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30 June 2011

Online at <https://mpra.ub.uni-muenchen.de/33549/>
MPRA Paper No. 33549, posted 20 Sep 2011 11:06 UTC

Politicians “on board”! Do political connections affect banking activities in Italy?

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Abstract

This paper analyzes the effects of political presence in the boards of directors of cooperative banks. We refer our analysis to all politicians (almost 160.000) belonging to a political body in Italy. Overall, our dataset contains 1.858 board members referring to 127 cooperative banks.

Results show that politically connected banks, in which politicians have executive roles in the board of directors, display higher net interest revenues, lower quality of the loans portfolio and lower efficiency relative to a control group of non-connected counterparts.

Therefore, in the current debate on the reform of the statutes of the Italian cooperative banks, we argue that the problem is not for politicians to be in the boards but for them to hold executive positions.

Keywords: Cooperative Banks, Politics, Corporate Governance

JEL Classifications: G21, G34

1. Introduction

What are the effects of having politicians in the board of banks? According to the resource dependence theory, the need for environmental linkages is a function of the levels and types of dependence facing the firms (Boyd, 1990; Pfeffer and Salancik, 1978). Especially for regulated industries, such as banking, an important source of external dependency is government and one of the possibilities to reduce uncertainty is appointing politicians to the board of directors (Lang and Lockhart, 1990; Mahon and Murray, 1981).

From the one hand, these political linkages could affect in a positive manner firms' performance by influencing i) the stock value (Claessens, Feijen and Laeven, 2008; Faccio 2006; Leuz and Oberholzer-Gee 2006) ii) the way legislators act when passing relevant regulation (Mian, Sufi and Trebbi, 2010; Mobarak and Purbasari 2006; Agrawal and Knoeber, 2001); iii) the probability of a financial bailout (Faccio, Masulis and McConnell, 2006) iv) the access to financial resources at more convenient conditions (Infante and Piazza 2010; Boubakri, Guedhami, Mishra, Saffar 2009; Claessens, Feijen and Laeven, 2008; Fraser, Zhang and Derashid, 2006; Gomez and Jomo, 1997); v) the market power (Cingano and Pinotti 2010).

Leuz and Oberholzer-Gee (2006) argue that in relationship-based systems, global financing and strong political connections are alternative means to create firm value. More in detail, Faccio (2006) finds that the announcement of a new political connection results in a significant increase of the stock value, especially when a board director enters politics (but not for appointments of politicians to corporate boards). Additionally, firms show a widespread overlap of controlling shareholders and top officers who are connected with national parliaments or governments particularly in countries with higher levels of corruption, with barriers to foreign investment and with more transparent systems. Claessens, Feijen and

Laeven, (2008) show that Brazilian firms providing contributions to (elected) federal deputies experienced higher stock returns around the 1998 and 2002 elections.

Regarding legislators conditioning problems arising from political linkages, Agrawal and Knoeber, (2001) find that outside directors with backgrounds in politics or government and those with backgrounds in law are more numerous on the boards of firms for which politics is more important. Mobarak and Purbasari (2006), analyzing the case of developing countries, find that politicians in power are more interested in protecting the business interests of particular individuals “connected” to them, not industries as a whole.

Finally, Mian, Sufi and Trebbi (2009) examine the determinants of congressional voting behavior on the American Housing Rescue and Foreclosure Prevention Act (AHRFPA) of 2008 and the Emergency Economic Stabilization Act (EESA) of 2008, finding evidence that constituent interests and special interests influence voting patterns during the crisis. In detail, representatives from districts experiencing an increase in mortgage default rates were significantly more likely to vote in favor of the AHRFPA. Moreover, increased campaign contributions from the financial services industry is associated with a higher likelihood of voting in favor of the EESA.

Concerning the increased probability of a financial bailout, Faccio, Masulis and McConnell (2006) analyze the likelihood of government bailouts in a sample of 450 politically-connected firms from 35 countries over the period 1997 through 2002. They find that politically-connected firms are significantly more likely to be bailed out than similar non-connected firms. Additionally, politically-connected firms are disproportionately more likely to be bailed out when the IMF or World Bank provide financial assistance to the firm’s home government. Further, among firms that are bailed out, those that are politically connected exhibit significantly worse financial performance than their non-connected peers at the time of the bailout and over the following two years.

With reference to the access to financial resources at more convenient conditions, Gomez and Jomo (1997) and Fraser, Zhang and Derashid (2006) find a positive and significant link between political connections and leverage of firms in Malaysia, where government exerts a significant influence over the corporate sector through listing restrictions, direct equity ownership of listed firms, control of the banking sector, and through government-sponsored institutional investors. Claessens, Feijen and Laeven, (2008) show that Brazilian firms contributing to (elected) federal deputies substantially increase their bank leverage after each election. Boubakri, Guedhami, Mishra, Saffar (2009) provide the evidence that investors require a lower cost of capital for politically connected firms, suggesting that these firms are generally considered to be less risky than non-connected firms. Finally, Infante and Piazza (2010) find evidence that politically connected firms benefit from lower interest rates, although only when the political connection is at a local level. They find that this effect is generally stronger when politically connected firms borrow from banks with politicians in their boards and when the degree of autonomy granted to local loan officers is higher. Relating to market power, Cingano and Pinotti (2010) find greater levels of influence for politically connected firms. However, this power is not driven by higher productivity but by greater sales to the public administration.

On the other hand, the presence of politics could make firms less profitable because they have lower managerial incentives and/or because they inefficiently cater to politicians' wishes such as the pursuing of individual goals or the transfer of financial resources to their supporters (Yeh, Shu and Su, 2010; Claessens, Feijen and Laeven, 2008; Boubakri, Cosset and Saffar, 2008; Fan, Wong, Zhang 2007; Shleifer, 1998).

Shleifer (1998) argues that private ownership should be preferred to public ownership when the incentives to innovate and to contain costs are strong. Moreover, the case for private provision only becomes stronger when competition between suppliers, reputational

mechanisms, the possibility of provision by private not-for-profit firms, as well as political patronage and corruption, are brought into play. Therefore, one could expect that firms have a higher inclination to search for political connection when external governance structure is ineffective. At this regard, Boubakri, Cosset and Saffar (2008), analyzing political connections in newly privatized firms, show that these are prevalent in countries with a lower judicial independence.

Fan, Wong and Zhang (2007) show that the appointment of politically-connected CEOs does not enhance firms efficiency but rather fulfill political goals of politicians. Claessens, Feijen and Laeven (2008) indicate that access to bank finance is an important channel through which political connections operate.

Finally, Yeh, Shu and Su (2010) find that the quality of corporate governance is negatively associated with the likelihood for firms to engage in political connections, while firm size is positively associated with these connections.

Prior literature documents the role and the impact of politics also in banking industry by comparing performance, lending behaviours and risk taking of state-owned banks and private banks (De Nicolò and Loukoianova, 2007; Micco, Panizza and Yañez, 2007; Dinç, 2005; Khwaja and Mian, 2005; Sapienza, 2004; La Porta, Lopez-de-Silanes and Shleifer, 2002).

Micco, Panizza and Yañez, (2007), analyzing performance, find that state-owned banks tend to have lower profitability and higher costs than their private counterparts and that this differential is driven by political considerations.

La Porta, Lopez-de-Silanes and Shleifer (2002) claim that politically connected banks are inefficient because they are captured by politicians who are only interested in maximizing their personal objectives.

However, using a sample of European banks during 1986 - 1989, Molyneux and Thornton (1992) find that government ownership has a positive impact on bank profitability. Moreover,

Altunbas Evans and Molyneux (2001) indicate that state-owned banks have slight cost and profit advantages over their private commercial banking counterparts in the German banking market, which are explained by their lower cost of funds.

Dinç (2005), analyzing lending behaviours, finds that private banks increase their lending in the year before the elections but, relative to private banks, government-owned banks decrease their lending. On the contrary, in election years private banks decrease their lending while state-owned banks increase theirs relative to private banks.

Khwaja and Mian (2005) document that state-owned banks tend to lend more to firms with politically connected directors. Sapienza (2004), comparing the interest rate charged to two sets of companies with identical characteristics, finds that state-owned banks apply lower interest rates than private banks. Moreover, the lending behavior of state-owned banks is affected by the electoral results of the party affiliated with the bank. In detail, the stronger the political party in the area where the firm is borrowing, the lower the interest rates charged. Finally, considering risk taking profiles, De Nicolò and Loukoianova (2007) find that the relationship between bank concentration and bank risk of failure is significantly higher in state-owned banks with a sizeable market share than in private ones.

However, all these studies analyze political impact considering the variable (state or private) ownership of banks as a dummy. Since in many countries, such as Italy, banks are no longer state-owned, a distinctive trait of our work is the matching of politicians and board members in order to identify politically connected banks. In detail, the purpose of this paper is to test whether and how politicians on the board play a role in influencing performance, lending and risk taking behaviours of Italian banks. In a certain way, we want to test whether political presence in the board could act as a substitute for state-ownership in terms of effects on banking activities. Another distinctive feature of this research is the focus on cooperative banks, an important segment of the Italian financial sector supported by the corporate

governance principle “one person one vote”. Since cooperative banks do not have tradeable participations and are not listed in the stock market, take-overs and other control mechanisms relying on the share price do not act as automatic disciplining channels. The case of Italian cooperative banks is interesting for various reasons. First, cooperative banks play a crucial role in the Italian banking market. According to Federcasse (Federazione Italiana delle Banche di Credito Cooperativo – Casse Rurali ed Artigiane) in 2010, the 415 existing cooperative banks have around 110.000 employees, more than 14 million clients, around 2 billion members and a 34% market share of deposits. In detail, they could be considered as the fourth largest bank in Italy with 151 billion Euros of deposits (with an annual growth of 1,7% compared to 3% in total banking system) and 135,3 billion Euros of loans (with an annual growth of 5,8% compared to 4,3% in total banking system) for an important part of small businesses and artisans.

Second, the strong connection with the territory is one of the main natural features of these banks since they both contribute to its development and are influenced by some local characteristics, such as political pressure (Battaglia, Farina, Fiordelisi, Ricci, 2010; Bos and Kool, 2006; Ferri, Masciandaro and Messori, 2001).

These banks are based in 2.683 municipalities (in 550 municipalities they are the only banking institution) and 101 provinces and their presence is particularly significant especially in the northeastern regions, driven mainly by Trentino Alto Adige but relevant is also their position in some center and south regions.

Ideally, being cooperatives does not reduce the importance of assuring sound and prudent management practices. As for commercial banks, this is the only way to guarantee the continuity of the cooperative (if not its survival) and, consequently, of the offered “services”. Therefore it is a crucial matter whether and how the specificity of the corporate governance of cooperative banks - where to be a shareholder and to be an expression of the local

community are preconditions to become board directors - would lead to advantages or disadvantages in the management of the bank (Ferri, Masciandaro and Messori, 2001).

Third, these banks are currently facing with the intensified pressure of politicians on their lending policies. In principle, since the better coordination between banks and local governments arising from politicians on the board, one could expect positive effect of political connections. As an opposite view, political presence could have potentially negative consequences in terms of performance, loans quality, efficiency and overall risk of cooperative banks.

The rest of this paper is organized as follows. In the next section we present the data. Section 3 lays out the econometric model and estimation results. Finally, Section 4 concludes.

2. The data

Our analysis focuses on the boards of cooperative banks. Bank-level financial information comes from the Bankscope database. We extracted data about loans (in terms of amount and quality), profitability, efficiency and capitalization.

In detail, the fraction of loans over total assets (L / TA) allows us to test the existence of a relation among politicians in the boards and lending volumes of cooperative banks. The variable net interest revenues over total assets (NIR / TA) allows us to test the existence of a relation among politicians in the boards and interest margin of cooperative banks. Since higher levels of this variable could come both from a lower rate on bank deposits or from an higher rate on loans, we need to look to the risk-taking behavior of politically connected banks. Therefore we define the variable impaired loans over total loans (IL / L) in order to test the existence of a relation among politicians in the boards and the level of risk of cooperative banks. The ratio overheads costs over total asset (OH / TA) allows us to test the

existence of a relation among politicians in the boards and efficiency of cooperative banks. Equity over total assets (E / TA) allows us to test the existence of a relation among politicians in the boards and the capitalization of cooperative banks. Descriptive statistics for all the variables are presented in Table 1.

<<INSERT TABLE 1 ABOUT HERE>>

The analysis is referred to the year 2006, which is the most interesting under the political perspective, in the sense that various elections occurred at different administrative levels. In detail, we have elections in 1.437 municipalities, 10 provinces and 2 regions. Moreover, in this year we have 436 cooperative banks operating in Italy and can reasonably consider that the recent financial crisis is not a matter of concern.

The composition of the boards is obtained from the Annual Relations of the cooperative banks. Following, in order to identify politically connected banks we match the names of the members of the boards with the names of the members of the Italian political body represented in that particular year. In further detail, according to Infante and Piazza (2010) we refer to all politicians belonging to a political body in Italy during the year 2006. We consider the national Parliament and all the local councils (either in one of the twenty Italian regions or in one of the 103 provinces or in one of the 8.094 municipalities). During this year the Italian political body was made up of almost 160.000 members.

Data on local politicians come from the Ministero dell'Interno's website while data on national politicians are drawn from the websites of the two Houses (Camera and Senato) of the Italian Parliament.

The set of data is quite rich, including different personal and political information. Among others, we find: birthdate, birthplace, gender, qualification, profession, party, election date. In

order to obtain a meaningful match, we restrict the sample of banks to those for which we also have the birthdates of the members, obtaining a subset of 127 banks, summing up a total of 1.858 board members. Overall, we found 239 (distinct) individuals classified as politicians in the boards of our sample of cooperative banks, as showed in Table 2.

<< INSERT TABLE 2 ABOUT HERE >>

As for the universe of Italian cooperative banks, our sample seems not to be evenly distributed in Italy. The north-east region shows high values. Quite relevant is the case of the provinces of Trento and Bolzano for Trentino Alto Adige and Vicenza for Veneto. Nevertheless, significant is also the presence of cooperative banks in the other provinces of the center and the south of Italy.

The link of cooperative banks with the territory is confirmed by two facts. First, no board member for our sample of banks is also a representative in the parliament. Second, parties which are represented at a national level have a little representation in the boards. Politicians in the boards are essentially expression of local parties, with no national counterpart: 229 out of 239 members have been elected in so-called *liste civiche*. Other members are expression, quite equally, of center-right parties (2 members), center-left parties (4 members) and other parties (4 members).

We use two measures of political connection. The first measure is a binary variable indicating whether each bank has (at least) one board member, without distinguishing among executive or non-executive, appointed in a local and national government.

The second measure of political connection is a binary variable indicating whether each bank has (at least) one board executive member appointed in a local and national government.

We are aware that these definitions of political connectedness cannot detect the presence of

members which are only indirectly influenced by the political events. In other terms, it is possible that a sort of influence is exercised also by actors, not necessarily in the board (such as loan officers), which could be only politically (directly or indirectly) influenced.

Even if the macro-areas of the country have different numbers of cooperative banks, the presence of politically connected banks compared with the presence of non-connected ones doesn't significantly vary across them (Table 3).

<< INSERT TABLE 3 ABOUT HERE >>

In general, political membership in the boards is very significant in some areas of Centre (such as the province of Ascoli Piceno) and of the South (such as the provinces of Campobasso, Cosenza and Taranto). However, political membership is also a relevant phenomenon in North Italy provinces (such as Bolzano, Como, Cuneo, Mantova and Reggio Emilia).

Finally, classifying members of the boards with respect to the position (executive or non-executive) and the status of politician we obtain the following distribution (Table 4):

<< INSERT TABLE 4 ABOUT HERE >>

3. Results

To infer the effect of political presence in the board over the variables of interest, we estimate a series of regression models of the form:

$$y = \beta_0 + \beta_1 p + \beta_2 \log(TA) + \varepsilon$$

For each regression, y represents one of the variables of interest defined in the previous section:

- $y_1 = \text{Loans} / \text{Total Assets}$;
- $y_2 = \text{Net Interest Revenue} / \text{Total Assets}$;
- $y_3 = \text{Impaired Loans} / \text{Total Loans}$;
- $y_4 = \text{Overheads} / \text{Total Assets}$;
- $y_5 = \text{Equity} / \text{Total Assets}$.

We maintain the same covariates in all the models:

- p : is the dummy indicating whether there are politicians in the board. This variable doesn't discriminate between executive and non-executive positions. We prefer to use the dummy variable p instead of the percentage of politicians in executive position as it provides a clear distinction between banks that are connected and those who are not.
- $\log(\text{TA})$: the logarithm of the Total Assets is a control variable that accounts for the dimension of cooperative banks.

Results for these models are presented in Table 5.

<<INSERT TABLE 5 ABOUT HERE>>

Subsequently, we run the same models using a different definition of politically connected banks (p^*). This alternative measure is a binary variable indicating whether each bank has (at least) one board executive member appointed in a local and national government.

The idea is that it doesn't suffice to be a member of the board and a politician to modify the politics of the bank, but one has to be also in an influential position. Results for this new

specification of political connection are presented in Table 6.

<<INSERT TABLE 6 ABOUT HERE>>

According to the findings by Dinç (2005) and Micco, Panizza and Yañez (2007) there is no relation between political influence and lending volumes of banks located in industrial countries. Our results (Tables 5 and 6) similarly show that in Italy politically connected banks don't differ significantly from non-connected ones in terms of loan volumes as a fraction of total assets. Therefore having a politician (in both the cases tout court and influential) in the board of director doesn't impact on the lending volumes of the bank.

Conversely, also if loan volumes are the same for the two types of banks, one could consider the possibility that the banks with a politician in the board may be more willing to grant a preferential treatment to politically connected firms or to public administration.

Unfortunately, our data don't allow us to discriminate loans destination and therefore the presence of a preferential treatment for some categories of borrowers. Nevertheless, we are able to further investigate the impact of political presence on net interest revenue as a fraction of total assets in order to identify structural differences among connected and non-connected banks. This is important because, also in presence of the same quantity of loans, their price could be an indicator of political lending behaviour.

Table 5 shows that (tout court) politically connected banks don't have significant differences from non-connected ones in terms of net interest revenues relative to the control group of non-connected counterparts. Yet, when considering connected banks with at least a politician in an influent position (Table 6), we observe significantly higher net interest revenues relative to non-connected banks. Quantitatively, the estimated coefficient implies that if the bank has

a politician in an influential position its interest margin on total assets increase by 0,2% on average.

In a bank perspective, this result seems to differ from Sapienza (2004) that finds state-owned banks to charge systematically lower interest rates to similar or identical firms than do privately owned banks. In detail, she finds that firms that borrow from state-owned banks pay an average of 44 basis points less than do firms that borrow from private banks. Considering firm perspective, the result seems contrast also with Infante and Piazza (2010), that find political connections to ensure lower interest rates to politically connected firm (the effect is significant but economically negligible since it could be estimated around 3 basis points) and Claessens, Feijen and Laeven (2008), that consider this an important reason for political connections.

Moreover, since banks with a politician in the board may also be subject to some pressures to lend to some firms at preferential terms, we could have two important reasons for this difference. From the one hand, this higher level of net interest revenue could come essentially from a lower rate on bank deposits. From the other hand this difference could be explained by high rates on loans as a consequence of the risk-taking behavior of politically connected banks. Therefore, in order to further investigate this aspect, we compare the percentage of non-performing loans over total loans.

When considering impaired loans as a fraction of total loans, Table 5 shows that (tout court) politically connected banks are not significantly different from non-connected ones. In the other case (Table 6), the estimated coefficient implies that if the bank has (at least) a politician in an influential position, its fraction of non performing loans on total assets increase by 2,3% on average. This result would suggest that politically connected banks tend to lend to firms for which raising capital from non-connected banks is too difficult. In other terms, political influence seems to have a negative impact on loans portfolio quality.

While profit maximization could not be a primary goal for cooperative banks, cost efficiency is certainly an important objective, since an efficient cost management is crucial to guarantee their survival and, consequently, the continuity of ‘services’ provided to their members and customers (Battaglia, Farina, Fiordelisi and Ricci, 2010). In this sense, if political connections help banks to increase ability, knowledge and experience and to overcome bureaucratic obstacles, they would be more efficient and well managed. As an opposite view, some authors consider politically influenced banks to be less efficient than their private counterparts (Sapienza 2004; La Porta, Lopez-de-Silanes and Shleifer 2002). In detail, these banks are inefficient because they are captured by politicians who are only interested in maximizing their personal objectives.

Looking at the difference in overheads costs allows us to establish if politically connected banks are more or less efficient than non-politically connected ones. In this regard, results in Table 6 seem to confirm the second hypothesis. In fact, the estimated coefficient implies that if the bank has, at least, a politician in an influential position its overheads costs on total assets increase by 0,2% on average. However we don’t find significant differences when considering (tout court) politically connected banks relative to non-connected banks (Table 5).

Finally, Tables 5 and 6 show that the fraction of equity over total assets seems to be not influenced by political presence in the board of the banks. These results appear in line with regulatory capital requirements defined by Basel Committee. In fact, differences appear to be important only if we consider the geographical area (and therefore the different levels of risk of borrowers) in which the banks have their headquarters.

4. Conclusions

Our study assesses the effects of political presence in the boards of directors of cooperative banks by considering the special relation these institutions have with the territory.

Results show that politicians in the board have a negative impact on banking activity relative to a control group of non-connected banks and validate previous findings by Dinç, (2005), Sapienza (2004), Khwaja and Mian (2005), Micco, Panizza and Yañez (2007), La Porta, Lopez-de-Silanes and Shleifer (2002).

In detail, if these connections don't exert an impact on lending volume and capitalization, we find that banks with politicians board members have a significantly higher net interest revenues relative to non-connected banks (interest margin on total assets increases by 0,2% on average).

Moreover, politically connected banks tend to lend to firms for which raising capital from non-connected banks is too difficult so that political influence seems to have a negative impact on loans portfolio quality (the fraction of non-performing loans on total assets increase by 2,3% on average).

Our results show also that if the bank has, at least, a politician in an influential position its overheads costs on total assets increase by 0,2% on average. This fact is consistent with the literature considering political (state-owned) banks to be less efficient than their private counterparts.

However, these effects are not the consequence of having politicians tout court in the board but of the presence of politicians in an influential position.

Therefore in the current debate on the reform of the statutes of the Italian cooperative banks, we argue that the problem is not for politicians to be in the boards but for them to hold executive positions.

While other studies analyze political impact considering the variable (state or private)

ownership of banks as a dummy, the main advantage of our research is the identification of politically connected banks on the basis of the match of board members and politicians belonging to one of the political bodies in Italy.

Another advantage of this research is the focus on local banks characterized by a strong connection with the territory in the sense that they contribute to its development and are influenced by some local characteristics, such as political pressure.

As a note of attention, it is important to mention that these evidences do not necessarily imply that politicians pursue their private interests in the management of the bank. Simply, it seems that the appointment of politically-connected executive board members is not beneficial in terms of loan quality and overall efficiency of the cooperative banks.

Furthermore, at this stage our analysis doesn't consider the presence of members, not necessarily in the board (such as loan officers), which could be only politically (directly or indirectly) influenced. This could be an issue to develop in further analyses. A challenge for future researches is also to comprehend if, and under what conditions, interlocking directorates, defined by politicians, among banks and firms affect lending behavior of banks. Following, using panel data could be useful in order to monitor board changes and political participation over time (as an example, previously and following new elections). In this sense, it is important to analyze if banks with politicians on the board differ in their behavior on the basis of the strength of the political party in the reference area (as an example, it is the ruling party).

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Table 1

Descriptive statistics

	Political Connection	L / TA			IL / L			NIR / TA			OH / TA			E/TA		
		min	med	max	min	med	max	min	med	max	min	med	max	min	med	max
North	Yes	0,48	0,73	0,88	0,02	0,05	0,19	0,02	0,03	0,03	0,02	0,02	0,04	7,27	12,23	21,88
	No	0,57	0,75	0,81	0,01	0,03	0,16	0,02	0,03	0,04	0,02	0,02	0,04	8,13	11,14	15,66
Center	Yes	0,55	0,72	0,89	0,01	0,06	0,1	0,02	0,03	0,04	0,02	0,02	0,03	8,92	10,09	14,15
	No	0,42	0,48	0,72	0,05	0,06	0,16	0,03	0,04	0,04	0,02	0,03	0,03	9,04	11,53	14,49
South + Islands	Yes	0,36	0,51	0,68	0,02	0,12	0,36	0,03	0,04	0,06	0,02	0,03	0,07	7,5	13,1	22,53
	No	0,32	0,54	0,66	0,04	0,09	0,19	0,03	0,03	0,05	0,02	0,03	0,04	8,3	13,26	17,45

Minimum, Median and Maximum values. L / TA is the fraction of loans on total asset and represent the lending volumes of cooperative banks. NIR / TA is the net interest revenue over total assets and represent the interest margin of cooperative banks. IL / L is the fraction of impaired loans over total loans and represent the level of risk of cooperative banks. OH / TA is the fraction of overheads costs over total asset and represent the efficiency of cooperative banks. E / TA is the fraction of equity over total assets and accounts for the capitalization of cooperative banks.

Table 2

Number of individuals classified as politicians in the boards of our sample of cooperative banks

	Municipalities	Provinces	Regions	Camera	Senato
<i>Number of politicians</i>	153.156	3.989	1.210	613	335
<i>Number of politicians in the boards of cooperative banks</i>	228	9	2	-	-

Table 3

The presence of politically connected banks compared with the presence of non-connected ones across Italian macro-areas

Macroarea	Politically Connected	Number of banks
<i>North</i>	Yes	59
	No	12
<i>Center</i>	Yes	15
	No	1
<i>South + Islands</i>	Yes	27
	No	3

The definition of macro-areas is based on ISTAT (The National Institute of Statistics) classification of Italian regions: North (Piemonte, Valle D'Aosta, Lombardia, Trentino Alto Adige, Veneto, Friuli Venezia Giulia, Liguria, Emilia-Romagna), Center (Toscana, Umbria, Marche, Lazio), South + Islands (Abruzzi, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, Sardegna)

Table 4

Members of the boards with respect to the position (executive or non-executive) and the status of politician

Position	Board executive	Board membership
<i>Non-politician</i>	403	1.216
<i>Politician</i>	59	180

Table 5

Testing the effect of politicians (tout court) in the boards of cooperative banks

	$Y_1 = L/TA$	$Y_2 = NIR / TA$	$Y_3 = IL / L$	$Y_4 = OH / TA$	$Y_5 = E / TA$
Const	-0,04622 (0,14302)	0,0668676 (0,0070958) ***	0,280918 (0,072763) ***	0,0660348 (0,0071336) ***	26,63370 (3,64760) ***
p	0,02045 (0,02730)	-0,0003974 (0,0013544)	0,003633 (0,012621)	-0,0002305 (0,0013616)	0,61270 (0,69620)
logTA	0,05637 (0,01186) ***	-0,0029341 (0,0005886) ***	-0,017035 (0,006052) **	-0,0032085 (0,0005917) ***	-1,22030 (0,30260) ***
Adj R2	0,1516	0,1588	0,0479	0,1829	0,1025
p-value(F)	0,000013830	0,000008185	0,021540	0,0000013450	0,000455
N° obs.	127	127	119	127	127

L / TA is the fraction of loans on total asset and represent the lending volumes of cooperative banks. NIR / TA is the net interest revenue over total assets and represent the interest margin of cooperative banks. IL / L is the fraction of impaired loans over total loans and represent the level of risk of cooperative banks. OH / TA is the fraction of overheads costs over total asset and represent the efficiency of cooperative banks. E / TA is the fraction of equity over total assets and accounts for the capitalization of cooperative banks. p is a dummy indicating whether there are politicians in the board of cooperative banks. Finally, log (TA) is the natural logarithm of total assets and accounts for the dimension of cooperative banks.

Robust standard errors in parentheses.

* Significant at 10%.

** Significant at 5%.

*** Significant at 1%.

Table 6

Testing the effect of politicians that are executive members in the boards of cooperative banks

	$Y_1 = L/TA$	$Y_2 = NIR / TA$	$Y_3 = IL / L$	$Y_4 = OH / TA$	$Y_5 = E / TA$
Const	-0,06234 (0,14219)	0,0677752 (0,0070315) ***	0,298708 (0,071874) ***	0,0671134 (0,0070373) ***	26,54730 (3,66540) ***
p*	-0,03812 (0,02307)	0,0019994 (0,0011408) *	0,023468 (0,010939) **	0,0023288 (0,0011417) **	-0,30230 (0,59470)
logTA	0,06010 (0,01176) ***	-0,0030908 (0,0005814) ***	-0,018904 (0,005959) **	-0,0033775 (0,0005819) ***	-1,16460 (0,30310) ***
Adj R2	0,1662	0,1786	0,0836	0,2093	0,09875
p-value(F)	0,000004744	0,000001874	0,002351	0,000000176	0,0005883
N° obs.	127	127	119	127	127

L / TA is the fraction of loans on total asset and represent the lending volumes of cooperative banks. NIR / TA is the net interest revenue over total assets and represent the interest margin of cooperative banks. IL / L is the fraction of impaired loans over total loans and represent the level of risk of cooperative banks. OH / TA is the fraction of overheads costs over total asset and represent the efficiency of cooperative banks. E / TA is the fraction of equity over total assets and accounts for the capitalization of cooperative banks. p^* is a dummy indicating whether there are politicians as executive members of the board of cooperative banks. Finally, log (TA) is the natural logarithm of total assets and accounts for the dimension of cooperative banks.

Robust standard errors in parentheses.

* Significant at 10%.

** Significant at 5%.

*** Significant at 1%.