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EXAMINING THE LINK BETWEEN POLITICAL CONNECTIONS AND NISHAT BUSINESS GROUP'S PROSPERITY

[1]Brigham E. F and [2]Houston, J. F

Article Info

Keywords: business groups, political connections, state favors, corporate elites, family-owned business groups, Nishat Group, Pakistan, financial performance, collusions, success.

Abstract

This study investigates the impact of political connections and collusions with other business groups on the development and success of Nishat Group, a family-owned business group in Pakistan. Business groups, characterized by a constellation of formal and informal ties, have attracted significant attention in research. While some studies have focused on business groups directly involved in politics, this study examines the indirect methods firms use to obtain state favors. One such method is through political connections, where firms have ties to influential individuals or politicians. The incentive for corporations to become politically connected is the access to state rents, which can manifest in various forms such as preferential treatment, lighter taxation, and relaxed regulatory oversight. However, the benefits of these connections must outweigh the costs for corporate elites.

Nishat Group, considered Pakistan's top business group, has thrived for the past two decades under the leadership of Mian Mansha, regarded as the country's richest man. This study specifically focuses on family-owned business groups, as defined by Cuervo-Cazurra (2006), where individuals or families are involved in the ownership, control, and management of business firms.

The research aims to assess the development and success of Nishat Group, shedding light on the role of political connections and collusions with other business groups. By analyzing the impact of these factors, the study aims to provide a deeper understanding of the financial performance and strategies of family-owned business groups. The findings of this research contribute to the existing literature on business groups and provide practical insights for policymakers and business practitioners.

[1] The Islamia University of Bahawalpur, Pakistan.
[2] The Islamia University of Bahawalpur, Pakistan.

1. Introduction

In research of business groups, multiple definitions have been employed when describing these enterprises. According to Khanna and Rivkin (2001) business groups are firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action.

Business groups earn special favors from ruling government by either participating directly in politics or by developing acquaintances with ruling elites. There are researchers like (Bunkanwanicha & Wiwattanakantang, 2009; Gomez, 2009) who focused their studies on business groups which get direct involvement in politics in Malaysia and Thailand respectively. But many studies examine the indirect methods firms use to obtain state favors other than business owners themselves participate in elections for top political office.

The other indirect famous medium to win government favors is through Political connections. A firm is defined as politically connected if at least one of the firm's largest shareholders or top officers is a member of parliament, a minister, a head of state or is closely related to a top official (Faccio, Masulis, & McConnell, 2006) or the CEO is a current or former officer of the central government, local government or the military (Fan, Wong, & Zhang, 2007) or if its CEO attended elite schools and was employed as a civil servant or had a government position (Bertrand, Johnson, Samphantharak, & Schoar, 2008) or if their executives and supervisory board members were close to the ruling party (Ferguson & Voth, 2008) and lastly, if at least one member of its board of directors or its supervisory board is or was a politician (Boubakri, Cosset, & Saffar, 2008).

The incentive for corporations to become politically connected has been recognized among economists for many years and by citizens of affected countries for many more. As economists have noted, rents from the state can take various forms, including preferential treatment by governmentowned enterprises (such as banks or raw material producers), lighter taxation, preferential treatment in competition for government contracts, relaxed regulatory oversight of the company in question, or stiffer regulatory oversight of its rivals. However, as emphasized by Shleifer and Vishny (1994) corporate elites benefit from their access to state rents when the marginal benefits of the connections outweigh their marginal costs which the business had to pay for establishing such connections. Politicians create and maintain state-owned banks not to channel funds to economically efficient uses, but rather to maximize their own personal objectives.

There is broad agreement among scholars that business groups are a phenomenon of great theoretical and practical importance, but key points of contention and ambiguity remain regarding their financial performance and strategies. Cuervo-Cazurra (2006) further divided business groups along three lines: as family owned, widely-held and state-owned. Of these types, this study will only follow one type: family-owned business group and for it the group selected in Nishat Group. This group is considered as Pakistan's top business group from last twenty years and the Head of this group, Mian Mansha is considered to be the richest man of Pakistan. The basic purpose of this analysis is to assess the impact on the development and success of Nishat Group and understand the role of political connections and collusions with other business groups in its exemplary success. The definition followed in this study for family-owned business group is, as one where individuals or families are involved in the ownership, control and management of business firms; this is the definition given by Cuervo-Cazurra (2006).

2. Literature Review

A large body of empirical work has demonstrated that firms with political collusions enjoy exceptional access to government loans and, for this reason, are more likely to resort to excessive leverage during decision-making about the financing of their business activities (Desai & Olofsgård, 2011; Faccio et al., 2006; Fan et al., 2007; Fisman, 2001). This view supports a positive relationship between a business group's political collusions and the degree of financial leverage (Claessens, Feijen, & Laeven, 2008; Li, Meng, Wang, & Zhou, 2008; Saeed, 2013). Nevertheless, there are studies indicating the inverse, or a complete lack of relationship between political collusions and leverage (Asquer & Calderoni, 2011; Fan, Wiwattanakantang, & Bunkanwanicha, 2008). In light of such diverse findings, it is difficult to draw a definitive conclusion regarding the impact of collusions and networking on a firm's financial leverage.

Extensive anecdotal evidence indicates that influential firms maintain banks as offshoots of their businesses. Studies focusing on the Pakistani context argue that private banks in general and government banks in particular appear to extend loans based on personal ties rather than on the basis of collateral and future cash flow. Financial

institutions such as Habib Bank are famous for providing nonrepayable loans to industrialists (Khawaja & Mian, 2005; Saeed, 2013).

In Pakistan, the top performing firms are mostly associated with business groups (Ghani, Haroon, & Ashraf, 2010). The business groups in Pakistan (previously known as "twenty-two families," hereafter named "The families") are informal combinations of legally independent business entities run by families. The family patriarch is the dominant shareholder and manager, and immediate and distant family-members help operate various firms within the business group. It is common for these family members to belong to the same religious sects or communities. Some examples of major business communities are the Chiniotis, Memons and Ismaeelis/Aga Khan families with business origins (primarily trading, some in manufacturing) in parts of India, who later migrated to Pakistan (Amjad, 1976; Ghani et al., 2010; Papanek, 1972; Rashid, 1980).

Bhutto nationalized banks on the basis that they had been the main vehicle for concentration of wealth, a view given currency by the fact that almost all of the big families of the pre-1971 era backed up their business with their own banks. Even the government's banks and financial institutions were under the shadow of these families. For example, National Bank of Pakistan was headed by M.A. Rangoonwala. Wahid Adamjee was Chairman of PICIC. Ahmad Dawood was a founder member of National Investment Trust and Vice Chairman of PICIC. According to White (1974) the top seven of the 13 banks nationalized in 1974 accounted for 60 per cent of bank deposits but if foreign and government banks were excluded from this list then their share amounted to 90 per cent of the total. Four of the top seven banks were owned by 22 families. These were Habib Bank (Habib), United Bank (Saigols), Australasia Bank (Colony) and Premier Bank (Arag).

Although in some cases professional managers run these firms, the family owned business group is closely controlled by the family members. Studies on business groups focus on issues such as their diversification process. For example, studies have discussed how business groups are profitable (Khanna & Rivkin, 2001; Khanna & Palepu, 2000b) and how they alter diversification over time (Khanna. & Palepu, 2000b; Kim & Yi, 2006; Kosacoff, 2000). Family business studies focus on analyzing how family type (e.g. one founder, founder and children, later generations, multiple families) and family dynamics (e.g. succession, death, marriage, and divorce) affect business group diversification and performance. Although there exists some literature on family ownership and firm performance e.g. (Anderson & Reeb, 2003; Villalonga & Amit, 2006) insights from these studies of US publicly-listed firms may not apply to family-owned firms outside this country (Filatotchev, Lien, & Piesse, 2005; Maury, 2006) or to familyowned business groups because the latter are privately-owned and diversified.

There has been inadequate focus on the performance of business groups within institutional contexts which in turn affect the behavior of these enterprises. In poorly developed markets with low governmental provision of public goods and services, such features induce firms to diversify, apparently a key characteristic of developing countries (Khanna & Yafeh, 2005). However, what needs to be studied are the ways in which the contextual characteristics of a country support the creation of business groups, including by providing opportunities for diversification (Lee, Peng, & Lee, 2008) or by inducing the transformation of business groups (Ahlstrom, Young, Chan, & Bruton, 2004). Institutions have multiple dimensions, including political, legal and economic factors. They are closely connected and mutually reinforcing (Whitley, 1994). Therefore, institutional transitions may manifest diverse patterns due to different dimensional changes at different speeds.

As changes in the institutional environment may negatively affect the business group (Carney & Gedajlovic, 2002) so too might group affiliation reduce the negative impact (Wang, Huang, & Bansal, 2005). This suggests that business groups may also influence changes in the institutional environment (Luo & Chung, 2005) although such institutional changes may not have the consequences that were initially intended (Steven, 2004). All this will help generate contextualized knowledge that contributes to a better understanding of firm behavior (Tsui, 2004).

Therefore, the case study of the business group in this article pays close attention to the institutional context of Pakistan. An attempt is made to evaluate the performance of Nishat Group from their date of incorporation up to 2012. This mode of evaluation is also undertaken in order to determine the role of the government in the performance of this group.

Business networks substitute for reduced market share and hence add value to network participants (Leff, 1976). For example, concluded that in Pakistan more than 5,000 firms are connected via a single network of interlocking

boards and these firms gain access to financing. Network membership improves access to credit and the financial viability of member firms by a rate of 16.65 per cent. Membership decreases the firms' propensity to enter financial distress by 1.7 percentage points.

Scholars continue to focus on firm size for a variety of reasons. The foremost seems to be that size is a proxy for resources and provides some indication of the firm's ability to become politically engaged (Schuler & Rehbein, 1997). Size may also represent political (more stakeholders = more voters) and economic power (a large firm may capture many of the rents through public policy). For example, Hillman and Hitt (1999) assert that firms with greater financial and intangible resources are more likely to engage in CPA alone while those with fewer are forced to work collectively with others. In a set of medium and small sized companies, Cook and Fox (2000) show somewhat surprisingly that the smallest were the most politically active. However, they also find smaller firms joining with others to participate in CPA, which supports Hillman and Hitt's assertion regarding collective participation (Hillman, Keim, & Schuler, 2004). In this study, firm size is measured by assets and the equity acquired; therefore, the ratios measured are returns-on-asset (ROA) and returns-on-equity (ROE).

The other variables which are measured to see the influence on business group firms' performance are the group's product diversification (Hillman & Hitt, 1999) foreign ownership (Getz, Woodward, & Nigh, 1996; Hansen & Mitchell, 2000) firm age (Hansen & Mitchell, 2000) reputation (Baron, 1995; Boddewyn & Brewer, 1994; Keim & Baysinger, 1988) and experience or credibility (Hillman & Hitt, 1999). These factors have been considered while measuring the change in a firm's strategy under different regimes which also shows the extent to which a group has been politically active in a particular regime.

Papanek (1972) evaluated from pre-partition the influence of these big business groups on the Pakistan movement and how it has shaped the current capitalist structure of the country. She concluded that "few Big families have played an extremely significant role in economic as well as political terms, because of the extent of concentration of economic control in the hands of a few, the speed of industrial growth, and the high political visibility of the industrial-commercial family combines" (Papanek, 1972). Other important studies include that by Stanley Kochanek, entitled Interest Groups and Development: Business and Politics in Pakistan, published in 1983; it provided an analysis of interest groups. Ghani et al. (2010) have been working on Pakistan's business groups, from a financial perspective (see also Ghani et al. (2010)). They compared the financial performance of business groups and non-business group firms. They argued that business groups have an efficient institutional arrangement and that they had appeared to play a prominent role in the economic growth of the country (Ghani et al., 2010). However, their results are on the data of only two years (1998 and 2002), and as such cannot be considered to justify the influence of these business groups. The way in which the business groups have used their expansion to enter politics and their power to influence favorable policies have yet to be studied.

The involvement of the corporate elite in Pakistani politics directly or indirectly is evident.

Referring to the corporate elite as "robber barons" in their studies, Maniruzzaman (1966) and Raman (2014) argue that while this might be considered a natural phenomenon, it should not be at the cost of a country's prosperity. Along with socio-economic problems, Pakistan's economy is seeing a massive distortion of its growth, while the business groups of the corporate elite are becoming bigger and wealthier. The cost of this increased economic strength needs to be analyzed.

Later, Rehman (1998) also showed, and criticized, how these robber barons had controlled Pakistan over the years. Ali and Malik (2009) debated the influence of the state over business decisions, arguing that "the government determined the success or failure of any venture, and the key to a businessman's success was his access to government channels." They stressed that this evolution of the business and political system had led to a business-government relationship which is based on individual rather than collective actions.

In Pakistan, the issue of industrial concentration was first raised by Mahbub-ul-Haq in 1968. He found that in 22 families owned 66 percent of the total industrial assets, 70 percent of insurance and 80 percent of banking (Haq, 1976). This was later supported by studies by White (1974) who reported that 43 families or groups controlled 98 percent of 197 non-financial companies, accounting for 53 percent of the total assets, and by Hussain (1985) who reported that 43 families represented 76.8 percent of all manufacturing assets (including foreign and government

assets). When such figures were presented in the literature, research interest grew about tracing the reason for this concentration.

In this field, much of the work is done from a corporate governance perspective. A study by Javid and Iqbal (2008) examined 60 firms in Pakistan from 2003 to 2008 and agreed that in Pakistan businesses tend to be family-owned or state-owned, and that there is no separation of ownership and control among firms.

In this article, we will examine the effect of the changing pattern of ownership structure on the corporate decisions of Nishat Group being the leading business group. Specific attention is given to the use of state patronage and political connections by this business groups which shaped the current economic and corporate structure of Pakistan. This serves as a guide for predicting the future patterns of development and the strategies which the government needs to follow to safeguard long-term economic development.

This study contributes to the literature by examining the impact of political ties on the performance of public listed firms associated with Nishat group. The reasons to select a business group of Pakistan for studying this relationship are many. First, because the use of political connections by business groups is a common practice in Pakistan and politicians tend to have significant influence in the corporate world (Khawaja & Mian, 2005; Saeed., Belghitar, & Clark, 2015). Second, the underdevelopment of capital markets, inadequate institutional support, and overarching governmental control and intervention create impediments for business. Consequently, establishing a close relationship with politicians in Pakistan or having direct political participation is taken as an effective strategy for businesses to overcome market failure. Lastly, to curb political corruption, the Pakistani government undertook drastic steps. Importantly, the National Anti-Corruption Strategy (NACS) was introduced in 2002 with the aim of eradicating corruption from the political system. However, some recent, widely publicized political corruption scandals (Rental Power Projects, Pakistan International Airline case) cast doubts on the efficacy of such government initiatives. Arguably, such initiatives were not effective in stopping politicians from engaging in rent-seeking activities. Thus, it is worth examining the extent of political patronage within the Pakistani context, focusing specifically on the rise of big business groups under different regimes.

3. Research Methodology

The methodology adopted for this study is qualitative in nature. This study's primary concern is to determine the impact of political connections on the rise of the biggest business group, Nishat, under different regimes. For this reason, detailed financial and political connection analyses of public listed companies of above mentioned business groups, from their date of incorporation until 2012, is provided. The time period studied is divided on the basis of epochal bracketing see Table 1. The focus is on the occasions when regime changes occurred between the military and civilian governments.

Table-1. Classification of regimes.

Regime 1 1BR	Regime 2 1MR	Regime 3 2MR	Regime 4 1DR	Regime 5 3MR	Regime 6 MD	Regime 7 4MR	Regime 8 1DT
1947-57	1958-68	1969-71	1972-77	1978-88	1989-98	1999-07	2007-12

The business group was studied employing three major forms: First, using a business history approach; second, measuring its rise and fall under different regimes using financial analysis; and, finally reaffirming the findings of the business history approach and financial analysis by employing statistical methods to grade the performance of each group under different regimes. These methods were used to assess the (best and worst) performance of the groups' publicly-listed companies under these regimes. This method is employed to ascertain what had happened under each regime as well as the support provided by each regime to Nishat Group.

Although there are various accounting measures used to quantify performance, for the purpose of this study two measures were adopted, return on assets (ROA) and return on equity (ROE), as in similar works studying the outcomes of political connections on firm performance (Boubakri et al., 2008; Fan et al., 2008). ROA is used to assess the ability of firms to generate returns on total assets available (Tezel & McManus, 2003). This is defined as profit-after-taxes over average assets multiplied by 100[1]. ROE is used to evaluate the return on money that shareholders have invested (Brigham & Houston, 2004). In this study, it is defined as profit-after-taxes divided by the total equity multiplied by 100[2].

For measuring loan accessibility of listed firms of business groups, a debt-to-equity (DTE)[3] ratio is used. This is defined as total liabilities divided by total equity of the firm. The mechanism followed for ratio comparison is the general accounting principle that if the ROA of the company increases and the ROE also show a higher increase, this indicates that the figures obtained are authentic and are justifying each other. One other check applied for its authenticity is the value of DTE. If an increase in ROE is about two-fold to the increase in ROA and the DTE also shows a ratio of 2:1, then the values are aligned. The study checked all these ratios of each year for all 69 listed companies of seven business groups and in the years where the debt value was far above the ROA and ROE values. These years are considered as periods when access to debt of these firms was beyond their financial performance. This indicates that some special privileges were given to the companies in that particular year or that some other special thing had occurred in the company that year. This then is backed with the investigation of the major corporate decisions taken by the business in that year and this is explained in detail in a case study of Nishat Group.

4. Empirical Analysis of Nishat Group

The Nishat Group is currently Pakistan's largest business group with fixed/ current assets of over Rs.300 billion (US$5 billion) and the CEO of this group Mian Mansha is considered the country's richest man. In 1970, the Mansha family business was the fifteenth largest[4]; in 1990 it jumped to sixth and just three years later it became the largest enterprise in corporate Pakistan. What happened during those three years is mostly credited to Mansha's close acquaintance with the then Prime Minister, Nawaz Sharif. However, Mansha's business intellect and ability to make the right decisions at the right time also helped.

In 1948, Mansha's father, Mian Mohammad Yahya, and his three brothers incorporated a partnership called the Nishat Corporation. The company was named after Nishat Haroon, the three year old grandson of Mian Mohammad Yaqub, the eldest of the four brothers. Later, the child who gave his name to the group was not the one who took charge of the company. Rather, Mian Mohammad Mansha, the second son of Mohammad Yahya took charge of the Nishat Group.

Nishat Haroon was born to Mian Farooq, who was married to the daughter of Mian Fazal Rehman of United Textile Mills. In 1970, Nishat comprised six firms in West Pakistan, namely Nishat Corporation, Nishat Sarhad Textile, Nishat Textile Mills (Faisalabad), Nishat Chemical Industries, Nishat Agencies (Kotri) and Karimi Industries (Nowshera). The companies in East Pakistan included Nishat Jute Mills, Qadaria Textile Mills, Tangail Cotton Mills and Chemical Industries of Pakistan. The business in East Pakistan was headed by Aftab Iqbal, one of several cousins of Mian Mansha, whose whereabouts is not known today. Mian Muhammad Mansha was born in Lahore and belongs to a wealthy Chiniot family. His privileged upbringing allowed him to enjoy an early business education at a top university in London. When the division of Nishat Group assets took place in 1969 after the death of his father, Mansha bargained for Nishat Mills, based in Faisalabad, for which he had to pay an

An increase in ROA can be due to two reasons: either the asset base is reduced or profitability of the company has increased. If the investment [1] remains constant and profitability increases, this is good for the company. But if the ROA increases due to a decrease in assets, this is not healthy as it could be the result of investment withdrawals or asset sales.

An increase in ROE can be due to an increase in profitability or reduction in equity which happens due to a reduction in shares issued or [2] reserves withdrawal. Equity is considered to be the most expensive form of finance for a company as the shareholders are the highest risk taker at the time of liquidation of the company.

DTE ratio is used to measure total debt in each year for each listed company. The DTE of a company increases if the debt proportion in its [3] financial mix increases compared to equity portion. If the ratio is 1:1, this means that 50 percent of the assets are financed by equity. But if it increases to 2:1 then it means that 67 percent of the assets are financed by the equity; that shows the poor position of the company at the time of liquidity. The acceptable range of DTE in each industry varies. Lately, the State Bank of Pakistan issued a statement that the DTE cannot be more than 4:1 for any company.

See Table 1additional amount to his uncles. This act saved him from losses in East Pakistan that became the lot of his uncles. Nishat currently comprises 21 enterprises including 13 listed companies with manufacturing assets

of nearly Rs. 27 billion. Three of Mansha's close relatives, Saigols, Jehangir Elahi and S.M. Saleem of United Bank, are among the top 45 industrial families in Pakistan. Nishat is Pakistan's largest industrial and financial conglomerate, controlling assets worth Rs.192 billion. The group company structure is indicated in Figure 1.

The ownership structure of the Nishat Group in Figure 1 indicates that its control of the publiclisted companies of the group is through two holding companies, Nishat Chunnian and Nishat Pak. The Group's assets were parcelled out to these two subgroups, or holding companies, in the 1990s. The Nishat Pak group was led by Mian Mansha and the Nishat Chunnian group was led by a nephew of Mian Mansha. Nishat Pak is considered one of the best managed business groups in Pakistan's corporate sector. Through these two holding companies, the Group control companies involved in a range of sectors, including in textiles, power generation, insurance, banking and cement production.

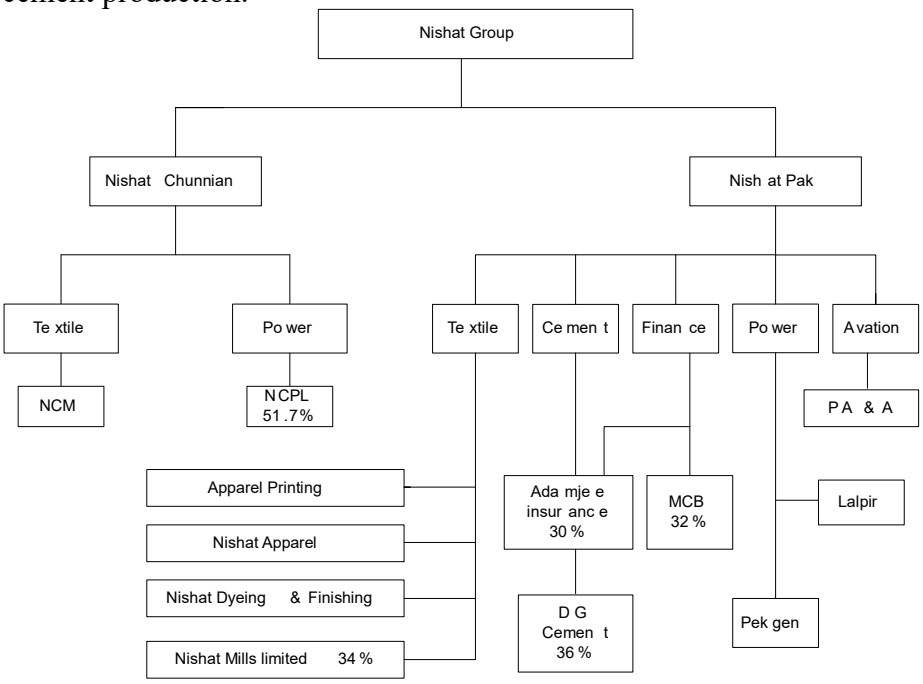

Figure-1. Company structure & shareholding Pattern of Nishat Group.

The Group has majority share ownership of these firms, providing the family the ability to control decision-making in all companies, as per Porta's theory. The company structure also indicates that the group which started out in the textile industry had expanded into the cement production, finance and power sectors, emerging as a highly diversified conglomerate. These have been fastest growing industries over the last twenty years in Pakistan.

A detailed analysis of the shareholding pattern of the companies of the Nishat Group indicated the presence of a large number of associated firms or institutional investors. For example, in D.G. Khan Cement, institutional investors holds the dominant position with 48 percent of total shares, while in Sanofi Aventis, a foreign holding company M/s. SECIPE, France holds a 81 percent stake. In MCB, the largest shareholders are associated companies, collectively controlling more than 50 percent of total shares; foreign investors have a 16 percent stake. In Adamjee Insurance, the ownership structure is one where equity is quite evenly spread between associated companies (36 percent), institutional investors (31 percent) and general public (30 percent). But out of institutional investors, again MCB holds 82 percent of shares[5].

This study analysed the companies listed on the Karachi stock exchange on August 2013. It examined eight public listed companies of the Nishat Group representing its participation in the textile, financial, power, and cement sectors. The name of the companies and information about them are listed in Table 2.

Table-2. Public listed companies & year of association with Nishat Group.

No	Company Name	Industry	Group ownership
1)	Nishat Mills Limited	Textile	1956

2)	Nishat Chunnian Limited	Textile	1991
3)	DG Cement	Cement	1992
4)	Adamjee Insurance	Insurance	1992
5)	Muslim Commercial Bank (MCB)	Financial	1991
6)	Nishat Chunnian Power	Power	2010
7)	Nishat Power	Power	2010
8)	PakGen	Power	2010

To grade the performance of the business groups, based on three major ratios, i.e. their return-onassets (ROA), return-on-equity (ROE) and debt-to-equity (DTE), under different regimes, a statistical analysis was conducted. In this study, the ROA, ROE and DTE of each group for each year were classified as per regime, from regimes 1 to 8. This was done to determine if there were any significant differences in the performance of business group under different regimes. Based on the performance indicators, ROA, ROE and DTE, the change in the performance of all groups during their date of incorporation until 2012 was studied. The significance of the analysis of these three ratios was checked by applying one-way ANOVA[6]. The ANOVA test was applied using all the three ratios, representing also their ability to access loans, represented in their DTE ratio. The ANOVA test shows that the values of all three measured variables are significant see Table 3.

Table-3. One Way ANOVA results of ratios of Nishat Group.

		Sum of Squares	**Df**	**Mean Square**	**F**	**Sig.**
NishatROA	Between Groups	199.965	7	28.566	5.271	.000
	Within Groups	292.680	54	5.420		
	Total	492.645	61			
NishatROE	Between Groups	1742.319	7	248.903	7.988	.000
	Within Groups	1682.544	54	31.158		
	Total	3424.864	61			
NishatDTE	Between Groups	1169.624	7	167.089	20.120	.000
	Within Groups	448.448	54	8.305		
	Total	1618.073	61			

The ANOVA analysis proves that the performance of the group varied under different regimes; all three measured variables, ROA, ROE and DTE indicated much variation. This proves that the H1 proposition is true, allowing for the application of the Duncan test[7] to grade the group's performance, from best to worst, as per regimes.To verify the argument that Nishat Group benefited by networking

www.icmap.com.pk/News_Pdf/Pattern_shareholding.pdf[5] See page 106 for the hypotheses of this study.[6]

Duncan's multiple range test, or Duncan's test, provides significance levels for the difference between any pair of means, regardless whether a [7] significant F resulted from an initial analysis of variance. with political elites, a financial analysis of the group was also conducted. The DTE test was applied to determine under which regime this variable was the highest. The results show that DTE was the highest during the mixed democracy (MD). When comparing all three variables, they should support each other, but Nishat Group's ratio analyses offer a different picture. When the average of all ratios for each regime was taken, the average DTE for the Nishat Group was highest in the MD regime.

According to the rules of finance, the Group's ROA should also be highest compared to other regimes during the MD period; however, the results do not support this rule. The average ROA of the Nishat Group was only 1.024 percent during the MD, but its DTE was 10.27 times higher. This means that the group had been able to increase its debt ratio, as compared to its equity, much more during the MD period; this contention is supported by its other performance indicator, i.e. ROA. The easiest and least expensive source of debt for any firm is bank loans. Nishat Group was able to obtain huge loans which were not backed by its ability to repay them as its ROA figures did not show any positive or encouraging results. This suggests that during the MD period, when Nawaz Sharif was in power, Mian Mansha's close ties with him allowed his group to be favoured when seeking loans. The group expanded on the basis of loans from banks, which normally becomes accessible on the basis of political contacts and rent seeking activities. The Group's slow but continuous expansion and entry into different industries indicates the trust of shareholders in this group. The Mansha family was also able to win the trust of shareholders, through continuous dividend disbursement and investment decisions in emerging industries that generated much returns. This study further observed the financial performance of the Nishat Group under different regimes. As debt is the cheapest source of finance, though it helped increase profitability, the company's DTE soared to 10.27 times during the MD regime. Meanwhile, the ROA was only 1.02 percent, which was not that strong to support such DTE figures. There is one major reasons for this increased DTE. During the MD regime, Nishat obtained control of the bank, MCB, after its privatization. Normally the DTEs of banks are higher as their major form of growth is the disbursement of loans, which increases their debt ratio. To check this, when the DTEs of individual companies were measured, MCB plays a major role in the increase of the average DTE ratio of this regime see Table 5.

5. Financial & Statistical Analysis of Public Listed Companies of Nishat Group.

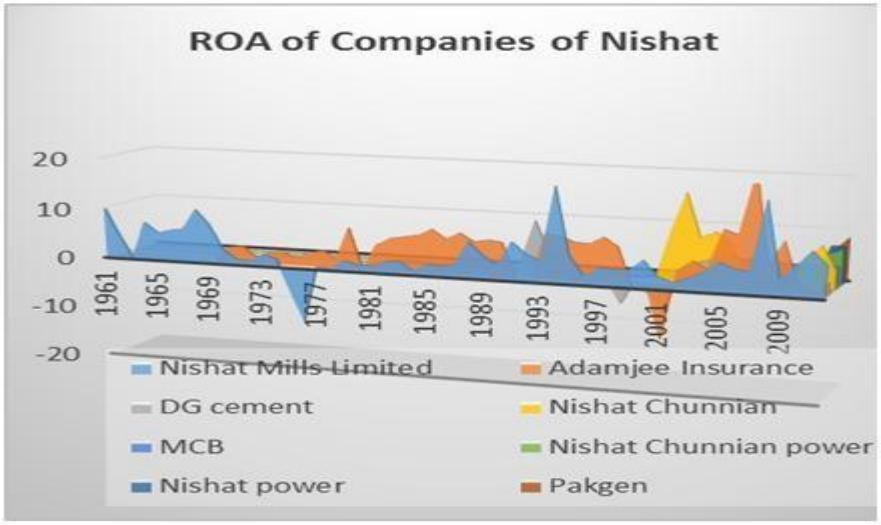

Figure-2. Graphical Presentation of ROA of listed companies of Nishat Group.

Table-4.1. Classification of Nishat Group's performance using duncan test under different regimes.

Nishat ROA				
Duncan[a,b]				
Regi-mes	N	Subset for alpha = 0.05		
		1	2	3
1DR	6	.0616		
MD	10	.6219	.6219	
4MR	9	1.852	1.852	
1DT	5		3.191	3.191

2MR	3		3.400	3.400
3MR	11		3.462	3.462
1MR	11			5.004
Sig.		.199	.053	.208

6. Analysis of Results

6.1. Financial

Individual company analysis of Nishat Group Figure 1 shows that Nishat Mills was performing well at the start. However, its ROA decreased after 1971 and registered negative values in 1976 due to the division of the Group's assets among family members. After that, the company sustained low returns on its assets, but registered steady performance.

6.2. Statistical

The results of the Duncan test Table 4.1 suggest that the regime with the highest mean ROA (best performance) with 5.0042 was 1MR (1958-68) when it had only Nishat Mills as a public limited company. The least mean ROA was during the 1DR (1972-77) with 0.0616. The reason for this was nationalization, as it affected most of the industrial firms and the family decided to divide the business empire among its members.

6.3. Interpretation

The variation among the average ROA per regime has been between 0.0616-5.0042. This indicates that the Nishat Group had never been a group which attained a high return on its assets under any regime, but has been able to sustain its pace of growth after 1990.

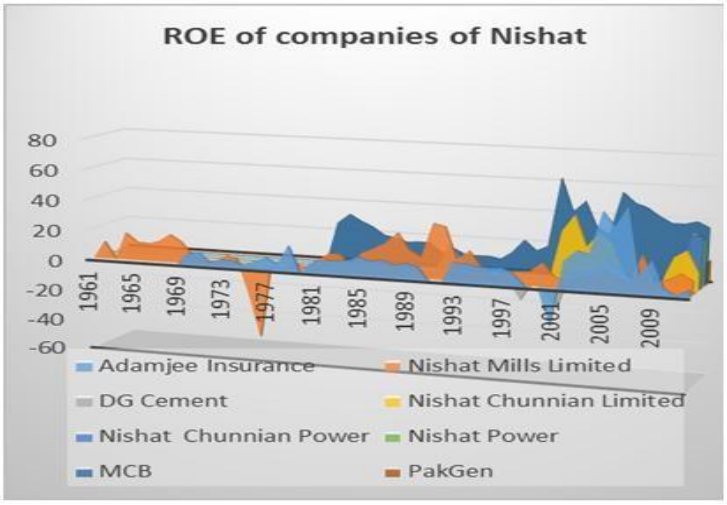

Figure-3. Graphical Presentation of ROE of Listed Companies of Nishat Group.

Table-4.2. Classification of Nishat Group's ROE Performance using Duncan test under different Regimes.

Nishat ROE				
Duncan[a,b]				
Regi-mes	N	Subse	t for alpha = 0.05	
		1	2	3
1DR	6	-.3255		
1MR	11		7.7344	
3MR	11		7.8139	
2MR	3		8.6865	
MD	10		8.7923	
4MR	9			15.435

1DT	5			16.641
Sig.		.917	.760	.699

7. Analysis of Results

7.1. Financial

Figure 2 shows that the Group's major listed companies started growing after privatization was implemented in the 1990s. A strong ROE is evident in these years. Investigating a company's ROE can help gauge a company's ability to invest its resources to produce profits. Due to the Group's ability to win privatization bids, shareholders increased their investments in Nishat's companies.

7.2. Statistical

Table 4.2 shows that the best performance of the Group was during the 1DT and its worst was during the 1DR and the difference is huge, from -0.3255 to 16.6419. This indicates a sharp rise and fall of shareholders trust of the companies of the group.

7.3. Interpretation

The sharp rise and fall in ROE of the Nishat Group reveals two things. First, the vulnerability of trust of shareholders in the companies of Nishat Group. Second, the duration of investments of shareholders in the companies of the Group depend on whether it receives any special favors from a specific regime. However, since the year 2000, the group has developed a good market reputation and people are interested in buying its shares.

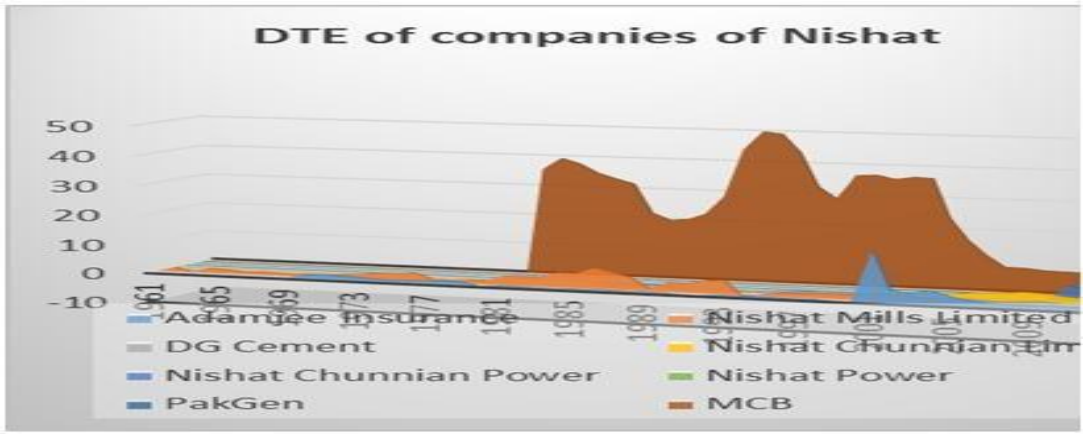

Figure-4. Graphical Presentation of DTE of Listed Companies of Nishat Group.

Table-4.3. Classification of Nishat Group's DTE Performance using Duncan test under different Regimes.

NishatDTE				
Duncan[a,b]				
Regimes	N	Subset for alpha = 0.05		
		1	2	3
1MR	11	.6249	.624	
2MR	3	1.052	1.052	
3MR	11	1.145	1.145	
1DR	6	1.439	1.439	
1DT	5		3.937	
4MR	9			10.084
MD	10			10.664

Sig.		.432	.069	.719

8. Analysis of Results

8.1. Financial

When all the results discussed above are combined then Table 5 shows a rapid increase in DTE during the MD regime was due to the inclusion of Muslim Commercial Bank (MCB) in Nishat Group. Since it is a bank and financial institutions' DTEs are always high, this suddenly increased the Group's DTE. Apart from MCB, the DTEs of other companies during the MD regime increased, compared to previous regimes.

8.2. Statistical

The Duncan test suggests that the highest DTE (best regime) of the group was under the MD (1989-98), when they acquired a number of the firms that were privatized.

8.3. Interpretation

MCB is a bank and its major performance is measured on the basis of their loan disbursing ability and this increased the Group's debt ratio.

Table-5. Comparative analysis of Ratios of listed companies of Nishat Group.

Items/ Years	**Nishat**		
	ROA	**ROE**	**DTE**
1MR	7.864	12.15	0.982
2MR	3.815	7.383	0.881
1DR	-1.699	-7.972	1.901
3MR	2.232	11.61	1.145
MD	1.024	11.1	10.27
4MR	1.852	15.44	10.08
1DT	3.191	16.64	3.937

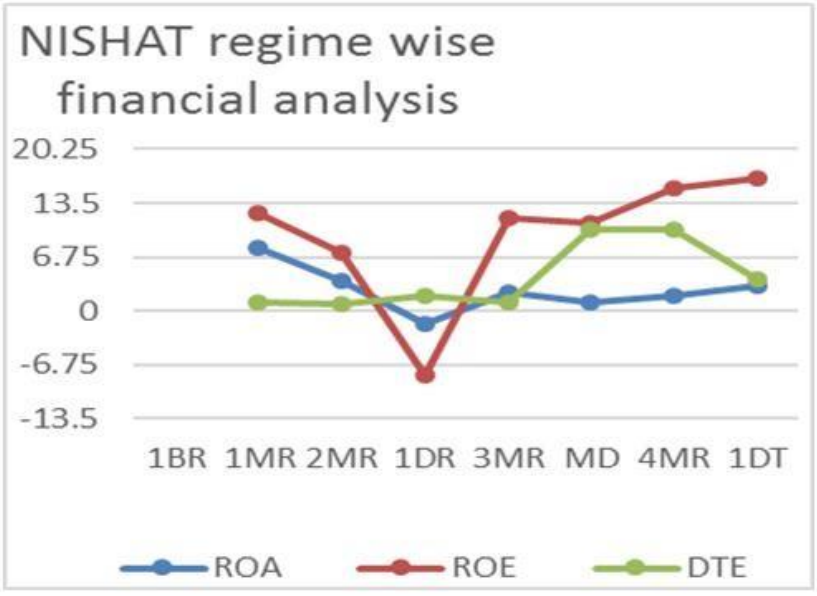

Figure-5. Regime wise Graphical Presentation

8.4. Financial

During the MD, debt was 10 times that of equity in the overall capital mix of the Group as the DTE was 10.27. However, according to regulations stipulated by the central bank, Bank of Pakistan, the maximum level of the

DTE of a company is 1:4. In Nishat's case, it was allowed to have DTE of 1:10, which means companies of the Group were allowed to add debt to its capital structure to the extent of 10 times of equity.

8.5. Interpretations

Mian Mansha controlled his family business after the division of assets between family members in 1977. By that time it relied more on loans to expand, which is obvious by its high DTE under later regimes and the low ROAs indicates that expenses were high during this period.

Another channel used by business groups to network is by creating personal friendships with political leaders (Ali & Malik, 2009; Rehman, 1998) noted that special favors were granted to the Nishat Group during the first tenure of Nawaz Sharif, from 1991 to 1993. The privatization of the Muslim Commercial Bank (MCB) to Mian Mansha and his associates was seen as an act of favoritism by Nawaz Sharif when he was Prime Minister. When the government decided to privatize MCB, Mansha's bid was the third highest of the five that had been tendered. Even so, Nawaz Sharif's government chose Mansha. This was then considered, in the history of Pakistan, the biggest benefit a business group had obtained because of its political connections. Nishat Group's estimated assets in 1990 were about Rs4 billion, but according to the group's profile in 1993 the value of its assets was approximately Rs10 billion, a phenomenal 250 percentage point increase in just three years.

Rehman (2006) notes that he interviewed a politician (name kept hidden) who was once a close aide to Prime Minister Sharif. Now a cabinet minister, this politician had told a group of reporters in the National Assembly cafeteria that "Mian Mansha cannot be forgiven", minutes after the new assembly had taken oath in February 1997. Mansha and his associates had wholeheartedly supported the first Sharif government as is evident from the number of companies incorporated and listed on the Karachi Stock Exchange (KSE) by the Nishat and Chinioti communities[8]. However, what went wrong between the "Lahore Mafia" and second Sharif government is a big mystery.

MCB was sold for Rs. 2,420 million against a down-payment of Rs. 804 million. Within a year of the privatization of MCB, the Privatization Commission sold some of the most profitable cement plants to Mian Mansha, his relatives and business associates. D G Khan Cement was sold to Tariq Saeed Saigol for Rs. 1,799 million, Maple Leaf Cement to Nishat Mills for Rs. 291 million, and Pak Cement and White Cement for Rs. 137 million and Rs. 188 million respectively to Mian Jehangir Elahi and Associates. Dandot Cement was sold to the Chakwal Group for Rs. 254 million. D G Cement was acquired by Kohinoor Textile Mills (KTM), owned by Tariq Saeed Saigol, by borrowing heavily from the bank. This is evident from the annual reports of KTM for 1992 which show no debt, while the 1993 accounts reveal heavy indebtedness.

Nishat Mills had assumed the management of Maple Leaf Cement on January 8, 1992. However, within a few months of the sale of D G Khan Cement by KTM to Mian Mansha, Maple Leaf Cement was sold by Mian Mansha to Tariq Saeed Saigol. KTM had also invested in the privatization of White Cement and Pak Cement but its investment was also divested in March 1992, in favor of Mian Mansha. Dandot Cement was officially privatized to employees group, but somehow it has become a part of Chakwal Group, also closely related in business to Mian Mansha.

It was through complex intercorporate financing that Mian Mansha, his relatives and business associates ended up with five of eight privatized cement units which accounted for 45 percent of total industrial assets privatized by Sharif. Within months of their privatization, cement prices catapulted in the domestic market, forcing the government to order the dormant Monopoly Control Authority (MCA) to hold an inquiry into the possibility of the cartelization of cement. As expected, the inquiry absolved the privatized units of any wrongdoing.

It was because of the assets acquired through privatization that the Nishat Group, which was at the 15th position among the list of 43 top industrial families in Pakistan in 1972 and sixth in the ranking of the *Monthly Herald* in 1990, had risen to the top of the corporate world in 1993, when Sharif was dismissed on charges of corruption and other irregularities. Nearly half of the assets privatized by Sharif ended up with Mansha, his relatives or business associates. However, bringing together the National Group to bid for Muslim Commercial Bank (MCB) was the biggest business coup that the Chiniotis could have staged against their main business rivals. Before nationalisation, the MCB was a Memon bank owned by Adamjee, and its purchase by Chiniotis demonstrated their rising power and the decline of the Memons. The National Group which bought MCB was a consortium of

12 leading industrial families, of whom all but two, Chakwal and Bashir Jan Mohammad, were not Chinioti. While MCB was the flagship of the Chiniotis, now a rising power, they called upon a Memon banker, Hussain Lawai, to head it.

It is on record that when Benazir Bhutto came to power in 1993, she developed amnesia about her pledge to investigate the privatization of the MCB to Nishat Group during Sharif's regime. Apparently, after a meeting between MCB's President, Hussain Lawai, and Prime

Minister Bhutto's spouse Asif Zardari, a deal was struck. It is not known what transpired during this meeting but within a week of it Mian Mansha went into forced exile, to return to

Pakistan only after the ouster of Bhutto in November 1996. It was only after the dismissal of her government that the collusion between Lawai and Zardari was exposed involving several deals such as the award of a gold monopoly to ARY Traders[9], a loan to Sadaruddin Hashwani (CEO of Hashoo

According to one website: "Mian Mansha is politically connected. He went from being broke to super rich after the Nawaz Sharif government [8] gave him D.G. Khan Cement and the MCB (Muslim Commercial Bank). It is believed Nawaz Sharif is a silent partner in MCB which is used to launder his money. Because of MCB bank controversy in 1990s, Mansha went into self-exile to Boston. He returned to Pakistan during the second Nawaz Sharif government. Mian Mansha has solid backing of PMLN (Pakistan Muslim League, Nawaz Sharif's party). One of the prominent political leader of the PML (N), named Khawaja Asif, is said to be on Mian Mansha's payroll. Khawaja Asif's son, Asad, is officially employed at MCB bank with a high salary against no specific job specification". http://docslide.us/documents/mian-muhammad-mansha.html

Chief of Dubai-based ARY Gold, Haji Abdul Razzaq, denied giving any kickbacks to former Pakistani Premier Bhutto. [9] http://m.gulfnews.com/news/uae/general/ary-chief-denies-kickbacks-to-get-licence-1.393380

Group) to facilitate the purchase of Occidental Petroleum[10] and the dubious UBL privatization to Basharahill[11] (Rehman, 1998).

9. Conclusion

Pakistan's corporate sector is still controlled by local business groups which are primarily familyowned, and apart from the strong involvement of MNCs, the economy is deeply influenced by the local power elites, particularly the agricultural and industrial resource owners. However, Pakistan has also been deeply affected by the strategic decisions of the superpowers, especially those taken at the time of the Cold War and in the post-September 11 period; their impact on the country's economy is evident. The presence of international actors in the Pakistani economy has contributed to its development and growth.

When Nawaz Sharif, with a business background, joined politics and became Finance Minister in 1980 to 1985 in Zia's regime and later Chief Minister of Punjab, he changed the previous track of business activities. The political attention and decisions related to the corporate sector took a major shift from Karachi (Sindh) to Faisalabad (Punjab). Pakistan found a new Chinioti corporate elite competing with the well-established old corporate elite of Karachi. This new elite created new strategy to secure state patronage in the shape of personal links and networking. This situation gave a new dimension to the corporate sector, in the shape of the individual business groups rising under different regimes based on their own personal contacts with the ruling elite of a particular regime.

After Zia's long military regime of eleven years, over the next decade Pakistan faced eight (four elected and four caretaker) governments. During the era of these eight governments, a new mode of doing business was adopted by big business groups. It was about developing close acquaintances with the ruling elite to secure access to state rents as there existed an uncertainty about the sustainability of the policies with governments constantly changing. The corporate sector which appeared to be flourishing was a boon for both big and small businesses. After the reversal of the nationalization policy, business groups focused on securing individual benefits by developing political connections rather than working in a collective manner to promote overall corporate sector development. This philosophy is still being followed as the country's economic conditions have worsened after energy crises and continuous incidents of terrorism.

Corporate elites had acquired companies at fire-sale prices through privatization. The purpose of privatizing public sector companies was to transfer their liabilities to the new owners. But, in practice, these new owners failed to repay these liabilities and had to be cleared by the government. In the words of Rehman (2006): "the unkindest cut inflicted by the privatization of Benazir and Nawaz Sharif on the people of Pakistan related to the liabilities of the privatized units". The Benazir and Nawaz governments had privatized 88 industrial units by October 15, 1996, for a consideration of Rs. 15,409 million, out of which Rs. 4 billion was in default, involving the owners of 30 privatized units. Of these 30 owners, 13 have not paid a single penny after assuming control of privatized units.

On Dec 1, 1995, the top 43 groups owned 212 of the 522 non-financial companies listed on the Karachi Stock Exchange (KSE) accounting for 43 percent of the total manufacturing assets; this figure excludes those owned by multinationals and public sector enterprises. Out of the 175 listed, 76 belonged

Occidental said it had sold a portion of its operations in Pakistan to Zaver Petroleum Corp., an affiliate of the Hashoo Group, a leading Asian [10] conglomerate. The price was not disclosed. Zaver acquired Occidental's subsidiary that owned properties in northern Pakistan's Potwar Basin, which include interests in the Dhurnal and Bhangali oil and gas fields and the Ratana gas field. Those fields currently produce 4,200 barrels of oil and liquid petroleum gas and 25.2 million cubic feet of natural gas per day. Occidental retains a significant interest in the Badin Block in southern Pakistan and seven recently acquired exploration blocks totaling 8.7 million acres in northern and central Pakistan.

http://www.upi.com/Archives/1995/04/17/Occidental-sells-three-assets/9802798091200/

The US$17 million deal (for a 26 percent stake) was reportedly pushed through by the legal advisor to the Basharahill group for UBL to the [11]

State Bank of Pakistan. Concerns over the financial stability of Basharahill, a company incorporated in Gibraltar with a paid-up capital of some 2000 pounds appeared to be alleviated as the company was entirely taken over by Prince Nawaf Bin Abdul-Aziz Al Saud, for US$400 million.

http://www.Pakistaneconomist.com/database2/cover/c96-35.asp

to these categories: banking companies, modarabas[12], leasing and financial companies. Their power was clustered in textile, sugar, cement, insurance, banks and modarabas while almost all the newly-listed captive power plants belonged to these groups. Together they owned at least 122 textile mills, 19 sugar mills, eight cement plants, 12 insurance companies, 11 banks, 16 modorabas, eight leasing companies and seven power plants. This indicates the concentration of wealth in these few business families, a factor that strengthened them financially. However, the continuous drop in GDP rates along with other poor development indicators suggested that this expansion of corporate sector did not trickle down to the masses. This suggests a link with the increasing foreign assets of these business groups to evaluate the corporate value of political connections of business firms in Pakistan, this study followed (Faccio, 2007) theory of political-business connections. Faccio did an analysis of multiple countries to find out the common characteristics of countries with widespread political connections. Some of the variables analyzed in this study to evaluate political connections are derived from Faccio et al. (2006) such as large shareholders and officers of firm's entering politics and corruption. For measuring the effect on financial performance, the variables were derived from Boubakri et al. (2008) such as return-on-assets (ROA) and return-on-equity (ROE). But added to this was the figurative ratio of debt to equity (DTE), applied as an indicator for political connection, in line with Dinc (2005) argument about the political influence of government-owned banks in emerging markets. The firm was seen as politically connected if its DTE provided higher rates, which were not supported by the returns on assets and equity of the firm.

The results of business groups' financial and ownership structure in this study are consistent with the arguments made by Faccio (2007) and Shleifer and Vishny (1994) i.e. that politicians extract rents from companies which they help by providing them access to bank loans. These firms are also favored during privatization and the issuance of licenses for new industrial projects, for example in tax-free zones. Nevertheless, Faccio concluded that firm value increases more if the businessperson is elected prime minister of the country. Although, in case of

Pakistan, the firm value increases if the elected prime minister is a close acquaintance of the businessmen as the politicians do not remain the CEO of any big organizations.

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