UNIVERSITY OF LJUBLJANA FACULTY OF ECONOMICS

MASTER'S THESIS

## INFLUENTIAL CONNECTIONS AND FIRMS' SUCCESS: THE CASE OF SLOVENIA

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#### **INTRODUCTION**

Political interference in an economy is a very important and current topic, especially in the critical time, when people look back at history, questioning and analyzing past political decisions, considering the future in an attempt to set a course that avoids repeating the same mistakes all over again. The issue of political connectedness with regard to the economy and firms in particular is gaining recognition in both the developing and developed world. Even though some might argue its relation to corruption, analysis done thus far shows that political connections in an economy exist everywhere. Scholars from different parts of the world investigated this phenomenon and almost overwhelmingly showed that political connections in firms come at the price, namely the price of a lower rate of success in terms of profits and returns on shareholders' investments. Seminal work in this area was done by Brian E. Roberts in 1990, showing how the death of a highly ranked politician led to a decrease in shareholders' value of firms connected to that same politician. Still, until 2000s, very little has been written on this topic especially with regard to developed countries. The most extensive cross-country studies were written by Mara Faccio (2002, 2006, 2010), who repeatedly showed (and was backed up by several other authors) that political connections harm firms' performance compared to their non-connected peers. Only lately, after the eruption of the recent financial crisis, the topic became more publicized in Slovenia, a country with a small transition economy, which similar to other transition economies, faced many problems during its transformation to a market economy. Most of the publicity, however, still stems from media and only a marginal amount from academic research and actual data.

Political connections and its possible effect on firms' success are especially important for small economies such as the Slovenian economy, with very limited and concentrated circles of elites and politically influential people. Moreover, with state ownership in the largest Slovenian firms being quite common, doors for direct and indirect political intervention are wide open. Recent events in terms of political appointments in Slovenia have proven once again that this phenomena needs to be further analyzed and discussed in order to ensure that the future for this small central European economy is brighter. Leaving business decisions to business people needs to become the norm, while political non-interventionism in firms' supervisory boards needs to become part of the political modus operandi.

The void in this area of research was partly filled by our more recent research (Domadenik, Grobelnik, Pataky, & Prašnikar, 2011), which linked political connections in firms and productivity for the first time in the country's history and showed a significantly negative relationship. This master thesis is the continuation of that research. It will explore the topic in far greater depth, presenting not only political connections in general but also at different levels of connectedness.

We argue that political connections in firms lead to inefficient source allocation, inadequate recruitment decisions and possible wrong investment decisions, which all harm the current

performance as well as future growth opportunities. We strongly believe it is difficult to justify the presence of politicians on a supervisory board and almost impossible to explain it as anything but result of rent-seeking activities. The master thesis statement, which will be our guiding statement, comes from the points described above. Based on the large amount of data and extensive analysis we examine the abovementioned issues and **show on actual data not only that the presence of politicians is very common in important firms in the economy but also that it plays a part in the lower efficiency of these firms.** The final database consists of a sample of 309 of the largest Slovenian firms from eight industries (manufacturing and services) and the complete financial and supervisory board data for the period 1996-2012, which means a total of 3.827 firm-year observations. Furthermore, the data on supervisory boards includes 4.760 names and a total of 8.703 supervisory board mandates.

The main objective of this master thesis is very simple and stems from a very straightforward research question: **do firms with more political connectedness perform worse than their less connected peers?** The goal is to show that political connections do harm firms' performance, particularly by decreasing its value added. The dependent variable value added will be estimated using a multivariate regression model, i.e. the augmented Cobb-Douglas production function. Several other propositions were formed in order to make our point, that political influence is harmful, clearer. We will analyze two types of influence – political and expert – arguing that political influence harms firms, while expert influence helps them perform better. Moreover, we want to show that our sampled firms did not avoid high elite circulation in the 2000s, when vast changes to the political environment occurred. Furthermore, we will shortly examine monetary flows between the public and the private sector, arguing that 'connected' firms do more business with the public sector.

The remainder of this master thesis will be structured as follows in the next few paragraphs. In order to better understand the historical context of our research, a short history of the Slovenian transition will be presented in the first chapter of this thesis. The historical overview will be structured around three topics which are important for analysis and for the understanding of main events. Firstly, the **privatization**, only partly carried out but also highly dependent on the unfortunate situation Slovenia faced after losing most of its former markets. Secondly, **foreign direct investments** (hereinafter: FDI), very limited due to the abovementioned 'reluctant' privatization. Lastly, the **evolution of the elites** and the **history of the political environment**, which was known to be very stable in the first decade and very turbulent in the second decade of Slovenian independence.

The second chapter will cover past literature and research in the area of political connectedness and its effect on firms' performance. We will define the main terminology and observe common characteristics of politically connected firms across articles and some specifics of certain studies. A separate part will be devoted to past research on political connectedness in Slovenia.

The third and the most important chapter is the empirical analysis, split in several subchapters. We will start the empirical part by explaining the complex data collection process and study limitations. We will continue with the formulation of research questions, hypotheses, sample overview and the explanation of main terminology used throughout the empirical part. Furthermore, samples of firms and supervisory board members will be described, as well as the periods under the study. Most of the analysis on the influential connections will be related to the influence coming from political affiliations. Each dimension of political connectedness will be analyzed in the context of different industries, ownership structures and political periods (political cycles).

Analysis will continue by focusing on the most influential supervisory board members in our sample. These are the supervisors which appeared in at least two supervisory boards in the whole observed period. We will differentiate between expert and political influence. We will argue that expert influence is better and will identify industries where one or the other is prevailing. Special attention will additionally be given to the analysis of the new players in the supervisory boards. We assume that if the share of politically connected supervisors is generally decreasing, there should also be a decreasing trend in the new players who are politically affiliated.

The last part of this thesis is the multivariate analysis. Advanced statistical methods and techniques will be used to estimate augmented Cobb-Douglas production to prove that increasing political connectedness results in a decreasing efficiency. The master thesis will conclude with the main findings, summed up in the conclusion.

## 1 HISTORICAL OVERVIEW

Even though the core of this master thesis is the empirical part which follows, it is still important for us to understand the historical background of the period we are investigating. Dataset developed for this thesis which will be thoroughly analyzed in the latter part, concerning the period between 1996 and 2012, a time of wide-spread economic and political change, a period of rapid development of a small country which was once part of the Socialist Federal Republic of Yugoslavia and needed to quickly adjust to a new system. Furthermore, the period under observation was very much affected by the previous era. As with other postcommunist economies in Europe and elsewhere, the Slovenian economy also experienced the transition from public to private ownership throughout the 1990s. It was a crucial and contradictory time for the economy as the same political elite which controlled the economy was also deciding on how to privatize it most effectively.

#### **1.1 Slovenian transition**

This first chapter is a short historical summary of the Slovenian transition to the market economy, the period of economic growth and the latest financial crisis - all of which will help

us better understand the period under observation. We will discuss the historical overview which is split into several sub-periods, focusing on three main points:

- 1. The Course of Privatization. It is the transfer of government assets to the private sector (Privatization, n.d.). Hence, state should decrease its stake in economy and pass the power to the private owner. Despite the privatization, many privatized Slovenian companies stayed under the strong influence of the state. Quasi-governmental funds held a large stake in many privatized firms, which means that indirect state ownership remained. As will be seen in this chapter, many authors argue that privatization was carried out reluctantly, leaving state as an important direct or indirect stakeholder, which in turn creates the opportunity for state intervention. Moreover, banks were excluded from the early stages of privatization.
- 2. The Course of FDI is connected to the course of privatization, the institutional setting and the monetary situation. The first wave of privatization favored internal buy-outs and neglected the role of strategic investors and FDI. However, it was not only the chosen method of privatization and the administrative barriers which caused companies to be privatized mostly internally. In order to keep up with the pressures on the currency appreciation from the capital inflows, the central bank of Slovenia needed to undertake several monetary measures. Moreover, political instability as a result of the collapse of Yugoslavia was a barrier for many foreign investors for a long time. In turn, the lack of FDI and strategic owners led to the lack of competitive pressures, which resulted in state monopolies, market inefficiencies and appointments based on reasons other than merit or necessity.
- 3. The Course of Politics and Elites. We could split the political history of Slovenia into two terms made up of ten years each. The first term was very much dominated by the Left government, while the second term was one which brought a level of turbulence to the economy with the change in government in 2000 and then again in 2004. We will closely examine the political development as many conclusions deriving from our data are tightly connected to this same course of political change. Furthermore, it is also connected to the development of the Elites, a topic covered by quite some domestic authors.

The remainder of this chapter will be structured as follows – first off, the basics of the political and economic system right before independence will be presented. This will be followed with a summation of the events that followed Slovenian independence, that of 'voucher mass privatization' (1991–1995), the 'restructuring period' (1996–2002), the 'growth period' (2003–2008) and the euro crisis (2009–present). Focus will remain on the three points mentioned above.

#### 1.1.1 Political and Economic system before independence

Up until 1991 when it became independent, Slovenia was part of Yugoslavia, one of three federal states under the communist system, together with the USSR and Czechoslovakia. One of the basic principles of Marxist-socialism is that private ownership misallocates resources and supports unequal distribution of wealth – this is the justification for state ownership being preferable (Gligorov, 2004). However, as argued by Gligorov, Yugoslav communism soon realized that resource allocation through central planning is inefficient and that managerial responsibilities are to be devolved from central planners to the firms. This happened in the early 1950s and was known as 'social self-management'. Soon after, the Yugoslav communist regime evolved and established so-called social ownership. Despite the general perception about under-development of ex-communist states, Slovenia still ranked among the most developed countries in the socialist world, very much market oriented and open to foreign competition (Simoneti, Rojec, & Gregorič, 2004).

Lavigne (1995) argues that it seemed by the end of the 80s Yugoslavia already knew everything there was to know about transitioning to a market economy. However, this turned out to be the wrong assumption as soon after, Slovenia and Croatia decided that they no longer wanted to contribute to the development of the poorer states and declared their independence in June 1991. This was done after many false attempts to stabilize the situation within the country. Within Yugoslavia, there were two contrary thoughts – first, that of a democratic vision, advocated by Slovenia and some other republics that sought free and fair elections, more independence, and a multiparty system (Žižmond, 1994), and second, that of the politicians of the Republic of Serbia, with Slobodan Milošević in charge, who were cheering for more authoritarianism, and a more centralized state (Drnovšek, 2004).

#### **1.1.2** The Course of Privatization

A cornerstone of structural transformation (i.e. transition) is privatization. Originally, it was thought to be very straightforward but it turned out to be a very complex and long lasting process for many countries, including Slovenia (Lavigne, 1995; Mencinger, 2006). Privatization is the legal transfer of property rights from the state (or the people) to private owners (Lavigne, 1995) and a process that includes provisions for protecting and enabling private property (Mencinger, 2006).

Jože Mencinger (2004), who was Slovenian deputy prime minister at the time, states how a privatization issue caused major controversy and divided politicians, and turned out to be the root of the political instability at the beginning of the Slovenian path to independence. There were three major competing approaches to privatization, which differ in the role of state, the role of workers, managers and foreign capital (Prašnikar & Svejnar, 1993; Mencinger, 2004):

- 'Korže-Mencinger-Simoneti' Act was based on the assumption that Slovenian economy already functioned relatively well and called for decentralization and gradual privatization without unnecessary shocks and with the government monitoring the process (Mencinger, 2004). The decision on the pace and method of privatization was to be given to companies themselves, argued the Act. The focus however was mostly on the worker buy-outs (Prašnikar & Svejnar, 1993), which meant privatization was limited primarily to domestic capital.
- 2. 'Sachs-Umek-Peterle' Act called for mass and rapid privatization and insisted that the socialist past was to be quickly forgotten and that only mass privatization would lead to a quicker transformation to the ownership structure typical of Western economies (Mencinger, 2004). The act called for centralized privatization<sup>1</sup> and the free distribution of formerly state-owned assets to citizens in two stages. Firstly, re-nationalization to state governed authorized investment funds<sup>2</sup>, and secondly, privatization to both domestic (general citizenship) and foreign capital (Prašnikar & Svejnar, 1993; Mencinger, 2004). Lojze Peterle, a big promoter of this act was at the time Slovenian prime minister.
- 3. **'Ribnikar-Prašnikar-Kovač' Act** was an alternative method, a semi-decentralized model, calling for mixed ownership and with consideration of the heterogeneity of enterprises and industry (Prašnikar & Svejnar, 1993). According to the authors, there were three types of enterprise. Firstly viable, healthy companies with power concentrated in workers and managers. Secondly highly indebted firms, who were either viable or potentially viable, if restructured. Lastly highly indebted, non-viable firms. It was believed by the authors that each type of firm needed a different approach to privatization and a different ownership structure and that none of the previous two acts accounted for the heterogeneity of Slovenian firms' situations.

In a **political sense**, the decentralized approach would allow the control of companies to remain in the hands of existing managers and the former political elite, while a centralized approach would transfer this control to the government, which represented the new political elite (Mencinger, 2004; Žerdin, 2012). If, on one hand, the Korže-Mencinger-Simoneti Act would allow for a high elite reproduction<sup>3</sup> rate, the Sachs-Umek-Petrle Act would allow for a high elite circulation rate and turbulence in Slovenian economic sphere (Žerdin, 2012). There is however also an **economic notion** to it, argued strongly by Prašnikar and Svejnar (1993). The decentralized approach relied mostly on the private savings of the workers, while the

<sup>&</sup>lt;sup>1</sup> It is called centralized because of the role and the importance of the government as the main institution in carrying the privatization procedures (Mencinger, 2006).

<sup>&</sup>lt;sup>2</sup> The initiators believed that these funds, i.e. financial intermediaries owned by the state, would monitor and restructure the companies and assure their profitability (Mencinger, 2006).

<sup>&</sup>lt;sup>3</sup> We will return to the elite reproduction and elite circulation in the later chapters when speaking in depth about Slovenian elites.

other two approaches allowed for a variety of ownership types. Still, the centralized approach would treat all companies the same by first re-nationalizing them and then selling them to external interested parties, while a semi-decentralized approach would treat successful and unsuccessful companies differently, making sure that the ownership structure of successful firms would attract more capital, while privatization and reconstruction of the unsuccessful ones would be governed by the creditor banks that would decide whether to close them down or restructure and sell them. On top of this, the semi-decentralized act advocated for profit sharing and co-determination as incentives to workers and managers to increase efficiency and to give outsiders more decision-making power (Prašnikar & Svejnar, 1993).

The political controversy, which was the result of political tensions being highly present at the beginning of independence, rather than an economic one, forced Mencinger to resign as deputy prime minister. However, his resignation did not narrow the differences within the ruling coalition and shortly after the first democratically elected government, DEMOS, crumbled. After the establishment of the new government in 1992 (led by prime minister Janez Drnovšek and his party Liberal Democracy of Slovenia) and after almost two years of debate, a compromise<sup>4</sup> was enacted, which combined decentralization and diversity of privatization methods with the free distribution of enterprise shares (Mencinger, 2004). It is apparent that even though it might seem to an outside observer that we lived in harmony and longed for the same goals, there actually was an ongoing "battle" of elites all along. The old and the new elite were fighting for prevalence in the new economic sphere that was just taking shape.

In the end, a so-called "gradualist" approach to transition was adopted in Slovenia, similar to the one in Hungary. This was typical of countries where past regimes had already collapsed and certain reforms had gone through. The main characteristics are slow and gradual institutional changes, bigger role of the state and very limited FDI (Lavigne, 1995; Mencinger, 1997). Ovin (1997) is convinced that some crucial institutional changes (i.e. the basic framework) could have been established sooner as a foundation to the gradual transition that followed. A gradual approach is the opposite of so-called "shock therapy" (i.e. Sachs-Umek-Petrle Act) with a quick liberalization and mass privatization, which had previously happened in Poland and the Czech Republic where changes had occurred quickly and without hesitation or looking back (Lavigne, 1995; Mencinger, 1997). Marie Lavigne metaphorically describes the situation in Poland as one where a heavy smoker is being persuaded to quit immediately.

<sup>&</sup>lt;sup>4</sup> The Law on the Transformation of Social Ownership (passed in November 1992)

### 1.1.2.1 The first wave of privatization: 1991–1995

During the stalemate caused by the debate on which approach was better at the beginning of the 1990s, Slovenia suffered the loss of traditional markets, countries of the former Council for Mutual Economic Assistance (Korže & Simoneti, 1993). The biggest loss was the complete destruction of the Yugoslav market, causing Slovenia to lose 58% of its total exports (Mencinger, 2006). Many companies declared bankruptcy or were on the verge of one and banks were struggling with a huge number of bad loans. According to Mencinger (2006) and Simoneti et al. (2004), there were three groups of companies at the time:

- 1. Large unprofitable enterprises most affected by the situation in the country. They had been taken over by the newly established Development Fund, who assumed the responsibilities of these companies and who later would establish corporate governance, negotiate over old debt and privatize them within two years of entering the program. Mass privatization with a more centralized approach was primarily chosen for this group of enterprises. In the first two years the results were quite impressive: 30 out of 98 companies were privatized in short order, annual cumulative losses reduced from DM<sup>5</sup> 630 million to DM 130 million and settlement with creditors was reached for 50 percent of companies.
- 2. Enterprises less affected by the situation. These enterprises were, at the time, under social ownership and would need to be privatized under the provisions of The Law on the Transformation of Social Ownership adopted towards the end of 1992. This was less radical and a far more gradual and decentralized approach.
- 3. Public utilities and steel mills would remain under direct government control.

As mentioned, in 1992 The Law on the Transformation of Social Ownership passed through the Slovenian parliament. It was a compromise, giving enterprises some freedom in deciding how the privatization would be carried out, but still setting the framework within which some alternatives were possible. In short, the equation that portrays the privatization according to the law, delimits institutional owners on one side (Restitution Fund - SOD, Pension Fund - KAD and Development Fund) from individual owners (employees and other individuals) on the other side. In 1993, ownership certificates with a nominal value ranging from 700 EUR to 2.800 EUR were distributed among citizens. They could use them to acquire shares in the company where they worked or in any other company through a public auction or an investment fund (Mencinger, 2006).

<sup>&</sup>lt;sup>5</sup> Deutsche Mark – official currency of Germany until the adoption of euro in 2002

The debate about the role of so-called 'insiders' (workers and managers) became very important after privatization began (Domadenik & Prašnikar, 2004) and was highly connected with the manner in which privatization was carried out (i.e. privatization equation described above). Many transition economies, including Slovenia, took on labor-management features. This resulted in the significant decline in investment activities and a decline in enterprise saving, while wages began rising from about 1992-1993 in most countries of Central and Eastern Europe. Prašnikar and Svejnar (1998) confirm these statements. Their study on 458 Slovenian firms in the period 1991-1995 showed negative linkage between investment activities and labor cost, which suggests a strong tradeoff between investment and wages in this period. Firms, privatized to insiders, had been on average less capital intensive compared to firms bought by 'external buyers'. Research also suggested that many of the companies behaved similarly to how they did before, i.e. employees still claimed part of the surplus in the form of higher wages. Research done at the end of 1990s (Prašnikar, Domadenik, & Svejnar, 1999) showed that out of all companies included in the sample, the majority were privatized internally, with a great deal of influence exerted by employees on the decisionmaking process.

The process of privatization lasted for more than six years in which 1.381 companies received approval from the Agency for Restructuring and Privatization, established in 1993 to supervise privatization. Of all, 68 percent of existing social capital was subject to ownership transformation with the rest (32 percent) mostly subject to the ownership of the state (Agency for Restructuring and Privatization, 1999).

In the first wave of Slovenian privatization FDI did not play an important role. There were several reasons for that as stated in the report from The Organization for Economic Cooperation and Development (hereinafter: OECD) on FDI in Slovenia (OECD, 2002). First is the course of privatization itself and the chosen method which favored internal buy-outs. Second and just as important are the monetary issues. In Slovenia, a small monetary area with its own currency, central bank undertook various measures to ease the pressure on domestic currency appreciation coming from the capital inflow. Third was an outside factor, a political risk stemming from the collapse of Yugoslavia which was an important constraint to more FDI. Last but not least are the administrative barriers. As a result, FDI accounted only for around one percent or less of the GDP in the period 1991–1995 (Silva-Jauregui, 2004; Simoneti et al., 2004). It was not until the 2001, when Slovenia became more attractive for foreign investors, that this percentage increased.

Banks, many of them in a very bad condition at the beginning of independence, were also completely excluded. As argued by Prašnikar and Svejnar (1993), ownership and control of banks was a major problem of the Yugoslav system as they were controlled by the same enterprises which in the past forced these banks to provide them with unviable credit. The state was however quite successful in restructuring both biggest Slovenian banks - Nova Ljubljanska Banka (hereinafter: NLB) and Nova Kreditna Banka Maribor (hereinafter:

NKBM) - but much less successful in privatizing them. Even though the reconstruction process finished in 1997, it was not until 2000 that privatization processes which would increase the efficiency and competitiveness of the Slovenian banking system actually began (Štiblar, 2010; Ovin & Kramberger, 2004).

#### 1.1.2.2 Ownership restructuring period: 1996–2002

Privatization formally ended in 1998 but in fact lots of especially large companies were still owned by the state-owned Slovene Development Corporation (slo. *Slovenska Razvojna Družba*). This company was the successor of the Development Fund of Slovenia and predecessor of D.S.U. (Advisory and Management Corporation) (Simoneti et al., 2001; EBRD, 1999; Pezdir, 2008).

Ownership structures at the end of the privatization became much more concentrated, with the five largest shareholders controlling about 50 percent of capital in the average privatized firm (Simoneti et al., 2004). In fact, initially dispersed ownership (new owners, many of them not thinking strategically) and the poor legal system opened doors for already established networks of people and conglomerates, allowing them to maximize their wealth by acquiring large stakes in big companies from many small shareholders, also with the help of stateowned banks (Pezdir, 2008) through what we could call "related lending", using La Porta's term (La Porta, Lopez-de-Silanes, & Zamarripa, 2003)<sup>6</sup>. The phenomenon of related lending is not new and is present even in the most advanced economies. In France for example, the largest state-owned bank Credit Lyonnais was bailed out in 1993 after losing billions of dollars making generous loans to the favorites of the French Socialist Party (The bank that couldn't say no, 1994). It was also claimed that the bank was frequently pressed by the government to support key industries in order to boost economic growth and reduce unemployment. Similarly, a scandal involving the formerly state-owned Austrian bank Hypo Group Alpe Adria, involved much more than just unjustified loans – it included fraud, bribery and money laundering as well and went beyond the domestic borders (Ewing, 2010).

Simoneti et al. (2004) elaborate on how this became even more concentrated in the period of ownership restructuring, when the percentage was raised to more than 70 percent by the end of 2001. They argue further how even the number of shareholders decreased substantially, for more than 50 percent in the period ranging 1999–2001. In principle, this should have worked well, but the problem was that privatization transferred only the ownership while failing to transfer control as well. In many cases, larger shareholders did not hold the majority control and was in fact a quasi-governmental stake rather than a strategic investor (Simoneti et al., 2004). Hence, direct ownership of the state might have been eliminated but there was still a

<sup>&</sup>lt;sup>6</sup> According to La Porta et al. (2003) related lending occurs when bank lending is directed towards related parties, which include shareholders of the bank, their associates and family, and the firms they control.

strong indirect presence. It was proven in a recent study on firm-level data in Slovenia (Domadenik et al., 2011) that the state directly and indirectly represented an important shareholder in firms that were already privatized, which in turn affected the supervisory board composition (new members appointment) and consequently the decision-making and productivity in these firms.

Ownership structure changed a great deal in the period 1996–2002, argue Simoneti et al. (2004). The share of strategic owners, although mostly domestic, rose from around 11 percent to around 30 percent, showed their research. The same occurred with the financial (domestic) owners (increase from 3 to 7 percent). On the other hand, the share of former employees and current employees fell substantially, from around 55 percent to about 25 percent. The share of managers increased, while the share of pension funds and state decreased respectively. The share of privatization funds remained constant.

Still, all of the abovementioned authors generally agree that privatization did not prove to be as effective as everybody originally expected and did not bring about the expected results. In their research, Prašnikar et al. (1999) argue how the role of insiders (mainly managers) and an initially much dispersed ownership structure is often not confirmed empirically to be the main cause of the mostly unsuccessful privatization in Slovenia. It is surmised that restructuring is much dependent on the ability of managers to make important decisions on successful restructuring - this could be jeopardized if too much power is vested in the employees as in the case of privatization in Slovenia. They describe two phases of restructuring. The first is the defensive restructuring, which includes the laying-off of employees due to cost optimization and as a result of the lost Yugoslav market and increased competition. This proves to be difficult if employees hold the balance of power and influence in firms. Hence, it is logical that these firms were much less successful in defensive restructuring compared to externally privatized peers (in the period 1989–1996 internally and externally privatized companies retrenched 35 and 60 percent of workers respectively). The second phase is strategic restructuring. Many externally privatized firms were able to substitute old managers with new, mostly younger, well-educated and market-oriented appointees. However, authors were not able to prove that externally privatized firms invested more in R&D, human capital and in fixed capital (Prašnikar et al., 1999). This suggests that strategic restructuring was not carried out in a proper way.

It was believed, at the start of the Slovenian transition, that after the first wave of the privatization (i.e. primary privatization), secondary privatization (i.e. ownership restructuring of newly privatized companies) would be guided only by the capital market (Simoneti et al., 2001). However, there were some who doubted that the "invisible hand" would be sufficient to avoid abuse. The problem that arose from the primary privatization was that many new shareholders, mainly past or current employees, who established their stakes in the companies through certificates, were not acting as true investors with a desire for their investments to grow (Simoneti et al., 2001), but rather sought to cash out their investment at the soonest time

possible (Rus, 2000). They followed their own, very short-term financial interests and not the interests of the company. But, on the other hand, concentration of ownership was crucial, because as Simoneti et al. (2001) point out, it is known that unstable and dispersed ownership does not give enough power and incentive to potentially active shareholders to start the processes of restructuring and also that one cannot expect much in terms of efficiency in companies that are controlled by insiders (mainly employees). Moreover, strategic (especially foreign) owners, which were discriminated against in the first wave of the privatization, also dislike unstable and dispersed ownership (Simoneti et al., 2001). Their goal is to acquire a controlling share in a company which is difficult to obtain in a situation as such. At that point it turned out, argues Rus (2000), it will take decades of the ownership consolidation for the real link between ownership and control to emerge.

As mentioned previously, quasi-governmental funds retained a large stake in many privatized firms and as such, indirect state ownership remained. State control in turn means that there is **a lot of opportunity for a state intervention** in these firms. Moreover, the privatization of the two largest banks started in 2000, but only in 2002 did Slovenia finally reduce its share in NLB, the largest bank, by selling part of it to the Belgian KBC and to the European Bank for Reconstruction and Development (hereinafter: EBRD) (Ovin & Kramberger, 2004). Still more than 40 percent of the stake stayed in direct and indirect state ownership (Štiblar, 2010). The privatization of the second largest bank NKBM was postponed and occurred only in late 2007 when the state sold around 49 percent share in a very controversial and politically guided initial public offering (hereinafter: IPO) to the general citizenship and institutional investors (Hren, 2007a, 2007b; Valentinčič, 2007). Ovin and Kramberger continue how in 2002, Slovenia still directly owned the majority of the largest insurance company Triglav and indirectly (through NKBM) the other insurance company Zavarovalnica Maribor. It also retained direct and indirect control in many other already privatized companies.

Bortolotti and Faccio (2006) defined this phenomenon as a so-called **reluctant privatization**, while Boubakri et al. (2008) called it **'purely cosmetic privatization'**, a behavior opposite from the main objectives of privatization. The sale of equity of a formerly state-owned enterprise (hereinafter: SOE) is not associated with the transfer of control rights. Thus, although ownership is exchanged, control often remains where it was, argue the authors. The analysis from Bortolotti and Faccio (2006) on 141 privatized firms in developed economies in the period 1996–2000 showed that the state remained the largest owner, both through direct or indirect ownership, in one third of privatized firms in their sample. They gave an example of German Lufthansa, where the state controlled over 50 percent of shares even after the privatization, through direct and indirect ownership. Žerdin (2012) agrees that the impression of the withdrawal of state interference in the biggest Slovenian enterprises was false. He argues how the two state funds still present in many firms were in fact the biggest homogenous ownership bloc despite its relatively low share in the total ownership. Rojec and Kušar (2005) analyzed ownership structures of 138 publicly traded firms on the last day of 2004. In 80 firms, the state's stake was still more than 25 percent. The state held more than 20

percent stake in a further 17 firms in the sample. It is more than obvious that the state remained the primary owner in a majority of large Slovenian enterprises even after the second wave of privatization. This has two important consequences, argue the authors. First, there is a control exerted over and interference in the strategic decision making process. Second, there is no merger or acquisition without the government's consent.

In the previous chapter we argued that in the first wave of privatization involving FDI did not have an important role. After very low FDI inflows in the 1990s, it finally increased in 2001 (e.g. acquisition of SKB bank, Simobil and Iskra Kondenzatorji) and especially in 2002 (e.g. Lek, Valkarton, Cementarna Trbovlje), when it rose from 136 million EUR to 503 million EUR (13,6 percent of GDP) and further to 1,9 billion EUR in 2002 (18,2 percent of GDP) (Simoneti et al., 2004; EBRD, 1999, 2002, 2003). It was due to the vast liberalization on capital controls and foreign ownership of property implemented through several acts in the period 1999–2002 (EBRD, 1999, 2003). According to Aghion et al. (2002) competitive pressure towards old firms exerted by foreign competitors was driving the innovation process in the transition period and promoting efficiency and effectiveness in the market. Pezdir (2008) agrees and adds how this very same lack of domestic and foreign competitive pressure led to state monopolies and management appointments based on reasons other than economic success throughout the whole transition which has led to market inefficiencies.

Simoneti et al. (2004) further argue that the gradual privatization which Slovenia implemented did not allow for the realization of the firms' full potentials, especially not for the large and capital-intensive firms that needed substantial outside strategic financing. We learned earlier that the third proposed privatization model, a semi-decentralized one (Prašnikar & Svejnar, 1993), would possibly allow for the capital-intensive but economically viable firms to receive a proper ownership structure, while leaving enough incentive to insiders to work efficiently and at the same time remaining attractive for future inflow of capital into these firms.

#### 1.1.3 Growth period: 2003–2008

The period spanning 2003–2008 is not characterized merely by the high economic growth but also by vast political changes. After almost 12 continuous years of leftwing government, the rightwing bloc won the elections in 2004. It seemed that the new government finally came to realize the idea that was developed by a conservative element of DEMOS already in 1991, insisting on rapid and en masse privatization that would lead to a quicker transformation and the removal of the old economic and political elite. The economic shock that did not occur at the beginning of Slovenian independence came few years after its tenth anniversary. Social network analysis carried out by Žerdin (2012) in the period from 2004 to 2009 has shown that only 33 percent of the members of the economic elite in 2004 were able to retain their elite status in 2009. Out of the initial 1.161 members of the economic elite in 2004, only 606 remained in 2006, while in 2009, only 386 remained, with the latter being the year of the

biggest circulation. This suggests a very high rate of elite circulation in the period of high economic growth. Similarly, research done by Pahor (2006) had shown that 34 managers were relieved from their positions and 53 members of management boards were newly appointed out of a total of approximately 350 managers and members of the management board in 2004.

The new government in 2005 restored the original idea regarding privatization, stating that the so called 'second wave' of privatization, which would include primarily the best Slovenian firms, was needed in order to stimulate higher effectiveness and growth (Government of the RS, 2005). Even though privatization continued, it was not going as smoothly nor progressing as quickly as planned. The privatization of the second largest bank NKBM finally took place in 2007 with the sale of roughly 49 percent to the general citizenship and institutional investors (Hren, 2007a, 2007b). However, even until today, the state has retained both indirect and direct control in the bank (Nova Kreditna Banka Maribor, n.d.). The further privatization of NLB was stopped as the new government felt that the state needed to remain in control of the majority of shares in that bank (Štiblar, 2010). Furthermore, the sales of state-owned assets included roughly a 55 percent share of Slovenska industrija jekla d.d. to a strategic partner (OECD, 2009). The plan to sell capital shares in Zavarovalnica Triglav and Telekom Slovenije were suspended and postponed (both of them are again on the privatization list of the current government). Even though the Slovenian government planned to restructure the banking system (Government of the RS, 2005), which was mostly state controlled, this did not happen (OECD, 2009). In 2009, OECD still argued that state-owned banks, which lack efficiency and profitability, need to be rapidly restructured and that the Slovenian banking sector in 2008 still displayed oligopolistic features. The three largest banks (of which two were state-owned) have had a combined market share of 48 percent, which was above corresponding ratios observed in the EU27 (OECD, 2009).

FDI grew throughout the whole period with 2007 being the year of rapid growth (43 percent compared to 2006), also due to the sale of Slovenska industrija jekla d.d. to a foreign strategic partner. The period started with FDI end-year position of 5,0 billion EUR in 2003 and raised to 11,2 billion in 2008 (OECD, 2011).

Furthermore, as argued by Trobec (2012) this period was also characterized by the free access of banks (and other economic units) to external resources, the nominal convergence of interest rates and the fast growth of the capital and real estate markets. "Abundant supply of cheap loans, therefore, enabled the financial accelerator to propagate and amplify the effects of external shocks, the decreasing interest rates and pro-cyclical fiscal stance of the Slovenian government" (Trobec, 2012, p. 33) after entering the Eurozone. Credits to financial corporations were growing at over 25 percent per year and debt of nonfinancial corporations attained to almost 90 percent of GDP at the time of crisis eruption, which made them extremely vulnerable to any risk of refinancing those credits. As argued by the author, Slovenia's experience is unique in portraying to other possible future euro entrants that

neglecting macroeconomic stability for microeconomic efficiency and growth has very negative consequences.

#### 1.1.4 Crisis period: 2009–present

Turbulence in the political and economic arena visible in the period before the crisis led to a very windy situation and a not very favorable pre-crisis position in Slovenia. As seen earlier, Slovenia entered the crisis with a relatively highly indebted private sector (Domadenik, Farčnik, & Trobec, 2012; Trobec, 2012) after the capital surge in the period 2005–2008, which was also the period of economic conjuncture (Bank of Slovenia, 2012).

There were however several other issues that added to this not favorable position. The OECD argues that a gradualist approach to privatization did in fact limit the initial shocks and helped maintain the stability throughout the transition, but had slowed down the reform process seen in some other transition economies (OECD, 2011). Moreover, "the gradualist approach to reform has bequeathed weaknesses in the business environment that have become even more apparent in the aftermath of the global financial crisis" (OECD, 2011, p. 94). As argued by the OECD, state's ownership in the period 2009–2010 was one of the highest in the OECD with the state controlling many of the largest listed companies. Moreover, the SOEs remained dominant in the electricity, telecommunications, banking, rail, port, postal and utilities sectors and were characterized by low productivity and profitability, especially in the banking and utilities (OECD, 2011).

In terms of the political appointments, the crisis period can be characterized as the period when this topic became more visible and publically discussed, especially due to more media coverage and active involvement of the Commission for the Prevention of Corruption of the Republic of Slovenia (hereinafter: CPC) in that matter. Moreover, when government changed from right to left in 2009, parties forming the new coalition promised to stop the practice of appointments to supervisory or management boards based on political preference (Golobič: Zares je zid, ki preprečuje nastavljanje kadrov v stari maniri, 2009). To honor their promise, government established an autonomous advisory body (in April 2009), which would, at the proposal of the government or the responsible minister, participate and advise in the appointment process of new candidates for the management or/and supervisory boards (Government of the RS, n.d.). Furthermore (in 2010) the government also established the Capital Assets Management Agency of the Republic of Slovenia (slo. Agencija za upravljanje *kapitalskih naložb*), which was an independent state authority "responsible for the independent and professional management of procedures regarding the corporate governance of the State's capital investments" (AUKN, n.d.). The purpose of both governmental bodies was to establish better and more transparent governance of the SOEs. However, throughout the left government's mandate, which ended prematurely in 2011 after being unable to adopt necessary pension reform, both bodies were accompanied by much controversy and disapproval from the media, general public and opposition parties.

In the period from 2011–present, Slovenia was perhaps in one of the most turbulent political periods since independence. There were three different governments in three years. After the collapse of the left government in 2011, elections brought another change from left to right, which lasted for only one year before changing back to the left.

## **1.2 Elites development in Slovenia**

We learned from the description of the transition period that Slovenia started and continued with the democratization process in a relatively stable political situation. Slovenian political elites in the 1980s found themselves in a very unique situation, forming a so-called "within-system opposition" which advocated for more freedom and less pressure from the center in Belgrade, Serbia (Iglič & Rus, 2000a). It managed to effectively sustain itself in elite positions in spite of transition and even gained support from the public. The collapse of the Yugoslav Communist Party opened doors for the Communist Party of Slovenia to transform itself into the party with a more libertarian economic program and ideology, in form very similar to the other parties that were established after the independence (Pezdir, 2008).

The DEMOS government which consisted of very strong right-center wing (new parties) was unable to implement its idea of radical change of the system. When talking about elites, authors (Iglič & Rus, 2000a; Žerdin, 2012; Adam & Tomšič, 2012) in general describe two phenomena. These are the circulation and reproduction/adaptation of elites. Circulation occurs when the old elite, which is part of the previous system, is substituted with the new elite, while the latter occurs when the old elite is successfully reproduced in the new system and adapts itself to the changed environment. Further, Iglič and Rus (2000a) argue that there are two approaches to elite reproduction and/or circulation. The first is the radical approach, which favors the idea that regime change can happen effectively only if the old elites are substituted with the new ones, hence, if the elite circulation occurs. The second approach is more pragmatic and states that circulation is not of the biggest importance but rather the ability of old and new elite to reach a consensus about the rules of democratization.

Adam and Tomšič (2012), who see left-wing parties as representatives of the old elite and newly established (mainly right-wing) parties as a new elite, favor the radical approach. They are mostly attributing the negative role of the old elite to the democratization process. They argue that the gradual approach brought about slow economic reforms, wavering privatization, high levels of state intervention, low levels of FDI and a large public sector. Further, it preserved the important role of the old elite that stayed at high positions in the politics and business. Pezdir (2008) agrees that if the newly established opposition would not speak in favor of nationalist rhetoric as much as it did, but would rather persist with the implementation of capitalist mechanism and quick withdrawal of state from the economy, Slovenia would progress more effectively. The author concludes that strong ties between politics and economy remained in Slovenia throughout the transition.

However, there is an opposing view, favored by Kramberger (Kramberger & Vehovar, 2000). He argues that the very same situation in Slovenia was beneficial, because it assured political and social stability without big turbulence as in the other transition countries. This allowed Slovenia to focus on its international goals and development and was in fact the most successful example. Rus (2000) agrees, stating how social networks and ties among managers successfully survived the transition which is a precious asset for the entire economy. Even though there is a claim that high reproduction rates of old elites represent the failure of regime change and a threat to democratic reforms - this proved to be the case in many postcommunist countries - Iglič and Rus (2000a) are sure that the Slovenian case is somewhat different. Members of the old elite changed their personal, political and social identity and "have turned into effective non-communist leaders of democratic and market reforms" (Iglič & Rus, 2000a, p. 108). They also argue how stopping the old elite would mean eliminating it from the political system which would jeopardize peace, stability and would harm the very foundations of the democratic system (Iglič & Rus, 2000b). In short, if the first group sees elite reproduction as an inhibitor of the democratization process, the latter sees it to the contrary, that is - as an important contributor to the faster and smoother democratization process in a more stable environment. As seen earlier, an OECD report from 2011 (OECD, 2011) agrees with both by stating how the gradualist approach limited and prevented some initial shocks and helped to maintain stability but also slowed down the reform process.

#### **1.3** Historical overview concluded

Let us summarize four main points we learned from the historical overview before moving on to the next chapter. As pointed out at the beginning we based this historical overview on three topics: the course of privatization, the course of FDI and the course of politics and the role of the elite.

First, in terms of privatization, we learned that it was carried out reluctantly in many Slovenian firms, with the state retaining its power through direct or indirect ownership. This led to less opportunity for private capital to influence important decisions in the firms. As argued by Menozzi, Gutierrez Urtiaga and Vannoni (2012) SOEs are generally not or at least less subject to the takeover threat. This absence of potential takeovers reduces the incentives to maximize the value of the company, while a low possibility of bankruptcy implies a soft budget constraint, argue the authors. Thus, two important external corporate governance instruments that control underperformance in a market economy are missing (Menozzi et al., 2012).

Secondly, a low level of FDI, coupled with the remaining high level of state intervention resulted in the lack of foreign and domestic competitive pressures on old companies. The lack of competitive pressure led to market inefficiencies in many industries, which in turn resulted in questionable recruiting activities. Business capabilities and strategic thinking criteria in

management recruitment process became of secondary importance. Lack of competition harmed strategic restructuring as well. Past empirical analyses have shown that firms were only partly able (or willing) to strategically restructure. As previously stated, however, a low level of FDI cannot be attributed only to the selected method of privatization, which resulted in very dispersed and unattractive ownership, but also to the general political instability and to the measures targeted towards keeping the new currency as stable and strong as possible.

Thirdly, in terms of elite, we witnessed strong elite reproduction in Slovenia which led to the old elite successfully adapting to the new environment and not being "brutally" exchanged as in the case of some other post-socialist economies. Formation of so-called within-system opposition at the end of Yugoslavia helped them adapt to the new political and economic paradigm. Moreover, dispersed ownership structure allowed old, already established networks, who were also backed up by the state-owned banks, to grow and maximize their wealth in companies, by acquiring stake from small shareholders. Furthermore, in the late 1990s and with the changes in government in 2000s, power shift resulted in the appearance of new political elites formed around big financial holding firms, which held stake in many important domestic companies.

## 2 LITERATURE REVIEW ON THE POLITICAL CONNECTEDNESS

This chapter covers the vast literature and research done on the topic of political connections and board composition in Slovenian firms and its influence on these firms' performance. Even though most of the covered authors agree that the main point in forming a political connection with an influential person should be to receive some form of benefits not all of them are able to confirm that this connection is mutually beneficial. On the other hand, some authors specifically wanted to prove the negative relation of such connections to firms' performance and they mostly succeeded in this endeavor.

There are many examples both from developing and developed countries of how political connections affect firms. One of the first articles on this topic was done by Brian E. Roberts in 1990<sup>7</sup>. He found that, following the death of Senator Jackson, share prices of firms tied to him dropped, whereas share prices of firms connected to his successor increased (Choi & Thum, 2007). Similarly, in Indonesia, firms connected with dictator Suharto had considerably lower share returns compared to less connected ones, after rumors regarding his health became public (Fisman, 2001). Firms that provided campaign contributions to federal deputies around the election time in Brazil also experienced higher returns on stock (Claessens, Feijen, & Laeven, 2008). Similar conclusions about the connection between donations to a party and positive stock returns were given also by Jayachandran (2006) and Knight (2006).

<sup>&</sup>lt;sup>7</sup> Article titled "A Dead Senator Tells No Lies: Seniority and the Distribution of Federal Benefits" was published in American Journal of Political Science.

A Pakistani case study also shows preferential treatment of politically connected firms (Khwaja & Mian, 2005). This study has shown that they experience easier access to loans given by the state banks. On the other hand, as proven by the authors, they also have higher default rates on these loans. Johnson and Mitton (2003), who investigated the Asian crisis, proved that Malaysian firms connected to the Prime Minister were first expected to lose subsidies during the crisis and then gain them back after the capital controls were imposed. Many authors (Faccio, 2006; Johnson & Mitton, 2003; Ang, Ding, & Thong, 2011) believe that the phenomenon of political connections is closely connected with the level of corruption, and is perhaps also a possible measurement of corruption in these countries.

On the other hand, Boubakri, Guedhami, Mishra and Saffar (2012) are convinced that political connections are a common feature, regardless of a country's level of development. Indeed, as we will see throughout this literature review, political connections are just as frequent in the developed world, but far vaguer. In an early study by Shleifer and Vishny (1994) on the topic of politicians and firms, they explain how resource allocation is much less efficient if political control is imposed, as opposed to managerial control. They referred to several other studies that claimed public enterprises to be highly inefficient as a result of political pressures from politicians who control these firms. Later studies by many different scholars went deeper, investigating very specific effects of the political connections on the firms' accounting based results and stock value, proving mostly the positive effect on firms' stock value (Faccio, 2006; Hillman, 2005; Goldman, Rocholl, & So, 2009; Niessen & Ruenzi, 2009)<sup>8</sup> but a negative one on the accounting based performance (Faccio, 2002; Hillman, 2005; Menozzi et al., 2012; Bertrand, Kramarz, Schoar, & Thesmar, 2004). All of this evidence will be explained in details in this chapter.

The remainder of this chapter will be structured as follows. Firstly, different definitions of terms **"political connection"** and **"political influence"** used by different authors will be introduced. Following from this, common characteristics of politically connected firms found across articles will be explained and main conclusions on how political connections affect the firm's bottom line summed up. The review will include two extensive studies from the developed world - one on the case of French and the other on German firms - to emphasize that political connections are common in Western economies too. In the second part of this chapter the past research on the political connectedness in Slovenia will be presented.

### **2.1 Defining political connections and influence**

The definition of a politically connected firm in this thesis was formed after a thorough analysis of past literature on that topic. Its roots are found in the definitions given by Faccio

<sup>&</sup>lt;sup>8</sup> Which is to be expected since stock value is much more prone to news, rumors etc.

(2006), Menozzi et al. (2012) and Boubakri et al. (2008), who covered the topic most extensively. Faccio (2006) did a very thorough cross-country analysis on publicly traded firms. According to her, a company is considered connected if at least one of its larger shareholders<sup>9</sup> or any of its top managers is a member of parliament (hereinafter: MP), a minister, or is closely related to a political party or a politician (Faccio, 2006). Menozzi et al., who did the analysis on 114 local Italian utilities, identified politically connected directors "by their present or past activity in the political arena, as represented by a political charge, the membership to a political party or the candidacy for election" (Menozzi et al., 2012, p. 679). Boubakri et al. (2008) defined a company as being politically-connected if at least one member of its board of directors or supervisory board is or was a politician, particularly MP or a minister.

There are however, several other definitions and explanations. Johnson and Mitton (2003) who performed the analysis on politically connected Malaysian firms similarly defined as 'politically connected' every firm with an officer or main shareholder having a close tie to a key government official. Khwaya and Mian (2005), who worked on a Pakistani case, classified firms as politically connected if its director participated in an election.

Desai and Olofsgard (2011) argue that political influence is a bargaining process in which all parties have to benefit. It is an elite exchange, a mutual one, more common in low- and middle-income countries. They defined political influence as a form of cronyism (Desai & Olofsgard, 2009, p. 24), stating how this is "an influence contract between firms and politicians whereby the former relinquish a portion of control rights over employment decision in exchange for a more favorable business environment."

Shleifer and Vishny (1994), who focused on politicians and firms in the context of privatization, also talk about the bargaining process between managers and politicians. They argue that public enterprises are inefficient because they pursue political goals. According to them, main sources of political benefit are excess employment and wages. Examples are employing more people in the areas of high non-employment, saving redundant jobs at the cost of efficiency or offering jobs to union representatives in order to get their support (and possibly prevent the future riots). Firms, on the other hand, would benefit from subsidies. Politicians are always better off if they have control, because control gives them political benefits and bribes. Authors continue on stating how it does not mean that privatization necessarily makes political control impossible as control can be imposed in two ways: through state ownership or through the regulation of private firms even after the privatization. While privatization might indeed be a solution, politicians still insist on controlling even profitable firms. Hence, privatization with continued heavy regulation of firms and without true competitive forces might make things worse. Moreover, the restrictions on corruption

<sup>&</sup>lt;sup>9</sup> Faccio (2006) defines larger shareholder if it has more than 10 percent of shareholders votes.

should go hand in hand with privatization to result in even better efficiency, argue the authors (Shleifer & Vishny, 1994).

Agrawal and Knoeber (2001) touched the topic of 'outside directors' that, as opposed to 'inside directors', don't come from the firms themselves but are important in formulating the firm's business strategy and have their stake in the firm's decision making. Hence, they try to investigate why firms would accept such ties, similarly to what Desai and Olofsgard (2011) reported. In many cases outside directors are in fact very familiar with the business and might be successful investors or consultants. Thus it is logical why firms could see benefits coming from such relationships. However, there is another group ('outside directors') with experience in politics. Authors argue that outside directors that play a political role in the firm are important especially for industries closely tied with the government and/or highly regulated by the legislation or just industries where politics play an important role (e.g. weapon industry) (Agrawal & Knoeber, 2001).

### 2.2 Common characteristics of politically connected firms

Analysis carried out by Faccio (2006) was done on 20.202 publicly traded firms in 47 countries and is one of the most extensive in terms of the volume of data. The author argues that political connections are relatively widespread in these countries. She was able to confirm them in 35 out of 47 countries. There are generally a few common or shared characteristics between the countries with present political connections. First, where there is less corruption there are also fewer political connections. It can also be, however, that connections are the main cause of corruption and actually a proxy for corruption. Secondly, if foreign investment controls are imposed, political connections are more common. Cross-border restrictions were always positively and significantly associated with political connections. Hence, the more the country is closed towards foreign investors, as was the case also with Slovenia, the more opportunities there are for politicians to enter these businesses. Thirdly, the mandatory disclosure of assets in countries that imposed that rule is associated with less political connections are more common in bigger firms, argues the author.

One of the limitations of Faccio's (2006) study is a very limited definition of political connections, looking only at the MPs and ministers, which led to less than three percent of sampled firms being defined as politically connected. Even though her analysis yields some statistically significant conclusions, it is still a very small share. This is why in our analysis we took on a slightly broader definition. As we were focused only on one country at a time we were able to more precisely gather the information on political activities and affiliations of members of supervisory and management boards.

Boubakri et al. (2008) did a similar but much less extensive cross-country research. Their sample consisted of 245 firms from 27 developing and 14 industrialized countries. Out of these 245, almost 36 percent have a politician or ex-politician on the board. Authors found

that politically-connected firms are more likely headquartered in larger cities, are highly leveraged, larger in size, operate in more regulated sectors and also have larger boards. Moreover, if a firm is SOE there is a bigger possibility that it is also politically connected, whereas if it is foreign-owned, this probability is significantly lower. They also discovered that political connectedness is sector dependent, being the most common in energy and telecommunication sectors (60 percent and 44 percent of firms within the sector are politically connected, respectively).

In her study on 300 US firms, Hilman (2005) investigated two equally large samples of firms. First off, those coming from heavily regulated industries (i.e. telecommunications, tobacco, alcohol, gambling ...) and second, those from less regulated industries (i.e. electronics, retail, IT). Her main conclusion was that firms from heavily regulated industries have more politically connected directors. The article specifically talks about so called 'corporate political strategies' that have a rich heritage in the literature. One such strategy is placing a politically experienced person on the board. Firms do so because they see benefits. It may provide information about policy changes, access to politicians, bureaucrats and other decision makers with whom this board member is aligned, possibility to exert influence on policy. This in turn should have a positive effect on a firms' performance. Hence, this article looks at political connections from a slightly different perspective: a company deciding to have a corporate political strategy and appointing a politically experienced person in exchange for benefits. The author argues that despite the trends towards lower trade barriers and more liberalization, government policy is still an important force in the environment that creates risks and uncertainties. Because of this, firms sought to form linkage with the government in order to reduce uncertainty, improve survival chances and the performance of the firm.

Desai and Olofsgard (2011) carried out analysis on more than 8.000 firms in 40 developing countries<sup>10</sup> and found that politically influential firms pay more taxes to the authorities and tend to carry bloated payrolls and do indeed face a more favorable environment. Firms are given some sort of protection against competition through subsidies and in return give some control rights to influential politicians (control over employment and tax revenues). This bargaining however dampens any incentives to invest in new product lines, new production facilities and/or close down obsolete lines. It also dampens incentives to innovate and lowers productivity, argue the authors. Furthermore, the data showed that, in terms of doing the business, influential firms face fewer obstacles.

On the sample of 264 U.S. manufacturing firms in 1988, Agrawal and Knoeber (2001) found that connections are less likely in textile manufacturing firms and more likely in transport equipment and instrument firms. Moreover, the number of politically connected outside

<sup>&</sup>lt;sup>10</sup> They used World Bank's Enterprise Survey which included several perception based questions about political influence up to 2005.

directors is positively and strongly related to the firm's size, percent of sales to government, percent of export shipments and lobbying. Also, wherever politics is an important factor related to doing business and where environmental regulations are higher, the incidence of politicians on management boards is far greater, found the authors.

Research on the topic of political connectedness in Germany was done by Niessen and Ruenzi (2009), using newly available information on the income of all Members of German Parliament that does not derive from their mandate, for the years 2006 and 2007. As opposed to that previously mentioned by other authors - they argue that there are three theoretical reasons for politically connected firms performing better. First is because of the reputational reasons, as politicians might be inclined to work only for the best companies, second, because of the role of a politician as an outsider, with an independent view on the organization, and third, because of the competitive advantage in the form of easier access to finance, lower taxation etc., which is a consequence of a politically connected. They define as politically connected all firms with at least one MP employed. On the other hand, 16 percent of MPs are connected to at least one firm. Members of the conservative party and the liberal party are more likely to be employed by a firm than the leftwing or green party's members. Furthermore, most delegates that are employed by a firm come from the party in power (76 percent of all connected MPs).

Bertrand, Kramarz, Schoar & Thesmar (2004) investigated political connectedness in publicly traded French firms in the period 1987-2002. They considered the CEO to be connected if he/she was formerly a civil servant or a government official. One of the findings of this analysis is that, despite the process of deregulation and privatization in all sectors during the period under study, former politicians remained in French companies by the early 2000s. In fact, their share of publicly-traded assets is growing. They argue further how social connections between CEOs and politicians in France are very common. The reason lies in their educational background, since 90 percent of assets traded on French stock exchange in 1990s were managed by graduates of only two elite French schools (Ecole Nationale d'Administration and Ecole Polytechnique). A similar situation remained until the 2000s, the period of the study. About two-thirds of politically connected CEOs can be linked to a rightwing administration, while the rest are more associated with the leftwing administration (Bertrand et al., 2004). Authors argue that firms managed by connected CEOs employ more, have higher rates of plant creation and lower rates of plant destruction in the election years. If a firm is operating in a politically contested area (i.e. politically unstable city), these rates are even more noticeable.

## 2.3 Board determinants affecting the bottom line and firm value

In her cross-country analysis on 47 countries, Faccio (2006) performed an event study around the time of the announcement that either a shareholder is entering politics or that a politician

is joining the board. The author wanted to investigate whether connections add to or reduce the value of the company. Faccio assumed that the announcement should be associated with a positive cumulative abnormal return (hereinafter: CAR)<sup>11</sup>. Indeed, author found out that company large shareholder and/or officer entering politics results in positive CAR (significant results), especially if large shareholder enters politics. On the other hand CAR for the occasion that politician is appointed to the board results in negative CAR (insignificant). The author found that a large shareholder in a company and/or officer entering politics results in positive CAR (significant results), especially if the large shareholder enters politics. On the other hand CAR for the occasion that politician is appointed to the board results in negative CAR (insignificant). Moreover, if the officer or larger shareholder becomes a minister or is closely related to one this results in a much higher positive CAR (insignificant) than if the person is appointed as MP. Lastly, in countries with higher corruption, connections result in positive and significant CAR while in countries with lower corruption CAR is negative but insignificant.

In her earlier study, Faccio (2002) also discovered that connections provide significant benefits to firms in terms of easier access to debt financing, lower income taxation, and stronger market power. On the other hand, she argues that connected firms witnessed lower performance in terms of returns and seem to be generally more troubled and badly managed firms. The author continues how "benefits provided through connections distort the allocation of capital toward relatively inefficient firms, and raise concerns about the long-term growth of the financial systems" (Faccio, 2002, p. 2).

The fact that politically connected firms experience easier access to debt financing was proven by many different authors (Faccio, 2002; Claessens et al., 2008; Boubakri et al., 2012; Faccio, Masulis, & McConnell, 2006). Carretta et al. (2012) went further and investigated the effect of politicians on boards of Italian banks and on the banks' performance, lending activities and risk taking behavior. Their results suggest that having politicians in influential positions has a generally negative impact on the loan portfolio quality. What happens in such cases can be described as so called 'related lending', a term introduced by La Porta et al. (2003), common especially for state-owned banks and banks with large owners who hold stakes also in other private companies and occurs when banks are giving out loans to "related" companies on criteria other than economic.

Menozzi et al. (2012) investigated two main determinants of boards of directors and its influence on firm's size and profitability<sup>12</sup> of 114 Italian public utilities in the period 1994–

<sup>&</sup>lt;sup>11</sup> Cumulative abnormal return is defined as a "sum of the differences between the expected return on a stock (systematic risk multiplied by the realized market return) and the actual return often used to evaluate the impact of news on a stock price" (Cumulative abnormal return, n.d.).

<sup>&</sup>lt;sup>12</sup> Firm's size was determined by amount of assets and total employment. Firm's profitability was measured using profitability ratios ROA, ROE and ROI.

2004. Analysis confirmed that the number of politicians sitting on the board negatively (significantly) impacts on its profitability. On the other hand, political connections are positively (significantly) associated with the number of employees. The latter conclusion goes together with the general assumption that SOEs are traditionally over-employed. Hence, their fear that political bodies "may use SOEs to achieve short-term political goals at the cost of ... efficiency" was proven to be true (Menozzi et al., 2012, p. 674). The same was argued also in an earlier study by Shleifer and Vishny (1994). Similarly, board's size<sup>13</sup> was proven to be negatively associated with the profitability and positively with the number of employees (in both cases significantly). When putting both determinants in one statistical model, authors found that board size is more important in terms of over-employment, while politicians sitting on the board have a more significant influence on profitability. Hence, their main conclusion is that political connections do harm a firm's performance. Even though the majority of Italian SOEs went through a so called 'corporatization process' which was intended to improve productive efficiency of the utilities, many politicians still hold some key positions in the boards of directors and are possibly slowing down this restructuring process (Menozzi et al., 2012).

Hilman (2005), in her research, was able to prove that politicians that are appointed to the boards of firms lead only to better market based performance (market capitalization and market to book value) for these companies, but not also to better accounting based performance. Thus, although her regression analysis showed positive relation between return on sales (hereinafter: ROS) and return on assets (hereinafter: ROA) as dependent variables and the number of politicians on a company's board as independent, it was not statistically significant. Board size, on the other hand, proved to have a negative and significant influence on ROA while its effect on ROS was still negative but insignificant. Prior performance, used as an instrumental variable, expectedly had a positive and significant relationship to both ROA and ROS.

In their own cross-country analysis, Boubakri et al. (2008) used several performance measurements to investigate the influence of political connections. They used ROS, sales growth, earnings growth, ROA and return on equity (hereinafter: ROE) and managed to statistically prove<sup>14</sup> that all measures had much higher values for non-connected firms. Moreover, logit regression results suggest that politically connected firms indeed perform worse than their non-connected counterparts. Goldman, Rocholl and So (2009) similarly formed its hypotheses that political connections add value by creating future benefits for the firm. They, however, considered only stock value of firms one to seven days after the election. The sample consisted of firms included in the Standard & Poor's 500 stock market index in the period 1996–2000, consisting of common stock prices of the 500 top publicly

<sup>&</sup>lt;sup>13</sup> Defined as number of people sitting on the board

<sup>&</sup>lt;sup>14</sup> Significant for all except the earnings growth

traded US companies. Matching this with the dataset on donations made by publicly traded firms to the Republican and Democratic parties showed that a firm's value goes up when the director's political party wins the elections. Hence, firms can benefit from their connections to the winning party. Their stock returns are positively and significantly related to their political connection with the winning party (Goldman et al., 2009).

Desai and Olofsgard (2011) found that politically influential firms report lower real sales growth, shorter investment horizons, and lower levels of productivity than their nonconnected peers. For the measure of productivity, authors used residuals in a Cobb-Douglas production function and named it within-country total-factor productivity (hereinafter: TFP). Moreover, data showed that influential firms have easier access to debt and face lower demand elasticities. One of the main ideas, which is very worrying, especially in the times we are facing right now, is that "politically-devised restrictions that block access to technologies and preserve rents for the elites are in the heart of prolonged economic under-development" (Desai & Olofsgard, 2011, p. 139). Thus, even though cronyism might lower the fixed costs it affects a firm's productivity levels, innovational spirit and variable costs (Desai & Olofsgard, 2009). The latter are higher due to the excess labor. Their research suggests a trade-off between short term profits, as a result of benefits firms receive, and long term success and viability. Thus, their findings point out a very important conclusion that cronyism and political intervention are not problematic only because of the competition distortion and the negative effects they have on trust in the fairness of the political system, but also because of the harm it does to firms by hampering their long-term development in exchange for shortterm gains.

Niessen and Ruenzi (2009), who investigated German firms, found that connected firms are larger in terms of sales, market capitalization and assets. On the other hand their market valuation<sup>15</sup> is significantly lower than that of non-connected firms. Authors argue that this does not necessarily mean lower performance but it might suggest fewer growth opportunities for such firms, an argument already put forward by other scholars. Furthermore, the price-earnings ratio is considerably lower for connected firms. Both findings suggest MPs rather work for established companies with fewer growth opportunities than for the riskier ones and confirm the reputational reason explained above. Research also suggests that politically connected firms have higher ROE and return on investment (hereinafter: ROI). Even though the latter might be especially surprising, since we just explained how politically connected firms have lower growth opportunities, this actually has some sense. Being less risky means one would invest in safer projects which at the end bring higher returns. To conclude, their research suggests that connectedness is positively correlated with better accounting as well as stock market performance, but negatively correlated with growth options.

<sup>&</sup>lt;sup>15</sup> Tobin's Q was used as a proxy for market valuation. It is the ratio of book value of assets minus book value of equity plus market value of equity to the book value of assets (Niessen & Ruenzi, 2009).

If the evidence from Germany above suggests a mostly positive effect of political connections on a firm's performance, the French example, carried out by Bertrand et al. (2004) suggests the opposite. On the side of the firms, their analysis did not show any significant benefits they might incur due to the connection. What happens, in reality, is the opposite. Connected firms showed lower profits compared to their non-connected peers and as suggested by authors, this result seems to be mainly driven by higher payrolls, as a result of excess employment. Thus, authors came to a somewhat different conclusion compared to the German case. They also did not prove that connected firms receive tax exemptions nor are they more likely to receive subsidies in times of elections. In fact, the results suggest a negative correlation between a firm's performance (measured as ROA) and the political connectedness, argue the authors.

Bertrand et al. (2004) conclude their article by suggesting that their results might be different due to the fact that in established democracies with stable institutions, the benefits from political connections could be more restricted. The problem with this explanation is that they compared their study mostly with earlier studies done on the third world countries and dictatorships, whereas only the later German example presented first was published, suggesting otherwise.

### 2.4 Past research on political connectedness in Slovenia

Research work on the topic of political connectedness in Slovenia is very limited. The seminal work on the political connectedness and its effect on the productivity of the biggest Slovenian firms was part of the extensive IMB research project on the transformation of the service and banking industry during the crisis in 2011 and initially published in the conference proceedings of the 13. Portorož Business Conference (Domadenik et al., 2011). The political connectedness of the firm was measured through the connectedness of its supervisory board members. A supervisory board member was considered politically connected if he/she was or is a member of a political party or had publicly declared his/her affiliation towards a party, if he/she was a candidate for national/local election or if their close relatives are politically connected. Research on the sample of 276 biggest Slovenian firms<sup>16</sup> has shown that the presence of the politically affiliated supervisory board members was very high and increasing in the observed period 1996-2010. Moreover, in the periods 1996-2002 and 2003-2008, a higher share of politically affiliated supervisors had a statistically significant negative impact on firms' value added. Hence, as concluded by the authors, if two firms in the same industry and the same ownership group are to be compared, the one with the lower share of politically affiliated supervisors exhibited lower productivity and vice versa. In other words, the differences in productivity in firms operating in the same industry can be significantly explained by the existence of politically connected supervisors. It was also argued by the

<sup>&</sup>lt;sup>16</sup> Firms with more than 100 employees

authors that a loss in productivity is a consequence of rent-seeking behavior. These conclusions received a great deal of publicity in the domestic media and an active action from the CPC that published several reports on the topic and corroborated its arguments on that article, especially since higher shares of politically affiliated supervisors are more prevalent in SOEs, which are controlled directly or indirectly through those in power. We have seen in the chapter on the historical overview that SOEs are still quite a common feature of the Slovenian economy.

This master thesis is the continuation of this research, investigating connectedness in detail, i.e. affiliation to the Left or the Right, membership of a party, candidacy for election, serving as a government official etc. Moreover, data was updated to include an additional two "crisis" years, 2011 and 2012. The latter will provide a much better view of the connectedness trend during the crisis and will allow us observe possible positive outcomes generated by our initial research. We also included data on monetary transactions between public sector and the sampled firms. More will be explained in the upcoming empirical chapters.

Apart from the abovementioned paper there are several other works which investigate political connections and the network of elites in one way or the other, but without the clear connection to the performance measures. Among these works is also a work done by Brezar (2007) carried out at the Faculty of Economics, who researched political appointments in two big Slovenian SOEs, Petrol and Mercator, and its effect on the performance. The research however only assumed political interference in these two firms in the year 2005, when the CEO and supervisory board was changed in both firms, and did not present a specific measure of it. The aim of the study was to show that the performance of firms after the change was different to the performance prior to the change. The author concludes that there is a negative influence of political interference (change of management) on the performance of both firms.

Extensive research on the networks and the elites without a connection to the firms' performance factors was done by Žerdin (2012), whose research work titled "Omrežje moči" was already mentioned throughout the historical overview. His empirical research showed that the change in government leads to the changes in the very structure of the network of the elites. The author also proved that a win in the elections not only brings political power to the winning politicians but also a possibility to take over important levers of economic power. His data, similarly to ours, showed a high circulation of elites in 2004, after the change in the government.

Networks were also extensively studied by Pahor (2003). In one of the studies Pahor, Prašnikar and Ferligoj (2004) investigated the emergence of corporate networks<sup>17</sup> in Slovenia during the transition on 250 of the most important Slovenian firms in 2000. As argued by the

<sup>&</sup>lt;sup>17</sup> "Group of companies that are integrated neither completely nor barely at all" (Pahor et al., 2004, p. 307).

authors, the structure of corporate networks is very much a result of the mass privatization that was carried out in Slovenia. Corporate networks were identified based on two types of relations between firms – the ownership and the governance relation, reflected as a presence on the supervisory board. As previously stated, dispersed ownership structures gave the possibility of interested owners being represented on supervisory boards with relatively low percentages of ownership. These interested parties were mostly state funds, which by privatization laws received shares in practically every firm and which also turned out to be an important linking factor in the Slovenian corporate network, substantiates the analysis. Moreover, two state funds had been shown to be the main source of state influence in the network, which is why the task of removing the involvement of the state reduces to only restraining the involvement in these funds (Pahor et al., 2004).

## **3 EMPIRICAL ANALYSIS OF THE INFLUENTIAL CONNECTIONS:** THE CASE OF SLOVENIA

#### 3.1 Introduction and research background

In this thesis we argue that there are two types of influential connections and we differentiate between them based on the source of the influence. First, there are people whose influence comes from their political affiliation or background. Hence, political connections are the source of their influence (**political influence**). On the other hand there are people, whose influence comes from expertise - meaning that the expertise is the source of their influence (**expert influence**). We argue that (in most cases) the first group is appointed based on their connection to the political source of power, while the second are appointed due to their expert value and through the influence attained through experience. In the case of every appointment of a politically connected person, the right question to ask is 'would this same person be appointed without his/hers political background?'

It was already pointed out in the literature review that our definition leans very much on that of Faccio's (2002, 2006) and was already adopted in Domadenik et al. (2011). In most of Faccio's work, a company is considered connected if at least one of its larger shareholders or any of its top managers is a MP, a minister, or is closely related to a political party or a politician. However, as stated previously, our definition is broader in scope as it not only includes high government officials but also municipality officials, party members, election candidates or simply the relatives of those politically connected. Moreover, we do not talk about a firm being politically connected but rather we measure political connectedness by the share of the connected members of the supervisory board. Hence, a firm is not just connected or non-connected (as in the case of dummy variables) but can be non-connected or connected on a scale from 0 to 100 percent, depending on the number of supervisors that are connected.

The main reason for choosing the supervisory board as an entity to measure the political connectedness of a firm is in the type of corporate governance of the biggest Slovenian firms.

The corporate governance system in Slovenia enables firms to choose between a one-tier and a two-tier system (Zakon o gospodarskih družbah, Ur.l. RS, no. 65/2009-ZGD-1-UPB3). Most of the big companies, however, choose a two-tier governance system (very similar to the German model) which consists of the management board, which runs the firm, and a supervisory board. The latter appoints the members of the management board, supervises the board and has several other important functions in the firm. In some firms it may even have the responsibility to take the final decision on the biggest investments a firm wants to pursue. Hence, the supervisory board has a great deal of power and is appointed directly by the firm's shareholders at the assembly (Annual General Meeting). Moreover, and as is argued also by Pahor et al. (2004), it follows logically that if one can ensure control over the supervisory board, one can also control the firm and its decisions through the selection of the CEO and other members of the board.

According to the Company Law, there are not many limitations on who can or cannot be elected as a member of a supervisory board. In particular, there is no barrier for a politician to become a member of a supervisory board. In 2006, the government amended the previously mentioned Companies Act by restricting the maximum possible supervisory board membership by one member, amounting to a total of three (Zakon o gospodarskih družbah, Ur.1. RS, no. 65/2009-ZGD-1-UPB3).

The initial database for this study was developed for the IMB research project at the Faculty of Economics, which was first presented at the 13<sup>th</sup> Portorož Business Conference in 2011 (Domadenik et al., 2011) and adapted for the IAFEP Conference in New York a year later (Domadenik, Prašnikar, & Pataky, 2012). Evidence, which gave similar findings and was presented in the literature review chapter earlier, was found in many other developing and developed countries, but despite knowing that Slovenian politics are highly embedded into the economic system, no research that would prove the relationship between this connection and productivity was done until that point. This thesis is the continuation of that research. The database was enhanced, not only storing the data on political connectedness of every member of supervisory board (as a dummy variable), but also a detailed description of every connection (i.e. is he/she a government official, a party member, an election candidate, MP or a member of National Council) including the affiliation towards left-wing or right-wing political position<sup>18</sup>. This allowed for a far more detailed analysis of political connectedness. Furthermore, data for 2011 and 2012 were added in order to be able to examine the crisis years more thoroughly.

<sup>&</sup>lt;sup>18</sup> We will return to the distinction between the left-wing and right-wing political positions in later chapters, clearly stating, in terms of the Slovenian case, which party is considered to be from the Left and which from the Right. Generally speaking, and specifically in the Slovenian political discourse, the Right is considered as more socially conservative, favoring the status-quo and the retention of existing social structures. The Left is, on the other hand, more concerned with socially progressive programs with emphasis on social equality and change.
As will be seen in the forthcoming chapters, the database creation process was a long and time-consuming process, lasting for several months before the first analysis was possible. At the end, the database consisted of more than 6.700 names, from both supervisory and management boards, and for over 20 years of data. In total there were more than 8.000 supervisory board mandates and more than 5.000 management board mandates recorded in the database.

The remainder of this Chapter will be structured as follows: we will first explain a complex data collection process, consisting of several phases of data collection and data transformation, and then concluding the introductory chapter with the research limitations. We will then move to the formation of research questions and hypotheses. The empirical chapter will continue with the overview of the sample, periods and main terms used throughout the analysis. What follows is the extensive analysis of the database, starting with summary statistics on supervisory board composition and continuing with the focus on political connections. We will analyze and statistically test many different supervisory board characteristics, attempting to understand what was happening with political connectedness in our observed period. The final part of the empirical analysis is the multivariate regression model, developed to substantiate the main hypotheses - that political connections harm a firm's success.

## **3.1.1 Data collection process**

The starting point in the database creation was the sample of 384 Slovenian tradable and nontradable big firms and all their financial data for the period 1996–2010, initially developed for the extensive IMB research project that resulted in the book titled The Slovenian Economy: Stranded in Recovery (Prašnikar (ed.), 2011) and was presented at the 13<sup>th</sup> Portorož Business Conference. We later added to the sample 38 more companies, which were considered important for the analysis and/or for the Slovenian economy (Domadenik at al., 2012). These companies were either old, non-existing companies that were predecessors of firms in our initial samples (16 such cases), larger (financial) holdings which hold the ownership of some of the companies in our initial sample but were not included in it<sup>19</sup> (12 such cases) and other important companies (10 cases<sup>20</sup>). For this thesis we also added the two most recent years (2011 and 2012) to the observed period, making analysis more up to date and allowing us to more thoroughly examine the situation during the present financial crisis. Hence, the initial data sample consisted of 422 firms.

<sup>&</sup>lt;sup>19</sup> In that case, their data on supervisory and management boards was used also as a proxy for their dependent firms. Such cases will be explained in detail later on.

<sup>&</sup>lt;sup>20</sup> Five firms are from the construction sector, which was considered important as it suffered the most during the crisis. Three cases are important infrastructural, state-owned firms, and one firm is a successfully privatized (MBO) large firm while another is a troubled state-owned gambling/casino enterprise.

Having the sample of 422 Slovenian firms was just the beginning of the complex and longlasting data collection process. It took us several months to collect and arrange all necessary data. In order to be able to analyze the effect of political influence on the firms' success, we needed to develop what will be referred to as the **Board Membership Database** (hereinafter: BMD) for all firms in the sample, using the database management tool Microsoft Office Access 2010. The BMD consists of three tables. We will name these three tables the **'peoples' table'**, containing all people, the **'supervisory board mandates table'**, containing information about the supervisory board mandates and its duration, and the **'management board mandates table'**, containing information about the management board mandates and its duration. Information about the names was stored only in the peoples' table, which was connected to both of the mandates tables through the member's unique identification number. The visualization of the relationships between the tables in the Microsoft Office Access database is presented in Appendix C.

Supervisory board mandates, management board mandates and peoples' tables were developed in parallel and in three phases. We first gathered all publicly accessible data regarding members of management and supervisory boards (even before 1996) from The Agency of the Republic of Slovenia for Public Legal Records and Related Services (hereinafter: AJPES). Data is freely accessible for all registered users from their online website and is documented in PDF files - this translated to a great deal of manual deciphering. For most firms, we were able to obtain first name, last name, sex, home-address, country of residence, board position and starting/ending date of the mandate. We faced two main problems at this stage - firstly, the quality of data was not consistent across companies. Especially supervisory board position was not always reported as some companies did not state who in the supervisory board was a president or a vice-president. Secondly, supervisory board members data before 2007 was less detailed as companies did not need to report as thoroughly as after that year. The first phase was repeated each time when the database was enhanced: First, when the initial research was completed in 2011, second, when firms were added to the sample in 2012, and third, this year, when 2011 and 2012 were added for the purpose of this thesis. Currently, the database consists of 6.789 people. Of these, 4.760 (70,1%) appeared at least once in a supervisory board, holding a total of 8.703 supervisory board mandates (stretching over the period from 1991 to 2012), and 2.822 (41,6%) appeared at least once in a management board, holding a total of 5.024 management board mandates (stretched in the period from 1974 to 2012).

Due to the legislation on the protection of personal information, we were not able to obtain additional data from AJPES or other institutions, so we had to use only publically accessible information on the internet. In the **second phase** we collected all election registers which were publically available online at the website of the State Election Commission (hereinafter: SEC) and matched the names in our database with the names from the election registers. This phase was first executed in 2011 and then repeated in 2013 in order to add the data to that of the national elections in 2011. We added the information regarding political affiliation, year

of birth (also reported in the election registers) and education (where provided) for people we matched with a high degree of certainty<sup>21</sup>.

In the **third phase** of data collection, all names were checked again using Google online search tool and its capabilities, searching for possible additional information (education, year of birth, political affiliation etc.). Again, the information was added very carefully, only for those people or companies where the information could positively and accurately be corroborated. For the purpose of this thesis, all politically connected names were checked again in order for further detailed information to be added.<sup>22</sup> The range of personal information relating to people in the database is presented in the Table 1. Descriptive statistics on the availability of political affiliation data will be presented later, in the sample description chapter.

	Valid	Missing	% available
People in the database	6.789		
Year of Birth	1.497	5.292	22,1
Gender	6.789	0	100,0
Address / Postal Code	4.618	2.171	68,0
Education	1.006	5.783	14,8

Table 1. Completeness of personal information of the peoples' table

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

Apart from creating the BMD, we needed to create another database containing financial data for firms in our sample. Financial data for the period 1996–2012 was provided by AJPES and was adjusted for inflation to the base year 1996 using pre-calculated inflation factors (see Appendix B).

The final stage of the data collection process was the development of a joint time-series database, containing all relevant data (firms, supervisory board composition and financial data) in one place and allowing us to carry out the analysis. In order to create such a database, BMD needed to be completely transformed. The transformation was done using an advanced ASP script<sup>23</sup> developed by myself and a MySQL open source database which stored the newly

<sup>&</sup>lt;sup>21</sup> Matching criteria were name, surname and a home address.

<sup>&</sup>lt;sup>22</sup> Information about whether a politically connected person was a government official, a party member, an election candidate, politically affiliated to the left or the right, a member of the national council or just related to other politically connected people.

<sup>&</sup>lt;sup>23</sup> ASP, short for Active Server Pages, "is a set of software components that run on a Web server and allow Web developers to build dynamic Web pages. The advantage of ASP over static HTML Web pages is that an ASP page is like a computer program that runs on a Web server and can calculate results, process user input, and read from or write to databases and files" (Getting Started with Active Server Pages, n.d.).

transformed data. In short, the transformation was done in two steps. Firstly, data was transformed from the personal level data on a daily basis available in the BMD to a company level data on a weekly basis using the abovementioned ASP script. Hence, we lost the information about specific people but retained aggregated board composition data for every company for each week. Secondly, the data was further aggregated on a yearly level allowing us to merge the newly created database with the yearly financial data.

We further removed from our sample of 422 companies all firms without a supervisory board or the possibility to tie them to their mother companies with the supervisory board. There were 294 firms overall with its own supervisory board and 15 firms without supervisory boards but with the parent firm that had a supervisory board in the sample. We used proxy values for the supervisory board composition variables for these 15 firms, copying them from their parent firms. The sample of companies was then reduced from the initial 422 down to 309 firms. Additionally, we decided to focus only on the period after 1996, as very few firms had supervisory boards earlier than this. The final joint database consists of 3.827 firm-year observations with financial and supervisory board data.

## **3.1.2** Limitations of the study

To our knowledge, the database created for this and our previous research (Domadenik et al., 2011) is one of the most detailed and extensive databases covering the topic of political connectedness in firms. However, as with every analysis, there is always a certain limit to what information can be acquired from the available sources. In our case, and as was already mentioned, data on supervisory boards was not completely consistent across all firms, making it much harder to match people to their possible political ties. Only after 2007 did firms start to report not only the name and the surname of the members of their supervisory boards, but also their home addresses, which made the work much easier. Furthermore, not all firms reported on the roles of certain members within the supervisory board and there was no data on whose interests supervisors represent (workers' or shareholders'). Despite wanting to analyze both of the mentioned dimensions of the supervisory board members, non-availability and non-consistency of data made it impossible. Data, however, would be available in the annual reports of the firms, which might be an opportunity for further research in this field in the future.

The availability of data is also associated with the sources used for developing the database. The primary source for the data relating to political connections was the internet which was heavily used in Slovenia, but only after 2000. We were able to acquire full election registers for parliamentary elections in 2000, 2004, 2008 and 2011 and for the local elections in 2006 and 2010. All of the names in these electoral registers have been cross-checked and added to

the database but only where there is a high level of certainty.<sup>24</sup> Furthermore, when checking each and every individual in the database, we also found matches to elections prior to 2000, since electoral registers for that period existed as well but were not organized and were available only in PDF format. Moreover, MPs and members of the National Council were cross-checked with the names in the database. However, the fact remains that the availability of information prior to 2000 on the internet is limited. This means that the political connectedness figures in our analysis for the periods before 2000 are probably underestimated.

Financial institutions in Slovenia do not report their data in the same way as other firms do and their balance sheet and income statement data was not available to us. Although the banking and the insurance sectors were influenced by political connections, we were not able to use them in the regression analysis estimating the effect of political connections on efficiency.

## 3.2 Research questions, hypotheses and methods

The literature review chapter gave some important insights on the research done thus far, and the many authors who investigated the political influence on different types and sizes of samples, have proven that there is a relationship between political connectedness and firms' success (measured as ROE, ROA, stock prices, value added etc.). Moreover, our initial study (Domadenik et al., 2011) on this topic proved the same, that is, political connectedness and firms' productivity do not go in the same direction.

This master thesis takes these conclusions and explores them further by investigating how political connectedness in the largest Slovenian firms evolved in recent times. Our main research question is relational, namely, **is there an association between political connectedness, measured through the political affiliation of the members of supervisory boards, and firms' success**. Our measure of firm's success is value added, which serves as a dependent variable for a firm's output in a Cobb-Douglas production function. We will enhance the production function by adding supervisory board characteristics and estimating the model for each industry separately. Many authors, some of them using similar methodologies (Desai & Olofsgard, 2011), have proven the negative effect of political connections on accounting based performance measures (Faccio, 2002; Hillman, 2005; Menozzi et al., 2012; Bertrand et al., 2004). Desai and Olofsgard (2007) in particular have shown a negative relation between efficiency and political connectedness. The model and its estimators will be presented in more detail in the upcoming chapters.

<sup>&</sup>lt;sup>24</sup> Matching criteria was described earlier in the data collection chapter.

Based on the evidence from the authors just mentioned, a set of two main hypotheses was developed. Both hypotheses will be tested using regression models in the final part of the empirical chapter.

- 1. HYPOTHESIS 1: Firms with higher share of politically connected members of supervisory board have lower value added compared to their less connected peers.
- 2. HYPOTHESIS 2: Firms with higher share of experts in the supervisory board have higher value added compared to firms with less expert influence.<sup>25</sup>

Apart from the main research question and hypotheses described above, our aim is to answer several other questions and their related hypotheses. They are the following:

SUB-QUESTION 1: Is there an association between political connectedness and the industry or ownership type in our sampled firms, and are there differences between them? Many authors have proven so, showing that political connectedness is both industry and ownership dependent (Agrawal & Knoeber, 2001; Hillman, 2005). Boubakri et al. (2008) found the biggest relation in the energy and telecommunication sectors, which was mostly confirmed by other research. We similarly hypothesize on our data that there is a difference in political connectedness across industries and ownership types. Some industries are more preferred by politicians than others.

- SUB-QUESTION 2: Can we observe a circulation of elites in supervisory board with the change of government in 2005? Research done by Žerdin (2012) on the Slovenian elites had shown an extremely high elite circulation in the period 2005–2008. Since many firms in our sample are still SOEs, we expect to observe the same patterns. Based on our data we hypothesize that elite circulation is clearly visible in 2005 and 2009 when governments changed from left-center to right-center and from right-center to left-center respectively. Moreover, we claim that politically connected supervisors are more likely to be appointed in the first year of the new government, compared to the other years. Lastly, we argue that higher elite circulation results in shorter mandates.
- SUB-QUESTION 3: Do politically connected firms do more business with the public sector compared to their non-connected peers? Even though other authors did not analyze this association in much detail, it might be

<sup>&</sup>lt;sup>25</sup> Both 'expert' and 'political' influence are defined at the beginning of next chapter (3.3 Sample overview).

hypothesized that this in fact is the case. We claim that highly politically connected firms do more business with the public sector compared to less/non-connected firms.

- SUB-QUESTION 4: Did the occurrence of political connectedness change with the crisis and more publicity on that topic? The crisis not only brought a lot of economic issues but also revealed many previously concealed topics. In particular, the debate on political interventionism in supervisory boards received much more publicity. Hence, we hypothesize that the share of politically connected supervisors decreased during the crisis as a result of increased media coverage.
- SUB-QUESTION 5: Since political influence helps one attain important positions, are politically connected supervisors present in more firms/industries compared to non-connected? Since political influence helps achieve important positions in firms, we argue that politically connected supervisors, on average, hold membership positions in more firms than those who are politically non-connected.

## **3.3** Sample overview

## **3.3.1** Definition of political connection

We consider as politically affiliated or connected every individual in our database with any past or present activity in the political arena, as represented by public support of a political party, the option of candidacy for election, the membership of a political party, past or present work as a government official, MP or a member of National Council, or a person whose close relatives are politically affiliated.

## **3.3.2** Definition of influential supervisor (political and expert influence)

We defined as **'influential'** every supervisor who was a member of two or more supervisory boards at any time in the whole observed period 1996–2012. More supervisory boards a supervisor appears in, more influential he/she is. Influential supervisor's influence may come from two sources: from the political connection, as described above, or from expertise, such as if a person was a member of supervisory boards in more than one firm but not politically connected. We will define the first as **political influence** and the second as **expert influence**.

## **3.3.3** Explanation of the variables of political connectedness

What follows is the list of the variables of political connectedness that we use in and throughout the analysis. First on the list is the primary variable, Share of Politically

Connected. All other variables apply only to politically connected supervisors as they only explain the type of political connectedness in detail. All variables have firm aggregated values and are given for every firm-year observation in the database for the period between 1996 and 2012. In order to make companies comparable, all variables are calculated as a relative share of the supervisory board size (share in total number of supervisory board members).

- 1. **Share of Politically Connected** is the share of politically connected supervisors for every firm-year observation (type not considered, all supervisors which fall in at least one of the other variables listed here). The share of politically connected is further split into the share of those connected to a political entity, the share of government officials/secretaries and the share of those related to a politically connected person.
- 2. Share of Connected to a Political Entity is the share of supervisors for every firm-year observation who are connected to a certain political entity (either a political party or a so called non-party list).
- 3. Share of Party Members or Public Sympathizers is the share of supervisors for every firm-year observation who are or were party members or have publicly declared their affiliation to a certain party. The share of party members or public sympathizers is further split into the share of the left and the right. Party members who were considered as being in the political center were not classified as either left or right. Such supervisors were only classified as party members without further distinction based on affiliation.
- 4. Share of the Left is the share of supervisors for every firm-year observation who are or were members of leftwing political parties or have publicly declared their affiliation to the left. As leftwing political parties we consider the following parties: Social Democrats and former United List of Social Democrats, Liberal Democracy of Slovenia, newly established Positive Slovenia and partly Democratic Party of Pensioners of Slovenia.
- 5. Share of the Right is the share of supervisors for every firm-year observation who are or were members of rightwing political parties or have publicly declared their affiliation to the right. As rightwing political parties we consider the following parties: Slovenian Democratic Party, New Slovenia, Slovenian Peoples' Party and the former Slovene Christian Democrats and partly the newly established Civic List.<sup>26</sup>
- 6. **Share of Government Officials** is the share of supervisors for every firm-year observation who were, in any government since the independence of the Republic of Slovenia, either a minister or other high government official (but not a secretary).

<sup>&</sup>lt;sup>26</sup> It is important to note that many more political parties were included, but without a clear distinction towards left/right, which is why every member needed to be checked and classified.

- 7. Share of Government Secretaries is the share of supervisors for every firm-year observation who are or were, in any government since the independence of the Republic of Slovenia, secretary of any governmental institution.
- 8. Share of Candidates for (any) Election is the share of supervisors for every firm-year observation for whom a record of running for any kind of election, national or local, was found.
- 9. **Share of Candidates for National Election** is the share of supervisors for every firmyear observation for whom a record of running for national election was found.<sup>27</sup>
- 10. **Share of the MPs** is the share of supervisors for every firm-year observation who were, at any time since the independence of the Republic of Slovenia, Members of the National Parliament of the Republic of Slovenia.
- 11. **Share of the Members of National Council** is the share of supervisors for every firmyear observation who were, at any time since the independence of the Republic of Slovenia, members of the National Council of the Republic of Slovenia.
- 12. **Share of Related to a Politically Connected Person** is the share of supervisors for every firm-year observation who are closely related to or befriended with other politically connected person (i.e. MP, an important Party Member or a former or current government official).

## **3.3.4** Firms sample description

As thoroughly explained in the chapter on data collection process, our final sample consists of 309 firms. Of these, the majority, 50,2%, are tradable firms (export oriented), from the manufacturing industry (46,0% of the whole sample) and either with a dispersed ownership structure (27,2%) or state-owned (25,2%). Most of them are located in Central Slovenia (37,5%) and were established before 1996 (89,6%). Throughout the period of observation, 11 firms bankrupted, which represents 3,6% of the whole sample. A more detailed summary is available in Table 2.

In terms of financial data, the sample of firms is slightly smaller as we were not able to acquire financial data on most financial institutions (banks and insurance companies). Thus, the analysis, which will take into consideration financial data (regression analysis) will not

<sup>&</sup>lt;sup>27</sup> Due to the availability of data, information is more accurate for the period after 2002 when candidate lists and all necessary information that enabled cross-checking were fully available online.

include financial institutions. However, we will include financial institutions when observing the supervisory board composition. Table 2 presents some basic summary statistics for the financial data of sampled firms. Notice that in most cases the mean is vastly different from the median, suggesting that there are big differences among the mid-point company and the companies in the last quartile. This is expected, since the sample consists only of the biggest Slovenian firms. There are few, which are very big (e.g. DARS, Mercator, Telekom Slovenije, Slovenske Železnice) and are driving the overall mean up. Average number of employees in the sampled firms is 515,54.

We will use a slightly different number of firms for the analysis that follows. For the analysis exclusively on the supervisory boards we analyze 294 firms which had supervisory board in at least one of the years in the period 1996–2012. Firm-years included in the sample analyzed are only firm-years with a supervisory board. However, when using multivariate models to estimate the effect of political connections on value added, we will include the remaining 15 firms and use proxy values from their parent firms.

Table 2. Firms sample overview (N=309), 1996–2012

Industries		Ownership	
Manufacturing	46,0	Dispersed ownership	27,2
Financial Services	10,0	Financial holding	11,3
Utilities	7,1	Cap Ownership	10,4
Electricity	5,5	Management Buy-out (MBO)	3,9
Trade	9,4	Big Private owners	12,3
IT <sup>28</sup>	3,9	SOEs	25,2
Transport	6,5	Foreign Ownership	9,7
Construction	2,6		
Other <sup>29</sup>	9,1		

A. Frequencies (in % of total sample)

table continues

<sup>&</sup>lt;sup>28</sup> IT industry includes Information and Communication services (including Telecommunications).

<sup>&</sup>lt;sup>29</sup> Other includes mostly Catering and Hospitality services, but also some health care, publishing and agricultural firms.

#### continued

Regions			
01 - Mura	4,5	07 - Southeast Slovenia	5,2%
02 - Drava	10,0	08 - Central Slovenia	37,5%
03 - Carinthia	2,3	09 - Upper Carniola	10,4%
04 - Savinja	11,7	10 - Inner CarnKarst	1,6%
05 - Central Sava	1,9	11 - Gorizia	5,2%
06 - Lower Sava	3,2	12 - Coastal-Karst	6,5%
Year of establishment		Bankrupted firms	
Before 1996	89,6	2010	0,3 (1 firm)
1996–2002	7,2	2011	1,9 (6 firms)
2003–2008	3,2	2012	1,3 (4 firms)
2009–2012	0,0	Total	3,6

B. Summary statistics of deflated financial data (in EUR) and number of employees

	Mean	Median	Std. deviation
Tangible Fixed Assets	35.191.701	7.597.753	146.859.514
Capital	32.918.610	8.275.307	75.226.007
Net Revenues	40.555.882	13.577.305	94.840.098
Cost of Material and Services	30.736.193	8.826.402	82.840.546
Cost of Labor	5.733.286	2.572.210	10.531.042
EBIT	1.221.001	319.796	9.052.567
Net Income	1.001.807	256.038	10.067.092
Value Added	9.819.689	3.855.978	20.061.886
Number of Employees	515,54	252,00	935,79

Source: AJPES, Financial data for Slovenian companies, 2013; own calculations.

### 3.3.5 Members of supervisory boards sample description

Our database of supervisory board members consists of 4.699 names which appear as supervisory board members in 294 firms in the period 1996–2012. 762 who appear in more than one supervisory board are considered as influential supervisors. Overall, 20,6% of all supervisors are politically connected. 53% are connected to the left-wing parties and 47% to the right-wing. More summary statistics about the sample of supervisors is in Table 3.

A. Frequencies (in % of total sample)

Variables		Variables	
Foreigners	10,9	Female	19,9
Politically connected	20,6	Ratio Left to Right	53:47
Party Members	16,2	Government officials	1,4
Candidates for (any) elections	13,8	Candidates for the national elections	4,0
Present in academia	2,4		
Education		Availability of data**	
4 – Vocational upper secondary	1,2	Age	23,7
5 – Technical and general upper secondary	6,8	Education	28,9
6 – Short-term higher, higher vocational & first Bologna cycle	12,3		
7 – BsC & second Bologna cycle	42,0		
8 – former MsC	24,2		
8/2 - PhD	13,5		

B. Summary statistics of selected variables

Variables	Mean	Median	Std. Deviation
Age (in years)*	46,9	47,0	10,6
Number of firms an average supervisor appears in	1,3	1,0	0,8
Mandate length (in weeks)	190,9	159,0	159,2

Note. \* Age calculated from 2004 (middle of the observed period 1996-2012); \*\* As percent available.

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

## 3.3.6 Description of the period under observation

The period under observation is a very long period. We have seen in the chapter on the historical overview that the situation in Slovenia changed a lot - in both a political and an economic sense. Thus it is almost impossible to look at the whole period as one. We will remain with the three sub-periods defined by our prior research (Domadenik et al., 2011), but add 2011 and 2012 bringing us to the latest period:

- 1. **1996–2002** is the period after the first wave of privatization and a period of ownership restructuring. In the political sense, this is a relatively stable era with mostly left-wing government domination. In an economic sense, the second part was a period of several structural reforms that led to joining the EU in 2004.
- 2. **2003–2008** is a period characterized by strong growth and a period of huge political change. After an era of domination by the left-wing, the right-wing government won the 2004 elections. It was a relatively turbulent period and many mistakes made were hidden by the growth of the whole economy.
- 3. **2009–2012** is a period of global financial-economic crisis. It hit Slovenia in the second half of 2008 but only started seriously affecting its economy in 2009. It was also the beginning of another change in government (back to the left-wing), which promised to put an end to appointments based on political affiliation. The period ends with yet another political change. Thus, in a political and economic sense, this is a very turbulent period.

For the purpose of the analysis on political connectedness and elite circulation we decided to adopt slightly different and more intuitive periods. In this case, the period borders are characterized by the change in government. We define four political periods or political cycles:

- 1. **1996–2000** was the period of left-center government that did not manage to finish its mandate and was substituted with the right government for a short 6-month period at the end of 2000, just before the new elections.
- 2. **2001–2004** was also the period of left-center government. A 6-month right government leadership in 2000, which was accompanied by a lot of disapproval from the public, resulted in a big win of the center-left Liberal Democracy of Slovenia in the elections later that year.
- 3. **2005–2008** was a period of big political change when coalition consisting of right-center parties won the elections. According to Žerdin (2012), this was also the period of the highest elite circulation.
- 4. **2009–2012** was a period of crisis and political turbulence. It started with the left-center win at the elections. The coalition, however, did not last for the whole mandate (only until 2011). New elections took place in 2011 and another switch to the right in 2012.

## 3.4 Supervisory board characteristics

## 3.4.1 Number of supervisors in supervisory boards

Before going into deeper analysis about the political connections in firms, we must first identify the general characteristics of supervisory boards in our sampled companies. One of the first research questions was whether the supervisory board size (measured by the number of supervisors on board) changed over the time and whether there are some differences in supervisory board size across industries.

Statistical tests carried out prove several different relations between board size and other characteristics. First, there is a statistically significant and positive correlation between the supervisory board size and capital and tangible fixed assets (Pearson correlation coefficient of 0,315 and 0,165 respectively, significant at a very low level of risk). Moreover, there is also a positive and strong correlation between the supervisory board size and the average number of employees (coefficient of 0,355, significant at a very low level of risk). Both results (presented in Table 4) suggest that bigger firms have bigger supervisory boards.

Table 4. Pearson's Correlation between Supervisory board size, Tangible Fixed Assets,Capital and Average Number of Employees, adjusted for inflation, 1996–2012

		Supervisory	Tangible Fix.		Mean no. of
		board size	Assets Def.	Capital Def.	Employees
Supervisory	Pearson Correlation	1	0,192**	0,347**	0,355**
board size	Sig. (2-tailed)		0,000	0,000	0,000
board Size	N	4266	3914	3914	3905

Note. \*\* Correlation is significant at the 0,01 level (2-tailed).

Figure 1 below presents the evolution of boards in terms of its size throughout the observed period. We can see that in the last 13 years, on average, supervisory boards constantly decreased in size. The conclusion is much more obvious when observing only the three sub-periods. In 1996–2002 the average supervisory board consisted of 5,9 members, which reduced to 5,3 in 2003–2008, and further to 4,8 in 2009–2012. The average yearly decrease in number of supervisors was 1,1% (highest change in 2008 when dropped by 5,3%).

Source: AJPES, Slovenian business register, 2013; AJPES, Financial data for Slovenian companies, 2013; own calculations.



Figure 1. Mean number of members of supervisory board by year and period, 1996–2012

Source: AJPES, Slovenian business register, 2013; own calculations.

Looking at tradable and non-tradable companies separately, we can see that there is statistically significant difference between the two. Using independent samples t-test we tested the alternative hypothesis that there is a difference in the size of the supervisory board between tradable and non-tradable firms:

The test confirms the difference and allows us to accept the alternative hypothesis (statistically significant at P=0,00%; see Appendix D). Moreover, on average, non-tradable firms have larger boards (for 0,64 members) compared to tradable firms.

Table 5 below shows the evolution of supervisory board size by industry for the three mentioned sub-periods. Looking at the table we can see that on average Financial Services have the largest supervisory boards, even though their size dropped significantly. In the last period (2009–2012), the Construction sector experienced the biggest drop, which was expected, since this industry was affected by the crisis the most. All industries, with the exception of Utilities, experienced a drop in the period 2003–2008. In the period 2009–2012 most of industries decreased their board sizes further, except for Utilities and IT.

Industry	1996-2002	2003–2008	2009–2012	ANOVA F test
Manufacturing	5,59	4,92	4,40	61,73***
Fin. Services	7,56	6,32	5,97	17,79***
Utilities	5,09	5,57	5,58	3,57**
Electricity	6,25	5,59	5,22	7,01***
Trade	5,74	5,57	4,77	3,15**
IT	5,91	5,00	5,29	2,97*
Transport	6,83	5,34	4,82	17,61***
Construction	5,73	4,79	3,26	23,89***

Table 5. Mean supervisory board size and ANOVA F test results for mean comparison byindustry and period, 1996–2012

Note. \*\*\* Sig. at 1% level of risk; \*\* Sig. at 5% level of risk; \* Sig. at 10% level of risk.

Source: AJPES, Slovenian business register, 2013; own calculations.

## 3.4.2 Length of the supervisory board mandates

In terms of length of mandate of the members of supervisory boards, we see some very interesting differences. Generally, variable Length of the mandate is measured in the number of weeks an individual holds a position as a supervisory board member in a specific firm. If a member appeared twice in the same company but had at least six months break between two appointments, these two appointments were considered two separate mandates. Figure 2 shows the average length of supervisory board mandate by industry with a 95% confidence interval to emphasize statistically significant differences among industries.





Source: AJPES, Slovenian business register, 2013; own calculations.

Figure 2 suggests that the average mandate length in Electricity was the shortest, indicating a high circulation of supervisors in that industry. We can claim at a 5% level of risk that on average Electricity has the shortest mandates in comparison to all industries, except for Construction. The confidence interval for Construction, which spreads from an average of 131 weeks to 172 weeks, suggest that there is a lot of variability among the sampled companies in that industry and the true value might lie anywhere on that interval (with a 95% probability). We learned that Utilities and Electricity have the biggest share of SOEs and would thus expect high circulation in both. But instead, Electricity and Utilities are on the opposite sides, with Utilities having the highest average in our sample. We will return to the comparison between Utilities and Electricity several times, in an attempt to explain why they seem to be similar in terms of political connectedness in general but so vastly different when it comes to specifics.

An overview of the periods, gives some interesting insights on the dynamics of the lengths of mandates. As our sample is limited to 1996–2012, it is expected to see a decreasing trend when moving towards the end of this period. However, a comparison within the period and movements from one period to the other can still be evaluated. Three main movements are visible from Figure 3. First, there is a huge decrease in the average mandate length in Construction. Since Construction suffered the most during the crisis, changes were happening far more often. Second, the average mandate length in the second period decreased for all industries except Electricity, suggesting, to an extent, more political interference in the first period. Third, the differences between industries, if we exclude Construction, were substantially decreased in the last period and we cannot claim anymore, that average lengths of mandates are different across industries.



*Figure 3*. Mean length of supervisory board mandate with 95% confidence interval by industry and period, 1996–2012

Source: AJPES, Slovenian business register, 2013; own calculations.

Before we move on to the next chapter, let us compare the length of the mandates by ownership. We assume that mandates will be shorter in SOEs, compared to other sectors:

 $\begin{array}{ll} H_0: \ \mu_{length-soe} \geq \mu_{length-oth} & \ Mean \ length \ of \ supervisory \ board \ mandate \ in \ SOEs \ is \ bigger \ or \\ equal \ to \ all \ other \ firms. \\ \end{array} \\ H_1: \ \mu_{length-soe} < \mu_{length-oth} & \ Mean \ length \ of \ supervisory \ board \ mandate \ in \ SOEs \ is \ smaller \ in \\ comparison \ to \ all \ other \ firms. \end{array}$ 

As will be seen later, SOEs are partly controlled by politicians who change more often. Independent Samples T-test indeed confirms our alternative hypothesis at a very low level of risk (Appendix F). On average, supervisors of SOEs have shorter mandates then other ownership structures. This claim is statistically significant at a very low level of risk.

ANOVA test of differences of means (see results in Appendix G) for all ownership structures confirms the above finding. Not only is the test statistically significant at a very low level of risk, which confirms that there are differences in the mandate length across ownership types, but also confirms, at 5% level of risk, that SOEs have the shortest supervisory board mandates, on average.

## 3.4.3 Foreigners on supervisory board

As suggested by Figure 4, and as expected, the share of foreign investors on supervisory boards increased throughout the observed period. We can definitely claim, at 5% level of risk, that the share of foreign supervisors in 2003–2008 and 2009–2012 is higher than in 1996–2002. These results are not surprising. We learned in the chapter on the Slovenian transition, that the Slovenian market seriously opened to FDI only after 2000.

*Figure 4*. Mean share of foreign supervisors with 95% confidence interval by period and total, 1996–2012



Source: AJPES, Slovenian business register, 2013; own calculations.

To prove the hypothesis that the share of foreigners increased after 2000, we split the whole period in two sub-periods; before and after 2000. Hypotheses are formulated as follows:

$H_0: \mu_{f\_unt00} \ge \mu_{f\_aft00}$	Mean share of foreign supervisory board members until including 2000 is higher or equal to the one including 2001 and after.
$H_1: \mu_{f\_unt00} < \mu_{f\_aft00}$	Mean share of foreign supervisory board members until including 2000 is lower to the one including 2001 and after.

Independent Samples T-Test proves, at a very low level of risk (Appendix H), the alternative hypothesis that on average the share of foreign supervisors after 2000 increased.

The highest average shares of foreigners are in the IT and Financial services, 26,5% and 25,1% respectively (Figure 5). The average share of foreigners in Trade is also quite high (14,9%). The lowest average shares are in Construction, with less than 1%, followed by Utilities and Electricity, where shares are 2,2% and 3,2% respectively. All three bottom industries consist of a great deal of SOEs and, as we will see in the following chapters, have a high presence of politically affiliated supervisory members. On the other hand, IT is the industry with the least politically affiliated supervisors.





Source: AJPES, Slovenian business register, 2013; own calculations.

In terms of years, 2012 was the year with the highest share of foreign supervisors in the whole period (14,5%). The share of foreign supervisors was growing constantly except in 2000 and 2010, when dropping by 1,5% and 4,8% respectively. Interestingly, 2000 was the year of a short 6-month right government, which was characterized by many changes in supervisory and management boards (Žerdin, 2000), and as it seems many of the former were foreigners. A decrease in 2010, on the other hand, is not as easily explained. Apart from being at the beginning of crisis, this year was not characterized by any notable event.

The highest inflow of foreign supervisors in the last decade occurred in 2003 (19,7% increase compared to the previous year), 2006 (15,5% increase) and 2008 (10,4% increase), which is consistent with the FDI inflows presented in the historical overview. Average annual growth of the share of foreign supervisors in the period 1996–2012 was 7,7%.

## 3.4.4 Women on supervisory boards

In the whole observed period there is on average 18,6% female supervisory board members. Figure 6.A below suggests that the average share was decreasing throughout time. However, the differences in shares are not statistically significant, as suggested by overlapping confidence intervals at 5% level of risk. Moreover, the confidence interval suggests that the variability among firms increased substantially and that there were some firms with a very high share of women and other firms with a very low share.

The same overall trend is visible in the Figure 6.B. However, it seems that in 2010 the trend turned around and the share started to rise. Interestingly, the share of female supervisors was the highest in 1996, with 21,3%, which was also the only time in the whole period when it was above 20%. In 2012, the share amounted to 18,7%, still 2,6 percentage points lower than at the beginning of the period, on average. The average growth rate for the whole period was negative, -0,7%.



Figure 6. Mean share of female supervisory board members by years and periods, 1996–2012

Source: AJPES, Slovenian business register, 2013; own calculations.

Other (including mostly Catering, but also Culture, Health care and Intellectual services) and Trade are two industries with the highest average share of female supervisors, amounting to 30,3% and 25,7% respectively and statistically and significantly different from other industries (at 5% level of risk). The lowest average shares are visible in Financial Services

and Electricity, 11,3% in both (see Figure 7), but are very close to some other industries and thus not significantly different.





Source: AJPES, Slovenian business register, 2013; own calculations.

## 3.5 Politically connected supervisors

We described samples, periods and observed some main characteristics about supervisory boards to get the first impression. The definition of politically connected supervisors was also presented and we argued that it is much broader in comparison to the other definitions developed by other authors. Still, it is important to keep the specifics in mind as well, and thus the additional variables that explain political connectedness in detail were added. All of them were explained earlier. Table 6 gives basic summary statistics of all these variables. To emphasize only few, we can see that share of politically connected supervisors first increased in the period 2005–2008 and statistically significantly decreased in the period that followed. Hence, data suggests that the share of politically connected supervisors decreased over time. Moreover, other variables show similar statistically significant trend. The periods used for the analysis in this chapter will be comprised of previously explained four periods defined by political cycles.

					Difference:
					05–08
	1996-2000	2001-2004	2005-2008	2009–2012	09–12
Share of Politically Connected	18,8	24,2	27,6	24,9	-2,7***
Share of Connected to a Pol. Ent.	13,8	18,2	22,6	20,0	-2,6***
Share of Party Members or	12.0	17.2	21.1	19.2	2 0***
Public Sympathizers	15,0	17,5	21,1	10,2	-2,9
Share of the Left	9,3	13,5	10,3	10,9	0,6
Share of the Right	4,1	4,9	11,5	7,7	-3,8***
Share of Government Officials	2,1	2,0	2,1	1,9	-0,1
Share of Candidates for (any)	10.7	13.6	18.5	16.4	2 1**
Election	10,7	15,0	10,5	10,4	-2,1
Share of Candidates for National	2.5	3.3	5.2	2.6	7 6***
Election	2,5	5,5	5,2	2,0	-2,0
Share of MPs	1,1	1,3	1,4	0,7	-0,7***
Share of the Members of	1.4	13	0.9	0.4	0 5***
National Council	1,4	1,5	0,9	0,4	-0,5***
Share of Government Secretaries	2,1	2,5	2,0	1,5	-0,6*
Share of Related to Politically	23	18	3.0	3.0	0.0
Connected Person	2,3	4,0	5,7	5,7	0,0

Table 6. Variables of political connectedness by periods (means, in %), difference between the last two periods (in perc. points) and the Independent Sample T-Test results, 1996–2012

Note. \*\*\* Sig. at 1% level of risk; \*\* Sig. at 5% level of risk; \* Sig. at 10% level of risk.

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

## 3.5.1 Share of politically connected

We have seen in the earlier chapters that the number of supervisors in firms in the sample decreased in the observed period. However, as suggested by Figure 8 below, it is not the case with politically connected supervisors. The situation is almost the opposite. We can see an increasing trend until 2007, a slight decrease throughout 2008 and 2009 and a stepper decrease only in 2010–2012. We used the Independent Samples T-Test to prove the alternative hypothesis that the share of politically connected supervisors decreased during the crisis:

$H_0: \mu_{sp\_cris} \ge \mu_{sp\_bcris}$	Mean share of politically connected supervisors in the period 2009-2012 is higher than or equal to the one in the period 2005-2008.
H <sub>1</sub> : $\mu_{sp\_cris} < \mu_{sp\_bcris}$	Mean share of politically connected supervisors in the period 2009-2012 is higher than or equal to the one in the period 2005-2008.

Indeed, at the very low level of risk, the test (Table 6) confirms the alternative hypothesis that the mean share of politically connected supervisors in the crisis period (also suggested by

Figure 8) was lower compared to the pre-crisis period (a decrease from 27,6% to 24,9%), but, if comparing it to the periods before 2005, the share actually increased. Thus, we accept our hypothesis with a very mixed feeling. As we will see throughout this empirical part, the current trends regarding political connectedness in our sampled firms are not always moving in the right direction, despite the increase in publicity on this topic in recent years.

The only variable which increased (not statistically significant) in 2009-2012 compared to 2005-2008 is the share of the left, which is logical since the latest period was a period of leftwing government. On the other hand, the share of the right decreased significantly (P=0,00).





Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

As suggested by Figure 9, politically connected supervisors are more common in the nontradable sector (also statistically significant at a very low level of risk – see Appendix E for the Independent Samples T-test results). Furthermore, Figure 9 suggests that the increase throughout 1996–2008 was much higher (a total of 10 percentage points) in non-tradable than the tradable sector (7 percentage points). Moreover, while there was almost no decrease in the tradable sector in the latest period, the non-tradable sector decreased the share of politically connected supervisors by 4 percentage points, reaching the level of the period 2001–2004.

# *Figure 9*. Mean share of politically connected supervisors by sector (tradable/non-tradable) and period



Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

In an in-depth study of the specific industries (Table 7), we see that despite the general trend in the non-tradable sector, Utilities and Construction increased the share of politicians in supervisory board in all periods. Electricity (decrease of roughly 15 percentage points), Trade and Transport are the reason why non-tradable sector in general (as visible from the Figure 9 above) experienced a decrease in the last period.

Industry	1996-2000	2001-2004	2005-2008	2009–2012	Total
Utilities	15,1 (8)	30,6 (4)	40,8 (2)	47,9 (1)	32,9 (2)
Construction	26,1 (4)	27,4 (6)	34,5 (4)	38,2 (2)	31,1 (3)
Electricity	33,4 (1)	37,5 (1)	49,5 (1)	34,6 (3)	38,7 (1)
Financial services	23,6 (6)	28,3 (5)	30,4 (6)	29,4 (4)	28,0 (6)
Transport	32,0 (2)	36,4 (2)	30,7 (5)	26,5 (5)	30,3 (5)
Other (mostly Catering)	24,1 (5)	34,2 (3)	39,5 (3)	24,3 (6)	30,4 (4)
Manufacturing	14,2 (9)	18,2 (8)	20,3 (8)	19,8 (7)	17,9 (8)
Trade	15,9 (7)	19,3 (7)	22,5 (7)	19,0 (8)	19,0 (7)
IT	26,6 (3)	16,2 (9)	13,7 (9)	8,9 (9)	15,8 (9)

Table 7. Mean share of politically connected supervisors by industry and period (in %) with within period rank in parentheses, 1996–2012, sorted by 2009–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

However, while most of the industries increased their share in the third period and decreased it in the fourth, IT was the only industry which decreased the share of politically connected supervisors in all three periods. Interestingly though, IT was ranked third in the period 1996–2000, suggesting that this used to be the industry favored by politicians in the past. The privatization was probably the reason that this industry became the least politically "infected" later on. The fact that IT had a decreasing trend throughout the whole period speaks also

about the quality of the data. Despite the fact that the internet is the main source, we were still able to identify a great deal of political ties in the period 1996–2000.

In order to prove the claim that differences in the share of politically connected supervisors exist across industries (to an extent proven in Table 7, where differences are clearly visible) the following null and alternative hypothesis were formulated:

 $\begin{array}{ll} H_0: \ \mu_{sp\_ut} = \mu_{sp\_con} = \ \dots & \ \ \ \ Mean \ \ \ shares \ \ of \ \ politically \ \ connected \ \ supervisors \ \ \ across \ \ all \\ = \ \mu_{sp\_it} & \ \ \ \ industries \ are \ equal. \end{array}$ 

H<sub>1</sub>: not all  $\mu_{sp_i}$  (I = ut, At least two mean shares of politically connected supervisors are con, el, ... it) are equal not equal across all industries.

The ANOVA test of mean differences provides a statistically significant result at a very low level of risk and this enables us to accept the alternative hypothesis claiming that differences across industries do exist. Furthermore, Tukey HSD Post Hoc Test for homogeneous subsets, identifies three more or less homogeneous groups that have significantly different means on the dependent variable share of politically connected supervisors. The first group consists of trade, manufacturing and IT and has the least average share of politically connected. The second group includes Financial services, Transport, Construction and Other services. Electricity alone is a member of a third group, having the highest average share of politically connected individuals. Utilities do not clearly belong to any group and are rather on the border between the second and third group, covered partly by both groups but significantly different only from the first group. Statistical outputs of the ANOVA and Tukey HSD are given in the Appendix I.

A closer look, at the yearly data, offers an even more interesting overview (Figure 10). Firstly, Utilities (green line) continuously increased its average share of politically connected supervisors throughout the whole period (with the exception of year 2004) and only recently started to decrease (2011 and 2012). Despite clear ups and downs in the Construction (pink line) over the observed years, increasing trend is still visible. Possibly the most interesting industry is Electricity, with two steep upward trends, first in the period 2000–2001 and second in the period 2006–2008. We will try to understand the reasons behind these two trends later.



Figure 10. Mean share of politically connected supervisors by industry and years, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

In terms of the ownership structure, it is not surprising to see SOEs in our sample at the top concerning the share of politically connected. It amounted to 46,3% in 2005–2008 with almost every second supervisors in SOEs being politically connected. Interestingly MBOs are also very highly ranked. In 2009–2012 they were sharing first place with SOEs at 39,9%, whereas in the other periods MBOs were mostly in second place. Foreign owned firms are, as expected, in the last place for the majority of the period under observation. More results are presented in Table 8.

Table 8. Mean share of politically connected supervisors by ownership type and period (in %)with within period rank in parentheses, 1996–2012, sorted by 2009-2012

Ownership type	1996-2000	2001-2004	2005-2008	2009–2012	Total
MBOs	18,2 (3)	33,2 (2)	39,2 (2)	39,9 (1)	31,9 (2)
SOEs	30,1 (1)	38,3 (1)	46,3 (1)	39,9 (2)	38,7 (1)
Financial holding	13,0 (7)	18,5 (5)	24,9 (3)	22,1 (3)	19,5 (3)
Dispersed ownership	13,5 (6)	18,4 (6)	20,8 (4)	20,0 (4)	17,9 (6)
Big Private owners	16,5 (5)	20,2 (4)	18,7 (6)	18,5 (5)	18,5 (5)
Cap ownership	18,9 (2)	21,6 (3)	19,0 (5)	17,3 (6)	19,3 (4)
Foreign ownership	17,9 (4)	14,1 (7)	9,9 (7)	5,2 (7)	12,1 (7)

Source: AJPES, Slovenian business register, 2013; SEC, Election candidates data, 2012; Official Gazette of the RS, Data on public officials, 2013; own calculations.

Simple ANOVA test of the group mean differences confirms the clearly visible differences among ownership types presented in Table 8 and the alternative hypothesis at the very low level of risk (results in Appendix J):

 $H_0: \mu_{sp\_mbo} = \mu_{sp\_state} =$ Mean shares of politically connected supervisors across all $\dots = \mu_{sp\_foreign}$ ownership types are equal. $H_1: not all \mu_{sp\_i}$  (i =At least two mean shares of politically connected supervisors arembo, state, ... foreign)not equal across all ownership types.

are equal

In terms of Slovenian statistical regions, there are also several interesting differences that we can observe. Figure 11 on the next page presents share of politically connected (red bars) by period and region. It may give two possible conclusions. Firstly, it seems that we could use the share of politically connected as a proxy of region economic attractiveness. There is Carinthia, with very low shares throughout the whole period, which in reality is also considered as not a very attractive region. On the other hand, Mura, the region in the very north-east of the country, increased its share of politically connected and especially in the last decade, this region was part of a series of revival programs of successive governments and indeed, some steps were made to increase its attractiveness. There is one region which became politically extremely unattractive over the years and it is situated in the center of the country (Central Sava), partly attributed to the privatization and partly to the developmental lag in the recent years. There is a very interesting trend seen in the region in the south of the country, Inner Carniola, which increased its share of politically connected substantially in the latest period. Despite us trying to find the reason for this observation, there is no clear explanation as to what happened. However, it is visible from the data that this is not just a one-year extreme that drove figures up. The share of politically connected rose first to almost 20% in 2008, after being at around 9% for years. In 2009, the share of politically connected rose further to 25% and in 2010 to 30%. In the past two years in the observed period, the share decreased, but only to roughly 23%.



Figure 11. Mean share of politically connected supervisors by region and period, 1996–2012

Source: AJPES, Slovenian business register, 2013; SEC, Election candidates data, 2012; Official Gazette of the RS, Data on public officials, 2013; own calculations.

Moving on, one of the hypotheses was that political connection help attain high positions in a company. Hence, we hypothesized that politically connected supervisors would, on average, appear in more firms in our sample compared to their non-connected colleagues:

$H_0: \mu_{firms\_nsp} \ge \mu_{firms\_sp}$	A politically non-connected supervisor appears in more or same
	number of firms compared to politically connected supervisor, on
	average.
$H_1: \mu_{firms\_nsp} < \mu_{firms\_sp}$	A politically non-connected supervisor appears in fewer firms

compared to politically connected supervisor, on average.

Arguments for such a claim can be found in the literature review chapter at the beginning of this thesis. The common conclusion across all studies is that political ties do enable people to attain high positions in firms. Indeed, results of the Independent Samples T-Test (see Appendix K) confirm the assumption at a very low level of risk. Data shows that politically affiliated supervisors appeared on average in 1,69 firms in the whole period, while the politically non-connected appeared on average in 1,15. Hence, we can accept the alternative hypothesis that politically connected supervisors appear in more firms in our sample. This finding suggests that the connection to politics in fact helps people attain a position on the supervisory board.

### **3.5.2** Sources of political connectedness

At the beginning of the chapter we explained how several additional variables of political connectedness were developed in order for us to be able to observe this phenomenon in more detail. General political connectedness, measured by the share of politically connected, which included all types of connections, was just explained. Clear overviews across industries, ownership types and regions were presented to introduce the general idea behind the topic and database.

In this chapter we will observe connections to two specific political entities. First, a connection to a certain political party (either as a member or sympathizer) present in the Slovenian political environment. Second, a connection to a political entity not considered to be a political party but still present in the political arena. These are so called non-party lists, which often take part in the local elections or are just a group of people who are not politically active but still appear in the media commenting on political events and publicly sharing their affiliation to either one or the other side/party.

Figure 12 splits the total industry average share of politically connected supervisors by a specific type of political connectedness, named **the source of political connectedness**. Most of the political connectedness comes from party membership (average of 67% on total sample). An interesting exception is Construction, where only 39,3% of political connectedness comes from party membership, while 23,7% comes from sympathizers (these

represent only 5,7% of the total sample) and 27,0% from Other sources (16,2% of the total sample). Other sources are relatively high also in Trade (24,4%), Financial Services (21,0%), Manufacturing (18,4%) and Electricity (17,3%). Other services, Transport, IT and Utilities have figures which are smaller than 15%, with Utilities at 2,1%, where most of the connectedness (97,7%) comes from either party membership or non-party list membership. This, together with the fact that share of politically connected is among the highest in Utilities, indicates a very high probability of rent-seeking activities in this industry.



*Figure 12.* Sources of political connectedness as percent of total share of politically connected by industry, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

Figure 13 below outlines *Other sources*<sup>30</sup> of political connectedness which were already mentioned when explaining the previous Figure 12. There are four possible sources of political connectedness included under other sources: a role as a government official (minister or high governmental representative), as a government secretary, membership in the National Council or simply a relationship to a politically connected person. All these sources are not necessarily connected to party membership but can still overlap.

In Construction most of the political connectedness from other sources comes from the relationship with a politically connected person (average of 11,1%), as well as in Financial

<sup>&</sup>lt;sup>30</sup> The reason for examining "Other sources" separately is the fact that they are not as common. Other sources of political influence are derived from the membership of the national council, a role as a government official or secretary or simply from the relationship with the politically connected person. The important notion is that they are not necessarily connected to the party membership. All these sources of political influence are very important (some of them are connected directly to the national politics) but still **present very little of our sample in relative terms**.

Services (7,1%), Other services (5,9%) and Trade (4,0%). Especially in Financial Services, there is a high share of Government Officials on the supervisory boards, an average of 3,5%, whereas in Electricity there is a high share of Government Secretaries (10,1%). Therefore, it seems that both Electricity and Financial services are very much connected to national government politics. On the other hand, there is almost no connection to government secretaries in Utilities, suggesting that this industry, which was discovered to be very politically "infected", is much more connected to local party politics. Transport also reported a high share of political connectedness to other sources. As seen from the Figure 13 it is mostly from government secretaries, relationships to a politically connected person and government officials.



Figure 13. Other sources of political connectedness (in %) by industry, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

We learned (see Table 7) that there are two industries, Utilities and Construction, which experienced a different trend in the share of politically connected. Their share of politically connected supervisors increased in all periods. Figure 14.A suggests that the majority of increase in Utilities comes from increases in the share of party members and the share of non-party list members. On the other hand Figure 14.B suggests that in the case of Construction increase, this comes from the increase in the share of those related to a politically connected person. It seems that on one hand, clear political connections (i.e. party members) retracted from firms, while concealing connections sneaked in. Many Construction firms which were so heavily saturated by those related to a politically connected person, declared bankruptcy in 2011 and 2012.



### Figure 14. Sources of political connectedness by periods, Utilities and Construction

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

## 3.5.3 Political connectedness by political affiliation to the left and the right

So far we have looked at political connectedness in general and by source. With the analysis on the source of political connectedness we explored the phenomena in depth by investigating political connectedness relating to its content. We will go one step further and examine political connectedness by political affiliation to the left and to the right. Both variables, Share of the Left and Share of the Right, were explained in previous chapters.

We know from the historical overview that throughout the 1990s, the Slovenian government was mostly center-left. There was a short six-month change to the right-wing government in the second half of 2000, followed by a strong election win by left-wing parties in the 2000 elections, which resulted in yet another centre-left government from 2001 to 2004. The election at the end of 2004 brought another political change with the success of the center-right coalition. Despite the period of growth and prosperity, the government was not able to convince people for another mandate and Slovenia elected another left government after the elections in 2008, just before the crisis. The ninth government since independence lasted for only three years. The change in government happened again in 2012 with another swing to the right.

The political situation was very much reflected in the supervisory boards of our sampled firms. As can be seen from the Figure 15, the pre-2000 period was dominated by the left-wing governments, who even increased their 'power' in the non-tradable sector after the win in the 2000 elections. The political change in 2005 (from left to right) brought a significant change in both tradable and non-tradable sectors.

*Figure 15.* Politically connected supervisors by political affiliation and sector (tradable/non-tradable) in share of total, 1996–2012



Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

Results shown above, however, do not fully reveal the situation in the 2000s. Figure 16 is much more descriptive. Even though the first notable increase in the share of the supervisors attached to the Right is visible in the years 2000 and 2001, the period from 1996 to 2004 is still clearly the period of leftwing domination. Their presence in the economy was increased significantly after the 2000 election victory. However, the change in government in 2005 brought some serious turbulence in the Slovenian economic system too. There is a big decrease in the share of left supervisors and a big increase in the share of right supervisors in the period 2005–2008. The period 2009–2011 is again characterized by the left, whereas 2012 is mostly only characterized by the drop in the share of the right.



Figure 16. Mean share of politically connected supervisors by affiliation, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

Figure 16 above clearly indicates that the circulation of elites occurred in the period 2005-2008. Many former supervisors who were part of the left political sphere were substituted with the new right elite. This is a very important point, indicating that turbulence in the political environment spread to the economic environment, causing vast changes, potential instabilities and causing it to be more susceptible to external shocks in the period preceding the crisis. The switch can be clearly observed on the industry level. We can see switching patterns in both Electricity (Figure 17) and Construction (Figure 18). The share of supervisors attached to the right-wing parties in Electricity increased by 266% in 2006. 2006 was also the year of the highest total average share of the politically connected (purple dotted line) in Electricity, with almost 60% of supervisors being politically connected. In Construction, the share of supervisors affiliated to the right increased gradually. The main pool of politically connected candidates was probably the Slovenian Peoples' Party, which took part in both left and right governments and had primacy over the ministry of transportation for years. This ministry played an important role in the construction sector, due to the enormous investments in the highways construction which was, for the most part, carried out by Slovenian construction firms.



Figure 17. Mean share of pol. connected supervisors by affiliation, Electricity, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.



Figure 18. Mean share of pol. connected supervisors by affiliation, Construction, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

It is interesting to observe the situation in Utilities. As with the above two figures, the purple dotted line in Figure 19 also represents the total share of politically connected. We can see a constant increasing trend throughout the period under the study. At the same time, we cannot observe any switching patterns. Inflows of left-wing supervisors stopped in 2001 and were pretty much stable ever since. Even though we had a change in government in 2005, the change did not affect it at all. On the other hand, the share of the right did start to increase in 2005 and was increasing until 2009. Hence, in Utilities, instead of switching, the share of politically connected supervisors just increased, on top of politically affiliated supervisors already in the firms, and pushed the total share to a staggering 51,6% in 2010.



Figure 19. Mean share of pol. connected supervisors by affiliation, Utilities, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

As previously stated, Utilities have very interesting dynamics which suggests again that this industry, unlike Electricity, is far more connected to the local politics, which is why leftist

supervisors were able to retain a great number of positions. This point is clearly seen in the Figure 20 on the following page, showing the share of left and right supervisors in Utilities by region. Charts on the regions represent shares of the left and the right (bars) and the overall share of politically connected supervisors (line) by period. Generally, as seen from the figure, north-eastern and eastern regions are characterized either by the domination of the right or by the strong increase in the share of the right, whereas central and north-western regions are characterized by the domination of the left. Note how share of politically connected supervisors in regions Mura, Gorizia and Southeast Slovenia rocketed in the last two periods. The reason for that lies in the small samples of Utilities firms from these regions.

There are two exceptions to this general observation. First is the Coastal-Karst region, which witnessed a change in local government in 2002 with the win of a party from the central right political spectrum. We see a sharp decrease in the share of the left (red bar) on one hand and an increase of the share of the right (green bar) on the other. What is more interesting is the fact that the overall share of politically connected supervisors rocketed, suggesting even more new appointments of supervisors connected to neither left or right but rather to the central political spectrum. The second exception is the Southeastern Slovenia, with similar dynamics. We can see a decrease in both left and right, but an increase in the overall share of politically connected supervisors. Also, this region is generally known as politically very heterogeneous.


Figure 20. Mean share of politically connected supervisors in Utilities by affiliation (left/right), period and region

Source: AJPES, Slovenian business register, 2013; SEC, Election candidates data, 2012; Official Gazette of the RS, Data on public officials, 2013; own calculations.

Other industries also show interesting dynamics, similar to the one in Electricity. Financial Services (Figure 21.A), Transport (Figure 21.B) and IT (Figure 21.C) all witnessed a left- to right-wing switch in the period 2005–2008, the period of the right-wing government, whereas periods before and after are characterized by the domination of the left-wing party politicians (who were also in power). In 2012, when the right-wing government took over again, Transport witnessed another switch, while Financial Services and IT simply reduced the share of the supervisors affiliated to the left-wing parties. Manufacturing (Figure 21.D) witnessed similar dynamics but to a lesser extent. In Manufacturing, the share of politically affiliated was slowly rising, although mostly on account of the rising share of the right. The situation is slightly less obvious with Trade (Figure 21.E), which, compared to other industries, also experienced a significant drop in overall political connectedness in the years 2011 and 2012.



*Figure 21*. Share of pol. connected supervisors by affiliation and industry, 1996–2012

figure continues

continued



Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

In terms of sources of political connectedness, which were explained in the previous chapter, differences between right and left are not significant. Some differences, however, are still visible and can be observed in the table in Appendix L. In short, the majority of politically connected supervisors for both right and left were party members, with the percentage mostly higher for the right. On the other hand, more politically connected supervisors on the left compared to the right come from the pool of sympathizers who were not party members. The pool of government officials was comparable, whereas government secretaries were, firstly, more common among the left and then later among the right (in the last two periods).

We have shown earlier that politically connected supervisors appear in more firms in our sample, on average. We claim now that differences exist also when comparing supervisors according to their political affiliation (on the whole period 1996–2012), hence:

$H_0: \mu_{firms\_left} = \mu_{firms\_right}$	Mean number of firms a politically connected supervisor affiliated
	to the left appears in is equal to the mean number of firms a politically connected supervisor affiliated to the right appears in.
$H_1: \mu_{firms\_left} \neq \mu_{firms\_right}$	Mean number of firms a politically connected supervisor affiliated to the left appears in is not equal to the mean number of firms a politically connected supervisor affiliated to the right appears in.

Results of the Independent Samples T-Test (see Appendix M) confirm the alternative hypothesis at a very low level of risk (P=0,00). Moreover, it proves not only that there are differences, but also that supervisors politically connected to the left appear in more firms (1,9 compared to 1,5 firms), on average. Results are to an extent logical. More than a decade long domination by the left made it much easier to migrate between companies.

#### 3.5.4 Supervisors running for election and MPs

This chapter is the last section investigating political connectedness variables explained at the beginning. There are only two variables that remain: supervisors running for election and supervisors who were MPs. In terms of the elections, we will talk about three possible variables: the share of supervisors running for any (local or national) elections, the share of supervisors running for national elections and the share of supervisors running for local elections.

Figure 22 gives an overview of the mentioned variables by years. It can be seen that the share of supervisors who were candidates for election (national and local) steeply increased in 2005 and 2006, which follows the general trend of politically connected supervisors in these years (Figure 8). Since both these years came after the election, it is logical to assume that the same people who were appointed to supervisory boards were the winning party's election candidates (right-wing political parties).





Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

After 2007 the picture starts to change. First, in 2008, the share of candidates for the national election started to decrease, up until 2012, almost reaching the 1996 level. The share of supervisory board members running for local elections continued to increase until 2009 when it finally started to decrease. It almost reached the level of 2005. The difference in local and national election candidates on supervisory boards indicates that politics realized something

needs to be changed but started only with the most visible political figures, whereas local (less visible) politicians stayed for a bit longer. This point is further proven by the trend in the share of supervisors who were MPs. Even though the share was constantly very  $low^{31}$ , it was still relatively stable (around 1,3%). After the 2007 shares decreased sharply until they reached their all-time lowest point in 2012 (0,05%).

Figure 23 below proves that the increase in 2006 came from supervisors running for election for the right-wing political parties. Previously (before 2005), the share of the right was constant and low at around 2,5%, while the share of the left had an upward trend, starting at 5,8% and ending at an all-time high of 10,5% in 2002.



*Figure 23*. Mean share of supervisors running for any election, total and by political affiliation, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

Figure 24 shows the split between the supervisors running for national and local elections in the share of supervisors running for (any) election. There are, not surprisingly, more of those running for the local elections. However, the trend is the interesting part. We can see once again that the share of national election candidates on the supervisory board decreases at the end, further suggesting the withdrawal of politicians closer to national politics from the sampled firms.

<sup>&</sup>lt;sup>31</sup> In total, there are not many politicians who were MPs. There were overall 6 state elections, electing 90 MPs. In case all of them would change at every election, we would have a pool of 540 people. However, many politicians had two or more mandates as MPs, which is why share of supervisory board members who were MPs is very low.

*Figure 24.* Mean share of supervisors running for election, split by the type of election (sum is equal to 100%), 1996–2012



Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

By comparing the share of supervisors running for election with the share of politically connected supervisors in general (Figure 25) we can observe the gaps between the two bars. If we consider elections as a possible pool of people that can be chosen for a supervisory board position, then the blue bars represent the number of people taken from this pool and appointed to supervisory boards. The most interesting industry is Utilities. A very small gap suggests that most of the politically connected supervisors in that industry were chosen from the 'election pool', mostly local ones, whereas in the other industries, other pools were considered as well. In other words, the gap represents the part of politically connected supervisors that did not run for elections and in the case of Utilities, this is almost zero. At the same time, the share of supervisors who ran for election is also the highest in Utilities (the difference in comparison to other industries is statistically significant at a 5% level of risk).



*Figure 25.* Mean share of politically connected supervisors and mean share of supervisors running for (any) election by industry, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

The gap for the other industries was mostly explained by Figure 13 where sources of political connectedness were observed. For example, in case of Construction (with a gap of 19,5 percentage points) the majority of this difference can be attributed to the share of supervisors whose influence comes from their relationship with a politically connected person. Similarly, the gap in the Electricity (16,4 percentage points) can be attributed to the share of government secretaries, also visible in Figure 13.

Figure 26 gives a similar overview across industries, showing the share of supervisors running for local elections, the share of supervisors running for national elections and the share of supervisors who were MPs. It was shown several times how closely Electricity is connected to national politics. This is why it is not surprising that the share of MPs is the highest in Electricity. The difference to the other industries, excluding Utilities and Construction, is statistically significant at a 5% level of risk. What can also be observed is the difference in the share of supervisors running for the local elections in Utilities, compared to other industries. The difference to all other industries is also statistically significant at very low level of risk.



*Figure 26.* Mean share of supervisors running for local/national elections and share of supervisors who were MPs by industry, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

When observing Utilities only (Figure 27) and by period, we can see that the share of supervisors who ran for local elections increased, whereas the share of supervisors who ran for national elections decreased. This suggests not only that Utilities are traditionally more related to local politics but also that this relationship became stronger over time.

### *Figure 27.* Utilities by mean share of supervisors running for any/national election by period, 1996–2012



Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

#### 3.5.5 Overview of the political connectedness by industry

To summarize the analysis thus far, Table 9, Table 10 and Table 11 on the following three pages are an overview of the changes in all variables of political connectedness and organized by industry and period. Table 9 summarizes the changes between 2001–2004 and 2005–2008 and gives the statistically significant results of the Independent Samples T-Test. Table 10 summarizes the changes between 2005–2008 and 2009–2012 and gives the statistically significant results of the Independent Samples T-Test. Table 11 summarizes the changes between 2001–2004 and 2009–2012 and gives the statistically significant results of the Independent Samples T-Test. Table 11 summarizes the changes between 2001–2004 and 2009–2012 and gives the statistically significant results of the Independent Samples T-Test. Each variable for each industry is accompanied by an arrow, which denotes the direction of change. Asterisks next to the arrow are signs of the level of significance of the t-test.

	Share Pol. Connected	Share Party Memb.	Share Non- party List Memb.	Share Sympat.	Share - the Left	Share - the Right	Share Gov. Officials	Share Election Candidates	Share State Election Candidates	Share Members Parliament	Share Members Nat. Counc.	Share Gov. Secretaries	Share Conn. to PCP <sup>32</sup>
All industries	<b>*</b> **	<b>*</b> **	<b>*</b> *		▼***	<b>*</b> **	<b></b>	<b>*</b> **	<b>*</b> **		▼**	▼	▼**
Tradable	▲*	<b>*</b> *	▲*		▼*	<b>*</b> **		<b>*</b> **	<b>*</b> *		▼	▼	▼**
Non-tradable	<b>**</b> *	<b>**</b> *		▼	▼***	<b>**</b> *	<b></b>	<b>*</b> **	<b>*</b> **	▼	•	▼*	▼
Manufacturing	<b>*</b>	<b>**</b> *			▼*	<b>**</b> *	▼	<b>*</b> **	<b>*</b>		▼*	▼	▼**
Fin. Services		<b>*</b>	▼	▼	▼***	<b>*</b> **	▼		<b>*</b> **		▼	▼	▼
Utilities	<b>**</b> *	<b>**</b> *	<b>**</b> *	/	=	<b>**</b> *	<b></b>	<b>*</b> **	<b>*</b>		▼	▼	▼
Electricity	<b>*</b> **	<b>*</b> **	/	<b>*</b> *	▼***	<b>*</b> **	<b></b>	<b>*</b> **	<b>*</b> **	▼	▼	▼	▼
Trade				▼**	▼	<b>*</b> *	▼			▼		▼	▼
IT	▼	▼	▼	▼	▼***						▼**	*	▼*
Transport	▼	▼	▼*	▼	▼***	<b>**</b> *	<b></b>		<b></b>	<b></b>			▼
Construction					▼	<b>*</b>	▼	▼		/		▼	<b>*</b> *
Other					▼	<b>*</b> **		<b>*</b>		▼	▼	▼	

Table 9. Overview of the changes in the variables of political connectedness between periods 2001–2004 and 2005–2008

<sup>&</sup>lt;sup>32</sup> PCP denotes Politically Connected Person (only for the purpose of these three tables).

	Share Pol. Connected	Share Party Memb.	Share Non- party List Memb.	Share Sympat.	Share - the Left	Share - the Right	Share Gov. Officials	Share Election Candidates	Share State Election Candidates	Share Members Parliament	Share Members Nat. Counc.	Share Gov. Secretaries	Share Conn. to PCP
All industries	▼**	▼***				▼***	▼	▼**	▼***	▼***	▼***	▼**	▼
Tradable	▼	▼				▼*			▼***	▼	▼**	▼	▼
Non-tradable	▼***	▼***	•			▼***	▼	▼***	▼***	▼***	<b>*</b> **	▼**	
Manufacturing	▼	▼				▼			▼***	▼	▼*	▼	▼
Fin. Services	▼	▼	•			▼***	▼	▼	▼	▼	▼	▼	▼
Utilities	*		*		▼		▼		▼*	▼**	▼		
Electricity	<b>*</b> **	▼***		▼		▼***	▼	<b>*</b> **	▼***	▼*	▼***	▼	
Trade	▼	▼		/	▼	▼		▼			▼	▼	
IT	▼	▼	<b>*</b>	▼	▲*	▼***	▼**	▼	▼***	▼	/	▼*	
Transport	▼	▼			▲*	▼**	▼	▼	▼	▼***		▼**	
Construction		▼	▼			▼	▼	▼**	▼**	/			<b>*</b> *
Other	▼***	▼***	▼**		▼	▼***		▼***	▼***	▼***	▼***	▼	▼***

Table 10. Overview of the changes in the variables of political connectedness between periods 2005–2008 and 2009–2012

	Share Pol. Connected	Share Party Memb.	Share Non- party List Memb.	Share Sympat.	Share - the Left	Share - the Right	Share Gov. Officials	Share Election Candidates	Share State Election Candidates	Share Members Parliament	Share Members Nat. Counc.	Share Gov. Secretaries	Share Conn. to PCP
All industries			<b>*</b> **		<b>*</b> **	<b>**</b> *	▼	<b>**</b> *	▼*	▼***	▼***	<b>*</b> **	▼**
Tradable			<b>***</b>		▼	<b>***</b>		<b>**</b> *	▼	▼	▼***	▼*	▼***
Non-tradable	▼	▼		▼	<b>*</b> **	<b>***</b>	▼		▼	▼***	▼***	<b>*</b> **	▼
Manufacturing		<b>*</b> *	<b>*</b> **		▼	<b>**</b> *		<b>*</b> **	▼	▼	▼***	▼*	▼***
Fin. Services			▼		▼*	<b>**</b> *	▼*			▼	▼*	▼	▼**
Utilities	<b>**</b> *	<b>**</b> *	<b>*</b> **		▼	<b>**</b> *	▼	<b>**</b> *	▼	▼**	▼		
Electricity	▼				▼**	*	▼	<b>*</b>	▼*	▼***	▼***	<b>*</b> **	▼
Trade	▼	▼		▼**	▼**						▼**	▼*	▼
IT	▼**	▼	▼	▼**	▼	▼***	▼	▼	▼***	/	▼**	/	▼
Transport	▼**	▼**	▼	▼	▼		▼	▼	▼	▼*		▼	▼
Construction		▼			▼		▼*	▼**	▼**	/			<b>**</b> *
Other	<b>*</b> **	<b>*</b> **	▼		▼**	▼		▼**	▼***	<b>*</b> **	<b>*</b> **	▼*	▼***

Table 11. Overview of the changes in the variables of political connectedness between periods 2001–2004 and 2009–2012

#### 3.5.6 Share of politically connected and length of mandates

Based on all we learned so far it is to be expected that the length of the mandate is negatively correlated with the share of politically connected supervisors. We learned switching from left to right and back to left was present in many industries when the change in the government occurred. Thus, more political connections would suggest more switching and shorter mandates. To prove the hypothesis that mandates of politically connected supervisors are shorter, we carried out the Independent Samples T-Test on the sample of all supervisors. Hypotheses were formulated as follows:

$H_0: \mu_{conn} \ge \mu_{non\_conn}$	Mean length of mandate of a politically connected supervisor is longer or equal to the mean length of mandate of a politically non- connected supervisor.
$H_1: \mu_{conn} < \mu_{non\_conn}$	Mean length of mandate of a politically connected supervisor is shorter to the mean length of mandate of a politically non- connected supervisor.

Results given in the Appendix N are statistically significant at low level of risk (P=0,02; one-tailed test), which is why we can accept the alternative hypothesis that length of mandates is shorter for politically connected supervisors.

Pearson's Correlation Coefficient between the length of the mandate and the average share of politically connected supervisors (Table 12) provides additional substantiation for the above results. The correlation is mildly negative but statistically significant at a 1% level of risk. The reason for such a mild correlation is most probably in the Utilities sector, where Pearson's correlation coefficient is once again significant (at 5% level of risk) and positive, suggesting that the share of politically connected and the length of the mandate move in the same direction and not the opposite.

		Mean share of Pol. Connected, all years, all industries	Mean share of Pol. Connected, all years, Utilities only
Length of the mandate in weeks	Pearson Correlation	-0,093**	$0,\!106^{*}$
	Sig. (2-tailed)	0,000	0,034
	Ν	5439	398

Table 12. Person's Correlation, Share of politically connected and length of mandates, allindustries and Utilities, 1996–2012

Note. \*\* Correlation is significant at the 0,01 level (2-tailed).

*Note.* \* Correlation is significant at the 0,05 level (2-tailed).

Although these results might seem strange, they in fact are expected. Thus far it has been shown that political influence in Utilities is very much tied to a local political environment. At the local level, changes are not as vast as they would be on the national level, which is why mandates tended to be longer due to the fact that the mandates of the politicians in power were also longer.

Figure 28 below visualizes what was just described. We can, generally speaking, see the pattern where more connections mean shorter mandates. The pattern is broken, on one hand, by Utilities, which had very long average mandates but also a high average share of politically connected individuals, and on the other hand by IT, which has a low share of politically connected but also a relatively low average length of mandate.





Mean industry length of the mandate in weeks OMean industry share of politically connected

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

Furthermore, when observing the length of mandates by affiliation to the left or right, we can see that on average, supervisors connected to the left had longer mandates (almost 36 weeks longer). The difference is statistically significant at a very low level of risk (P=0,00). Detailed statistical output is available in Appendix O.

## **3.5.7** Share of politically connected, share of foreigners and share of women observed together

We already noted the share of foreigners on supervisory boards, but not yet in conjunction with political connectedness. Thus far we have learned that the share of foreigners is especially high in two industries, IT and Trade. We also learned that both of these industries are also characterized by a relatively low share of politically affiliated, compared to other industries. Hence, we logically hypothesize that the share of politically connected and the share of foreigners are negatively correlated:

$H_0: \rho \ge 0$	Person's Correlation Coefficient between the share of foreign
	supervisors and the share of politically connected supervisors is
	higher than or equal to zero.
$H_1: \rho < 0$	Person's Correlation Coefficient between the share of foreign supervisors and the share of politically connected supervisors is lower than zero.

Pearson's Correlation (see Table 13) confirms the above assumption. There is a statistically significant negative correlation between the share of foreigners and the share of politically connected. Therefore, we can accept the alternative hypothesis at a very low level of risk.

Table 13. Pearson's Correlation, share of foreigners and share of politically connected, 1996–2012

		Share of Politically Connected
% Foreign	Pearson Correlation	-0,262**
	Sig. (2-tailed)	0,000
	Ν	4266

Note. \*\* Correlation is significant at the 0,01 level (2-tailed).

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

Financial Services, however, seems to be an exception. Looking at all firms within this industry gives both a high value in the share of foreigners (an average of 25,1%) and a high value of politically affiliated supervisors (average of 28,0%). The result is even more interesting knowing that Pearson's correlation coefficient is even stronger and greatly negative (significant as well). Thus, the only reason can be in the ownership structure of firms themselves. The results in Table 14 confirm that.

Ownership	% of total	Mean % foreigners	Mean % politically connected
SOEs	23,1	4,8	53,1
Foreign owned firms	31,6	72,8	9,2
Other ownership	45,3	2,3	29,1
Total	100,0	25,1	28,0

Table 14. Ownership structure within Financial Services, comparison of the mean share of politically affiliated and mean share of foreigners, 1996–2012

We can see that the number of foreign firms and the number of SOEs in the sample of Financial Services is almost equal. Hence, one of them drives the average of the politically affiliated supervisors up, while the other drives the average of foreigners up.

Our data does not show any connection between the share of politically connected supervisors and the share of women in the whole sample. However, looking at industries with the largest share of women, Trade and Other (mostly Catering), show significant and negative results. Pearson's correlation coefficient for Trade is -0,181, suggesting a small but statistically significant negative correlation at a very low level of risk (P=0,00). Similarly, the correlation coefficient for Other services is -0,139, also suggesting a small but statistically significant negative correlation at a very low level of risk (P=0,01). Hence, in these two industries, if the share of female supervisors is increasing, the share of politically affiliated supervisors is decreasing.

#### 3.5.8 Financial flows between the public and the private sector

In order to give another dimension to the phenomena of political connections, we briefly touch on the topic of business transactions of the public sector bodies, particularly the financial flows between the public sector and the firms in our sample. Apart from the analysis in this chapter, this topic will not be further analyzed in this thesis. However it still opens a lot of relevant questions and a possibility for much more extensive further research based on the freely accessible data.

To be able to carry out this analysis, the database from the CPC called Supervizor<sup>33</sup> was provided to us, which included the total amount of all financial transactions (in EUR;

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

<sup>&</sup>lt;sup>33</sup> "Supervizor is an online application that provides information to users on business transactions of the public sector bodies – direct and indirect budget users (bodies of the legislative, judicial and executive branch, autonomous and independent state bodies, local communities and their parts with legal personality, public institutes, public funds, public agencies etc.). The application indicates contracting parties, the largest recipients of funds, related legal entities, date and amount of transactions and also purpose of money transfers." (CPC, n.d.)

hereinafter: incoming public transactions) from public institutions<sup>34</sup> to our sampled firms in the period 2003–2012.<sup>35</sup> The sample used was an extended sample (N=309), for the period 2003–2012, excluding banks (15) and insurance firms (9) due to the missing financial data and excluding seven firms for which we did not receive incoming public transactions' data (final N=278). Data received was corrected for inflation. Moreover, in order to make firms comparable we transformed incoming public transactions into the comparable variable Income public transactions per euro of equity.

Many authors mentioned benefits that connected firms might receive due to the government or politicians in power, but none of them specifically touched the topic of increased business with state because of the political connectedness. We argue that the incidence of political connections increases the amount of business a 'connected' firm does with the public sector.

An average firm in an average year received 2.889.936 EUR from the public sector. The median is much lower, at 239.891 EUR, suggesting a few extremes that were driving the average up. In fact, 75% of firms received less than 1.661.121 EUR per year and 25% of firms less than 65.641 EUR per year, on average. The maximum sum of incoming public transactions for the whole period 2003–2012 that one firm received was 1.067.601.575 EUR. On the other hand, there was a firm that received only 2 EUR (also the lowest amount) in the whole observed period. The average yearly incoming public transaction was 3.091.258 EUR, with the median again being much lower at 226.505 EUR. The maximum amount that one firm received in one year was 119.303.101 EUR.

We slightly changed the definition of politically connected firm for the purpose of this analysis. In order to be able to compare connected and non-connected firms, we developed a dummy variable with a value of one for all years (in the period 2003–2012) if a firm had more than 40% of politically connected supervisors in at least half of the years of the observed period 2003–2012.<sup>36</sup> We developed another dummy variable, with the same logic but set the bar higher, at 50% of politically connected supervisors in at least half of the years of the observed period 2003–2012. There were overall 72 connected firms (25,9%) in the first case and 43 (15,5%) in the second case. The decision to take at least a 40% boundary is based upon the rationale that only highly connected firms would possess enough political influence to actually be able to make more business with the public sector. Similarly, the decision to set

<sup>&</sup>lt;sup>34</sup> By public institutions we mean direct public budget users/spenders.

<sup>&</sup>lt;sup>35</sup> CPC started collecting data in 2003, which is why we were able to receive only data for the mentioned period. Data on all firms is also publicly available in their online application called Supervizor (http://supervizor.kpk-rs.si/).

<sup>&</sup>lt;sup>36</sup> For example: A specific firm has 60% of politically connected supervisors in its supervisory board in 8 out of a total of 10 (2003-2012 = 10 years). Hence, in more than half of the period (8>5), this firm has more than 50% of politically connected supervisors in the board. The dummy variable for connectedness for this firm will have a value of 1 for all observed years (including 2 years when there were no connections reported).

the same dummy to all years is based upon the logic that it is very hard to assume how long a firm needs to be politically connected for it to receive some benefits in return.

By carrying out simple Independent Samples T-Test between these two groups of firms (based on the newly developed dummies), we would like to prove the following alternative hypothesis:

$H_0: \mu_{conn} \le \mu_{non\_conn}$	Mean income public transactions per euro of equity of a politically connected firm are smaller or equal to the mean income public transactions per euro of equity of a politically non-connected firm.
$H_1: \mu_{conn} > \mu_{non\_conn}$	Mean income public transactions per euro of equity of a politically connected firm are higher than the mean income public

One-tailed Independent Samples T-Test (see Appendix P) for both dummies confirms the alternative hypothesis at low level of risk (P=0,02 for 40% criteria and P=0,00 for 50% criteria). Moreover, it seems that the higher we set the criteria for firm connectedness, the more difference between the groups we create.

In terms of industries, the highest average yearly incoming public transaction is in Construction (mean of 12.086.229 EUR, median of 9.492.423 EUR), followed by the Trade sector (10.969.475 EUR, 446.612 EUR) and the Transport sector (7.179.879 EUR, 1.282.139 EUR). The lowest amount is in Financial Services (excluding banks and insurance; 157.347 EUR, 32.191 EUR) and the Manufacturing (mean of 451.690, median of 73.276). Utilities and Electricity are in the bottom half (average of 2.241.609 and 2.692.727 EUR respectively). A complete set of data is available in Appendix Q.

It was interesting to observe the same Independent Samples T-Test for Electricity and Utilities. We learned previously that these two industries have the highest share of politically connected supervisors. Test results (Appendix R) show that in both industries, connected firms received more per euro of equity. However, the test was statistically significant at a very low level of risk only for Electricity (P=0,00, one-tailed test). Similarly it can be claimed, but at higher risk (P=0,09, one-tailed test), that connected firms in Financial Services also receive more. On the other hand, the test proves at a very low level of risk (P=0,00, one-tailed test) that in Trade and IT, political connectedness does not play any role. In fact, in both industries, firms that were not connected received more from the public sector compared to connected firms. Similar differences are seen in the Manufacturing, however insignificant. Transport and Construction show the same patterns as the first three industries mentioned although this is also statistically insignificant.

#### **3.6 Influential supervisors**

Influential supervisors are members of supervisory boards who appear as members of a supervisory board in at least two companies in the whole period 1996–2012. As defined previously influence can come from at least two sources. We argue that if an influential supervisor is politically connected, his/her influence comes from political connection. Furthermore, this means that the political connection facilitated the opportunity for him/her to be on additional boards. If an influential supervisor is not politically connected, we argue that his/her influence comes from expertise. To prove this point in our database, we developed the following two sets of hypotheses:

$H_0: \mu_{ind\_c} \le \mu_{ind\_nc}$	On average, a politically influential supervisor appears in fewer or the same number of industries compared to a politically non- connected supervisor (expert).
$H_1: \mu_{ind\_c} > \mu_{ind\_nc}$	On average, a politically influential supervisor appears in more industries compared to a politically non-connected supervisor (expert).
$H_0: \mu_{mand\_c} \ge \mu_{mand\_nc}$	On average, the supervisory board mandate of a politically influential supervisor is longer or of the same length compared to a politically non-connected supervisor's (expert's).
$H_1: \mu_{mand\_c} < \mu_{mand\_nc}$	On average, the supervisory board mandate of a politically influential supervisor is shorter compared to a politically non- connected supervisor's (expert's).

Hence, if an influential supervisor is an expert, he will appear in fewer industries. In other words, firms he appears in are mostly in the same industry. If his/her influence is coming from politics, industry does not matter and such a supervisor will appear in more industries. The other two hypotheses argue similarly, but with regard to the length of mandate. Expert influence should be associated with longer mandates compared to political influence. Independent Samples T-Test (see Appendix S) confirms both alternative hypotheses at a very low level of risk (P=0,00, one-tailed test). Possible implications of these results are instability and ineffective supervising as a result of higher circulation of politically connected supervisors.

Out of 4.699 members of supervisory boards in the period 1996–2012, 762 (16,2%) are appearing in more than one supervisory board in the whole period. The mean number of firms they appear in is 2,64, with both the median and the mode being 2,00 firms. Hence, the majority (63,5%) of them appear in only two companies. Still, quite a large percentage are found in three (21,1%) and four firms (9,1%). However, there are also some extremes. Two supervisors appeared in nine sampled firms, four supervisors appeared in eight sampled firms

and six supervisors appeared in seven firms from the sample (total of 1,6%). The rest, 4,7%, appeared in either five or six firms. Influential supervisors appear in nearly 95% (278 firms) of all sampled firms, which means that only 15 firms do not have any influential supervisor in their supervisory board in the whole period spanning 1996–2012. It is interesting that by looking only at influential supervisors, we reduced the number of people in the database to 16,2% but still retained 94,9% of sampled firms. In other words, a network of influential supervisors are foreigners (compared to almost 11% of foreigners in the total sample) and 49% are politically connected (21% in the whole sample). Of those that are politically connected, 78% are members of a political party, 49% are connected to the left and 33% to the right. There are many more government officials in the sample of influential supervisors, 5,5%, compared to 1,4% in the total sample.

Since it was much easier to find relevant information for such supervisors online, it is not a surprise that the completeness of the database is much better. For example, in terms of education, data is available for 74,3% of influential supervisors (compared to 20,1% in the total sample). Frequencies are presented in Table 15 below.

Educational level	Frequency	% of total	Valid %
4 - Vocational upper secondary and similar education	2	0,3	0,4
5 - Technical and general upper secondary education	14	1,8	2,5
6 - Short-term higher, higher vocational education (former) Professional higher education (first Bologna cycle)	50	6,6	8,8
7 - Bachelor of Science (former) & Bologna Master (2 <sup>nd</sup> B. c.)	276	36,2	48,8
8 - Master of Science (former)	147	19,3	26,0
8/2 - PhD (former & 3 <sup>rd</sup> B. c.)	77	10,1	13,6
Total valid	566	74,3	100,0
Missing value	196	25,7	

Table 15. Influential supervisors by educational level, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

It is interesting to observe the difference in educational levels between politically connected and non-connected (experts) influential supervisors. Among experts 91,1% have the education of level seven or higher, which is 4,8 percentage points more compared to politically connected influential supervisors. The difference however is too small to be able to generalize that educational level of those connected is lower than of the non-connected.

Looking at periods<sup>37</sup> (Figure 29), we can see that share of influential supervisors increased in 2003–2008, with the difference being statistically significant at 5% level of risk. The share further increased in 2009–2012, but insignificantly. This suggests that 2003–2008 was the period when the practice of multiple appointments became more common. On average, almost every third supervisor can be considered as influential.



*Figure 29.* Mean share of influential supervisors with 95% confidence interval by period and total 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

In terms of political connectedness, 49,1%, or roughly half of the influential supervisors are politically connected (compared to 20,5% in the whole sample). Although this result might be shocking, it is expected as connection to politics might serve as a tool to be appointed to more boards. The rest (50,9%) are considered to be experts (no clear political connection).

We saw earlier that the share of influential supervisors was rising throughout the period, which would be a good sign if the increased influence is coming from those with expertise. Figure 30 shows the split of influential supervisors by the source of their influence (expertise or politics). The left chart shows an increasing trend and we can see that both expert and political influence increased. The right chart shows the relative split. It can be seen that political influence gained approximately one percentage point in every period. Even though both shares were rising (left chart), it seems that political influence was rising at a slightly faster rate (right chart).

<sup>&</sup>lt;sup>37</sup> Initial three periods (1996–2002, 2003–2008 and 2009–2012) explained previously.



Figure 30. Mean share of influential supervisors by the source of influence, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

However, we need to acknowledge that the data before 2000 is not as good as after 2000. There may be some influential supervisors who were politically connected - this would probably change the picture for the first period whereas the increasing trend of political influence in the third period would remain.

A very interesting observation is possible based on the Figure 31 below, which compares influential supervisors by industry and sorted by the share of politically connected influential supervisors. The height of the bars gives the total share of influential supervisors, whereas dark and light orange parts represent politically connected and non-connected (experts) respectively.



*Figure 31*. Mean share of influential supervisors by the source of influence and industry, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

In terms of only the share of influential supervisors in total (the height of the bars), we can see that IT, Electricity and Financial Services have on average the highest shares (45,3%, 43,7% and 41,2% respectively). Other industries, except for the Utilities, are all between 23% and 28%. Compared to other industries, the share of influential supervisors in Utilities is almost negligible (7,9% on average). Furthermore, most of the influence is political as 69,3% of these 7,9% represents politically connected influential supervisors. This observation once again proves the point of the local dependency of the Utilities. As people sitting in the boards are mostly locals, it is very rarely that they would sit on more than one board. On the other hand, Electricity, which was shown to be very dependent on national-politics, has a very high average share of influential supervisors). Since national politics desire to control this industry it is not strange that they would like to have the same people (and politically connected) supervising them.

We can see that the most expert influence in terms of non-connected to connected ratio (lighter to darker bar ratio) is present in Manufacturing (65:35) and Trade (58:42), followed by Financial services (48:52) and IT (47:53). However, the most expert influence (the height of the lighter bar only) is still present in IT (average of 21,3%), followed by Financial Services (19,6%), Manufacturing (17,7%) and Trade (15,3%).

When delving a bit deeper and observing different industries over time, we see some concerning trends. There are only two industries that decreased their share of politically influential, namely Trade and IT, whereas all other industries increased it in the last period (Table 16). Construction, which suffered the most during the crisis, increased it by 46%, followed by Transport (22%) and Utilities (21%). IT and Trade decreased their share of politically influential by 17% and 9% respectively. The share of experts increased in all industries with the exception of Electricity and Other. In the latter, the share of Experts decreased by a staggering 38% - reaching the all-time low. We can see a good trend only in Trade and IT. In both these industries, the gap between politically influential supervisors and experts increased in favor of experts. On the other hand, the largest increase in the gap in favor of politicians occurred in Construction, Transport and Utilities.

	Sha	are of polition	ally influer	ntial	Share of Experts						
				%∆ last				%∆ last			
	1996-	2003-	2009–	two	1996-	2003-	2009–	two			
Industry	2002	2008	2012	periods	2002	2008	2012	periods			
Manufacturing	8,1	9,9	10,7	8 🔺	15,7	18,8	19,5	4 🔺			
Financial	10.2	22.8	22.2	2	17.6	20.6	20.0	1			
services	19,2	22,0	23,5	2	17,0	20,0	20,9	1			
Utilities	4,8	5,5	6,6	21 🔺	1,8	2,8	3,0	6 🔺			
Electricity	23,6	34,0	35,4	4 🔺	11,9	14,1	13,9	-1 🔻			
Trade	11,2	11,8	10,7	-9 🔻	14,1	13,6	19,8	45 🔺			
IT	21,5	27,0	22,4	-17 🔻	18,2	22,8	22,8	0 =			
Transport	12,4	15,7	19,2	22 🔺	6,2	9,0	9,7	7 🔺			
Construction	7,6	18,1	26,4	46 🔺	7,6	12,6	15,9	27 🔺			
Other	15,4	17,0	17,0	0 =	11,8	14,3	8,9	-38 🔻			

Table 16. Mean share of influential supervisors in % (politically connected and nonconnected) by industry and period, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

#### 3.7 Newly appointed supervisory board members

We continue the analysis by looking at new supervisory board appointments. We define as newly appointed supervisory board members those **members who appear in our database for the first time**. In order to avoid misinterpretation we should emphasize that a newly appointed supervisor is **not a newcomer to a specific firm but rather a newcomer to the database** (i.e. did not appear in any company until the point in time being analyzed). So far we did not distinguish between 'old' and 'new' supervisors. We only observed the characteristics and composition of supervisory boards based on the data of all members. Discussion about newly appointed supervisory board members is interesting as we would expect the percentage of supervisors who enter our database and are politically affiliated to decrease over time. We excluded the first two years of the period for this part of the analysis, since these two years were the first two years for many firms and not relevant for the analysis (most of the supervisors were new).

Let us first take a look at how many new supervisors did enter our database by year. Figure 32 shows the total number of supervisors appearing in our database by year and the percentage of newly appointed supervisors. The overall trend in total number of people in the database is decreasing. It reached the highest point in the year 2001 when 1.627 people were holding a supervisory board position, of which 15% (249) entered the database in that year. The year with the highest percent of new entries was 2005, when 20% (308) of all supervisors (1.555) were newly appointed. The increase in total number of supervisors, compared to the year

before, was 9,4%. The average absolute number of newly appointed supervisors in the period 1998–2012 was 206 (13,9% of total number of supervisors).



Figure 32. Total number of supervisors and share of newly appointed by year, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

Figure 33 observes only the newly appointed by their political connectedness and the year and period of entry. Despite the expectation that the share of politically connected supervisors who enter the database would decrease, the chart on the left suggests differently. In fact, the share of newly appointed supervisors, who are politically connected, is quite stable, fluctuating between 30% and 20%, with some deviations in both directions. Moreover, the trend in recent years is showing an increasing amount of politically connected supervisors who enter supervisors boards for the first time.

The biggest share of newly appointed politically connected supervisors was in 2005, when 39,9% were politically connected, and was never lower than 13% (2002 - 13,7%). The right side of Figure 33 shows that the highest share of newly appointed supervisors who were politically connected was in the period 2005–2008 with almost every third new supervisor who entered the database being politically connected. As discussed previously, this was also the period of the highest elite circulation. Hence, it seems that on top of old, established elites, many supervisors from the "new" elite were added.

*Figure 33*. Mean share of newly appointed supervisors by political connectedness and year/period of entry, 1996–2012



Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

When comparing the share of the right-wing and left-wing connected newly appointed supervisors (Figure 34), results are going in line with the previous observations about political cycles. The most interesting point is the harmony between trends in new appointments and the political cycles. We can see the first notable increase in the share of the right in 2000 (short 6-month right government). After that, all the movements are completely in line with the changes in government. Moreover, even when the topic of political appointments became much more publicized in 2008, both governments continued to favor "their" people (first a left-wing government in 2009–2011 and then a right-wing government in 2012). We can hardly say that the culture of supervisory board appointments changed over time.



Figure 34. Newly appointed supervisors by political affiliation and year of entry, 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

The most interesting industries, in terms of new appointments are Utilities and Electricity. Expectedly, politically connected newcomers dominate in these two industries, but are closely followed by Transport, Construction and Financial Services. Charts for all analyzed industries showing new political appointments and a split between right and left are given in Appendix T. In short, Utilities had a constant high inflow of politicians in the last decade. The share of newly appointed politicians peaked in 2007 and 2009, both years with new supervisors leaning mostly towards the right. The smallest inflow of politicians was in 2002, when only 8,3% of all new supervisors were politically affiliated. Since then, the percentage grew every year by almost 10 percentage points until reaching an all-time high in 2007, when a staggering 60% of new supervisors were politically connected.

Electricity similarly had a constant inflow of new politicians into the supervisory board, with the all-time high being year 2005. In that year, 67% of all new supervisors were politically connected (of these 83% were connected to the right). In 2006 and 2007, the share of new politically connected supervisors decreased to approximately 30%. However, in both years, the majority of these newcomers were connected to the right (it was also the period of the right government). When the left government took over in 2009, the practice of political appointment in electricity continued (in 2008 and 2009 the majority of new politically affiliated supervisors were leaning towards the left).

The trend in Manufacturing is very similar to the general trend in the whole sample observed in Figure 33 and Figure 34. There were quite high inflows of new politicians in the period 2005–2008. The period that followed brought a decrease but not a notable one. In 2012, the share of new supervisors who were politically connected slightly increased again, suggesting that even in Manufacturing, political appointments continued. The trend in Construction, on the other hand, is very volatile. It seems that apart from Electricity, Construction was also the industry preferred by the right parties. Peaks in Construction occurred in 2000, 2007 and 2008 and in all three years most of the politically connected newcomers were coming from the right. In 2008, 67% of all new supervisors in Construction were politically connected.

One of the hypotheses set at the beginning of the empirical section was that politically connected new appointments are more common in the years after elections. The hypothesis is based on the common sense that if political connections exist, it is somewhat expected that winning parties would appoint some of their election candidates to supervisory boards. Hence, the following hypotheses were developed:

 $H_0: \mu_{newP_vol} \le \mu_{newP_ot} \qquad \textit{On average, new supervisors who are politically connected are less} \\ or equally common in the years after elections compared to all other years.$ 

H<sub>1</sub>:  $\mu_{newP_vol} > \mu_{newP_ot}$  On average, new supervisors who are politically connected are more common in the years after elections compared to all other years.

Figure 35 gives a visual presentation of the point above. Light shaded bars represent newly appointed supervisors who were also candidates in the elections.<sup>38</sup> Light green bars representing years after elections have a red border around them. We can see that in all these years, the share of newly appointed supervisors who were candidates for elections increased compared to the years before. The most significant increase is visible in 2005, which came after the elections in 2004 that brought a major change in political power.



*Figure 35*. Newly appointed supervisors by candidacy for election and year of entry (red border represents post-election year), 1996–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

Furthermore, by carrying out the Independent Samples T-Test we can see that the share of newly appointed politicians to supervisory boards is indeed more common in the years after the election. We can, thus, accept the alternative hypothesis at the very low level of risk (P=0,00, one-tailed test). On average, the share of newly appointed politically connected supervisors is roughly 3 percentage points higher than in all other years. Results are given in Appendix U.

<sup>&</sup>lt;sup>38</sup> Figure does not reveal which elections, since many of the candidates actually take part in several consecutive elections. Still, we can assume that most of them would be coming from the latest elections.

# **3.8** Multivariate analysis: Effects of political connectedness on firms efficiency

We learned a lot about political connections in firms so far. We observed trends across industries, ownership structures and periods. We looked at several different levels of political connectedness in firms, trying to find trends and connections between political cycles and the intensity of connectedness. Several simple statistical tests were carried out to prove that differences do exist. However, thus far we did not analyze the direct effect political connectedness has on the factors of firm's efficiency.

We will use advanced multivariate models and techniques to prove our main hypotheses that political connections in firms, measured through the connectedness of its supervisory board members, harm firms' efficiency. Value added is considered as a measure of a firm's efficiency, where more value added means a firm is able to produce more with the given inputs. It will be estimated using enhanced Cobb-Douglas production function and will include variables of political connectedness developed throughout this thesis.

We do not need to further explain how value added might be connected with political connectedness. As elaborated in our previous study (Domadenik et al., 2011), politically influenced members of a supervisory board might not act for the benefit of the company which might harm its performance.

The remainder of this chapter will be structured as follows: we will first present the sample and shortly explain the limitations, we will then move to the formulation of statistical hypotheses and the description of the model and methodology used. We will continue with the presentation of the results and the explanation of the main findings.

#### 3.8.1 Sample description

The initial sample for the regression model was the extended sample of 309 tradable and nontradable large Slovenian firms. We, however, needed to reduce it by excluding banks (15 firms) and insurance firms (9), for which no financial data was available. This resulted in the final sample of 285 firms.

#### 3.8.2 Enhanced Cobb-Douglas production function model

We will test the following alternative hypothesis using advanced multivariate regression model:

 $H_0: \beta_{conn} = \beta_{expert} = 0$  Share of politically connected supervisory board members and share of expert supervisors have no effect on the Value Added of a firm, ceteris paribus.

H<sub>1</sub>: Not all regression Share of politically connected supervisory board members and/or coefficients are equal to share of expert supervisors has an effect on the Value Added of a firm, ceteris paribus.

We start the analysis in a similar way to our prior research (Domadenik et al., 2012), assuming that production takes the form of a Cobb-Douglas production function within a two variable framework, mathematically specified as presented in the equation (1).

$$Y_{it}A_t K_{it}^{\ \beta 1} L_{it}^{\ \beta 2} \tag{1}$$

 $Y_{it}$  in the equation (1) represents physical output of firm i in period t,  $K_t$  input of capital,  $L_t$  input of labor and  $A_t$  residual that corresponds to Total Factor Productivity (TFP). TFP accounts for effects (e.g. external shocks) in the physical output which are not caused by two input variables, capital and labor. While measures of output and input are all observable to the researcher, TFP is not and cannot be measured directly. In our case, we consider value added as the output and labor cost and the total fixed assets as labor and capital input respectively. Value added was calculated as follows in the equation (2).

$$Value \ Added = Total \ Revenues - Cost \ of \ goods \ and \ services \tag{2}$$

In order to make the equation (1) linear in form, we consider natural logarithms and estimate the following equation (3).

$$ln(Y_{it}) = \alpha_0 + \beta_1 ln(K_{it}) + \beta_2 ln(L_{it}) + \varepsilon_{it}$$
(3)

The descriptive statistics for the three variables used in the production function model for our sample of 285 firms are presented in Appendix V.

In order to be able to carry out the analysis and one of the main propositions that supervisory board composition affects value added, we use the regression equation (3) and enhance it by adding the board composition variables, the average number of employees (which will capture the differences in firms' sizes) and periods dummy (to capture the differences in the periods observed). The board composition variables are the share of politically connected (SPI) and the share of experts (SEx), who are influential supervisors without political ties.

We further established three pairs of these two variables and estimated a separate model from each pair. The differentiating element is the lag of the variables. Particularly in the first model which uses variables without time lag, while the other two models apply time lag (i.e. one year lag and two year lag respectively). We assume that the effect of political connectedness and/or expertise increases with the lag, which is why lagged models should be more significant. In other words, political influence of a specific person can only harm a firm after some time and not immediately. Finally, each industry will be estimated separately.

The aforementioned three empirical models are specified as follows in equations (4), (5) and (6) (lower case letters indicate natural logarithms of variables; t-1 and t-2 indicate a one-year and two-year lagged variable respectively).

$$y_{it} = \alpha_0 + \beta_1 \times k_{it} + \beta_2 \times l_{it} + \beta_3 \times SPl_{it} + \beta_4 \times SEx_{it} + \beta_5 \times Employees + \beta_6 \times Periods + \varepsilon_{it}$$
(4)

$$y_{it} = \alpha_0 + \beta_1 \times k_{it} + \beta_2 \times l_{it} + \beta_3 \times SPl_{it-1} + \beta_4 \times SEx_{it-1} + \beta_5 \times Employees + \beta_6 \times Periods + \varepsilon_{it}$$
(5)

$$y_{it} = \alpha_0 + \beta_1 \times k_{it} + \beta_2 \times l_{it} + \beta_3 \times SPl_{it-2} + \beta_4 \times SEx_{it-2} + \beta_5 \times Employees + \beta_6 \times Periods + \varepsilon_{it}$$
(6)

As more variables on the composition of firms became available, we added one more model, which exchanges two board composition variables (the share of politically connected and the share of experts) with the variable share of high officials (SHiPl) in the model (7) below. This variable includes only supervisors whose political connectedness comes from the politics on a national level (i.e. national elections candidates, government officials or MPs). We will call them high officials. Furthermore, a two-year time lag was applied to the newly added variable. The fourth model is specified as follows in the equation (7).

$$y_{it} = \alpha_0 + \beta_1 \times k_{it} + \beta_2 \times l_{it} + \beta_3 \times SHiPl_{it-2} + \beta_4 \times Employees + \beta_5 \times Periods + \varepsilon_{it}$$
(7)

Models were estimated using ordinary least squares (hereinafter: OLS) method and analysis carried out with the SPSS statistical software package.

Using the OLS method for estimating the production function comes with known econometric problems. These need to be mentioned to the reader at this point and are twofold. The first is the correlation between unobservable productivity shocks and input levels, which cause OLS estimates of production function to be biased. This, in turn, leads to biased estimates of productivity. The second limitation is the assumption that the explanatory variables used to identify the difference in TFP are endogenous, which results, yet again, in biased estimations. Particularly, the variable share of politically connected supervisors might be dependent on the firm's past management decisions (i.e. past firm's performance, ownership structure etc.). We will try to solve the latter issue by applying lag to the variables of political connectedness, claiming that the past supervisory board structure is a better predictor of difference in TFP and at the same time assuming its exogeneity. Still, it is important to acknowledge the

possibility that the OLS model might underestimate the true impact of independent variables on value added, as observed in our previous research (Domadenik et al., 2011).

#### 3.8.3 Empirical Results

The differences across industries in the results of the enhanced production function models explained earlier are quite significant (Table 17). Beginning with Manufacturing, it is the only industry where the results of regression are completely in line with our expectations. Namely, the increase in the share of politically connected supervisors results in a decrease in value added. Moreover, lag makes the coefficient stronger and increasingly negative. If the two-year lagged share of politically connected supervisors in the model (6) increases for 10%, value added on average decreases for 2,1%, ceteris paribus. The decrease is 0,2 percentage points higher compared to the model (4) without lag. On the other hand, the two-year lagged share of experts in the supervisory board has the opposite effect on manufacturing firms' value added. An increase of 10% of this variable in a given year results in 1,8% average increase in value added, ceteris paribus. A model (7) weakens the coefficient of political connectedness, which remains negative but loses its significance, suggesting that high government officials and national politicians do not have more influence on the firms' value added.

Utilities, Electricity, Transport and Construction all share a high presence of politically 'infected' supervisors, as learned in chapters throughout this thesis. However, looking at the regression results, the interpretation is somewhat mixed and unclear. First, there is Construction and Transport both which have quite strong and negative two-year lagged share of politically connected individuals. It is interesting to see in Construction that the coefficient became stronger, negative and significant only in model (6). In the non-lagged and one-year lagged models, the coefficient was positive but insignificant. In Transport on the other hand, the coefficient was negative in all three models but became stronger. Hence, in Transport if the two-year lagged share of politically connected supervisors in the model (6) increases for 10%, value added on average decreases for 5,2%, ceteris paribus, which is 2,4 percentage points more when compared to the model (4) without lag. Similarly, in Construction, a 10% increase of the two-year lagged share of politically connected supervisors in the model (6) results in an average decrease of a staggering 8% in value added, ceteris paribus. In the Utilities sector, the coefficient of the political connectedness variable is negative in all three cases but becomes significant only for the two-year lagged one. If the two-year lagged share of politically connected supervisors in the model (6) increases for 10%, value added on average decreases for 2%, ceteris paribus.

Electricity is a very special case. We learned that it is highly congested with politicians but regression results show a positive effect of political connectedness on value added. In particular, if the two-year lagged share of politically connected supervisors in the model (6) increases for 10%, value added also increases, on average for 4,9%, ceteris paribus. The reason for this is not very clear. Electricity is quite a heavily regulated industry and was, until

recently, not very competitive but rather monopolistic. Additionally, the average electricity firm in the sample has a value added of 16 million (see Appendix V), which is the second highest average located between IT and Trade (24 and 13 million respectively). However, both IT and Trade have much lower shares of politically connected supervisors, mostly due to the ownership. Hence, we have SOEs, (in)directly controlled by politicians, with high added value, a factor which seems very attractive for rent-seeking activities without being able to seriously harm the monopolistic business.

The presence of high government officials and national politicians makes the relationship between political connectedness and value added stronger in Utilities, Transport and Electricity, but has no effect in the Construction. The direction of the coefficient stays the same in all industries. However, it is doubled in Utilities and Electricity compared to the twoyear share of politically connected, suggesting that high officials have much stronger influence on value added.

The share of experts in the abovementioned four industries does not seem to have an influence on the value added in most of the cases except partly in the case of Electricity (significant and positive for non-lagged and one-year lagged share of experts) and fully in the case of Construction (significant and negative for all three variables). The result in Construction is interesting. It might be that the variable share of experts in Construction does not really capture true experts and is in fact still consisting of a lot of politically connected supervisors whose connectedness was not found through the sources used in our data collection process.

Trade and IT were two industries with a relatively low share of politically connected supervisors, which is probably why the samples were too small for the regression results to bring any significant results. Similarly, in Financial Services, after the exclusion of insurance firms and banks, the sample of firms is too small and coefficients are insignificant (Table 17).

Var	iables										Dom				
Industry		Ln (K)	Ln (L)	SPI	SPI <sup>-1</sup>	Spl <sup>-2</sup>	SHiPl <sup>-2</sup>	SEx	SEx <sup>-1</sup>	SEx <sup>-2</sup>	dum.	Employ.	Const.	Adj. R <sup>2</sup>	Ν
Manufacturing	(4)	0,295***	0,623***	-0,187***				0,176***			YES	0,000***	1,218***	0,865	2026
	(5)	0,303***	0,610***		-0,207***				0,182***		YES	0,000***	1,283***	0,866	1887
	(6)	0,313***	0,591***			-0,210***				0,175***	YES	0,000***	1,407***	0,862	1745
	(7)	0,312***	0,592***				-0,026				YES	0,000***	1,483***	0,860	1745
Financial services	(4)	0,064	0,744***	-0,629				-1,340***			YES	0,000	3,238*	0,817	45
	(5)	0,045	0,757***		-0,955				-2,132***		YES	0,000	3,555*	0,817	42
	(6)	0,058	0,789***			1,142				1,106	YES	0,000	1,711	0,688	37
	(7)	0,075	0,829***				-1,881				YES	0,000	1,689	0,690	37
Utilities	(4)	0,043**	0,862***	-0,089				-0,043			YES	0,001***	1,446	0,814	348
	(5)	0,039**	0,863***		-0,133				-0,092		YES	0,001**	1,494	0,810	327
	(6)	0,030	0,890***			-0,200**				-0,162	YES	0,001**	1,289	0,805	305
	(7)	0,030	0,958***				-0,475***				YES	0,001*	0,389	0,808	305
Electricity	(4)	0,149***	1,310***	0,473***				0,484**			YES	-0,002***	-5,821***	0,648	266
	(5)	0,154***	1,247***		0,526***				0,483**		YES	-0,002***	-5,125***	0,640	250
	(6)	0,217***	1,193***			0,485***				0,345	YES	-0,002***	-5,452***	0,671	233
	(7)	0,213***	1,161***				0,760****				YES	-0,002***	-4,801***	0,681	233

Table 17. Enhanced production function estimations in log levels (dependent variable is value added)

table continues

Variables											Por				
Industry		Ln (K)	Ln (L)	SPI	SPI <sup>-1</sup>	Spl <sup>-2</sup>	SHiPl <sup>-2</sup>	SEx	SEx <sup>-1</sup>	SEx <sup>-2</sup>	dum.	Employ.	Const.	Adj. R <sup>2</sup>	Ν
Trade	(4)	0,122***	0,799***	0,210**				0,123			YES	0,000	1,883***	0,880	395
	(5)	0,120***	0,799***		0,115				0,120		YES	0,000	1,640***	0,876	368
	(6)	0,118***	0,807***			0,079				0,184	YES	0,000	1,665***	0,869	340
	(7)	0,114***	0,800***				0,893***				YES	0,000	1,848***	0,872	340
LI	(4)	0,157***	1,121***	0,128				-0,269*			YES	0,000**	-3,370***	0,923	151
	(5)	0,183***	1,064***		-0,054				-0,286*		YES	0,000**	-2,894***	0,929	142
	(6)	0,211***	1,027***			0,051				-0,216	YES	0,000***	-2,979***	0,938	131
	(7)	0,233***	0,991***				-0,495				YES	0,000**	-2,798***	0,938	131
sport	(4)	0,173***	1,025***	-0,276**				-0,038			YES	0,000***	-2,695***	0,881	293
	(5)	0,190***	1,041***		-0,440****				0,125		YES	0,000***	-3,206***	0,882	277
Tran	(6)	0,205***	1,032***			-0,520***				0,047	YES	0,000***	-3,309***	0,883	258
	(7)	0,179***	1,033***				-0,613**				YES	0,000***	-2,978***	0,879	258
Construction	(4)	0,156	0,770***	0,187				-0,571*			YES	0,000	1,359	0,857	99
	(5)	0,141	0,760***		0,082				-0,672*		YES	0,000	1,727	0,851	91
	(6)	0,225**	0,676***			-0,797**				-1,006**	YES	0,000	1,772	0,845	83
	(7)	0,109	0,838***				-0,656				YES	0,000	0,993	0,833	83

continued

Source: AJPES, Slovenian business register, 2013; AJPES, Financial data for Slovenian companies, 2013; SEC, Election candidates data, 2012; Official Gazette of the RS, Data on public officials, 2013; own calculations.

#### CONCLUSION

It was made clear throughout this thesis that the **presence of politicians in the biggest Slovenian firms is very common and that it plays a part in the lower efficiency of these firms.** Moreover, not only are they very common, but they also do not decrease as one would expect, despite the increased publicity on that topic in the recent years and promises from the politicians in power that the era of appointments based on political affiliation is coming to its end. Recommendations for the future are thus very straightforward: if we wish to ensure better governance and a brighter future for our economy, we must ensure that political interference, through supervisory board appointments, is stopped for good.

Analysis carried out on a sample of 309 largest Slovenian firms has shown that Electricity, Utilities and Construction are the most politically "infected" industries, measured by political connectedness of firms' supervisory boards. Moreover, Utilities and Construction witnessed an increasing trend in the share of politically connected supervisors even in the crisis period (2009–2012). In particular, Utilities reached a staggering 48%, suggesting that nearly every other supervisor was politically 'infected'. Industries with the least politically affiliated supervisors are IT and Trade. Expectedly, the share of politically connected is the highest in SOEs and the lowest in foreign owned firms.

We were able to fully address our main statement, research questions and hypotheses, using advanced statistical models and techniques. By estimating the augmented Cobb-Douglas production function we showed that in the Utilities and Construction sectors, higher political connectedness resulted in the decrease of value added. The same was proven to be the case in the Transport sector, another industry with a relatively high share of politically connected individuals. On the other hand, Electricity showed somewhat confusing results where the share of politically connected supervisors was positively related to the value added and that an increase in one, results in an increase in the other. Despite the initial surprise, results still seem logical. Electricity is a quite regulated and geographically dependent industry with very little competition and stable demand. This suggests that political connections are not able to harm these firms but are in fact the proxy of their success. Such conclusions further indicate that rent-seeking seems to be prevailing especially in the Electricity sector.

Throughout the analysis several other important points, related to the hypotheses and research questions, were made.

The analysis of political connectedness, based on the affiliation to the left or the right, showed that changes in government in fact resulted in the changes in supervisory boards in the most 'infected' industries. This was especially visible in the period 2004–2008, when a rightwing government took over after years of leftwing domination. The circulation of politically connected supervisory board members, caused by the change in government, harms firms and makes them more vulnerable to external shocks, more apparent during the crisis.

We further hypothesized the association of political connections with shorter supervisory board mandates. The hypothesis was logical since changes in government result in the changes of supervisors who were connected to the previous government. Analysis carried out proved this hypothesis. Moreover, politically connected supervisors also appear in more firms and across a range of industries, which was another expected conclusion, since political influence, unlike expertise, does not tie a supervisor to the specific area of his/her expertise.

All three points – the fact that politically connected supervisors appear in more boards, more industries and that their mandates are shorter – reinforce the argument that a politically connected supervisor cannot supervise firms as effectively and professionally as non-connected supervisors whose mandates are longer and much more industry focused.

By analyzing the national and local political ties separately, we learned that Utilities, unlike Electricity, is a very regionally centered industry. In other words, Utilities are congested with mostly locally active politicians, whereas politicians in the Electricity sector are mostly connected to politics on the national level (national elections, government officials etc.).

Analysis of the monetary transactions between sampled firms and the public sector showed that politically connected firms received more business from the public sector compared to their non-connected peers. We also showed that the share of politically connected supervisors decreased during the crisis, but still without reaching the lowest levels in our observed period.

Despite the large scope of the analysis, many questions remain open and can be further analyzed. For one, due to the data limitations, we did not include financial institutions in our regression models. It would be interesting to observe debt lending practices and the political connectedness of banks. Moreover, past research shows that there is a great connection between indebtedness and political connectedness. This field remains unanalyzed in the Slovenian economic environment and can present a very interesting topic for future research. Furthermore, we did not observe political connectedness of the management boards. It would be interesting to see if firms with politically connected CEOs perform different to their nonconnected counterparts. The data on supervisory board members could also be further improved by adding data on the type of membership (president, vice president or member) or data on which supervisors represent which stakeholders on the supervisory boards. However, since this data is not available in any known or structured form, this would require a lot of extra manual work, possibly even interviews with firms themselves. Lastly, this thesis only touched on the topic of the business that private 'connected' firms do with the public sector. The potential for further research in this area is great and opens a completely new set of questions related to inefficient resource allocation.
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**APPENDIXES** 

# TABLE OF APPENDIXES

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### Appendix A: List of commonly used abbreviations

AJPES: Agency of the Republic of Slovenia for Public Legal Records and Related Services **BMD:** Board Membership Database CAR: Cumulative Abnormal Return (analyzed by Mara Faccio) CPC: Commission for the Prevention of Corruption of the Republic of Slovenia DM: Deutsche Mark, the official currency of Germany until the adoption of euro in 2002 EBRD: European Bank for Reconstruction and Development EUR: Euro **GDP:** Gross Domestic product MBO: Management Buy-Out MP: Member of Parliament OECD: The Organization for Economic Co-operation and Development **OLS:** Ordinary Least Squares SOE: State-Owned Enterprise (Firm) **ROA:** Return on Assets **ROE:** Return on Equity ROS: Return on Sales

SEC: State Election Commission

### Appendix B: Inflation indices (with 1996 as a base year)

Year	Inflation Index
1996	1,000
1997	1,102
1998	1,205
1999	1,302
2000	1,418
2001	1,518
2002	1,628
2003	1,703
2004	1,758
2005	1,798
2006	1,848
2007	1,952
2008	1,993
2009	2,028
2010	2,067
2011	2,108
2012	2,165

Table 1. Inflation indices (with 1996 as a base year)

Source: Statistical Office of the RS, Revalorizacija denarnih zneskov, 2013.

# Appendix C: Relationship scheme of the Microsoft Office Access database

Figure 1. Board Membership Database relationship scheme from Microsoft Office Access



## Appendix D: Results of Independent Samples T-Test, supervisory board size and industry dummy (tradable/non-tradable), 1996–2012

Table 2. Results of Independent Samples T-Test, Supervisory board size and industry dummy (tradable/non-tradable), 1996–2012

#### A. Group Statistics

		Ν	Mean	Std. Deviation	Std. Error Mean
Supervisory board size	Non-tradable	2126	5,73	2,32	0,05
Supervisory board size	Tradable	2140	5,09	1,93	0,04

#### B. Independent Samples Test

		Levene's ' Equality of	Test for Variances			t-test for	Equality of Mea	ans		
						Sig. (2-	Mean	Std. Error	95% Co Interva Diffe	nfidence l of the rence
		F	Sig.	t	df	tailed)	Difference	Difference	Lower	Upper
Supervisory board	Equal variances assumed	40,62	0,00	9,76	4264	0,00	0,64	0,07	0,51	0,77
size	Equal variances not assumed			9,76	4113	0,00	0,64	0,07	0,51	0,77

# Appendix E: Results of Independent Samples T-Test, share of politically connected supervisors and industry dummy (tradable/non-tradable), 1996–2012

Table 3. Results of Independent Samples T-Test, Share of politically connected supervisors and industry dummy (tradable/non-tradable), 1996–2012

#### A. Group Statistics

		Ν	Mean	Std. Deviation	Std. Error Mean
Share of politically connected members of supervisory	Non-tradable	2126	0,28	0,25	0,01
boards	Tradable	2140	0,19	0,20	0,00

#### B. Independent Samples Test

		Levene's Equality of	Test for Variances	t-test for Equality of Means						
						Sig. (2-	Mean	Std. Error	95% Co Interva Diffe	nfidence ll of the rence
		F Sig	Sig.	t	df	tailed)	Difference	Difference	Lower	Upper
Share of politically	Equal variances assumed	97,52	0,00	13,37	4264	0,00	0,09	0,01	0,08	0,11
supervisory boards	Equal variances not assumed			13,36	4097,39	0,00	0,09	0,01	0,08	0,11

# Appendix F: Results of Independent Samples T-Test, length of the supervisory board mandate and state ownership dummy, 1996–2012

Table 4. Results of Independent Samples T-Test, Length of the supervisory board mandate and state ownership dummy, 1996–2012

#### A. Group Statistics

		Ν	Mean	Std. Deviation	Std. Error Mean
I ength of mandate in weeks	Other	3467	196,61	159,41	2,71
Length of mandate in weeks	SOE	1972	162,81	129,36	2,91

#### B. Independent Samples Test

		Levene Equality of	's Test for of Variances			t-test for	r Equality of N	Ieans		
						Sig. (2-	Mean	Std. Error	95% C Interv Diff	onfidence val of the ference
		F	Sig.	t	df	tailed)	Difference	Difference	Lower	Upper
Length of mandate in	Equal variances assumed	72,20	0,00	8,03	5437	0,00	33,80	4,21	25,55	42,05
weeks	Equal variances not assumed			8,50	4807	0,00	33,80	3,98	26,00	41,59

# Appendix G: Results of one-way ANOVA test of differences between group means, length of supervisory mandate by ownership structure

					95% Confidence Interval for Mean			
	Ν	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Minimum	Maximum
Dispersed ownership	1501	207,40	168,68	4,35	198,86	215,94	1,00	871,00
Financial holding	546	181,01	146,79	6,28	168,67	193,35	2,00	835,00
Cap ownership	299	206,12	166,40	9,62	187,19	225,06	3,00	878,00
MBO	162	191,85	146,44	11,51	169,13	214,57	2,00	675,00
Big private owners	490	180,47	148,09	6,69	167,33	193,62	4,00	757,00
State ownership	1972	162,81	129,36	2,91	157,10	168,52	1,00	882,00
Foreign ownership	469	192,66	151,54	7,00	178,91	206,41	3,00	859,00
Total	5439	184,35	150,08	2,04	180,36	188,34	1,00	882,00

Table 5. Descriptive statistics for the variable length of supervisory board mandate in weeks by ownership structure, 1996–2012

Source: AJPES, Slovenian business register, 2013; own calculations.

Table 6. Results of one-way ANOVA test of differences between group means, length of supervisory mandate by ownership structure, 1996–2012

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.908.971,58	6	318.161,93	14,332	0,000
Within Groups	120.583.755,77	5.432	22.198,78		
Total	122.492.727,35	5.438			

## Appendix H: Results of Independent Samples T-Test, share of foreign supervisors before and after 2000, 1996–2012

Table 7. Results of Independent Samples T-Test, Share of foreign supervisors before and after 2000, 1996–2012

#### **A.** Group Statistics

		Ν	Mean	Std. Deviation	Std. Error Mean
Share of foreigners	2001 and later	3085	0,109	0,26	0,01
Share of foreigners	Until 2000	1181	0,058	0,18	0,01

#### **B.** Independent Samples Test

	Test for Variances	t-test for Equality of Means								
			Sig (2. Mean Std Frror		Sig. (2- Mean		Std. Error	95% Confidence Interval of the Difference		
		F	Sig.	t	df	tailed)	Difference	Difference	Lower	Upper
Share of foreigners	Equal variances assumed	152,85	0,00	6,32	4264	0,00	0,05	0,01	0,04	0,07
Share of foreigners	Equal variances not assumed			7,33	2999	0,00	0,02	0,01	0,04	0,07

# Appendix I: Results of ANOVA test of differences between group means and Tukey HSD Post Hoc Test for homogeneous subsets, share of politically connected supervisors by industry

					95% Co	nfidence		
					Interval	for Mean		
					Lower	Upper	1	
	Ν	Mean	Std. Deviation	Std. Error	Bound	Bound	Minimum	Maximum
Manufacturing	1979	0,18	0,19	0,00	0,17	0,19	0,00	1,00
Financial services	450	0,28	0,25	0,01	0,26	0,30	0,00	1,00
Utilities	347	0,33	0,25	0,01	0,30	0,36	0,00	1,00
Electricity	257	0,39	0,20	0,01	0,36	0,41	0,00	1,00
Trade	327	0,19	0,19	0,01	0,17	0,21	0,00	0,75
IT	140	0,16	0,20	0,02	0,12	0,19	0,00	0,80
Transport	281	0,30	0,27	0,02	0,27	0,33	0,00	1,00
Construction	110	0,31	0,25	0,02	0,26	0,36	0,00	1,00
Other (mostly services)	375	0,30	0,27	0,01	0,28	0,33	0,00	1,00
Total	4266	0,24	0,23	0,00	0,23	0,24	0,00	1,00

Table 8. Descriptive statistics for the variable share of politically connected by industry, 1996–2012

Source: AJPES, Slovenian business register, 2013; SEC, Election candidates data, 2012; Official Gazette of the RS, Data on public officials, 2013; own calculations.

Table 9. Results of one-way ANOVA test of differences between group means, share of politically connected by industry, 1996–2012

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	21,40	8	2,68	55,46	0,00
Within Groups	205,37	4257	0,05		
Total	226,78	4265			

			Subset for alpha = 0.05	
	Ν	1	2	3
IT	140	0,16		
Manufacturing	1979	0,18		
Trade	327	0,19		
Financial services	450		0,28	
Transport	281		0,30	
Other (mostly services)	375		0,30	
Construction	110		0,31	
Utilities	347		0,33	0,33
Electricity	257			0,39
Sig.		0,78	0,20	0,07

Table 10. Results of Tukey HSD<sup>a,b</sup> Post Hoc Test for homogeneous subsets, share of politically connected by industry, 1996–2012

Note. Means for groups in homogeneous subsets are displayed.

*Note.* a. Uses Harmonic Mean Sample Size = 257,013.

Note. b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

# Appendix J: Results of One-way ANOVA test of differences between group means and Tukey HSD Post Hoc Test for homogeneous subsets, share of politically connected supervisors by ownership type

					95% Confiden	ce Interval for		
					M	ean		
	Ν	Mean	Std. Deviation	Std. Error	Lower Bound	<b>Upper Bound</b>	Minimum	Maximum
Dispersed ownership	1309	0,18	0,19	0,01	0,17	0,19	0,00	0,80
Financial holding	493	0,20	0,21	0,01	0,18	0,21	0,00	1,00
Cap ownership	335	0,19	0,18	0,01	0,17	0,21	0,00	0,75
MBO	157	0,32	0,24	0,02	0,28	0,36	0,00	1,00
Big Private owners	455	0,18	0,19	0,01	0,17	0,20	0,00	0,71
State ownership	1122	0,39	0,24	0,01	0,37	0,40	0,00	1,00
Foreign ownership	395	0,12	0,18	0,01	0,10	0,14	0,00	0,86
Total	4266	0,24	0,23	0,00	0,23	0,24	0,00	1,00

Table 11. Descriptive statistics for the variable share of politically connected by ownership structure, 1996–2012

Source: AJPES, Slovenian business register, 2013; SEC, Election candidates data, 2012; Official Gazette of the RS, Data on public officials, 2013; own calculations.

Table 12. Results of one-way ANOVA test of differences between group means, share of politically connected by ownership structure, 1996-

2012

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	38,81	6	6,47	146,58	0,00
Within Groups	187,96	4259	0,04		
Total	226,78	4265			

Ownorship structure	Ν	Subset for alpha = 0.05						
Ownership structure	1	1	2	3	4			
Foreign ownership	395	0,12						
Dispersed ownership	1309		0,18					
Big Private owners	455		0,18					
Cap ownership	335		0,19					
Financial holding	493		0,20					
MBO	157			0,32				
State ownership	1122				0,39			
Sig.		1,00	0,93	1,00	1,00			

Table 13. Results of Tukey HSD<sup>a,b</sup> Post Hoc Test for homogeneous subsets, share of politically connected by ownership structure, 1996–2012

Note. Means for groups in homogeneous subsets are displayed.

*Note.* a. Uses Harmonic Mean Sample Size = 393,977.

*Note.* b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

# Appendix K: Results of Independent Samples T-Test, number of firms an average supervisor appears in by political connectedness, 1996–2012

Table 14. Results of Independent Samples T-Test, number of firms an average supervisor appears in by political connectedness, 1996–2012

### **A.** Group Statistics

	Is politically connected?	Ν	Mean	Std. Deviation	Std. Error Mean
No. of firms supervisor appears in	Not-connected supervisor	3732	1,15	0,54	0,01
	Connected supervisors	970	1,69	1,18	0,04

### **B.** Independent Samples Test

Levene's Test for Equality of Variances				t-test for Equality of Means						
						Sig. (2-	Mean	Std. Error	95% Confidence Interval of the Difference	
		F	Sig.	t	df	tailed)	Difference	Difference	Lower	Upper
No. of companies supervisor appears in	Equal variances assumed	835,25	0,00	-20,82	4700	0,00	-0,54	0,03	-0,59	-0,49
	Equal variances not assumed			-13,87	1076	0,00	-0,54	0,04	-0,61	-0,46

# Appendix L: Mean share of the politically connected members of supervisory board by affiliation (in %), sources of political connectedness and period, 1996–2012

Table 15. Mean share of the politically connected members of supervisory board by affiliation (in %), sources of political connectedness and period, 1996–2012

	1996-2000	2001–2004	2005-2008	2009–2012
% of Left in whole sample	9,3	13,5	10,3	10,9
Of these:				
% of party members	79,5	81,7	79,4	79,3
% of sympathizers	8,9	7,9	8,7	10,2
% of government officials	11,4	8,7	7,6	8,4
% of government secretaries	9,8	9,0	3,2	3,5
% of related to politically connected person	12,4	20,2	17,8	16,4
	1996-2000	2001–2004	2005-2008	2009–2012
% of Right in whole sample	4,1	4,9	11,5	7,7
Of these:				
% of party members	86,3	80,3	89,9	88,2
% of sympathizers	5,7	7,0	4,7	5,0
% of government officials	9,5	10,5	8,6	7,8
% of government secretaries	4,6	2,9	7,8	4,2
% of related to politically connected person	9,5	23,1	12,1	13,1

Note. Not all sources are mutually exclusive and hence sum does not equal 100%.

# Appendix M: Results of Independent Samples T-Test, number of firms politically connected supervisor appears in and affiliation to the left/right, 1996–2012

Table 16. Results of Independent Samples T-Test, number of firms politically connected supervisor appears in and affiliation to the left/right,1996–2012

#### **A.** Group Statistics

	Political affiliation (left/right)	Ν	Mean	Std. Deviation	Std. Error Mean
No. of firms supervisor appears in	Affiliated to the right	350	1,53	0,91	0,05
	Affiliated to the left	392	1,88	1,29	0,07

#### **B.** Independent Samples Test

Levene Equality			Test for Variances	t-test for Equality of Means						
						Sig. (2-	Mean	Std. Error	95% Confidence Interval of the Difference	
		F	Sig.	t	df	tailed)	Difference	Difference	Lower	Upper
No. of firms supervisor appears in	Equal variances assumed	22,53	0,00	-4,24	740	0,00	-0,35	0,08	-0,51	-0,19
	Equal variances not assumed			-4,32	702	0,00	-0,35	0,08	-0,51	-0,19

## Appendix N: Results of Independent Samples T-Test, length of mandates in weeks and political connectedness, 1996–2012

Table 17. Results of Independent Samples T-Test, length of mandates in weeks and political connectedness, 1996–2012

#### **A.** Group Statistics

	Politically connected?	Ν	Mean	Std. Deviation	Std. Error Mean
Mean length of mandate in	Politically not connected supervisor	3730	195,89	158,45	2,59
weeks	Politically connected supervisor	969	184,69	143,57	4,61

### **B.** Independent Samples Test

		Levene's Equa Vari	s Test for lity of ances			t-test fo	r Equality of	Means		
						Sig. (2-	Mean	Std. Error	95% Co Interva Diffe	nfidence ll of the rence
		F	Sig.	t	df	tailed)	Difference	Difference	Lower	Upper
Mean length of	Equal variances assumed	11,64	0,00	2,00	4697	0,05	11,20	5,61	0,21	22,19
mandate in weeks	Equal variances not assumed			2,12	1635	0,03	11,20	5,29	0,82	21,58

# Appendix O: Results of Independent Samples T-Test, length of mandates in weeks and political connectedness by affiliation (left/right), 1996–2012

Table 18. Results of Independent Samples T-Test, length of mandates in weeks and political connectedness by affiliation (left/right), 1996–2012

A. Group St	atistics
-------------	----------

	Political affiliation (left/right)	Ν	Mean	Std. Deviation	Std. Error Mean
Mean length of mandate in	Politically affiliated to the Right	350	162,33	118,24	6,32
weeks	Politically affiliated to the Left	392	198,28	146,66	7,41

### B. Independent Samples Test

		Levene's Test for of Varian	r Equality ces			t-test for E	quality of Me	eans		
							Mean	Std. Error	95% Co Interva Diffe	nfidence ll of the rence
		F	Sig.	t	df	Sig. (2-tailed)	Difference	Difference	Lower	Upper
Mean length of	Equal variances assumed	4,25	0,04	-3,65	740	0,00	-35,95	9,86	-55,29	-16,60
mandate in weeks	Equal variances not assumed			-3,69	733	0,00	-35,95	9,74	-55,06	-16,83

## Appendix P: Results of Independent Samples T-Test, yearly incoming public transactions and political connectedness, 1996–2012

 Table 19. Results of Independent Samples T-Test, yearly incoming public transactions and political connectedness (above 50% politically connected dummy), 1996–2012

### A. Group Statistics

	Politically connected firm (>50%)?	Ν	Mean	Std. Deviation	Std. Error Mean
Incoming public transactions per euro	Politically non-connected firm	2026	0,26	0,84	0,02
of equity	Politically connected firm	368	0,58	2,27	0,12

#### B. Independent Samples Test

		Levene's Equality of	Test for Variances			t-test f	or Equality of	f Means		
						Sig. (2-	Mean	Std. Error	95% Co Interva Diffe	nfidence l of the rence
		F	Sig.	t	df	tailed)	Difference	Difference	Lower	Upper
Incoming public	Equal variances assumed	37,86	0,00	-4,76	2392	0,00	-0,32	0,07	-0,45	-0,19
equity	Equal variances not assumed			-2,65	385	0,01	-0,32	0,12	-0,55	-0,08

# Table 20. Results of Independent Samples T-Test, yearly incoming public transactions and political connectedness (above 40% politically connected dummy), 1996–2012

### A. Group Statistics

	Politically connected firm (>40%)?	Ν	Mean	Std. Deviation	Std. Error Mean
Incoming public transactions per euro	Politically non-connected firm	1778	0,24	0,97	0,02
of equity	Politically connected firm	660	0,40	1,82	0,07

#### B. Independent Samples Test

		Levene's Equality of	s Test for f Variances			t-test fo	r Equality of	Means		
						Sig. (2-	Mean	Std. Error	95% Co Interva Diffe	nfidence ll of the rence
		F	Sig.	t	df	tailed)	Difference	Difference	Lower	Upper
Incoming public	Equal variances assumed	12,50	0,00	-2,74	2436	0,01	-0,16	0,06	-0,27	-0,04
equity Equal variances no assumed				-2,11	802	0,04	-0,16	0,07	-0,30	-0,01

## Appendix Q: Summary statistics of yearly incoming public transactions by industry, corrected for inflation, 2003–2012

						Industry				
		Manufactu-							Construc-	
		ring	Fin. services	Utilities	Electricity	Trade	IT	Transport	tion	Other
N	Valid	1209	51	213	170	237	96	197	66	226
1	Missing	17	10	0	0	0	9	0	0	5
Mean		451.691	157.347	2.241.609	2.692.727	10.969.475	3.626.149	7.179.879	12.086.229	750.507
Median		73.276	32.191	1.561.328	259.917	446.613	287.029	1.282.139	9.492.424	376.581
Mode		0,0	0,0	25.941,6*	$0,0^{*}$	23,9*	46,8*	0,0	25.668,1*	0,0
Std. Deviation	on	1.055.849	592.054	2.215.671	3.866.186	25.984.517	6.586.325	19.642.831	10.296.090	922.424
Minimum		0	0	25.942	0	24	47	0	25.668	0
Maximum		12.494.148	3.739.325	16.476.448	12.904.662	119.303.101	25.250.545	102.603.591	40.772.314	4.025.392
	25	18.501	878	1.045.143	15.701	68.245	47.526	116.302	3.496.382	95.753
Percentiles	50	73.276	32.191	1.561.328	259.917	446.613	287.029	1.282.139	9.492.424	376.581
	75	326.111	326.111	2.611.635	5.476.893	7.326.325	5.018.684	3.833.979	17.949.482	1.098.584

Table 21. Summary statistics of yearly incoming public transactions (in EUR) by industry, corrected for inflation, 2003–2012

Note. \* Multiple modes exist. The smallest value is shown.

# Appendix R: Results of Independent Samples T-Test, yearly incoming public transactions for politically and non-politically connected firms (40% politically connected criteria) by industry, 2003–2012

 Table 22. Results of Independent Samples T-Test, yearly incoming public transactions for politically and non-politically connected firms (40% politically connected criteria) by industry, 2003–2012

					Std.	Std. Error
Above 40% politically connected du	mmy		Ν	Mean	Deviation	Mean
Monufacturing	Income public transactions	Politically non-connected firm	1032	0,05	0,13	0,00
Manufacturing	per euro of equity	Politically connected firm	164	0,04	0,07	0,01
Fin comicos	Income public transactions	Politically non-connected firm	41	0,00	0,01	0,00
Fill. Services	per euro of equity	Politically connected firm	10	0,02	0,04	0,01
Litilities	Income public transactions	Politically non-connected firm	96	0,95	0,86	0,09
Cuntes	per euro of equity	Politically connected firm	117	1,03	1,01	0,09
Flectricity	Income public transactions	Politically non-connected firm	70	0,01	0,02	0,00
Electrony	per euro of equity	Politically connected firm	100	0,05	0,04	0,00
Trada	Income public transactions	Politically non-connected firm	169	0,80	2,05	0,16
Trade	per euro of equity	Politically connected firm	68	0,31	0,70	0,09
IT	Income public transactions	Politically non-connected firm	85	0,45	0,74	0,08
11	per euro of equity	Politically connected firm	10	0,05	0,00	0,00
Transmort	Income public transactions	Politically non-connected firm	118	0,66	1,33	0,12
Transport	per euro of equity	Politically connected firm	72	0,98	5,09	0,60
Construction	Income public transactions	Politically non-connected firm	37	0,83	3,47	0,57
	per euro of equity	Politically connected firm	23	1,39	1,45	0,30

#### A. Group Statistics

table continues

#### continued

### B. Independent Samples Test

			Levene	e's Test			t-test for E	quality of Mea	ns				
										95%	Conf.		
									Std. Error	Inte	rvai		
			F	Sig.	t	df	Sig. (2-tail.)	Mean Diff.	Diff.	Lower	Upper		
Manufacturing	IPT per ELIR C <sup>39</sup>	EVA <sup>40</sup>	2,40	0,12	0,88	1194	0,38	0,01	0,01	-0,01	0,03		
Wanutacturing	II I per Lok e	EVNA <sup>41</sup>			1,31	351,86	0,19	0,01	0,01	0,00	0,02		
Fin sorvices	IDT por FUD C	EVA	10,49	0,00	-2,50	49	0,02	-0,02	0,01	-0,03	0,00		
Thi. services	II I per Lok C	EVNA			-1,43	9,48	0,18	-0,02	0,01	-0,04	0,01		
Utilities	IPT per FUR C	EVA	0,71	0,40	-0,62	211	0,54	-0,08	0,13	-0,34	0,18		
Ounties	II I per Lok C	EVNA			-0,63	210,67	0,53	-0,08	0,13	-0,33	0,17		
Flootrigity	IDT por FUD C	EVA	88,78	0,00	-7,58	168	0,00	-0,04	0,01	-0,05	-0,03		
Electricity	II I per Lok C	EVNA			-8,54	146,88	0,00	-0,04	0,01	-0,05	-0,03		
Trade	IPT per FUR C	EVA	16,07	0,00	1,92	235	0,06	0,49	0,25	-0,01	0,99		
ITade	II I per Lok C	EVNA			2,73	231,02	0,01	0,49	0,18	0,14	0,84		
IT	IPT per FUR C	EVA	14,76	0,00	1,74	93	0,09	0,41	0,23	-0,06	0,87		
11	II I per Lok C	EVNA			5,08	84,06	0,00	0,41	0,08	0,25	0,56		
Transport	IPT per FUR C	EVA	4,80	0,03	-0,65	188	0,52	-0,32	0,49	-1,29	0,65		
Transport		EVNA			-0,52	76,95	0,60	-0,32	0,61	-1,54	0,90		
Construction	IPT per FUR C	EVA	0,21	0,65	-0,73	58	0,47	-0,56	0,76	-2,08	0,97		
Construction		EVNA			-0,86	52,36	0,39	-0,56	0,65	-1,85	0,74		

Source: AJPES, Slovenian business register, 2013; SEC, Election candidates data, 2012; Official Gazette of the RS, Data on public officials, 2013; CPC, Supervisor database, 2013; own calculations.

<sup>39</sup> Income public transactions per euro of equity

<sup>40</sup> Equal variances assumed

<sup>41</sup> Equal variances not assumed

# Appendix S: Results of Independent Samples T-Test, length of mandate in weeks and number of industries, influential supervisors only, 1996–2012

Table 23. Results of Independent Samples T-Test, length of mandate in weeks and number of industries, influential supervisors only, 1996–2012

	Source of influence (political/expertise)?	Ν	Mean	Std. Deviation	Std. Error Mean
Length of mandate in weeks	Experts	388	193,65	111,55	5,66
	Politically connected	374	173,71	97,45	5,04
Number of industries	Experts	388	1,76	0,72	0,01
	Politically connected	374	2,09	0,77	0,04

## A. Group Statistics

#### B. Independent Samples Test

		Levene's Test for								
		Equality of								
		Variances		t-test for Equality of Means						
						Sig. (2-	Mean	Std. Error	95% Confidence Interval of the Difference	
		F	Sig.	t	df	tailed)	Difference	Difference	Lower	Upper
Length of mandate in weeks	Equal variances assumed	3,45	0,06	2,62	760	0,01	19,93	7,60	5,02	34,85
	Equal variances not			2.63	752.80	0.01	19.93	7 58	5.05	3/1 81
	assumed			2,05	752,00	0,01	17,75	7,50	5,05	54,01
Number of industries	Equal variances assumed	2,19	0,14	-6,04	760	0,00	-0,33	0,05	-0,43	-0,22
	Equal variances not assumed			-6,03	752,58	0,00	-0,33	0,05	-0,43	-0,22

Appendix T: Political connectedness of newly appointed members of supervisory board by industry and year of entry

### **1. MANUFACTURING**



*Figure 2.* Mean share of politically connected new supervisors in total new supervisors by year, 1998–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.



*Figure 3*. Split by the share of left and the share of right (sum equals 100%) by year, 1998–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

### 2. FINANCIAL SERVICES



*Figure 4*. Mean share of politically connected new supervisors in total new supervisors by year, 1998–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.





Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.
#### **3. UTILITIES**



*Figure 6.* Mean share of politically connected new supervisors in total new supervisors by year, 1998–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.





Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

## 4. ELECTRICITY



*Figure 8.* Mean share of politically connected new supervisors in total new supervisors by year, 1998–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

*Figure 9*. Split by the share of left and the share of right (sum equals 100%) by year, 1998–2012



Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

## 5. TRADE



*Figure 10.* Mean share of politically connected new supervisors in total new supervisors by year, 1998–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

*Figure 11*. Split by the share of left and the share of right (sum equals 100%) by year, 1998–2012



Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.



*Figure 12.* Mean share of politically connected new supervisors in total new supervisors by year, 1998–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

*Figure 13*. Split by the share of left and the share of right (sum equals 100%) by year, 1998–2012



Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

### 7. TRANSPORT



*Figure 14*. Mean share of politically connected new supervisors in total new supervisors by year, 1998–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

*Figure 15.* Split by the share of left and the share of right (sum equals 100%) by year, 1998–2012



Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

### 8. CONSTRUCTION



*Figure 16.* Mean share of politically connected new supervisors in total new supervisors by year, 1998–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

*Figure 17.* Split by the share of left and the share of right (sum equals 100%) by year, 1998–2012



Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

#### 9. OTHER (MOSTLY CATERING)



*Figure 18.* Mean share of politically connected new supervisors in total new supervisors by year, 1998–2012

Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

*Figure 19.* Split by the share of left and the share of right (sum equals 100%) by year, 1998–2012



Source: AJPES, *Slovenian business register*, 2013; SEC, *Election candidates data*, 2012; Official Gazette of the RS, *Data on public officials*, 2013; own calculations.

# Appendix U: Results of Independent Samples T-Test, share of newly appointed politically connected supervisors and election year, 1998–2012

Table 24. Results of Independent Samples T-Test, share of newly appointed politically connected supervisors and election year, 1998–2012

A.	<b>Group Statistics</b>
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	Is it election year?	Ν	Mean	Std. Deviation	Std. Error Mean
Share of newly appointed politicians	Every other year	2821	0,07	0,23	0,00
	Years after election	1015	0,10	0,25	0,01

#### B. Independent Samples Test

		Levene's Equality of	Test for Variances	t-test for Equality of Means						
						Sig. (2- Mean		Std. Error	95% Confidence Interval of the Difference	
		F	Sig. t df tailed) D	Difference	Difference	Low	Up			
Share of newly	Equal variances assumed	33,63	0,00	-3,24	3834	0,00	-0,03	0,01	-0,04	-0,01
appointed politicians	Equal variances not assumed			-3,07	1623	0,00	-0,03	0,01	-0,05	-0,01

Source: AJPES, Slovenian business register, 2013; SEC, Election candidates data, 2012; Official Gazette of the RS, Data on public officials, 2013; own calculations.

## Appendix V: Descriptive statistics of the deflated production function variables by industry, 1996–2012

		Valid N	Missing N	Mean	Median	Std. Deviation	25 percentile	75 percentile
	Manufacturing	2038	27	8.893.901	3.910.487	19.023.232	2.156.245	8.401.799
	Fin. services	94	0	2.144.429	55.422	7.947.418	-643.678	2.153.660
	Utilities	348	1	2.982.667	2.403.084	2.266.835	1.500.115	3.374.045
Value Added	Electricity	266	1	15.828.195	10.983.308	11.446.669	7.864.303	22.841.422
Deflated	Trade	397	2	12.871.443	4.428.768	26.059.130	2.558.596	9.326.481
	IT	155	4	23.749.330	4.920.525	39.933.791	2.136.048	16.265.743
	Transport	296	10	11.484.721	4.671.053	17.982.007	2.173.171	14.421.070
	Construction	104	6	8.864.944	5.723.290	9.950.246	996.731	15.146.671
	Manufacturing	2038	27	14.622.427	6.916.322	25.782.316	3.166.339	13.419.444
	Fin. services	94	0	8.850.356	1.054.354	20.235.084	108.845	5.213.783
	Utilities	348	1	18.666.748	9.446.957	27.118.313	3.022.134	23.669.054
Fixed Assets Defleted	Electricity	266	1	130.241.338	98.236.130	113.617.740	53.909.537	189.809.989
Fixed Assets Defiated	Trade	397	2	29.722.167	4.584.086	72.763.501	1.961.623	12.562.341
	IT	155	4	63.814.061	2.692.656	134.244.850	1.217.469	34.039.718
	Transport	296	10	152.398.621	8.458.607	495.059.735	4.123.187	54.788.931
	Construction	104	6	11.507.798	6.943.224	10.713.756	1.856.814	22.878.747
	Manufacturing	2038	27	5.492.571	2.697.574	9.090.892	1.625.371	5.879.985
	Fin. services	94	0	2.124.402	726.166	4.656.608	208.465	1.903.001
	Utilities	348	1	2.032.178	1.682.362	1.161.339	1.265.797	2.335.525
Labor Doflated	Electricity	266	1	5.974.084	5.026.145	3.570.923	2.966.031	8.729.927
Labor Denated	Trade	397	2	7.691.020	2.552.033	15.758.077	1.535.856	4.666.691
	IT	155	4	8.196.984	3.284.337	11.622.425	1.768.119	7.811.853
	Transport	296	10	9.734.601	3.697.609	19.378.593	1.780.917	10.409.714
	Construction	104	6	7.219.887	4.510.708	6.946.877	1.236.597	12.233.210

Table 25. Descriptive statistics of the deflated production function variables by industry, 1996–2012

Source: AJPES, Financial data for Slovenian companies, 2013; own calculations.

POVZETEK MAGISTRSKEGA DELA V SLOVENSKEM JEZIKU

# OPIS ZNANSTVENEGA PODROČJA IN CILJ MAGISTRSKE NALOGE

Politično vmešavanje v gospodarstvo je zelo pomembna in aktualna tema, še zlasti v času gospodarske krize, ko ljudje razpravljajo o preteklosti, da bi odkrili storjene napake in jih ne ponovili v prihodnosti. Politične povezave v podjetjih postajajo vedno bolj prepoznavna tema v domači in tuji literaturi. Avtorji z različnih celin se posvečajo omenjeni problematiki in ugotavljajo predvsem negativne vplive povezav na poslovanje podjetij. Eno prvih del s področja političnih povezav v podjetjih je objavil Brian E. Roberts leta 1990, ko je pokazal, da je smrt pomembnega politika značilno vplivala na zmanjšanje vrednosti podjetij, ki so bila z omenjenim politikom povezana. V zadnjem času je najbolj obsežne raziskave s področja političnih povezav opravila Mara Faccio. Raziskave na velikih vzorcih, ki so zajemale več držav, so pokazale večinoma negativne vplive na poslovanje, a hkrati tudi nekatere koristi, ki jih takšna podjetja uživajo, in sicer nižji davki, lažji dostop do dolžniškega financiranja in podobno.

Tovrstne raziskave na slovenskih tleh so še dokaj redke. Bolj podrobno pisanje na to temo se je pričelo šele z nastopom gospodarske krize, ki je vprašanje političnega vplivanja v največjih slovenskih podjetjih vsaj v medijih potisnila v ospredje. Tema političnih povezav in njihovega vpliva na poslovanje je še zlasti pomembna za majhna, izvozno orientirana gospodarstva, kot je slovensko, kjer je znano, da so omrežja elit precej skoncentrirana (Žerdin, 2012) in da, kot radi rečemo, vsak pozna vsakega. Gotovo je tudi lastniška struktura, ki se je oblikovala skozi čas tranzicije, nekaj pripomogla k obstoju političnih povezav v podjetjih, saj je kljub privatizaciji veliko največjih in najpomembnejših podjetij ostalo v posredni ali neposredni državni lasti (Domadenik et al., 2011). Nedavni medijsko prepoznavni dogodki političnih imenovanj zgolj potrjujejo, da je tema še kako aktualna in vredna konkretnejše razprave.

Pomanjkanje akademskih razprav in raziskav na to temo smo prvi izkoristili prav na Ekonomski fakulteti (Domadenik et al., 2011), kjer smo v okviru obširne študije za 13. Poslovno konferenco Portorož, ki je nastala v okviru magistrskega programa IMB, na konkretnih podatkih prvič pokazali, da politične povezave v Sloveniji škodujejo gospodarstvu. Politično povezanost podjetij smo merili s pomočjo politične povezanosti članov nadzornih svetov podjetij v vzorcu.

To magistrsko delo je nadaljevanje analize, ki je nastala v okviru konference. Analiza v tem magistrskem delu je bolj poglobljena in se dotakne tudi ravni politične povezanosti, ki v slovenskem prostoru, kot nam je znano, še niso bile preučevane. Tako ne analiziramo zgolj splošne politične povezanosti, ampak tudi povezanost glede na politično prepričanje (tj. pripadnost političnim strankam levega oz. desnega političnega pola) in glede na vir političnega vpliva (tj. ali je vir vpliva članstvo v stranki, simpatizerstvo, prijateljevanje s politično osebo itd.). Dotaknili se bomo tudi vprašanja novih imenovanj v nadzorne svete ter poslovanja vzorčenih podjetij z državnimi institucijami. V obeh primerih nas seveda zanimajo predvsem podjetja z večjim deležem politične povezanosti. Namen magistrskega dela ostaja

podoben kot v naših prejšnjih raziskavah, in sicer skozi temeljito analizo pokazati, da politične povezave škodujejo podjetjem. To bomo skušali dokazati tudi z regresijskim modelom, kjer bomo ocenili vpliv neodvisnih spremenljivk politične povezanosti na odvisno spremenljivko dodane vrednosti in skušali dokazati, da več politične povezanosti pomeni nižjo dodano vrednost. Slednje je tudi cilj tega magistrskega dela.

V nadaljevanju bomo po poglavjih predstavili glavne ugotovitve magistrskega dela.

## ZGODOVINSKI PREGLED

Zgodovinski pregled je osredotočen na tri osrednja področja, ki so pomembna za razumevanje gospodarskega okolja in obdobja, ki ga analiziramo. Ta področja so **privatizacija**, **neposredne tuje investicije** in **politično okolje**.

Kar zadeva privatizacijo, ugotavljamo, da je bila ta res izpeljana le delno, saj je država ostala posredni ali neposredni lastnik v veliko sicer privatiziranih podjetjih. Vpliv države v pomembnih slovenskih podjetjih pa pomeni tudi možnosti za politično vplivanje. Menozzi in drugi (2012) ugotavljajo, da je grožnja pred prevzemi v državnih podjetjih manjša, kar pomeni, da so manjše tudi spodbude po maksimiranju vrednosti podjetja. Državna podjetja tudi težje propadejo, saj bo država navadno storila vse, da jih bo ohranila. Oboje pomembno vpliva na učinkovitost poslovanja. Avtorji trdijo, da prav ta dva elementa državnih podjetij govorita v prid neučinkovitega državnega upravljanja. Nadalje je vredno omeniti, da so bile slovenske banke iz prvega vala privatizacije praktično izključene, kar pomeni, da je imela država ves čas močan vpliv na dejavnosti slovenskih bank.

Tuji investitorji so bili iz prvega vala privatizacije (od osamosvojitve do leta 1998) prav tako večinoma izključeni, kar je povzročilo pomanjkanje zunanjega nadzora pri upravljanju podjetij pa tudi zmanjšane konkurenčne pritiske. Neposredne tuje investicije so povezane s potekom privatizacije, a slika kljub vsemu ni povsem enoznačna. Politična nestabilnost in ukrepi za krepitev nove valute sta dejavnika, ki sta pripomogla k zmanjšanju atraktivnosti našega gospodarstva. Neposredne tuje investicije so začele rasti šele po letu 2000, ko je poslovno okolje postalo privlačnejše za tuje vlagatelje.

Kar zadeva politično okolje, smo bili v Sloveniji priča reprodukciji elit, saj se je stara elita uspešno prilagodila in prevzela oblast tudi v novonastajajoči državi. Prvih deset let samostojnosti je tako minilo v znamenju vladavine Liberalne demokracije Slovenije in koalicije večinsko levih strank. Novo tisočletje je prineslo številne politične spremembe, najprej v obliki kratkega šestmesečnega mandata konservativne desne vlade, ki jo je po volitvah znova nasledila leva, nato pa preobrat v letu 2004, ki je povzročil vihar v omrežju slovenske elite (Žerdin, 2012). Slovenija je v krizo po volitvah 2008 vstopila z levo vlado, ki je mandat zaključila predčasno (2009–2011) in ga ponovno prepustila desni vladi (2012).

## **PREGLED LITERATURE**

Definicija politično povezanega člana nadzornega sveta v tem magistrskem delu sloni na definiciji mnogih avtorjev, ki so se s področjem politične povezanosti podjetij temeljito ukvarjali v zadnjem desetletju. Med pomembnejšimi in vsekakor bolj poglobljenimi so raziskave, ki so se jih lotili Faccio (2002, 2006, 2010), Menozzi in drugi (2012) ter Boubakri in drugi (2008). Mara Faccio, ki je raziskovala delniške družbe iz več držav (2006), definira podjetje kot politično povezano, v kolikor je vsaj eden večjih lastnikov ali eden izmed izvršnih direktorjev član parlamenta, minister v vladi ali član oziroma simpatizer politične stranke. Tudi Boubakri in drugi (2008) označbo politično »okuženega« člana uprave ali nadzornega sveta pripisujejo tistim posameznikom, ki so ali pa so bili v preteklosti ali člani parlamenta (torej politiki) ali ministri v vladi. Definicija, ki so jo razvili Menozzi in drugi (2012), je podobna, vendar nekoliko širša in zato bližje naši definiciji. Zanje so politično povezani tisti direktorji, ki so sodelovali ali pa še sodelujejo v kakršnih koli političnih aktivnostih, bodisi kot člani strank ali kot javni simpatizerji.

Številni avtorji politični vpliv v podjetjih razumejo kot pogodbeno razmerje med podjetjem in moči željnim politikom. Desai in Olufsgard (2011) na primer politični vpliv razumeta kot svojstven koncept korupcije, ki je v angleščini znan pod pojmom *cronyism* (tovarištvo). Gre, tako avtorja, za pogodbo med podjetjem in politikom, kjer prvo odstopi del nadzora nad zaposlovanjem v zameno za ugodnejše poslovno okolje, ki ga zagotavlja drugi. Tudi Shleifer in Vishny (1994) govorita o pogajanju med direktorji in politiki, ko omenjata politično povezana podjetja. Omenjena avtorja sta se posvečala zlasti politični povezanosti podjetij v povezavi s privatizacijo. Trdita, da je privatizacija sicer res dobra rešitev za zmanjšanje političnega vpliva v državnih podjetjih, vendar pa želja politikov po nadzoru uspešnih, privatiziranih podjetij velikokrat ostane. Avtorja sta tako prepričana, da privatizacija ob sočasnem ohranjanju visoke ravni regulacije in omejevanju konkurenčnosti ne prinaša rešitve (kot na primer v primeru elektroenergetskih podjetij).

Večina analiz in raziskav se sicer nanaša na države v razvoju, vendar pa so avtorji analizirali tudi politične povezave v razvitih državah, na primer v Franciji (Bertrand et al., 2004) in Nemčiji (Niessen & Ruenzi, 2009). Večina preteklih raziskav je pokazala, da so politične povezave slab dejavnik za podjetja, vendar pa temu ni vedno tako. Bertrand in drugi na primer ugotavljajo, da so politiki v francoskih podjetjih prisotni tudi na prehodu tisočletja, navkljub privatizaciji in deregulaciji trga. Avtorja, ki sta merila vpliv politične povezanosti na kazalnik ROA, sta ugotovila, da so politično povezana podjetja manj uspešna kot nepovezana. To ugotovitev sta pripisala dejstvu, da so politično povezana podjetja v preučevanem obdobju zaposlovala več in imela višje stroške dela. Niessen in Ruenzi (2009), ki sta preučevala nemška podjetja, sta prišla do drugačnih zaključkov. Politično povezana podjetja v njunem vzorcu so zabeležila višji ROE in ROI, a so imela manj možnosti za rast in razvoj. Njune ugotovitve nakazujejo, da politiki veliko raje nastopajo v utrjenih podjetjih z manj možnostmi za rast kot pa v podjetjih z veliko tveganimi investicijami.

Faccio (2006) v svoji analizi na več kot 20.000 delniških družbah v 47 državah ugotavlja, da so politične povezave bolj pogoste v državah z več korupcije, da so bolj prisotne v državah, kjer so vzpostavljene omejitve na področju neposrednih tujih investicij, ter da so manj prisotne tam, kjer je uzakonjen javni dostop do podatkov o premoženju politikov. V eni zgodnejših raziskav je Faccio (2002) ugotovila tudi lažji dostop do dolžniških virov financiranja, ugodnosti pri obdavčenju od dohodka pravnih oseb ter povečano tržno moč, a po drugi strani zmanjšano uspešnost in slabše upravljanje. Menozzi in drugi (2012), ki so preučevali 114 italijanskih javnih komunalnih podjetij, so prišli do podobnih ugotovitev, da politiki negativno vplivajo na dobičkonosnost in pozitivno na število zaposlenih. Tudi analiza Hilmanove (2005) potrjuje takšne ugotovitve.

Boubakri in drugi (2008) so se lotili analize politične povezanosti podjetij v več državah. Njihov vzorec sestavlja 245 podjetij iz 27 razvijajočih se in 14 razvitih držav. Od teh 245 podjetij jih ima v upravi politika ali nekdanjega politika kar 36 odstotkov. Podjetja, ki zaposlujejo politika, so manj uspešna z vidika ROA, ROE in ROS, je še pokazala njihova raziskava. Tudi Desai in Olufsgard (2011) sta pokazala, da so politično povezana podjetja manj produktivna, imajo krajše investicijske cikle in beležijo nižje rasti prodaje v primerjavi z nepovezanimi podjetji. Zaključujeta, da gre pri političnem vplivu in povezavah v podjetjih za kompromis med kratkoročnim dobičkom, ki ga prinašajo ugodnosti politične povezanosti, ter dolgoročno uspešnostjo in vitalnostjo podjetja.

V Sloveniji raziskav, ki bi se podrobno ukvarjale z vplivom političnih povezav na poslovanje podjetij, ni veliko. Prvo delo, ki se celovito loteva te problematike, je bilo predstavljeno na 13. Poslovni konferenci Portorož in je nastalo v okviru obsežne raziskave v okviru IMB projekta na Ekonomski fakulteti v Ljubljani (Domadenik et al., 2011). Rezultati raziskave so bili skladni z zastavljenimi hipotezami, in sicer da ima v povprečju večji delež politično povezanih članov nadzornih svetov statistično značilen negativen vpliv na dodano vrednost podjetij. Z vprašanjem političnih elit in omrežij elit se je veliko ukvarjal tudi Žerdin (2012). Empirična analiza v njegovem delu, naslovljenem Omrežje moči, je pokazala, da sprememba oblasti vodi do sprememb v strukturi omrežja elit, torej do velike cirkulacije elit.

## **OPREDELITEV VZORCA IN OPIS BAZE PODATKOV**

V tej magistrski nalogi obravnavamo dva tipa vplivnih povezav. Ločimo jih glede na vir vpliva. Najprej so tu ljudje, katerih vpliv izvira iz političnih povezav oz. političnega ozadja. Ko govorimo o njih, govorimo o političnem vplivu in predpostavljamo, da je prav ta vpliv v večji meri odgovoren za njihovo imenovanje v nadzorni svet. Vprašanje na mestu je, ali bi taisti posameznik mesto v nadzornem svetu pridobil tudi brez politične povezanosti. Na drugi strani so ljudje, katerih vpliv izvira iz izkušenj in strokovnega znanja. Gre za vpliv, ki so si ga pridobili z leti izkušenj in dela v stroki. Njihov vpliv je torej strokovnega značaja, imenovanje v nadzorni svet pa v večji meri posledica tega vpliva.

Kot rečeno, je definicija politično povezanega posameznika v tej magistrski nalogi oblikovana na podlagi definicij, prisotnih v literaturi, in je že bila uporabljena v naši pretekli raziskavi (Domadenik et al., 2011). Naša definicija ne vključuje le višjih predstavnikov oblasti, kot v primeru drugih avtorjev, ampak tudi politike na lokalnem nivoju, člane strank, kandidate z volitev ter sorodnike in prijatelje politično vplivnih posameznikov oz. skupin. Prav tako v naših raziskavah ne govorimo o politično povezanem podjetju, ampak politično povezano podjetje merimo s pomočjo deleža članov nadzornega sveta, ki so politično povezani. Podjetje je torej v našem primeru lahko politično povezano na merilu od 0 do 100, odvisno od deleža članov nadzornega sveta, ki so politično sveta, ki so politično velično veličeno na merilu od 0 do 100, odvisno od deleža članov nadzornega sveta, ki so politično veličeno veličeno veličeno veličeno veličeno veličeno veličeno na merilu od 0 do 100, odvisno od deleža članov nadzornega sveta, ki so politično veličeno veličeno

Glavni razlog za izbiro nadzornega sveta kot organa podjetja, s pomočjo katerega merimo politični vpliv v podjetjih, je v načinu korporativnega upravljanja slovenskih podjetij. Po zakonu lahko podjetja v Sloveniji izbirajo med eno- in dvotirnim sistemom upravljanja (Zakon o gospodarskih družbah, Ur.l. RS, št. 65/2009-ZGD-1-UPB3). Večina večjih podjetij se odloči za dvotirnega, ki ga sestavljata uprava, ki vodi podjetje, in nadzorni svet. Slednji imenuje člane uprave in predsednika uprave ter nadzoruje upravo, v določenih primerih pa tudi odloča o pomembnejših investicijskih projektih. Nadzorni svet ima v podjetjih torej velik vpliv na odločanje, hkrati pa ga imenuje skupščina oz. lastniki podjetja.

Baza podatkov, na kateri je bila opravljena analiza, vsebuje finančne podatke in podatke o sestavi nadzornih svetov 309 velikih slovenskih podjetij za obdobje 1996–2012. Med njimi je večina, 50,2 % izvozno orientiranih proizvodnih podjetij. Največ, 27,2 %, ima razpršeno lastništvo, sledijo pa državna podjetja (25,2 %). Baza članov nadzornih svetov vsebuje 4.699 imen. 762 se jih pojavlja v več kot enem nadzornem svetu v preučevanem obdobju. Zanje pravimo, da so zelo vplivni. Izmed vseh imen je 20,6 % takšnih, ki jim je bilo mogoče pripisati politično pripadnost. 53 % povezanih pripada levemu političnemu polu oz. levim političnim strankam, 47 % pa desnemu oz. desnim političnim strankam<sup>42</sup>.

Preučevano obdobje od leta 1996 do 2012 smo zaradi smiselnosti razdelili v dve skupini podobdobij. Prvo skupino sestavljajo podobdobja, razmejena glede na gospodarske cikle. Ta obdobja so: 1996–2002, ki predstavlja obdobje lastniškega prestrukturiranja, 2003–2008, ki predstavlja obdobje gospodarske rasti, in 2009–2012, ki predstavlja obdobje trenutne finančno-gospodarske krize. Drugo skupino sestavljajo podobdobja, razmejena glede na politične cikle. 1996–2000 je obdobje, ki ga je zaznamovalo vladanje levosredinske koalicije in ki se je končalo s kratkim šestmesečnim obratom na desno. Sledilo je obdobje 2001–2004, zaznamovano s še bolj izrazito levosredinsko vlado. Končalo se je z volitvami, ki so po več kot desetletju praktično neprekinjenega levosredinskega vladanja prinesle preobrat v desno.

<sup>&</sup>lt;sup>42</sup> Leve politične stranke: Socialni demokrati in nekdanja Združena lista socialnih demokratov, Liberalna demokracija Slovenije, novoustanovljena Pozitivna Slovenija in delno Demokratična stranka upokojencev Slovenije; Desne politične stranke: Slovenska demokratska stranka, Nova Slovenija, Slovenska ljudska stranka, nekdanja Slovenska krščanska demokracija in delno novoustanovljena Državljanska lista.

Obdobje 2005–2008, ki je sledilo, torej s političnega vidika velja za desnosredinsko obdobje, ki mu je sledil ponovni obrat v levo v obdobju 2009–2012.

# RAZISKOVALNO VPRAŠANJE IN OSNOVNI HIPOTEZI

Osnovno raziskovano vprašanje te magistrske ostaja podobno raziskovanemu vprašanju naše pretekle raziskave. Gre za relacijsko vprašanje, in sicer **ali obstaja povezava med politično povezanostjo, merjeno skozi politično pripadnost članov nadzornega sveta, in uspešnostjo podjetja.** Naša mera uspešnosti podjetja je dodana vrednost, ki služi kot odvisna spremenljivka v Cobb-Douglasovi produkcijski funkciji. Omenjeno produkcijsko funkcijo smo dopolnili s spremenljivkami o sestavi nadzornega sveta, model pa ocenili za vsako panogo posebej.

Na podlagi pregleda literature smo oblikovali dve osnovni hipotezi, ki se glasita:

- 1. Podjetja z višjim deležem politično povezanih članov nadzornega sveta imajo v povprečju nižjo dodano vrednost v primerjavi s podjetji z nižjim deležem politično povezanih članov nadzornega sveta.
- Podjetja z višjim deležem strokovnjakov (vpliv stroke) v nadzornem svetu imajo v povprečju višjo dodano vrednost v primerjavi s podjetji z nižjim deležem strokovnjakov v nadzornem svetu.

Poleg dveh osnovnih hipotez, ki smo ju skušali potrditi s pomočjo izpopolnjene Cobb-Douglasove funkcije, je bil naš namen odgovoriti tudi na nekaj drugih vprašanj in z njimi povezanih hipotez. Ugotovitve bodo na kratko predstavljene po tematskih sklopih, ki sledijo.

# SESTAVA NADZORNIH SVETOV VZORČENIH PODJETIJ

Preden predstavimo rezultate analize politične povezanosti v preučevanem vzorcu slovenskih podjetij, je najprej smiselno predstaviti nekaj značilnosti nadzornih svetov, ki niso povezane s politično povezanostjo njihovih članov. V nadaljevanju zato sledi nekaj ugotovitev, povezanih z analizo sestave nadzornih svetov.

Povprečna velikost nadzornega sveta se je skozi preučevano obdobje ves čas zmanjševala. Tako je na primer v obdobju 1996–2002 povprečni nadzorni svet štel 5,9 člana, v obdobju 2003–2008 5,3 člana, v obdobju 2009–2012 pa le še 4,8 člana. Nadzorni sveti storitvenih podjetij so v povprečju večji od nadzornih svetov proizvodnih podjetij, hkrati pa je velikost nadzornega sveta pozitivno in statistično značilno povezana s številom zaposlenih in s kapitalom podjetja, iz česar pričakovano sledi, da imajo večja podjetja tudi več članov v svojih nadzornih svetih. Kar zadeva panoge, imajo največje nadzorne svete v finančnostoritvenih podjetjih (ta panoga vključuje tudi banke in zavarovalnice). Ti so v obdobju 1996–2002 šteli povprečno 7,56 člana, v obdobju 2009–2012 pa 5,97, skoraj dva člana manj. Finančnostoritvenim podjetjem sledijo informacijskotehnološka (IT) in elektroenergetska podjetja, kjer je povprečni nadzorni svet v obdobju 2009–2012 štel po 5,29 in 5,22 člana.

Z vidika dolžine mandata posameznega nadzornika (merjeno v tednih od nastopa funkcije) prednjači panoga komunalnih podjetij, kjer je povprečen mandat trajal nekaj manj kot 220 tednov. Sledita panogi proizvodnih in trgovskih podjetij s povprečnim trajanjem mandata dobrih 200 tednov. Najkrajši so mandati v elektroenergetskih podjetjih, in sicer povprečno dobrih 130 tednov. S pomočjo t-testa neodvisnih vzorcev smo pokazali, da je dolžina mandata v državnih podjetjih v povprečju krajša od dolžine mandata v drugih podjetjih. S to ugotovitvijo smo odprli vprašanje političnega vplivanja v državnih podjetjih, saj je prav dejstvo, da politika vpliva na imenovanje nadzornikov, lahko eden izmed razlogov za več menjav v nadzornih svetih in posledično krajše trajanje mandatov.

Število tujih članov v nadzornih svetih vzorčenih podjetij se je skozi čas povečevalo. V obdobju 1996–2002 je bilo tako tujih nadzornikov v povprečju dobrih 6 %, v obdobju 2009–2012 pa že skoraj 14 %. Največ tujcev je prisotnih v IT in finančnostoritvenih podjetjih, in sicer v povprečju 26,5 % in 25,1 %. Najmanj tujcev je v gradbenih, komunalnih in elektroenergetskih podjetjih (v povprečju 1 %, 2,2 % in 3,2 %).

Zanimiva je ugotovitev, da je bilo število članic nadzornih svetov v povprečju najvišje prav na začetku preučevanega obdobja, leta 1996. Linearni trend na celotnem obdobju kaže upad števila članic nadzornih svetov, in sicer v povprečju za 0,7 % letno. Leta 2012 je tako povprečni delež žensk v nadzornih svetih znašal 18,7 %, kar je 2,6 odstotne točke manj kot leta 1996, na začetku preučevanega obdobja. Največ ženskih predstavnic v nadzornih svetih je pričakovano v gostinstvu, turizmu in trgovskih podjetjih, najmanj pa v IT, elektro- in finančnostoritvenih podjetjih.

# POLITIČNE POVEZAVE

Povzetek analize politične povezanosti v vzorčenih podjetjih začenjamo s pregledno tabelo deskriptivnih statistik najpomembnejših spremenljivk politične povezanosti. Tabela 1 na naslednji strani prikazuje povprečja sedmih najpomembnejših spremenljivk po obdobjih ter rezultate t-testa neodvisnih vzorcev za zadnji dve preučevani obdobji. Obdobja v tabeli predstavljajo posamezne politične cikle. Podatki kažejo, da se je število politično povezanih nadzornikov v zadnjem obdobju glede na obdobje prej sicer zmanjšalo, a je v večini primerov še vedno višje od obdobja 2001–2004.

					Razlika: 05–08	
	1996-2000	2001–2004	2005–2008	2009–2012	09-12	
Delež politično povezanih	10.0	24.2	27.6	24.0	2 7***	
nadzornikov	10,0	24,2	27,0	24,9	-2,7	
Delež nadzornikov, ki so člani						
političnih strank oz. simpatizerji	13,0	17,3	21,1	18,2	-2,9***	
političnih strank						
Delež nadzornikov, povezanih s						
političnimi strankami levega	9,3	13,5	10,3	10,9	0,6	
političnega pola						
Delež nadzornikov, povezanih s						
političnimi strankami desnega	4,1	4,9	11,5	7,7	-3,8***	
političnega pola						
Delež nadzornikov, ki so ali so	2.1	2.0	2.1	1.0	0.1	
bili člani vlad	2,1	2,0	2,1	1,7	-0,1	
Delež nadzornikov, ki so	10.7	13.6	18.5	16.4	2 1**	
kandidirali na volitvah	10,7	15,0	10,5	10,4	-2,1	
Delež nadzornikov, ki so ali so	1.1	1.2	1.4	0.7	0.7***	
bili člani parlamenta	1,1	1,3	1,4	0,7	-0,7	

Tabela 1: Deskriptivna statistika spremenljivk politične povezanosti po podobdobjih (v %) in t-test neodvisnih vzorcev za zadnji dve podobdobji z razliko v odstotnih točkah, 1996–2012

Legenda: \*\*\* Znač. pri stopnji tveganja 1 %; \*\* Znač. pri stop. tveganja 5 %; \* Znač. pri stop. tveganja 10 %.

Vir: AJPES, Slovenian business register, 2013; SEC, Election candidates data, 2012; Official Gazette of the RS, Data on public officials, 2013; lastni izračuni.

Podrobna analiza po panogah pokaže, da so komunalna in gradbena podjetja povečevala število politično povezanih nadzornikov v vseh obdobjih in torej niso sledila splošnemu trendu, prikazanemu v Tabeli 1. Trgovska, transportna in elektroenergetska podjetja so po drugi strani delež v zadnjem obdobju zmanjšala, slednja za kar 15 odstotnih točk. Večina panog je sicer delež politično povezanih nadzornikov v obdobju 2005–2008 povečala in nato v 2009–2012 zmanjšala, razen IT podjetij, ki so delež politično povezanih nadzornikov zmanjševala skozi celotno obdobje. Zanimivo je tudi, da je bila v obdobju 1996-2000 IT panoga na tretjem mestu glede na delež politično povezanih nadzornikov, kar nakazuje na to, da je bila to nekdaj za politike priljubljena panoga. Med vsemi panogami ima v zadnjem obdobju največji delež politično povezanih nadzornikov panoga komunalnih podjetij. Tam je skoraj vsak drugi nadzornik politično povezan. Ta panoga je tudi v celotnem preučevanem obdobju visoko na lestvici, in sicer na drugem mestu, s 32,9 %, tesno za elektroenergetska podjetji (38,7 %). Gledano po letih so komunalna podjetja prvo mesto prevzela v letu 2009 in tam ostala vse do danes. Šele leta 2011 se je trend rasti politično povezanih nadzornikov v tej panogi obrnil navzdol. Podrobnejše rezultate po panogah in obdobjih prikazuje Tabela 2 na naslednji strani.

Panoga	1996–2000	2001–2004	2005–2008	2009–2012	Celotno obdobje
Komunalna podjetja	15,1 (8)	30,6 (4)	40,8 (2)	47,9 (1)	32,9 (2)
Gradbena podjetja	26,1 (4)	27,4 (6)	34,5 (4)	38,2 (2)	31,1 (3)
Elektroenergetska podjetja	33,4 (1)	37,5 (1)	49,5 (1)	34,6 (3)	38,7 (1)
Finančnostoritvena podjetja	23,6 (6)	28,3 (5)	30,4 (6)	29,4 (4)	28,0 (6)
Transportna podjetja	32,0 (2)	36,4 (2)	30,7 (5)	26,5 (5)	30,3 (5)
Druga podjetja (večinoma gostinstvo in turizem)	24,1 (5)	34,2 (3)	39,5 (3)	24,3 (6)	30,4 (4)
Proizvodna podjetja	14,2 (9)	18,2 (8)	20,3 (8)	19,8 (7)	17,9 (8)
Trgovska podjetja	15,9 (7)	19,3 (7)	22,5 (7)	19,0 (8)	19,0 (7)
IT podjetja	26,6 (3)	16,2 (9)	13,7 (9)	8,9 (9)	15,8 (9)

Tabela 2: Povprečni delež (v %) politično povezanih nadzornikov glede na panogo in podobdobje (v oklepaju rang), 1996–2012, razvrščeno po 2009–2012

Vir: AJPES, Slovenian business register, 2013; SEC, Election candidates data, 2012; Official Gazette of the RS, Data on public officials, 2013; lastni izračuni.

Test analize razlik med povprečnimi vrednostmi več vzorcev (ANOVA) je potrdil našo domnevo, da med panogami in različnimi lastniškimi strukturami vzorčenih podjetij obstajajo razlike glede na delež politično povezanih članov nadzornih svetov. Kar zadeva panoge, smo veliko že opisali, kar zadeva lastniške strukture, pa je morda omembe vredna sicer pričakovana ugotovitev, da je največji delež politično povezanih nadzornikov v državnih podjetjih. Ta je v obdobju 2005–2008 znašal kar 46,3 %.

Analiza virov političnega vpliva je pokazala, da je 67 % politično povezanih nadzornikov članov strank. Politični vpliv torej izvira iz njihovega članstva v politični stranki. Preučevali smo tudi druge vire političnega vpliva, in sicer **simpatizerstvo s politično stranko, članstvo v nestrankarski listi** ter **ostale vire**, med katere sodi na primer ministrovanje v vladi, vloga državnega sekretarja, članstvo v državnem svetu ali zgolj povezava/sorodstvo s politično vplivno osebo. Zanimiva izjema med panogami je gradbeništvo. Če v drugih panogah kot vir političnega vpliva prevladuje članstvo v stranki, je v gradbeništvu zgolj 39,3 % politično povezanih nadzornikov članov strank. Kar 23,7 % jih je simpatizerjev političnih strank, pri 27 % pa politični vpliv izvira iz zgoraj omenjenih ostalih virov. Za primerjavo, povprečje politično povezanih nadzornikov, ki simpatizirajo s političnimi strankami, je na celotnem vzorcu 5,7 %, takšnih, katerih politični vpliv izvira iz ostalih virov, pa 16,2 %. Ostali viri so relativno visoko zastopani tudi v trgovskih podjetjih (21,0 %). Zanimivo je opazovati komunalna podjetja, kjer kar 97,7 % vseh politično povezanih nadzornikov prihaja iz politični strank ali nestrankarskih list.

Omenili smo gradbeništvo, kjer veliko politične povezanosti (27 %) izvira iz ostalih virov. Med njimi prednjači povezanost s politično vplivno osebo (11,1 %). V finančnostoritveni in elektroenergetski panogi, ki sta se skozi analizo pokazali kot atraktivni panogi zlasti za politike na državni ravni, je nadpovprečno veliko politično povezanih nadzornikov, katerih vir vpliva prihaja iz njihove vloge v vladi oz. državnih institucijah (tj. ministri, državni sekretarji ...). Komunalna podjetja so popolno nasprotje, saj tam praktično ni vladnih predstavnikov.

Čeprav sta tako elektroenergetska kot komunalna panoga močno politično »okuženi«, pa analiza večkrat jasno pokaže, da med panogama kljub temu obstaja pomembna razlika. Komunalna podjetja so bolj atraktivna za politike na lokalnem nivoju, elektroenergetska pa bolj za politike na državnem nivoju. Na to nakazuje tudi dolžina mandatov, razvidna na spodnji sliki. Slika 1 na enem mestu prikazuje panoge po povprečni dolžini mandatov in povprečnem deležu politično povezanih nadzornikov. Načeloma velja, da več kot je politično povezanih nadzornikov, krajši so mandati. Ugotovitev, da so za politično povezane nadzornike sicer značilni krajši mandati, smo preverili tudi s pomočjo t-testa neodvisnih vzorcev in jo potrdili pri nizki stopnji tveganja.

To načeloma drži za vse panoge, razen za komunalna podjetja, kjer so mandati najdaljši ob hkratnem visokem deležu politično povezanih nadzornikov. Na drugi strani so mandati v elektroenergetskih podjetjih najkrajši, delež politično povezanih nadzornikov pa prav tako visok. Razlaga je kljub temu dokaj jasna. Ker so elektroenergetska podjetja bolj atraktivna za politike na državni ravni, so mandati povezani s političnimi cikli na državni ravni, kjer je bilo političnih sprememb več in se zato tudi nadzorniki menjajo pogosteje kot na lokalnem nivoju.





Vir: AJPES, Slovenian business register, 2013; SEC, Election candidates data, 2012; Official Gazette of the RS, Data on public officials, 2013; lastni izračuni.

Rezultati analize politično povezanih nadzornikov glede na politično pripadnost levim oziroma desnim političnim strankam so prav gotovo med zanimivejšimi. Med drugim tudi

zato, ker jasno dokazujejo, da je v slovenskem političnem prostoru leta 2005 prišlo do cirkulacije elit, ki se je preslikala tudi v gospodarski prostor. Spodnja Slika 2 je jasna vizualizacija dogajanja, o katerem govorimo, tj. cirkulacije elit.



Slika 2: Povprečen delež politično povezanih nadzornikov glede na njihovo pripadnost levim/desnim političnim strankam, po letih, 1996–2012

Vir: AJPES, Slovenian business register, 2013; SEC, Election candidates data, 2012; Official Gazette of the RS, Data on public officials, 2013; lastni izračuni.

Slika po panogah je podobna, zato je podrobneje ne bomo opisovali. Vzorec »političnega preobrata« se ponovi pri elektroenergetskih in gradbenih podjetjih. V elektroenergetskih podjetjih je delež nadzornikov, povezanih z desnimi političnimi strankami, samo v letu 2006 poskočil za 266 %, to pa je bilo tudi leto z največjim povprečnim deležem politično povezanih nadzornikov v tej panogi. Kar 60 % vseh nadzornikov v elektroenergetski panogi v letu 2006 je bilo politično povezanih.

Največji delež nadzornikov, ki so kandidirali na volitvah, je v povprečju v komunalnih podjetjih. Tam je v povprečju kar 30,8 % vseh nadzornikov kandidiralo na volitvah (22,6 % na lokalnih in 8,3 % na državnih). Komunalna podjetja je znova zanimivo primerjati s transportnimi in elektroenergetskimi podjetji, ki prav tako beležijo visoko stopnjo politične »okuženosti« v nadzornih svetih. V transportnih podjetjih je v povprečju kandidiralo 17,9 % nadzornikov, v elektroenergetskih pa 22,3 %. Zanimivejša je primerjava kandidatur na državnih volitvah. Takšnih kandidatov je v elektroenergetskih podjetjih med nadzorniki v povprečju 14,9 %, v gradbenih pa 14,5 %. Razlika med slednjima panogama in komunalno panogo v tem segmentu ponovno nakazuje na veliko navezanost elektroenergetske in gradbene panoge na državno politiko ter navezanost komunalnih podjetij na lokalno politiko.

Kot zadnje v okviru deskriptivne analize političnih povezav smo se na kratko lotili analize denarnih tokov med vzorčenimi podjetji in javnimi institucijami. Podatke za ta del analize smo pridobili s pomočjo Komisije za preprečevanje korupcije in aplikacije Supervizor. V prvi

vrsti smo želeli preveriti, ali imajo podjetja, ki so bolj politično povezana, od tega koristi, v smislu večjega obsega denarnih tokov z državnimi institucijami. Analiza je pokazala, da je v povprečju temu res tako.

## **VPLIVNI NADZORNIKI**

Vplivni nadzorniki so tisti nadzorniki, ki **se v celotnem preučevanem obdobju (1996–2012) pojavijo v vsaj dveh podjetjih**. Kot smo omenili prej, pa lahko njihov vpliv izvira iz dveh virov vpliva, političnega ali strokovnega. V nadaljevanju sledi nekaj ugotovitev, povezanih z analizo vplivnih nadzornikov.

Od 4.699 članov nadzornih svetov v obdobju 1996–2012 se jih 762 (16,2 %) pojavi v več kot enem nadzornem svetu v preučevanem obdobju. Povprečno število podjetij, v katerih se pojavljajo, je 2,64. Večina (63,5 %) jih nadzoruje dve podjetji, a jih veliko najdemo tudi v treh (21,1 %) ali štirih (9,1 %) podjetjih. Zanimiva je ugotovitev, da vplivni nadzorniki nastopajo v 95 % vseh vzorčenih podjetjih. To pomeni, da le 15 podjetij ni »ujetih« v mrežo, ki jo spletajo vplivni nadzorniki. Ta ugotovitev je še zanimivejša, če predpostavimo, da smo število nadzornikov s 4.699 zmanjšali na 762 (16,2 % vseh nadzornikov), število podjetij pa ohranili pri 94,4 % vseh vzorčenih podjetij. Zgolj 3 % vplivnih nadzornikov je tujcev in kar 49 % od 762 vplivnih nadzornikov je politično povezanih (v primerjavi z 21 % na celotnem vzorcu nadzornikov).

Kar zadeva panoge, smo ugotovili, da je največ vplivnih nadzornikov v IT, elektroenergetskih in finančnostoritvenih podjetjih (v povprečju 45,3 %, 43,7 % in 41,2 % nadzornikov). V ostalih panogah, z izjemo komunalnih podjetij, je vplivnih nadzornikov med povprečno 23 % in 28 %. Izjema so komunalna podjetja, kjer je vplivnih nadzornikov v povprečju zgolj 7,9 %, kar znova dokazuje močno navezanost na lokalno okolje, politiki iz lokalnega okolja pa običajno ne prehajajo v druga okolja, da bi zasedali pozicije v več nadzornih svetih. V elektroenergetski panogi je kar 69,7 % vplivnih nadzornikov politično povezanih.

Za vplivne nadzornike, ki niso politično povezani, smo že povedali, da gre za strokovnjake. Predpostavljamo, da njihov vpliv izvira iz dolgoletnih izkušenj in strokovnega znanja. Med vplivnimi nadzorniki (762) je takšnih 51 %. V kolikor gledamo razmerje med strokovnjaki in politično vplivnimi nadzorniki, ugotovimo, da je razmerje v prid strokovnjakom najugodnejše v trgovski panogi (58:42), ki je tudi edina panoga, kjer je strokovnjakov več od politično vplivnih nadzornikov. Sledijo finančnostoritvena podjetja (48:52) in IT podjetja (47:53). Po drugi strani je največ strokovnjakov kot delež v nadzornem svetu prisotnih v IT panogi (povprečno 21,3 % nadzornega sveta), sledijo finančnostoritvena (19,6 %), proizvodna (17,7 %) in trgovska podjetja (15,3 %).

Pogled po obdobjih in panogah hkrati je pokazal zaskrbljujoče trende v nekaterih panogah. Zgolj dve panogi sta delež politično vplivnih nadzornikov zmanjšali, in sicer trgovska in IT podjetja (povprečno zmanjšanje za 17 % in 9 % v kriznem obdobju). Gradbena podjetja, ki so v času krize najbolj trpela, so delež politično vplivnih nadzornikov povprečno povečala za kar 46 %. Sledijo jim transportna (povprečno povečanje za 22 %) in komunalna podjetja (21 %). Nekoliko boljša novica je, da je tudi delež strokovnjakov v obdobju krize v večini panog v povprečju narasel. Izjema so elektroenergetska podjetja in druga podjetja (večinoma gostinstvo in turizem). V slednjih je delež strokovnjakov v zadnjem obdobju upadel za kar 38 %. Ko pogledamo rezultate v celoti, vidimo, da je pozitiven trend mogoče zaznati zgolj v IT in trgovskih podjetjih, kjer se je razpon med politično vplivnimi nadzorniki in strokovnjaki povečal v korist slednjih. V gradbeništvu, transportnih in komunalnih podjetjih se je razpon povečal v korist prvih. Podrobnejše podatke prikazuje Tabela 3 spodaj.

	Delež	politično p	ovezanih vp	olivnih					
		nadzo	rnikov		Delež strokovnjakov				
	1996– 2002	2003– 2008	2009– 2012	%∆ zadnji dve obd.	1996– 2002	2003– 2008	2009– 2012	%∆ zadnji dve obd.	
Proizvodna podjetja	8,1	9,9	10,7	8 🔺	15,7	18,8	19,5	4	
Fin. storitvena podjetja	19,2	22,8	23,3	2 🔺	17,6	20,6	20,9	1 🔺	
Komunalna podjetja	4,8	5,5	6,6	21 🔺	1,8	2,8	3,0	6 🔺	
Elektroenerg. podjetja	23,6	34,0	35,4	4	11,9	14,1	13,9	-1 🔻	
Trgovska podjetja	11,2	11,8	10,7	-9 🔻	14,1	13,6	19,8	45 🔺	
IT podjetja	21,5	27,0	22,4	-17 🔻	18,2	22,8	22,8	0 =	
Transportna podjetja	12,4	15,7	19,2	22 🔺	6,2	9,0	9,7	7 🔺	
Gradbena podjetja	7,6	18,1	26,4	46 🔺	7,6	12,6	15,9	27 🔺	
Druga podjetja	15,4	17,0	17,0	0 =	11,8	14,3	8,9	-38 🔻	

Tabela 3: Povprečen delež (v %) vplivnih nadzornikov (politično povezanih in strokovnjakov) po panogah in podobdobjih, 1996–2012

Vir: AJPES, Slovenian business register, 2013; SEC, Election candidates data, 2012; Official Gazette of the RS, Data on public officials, 2013; lastni izračuni.

## NOVA IMENOVANJA

Novoimenovane nadzornike definiramo kot tiste člane nadzornih svetov, ki se v bazi pojavijo prvič. Ne gre torej za novoimenovanega v določeno podjetje, ampak novoimenovanega v smislu preučevanega obdobja 1996–2012. Zaradi nesmiselnosti preučevanja prvih dveh let preučevanega obdobja smo obdobje analize novoimenovanih nadzornikov skrajšali na obdobje od leta 1998 do leta 2012.

V povprečju je bilo vsako leto v tem obdobju novoimenovanih 206 nadzornikov, kar predstavlja 13,9 % nadzornikov v posameznem letu. Delež novoimenovanih nadzornikov, ki so bili politično povezani, je nihal v povprečju med 20 % in 30 %. Zaskrbljujoč je trend v zadnjih letih, saj delež novoimenovanih nadzornikov, ki so politično povezani, narašča.

Največji delež politično povezanih novoimenovanih nadzornikov se je zgodil v letu 2005. Takrat je bilo kar 39,9 % vseh novoimenovanih nadzornikov politično povezanih. Obdobje 2005–2008 je bilo obdobje največjega pritoka politično povezanih novih nadzornikov, saj je bil praktično vsak tretji novinec politično povezan. Zanimiva je tudi harmonija med trendom novih imenovanj in političnimi cikli. Pričakovano se razmerje političnih moči odraža tudi v politični pripadnosti novoimenovanih nadzornikov. S pomočjo t-testa neodvisnih vzorcev smo dokazali, da je število politično povezanih novih nadzornikov v povprečju statistično značilno višje v obdobjih po volitvah (okrog 3 odstotne točke višje kot v ostalih letih).

# **EMPIRIČNI MODEL**

Osnovni hipotezi, da politična povezanost škoduje produktivnosti podjetij, smo preverjali s pomočjo multivariatnega regresijskega modela. Dodano vrednost (merjeno kot celotne prihodke, zmanjšane za stroške materiala, blaga in storitev) smo uporabili za mero produktivnosti v podjetjih, saj več dodane vrednosti pomeni, da je podjetje z danimi vložki sposobno proizvesti več, je torej produktivnejše. Model smo ocenili s pomočjo znane in metodološko preverjene Cobb-Douglasove produkcijske funkcije, ki smo ji dodali spremenljivke politične povezanosti. Analizo smo začeli podobno kot v naši pretekli raziskavi (Domadenik et al., 2011), kjer smo predpostavili, da ima proizvodnja v podjetjih obliko omenjene Cobb-Douglasove funkcije kot je prikazano v enačbi (1).

$$Y_{it}A_t K_{it}^{\ \beta 1} L_{it}^{\ \beta 2} \tag{1}$$

 $Y_{it}$  v enačbi (1) predstavlja stvarni učinek (proizvodnjo) v obdobju t, K<sub>t</sub> kapitalski vložek, L<sub>t</sub> delo, A<sub>t</sub> pa rezidual, ki predstavlja zunanje učinke produkcijske funkcije, ki so raziskovalcu skriti, tj. nemerljivi. Z uporabo naravnih logaritmov smo enačbo preoblikovali v (2).

$$ln(Y_{it}) = \alpha_0 + \beta_1 ln(K_{it}) + \beta_2 ln(L_{it}) + \varepsilon_{it}$$
<sup>(2)</sup>

Enačba (2) v takšni obliki pa še ne omogoča izvedbe preverbe osnovnih dveh hipotez, zato smo ji dodali še spremenljivke politične povezanosti, povprečno število zaposlenih (s čimer smo v oceno zajeli razlike v velikosti podjetij) in neprave (ang. *Dummy*) spremenljivke za obdobja (s čimer smo v oceno zajeli razlike med obdobji). Obdobja, ki smo jih uporabili, so tista, ki razmejujejo različne gospodarske cikle. Spremenljivki politične povezanosti, ki smo ju uporabili v modelu, sta delež politično povezanih nadzornikov (v enačbi: SPl) in delež strokovnjakov (SEx). Slednji predstavljajo vplivne nadzornike brez političnih povezav.

Nadalje smo za vsako izmed spremenljivk ustvarili dve dodatni spremenljivki z odlogom enega in dveh let, saj smo predpostavili, da se politični vpliv v podjetjih pozna šele z odlogom.

Končne regresijske enačbe so enačbe (3), (4) in (5) spodaj; t-1 in t-2 predstavljata odložene spremenljivke (za eno ali dve leti).

$$y_{it} = \alpha_0 + \beta_1 \times k_{it} + \beta_2 \times l_{it} + \beta_3 \times SPl_{it} + \beta_4 \times SEx_{it} + \beta_5 \times Employees + \beta_6 \times Periods + \varepsilon_{it}$$
(3)

$$y_{it} = \alpha_0 + \beta_1 \times k_{it} + \beta_2 \times l_{it} + \beta_3 \times SPl_{it-1} + \beta_4 \times SEx_{it-1} + \beta_5 \times Employees + \beta_6 \times Periods + \varepsilon_{it}$$
(4)

$$y_{it} = \alpha_0 + \beta_1 \times k_{it} + \beta_2 \times l_{it} + \beta_3 \times SPl_{it-2} + \beta_4 \times SEx_{it-2} + \beta_5 \times Employees + \beta_6 \times Periods + \varepsilon_{it}$$
(5)

## Rezultati regresijskega modela

Proizvodna panoga se je pokazala kot edina panoga, kjer so rezultati regresijskega modela popolnoma v skladu z našimi pričakovanji pri vseh treh modelih (dveh odloženih in neodloženemu). Natančneje, če se delež politično povezanih nadzornikov povečuje, se v povprečju dodana vrednost zmanjšuje, ceteris paribus. Odložena spremenljivka negativnost in značilnost koeficienta povečuje. Pri modelu s spremenljivko, odloženo za dve leti, se pri povečanju deleža politično povezanih nadzornikov za 10 % dodana vrednost v povprečju zmanjša za 2,1 %, ceteris paribus. Interpretacija rezultatov v komunalnih, elektroenergetskih, transportnih in gradbenih podjetjih je mešana. Koeficient pri gradbenih in transportnih podjetjih je prav tako negativen, vendar je značilen zgolj v modelu s spremenljivko, odloženo za dve leti. Ob povečanju deleža politično povezanih nadzornikov za 10 % se dodana vrednost v povprečju zmanjša za 5,2 % v transportnih in kar za 8 % v gradbenih podjetjih, ceteris paribus. Tudi v komunalnih podjetjih je koeficient negativen, a značilen zgolj v modelu s spremenljivko, odloženo za dve leti. Tam povečanje v deležu politično povezanih nadzornikov za 10 % vodi v zmanjšanje dodane vrednosti v povprečju za 2 %, ceteris paribus. Elektroenergetska podjetja so razred zase. Tam je koeficient pri modelu s spremenljivko, odloženo za dve leti, statistično značilen in nepričakovano pozitiven. Natančneje, povečanje deleža politično povezanih nadzornikov za 10 % v povprečju poveča tudi dodano vrednost, in sicer za 4,9 %, ceteris paribus. Eden od razlogov je prav gotovo ta, da je povpraševanje v elektroenergetski panogi zelo stabilno, konkurence pa praktično ni, zato politiki takšnim podjetjem težko škodijo, podjetja pa so zanje bolj zanimiva.

Delež strokovnjakov v nadzornih svetih ni pokazal značilnih rezultatov v preučevanih panogah v preučevanem obdobju. Zgolj v primeru elektroenergetskih in gradbenih podjetij se je pokazalo, da povečanje deleža strokovnjakov do določene mere vodi v povečanje dodane vrednosti, v povprečju.