

Political Finance, Abstraction of Concept from Islamic Countries Using Content Analysis Approach

* *Muhammad Irfan*
 * *Memoona Kausar*
 * *Dr. Rana Tahir Naveed*
 * *Muhammad Hamid Khan*

- * Institute of Banking & Finance, Bahauddin Zakariya University, Multan, Pakistan
- * Research Scholar Bahauddin Zakariya University, Multan, Pakistan
- * Department of Business administration, University of Education, Lahore
- * Universiti Utara Malaysia, the Islamia University of Bahawalpur, Pakistan.

Abstract

Purpose of study is to observe the impact of corporate politics, power, caste, color, culture, meetup of management with politicians, firm's capacity to offer better offers than competitors, personal relationships, sacrificing short term benefits for long term benefits on financial decisions process in Islamic countries. This study is significant for all employees of firms so that they can be aware of political meddling during financial decision process. For this qualitative study, interrelationship diagram and thematic analysis is used to perform coding. Questionnaire was adopted to collect the data from employees. Findings revealed that politicians influence financial decision process, racial discrimination has effect on financial dealings, corporate politics influence capital allocation process, firms offer better financial offers than competitors if it has capacity to offer, a firm must sacrifice short term benefits for long term benefits while dealing financially and personal relationships are given priority in corporate financial matters.

Keywords: Political Connections, Racial Discrimination, Financial Decision Process, Politicized Finance, Long term Benefits, Personal Relations

1. Introduction

The sailing is never smooth when one must interact with people with different experiences, temperaments, motivations and behaviour. Study exposed the findings of a qualitative study which intended to develop a greater understanding of impact of corporate politics, power, caste, colour, culture, meetup of management with politicians, firm's capacity to offer better offers than competitors, personal relationships, sacrificing short term benefits for long term benefits on financial dealings. Out of total world's population, there are 1.7 billion Muslims. Muslim countries stretch from North America to Europe into Africa, across the Middle East and Central Asia, all the way to Southeast Asia. This study is important for all corporations' employees so that they can be aware of political interference in the process of financial decision making. A manager must know how to tackle such situations. The prime aim of firm should be to earn profit and share it with stakeholders. How it is done is based on the decisions of the management. Management needs to be vigilant and make such decision and policies wherein the interests of all the stakeholders including employees are considered and prevent employees from affecting of political tactics. Organizational politics is referred as activities that are self-serving, harmful and illegitimate to the corporations or its members (Rosen *et al.*, 2009). In addition to, it is commonly categorized as negative and has been labelled as undesirable, based in self-interest, and showed by behaviours of self-promotion, ingratiation and backstabbing (Chang *et al.*, 2009; Rosen *et al.*, 2009). Political behaviours were grouped into five categories that are observe and interpret the decision-making context, build and use relationships, control decisions and resources, build your personal reputation

and manipulate and undermine others (Landells & Albrecht, 2017). Firm's political control (politically dominated board) is the reason of less efficient resource allocation (Shleifer & Vishny, 1994). Multinational firms have been observed as powerful political and economic players. Nevertheless, they are also complicated firm entities with multifaceted and intricate internal political processes. (Geppert *et al.*, 2016). Further research is needed to determine when organizational politics harms or helps employees (Perrewe *et al.*, 2012). The study of politics and power in multinational firms has been a niche area of study for both researchers of international business and organizational studies (Geppert *et al.*, 2016). Scholars have argued that sound qualitative investigation would contribute greatly to the field of organizational politics (Ferris & Treadway 2012). Despite extensive changes in the world of work, qualitative research regarding organizational politics remains relatively rare (McFarland *et al.*, 2012). To our knowledge, this is the first paper that considered the problem of politicized finance.

2. Literature review

Political influence and financial decision are inseparable, and in this modern era, political influence has become even more powerful in defining capital allocation decisions. Chang *et al.* (2009) mentioned that work politics means non-sanctioned behaviour that emphasizes on progressing one's own self-interests. Similarly, organizational politics is stated as an employee behaviour that strategically uses the power to maximize self-interests and achieve outcomes, which don't necessarily match goals of the organization (Kacmar & Ferris, 1991; Ferris *et al.*, 2002). In addition to, when total corporation political activity is high, but a few employees involved in political behaviour in a politicized environment, the differential in power leads to a sense of helplessness on the part of most employees (Ferris *et al.*, 1995). Politics may damage the formation of new ideas inside organization and lesser employee creativity. Chief Executive Officers and Chief Financial Officers of United States indicated that politics matter (Graham *et al.*, 2015). Bozeman *et al.* (2001) concluded that team members felt more threatened by politics and can experience more strain and negative work attitudes, so they observed that they have not any control over their situations. Duchin and Sosyura (2013) revealed one form of corporate politics in which they found that divisional managers with strong social connections to the Chief Executive Officer spend more capital expenditures. Formal influence of Managers, such as board membership and seniority influence capital allocations. Social networks effect corporate outcomes, such as financial policy (Fracassi, 2016), executive compensation (Shue, 2013; Engelberg *et al.*, 2013), governance (Fracassi & Tate, 2012), incidence of fraud (Chidambaram *et al.*, 2011), earnings management (Hwang & Kim, 2012), acquisition activity (Shue, 2013; Cai & Sevilir, 2012) and access to capital (Engelberg *et al.*, 2013). Political involvement has negative influence on firm performance in China and in comparison, of other countries, the negative impact is stronger in China (Guo *et al.*, 2019). Zhao *et al.* (2013) analysed that politically linked organizations have significantly decrease capital allocation efficiency in China. Chief Executive Officers' personal political preferences influence corporate innovation (Han, 2019). Throughout the world, executives have political connections (Boubakri *et al.*, 2008). On the one hand, researches identified that politically connected organizations have worse performance indicators and corporate governance (Boubakri *et al.*, 2008; Duchin & Sosyura 2013; Chaney *et al.*, 2011). On the contrary, political connections may help the organizations to gain competitive advantages and more resources (Talavera *et al.*, 2012). But, Salimäki and Jämsén (2010) investigated that perceptions of favouritism in performance appraisal and politics' perceptions in pay decisions has negative effect on perceptions of pay system efficiency. Wu *et al.* (2018) derived that political connections of Chief Executive Officers positively affected on both Chief Executive Officer' pay and firm performance, and the

impact of this relationship is stronger in less-developed regions. According to Liedong and Rajwani (2018), in emerging countries, managerial political ties have positive linked to the cost of debt. In a highly complex social system, competition is core of all corporate politics. One of the most tough situations for an employee is to be suddenly shifted into a significant post in a highly politicized firm. Political behaviour is increasingly likely, when performance measures and decision-making processes are not clear and when competition is high. The ability to run politically is consisted of two elements: power and influence (Beeman & Sharkey, 1987). Nevertheless, Perceptions of organizational politics strengthen the association between employee engagement and behaviours at work (Eldor, 2017). Glaser *et al.* (2013) studied one European corporation' internal capital market and suggested that across the divisions of this firm the distribution of cash windfalls is effected by managerial influence. Political factors have a significant and direct impact on financial markets, firm-level decision-making and economic outcomes. It includes decisions to gain capital, how to allocate capital, when and how to do so, and at what cost. With strong political status, executives in organizations may also lack the financial knowledge to enhance capital structures of firms in developing countries (Gu *et al.*, 2019). Lux *et al.* (2011) described that corporate political activity is positively related to firm performance. Moreover, Corporate lobbying expenditures has positive linked with financial performance (Chen *et al.*, 2015). Ben-Nasr *et al.* (2012) insisted that cost of equity is significantly related to political orientation. Political connection is a driving force behind bank inefficiency, as the least efficient banks have the most significant association with political connections (Abdelsalam *et al.*, 2017). Scholar emphasized on racial discrimination in housing, employment, consumer interactions and credit markets (Pager & Shepherd, 2008). Menozzi *et al.* (2011) examined that directors may really weaken the goals of privatization, when privatization doesn't eliminate politicians from boards of directors. Resources and capabilities based on resource-based view, institutions based on institutional theory and political environment are three predominant perspectives in corporate political activity that can vary firm profits and policy change (Lawton *et al.*, 2013). Khan *et al.* (2016) discussed that politically connected organizations showed high agency costs than their politically unconnected counterparts, and audit quality has moderating effect between agency costs and political connection. Political climate is one of the vital contextual factors that form organizational conflict. Political climate has positive association with team conflict, that are (a) with relationship conflict and (b) with task conflict. Political climate moderates the relationship between task and relationship conflict (Bai *et al.*, 2016). However, the relationship between corporate politics and finance has received scant attention. We will fill this void in the literature.

RQ1: Do politicians influence financial decision process?

RQ2: Do financial dealings effected by racial discrimination?

RQ3: Does corporate politics influence capital allocation process?

RQ4: Does your firm offer better financial offers than competitors?

RQ5: Does a firm must sacrifice short term benefits for long term benefits while dealing financially?

RQ6: Does personal relationships are given priority in corporate financial matters?

3. Research Methodology

This study employed a rigorous research methodology. It is a qualitative research using cross-sectional data. Cross-sectional data were organized and eventually analysed by using QSR NVivo software. A questionnaire was employed to address the impact of corporate politics, power, caste, color, culture, meetup of management with politicians, firm's capacity to offer better offers than competitors, personal relationships and sacrificing short term benefits for long term benefits on financial dealings. The questionnaire consists of employee's views

which they shared according to their experience. Cross-sectional data is collected from employees of firms of Islamic countries. The total questionnaire consisted of 7 open ended questions that are (1) Write your views on personal relationships given priority in financial matters? (2) What do you think about cast, color and culture matter while making financial dealings? (3) Tell me about your organization capacity to offer better offers than your competitor while dealing financially? (4) Write your views on sacrificing your short-term benefits for long term benefits while dealing financially? (5) Tell me about influence of “power” on financial dealings? (6) How organizational politics influence financial matters in your firm? And (7) What do you say about the top management meet with politicians? All answers from respondents is considered for analysis. A total of 182 responses were coded as separate cases. Most frequently used words are showed by using NVivo software’s the word frequency function for conducting an initial scan of themes. Braun and Clarke (2006) presented six-step thematic analysis, top-down approach which are familiarising yourself with your data, creating initial codes, searching for themes, reviewing themes, defining and naming themes and prepare a report. In this study, thematic analysis is used to perform the coding. The final report furnished six main themes, six principal nodes and seven child nodes. So, the findings of main themes, principal nodes and child nodes is presented in table 1. This thematic analysis was performed by using NVivo software. Figure 1 presented items clustered by word similarity in child nodes. An interrelationship diagram is drawn as it is particularly valuable in helping to recognize the potential causal relationships that might lie behind a problem (Winchip, 2001).

4. Findings and discussions

4.1. Management and Politicians

Close ties between business and government are not new to the 21st century. The qualitative content analysis of the responses under this theme revealed two categories. First is, connections of management with politicians for personal or firm specific benefits and second is, politicians hold firm’s top management positions so they can use powers to influence financial decision. The two categories are explained below.

4.1.1. Political Connections

According to respondents, top management usually has connections with the politicians for the sake of their macro level benefits. A respondent insisted that top management keeps connections with local and national level politicians to cope the day to day external threats to the organization. Another respondent identified that they meet as it helps business leaders to mould tough government regulations and policies into their favours. One respondent derived that top management meet with politicians to get extra financial benefits. Organizations with politically linked Chairman or Chief Executive Officer are free from financing constraint (Chan *et al.*, 2012). Political connections have critical effect on countries and the several aspects of individual firms such as long-term performance, market valuation, financing behaviour and bailout events (Chen *et al.*, 2014). Meeting between business leaders and politicians influence financial performance as they mould the policies as per win -win situation and try to reduce burden of taxes. Political connection firms usually have easier access to external credit. Firms with strong corporate governance usually need not to have political connection. Nevertheless, firms should meet real politicians to help common people for the betterment of our society.

4.1.2. Power Matters

Respondents identified that power has direct influence over financial dealings. A respondent described that power has a great and intangible impact on financial dealings, that will never be accepted by the society openly, but it does exist. Another respondent revealed that power may lead to better negotiate and better results. One respondent indicated that only in case of power politics one may get financial support. Appointment of politically linked executive board members negatively influence loan portfolio quality, capitalization levels and net interest revenues (Carretta *et al.*, 2012). Politically connected directors, who lead boards of directors in organizations, positively influence employment, and has a negative effect on performance (Menozzi *et al.*, 2011). Purpose of businessmen are to make profit but, government is about providing services so, when politicians enter into business, they stop looking out for best interests of people and start looking out for best interests of themselves. Politician director exercise political power on financial decisions which affect company's value. It is possible that a policy made by public office holder director is good for his business and economy, but it is equally possible that a policy will favour his business while harming the overall economy.

4.2. Racial Discrimination

Racial discrimination occurs when a person treats you worse than another person in a similar situation because of your caste, color and culture. Racial discrimination influences financial decisions. Employees should not be treated differently by their co-workers or employers because of any characteristics linked to their caste, color and culture. For deeper insight, the responses were further classified into different categories. The three categories are explained below.

4.2.1. Caste

This is a vital theme identified in the data. Respondents revealed that in some organizations discrimination on basis of caste has significant impact on financial decisions. A respondent provided the comments that, in small private companies, caste issues do matter. However, another respondent indicated that in his firm, caste has no effect on financial decision making, mainly human brain is vital behind the wheel. Despite policies and official rhetoric aimed at integrating and managing the various ethnic groups, some researchers have discussed that institutional racism happens in Singapore (Velayutham, 2017). Participants who faced racially diverse environments had higher levels of shame/guilt, hypervigilance and anxiety than those who did not (Carter & Forsyth, 2010). In some countries e.g. India, where people are divided into different social groups, employees face caste discrimination at workplace. Manager may offer better paid work and can provide more facilities at workplace to higher caste employees. Moreover, tough credit terms can be offered to lower caste customer. In addition to, for business partnership, a manager may look for same or higher caste investor. So, it can be said that in a few countries or firm, management consider caste over profit.

4.2.2. Color

According to respondents, skin color influence financial decision making. A respondent mentioned that it is critical in decision making. Color prejudice exist in some organizations. One respondent commented that While making the financial dealings, skin color of another party should not be matter. Discrimination behaviour does exist in societies because numerous generations typically ignored discussing topics of discrimination on basis of skin colour (Bobek *et al.*, 2018). Height, gender and skin tone interact such as taller and darker skin tone males get lesser income (Devaraj *et al.*, 2018). Owner's actions are discriminatory when lighter-skinned person is favoured and offered more financial benefits than dark-skinned person. Extensive research has been done on skin color discrimination in business,

criminal justice, housing, the economy, health care, politics and media in the Europe and United States. Discrimination based on skin pigment, color, complexion, lightness, darkness or shade is illegal but still lighter skin tones are preferable in several countries. Color discrimination can be very hurtful to victims, especially in the workplace. Color bias is an issue that is very rarely discussed regarding financial decisions.

4.2.3. Culture

This is an important theme in the data. Culture may influence the behaviour of saving, investment decision-making, consumption of individuals and the financial growth of households. Respondents insisted that culture affect decision making process. A respondent stated that culture discrimination is very important, as people from different backgrounds behave in different manners, some may not be trustworthy. Another respondent suggested that, in local private firms, culture influences, nevertheless in multinational corporations, organizations have diverse culture so, such thing does not matter. Organizations, in which Hofstede's framework: e.g. uncertainty avoidance and power distance are high, are characterized by lower the internal audit quality. Alzeban (2015) showed a positive relationship between the quality of internal audit and individualism. Scholar examined the various dimensions of national and organizational culture in the workplace in relation to their indirect and direct impact on accounting standards and procedures (Herath & Carlis, 2017). Every country has own and different culture from others. So, national and organizational culture may influence financial dealings and financial decisions. Financial behaviours get change according to culture.

4.3. Financial Decision Process

On the one hand, financial decision process can be influenced by corporate politics, especially when decision process is unstructured and reliant on confused, error-prone or incomplete information. On the contrary, in some organizations, only finance matters, no one can damage the goal of profit maximization of firm and no factor can influence financial decision process. Within the theme, a clear distinction could be made between the two sub-categories or child nodes, as follows.

4.3.1. Politicized Finance

This is one of the most important themes identified in the data. Respondent revealed that corporate politics may give negative influence on financial matters. A respondent commented that it's hurt the profitability and performance of firm. Another respondent mentioned that sometimes it may destroy the whole structure. One respondent stated that his organization is very supportive till they see positive results, it's all good. Corporate politics influence capital allocation decisions in Asian and European firms (Graham *et al.*, 2015). Decisions of capital allocation are not only based on a unit's investment opportunities, they can be partially based on power or influence of a unit within the organization (Cremers *et al.*, 2010). Financial decisions must be free from all types of corporate politics. Because it always leads to adverse results of business. Weak organizational structure and mixed culture organizations can be influenced by such politics very easily. More budget can be allocated in a specific department than others for financial and non-financial incentives by using corporate politics. Allocation of budget to different departments (e.g. marketing, finance, HRM, Operations, Export, IT, R&D) can be done on basis of corporate politics not on merit. Approval of financial dealings can be influenced by corporate politics.

4.3.2. Only Finance Matters

A respondent identified that if a person is financially strong then that would be considered more reliable. Another respondent that provided the comment that now a day's people firstly see how people are financially strong then they prefer to make relationships. One respondent that derived that finance is the base of power and power is base of politics. One more

respondent concluded that if you have finance you have credibility and powers. Every person is not capable to politically involved in decision-making and decision-making often takes place in strict boundaries where agendas have already been set or manipulated (Geppert *et al.*, 2016). Politically linked firms are considered riskier by lenders, so they are charged higher interest rates (Bliss & Gul, 2012). Money is always on top priority. Culture, caste and color should not be considered during financial decision process. Either we choose long-term or short-term benefits, our aim must be to get profit. Financial decisions must keep separated from personal relationships. Financial dealings should not be affected by Political connection and public office holder directors. Capital allocation process must be free from corporate politics. Sole purpose of financial dealings should be profit maximization, Other's things are secondary.

4.4. Firm's capacity

A businessman will be considered successful if he has capacity to offer better offers to his employees and customers than his competitors. Respondents described that in few products, his firm's capacity remains competitive and in few it lacks. A respondent exposed that his organization is offering much better benefits, compensation and environment as compared to its competitors. But, still, there is more improvement required. Another respondent insisted that his firm's capacity is much better than their competitors. One respondent suggested that his organization required more capacity. All businesses must face competition. Even if you're the only restaurant in city you have to compete with bars, cinemas and other businesses. when a firm is offering the products at a higher price than your competitor and at the same time fail to deliver value then firm may lose customers. You need to close them based on value, not price. Moreover, if an organization offers higher wages than its competitors, it will attract more hardworking and loyal employees and thus decrease turnover costs. Employees will also be more willing to recommend your organization to others for employment opportunities, and in the hiring process, organization can be more selective. Firm need to learn from competitors that what they are doing worse than you, what you can learn from and do better and what they are doing the same as you.

4.5. Long Term Benefits

Respondents stated that sacrifice short-term financially benefits for long-term is always beneficial for the future. A respondent commented that yes, he does it many times, as long-term financial goal is ultimately vision to be achieved, so short-term failures can be borne for a big reason. Another respondent mentioned that While dealing financially, he will go for long-term benefits because long-term benefits are more secure than short-term benefits e.g. speculation. In the future, there will be a worldwide rising demand for long-term investment, both in emerging and in mature countries, to finance innovation, infrastructure, education, environmental and growth programs (Bassanini & Reviglio, 2011). Long-term investors restrain managerial misbehaviours and strengthen governance such as earnings management and financial fraud (Harford *et al.*, 2018). Short-term sacrifice can be a smart long-term business decision. But, the problem with most people is that they have no idea what truly is important to them because their decisions are made of fear. Many people like to play the market or speculate with day trading, it's a risky business. A long-term investment usually offers a higher probability of maximizing your return because market is cyclical and always recovers from drops, although it may take time to do so.

4.6. Personal Relations

Respondents exposed that personal relationships always come first. A respondent discussed that due to trust issues and expectations of future benefits, people prefer personal relationships in financial matters. Another respondent shared his experience that whenever a person has personal relationship with the manager at bank, who can approve the loan, can

have loan approved soon. One respondent suggested that financial decisions must be dealt on merit not personal relations. Ferris and Kacmar (1992) analysed that Favouritism and informal networks replace the achievement of stated goals in regulating rewards. Organizations are influenced by their nearest social neighbours and social connections in their corporate finance policy decision-making process (Fracassi, 2016). Financial behaviour can be altered by influence of blood relations or social connections. Personal relations are given preference while making any financial deal. Favouritism towards personal relationships at work can cause several issues for both employer and workforce. Firm may face unbearable loss. Investment proposals must be evaluated in terms of costs involved, the risks linked with the projects and expected profitability before committing the funds however, finance manager approved proposal on basis of strong social connection.

Table 1

Main themes, principal nodes and child nodes that developed from the data

Main themes	Principal nodes	Child nodes
Do politicians influence financial decision process?	Management and Politicians	• Political Connections • Power Matters
Do financial dealings effected by racial discrimination?	Racial Discrimination	• Caste • Colour • Culture
Does corporate politics influence capital allocation process?	Financial Decision Process	• Politicized Finance • Only Finance Matters
Does your firm offer better financial offers than competitors?	Firm's Capacity	
Does a firm must sacrifice short term benefits for long term benefits while dealing financially?	Long term Benefits	
Does personal relationships are given priority in corporate financial matters?	Personal Relations	• Culture • Caste • Color

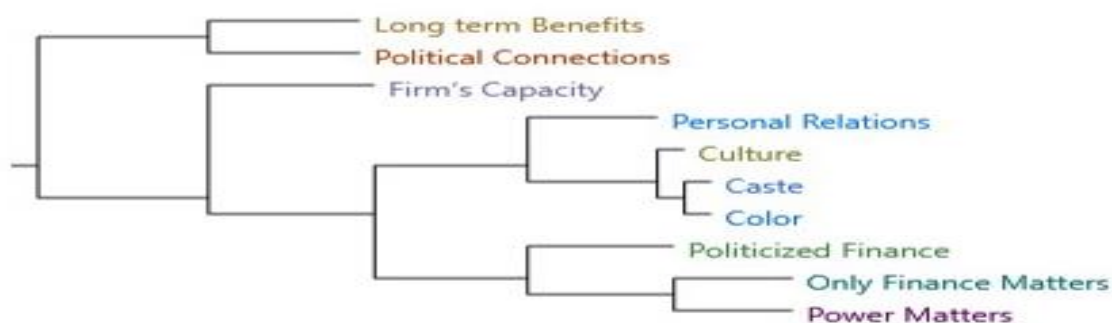


Figure 1: Items clustered by word similarity

4.7. Word Frequency

The word frequency visualizations make available participant coders with a preliminary feel for the data and that's why assist as a starting point for a deeper analysis (Viegas *et al.*, 2007; Sinclair & Cardew-Hall, 2008). Most frequently used words visualizations in Figure 2 depicted the 50 most repeated used words. Frequency of each word is positively correlated with the font size. Figure 2 presented the words most frequently such as financial, term, benefits, power, matters, long and dealings.



4.8. Interrelationship Diagram

An interrelationship diagram showed graphically the cause-and-effect relationships that exist among a group of issues, items, opportunities or problems (Winchip, 2001; Smith & Leonard, 2005). Figure 3 presented the interrelationship digraph for employees that shows the cause-and effect relationships between identified factors surrounding politics and finance. Power matters (0,4) has no incoming arrow and five outgoing arrows. As, it has most outgoing arrows so, root cause or driver of problem is power matters. Power matters causes of long-term benefits, firm's capacity, only finance matters and politicized finance. Politicized finance (6,2) has six incoming arrows and two outgoing arrows. As, it has most incoming arrows so, politicized finance is identified as key effect or main outcome. Culture, colour, caste, power matters, political connections and personal relations are responsible for politicized finance in one or another way.

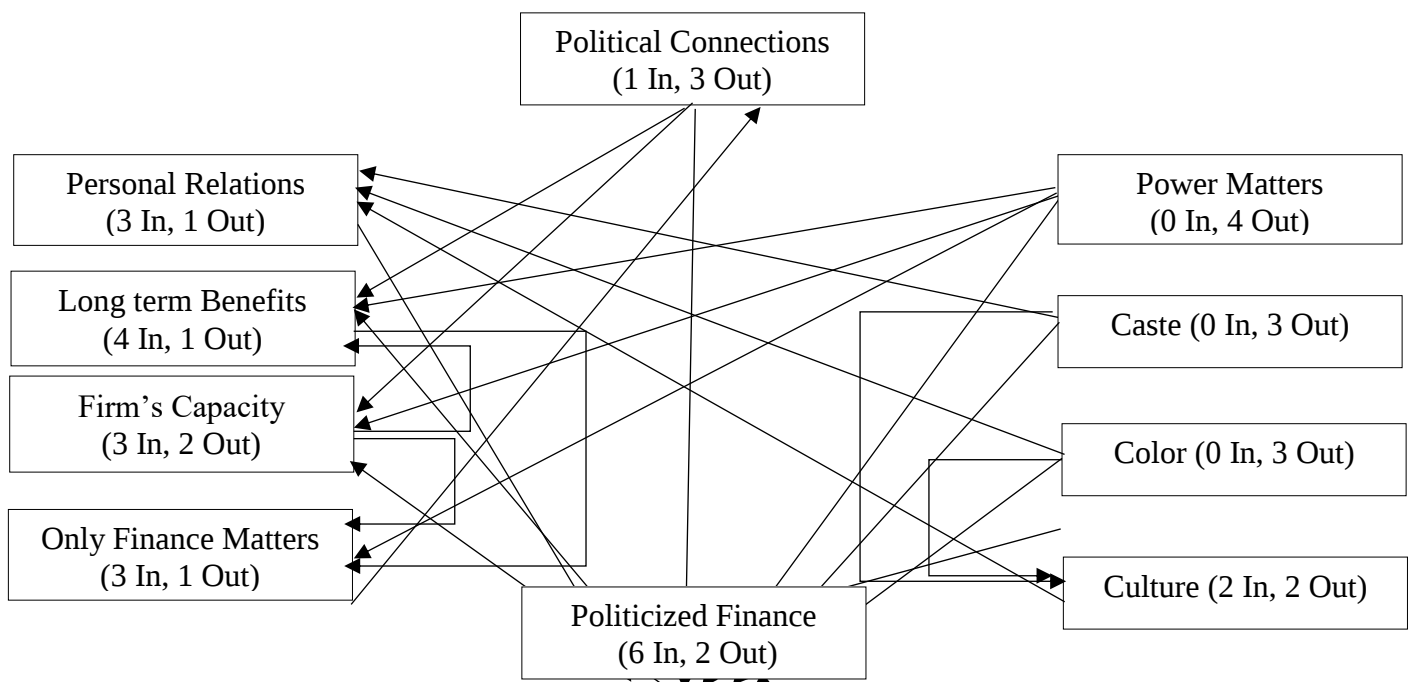


Figure 3: Interrelationship Diagram

5. Conclusion

This qualitative study examined responses about the impact of corporate politics, power, caste, color, culture, meetup of management with politicians, firm's capacity to offer better offers than competitors, personal relationships, sacrificing short term benefits for long term benefits on financial decisions of firms of Islamic countries. Results revealed that political connection influence decision making process of a firm and business leaders who are also politicians can interference financial decisions for their benefits by using political tactics. Result enhances prior research (Chan *et al.*, 2012). Findings suggested that decisions of financial dealings are taken on basis of caste, color and culture and not on merit. Results are consistent with the previous study of Singapore (Velayutham, 2017). Results proved that corporate politics between employees within firm effected capital allocation process. Politicized finance minimizes firm's profits. Results are consistent with the previous study of European and Asian firms (Graham *et al.*, 2015). But a few firms have cope with the problem of politicized finance and their priority is only profit. Findings revealed that organizations offer better financial offers than competitors if they have more capacity to offer. Results suggested that while dealing financially, organizations must sacrifice short-term benefits for long-term and high benefits. Short-term failures can be accepted for high benefits. Findings proved that social networks or connections and personal relationships are always given preference in corporate financial matters. Results are consistent with the previous study (Fracassi, 2016).

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