

DOCTORAL THESIS

Two essays on determining corporations' long term commitment: political versus economic freedom

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Abstract

Freedom is universally valued and fundamentally affects social life. In this thesis, I examine how freedom affects an important dimension of business: long-term commitment (LTC). The LTC of corporations is vital for economic growth because economic development is reliant on entrepreneurs continuously investing in physical and social capital. Corporate opportunism will never lead to long-term economic growth. Specifically, this study examines the effects of political freedom (PF) and economic freedom (EF) on two LTC-related variables: investment and the commitment to maintaining a loyal shareholder base, both of which are essential topics in the business literature.

This study consists of two essays. The first essay investigates the effects of a country's political versus economic freedom on corporate investment based on a sample of 19,605 companies operating in 49 countries for the timespan covering 1995 to 2015. First-differencing (FD) regressions show that PF and EF are positively associated with corporate investment, but PF's effect is larger. I also find that the effect of EF is conditional on the development of PF but not vice versa. Further, the effect of PF does not seem to be due to concurrent changes in uncontrolled factors: major changes in PF have larger effects than minor changes, and I do not observe a reversion in the effect of PF. Lastly, I find that an improvement in PF is associated with a larger growth in investment among firms with state ownership or political connections, suggesting a larger distorting effect of low PF on these firms' investment decisions. Overall, the findings shed new light on the economic reforms designed by policymakers: economic reforms, no matter how easy they seem, may not work well without political reforms.

The second essay examines the impacts of a country's political compared with economic freedom on corporations' commitment to maintaining a loyal shareholder base. With a sample of 45 countries spanning 12 years, the FD result shows that PF and EF are positively associated with corporations' commitment to shareholder loyalty (CSL). More importantly, PF has a greater effect than EF. It is also determined that the impact of EF is dependent on the advancement of PF, but the reverse is not true. Furthermore, the impact of PF is not caused by concurrent changes in uncontrolled factors: major changes in PF are more impactful than minor changes, while a reversion in the impact of PF is not observed. Finally, I find that an enhancement to PF is correlated with a more significant increase in CSL among firms with state ownership or political connections than in firms without. This implies that low PF has a greater distorting effect on the CSL of such firms. In general, these results indicate that while it is comparatively easier for policymakers to enact economic reforms, their effectiveness may be reduced in the absence of concurrent political reforms.

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