

When Political Connections Backfire

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Abstract

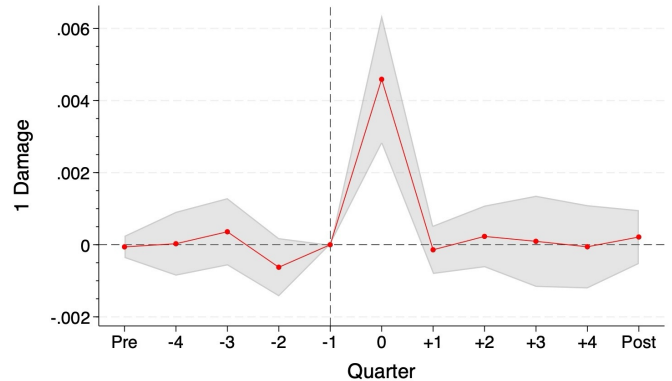
Analyzing over 1.1 million corporate assets, I find that assets of politically connected firms, defined as those led by former politicians, are significantly more likely to incur damage during social protests. Notably, damages to connected firms led to a significantly greater destruction of underlying asset value. I further examine how these firms respond to such events. In the aftermath of the protests, connected firms insure additional assets, expand coverage on existing policies, and, in some cases, sever political ties by dismissing politician managers. These findings can provide insight into why many firms opt not to establish close relationships with politicians, despite the widely recognized benefits of such affiliations.

Results

In this paper, I hypothesize that the assets of politically connected firms can be targeted and damaged during social protests. To test this hypothesis, I use the 2019 social protests in Iran as the empirical setting.

I find that during the protests, the likelihood of damage to the assets of politically connected firms, defined as those led by former politicians, was 0.45 pp (60%) higher than that of unconnected firms' similar assets located within the same municipal district.

Moreover, damages to connected firms were more severe. Specifically, damages to non-industrial properties of connected firms led to approximately a 0.7% greater loss in the underlying asset value.



Mechanism

How were protesters able to distinguish assets owned by politically connected firms from similar ones within the same municipal district?

I hypothesize that information sharing and coordination on the internet, particularly doxing campaigns on social media, facilitated the identification of these assets by protesters. These campaigns solicited information from the public on the personal lives and careers of politicians and military personnel, which was subsequently shared online. One example of posts shared by these campaigns on social media is the image on the right.

To investigate whether internet access influenced the vulnerability of connected firms during the protests, I leverage a "near-total national internet shutdown" that lasted approximately five days amid the protests.

My findings indicate that the increased likelihood of asset damage to politically connected firms diminishes significantly during protest days when the internet is shut down. This suggests that, in the absence of internet access, asset damage becomes less targeted.



Translation

"Abbas Nasiri, the head of Sepah Bank in Malayer, is a Ministry of Intelligence employee who has played a significant role in suppressing protests. He has been appointed as the head of Sepah Bank as a cover to monitor economic activities of the people of this city and identifies protesters and anti-government individuals to introduce them to the Ministry of Intelligence."