 4.677 (5.00). The GDP per capita growth has a mean (median) of 3.02 (3). The inflation rate shows a mean (median) of 16.61 (3.11).⁴

Panel B of Table 2 provides the correlation coefficients between the political institutions variable, *XR_IG*, *XR_SFG*, and *XR_SG*, and various control measures. In general, the different growth proxies are positively correlated with the political and legal institutions variables, *POLCONV* and *LAW*, respectively. The matrix shows also that the correlation between *POLCONV* and *LAW* is relatively small, suggesting that they capture different institutions. The correlation table shows also that the growth measures are positively related to *TURNOVER*, *BANK*, *GDPC_GR*, and *GDPC* and negatively related to *INFLATION*, *MTB*, *SUBSIDIES*, and *NFA*. Consistent with our expectations, the analysis indicates that firms located in countries with political soundness are associated with higher growth rates. However, because of possible confounding effects by other variables, we use a multivariate framework to explore our hypotheses.

[Insert Table 2 about here]

4. Empirical Results

4.1 Univariate Analysis

We investigate whether political rights promote firm growth. In Table 3, we initiate this analysis by reporting results from univariate tests that compare means (columns 1 and

⁴ Later in the paper we assess the robustness of our results by dropping high level of inflation from the regressions in addition to the other extreme values in the country-level variables.

2) and medians (columns 3 and 4) of the proportion of firms with positive excess growth across subsamples of low and high political rights. In Panel A, we consider XR_{IG} , the proportion of firms that grow at rates exceeding IG . We find that XR_{IG} is significantly higher for the high political rights subsample. More specifically, the mean (median) XR_{IG} is 0.544 (0.557) for the high political rights subsample compared to 0.515 (0.522) for the low political rights subsample. In other words, the mean (median) proportion of firms that grow at rates exceeding IG is 0.029 (0.035) higher in countries with stronger political rights. These differences, which are statistically significant at the 5% level or better, are consistent with our hypothesis H_1 that strong political institutions promote firms' growth. In Panel B and Panel C, this evidence also holds for XR_{SFG} and XR_{SG} , the proportion of firms that grow at rates exceeding SFG and SG , respectively. In the next section, we examine whether this initial evidence continues to hold in a set of multivariate tests.

[Insert Table 3 about here]

4.2 Multivariate Analysis

4.2.1 The Model

To test our hypotheses on the impact of political institutions on firms' excess growth, we estimate the following model (subscripts are suppressed for notational convenience):

$$\begin{aligned}
& XR_GROWTH \\
& = \beta_0 + \beta_1 POLCONV + \beta_2 RLAW + \beta_3 TURNOVER + \beta_4 BANK \\
& + \beta_5 INFLATION + \beta_6 GDPC_GR + \beta_7 GDPC + \beta_8 SUBSIDIES + \beta_9 MTB + \beta_{10} NFA \\
& + Year\ effects + \varepsilon
\end{aligned} \tag{5}$$

XR_GROWTH is the proportion of firms with positive excess growth according to one of the three models described above (*XR_IG*, *XR_SFG*, and *XR_SG*). Our variable of interest is *POLCONV*, which measures the degree of political constraints in a country. Our country-specific control variables are: the rule of law (*LAW*), the stock market turnover (*TURNOVER*), the level of bank deposits to GDP (*BANK*), the inflation rate (*INFLATION*), the GDP per capita growth (*GDPC_GR*), and the log of GDP per capital (*GDPC*). The firm-specific control variables are the market-to-book (*MTB*) and the level of net fixed assets to total assets (*NFA*). We expect a positive impact of *POLCONV* on the proportion of firms with positive excess growth (H_1), with its effect stronger in countries with weak legal institutions (H_2).

Following Demirgüç-Kunt and Maksimovic (1998, 2002) and Hail and Leuz (2006), we estimate Equation (4) using country-year average regressions, while controlling for year effects. Country-year average regressions are suitable to our setting for two reasons. First, our variable of interest (*POLCONV*) varies by country and year. Second, aggregating the data at the country-year level avoids overrepresentation of countries with a relatively high number of firms (e.g., the U.S.). Nonetheless, we repeat all our analyses using firm-level data and find consistently similar results.

4.2.2 Main Results

Table 4 presents results of estimating Equation (5) using country random effects following Demirgüç-Kunt and Maksimovic (2002). In our primary specification, Models 1 to 3, we successively regress XR_IG , XR_SFG , and XR_SG on $POLCONV$ and a set of country- and firm-level variables described in Section 3.2.3. In the first three regressions, we find that the coefficient on $POLCONV$ is positive and statistically significant at the 5% level or better. This evidence supports H_1 , which predicts that stronger political institutions spur firm growth. Our finding is also consistent with Boubakri et al. (2013) who show that tighter political constraints boost corporate risk-taking and Qi et al. (2010) who show that more political rights reduce the cost of debt, which improves the ability to fund growth opportunities. In addition, our results confirm the evidence in Murphy et al. (1991) that a lack of credible commitment on the part of government not to interfere with private property rights leads to delayed investment, among other things. Our results are economically significant. Increasing $POLCONV$ by one standard deviation from its mean value results in increasing firms' growth by 3% for XR_IG , by 4% for XR_SFG , and by 5% for XR_SG . We also find that firms' growth is negatively and significantly related to inflation, and positively and significantly related to GDP per capita growth.

In the remaining models of Table 4, we replace $POLCONV$ with two alternative variables from different sources to ensure the accuracy of our measure of political institutions. Specifically, in Models 4 through 6 we use $ELECTCOMP$, a measure of electoral competitiveness from the Database of Political Institutions. In Models 7 to 9, we use IPD , an index of political rights and fairness of the political institutions from the Institutional Profile Database instead of $POLCONV$. Also, consistent with H_1 , we find that both $ELECTCOMP$ and IPD load with positive and significant coefficients at the 5% level

or better when explaining firm growth with the different three proxies. Overall, our results indicate that countries with sound political institutions have a high proportion of firms with excess growth.

[Insert Table 4 about here]

4.3. Robustness Tests

We perform several checks on the robustness of the principal results reported in Models 1 to 3 in Table 4. First, in Table 5, we assess the robustness of our results to excluding extreme observations. Second, in Table 6, Panel A, we consider different assumptions leading to alternative excess growth rates, we use realized assets growth instead of sales growth, we exclude high growth firms, and we consider the original panel sample. Finally, in Table 6, Panel B, we consider different sample period, countries, econometrics approach, and control variables.

4.3.1. Outliers Analysis

We start by excluding country-years with *INFLATION* higher than 25% (Models 1 to 3). In follow-up tests, we drop the country with *MTB* ratio higher than 10 (Models 4 to 6). In addition, we drop countries with high stock market turnover ratio (*TURNOVER* higher than 2) in Models 7 to 9, countries whose economies are not growing or growing at very fast rate (*GDPC_GR* below 0 and above 10) in Models 10 to 12 and the country-years with the greatest government subsidies as a proportion of GDP (*SUBSIDIES* higher than 30%) in Models 13 to 15. Our principal results remain. In all these regressions we continue to estimate a positive and significant coefficient on *POLCONV*. Thus, our conclusions remain unchanged either outliers are excluded or included in our regression models.

[Insert Table 5 about here]

4.3.2. Alternative Dependent Variables

In Table 6, we subject our results to additional sensitivity checks. In Panel A, Models 1 to 3, we experiment with alternative XR_SFG . The financial planning model we use to generate our excess growth measures assumes that the marginal and average profit rates are equal. In other words, resources generated from new growth are assumed equal to resources generated by sales to existing customers. To assess the sensitivity of our results to this assumption, we expand the definition of SFG to accommodate a lower marginal profit rate. Following Demirgüç-Kunt and Maksimovic (1998), we consider a parameter z measuring the ratio of marginal profit rate to average profit rate. The modified maximum growth rate that can be financed by relying only on internal funds and short-term borrowing is now given by:

$$SFG_t = \frac{ROLTC_t}{1 - z * ROLTC_t} \quad (6)$$

In Table 6, Models 1 to 3, we consider alternative versions of SFG corresponding to $z = 0.25, 0.5,$ and $0.75,$ respectively. Our principal results remain. In these three regressions we continue to find a positive and significant relationship between $POLCONV$ and excess growth. Therefore, our conclusions do not appear to be affected by the assumption of equality between the marginal and average profit rates.

The financial planning model also assumes that assets and sales grow at the same rate. Demirgüç-Kunt and Maksimovic (1998) argue that technological progress may lead to sales growing at a faster rate than assets. Thus, in the presence of technological progress, the financial planning model may incorrectly attribute sales growth to the availability of internal funds. To test the robustness of our results to this assumption, we re-estimate the

regressions 1 to 3 in Table 4. Specifically, we recalculate the dependent variables after replacing the realized growth rate of sales with the realized growth rate of assets. The regressions results are shown in Table 6, Panel A, Models 4 to 6. Our main results are unchanged. We continue to find a positive and significant coefficient on *POLCONV* in excess growth regressions. Thus, the assumption of equivalence between assets and sales growth does not appear to affect our results.

In Models 7 to 9, we employ firm-year observations instead of country-year observations to use all the information contained in the original sample. Our panel sample comprises 115,534 firm-year observations from 46 countries. Given the dummy nature of our variables of interest, we estimate a probit model and we cluster our observations at the firm level. Using the entire panel sample, our evidence becomes stronger. Indeed, the significance and the economic impact of the political institutions in shaping firms' growth are more pronounced in these regressions where *POLCONV* loads positively and is statistically significant at the 1% level. In these regressions *LAW* also loads positively and significantly, consistent with Demirgüç-Kunt and Maksimovic (1998).

4.3.3. Additional Tests

In Table 6, Panel B, we present additional robustness tests. In Models 1 to 3, we limit the data to the years 1996 and forward for two reasons. First, extant research suggests that political rights have improved in recent years (e.g., Roe and Siegel, 2008). Second, in the early 1990s the *Compustat* database had a limited number of firms for several countries. The coefficient on *POLCONV* continues to load positively and significantly at the 5% level or better for the different firm excess growth proxies. Hence, our results are

robust to the exclusion of early years, and they are not affected by recent improvements in political rights.

To ensure that our results are not driven by any particular country, we consider a subsample analysis that excludes them from the regression. The descriptive statistics show that our sample is dominated by developed countries that have strong political institutions, which also happen to be overrepresented in the sample. In Models 4 to 6, we exclude all the large countries that account for more than 5000 observations in the firm-year sample (USA, UK, Canada, Australia, Germany, and France). We find that our results hold even for this reduced subsample of firms. This evidence suggests that our models are not driven by these countries.⁵

Our dependent variables *XR_SFG*, *XR_IG*, and *XR_SG* are, by construction, proportions and are thus censored to the left (0) and right (1). Because usual regression methods that do not account for the presence of truncated variables can produce biased coefficient estimates, in Models 7 to 9 we use a tobit regression procedure designed to deal with censored data. The results show that our evidence remains qualitatively similar when using this alternative econometric procedure.

Finally, in Models 10 to 12, we control for additional firm-level variables that could influence firms' excess growth. To ensure that these omitted variables are not behind the evidence reported earlier, we include sales to net fixed assets (*SALES/NFA*), net income to assets (*PROFIT*), and long-term debt to assets (*LEVERAGE*) as additional controls. Although these variables do not enter significantly in the different regressions, we

⁵ In unreported regressions, we also exclude separately American, British, Canadian, Australian, German, and French firms and find similar results for this subsample analysis.

find that in our regressions we continue to estimate a positive and significant coefficient on *POLCONV*.

[Insert Table 6 about here]

Overall, the evidence from Tables 4 to 6 is consistent with H_1 , which predicts that stronger political institutions spur firm growth. Next, we evaluate whether the quality of legal institutions in a country shapes the link between political institutions and firms' growth.

4.4. Do Legal Institutions Shape the Role of Political Institutions in Firms' Growth?

The analyses henceforth reflect our examination of cross-country differences in legal institutions to determine whether they influence the significance of political institutions to firms' growth. Specifically, we ask whether political institutions are more valuable in countries with weak legal institutions. The argument we use to develop H_2 is that the presence of sound political institutions could foster firms' growth because it compensates for lack of legal institutions. Our empirical strategy involves estimating Equation (4) for subsamples of relatively strong and weak institutional environments. Motivated by Guedhami and Pittman (2006) and Hail and Leuz (2006), among others, we consider several sets of country-level legal institutional variables.

The first set includes the investor protection variables *LAW* and the revised anti-director rights index (*RANTIDIR*). The revised anti-director rights index, which updates La Porta et al.'s (1998) original anti-director rights index, is constructed for 72 countries based on data for 2003. Both indices have been shown to shape investor protection and predict various stock market outcomes. The second set of variables covers the level of government extraction and are widely used in the literature (e.g., Caprio et al., 2013;

Durnev and Fauver, 2011; among others). *EXPROPRIATION* ranges from 0 to 12 and is defined by the ICRG as “an assessment of factors affecting the risk to investment that are not covered by other political, economic and financial risk components. The subcomponents are: Contract Viability/Expropriation; Profits Repatriation; Payment Delays.” Each subcomponent ranges from 0 to 4. We also consider the likelihood of contract repudiation by the government (*REPUDIATION*) obtained from La Porta et al. (1998).

In Table 7, Panel A, we present the split-sample results using the set of investor protection variables. The results from subsamples of low and high *LAW* countries are presented in Models 1 to 6 and the subsamples of low and high *RANTIDIR* countries are presented in Models 7 to 12. Consistent with H_2 , we find that the positive and significant impact of political institutions on firm growth is concentrated in low *LAW* and *RANTIDIR* countries. Indeed, *POLCONV* is positive and statistically significant at the 5% level or better in five of these six regressions and at the 10% level in one regression where we consider the *XR_SFG* in countries with low *RANTIDIR* scores. In contrast, although this variable generally enters positively, *POLCONV* never loads in the high protection environments. We also note that the economic impact of *POLCONV* generally rises relative to the results presented in the first three models in Table 4. These findings suggest that political institutions compensate for lower investor protection environment in fostering firms’ growth. In better investor protection environments, political institutions do not seem to play a major role in shaping firms’ growth.

In Table 7, Panel B, we focus on whether the importance of political institutions to firms’ growth hinges on the quality of government extraction. We report regression results

using the risk of expropriation (*EXPROPRIATION*) (Models 1 to 6) and the risk of contract repudiation (*REPUDIATION*) (Models 7 to 12) as alternative splitting variables. Caprio et al. (2013) argue that corporations shelter liquid assets from government expropriation. In addition, Durnev and Fauver (2011) find that corporate governance, which influences firms' growth, is worse whenever government predation is higher. Similar to Table 7, Panel A, the main insight that emerges from this analysis is that the impact of political institutions on growth is concentrated in countries with higher likelihood of government expropriation and contract repudiation. For the different proxies of firm growth, *POLCONV* enters positively and statistically significant at the 1% level in countries with high levels of government expropriation. *POLCONV* enters positively and significantly at conventional levels for the subsample of firms located in countries with higher likelihood of contract repudiation by the government. However, political institutions do not seem to affect firms' growth in countries with lower likelihood of government predation.

[Insert Table 7 about here]

Overall, the results corroborate our earlier findings of a positive and significant relation between political institutions and firm growth, but also show that this relation is more pronounced when legal institutions are weak.

7. Conclusion

We present in this paper the first evidence, to the best of our knowledge, on the potential direct effects of political institutions on firms' growth. Combining existing empirical evidence in the contemporary corporate finance, accounting, and economics literature on the role of political institutions in determining financial development, legal

institutions, and transparency, we identify potential channels of transmission according to their likely first-order or second-order effects on firm growth. First-order effects stem directly from political institutions to firm growth, while second-order effects are channeled through macro level (legal institutions and financial development, for instance), and/or micro-level (through market imperfections) dimensions. If political institutions affect firm growth directly as we advance, then this effect should materialize even after we control for legal institutions and other potential determinants of firm growth. Our main argument follows North and Weingast (1989) and Henisz (2004) who argue that political uncertainty and reversals undermine political credibility: as investors and managers are particularly wary of such policy reversals and radical swings in economic policies, they become more risk averse. As a result, tighter political constraints and stable political structures constitute a way to build credibility and signal commitment, which will encourage firms to seek growth.

Although the law and finance literature has predominantly advanced the role played by legal institutions in determining economic outcomes at both the country (i.e., financial sector development) and firm level (i.e., firm disclosure, firm valuation), several recent studies suggest that political institutions and legal institutions are interdependent and might complement or substitute for one another. For instance, legal and political institutions are shown to be substitutes in determining firms' cost of debt (Qi et al., 2010). The authors find that marginal improvements in political institutions produce greater reductions to the cost of debt for firms from weak legal systems than those from well-developed legal systems, thus providing support for Milhaupt and Pistor (2007) who argue that the law does not work independently of the political system.

Using a sample of 115,534 firm-year observations from 46 countries over the period 1992 to 2007, and building on the methodology of Demirgüç-Kunt and Maksimovic (1998, 2002), we find, consistent with our predictions, that political institutions (proxied by Henisz's political constraints index) have a first-order effect on firm growth even after we control for a wide set of variables at the firm and country level. Specifically, firms from countries with political soundness exhibit higher growth rates. Looking at the relation between political and legal institutions in shaping firm growth, we find that the role of political institutions is stronger in firms from countries with lower scores of legal institutions efficiency, suggesting that even in constraining institutional environments, sound political institutions build the necessary credibility that leads firms to invest and grow. Our results are robust to a battery of tests including alternative measures of firm growth, political institutions proxies, controlling for outliers, additional controls, and alternative periods.

Our findings suggest that when creating and implementing programs to assist and encourage firm growth and innovation, governments and policy-makers are actually promoting overall economic development. In fact, by putting in place specific reforms aimed at improving political institutions in the country, governments can significantly impact firms' growth and expansion, even if the institutional environment is unfriendly. The weak impact of the legal institutions on firm growth when political constraints are tighter suggest that it is indeed through improved political institutions that incentives to grow are channeled to firms.

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APPENDIX

Regression Variable Definitions and Data Sources

Variable	Definition	Source
Panel A. Dependent variables		
<i>XR_IG</i>	The proportion of firms whose inflation-adjusted growth rate in sales exceeds IG, the maximum growth rate that can be financed by relying only on internal funds.	Authors' calculations based on Compustat data.
<i>XR_SFG</i>	The proportion of firms whose inflation-adjusted growth rate in sales exceeds SFG, the maximum growth rate that can be financed by relying only on internal funds and short-term borrowing.	As above
<i>XR_SG</i>	The proportion of firms whose inflation-adjusted growth rate in sales exceeds SG, the maximum growth rate that can be financed by relying only on internal funds and (short-term and long-term) debt financing.	As above
Panel B. Control Variables		
<i>MTB</i>	Market value of equity to book value	Authors' calculations based on Compustat data.
<i>NFA</i>	Net fixed assets over total assets.	As above
<i>POLCONV</i>	Measures the degree of political constraints of a country. It is constructed by Henisz (2000); variable POLCONV. The measure is derived from a simple special model of political interaction that incorporates information on the number of independent branches of governments with veto power and the distribution of preferences across and within those branches. The government branches considered are chief executives, lower house of legislature, higher house of legislature, judiciary, and sub-federal branches. Higher scores indicate stronger political constraints and sound political institutions.	Henisz (2010); see also Henisz (2000, 2004)
<i>ELECOMP</i>	Executive indices of electoral competitiveness. This variable ranges from 1 to 7.	The Database of Political Institutions

<i>IPD</i>	The political rights and fairness of the political institutions. This variable ranges from 1 to 4.	Beck et al. (2001) Institutional profile database ICRG (2008)
<i>LAW</i>	Assessment of the law and order tradition in the country. This variable ranges from 0 to 6. Higher scores indicate higher rule of law in the country.	
<i>EXPROPRIATION</i> <i>RANTIDIR</i>	Risk of expropriation by the government Revised anti-director index	As above La Porta et al. (2006)
<i>REPUDIATION</i>	Risk of contract repudiation index	La Porta et al. (1998)
<i>SUBSIDIES</i>	Total government subsidies over GDP	World Development Indicators
<i>INFLATION</i> <i>TURNOVER</i>	Realized inflation rate over the next year. Stock Market turnover	As above Beck et al. (2009)
<i>BANK</i> <i>GDPC_GR</i>	Deposit money bank assets over GDP Real GDP per capita growth	As above Economist Intelligence Unit
<i>GDPC</i>	Natural logarithm of GDP per capita	As above

TABLE 1. Descriptive Statistics by Country

	Firm- years	Country- years	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SG</i>	<i>POLCO</i> MV	<i>LAW</i>
Argentina	143	3	0.62	0.62	0.62	0.50	2.25
Australia	6,771	9	0.61	0.59	0.56	0.87	5.88
Austria	703	11	0.56	0.53	0.43	0.75	6.00
Belgium	777	10	0.55	0.48	0.40	0.89	5.18
Brazil	250	5	0.34	0.35	0.33	0.83	3.08
Bulgaria	2	2	0.50	0.50	0.40	0.77	3.06
Canada	11,277	16	0.65	0.63	0.58	0.86	6.00
Chile	714	8	0.44	0.41	0.34	0.76	5.00
Colombia	84	7	0.50	0.47	0.40	0.43	1.11
Czech Rep	140	11	0.33	0.30	0.30	0.74	5.08
Denmark	984	10	0.51	0.46	0.39	0.77	6.00
Egypt	77	7	0.55	0.40	0.28	0.70	4.00
Finland	1,178	13	0.54	0.45	0.37	0.77	6.00
France	5,320	11	0.57	0.50	0.42	0.74	5.10
Germany	6,219	13	0.57	0.55	0.47	0.84	5.44
Greece	950	13	0.60	0.51	0.41	0.48	4.09
Hungary	194	11	0.35	0.32	0.27	0.75	4.58
India	3,174	11	0.60	0.57	0.41	0.73	3.86
Indonesia	1,106	10	0.51	0.48	0.43	0.22	3.22
Ireland	568	13	0.57	0.51	0.42	0.76	5.99
Israel	557	8	0.67	0.65	0.59	0.78	5.00
Italy	2,056	13	0.57	0.52	0.45	0.73	4.95
Kazakhstan	2	2	0.00	0.00	0.00	0.00	4.00
Korea	3,660	13	0.61	0.59	0.53	0.75	3.85
Malaysia	4,167	12	0.51	0.49	0.45	0.62	3.92
Netherlands	1,455	11	0.49	0.41	0.32	0.77	6.00
New Zealand	537	7	0.49	0.46	0.40	0.76	5.83
Norway	858	7	0.53	0.52	0.48	0.77	6.00
Pakistan	786	13	0.45	0.38	0.32	0.23	3.12
Peru	288	13	0.58	0.42	0.38	0.47	3.00
Philippines	480	7	0.41	0.44	0.45	0.36	2.37
Poland	648	7	0.57	0.51	0.49	0.74	4.18
Portugal	461	11	0.51	0.48	0.40	0.75	5.02
Romania	17	6	0.43	0.68	0.48	0.76	4.00
Russia	295	6	0.47	0.42	0.34	0.16	3.50

	Firm- years	Countr y- years	<i>XR_IG</i>	<i>XR_SF</i> <i>G</i>	<i>XR_S</i> <i>G</i>	<i>POLC</i> <i>ONV</i>	<i>LAW</i>
Singapore	4,267	16	0.54	0.50	0.47	0.68	5.19
Slovakia	14	5	0.73	0.53	0.53	0.78	4.77
South Africa	1,518	8	0.46	0.37	0.33	0.74	1.25
Spain	1,251	13	0.51	0.45	0.34	0.75	4.75
Sri Lanka	185	11	0.54	0.44	0.32	0.45	3.77
Sweden	2,348	15	0.58	0.52	0.46	0.77	5.43
Switzerland	2,068	15	0.48	0.42	0.33	0.88	5.84
Thailand	1,657	5	0.51	0.45	0.39	0.37	4.51
Turkey	160	2	0.50	0.39	0.32	0.73	5.00
UK	12,147	10	0.57	0.53	0.50	0.74	5.23
USA	33,021	7	0.59	0.57	0.52	0.85	5.53
Total	115,534	437	0.53	0.48	0.42	0.68	4.68

Notes: This table presents the distribution of our sample and means of our key variables by country. The sample comprises 437 country-year observations based on 115,534 firm-year observations from 46 countries for the period 1992-2007. The Appendix outlines definitions and data sources for all variables.

TABLE 2. Descriptive Statistics and Correlation Matrix

Panel A. Descriptive statistics			
	Mean	Median	STD
<i>XR_IG</i>	0.530	0.543	0.159
<i>XR_SFG</i>	0.482	0.491	0.148
<i>XR_SG</i>	0.415	0.419	0.145
<i>POLCONV</i>	0.684	0.753	0.199
<i>LAW</i>	4.677	5.000	1.337
<i>TURNOVER</i>	0.723	0.554	0.630
<i>BANK</i>	0.868	0.836	0.435
<i>INFLATION</i>	16.616	3.115	150.841
<i>GDPC_GR</i>	3.018	3.000	2.818
<i>GDPC</i>	9.240	9.847	1.334
<i>SUBSIDIES</i>	0.159	0.147	0.091
<i>MTB</i>	8.815	1.720	44.516
<i>NFA</i>	0.367	0.358	0.108

Panel B. Pearson Correlation Coefficients												
	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SG</i>	<i>POLCONV</i>	<i>LAW</i>	<i>TURNOVER</i>	<i>BANK</i>	<i>INFLATION</i>	<i>GDPC_GR</i>	<i>GDPC</i>	<i>SUBSIDIES</i>	<i>MTB</i>
<i>XR_SFG</i>	0.785											
<i>XR_SG</i>	0.704	0.854										
<i>POLCONV</i>	0.130	0.184	0.176									
<i>LAW</i>	0.128	0.139	0.103	0.555								
<i>TURNOVER</i>	0.022	0.030	0.034	-0.020	0.056							
<i>BANK</i>	0.078	0.091	0.092	0.453	0.485	0.171						
<i>INFLATION</i>	-0.204	-0.189	-0.155	0.045	0.086	-0.025	0.093					
<i>GDPC_GR</i>	0.172	0.128	0.001	-0.185	0.116	-0.085	0.286	0.010				
<i>GDPC</i>	0.150	0.160	0.182	0.627	0.682	0.136	0.659	0.093	0.158			
<i>SUBSIDIES</i>	-0.015	-0.034	-0.055	0.478	0.458	0.013	0.303	0.022	0.201	0.596		
<i>MTB</i>	-0.130	-0.097	-0.067	0.019	0.162	-0.015	0.100	0.402	0.059	0.086	0.035	
<i>NFA</i>	-0.280	-0.218	-0.213	-0.354	0.295	-0.234	0.508	0.168	0.122	0.543	0.324	0.121

Notes: This table presents descriptive statistics (Panel A) and Pearson correlation coefficients (Panel B) for our regression variables. The sample comprises 437 country-year observations based on 115,534 firm-year observations from 46 countries for the period 1992-2007. The Appendix outlines definitions and data sources for all variables.

TABLE 3. Univariate Tests

	Means		(2)-(1) [T-stat]	Medians		(4)-(3) [Z-stat]
	Low (1)	High (2)		Low (3)	High (4)	
Panel A. <i>XR_IG</i>						
<i>POLCONV</i>	0.515	0.544	0.029** [1.859]	0.522	0.557	0.035*** [2.748]
Panel B. <i>XR_SFG</i>						
<i>POLCONV</i>	0.456	0.507	0.051*** [3.606]	0.474	0.511	0.037*** [4.037]
Panel C. <i>XR_SG</i>						
<i>POLCONV</i>	0.393	0.436	0.043*** [3.129]	0.409	0.445	0.036*** [3.397]

Notes: This table presents mean and median difference tests for the three estimates of firms' excess growth across subsamples of low (below-median) and high (above-median) *POLCONV*. The sample comprises 437 country-year observations based on 115,534 firm-year observations from 46 countries for the period 1992-2007. The Appendix outlines definitions and data sources for all variables. The superscript asterisks ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

TABLE 4. Political Institutions and Firm Growth

Variable (Sign)	<i>POLCONV</i>			<i>ELECTCOMP</i>			<i>IPD</i>		
	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SG</i>	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SG</i>	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SG</i>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>POLCONV</i> (+)	0.117** (1.991)	0.164*** (2.796)	0.151*** (2.730)						
<i>ELECTCOMP</i> (+)				0.020** (2.097)	0.018** (1.984)	0.018** (1.978)			
<i>IPD</i> (+)							0.052** (1.675)	0.081*** (2.603)	0.051** (1.903)
<i>LAW</i> (+)	0.003 (0.329)	0.009 (0.953)	-0.000 (-0.018)	0.008 (0.912)	0.014* (1.541)	0.006 (0.672)	0.006 (0.532)	0.015* (1.420)	0.003 (0.314)
<i>TURNOVER</i> (+)	-0.001 (-0.080)	0.006 (0.413)	0.001 (0.066)	0.002 (0.147)	0.006 (0.436)	0.002 (0.154)	0.007 (0.414)	0.007 (0.423)	0.004 (0.224)
<i>BANK</i> (+)	-0.009 (-0.295)	0.013 (0.416)	-0.022 (-0.766)	-0.010 (-0.341)	0.007 (0.243)	-0.019 (-0.654)	0.036 (0.719)	0.048 (0.988)	0.015 (0.343)
<i>INFLATION</i> (-)	-0.000*** (-3.489)	-0.000*** (-4.372)	-0.000*** (-3.387)	-0.000*** (-3.310)	-0.000*** (-4.004)	-0.000*** (-3.167)	-0.000*** (-3.687)	-0.000*** (-4.344)	-0.000*** (-3.341)
<i>GDPG_GR</i> (+)	0.010*** (3.236)	0.007*** (2.623)	0.000 (0.075)	0.009*** (2.965)	0.006** (2.205)	-0.000 (-0.170)	0.009*** (2.712)	0.006** (1.956)	-0.001 (-0.433)
<i>GDPG</i> (?)	-0.002 (-0.120)	-0.007 (-0.457)	0.019 (1.376)	-0.002 (-0.108)	-0.001 (-0.065)	0.020 (1.447)	-0.013 (-0.585)	-0.024 (-1.153)	0.016 (0.876)
<i>SUBSIDIES</i> (?)	-0.171 (-1.264)	-0.152 (-1.089)	-0.360*** (-2.818)	-0.172 (-1.326)	-0.157 (-1.176)	-0.332*** (-2.581)	-0.149 (-0.779)	-0.152 (-0.837)	-0.346** (-1.994)
<i>MTB</i> (+)	-0.000 (-1.180)	-0.000 (-0.558)	-0.000 (-0.343)	-0.000 (-0.997)	-0.000 (-0.280)	-0.000 (-0.168)	-0.000 (-1.276)	-0.000 (-0.561)	-0.000 (-0.450)
<i>NFA</i> (?)	-0.363*** (-3.218)	-0.027 (-0.226)	-0.095 (-0.885)	-0.397*** (-3.676)	-0.091 (-0.815)	-0.127 (-1.182)	-0.237 (-1.542)	0.046 (0.308)	0.010 (0.072)
INTERCEPT	0.568*** (4.557)	0.372*** (2.757)	0.230* (1.936)	0.505*** (4.084)	0.313** (2.385)	0.180 (1.440)	0.457** (2.551)	0.283 (1.604)	0.096 (0.613)
N	437	437	437	437	437	437	353	353	353
Adj. R ²	0.244	0.170	0.177	0.167	0.248	0.164	0.145	0.207	0.164

Notes: This table presents panel country random effect estimation results from regressing different measures of firm growth on political institutions (*POLCONV*, *ELECTCOMP*, and *IPD*) and controls. The sample comprises 437 country-year observations based on 115,534 firm-year observations from 46 countries for the period 1992-2007. All regressions include (unreported) year effects. Beneath each coefficient estimate is reported the *t*-statistic. The Appendix outlines definitions and data sources for all variables. The superscript asterisks ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, one tailed when prediction is made and two tailed otherwise.

TABLE 5: Robustness to Outliers

Variable (Sign)	INFLATION<25%			MTB<10			TURNOVER<2			0%<GDPC_GR<10%			SUBSIDIES<30%		
	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SG</i>												
	(2)	(1)	(3)	(5)	(4)	(6)	(8)	(7)	(9)	(11)	(10)	(12)	(14)	(13)	(15)
<i>POLCONV</i> (+)	0.085* (1.502)	0.143** (2.440)	0.134** (2.412)	0.127** (2.099)	0.189*** (3.050)	0.168*** (2.872)	0.149** (2.280)	0.200*** (3.086)	0.156*** (2.573)	0.140** (2.126)	0.197*** (3.235)	0.160*** (2.849)	0.118** (1.977)	0.162*** (2.683)	0.147*** (2.654)
<i>LAW</i> (+)	0.008 (0.861)	0.013* (1.467)	0.004 (0.450)	0.002 (0.167)	0.008 (0.824)	0.002 (0.182)	0.003 (0.256)	0.008 (0.896)	0.000 (0.051)	0.001 (0.113)	0.007 (0.767)	-0.000 (-0.038)	0.004 (0.411)	0.009 (0.997)	-0.001 (-0.110)
<i>TURNOVER</i> (+)	0.003 (0.237)	0.008 (0.575)	0.004 (0.292)	-0.005 (-0.365)	0.001 (0.055)	-0.003 (-0.234)	0.004 (0.147)	0.011 (0.461)	0.011 (0.481)	0.000 (0.020)	0.007 (0.492)	0.002 (0.165)	0.001 (0.055)	0.008 (0.508)	0.001 (0.079)
<i>BANK</i> (+)	-0.011 (-0.375)	0.039 (1.183)	-0.009 (-0.313)	-0.012 (-0.359)	0.020 (0.615)	-0.020 (-0.638)	-0.009 (-0.269)	0.013 (0.402)	-0.023 (-0.780)	0.031 (0.916)	0.050* (1.584)	0.006 (0.193)	-0.013 (-0.398)	0.009 (0.271)	-0.029 (-0.953)
<i>INFLATION</i> (-)	0.013*** (-5.793)	0.007*** (-3.136)	0.008*** (-3.621)	-0.000** (-1.974)	0.000*** (-2.827)	-0.000** (-2.087)	0.000*** (-3.540)	0.000*** (-4.390)	0.000*** (-3.369)	0.000*** (-3.588)	0.000*** (-4.696)	0.000*** (-3.866)	0.000*** (-3.386)	0.000*** (-4.382)	0.000*** (-3.242)
<i>GDPC_GR</i> (+)	0.018*** (5.588)	0.017*** (5.531)	0.008*** (2.678)	0.011*** (3.194)	0.010*** (3.320)	0.003 (0.878)	0.010*** (3.138)	0.007*** (2.564)	0.000 (0.063)	0.017*** (3.535)	0.021*** (4.828)	0.012*** (2.780)	0.009*** (3.070)	0.007*** (2.460)	-0.000 (-0.024)
<i>GDPC</i> (?)	-0.020 (-1.399)	-0.022 (-1.361)	0.006 (0.440)	-0.001 (-0.095)	-0.008 (-0.520)	0.018 (1.229)	-0.002 (-0.106)	-0.007 (-0.414)	0.018 (1.282)	-0.009 (-0.567)	-0.010 (-0.647)	0.017 (1.258)	-0.002 (-0.123)	-0.009 (-0.533)	0.020 (1.481)
<i>SUBSIDIES</i> (?)	-0.147 (-1.133)	-0.089 (-0.641)	-0.321** (-2.489)	-0.148 (-1.079)	-0.128 (-0.906)	0.348*** (-2.608)	-0.198 (-1.395)	-0.191 (-1.343)	0.373*** (-2.856)	-0.135 (-0.888)	-0.110 (-0.777)	0.336*** (-2.632)	-0.142 (-0.919)	-0.039 (-0.236)	-0.318** (-2.230)
<i>MTB</i> (+)	0.000 (0.288)	0.000 (1.055)	0.000 (0.937)	0.009* (1.394)	0.008* (1.298)	0.006 (1.031)	-0.000 (-1.221)	-0.000 (-0.550)	-0.000 (-0.311)	-0.000 (-0.212)	0.000 (0.922)	0.000 (0.941)	-0.000 (-1.256)	-0.000 (-0.655)	-0.000 (-0.372)
<i>NFA</i> (?)	0.333*** (-3.019)	-0.027 (-0.228)	-0.080 (-0.723)	0.314*** (-2.738)	0.046 (0.376)	-0.037 (-0.331)	0.355*** (-3.026)	-0.018 (-0.154)	-0.086 (-0.800)	0.401*** (-3.128)	-0.093 (-0.778)	-0.168 (-1.578)	0.363*** (-3.142)	-0.000 (-0.001)	-0.109 (-1.022)
INTERCEPT	0.748*** (5.916)	0.458*** (3.138)	0.316** (2.465)	0.519*** (4.112)	0.305** (2.187)	0.173 (1.376)	0.543*** (4.137)	0.341** (2.504)	0.223* (1.858)	0.565*** (3.841)	0.300** (2.172)	0.180 (1.517)	0.563*** (4.436)	0.364*** (2.585)	0.227* (1.942)
N	430	430	430	395	395	395	417	417	417	396	396	396	412	412	412
Adj. R ²	0.311	0.194	0.215	0.232	0.182	0.172	0.245	0.173	0.172	0.242	0.220	0.228	0.245	0.162	0.170

Notes: This table presents panel country random effect estimation results from regressing different measures of firm growth on political institutions (*POLCONV*) and controls. In the different models outliers are dropped from the regressions. The sample comprises 437 country-year observations based on 115,534 firm-year observations from 46 countries for the period 1992-2007. All regressions include (unreported) year effects. Beneath each coefficient estimate is reported the *t*-statistic. The Appendix outlines definitions and data sources for all variables. The superscript asterisks ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, one tailed when prediction is made and two tailed otherwise.

TABLE 6. PANEL A: Additional tests

<i>Variable (Sign)</i>	ALTERNATIVE XR_SFG			ASSETS GROWTH			PANEL SAMPLE		
	<i>XR_SFG1</i>	<i>XR_SFG2</i>	<i>XR_SFG3</i>	<i>AXR_IG</i>	<i>AXR_SFG</i>	<i>AXR_SG</i>	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SG</i>
	(1)	(2)	(3)	(5)	(4)	(6)	(7)	(8)	(9)
<i>POLCONV</i> (+)	0.205*** (3.683)	0.204*** (3.666)	0.198*** (3.560)	0.097* (1.532)	0.119** (1.813)	0.142** (2.108)	0.399*** (8.137)	0.389*** (7.535)	0.333*** (6.309)
<i>LAW</i> (+)	0.009 (1.064)	0.009 (1.086)	0.008 (0.983)	0.006 (0.637)	0.014* (1.305)	0.011 (0.996)	0.011** (1.955)	0.015*** (2.362)	0.008 (1.259)
<i>TURNOVER</i> (+)	-0.005 (-0.375)	-0.005 (-0.385)	-0.004 (-0.293)	-0.014 (-0.912)	-0.017 (-1.041)	-0.012 (-0.761)	-0.029*** (-3.374)	-0.010 (-1.142)	-0.031*** (-3.362)
<i>BANK</i> (+)	0.005 (0.169)	0.010 (0.334)	0.021 (0.679)	-0.027 (-0.790)	-0.036 (-1.025)	-0.044 (-1.198)	-0.079*** (-5.281)	-0.055*** (-3.527)	-0.032* (-1.945)
<i>INFLATION</i> (-)	-0.000*** (-5.490)	-0.000*** (-5.437)	-0.000*** (-5.514)	0.000*** (-3.516)	-0.000*** (-3.631)	0.000*** (-3.452)	-0.001*** (-15.435)	-0.001*** (-14.587)	-0.001*** (-8.875)
<i>GDPC_GR</i> (+)	0.004* (1.519)	0.004* (1.470)	0.003 (1.254)	0.004* (1.397)	-0.002 (-0.644)	-0.005 (-1.462)	0.023*** (10.074)	0.008*** (3.389)	-0.002 (-0.830)
<i>GDPC</i> (?)	-0.018 (-1.197)	-0.018 (-1.205)	-0.017 (-1.130)	0.011 (0.722)	0.004 (0.264)	0.010 (0.560)	0.016** (1.973)	0.023*** (2.825)	0.039*** (4.736)
<i>SUBSIDIES</i> (?)	-0.369*** (-2.776)	-0.365*** (-2.743)	-0.354*** (-2.653)	0.580*** (-3.965)	-0.649*** (-4.192)	0.703*** (-4.363)	-0.383*** (-4.814)	-0.720*** (-8.651)	-1.157*** (-13.086)
<i>MTB</i> (+)	-0.000 (-1.207)	-0.000 (-1.116)	-0.000 (-1.126)	-0.000 (-1.489)	-0.000 (-1.184)	-0.000 (-1.194)	-0.000 (-1.629)	-0.000 (-1.294)	-0.000 (-1.249)
<i>NFA</i> (?)	-0.133 (-1.175)	-0.114 (-0.999)	-0.058 (-0.511)	-0.309** (-2.538)	-0.409*** (-3.161)	-0.344** (-2.538)	-0.082*** (-3.580)	-0.021 (-0.896)	-0.175*** (-7.002)
INTERCEPT	0.587*** (4.483)	0.577*** (4.345)	0.536*** (3.976)	0.513*** (3.818)	0.577*** (3.937)	0.477*** (3.073)	-0.287*** (-4.466)	-0.375*** (-5.608)	-0.493*** (-7.195)
N	437	437	437	443	443	443	115,534	115,534	115,534
Adj. R ²	0.277	0.272	0.264	0.333	0.309	0.275	0.019	0.018	0.020

Notes: This table presents panel country random effect estimation results from regressing different alternative measures of firm growth on political institutions (*POLCONV*) and controls. The sample comprises a maximum of 443 country-year observations based on 115,534 firm-year observations from 46 countries for the period 1992-2007. All regressions include (unreported) year effects. Beneath each coefficient estimate is reported the *t*-statistic. The Appendix outlines definitions and data sources for all variables. The superscript asterisks ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, one tailed when prediction is made and two tailed otherwise.

TABLE 6. PANEL B. Additional tests

<i>Variable (Sign)</i>	After 1995			Exclude Big Countries			Tobit Estimation			Additional Controls		
	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SG</i>	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SG</i>	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SG</i>	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SG</i>
	(2)	(1)	(3)	(5)	(4)	(6)	(8)	(7)	(9)	(11)	(10)	(12)
<i>POLCONV (+)</i>	0.129** (1.881)	0.163*** (2.471)	0.177*** (2.888)	0.093* (1.550)	0.152*** (2.367)	0.130** (2.182)	0.125** (2.078)	0.174*** (2.866)	0.166*** (2.830)	0.117** (1.961)	0.164*** (2.766)	0.153*** (2.726)
<i>LAW (+)</i>	0.004 (0.419)	0.013* (1.411)	0.007 (0.746)	0.001 (0.070)	0.010 (0.948)	-0.000 (-0.033)	0.003 (0.331)	0.010 (1.072)	0.001 (0.130)	0.003 (0.356)	0.009 (0.923)	-0.000 (-0.020)
<i>TURNOVER (+)</i>	-0.004 (-0.248)	0.003 (0.230)	-0.002 (-0.135)	-0.003 (-0.211)	0.003 (0.202)	-0.003 (-0.189)	0.000 (0.011)	0.007 (0.502)	0.003 (0.221)	-0.001 (-0.067)	0.005 (0.356)	0.001 (0.045)
<i>BANK (+)</i>	-0.009 (-0.259)	0.024 (0.702)	-0.008 (-0.268)	-0.019 (-0.578)	0.014 (0.365)	-0.029 (-0.857)	-0.005 (-0.156)	0.023 (0.660)	-0.009 (-0.256)	-0.004 (-0.130)	0.015 (0.451)	-0.020 (-0.662)
<i>INFLATION (-)</i>	-0.003** (-2.283)	-0.000 (-0.111)	-0.000 (-0.330)	-0.000*** (-2.850)	-0.000*** (-3.970)	-0.000*** (-2.968)	-0.000*** (-3.794)	-0.000*** (-4.570)	-0.000*** (-3.663)	-0.000*** (-3.506)	-0.000*** (-4.359)	-0.000*** (-3.388)
<i>GDPG_GR (+)</i>	0.008*** (2.433)	0.008*** (2.610)	0.001 (0.240)	0.009*** (2.755)	0.007*** (2.426)	0.000 (0.097)	0.010*** (3.200)	0.008*** (2.754)	0.001 (0.267)	0.010*** (3.293)	0.007*** (2.653)	0.000 (0.123)
<i>GDPG (?)</i>	-0.015 (-0.884)	-0.020 (-1.176)	-0.005 (-0.314)	-0.003 (-0.208)	-0.013 (-0.765)	0.014 (0.956)	-0.005 (-0.301)	-0.013 (-0.730)	0.014 (0.916)	-0.003 (-0.225)	-0.008 (-0.477)	0.018 (1.299)
<i>SUBSIDIES (?)</i>	-0.134 (-0.835)	-0.006 (-0.035)	-0.225 (-1.538)	-0.162 (-1.147)	-0.138 (-0.871)	-0.339** (-2.364)	-0.148 (-1.015)	-0.112 (-0.745)	-0.316** (-2.232)	-0.154 (-1.100)	-0.149 (-1.050)	-0.356*** (-2.708)
<i>MTB (+)</i>	-0.000 (-0.147)	0.000 (0.653)	0.000 (0.657)	-0.000 (-1.040)	-0.000 (-0.505)	-0.000 (-0.232)	-0.000 (-1.221)	-0.000 (-0.762)	-0.000 (-0.761)	-0.000 (-1.154)	-0.000 (-0.555)	-0.000 (-0.337)
<i>NFA (?)</i>	-0.425*** (-3.084)	-0.143 (-1.041)	-0.283** (-2.246)	-0.418*** (-3.561)	-0.005 (-0.038)	-0.111 (-0.921)	-0.363*** (-3.064)	0.014 (0.108)	-0.037 (-0.306)	-0.372*** (-3.102)	-0.031 (-0.255)	-0.104 (-0.918)
<i>LEVERAGE (?)</i>										-0.009 (-0.486)	0.001 (0.085)	-0.001 (-0.060)
<i>SALES/NFA (?)</i>										-0.000 (-0.327)	-0.000 (-0.267)	-0.000 (-0.484)
<i>PROFIT (?)</i>										-0.002 (-0.430)	-0.002 (-0.509)	-0.002 (-0.386)
INTERCEPT	0.718*** (4.629)	0.482*** (3.029)	0.439*** (3.056)	0.621*** (4.998)	0.411*** (2.694)	0.283** (2.163)	0.580*** (4.406)	0.381*** (2.595)	0.214 (1.604)	0.581*** (4.508)	0.378*** (2.754)	0.238* (1.951)
N	390	390	390	371	371	371	437	437	437	437	437	437
Adj. R ²	0.245	0.153	0.200	0.243	0.143	0.146	-	-	-	0.245	0.172	0.177

Notes: This table presents panel country random effect estimation results from regressing different measures of firm growth on political institutions (*POLCONV*) and controls. The sample comprises 437 country-year observations based on 115,534 firm-year observations from 46 countries for the period 1992-2007. All regressions include (unreported) year effects. Beneath each coefficient estimate is reported the *t*-statistic. The Appendix outlines definitions and data sources for all variables. The superscript asterisks ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, one tailed when prediction is made and two tailed otherwise.

TABLE 7. PANEL A. Subsample Analysis

Variable (Sign)	LAW						RANTIDIR					
	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
	<i>XR_IG</i>	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SFG</i>	<i>XR_SG</i>	<i>XR_SG</i>	<i>XR_IG</i>	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SFG</i>	<i>XR_SG</i>	<i>XR_SG</i>
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
<i>POLCONV</i> (+)	0.175** (1.891)	0.127 (0.968)	0.252*** (2.935)	-0.012 (-0.083)	0.215*** (2.552)	0.074 (0.543)	0.126** (1.740)	0.155 (0.586)	0.100* (1.419)	0.212 (0.852)	0.141** (2.097)	-0.006 (-0.021)
<i>LAW</i> (+)							-0.002 (-0.172)	0.022* (1.561)	0.003 (0.219)	0.029** (2.208)	-0.008 (-0.716)	0.021* (1.429)
<i>TURNOVER</i> (+)	0.036* (1.449)	-0.024 (-1.171)	0.039** (1.706)	-0.012 (-0.588)	0.027 (1.221)	-0.016 (-0.806)	-0.004 (-0.190)	0.034** (1.656)	0.001 (0.029)	0.024 (1.247)	-0.006 (-0.323)	0.028* (1.331)
<i>BANK</i> (+)	-0.000*** (-3.684)	-0.010*** (-4.771)	-0.000*** (-4.300)	-0.009*** (-4.337)	-0.000*** (-3.396)	0.006*** (-2.858)	-0.018 (-0.502)	-0.034 (-0.548)	0.011 (0.307)	-0.042 (-0.715)	-0.019 (-0.584)	-0.070 (-1.080)
<i>INFLATION</i> (-)	0.011 (0.126)	-0.037* (-1.444)	0.004 (0.052)	-0.000 (-0.006)	-0.033 (-0.400)	-0.014 (-0.555)	-0.002* (-1.566)	0.000*** (-2.771)	-0.000 (-0.335)	0.000*** (-4.737)	0.000 (0.284)	0.000*** (-2.825)
<i>GDPG_GR</i> (+)	0.002 (0.469)	0.006** (2.055)	0.001 (0.128)	0.003 (1.029)	-0.007 (-1.424)	-0.001 (-0.419)	0.009** (2.180)	0.005 (0.925)	0.006* (1.554)	0.002 (0.289)	0.003 (0.743)	-0.009 (-1.533)
<i>GDPG</i> (?)	-0.000 (-1.226)	0.000 (0.223)	-0.000 (-0.659)	0.000 (0.139)	-0.000 (-0.334)	-0.001 (-1.498)	-0.001 (-0.046)	-0.006 (-0.386)	0.008 (0.398)	-0.017 (-1.137)	0.022 (1.262)	0.016 (0.973)
<i>SUBSIDIES</i> (?)	-0.156 (-0.427)	-0.184 (-1.574)	-0.041 (-0.120)	-0.211* (-1.673)	-0.244 (-0.739)	0.360*** (-3.030)	-0.248 (-1.625)	-0.208 (-0.692)	-0.161 (-1.042)	-0.124 (-0.435)	-0.308** (-2.155)	-0.544* (-1.727)
<i>MTB</i> (+)	0.080 (0.340)	-0.688*** (-5.557)	0.436** (1.995)	-0.508*** (-3.624)	0.355* (1.661)	0.491*** (-3.790)	-0.000 (-0.779)	-0.000 (-0.036)	0.000 (0.090)	0.000 (0.184)	0.000 (0.099)	0.000 (0.309)
<i>NFA</i> (?)	0.003 (0.117)	-0.038* (-1.853)	-0.001 (-0.043)	-0.025 (-1.078)	0.031 (1.192)	-0.018 (-0.863)	-0.340** (-2.541)	-0.393** (-2.158)	-0.145 (-1.032)	0.380** (2.205)	-0.196 (-1.552)	0.110 (0.576)
INTERCEPT	0.316 (1.288)	1.162*** (6.057)	0.118 (0.506)	0.975*** (4.521)	-0.067 (-0.303)	0.816*** (4.107)	0.604*** (3.725)	0.534** (2.272)	0.350** (2.048)	0.308 (1.384)	0.251 (1.641)	0.349 (1.418)
N	183	254	183	254	183	254	330	107	330	107	330	107
Adj. R ²	0.215	0.514	0.202	0.387	0.176	0.360	0.227	0.505	0.184	0.454	0.202	0.276

Notes: This table presents panel country random effect estimation results from regressing different measures of firm growth on political institutions (*POLCONV*) and controls. The sample comprises 437 country-year observations based on 115,534 firm-year observations from 46 countries for the period 1992-2007. All regressions include (unreported) year effects. Beneath each coefficient estimate is reported the *t*-statistic. The Appendix outlines definitions and data sources for all variables. The superscript asterisks ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, one tailed when prediction is made and two tailed otherwise.

TABLE 7. PANEL B. Subsample Analysis

Variable (Sign)	EXPROPRIATION						REPUDIATION					
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
	<i>XR_IG</i>	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SFG</i>	<i>XR_SG</i>	<i>XR_SG</i>	<i>XR_IG</i>	<i>XR_IG</i>	<i>XR_SFG</i>	<i>XR_SFG</i>	<i>XR_SG</i>	<i>XR_SG</i>
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
<i>POLCONV</i> (+)	0.158*** (2.329)	-0.109 (-1.315)	0.250*** (3.690)	-0.108 (-1.242)	0.207*** (2.938)	-0.066 (-0.764)	0.325*** (3.193)	-0.027 (-0.398)	0.201** (2.012)	0.097 (1.036)	0.121* (1.287)	0.090 (0.948)
<i>LAW</i> (+)	0.006 (0.440)	0.013 (1.262)	0.015 (1.105)	0.006 (0.586)	-0.001 (-0.078)	0.006 (0.578)	-0.011 (-0.956)	0.008 (0.683)	-0.007 (-0.654)	0.012 (0.767)	-0.002 (-0.231)	-0.001 (-0.091)
<i>TURNOVER</i> (+)	0.005 (0.278)	-0.011 (-0.685)	0.014 (0.814)	-0.009 (-0.524)	0.017 (0.945)	-0.017 (-1.045)	-0.005 (-0.242)	-0.014 (-0.866)	0.014 (0.741)	0.005 (0.222)	0.013 (0.692)	0.002 (0.079)
<i>BANK</i> (+)	-0.044 (-1.158)	-0.028 (-0.938)	-0.041 (-1.000)	-0.001 (-0.044)	-0.053 (-1.229)	-0.033 (-1.057)	0.011 (0.360)	-0.075 (-1.628)	0.040* (1.472)	0.013 (0.172)	0.045** (1.774)	-0.031 (-0.404)
<i>INFLATION</i> (-)	-0.000*** (-2.828)	-0.016*** (-4.612)	-0.000*** (-3.642)	-0.016*** (-4.729)	-0.000*** (-3.023)	0.015*** (4.805)	-0.007*** (-4.681)	-0.000** (-1.914)	0.006*** (4.352)	0.000*** (-3.785)	0.005*** (-3.607)	0.000*** (-2.899)
<i>GDPG_GR</i> (+)	0.004 (0.847)	0.014*** (3.187)	0.004 (1.070)	0.009** (2.126)	-0.005 (-1.133)	0.008** (1.880)	0.010*** (2.513)	0.007* (1.636)	0.005* (1.427)	0.007* (1.639)	-0.000 (-0.072)	-0.000 (-0.052)
<i>GDPG</i> (?)	0.006 (0.379)	-0.023 (-1.378)	0.004 (0.224)	-0.015 (-0.846)	0.030* (1.743)	-0.002 (-0.117)	-0.063* (-1.842)	0.045*** (2.589)	-0.044 (-1.326)	-0.011 (-0.358)	-0.045 (-1.410)	0.037 (1.195)
<i>SUBSIDIES</i> (?)	-0.190 (-1.062)	-0.348*** (-2.909)	-0.224 (-1.271)	-0.380*** (-2.933)	-0.453** (-2.470)	0.407*** (3.152)	-0.007 (-0.056)	-0.617** (-2.386)	-0.023 (-0.191)	0.186 (0.433)	-0.065 (-0.571)	-0.231 (-0.536)
<i>MTB</i> (+)	-0.000 (-0.727)	0.000 (0.397)	-0.000 (-0.101)	0.001 (1.267)	-0.000 (-0.164)	0.001 (1.040)	0.001 (0.425)	-0.000 (-1.011)	0.001 (0.793)	-0.000 (-0.486)	0.001 (0.717)	-0.000 (-0.525)
<i>NFA</i> (?)	-0.250* (-1.801)	-0.645*** (-6.197)	0.018 (0.131)	-0.462*** (-4.176)	0.097 (0.660)	0.480*** (4.370)	-0.479*** (-3.337)	0.414*** (-2.690)	-0.311** (-2.199)	0.292 (1.288)	0.380*** (-2.782)	0.209 (0.916)
INTERCEPT	0.409*** (3.180)	1.127*** (7.176)	0.184 (1.358)	0.940*** (5.880)	0.048 (0.335)	0.765*** (4.849)	1.121*** (3.357)	0.383*** (2.793)	0.832** (2.545)	0.294 (1.206)	0.851*** (2.688)	0.018 (0.075)
N	220	217	220	217	220	217	222	215	222	215	222	215
Adj. R ²	0.234	0.536	0.265	0.452	0.198	0.425	0.426	0.257	0.333	0.113	0.278	0.105

Notes: This table presents panel country random effect estimation results from regressing different measures of firm growth on political institutions (*POLCONV*) and controls. The sample comprises 437 country-year observations based on 115,534 firm-year observations from 46 countries for the period 1992-2007. All regressions include (unreported) year effects. Beneath each coefficient estimate is reported the *t*-statistic. The Appendix outlines definitions and data sources for all variables. The superscript asterisks ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively, one tailed when prediction is made and two tailed otherwise.