## Political Connections, Board Characteristics and Firm Value: Evidence from Egypt

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## Abstract:

The main objective of the study is to assess the impact of political connections and board characteristics on firm value based on a sample of 61 non-financial companies listed on the Egyptian stock exchange during the period from 2018 to 2021, constituting 244 observations. The empirical results indicate that political connections of large shareholder, CEO, and other board members have a significant positive impact on firm value. These political connections can provide potential benefits to companies, especially in accessing valuable resources and receiving preferential treatment in government contracts. Politically connected firms may also benefit from reduced political risks and collaborate in uncertain and challenging economic and regulatory environments more effectively. However, the presence of politically connected governmental ownership is not related to the firm's market value.

Furthermore, the study highlights the important monitoring and governance role of the board of directors in mitigating agency problems, increasing transparency, and improving decision-making processes, ultimately enhancing firm value. The results show that board diversity and independence are positively related to firm market value, but board duality has a negative impact. These findings support the hypothesis that diverse and independent boards are essential and effective internal governance mechanisms, particularly in emerging market environments where corporate governance may be weak and insufficient.

Finally, the results also indicate that political connections and board characteristics are critical determinants of firm value. Companies that strategically manage their political relationships while maintaining an effective board are likely to enhance their market value. On the other hand, politically connected firms lacking diversity and independence may be more prone to opportunistic behaviors, leading to potential risks related to reputational and financial issues. Additionally, the study tests the robustness of estimated models using alternative measures of firm value. Therefore, it provides significant contributions to existing literature and offers valuable insights for academics, shareholders, managers, investors, and policymakers in emerging markets. Specifically, it helps in understanding the pros and cons of using political connections and shaping the board structure to improve firm value and make relevant decisions.

**Keywords:** Political Connections, Corporate Governance, Board of Directors' Characteristics, CEO Duality, Board Independence, Gender Diversity, Firm Value.

## الروابط السياسية وخصائص مجلس الإدارة وقيمة الشركة: دليل من مصر

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#### الملخص:

يتمثل الهدف الرئيسي للدراسة في تقييم تأثير الروابط السياسية وخصائص مجلس الإدارة على قيمة الشركة، إستنادًا إلى عينة من (61) شركة غير مالية من إجمالي الشركات المقيدة في البورصة المصرية خلال الفترة من 2018 إلى 2021، بإجمالي (244) مشاهدة. وتشير النتائج التطبيقية إلى أن الروابط السياسية لكل من المساهم المسيطر والمدير التنفيذي وأعضاء مجالس الإدارة الأخرين له تأثير إيجابي وهام على قيمة الشركة، حيث يمكن أن تقدم هذه الروابط فوائد محتملة للشركات لا سيما إمكانية وصولها للموارد القيمة والمعاملة التفضيلية للتعاقدات الحكومية، كما قد تستفيد الشركات المرتبطة سياسيًا أيضًا من انخفاض المخاطر السياسية، والتنقل عبر بيئات اقتصادية وتنظيمية غير مؤكدة وصعبة بشكل أكثر فعالية، ومع ذلك فإن وجود روابط سياسية للشركات من خلال الملكية الحكومية غير ذي صلة بقيمتها السوقية.

علاوة على ذلك، يقوم مجلس الإدارة بدور رقابي وحوكمي هام في التخفيف من مشاكل الوكالة، وزيادة الشفافية وتحسين عمليات صنع القرار مما يعزز في نهاية المطاف من قيمة الشركة. وفي ضوء ذلك، توصلت نتائج الدراسة إلى أن تنوع مجلس الإدارة وإستقلاليته يرتبط بشكل إيجابي مع القيمة السوقية للشركة، غير أنه كان لإزدواجية المجلس تأثير سلبي. وتتفق هذه النتائج مع فرضية الرقابة، والتي تشير إلى أن المجالس الأكثر تنوعًا وإستقلالية هي آلية حوكمة داخلية مهمة وفعالة، على وجه الخصوص، في بيئة الاسواق الناشئة حيث تكون حوكمة الشركات ضعيفة وغير كافية.

أخيرًا، أوضحت النتائج أيضًا أن الروابط السياسية وخصائص مجلس الإدارة من المحددات الحاسمة لقيمة الشركة، حيث من المرجح أن تعزز الشركات التي تدير علاقاتها السياسية بشكل استراتيجي مع الحفاظ على مجلس إدارة فعال من قيمتها السوقية. وعلى العكس من ذلك، فإن الشركات ذات المجالس المرتبطة سياسياً ولكنها تغتقر إلى فعال من قيمتها السوقية. وعلى العكس من ذلك، فإن الشركات ذات المجالس المرتبطة سياسياً ولكنها تغتقر إلى التنوع والاستقلالية قد تكون أكثر عرضة للسلوكيات الإنتهازية، مما قد يؤدي ذلك إلى مخاطر محتملة تتعلق بالسمعة والمال. هذا وقد قامت الدراسة أيضًا بإختبار متانة النماذج المقدرة من خلال إستخدام مقاييس بديلة لقيمة الشركة. وعلى ذلك، فإنها تغتقر المعمعة والمال. هذا وقد قامت الدراسة أيضًا بإختبار متانة النماذج المقدرة من خلال إستخدام مقاييس بديلة لقيمة الشركة. وعلى ذلك، فإنها تقدم العديد من المساهمات المهمة في الأدبيات الموجودة، وتعد نتائجها مغيدة للأكاديميين والمساهمين والمديرين والمستثمرين وصانعي السياسات في الأدبيات الموجودة، وتعد نتائجها مغيدة للأكاديميين والمساهمين والمديرين والمستثمرين وصانعي السياسات في الأسواق الناشئة وبصفة خاصة في فهم إيجابيات والمساهمين والمديرين والمستثمرين وصانعي السياسات في الأسواق الناشئة وبصفة خاصة في فهم إيجابيات وسلبيات استخدام الروابط السياسية، وتكوين هيكل مجلس الإدارة لتحسين قيمة الشركة وإتخاذ القرارات ذي الصلة. الكلمات الدالة: الروابط السياسية، حوكمة الشركات، خصائص مجلس الإدارة، إزدواجية المدير التنفيذي، إستقلالية وسلبيات الالية: الروابط السياسية، حوكمة الشركات، خصائص مجلس الإدارة، إزدواجية المدير التنفيذي، إستقلالية الكلمات الإدارة، الزدارة، الزدارة، الزدارة، الزدارة، الزدارة، المدير الماية ويمنة الشركة.

## 1. Introduction

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Political connections are a pervasive corporate phenomenon that has generated a lot of academic concern (*Chen el al., 2017; Wang et al., 2019; Artunç & Saleh, 2021; Dang et al., 2022; Li et al., 2022)*. Moreover, the corporate sector in Egypt is also notable for dominant relationships between companies and the government. Even after decades of trade openness and economic reform, the government still controls a significant portion of the economy and, political connections are widespread throughout all industries in Egypt (*Eissa & Eliwa, 2021*).

In the modern business world, a lot of attention is given to researching the function and accountability of boards of directors and the impact of corporate policies on their performance. Such procedures include electing people with governmental positions on boards in order to build relationships with politicians. This can be attributed to the fact that businesses understand how crucial political connections are to improving their ability to increase their financial performance (*EL Ammari, 2022*).

Generally, governments in developing countries have a greater role in corporate resources' acquisition and allocation because they support state-owned companies and companies with political connections (*Ayyagari et al., 2012; Chen et al., 2017*). As a result, companies develop political connections in order to gain political benefits including reduced taxation, preferential access to debt financing, and permissive regulations. Consequently, due to its prevalence globally, a great deal of academic and public attention has been devoted to the consequences of political connections in the business world. According to (*Fan et al., 2007; Bianchi et al., 2013; Chen et al., 2017; Wang et al., 2018 & 2019; Artunç & Saleh, 2021; Li et al., 2022)* corporate political connections significantly affect financial markets and economic progress, particularly in emerging markets. However, political connections may also be used by politicians as a means of obtaining rents from companies (rent-seeking behavior), which consequently has a negative impact on the company's performance and value (*Fisman, 2001; Shen et al., 2015; Chen et al., 2017; EL Ammari, 2022*).

Traditionally, managers' strategic choices reflect their experiences. The performance and strategic choices of corporations are therefore believed to be influenced by political relationships. As a result, the political impact is another aspect of corporate governance that requires investigation, as the standards for corporate governance fluctuate according to various cultural norms, political, social, and historical contexts. As a result of this relationship, governance mechanisms, corporate performance, and firm value are all related. As a result, top executives with more established relationships with government figures may be more capable of managing

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the uncertain environment and thereby help their company perform in a better way (*Peng & Luo, 2000; Mohammed et al., 2017*).

In corporate governance research, the performance effects of corporate governance are an area of intense discussion. Consequently, the research aims to place the performance implications of board characteristics as an aspect of corporate governance in the context of its impact on firm value in an effort to reconcile the conflicting findings on the relationships between political connections, corporate governance and firm value (Udayasankar & Das, 2007). Recently, there has been a considerable amount of interest in how corporate governance and political connection affect firms' performance. These two concepts and their relative relationships with business activities were frequently the subject of independent research (Peng & Luo, 2000; Fan et al., 2007; Bianchi et al., 2013; Chen et al., 2017; Mohammed et al., 2017; Wang et al., 2018 & 2019; Artunc & Saleh, 2021; Li et al., 2022). With a few notable exceptions, their combined influence hasn't been much studied, despite the fact that both concepts have a lot in common with regard to firm value. Given that both corporate governance and political connection have the potential to create more benefits, it's intriguing to consider if a company with positive board characteristics still needs political connection to acquire even better terms. The question is whether the regulatory and political factors in the environment expressed by political connection affect firm value differently depending on how firm board characteristics interact with these factors.

As a result, the study aims to find out whether strengthening governance can increase firm value in the context of maintaining political connections. In other words, whether the political connections in the business environment and the characteristics of board of directors can affect firm value.

The purpose of this research is to contribute to the growing body of literature in investigating the impact of political connections and board characteristics on firm value in Egypt. Egypt can be considered as a suitable area for investigating this phenomenon. This is for several reasons, first because of the commonality of political connections presence in Egypt where the environment exploiting the existence of this phenomenon. Second, many studies revealed the significant impact of politicians and the political policies on the corporate world (*Saeed et al., 2016; La Rocca et al., 2022; Fitriana & Muslim, 2023*). Third, Egypt was classified as a developing marketplace for which governmental intervention, obstacles, routine rule based policies, and insufficient and inadequate support for business corporations were overwhelmed and existed. So as a result, the involvement of politicians was considered the gateway for businesses to

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overcome market and business failure. Consequently, these presented facts motivated the research to investigate the impact of political connections and board characteristics in Egypt. Thus, it is worth examining the extent of political connection within Egyptian capital market.

## 2. Literature review and hypothesis development

## 2.1. Theoretical background

The founding principal of the research is that organizations cannot exist in a vacuum from their external environments, and that relying solely on the internal functioning of an organization takes performance evaluation out of the scene. Hence, including both internal and exterior environmental components complete the overview of what decisions to get made and influencing performance. It was proposed that to understand organizational decisions and actions, one way was to concentrate less on internal dynamics and the values and beliefs of leaders while concentrate more on the contexts in which organizations were situated and the pressures and constraints that emanated from those contexts, thus incorporating both external and internal control of organizations are crucial decisions and actions that necessitate incorporating both the internal and external organizational control to understand its consequences on the firm value.

In investigating the research problem, the research incorporates five different theories i.e. helping hand theory, grabbing hand theory, the agency theory, social network theory, and resource dependency theory in order to explain the consequences of political relationships and understanding corporate governance structure beyond the monitoring responsibilities (*Udayasankar & Das, 2007; Mohammed et al., 2017; Salem et al., 2019; Brahma et al., 2023; Farrukh et al., 2023)*.

*Pfeffer & Salancik (2003)* introduced the resource dependency theory as the theory used to describe how organizations may become reliant indirectly and frequently mutual on outside forms of resources due to the need for resources, such as financial, physical resources, and information that can be acquired from the environment. According to resource dependence, some organizations were more powerful than others due to the unique aspects of their interdependence and their positioning within the external environment. Companies that rely heavily on government contracts are frequently more dependent on their political connections because the government was a significant resource supplier to a variety of companies.

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According to resource dependency theory (*Barney*, 1991), the possession of tangible and intangible resources that are difficult for competitors to acquire makes political connections a potential source of competitive advantage. As indicated by the theory, the firm may reduce risks, transaction costs, and boost long-term sustainability by using its political relationships and all associated operations to forge a long-lasting competitive advantage (*Faisal et al.*, 2021).

Additionally, literature has introduced the helping hand and grapping hands theories as a conceptual framework that explores the dual nature of human behavior in social contexts. This theory suggests that individuals possess both altruistic tendencies, represented by a "helping hand," and self-serving inclinations, depicted as "grabbing hands." The coexistence of these contrasting motivations plays a crucial role in shaping social interactions and relationships which is constituted in the political connections' era. The Helping Hand and Grabbing Hands theory has implications in various domains, including interpersonal relationships, social interventions, political connections, and organizational behavior. Additionally, the theory offers valuable insights into the complex nature of human behavior in social situations. Empirical research has consistently supported the coexistence of both altruistic and egoistic motivations, highlighting the significance of context, culture, and individual differences. Understanding this theory's dynamics can enhance our comprehension of social interactions and pave the way for developing more effective interventions and policies in various settings (Masciandaro & Quintyn 2008; Chen et al., 2017; Opoku-Mensah et al., 2022)

The agency theory proposes that top management should be monitored to lower agency costs, which result in greater corporate performance. Monitoring mechanisms are introduced as part of corporate governance to align management and shareholder interests. These mechanisms are classified into different categories. External mechanisms include market pressure on a non-performing company or legislation that the corporation must comply with, while internal mechanisms are what the shareholders intended to oversee top management (*Bandiyono, 2019; Refakar & Ravaonorohanta, 2020*).

Moreover, the research was grounded in the social network theory, which has emerged as a powerful framework for understanding the interactions and relationships among individuals within a society. In the political context, this theory has gained significant attention as the literature seeks to comprehend the dynamics of political connections and their implications on governance, policy-making, and the distribution of power. Social network theory focuses on the patterns of connections between

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individuals, groups, or organizations. It examines the structure of relationships, the flow of information, and the influence that these connections have on individual behaviors and collective outcomes. According to this theory, political connections refer to the ties and relationships that individuals, politicians, or political parties establish within a social network. These connections can occur at various levels, from local communities to national and international spheres and influence access to resources, decision-making processes, and the dissemination of information and ideas (*Borgatti & Foster, 2003; Farrukh et al., 2023*).

## 2.2. Political connections and firm value

Because of the conflicting evidence i.e., helping hands versus grapping hand theories about the impact of the political connections that exist today on business or firm value, there has been disagreement in the literature (*Chaney et al., 2011; Wang et al., 2019; La Rocca et al., 2022; Li et al., 2022; Fitriana & Muslim, 2023*). As a result, the impact of political connections in business has been extensively investigated previously and received attention from several academics and the public. The literature, however, finds contradictory evidence about the relationship between political connections and firm value and performance (*Wang et al., 2019*). That is, many studies primarily focus on the benefits that come with political connections, such as access to financing, regulatory protection, and other governmental resources. On the other hand, several studies indicate that these benefits come with a variety of drawbacks related to the rent-seeking activities carried out by companies with political connections (*Cao et al., 2017*).

The relationship between political connections and firm value can be regarded by academics as complex relationship that arises out of the agency problems that exist between managers and shareholders (*Aswadi Abdul Wahab et al., 2009; Chen et al., 2017*). By employing existing or former politicians to their boards of directors or top management positions, businesses actively develop their political connections (*Li et al., 2022*). According to prior literature, political connections can be considered as a sort of intangible resource for the company which can lead to the acquisition of various other tangible and intangible resources. Political connections were referred to by (*Bianchi et al., 2013*) as a direct or indirect relationship with politicians. While the indirect relationship can be achieved through campaigning, the direct relationship can be achieved by a clear link between stakeholders within the company and politicians with current or prior positions (*Faccio, 2006*). Furthermore, *Fitriana & Muslim (2023*) stated that, companies that are politically connected in some form are those that attempt

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to have a close relationship with politicians or the government in order to get advantages that can be exploited to raise the company's value.

Politicians may integrate into the operations of any company through a variety of channels, including relationships with the chief executive officer (CEO), members of the board of directors, the board chairman, or some senior officials. The strength and impact (high or low level) of these corporate political connections may vary depending on each channel's unique characteristics and requirements. According to *Chaney et al.* (2011) a company is deemed politically connected if at least one of its major shareholders (those who directly or indirectly control at least 10% of votes) or top directors (CEO, chairman of the board, president, vice-president, or secretary) is a member of parliament, a minister, a head of the government, or is closely associated with a politician or party. In addition, these connections can also include friendships, former top positions in business or politics (such as that of head of government or minister), foreign politicians, and former corporate positions.

Notwithstanding, there is an enormous amount of literature on businesses with political connections that lacks any broadly agreed-upon, conclusive findings regarding how political connections affect firm value and performance (*El Ammari, 2022*). That is, a growing body of research has revealed the involvement in political connections to be beneficial for businesses. Moreover, Political connections have significant impacts on not only the value of connected firms but also on firms that compete in the same industries or are considered peers by affecting their competitiveness and access to specific benefits' channels (*Stanfield et al., 2023*). A crucial argument in support of this idea is that businesses with a strong connection to politics have access to a range of institutional supports, including valuable information and resources (*Bandiyono, 2019*).

According to the resource-dependency theory, a company has a competitive advantage because of such exclusive access to crucial resources, which can result in enhanced performance. These advantages include bank loans, easier access to debt financing, lower taxes, government subsidies, direct contracts, increased market power, governmental oversight facilities, and being given preference when bidding for government contracts with lower costs, easier access to the capital markets, in addition to its impact on the accounting performance (*Luo & Ying 2014; Do et al., 2015; Chen et al., 2017; Khaw et al., 2019; Abdel-Fattah et al., 2020*).

Furthermore, previous research on politically connected companies argues that their financial and accounting performance outperform those without political connections in addition to getting advantages in a variety of ways, including access to

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capital markets, lower corporate tax burden, and vital government-controlled resources and contracts (Batta et al., 2014; Dicko & Khemakhem 2015; Dicko, 2017; Wellman, 2017; Cao et al., 2017; Sharma et al. 2020; Yang et al., 2022; Li et al., 2022; Wang & You, 2022; Dang et al., 2022; Fitriana & Muslim 2023). For instance, Batta et al. (2014) discover that politically connected businesses have higher accounting quality than non-politically connected ones because politically connected firms suffer a lower risk of expropriation because of their political connections to government officials. Moreover, Sharma et al. (2020) indicated that businesses with stronger ties to the political system are more likely to benefit from better protection and privileges, such as simpler access to export and import licensing requirements, favorable bank loans, and lucrative public contracts, all of which would enhance trade flows. According to Pham (2019), the essential pathway is the information advantage businesses gain from their relationships to politicians. In the face of growing economic policy uncertainty, additionally, financial reports from companies with strong political connections use language that is less uncertain than peers who are not connected, which is consistent with the superior information that allows connected companies to hedge against policy uncertainty.

In the same manner according to *Wellman (2017)*, firms should establish political connections to eliminate information asymmetry and increase access to relevant information, which will help in predicting which policies will be put into effect. Furthermore, it has been demonstrated that firms with political connections are somewhat shielded from the detrimental consequences of ambiguous economic policy on corporate investment. The evidence supports the hypothesis that these connections act as a partial hedge against this type of risk and uncertainty. Additionally, *Wellman (2017)* makes the assumption that the benefits of connections are more probable to happen in industries where government expenditure and policy are essential to the success of the firm because political connections offer a competitive advantage in information that help reduce their uncertainty.

On the other side, the study of *Pang & Wang (2021)* revealed that political connections have a detrimental impact on the firm's value as well as its operational performance, with the negative impact being more pronounced when the company operates in a highly regulated industry. Political board members prioritize their interests over company performance and are primarily concerned with advancing their political objectives. Additionally, board members are more likely to employ the grabbing-hand method to develop relationships with these politicians and get personal advantages than to safeguard the interests of minority shareholders and

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efficiently utilize company resources (*EL Ammari, 2022*). The study of *Li et al. (2022*) revealed that companies with political connections benefit from information because of their access to politicians. However, these companies also have incentives to withhold information and limit its disclosure, which has a detrimental effect on the informativeness of stock prices and so firm value.

Conversely, *Chen et al.* (2017) argues that the contradicting evidence concerning the impact of political connections on firm value emerged from its two opposite effects. The positive effect which is regarded in research as "helping hands" reflects the benefits intended and received from political connections. On the other side, the negative effect or "grabbing hands" reflects the incurred costs and drawbacks occurred because of political connections. The two effects would therefore occur simultaneously in the presence of political connections. The main idea motivating the study is that the helping hands perspective, which developed in opposition to the grabbing hands perspective needed to investigate how the outcomes will affect firm value. Consequently, this issue will produce disparate empirical findings across countries due to different factors.

Prior research suggests that, to investigate corporate political connections, there are many factors controlling this relationship. At the top of these factors is the strength of the connections. As the stronger the connections with governmental officials the more extracted resources will be suffered by the firm which ultimately will affect the firm value according to the employment of non-value adding strategies (*Bianchi et al., 2013; Chen et al., 2017; Brahma et al., 2023*). Another factor controlling the strength of the political connections is the number of political connections. That is according to *Bianchi et al. (2013)* too many connections may be more damaging for the firm value. So, connections level may be beneficial to the company to some extent up to a determined level. Exceeding this level of connections may bring the connections to be harmful to the corporate performance and value due to the costs of connections which exceeds the value or benefits of these connections. So as a result, the grabbing hands effect surpasses the helping hands effect (*Chen et al., 2017*).

According to previous studies, the type of ownership structure, i.e., public, or private; affect the nature of political connection and its negative impact on the firm value according to the rent seeking behavior of politicians. Furthermore, the study of *Chaney et al. (2011)* argues that politically connected firms report their financial information less transparently than other firms that are non-connected to politics, leading to the conclusion that politically connected firms would be linked to low-quality information with a mitigated effect due to the presence of political connections.

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This leads to the difficulty of gathering the necessary data on corporate political connections, which is frequently concealed or unobservable (*La Rocca et al., 2022*). The regional characteristics or nature also could be considered by researchers as a determinant for political connections. That is, it was found by many studies that countries with more fiscal deficit suffer stronger political connections (*Bianchi et al., 2013*). As a result, all aforementioned factors by literature are considered the determinants of the impact of political connections on firm value which is very important to be considered.

Due to the presence of the two sides i.e., helping versus grapping hands in every corporate political connection, it is necessary when examining the impact of political connections on firm value to do cost-benefit matching of these connections to show the resultant conclusion and its accurate impact on firm value (Chen et al., 2017; Brahma et al., 2023). On one side, it's obvious and perfectly cleared in many studies that the positive impact or the helping hands of corporate political connections can be obvious in convenient tax rates, compatible loans conditions, exemptions from sanctions related to violation of environmental laws, and easier financing due to the easier access to the capital market (Liedong & Rajwani, 2018). On the other side, the negative impact of political connections which is regarded as grabbing hands may be enhanced according to many factors. These factors or implications can be regarded as the salaries paid to politicians in addition to their profit shares, bonuses, and other shares distributions. Additionally, of the implications of corporate political connections are the permissions rewarded for governmental politicians for hiring employees as they want, in addition to other rewards. Additionally, managers in politically connected firms may therefore smooth income in order to draw attention away from extremely unstable reported earnings. In this situation, income-smoothing in politically connected companies would eventually have a negative impact on other shareholders because it is intended to cover up the managers' rent-seeking activities, which eventually lead to the devaluation of the company (Sharma et al., 2020; Tee 2020).

Despite the significant contributions made by each of these studies, there is still disagreement over the long-term effects of political connections on a firm's value and performance. Given the aforementioned empirical results, it is conceivable that political connections have intrinsic value and affect firm value. In light of the conflicting views of the impact of political connection on firm value, the research put forward the following hypothesis:

H1. "There is no significant impact of political connections on firm value of Egyptian companies."

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#### 2.3 Board characteristics and firm value

Recently, there has been a growing interest in the topic of board characteristics and how they relate to firm value. Firm value may have been affected due to agency costs brought on by conflicts of interest between shareholders and managers (*Pucheta-Martínez & Gallego-Álvarez, 2020; Refakar & Ravaonorohanta, 2020*). Although several empirical studies have examined how corporate governance mechanisms affect how much information is disclosed voluntarily and the value of the firm, the results are conflicting.

Corporate governance, according to *Bianchi et al. (2013)*, refers to the societal, institutional, and internal elements that have an impact on the management and control of the firm and, consequently, its value and performance. It is based on transparency and accountability to shareholders and other stakeholders. Corporate governance practices have two dimensions, the first of which ensures effective investor protection by addressing its implications and making relevant information available. The second dimension deals with establishing operational protection procedures through internal corporate policies and practices. So, corporate governance issues can be resolved by a number of mechanisms formulated in a framework to encourage resource efficiency and, at the same time, to demand accountability for the management of those resources while aligning the interests of individuals, businesses, and society (*Bandiyono, 2019*).

According to Jensen & Meckling (1976), the division of management and ownership leads to managerial opportunistic behavior brought on by agency problems which can take many different forms. Strong corporate governance mechanisms are therefore essential to reduce the impact of these problems on shareholders' wealth and firm value (Mohammed et al., 2017; Karim et al., 2022). Since the main objective of corporate governance is to provide controls for monitoring managers' behavior, giving shareholders an avenue to address agency issues, numerous earlier studies have also argued the necessity for improved corporate governance and more effective monitoring mechanisms because of the globalization of investors (Coles et al., 2008; Bianchi et al., 2013; Karim et al., 2022).

Regarding the agency theory, governance mechanisms have been developed in order to ensure shareholders' interests and reducing agency costs. According to (*Refakar & Ravaonorohanta, 2020*), these mechanisms include internal mechanisms to control the internal business environment including monitoring by board of directors with its sub-mechanisms (i.e., board size, independent directors, CEO and chairman role separation, board meetings, directors' busyness, board committees, and compensation packages) and ownership structure with its sub-mechanisms (i.e. CEO

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equity ownership, directors' equity ownership, and institutional ownership). In addition to the internal mechanisms other external mechanisms are used when the internal mechanisms are less efficient in monitoring the company's performance including debt holders and takeover market (*Fama, 1980; Fama & Jensen, 1983; Refakar & Ravaonorohanta, 2020*).

Four characteristics that may affect the improvement of a firm's value have been identified from the literature review. These characteristics of corporate governance include board independence, board size, gender diversity, and CEO duality (*McCahery et al., 2016; Hidayat & Utama, 2017; Bravo et al., 2018; Karim et al., 2019; Refakar & Ravaonorohanta, 2020*).

The involvement of the board of directors is essential to the internal governance of the company because it plays crucial roles in providing strategic direction and key monitoring functions in addressing the agency issues of the company. Additionally, the board provides a vital function in overseeing operations on behalf of shareholders, has the power to influence business results, and acts as an advisory body by providing resources and knowledge that would not otherwise be available to an organization (*Hidayat & Utama, 2017; Bravo et al., 2018*). According to prior research on boards, resource dependence theory tends to be an appropriate framework for comprehending and evaluating boards of directors (*Karim et al., 2019*).

The inclusion of an independent monitoring board (independent commissioner) who has no connections to management, other directors, controlling shareholders, or commissioners in any other related companies helps mitigate the degree of control from the controlling shareholder (*Prabowo & Simpson, 2011; Hidayat & Utama, 2017*). Minority shareholders are supposed to be protected against wealth expropriation by the dominant shareholders by independent commissioners. That is, when minority shareholders have power over those running the company, as represented by independent commissioners, their interests are best protected.

Other board characteristic, such board size, is an important component of the board structure and can be a good indicator of how effective the board of directors is when it comes to firm value, and previous studies have produced a range of outcomes. Because it takes into consideration the number of persons who oversee business operations, board size can be regarded as one of the most essential factors to describe corporate governance (*Jia & Zhang, 2013; Hidayat & Utama, 2017; La Rocca et al., 2022*). It was defined by *Yermack (1996)* as the total number of directors who have the power to affect how companies are governed and, consequently, how well they perform. Larger boards are often regarded to be less effective since it is harder to come

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to agreements due of competing interests (*Brown et al., 2006*). However, one can also consider that an increase in members will bring different personal qualities that can help connect the organization with its external environment and ensure essential resources, including authority and credibility, since there will be a greater wealth and variety of opinions and experiences and an increase in the board's oversight capacity with more members (*Pucheta-Martínez & Gallego-Álvarez, 2020*).

According to earlier research, CEO duality is when one individual serves as both the CEO and the chairman of the board. The study of *Amer (2016)* revealed that, this can be positive for the firm's performance which might create a cohesive and powerful leadership with a unique awareness of overall strategy. Combining both duties can aid in making more effective decisions because the CEO has understanding of the business, industry, and how to run the company. Considering that a number of scholars and regulators have endorsed both CEO duality and the separation of responsibilities, it is clear that there is actual proof of the connection between duality and performance. As a result, there is still disagreement and uncertainty about this association (*Kang & Zardkoohi, 2005; Salem et al., 2019; Pucheta-Martínez & Gallego-Álvarez, 2020; Sun & Zou, 2021; La Rocca et al., 2022).* 

As an essential variable that considers the role of gender characteristics in organizations, *Sun & Zou (2021)* claim that corporate governance may be measured by board gender. In recent years, academics have begun to investigate how including women on the board affects corporate decisions' effectiveness and their capacity to influence corporate performance and value. The empirical findings showed conflicting evidence. Numerous studies, have found that the presence of female directors could make it easier to observe how managers perform, enhance supervision activities, and help in increasing the effectiveness of boards of directors, especially in terms of their innovation and creativity with regard to problem-solving (*Kang et al., 2007 & 2010; Rhode & Packel, 2014; Levi et al., 2014; Terjesen et al., 2016; Salem et al., 2019; La Rocca et al., 2022).* However, because to the over-monitoring that women acknowledged, some research discovered a negative association between the gender diversity of the board and corporate performance (*Adams & Ferreira, 2009*). Considering the contrasting evidence regarding the impact of board characteristics on a firm's value, the research put forth the following hypothesis;

H2. "There is no significant impact of board characteristics on firm value of Egyptian companies."

2.4. Political connections, Board characteristics, and firm value

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Corporate governance has been studied form different perspectives all of which are concerned with proposing internal or external mechanisms to manage the ensuing conflict of interest between internal and external parties of the company and improving decision making (*Refakar & Ravaonorohanta, 2020*).

Significant number of studies to date on the connection between a company's political connections and the quality of its governance point to the fact that politically connected firms doesn't frequently seek to improve the quality of their governance. This is because companies with connections to politics have easy access to financial resources and are not required to increase the quality of information disclosure, which is seen as a key governance mechanism because it closes the information gap i.e., asymmetric information between shareholders and managers and between majority and minority shareholders as well as lowering the cost of agency conflicts (*Dicko, 2017*).

On the other hand, a substantial number of studies contend that maintaining political connections may reduce the market's pressure on the firm to disclose information, which would lead to weak performance and necessitate the adoption of strong governance mechanisms to remedy the situation. This is due to the fact that stronger corporate governance benefits companies by expanding access to capital, lowering their cost of capital, enhancing performance, treating all stakeholders fairly, and obtaining favorable loan contracts with lower interest rates or longer terms, higher credit ratings, and lower debt financing costs (Bhojraj & Sengupta, 2003; Anderson et al., 2004; Chaney et al., 2011; Shen et al., 2015; Gao et al. 2019). In addition, businesses build political connections in order to gain access to information that reduces their exposure to economic policy uncertainty. Which is reflected in less ambiguous financial reporting resulted in incremental improvements in the cost of equity which in turn needs stronger governance mechanisms (Wellman, 2017). So, when economic uncertainty increases, businesses often postpone investment decisions until new information arrives that reduce part or all the uncertainty. As opposed to this, the study of (Tessema, 2019) showed that companies with strong corporate governance and political connections may provide more information than companies without such connections.

Additionally, larger, older, and more efficient businesses appear to have higher survival possibilities than smaller, younger, and inefficient ones, perhaps as a result of their improved knowledge of and capacity for interaction with the political system.

According to (*Winarto*, 2015) firm value is influenced by several factors which can be divided into two categories: external and internal factors for which the firm has influence over internal factors, but not external ones. Corporate governance as

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measured by an index or the specific governance mechanisms is of the internal variables considered by wide range of previous studies as well as more recent phenomena like political connection which is considered of the external variables affecting firm value (*Ika et al., 2021; Farrukh et al., 2023*).

Research on political connections and board characteristics was intriguing because there was debate over how one might influence the other. According to several studies, these two variables or factors should be used in conjunction for enhanced firm value and performance. However, other research found that the two variables or factors are interchangeable and that their combined existence would have a reduced impact on firm value (*Shen et al., 2015; Mohammed et al., 2017*).

According to *Shleifer & Vishny (1994)*, firm value will rise when the marginal costs of connections exceed the marginal benefits i.e., net value of political connections, leading to connections that are valuable, ineffective, or even destructive for the firm. In this instance, the formula will be redirected to a particular impact by the consequent impact of corporate governance mechanisms. In this context, the study by *Jiang (2008)* argued that the nature or type of political connection should matter. Due to the mediating role of the governance mechanisms, there are two sorts of often occurring political connections that should be considered when determining their impact on firm value. The first is concerned with the intrinsic connections that top executives may inherit from their families, social standing, nationality, gender, and other genetic inheritance in terms of political connections. A different strategy for top executives to develop their political networks is active self-development. This includes relationships formed through school relationships, career preparation, etc., as well as political donations made during election campaigns.

Political connections are the unofficial social connections that a company has with government officials at various administration levels as well as with representatives of regulatory organizations like the tax or stock market administration offices which may help organizations obtain necessary resources such as loans, subsidies and tax incentives as well as obtaining government support and preferential treatment. Additionally, previous studies provided evidence that strong political connections can improve a firm's performance and hence firm value as they may increase access to valuable government information and resources, which may be crucial for firm performance. However, there are conflicting results of previous research concerning the relationship between political connections and firm value thus, this relationship remains unclear (*Farrukh et al., 2023*).

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Based on the social network theory, we contend that political connections may not always have a direct impact on firm value since the employment of these connections may be influenced by certain institutional factors. The research therefore attempts to investigate the effectiveness of connections through the internal mechanisms of corporate governance mechanisms that could affect the relationship between political connections and firm value (*Guo et al., 2014*).

The assessment of prior research revealed that board characteristics an important institutional component, may change the value of political connections. The research thinks that firms with strong political connections would easily get the rare information and resources necessary for its growing performance increasing the confidence in organizational effectiveness and decisions by reducing the uncertainty of governmental policies (*Farrukh et al., 2023*). Moreover, the value of political connections may be influenced by the internal firm environment including board characteristics. So, the research contends that the relationship between political connections and firm value might be significantly impacted by the inclusion of board characteristics. Consequently, in order for the research to investigate this relationship, the following hypothesis was formulated;

H3. "There is no significant impact of political connections and board characteristics on firm value."

## 3. Research Methodology

## 3.1 Data sources and collection

The governance mechanisms and firm value data were sourced from the 2018–2021 annual reports of Egyptian listed companies, while the political connections data were obtained from the annual reports, corporate websites and other sources, such magazine and newspaper articles.

## **3.2 Population and sample selection**

The sampling method used in this research is purposive or judgmental sampling technique by using specific criteria. The study population consists of the listed

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companies whose shares are traded in the Egyptian stock Exchange during the period 2018:2021, which totaled (184) companies distributed over eighteen sectors according to the data announced by the Egyptian Exchange in February 2022 (Egyptian Exchange, 2022), to be included in the final sample, firms must meet the following criteria;

- A. Continuation of listing and trading the shares of companies in the Egyptian stock market during the period from 2018 to 2021 due to the possibility of obtaining market data related to the study variables.
- B. Availability of financial reports for companies during the period from 2018 to 2021.
- C. Companies whose financial reports are prepared on the 31st of December for the possibility of comparing the results of the study.
- D. Companies that display their financial reports in Egyptian pounds.
- E. Excluding companies in the banking and non-banking financial services sectors, due to the different nature of their activities and the regulatory and governance rules compared to non-financial companies.

By applying the previous conditions, the number of sample companies reached (61) non-financial companies, equivalent to (33.15%) of the total companies listed on the Egyptian Stock Exchange, and thus the number of views reached (244) views, and the number of sample companies within each sector and the percentage of their contribution to the sample can be clarified through the following table 1:

NO	Sector Name	Listed Companies	Excluded Companies	Sample Companies	(%) <sup>1</sup>
1	Telecommunications, Media & Information Technology	7	7	-	Zero
2	Food, Beverage & Tobacco	23	10	13	21.3
3	Banks	11	11	-	Zero
4	Trade & Distributors	3	3	-	Zero

Table 1: Population and sample of the study according to the sectorial classification

<sup>&</sup>lt;sup>1</sup> Percentage of contribution = number of sample companies within each sector  $\div$  total number of sample companies

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5	Transportation & Shipping	4	4	-	Zero
	Services				
6	Educational Services	2	2	-	Zero
7	Non-banking Financial Services	21	21	-	Zero
8	Industrial & automotive services,	7	3	4	6.6
	products & products				
9	Healthcare & Pharmaceuticals	18	13	5	8.2
10	Tourism & leisure	9	4	5	8.2
11	Energy & Support Services	2	2	-	Zero
12	Properties	34	12	22	36
13	Facilities	1	1	-	Zero
14	Contracting & Engineering	7	5	2	3.3
	Construction				
15	Textiles & durable goods	7	7	-	Zero
16	Building materials	10	10	-	Zero
17	Core Resources	16	6	10	16.4
18	Paper & packaging materials	2	2	-	Zero
	Total	184	123	61	100

## **3.3. Variable measurement**

#### 3.3.1. The Dependent Variable

The dependent variable in the present research is firm value. Several metrics are used to determine the firm value. Because *Tobin's Q* is commonly used in the literature as a measure of a company's potential for future earnings (*Chen et al., 2017; Amer, 2016; Abdel-Fattah et al., 2020*), it is used in the current study to calculate firm value. Tobin's Q is obtained using the following ratio: (total market value of equity plus total long-term debts) / (total assets). Additionally, the research depended on another accounting measure of firm value i.e., Return on Assets *ROA* which can be measured by dividing net income over total assets.

#### 3.3.2. The Independent Variables

– *Measuring political connections*: The primary independent variable in this study is political connections, which will be assessed according to established criteria using four proxies representing affiliation with government-controlled institutions, members of parliament, ministers, or closely association with high-ranking politicians. According to *Faccio (2006)*, the first proxy is political connections of chief executive officer; the variable PC CEO represents this connection, with a value of one indicating

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the company's recognition as having political connections to Egyptian top leaders, and a value of zero otherwise. The second proxy is political connections of large shareholders, the variable of PC LSH is used for which a firm is considered politically connected if it has large shareholders having political connections to Egyptian top leaders and get the value of 1, and a value of zero otherwise. The third proxy is political connections of board members other than CEO and LSH, which measures the political connections of other board members and get the value of 1 if there are connections of those members with politicians and zero otherwise. Finally, the last proxy of political connections is political connections through governmental ownership and the variable PC GO is valued with1 if there is governmental ownership in the company and zero otherwise.

- *Measuring board characteristics:* The second main independent variable is board characteristics. The research depended on four characteristics i.e. board size, independency, gender diversity, and duality (*Mohammed et al., 2017*). The variable Board Size can be assessed as the number of board of directors, while Independency as a variable is measured by the number of independent directors / board size. Moreover, the variable gender diversity is measured by the number of female members / board size. On the other side, duality is a dummy variable that gets the value of 1 if the CEO holds the position of chairman of the board of directors and zero otherwise (*Shen et al., 2015; Amer, 2016; Hidayat & Utama, 2017; Bravo et al., 2018; Salem et al., 2019; Pucheta-Martínez & Gallego-Álvarez, 2020; Sun & Zou, 2021; La Rocca et al., 2022; Wang et al., 2022*).

## 3.3.3 Control variables

Numerous control variables that can influence firm value, political connections, and governance quality have been identified in earlier studies. Firm size, age, growth, and leverage are the most frequently used variables (*Amer, 2016; Chen et al., 2017; Salem et al., 2019; Wang et al. 2022).* The natural logarithm of the total assets is used to normalize extreme values when determining the firm size. Firm age is calculated as natural logarithm of firm age. Moreover, Firm growth can be calculated as the ratio of (Total assets of the current year - total assets of the previous year) to total assets of the previous year (*Habib et al., 2017; Sutrisno, 2019*). On the other side, the ratio of debt to equity is used to measure leverage. Moreover, a dummy variable representing Big 4 is used where it gets the value of 1 if the firm is audited by one of the big4 auditing firms, 0 otherwise.

## **Table 2: Variables Measurement**

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Variables	Description and notes					
Firm Value V	Firm Value Variables					
Tobin's Q	(Total market value of equity + total long-term debts) / (total assets).					
ROA	Net Income / Total Assets					
<b>Political Conn</b>	ections Variables					
PC CEO	A dummy variable equal to 1 for politically connected CEOs and 0 otherwise.					
PC LSH	A dummy variable equal to 1 for politically connected LSHs and 0 otherwise.					
PC BM	A dummy variable equal to 1 for politically connected BMs and 0 otherwise.					
PC GO	A dummy variable equal to 1 for GO and 0 otherwise.					
<b>Board Charac</b>	cteristics Variables					
Board size	Natural logarithm of the total number of board directors in the firm.					
Independency	The proportion of the number of independent directors to the total number of board					
	members.					
Board	The proportion of the number of female in the board of directors to the total number					
Gender	of board members.					
Diversity						
CEO Duality	A dummy variable equal to 1 if the CEO is also the Chairman of the board whereby					
	0 signifies that the positions of CEO and chairman of the board are occupied by					
	different directors.					
<b>Control Varia</b>	bles					
Firm Size	Natural logarithm of total assets.					
Age	Natural logarithm of firm age					
Growth	The ratio of (Total assets of the current year - total assets of the previous year) to					
	total assets of the previous year.					
Leverage	Ratio between financial debt and total assets					
Big4	A dummy variable equal to 1 if the firm is audited by one of the big 4 auditing					
	firms, 0 otherwise.					

#### **3.4. Econometric models**

In order to investigate the impact of independent variables on a dependent variable, the study used the following models.

#### **3.4.1** Political connections and firm value

The subsequent regression model is created to test the first research hypothesis:

## Model A: Firm value measured by Tobin's Q

Tobin's  $Q_{it} = \alpha + \beta_1 PC CEO_{it} + \beta_2 PC LSH_{it} + \beta_3 PC BM_{it} + \beta_4 PC GO_{it} + \beta_5 SIZE_{it} + \beta_6$  $AGE_{it} + \beta_7 GRO_{it} + \beta_8 LEV_{it} + \beta_9 Big 4 + \varepsilon_{it}$ 

#### Model B: Firm value measured by ROA

 $ROA_{it} = \alpha + \beta_1 PC CEO_{it} + \beta_2 PC LSH_{it} + \beta_3 PC BM_{it} + \beta_4 PC GO_{it} + \beta_5 SIZE_{it} + \beta_6 AGE_{it} + \beta_7 GRO_{it} + \beta_8 LEV_{it} + \beta_9 Big 4_{it} + \varepsilon_{it}$ 

#### 3.4.2 Board characteristics and firm value

In order to investigate the second research hypothesis, the following regression model is developed:

#### Model A: Firm value measured by Tobin's Q

Tobin's 
$$Q_{it} = \alpha + \beta_1 BS_{it} + \beta_2 IND_{it} + \beta_3 GD_{it} + \beta_4 DUAL_{it} + \beta_5 SIZE_{it} + \beta_6 AGE_{it} + \beta_7$$
  
 $GRO_{it} + \beta_8 LEV_{it} + \beta_9 Big 4_{it} + \varepsilon_{it}$ 

#### Model B: Firm value measured by ROA

 $ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 IND_{it} + \beta_3 GD_{it} + \beta_4 DUAL_{it} + \beta_5 SIZE_{it} + \beta_6 AGE_{it} + \beta_7 GRO_{it} + \beta_8 LEV_{it} + \beta_9 Big 4_{it} + \varepsilon_{it}$ 

#### 3.4.3 Political connections, Board characteristics and Firm value

In order to investigate the third research hypothesis, the following regression model is developed:

#### Model A: Firm value measured by Tobin's Q

 $To bin's Q_{it} = \alpha + \beta_1 PC CEO_{it} + \beta_2 PC LSH_{it} + \beta_3 PC BM_{it} + \beta_4 PC GO_{it} + \beta_5 BS_{it} + \beta_6$  $IND_{it} + \beta_7 GD_{it} + \beta_8 DUAL_{it} + \beta_9 SIZE_{it} + \beta_{10} AGE_{it} + \beta_{11} GRO_{it} + \beta_{12} LEV_{it} + \beta_{13} Big4_{it} + \varepsilon$ 

#### Model B: Firm value measured by ROA

 $ROA_{it} = \alpha + \beta_1 PC CEO_{it} + \beta_2 PC LSH_{it} + \beta_3 PC BM_{it} + \beta_4 PC GO_{it} + \beta_5 BS_{it} + \beta_6 IND_{it} + \beta_7 GD_{it} + \beta_8 DUAL_{it} + \beta_9 SIZE_{it} + \beta_{10} AGE_{it} + \beta_{11} GRO_{it} + \beta_{12} LEV_{it} + \beta_{13} Big4_{it} + \varepsilon_{it}$ 

#### 4. Empirical Results

#### 4.1. Descriptive statistics

Table 3 demonstrates the descriptive statistics and reports the summary statistics of dependent and independent variables.

This table reports the times series averages of summary statistics for the major variables. Panel A lists the statistics for the full sample continuous variables including firm characteristics variables i.e. Size, Age, Growth, and Leverage, in addition to two board characteristics continuous variables i.e. Board Size, Independency, and Gender diversity. Moreover, Panel A lists also firm value measurement variables i.e., ROA and

TQ. In Panel B, the research reports summary statistics for the full sample interval variables concerning firm characteristics i.e., represented as Big4; other represented interval variables are concerning political connections of CEO, large shareholders, board members other than CEO, and political connections through governance ownership i.e., PC CEO, PC LSH, PC BM, and PC GO. Moreover, Panel B also lists another board characteristic variable which is CEO duality i.e., Duality.

Panel A: Continuous Variables						
Variables	OBS	MIN	MAX	MEAN	Std Dev.	
SIZE	244	17.227	26.199	20.988	2.095	
AGE	244	2.079	4.736	3.419	.489	
GRO	244	915	8.948	.122	.619	
LEV	244	.009	3.177	.492	.307	
BS	244	3	15	8.049	2.535	
IND	244	0	1	.208	.183	
GD	244	0	.5	.092	.107	
ROA	244	-1.316	.253	.028	.118	
TQ	244	.113	8.93	1.268	1.142	
		Panel B: In	terval Var	riables		
Variable	OBS	1			0	
		Frequency	%	Frequency	%	
Big 4	244	85	34.840	159	65.160	
DUAL	244	100	40.980	144	59.020	
PC CEO	244	38	15.570	206	84.430	
PC LSH	244	40	16.390	204	83.610	
PC BM	244	80	32.790	164	67.210	
PC GO	244	48	19.670	196	80.330	

#### Table 3: Descriptive statistics of research variables

## 4.2. The normal distribution for continuous variables

For testing whether the research variables follow the normal distribution; *Shapiro-Wilk test* was used to determine if the distribution of the research variables complied with the normal distribution or not. Depending on the significance level, the distribution will consider a non-significant departure from the normal distribution if the p-value is more than 0.05, i.e., non-significant (*Field, 2009; Ali & Bhaskar, 2016*). This can be illustrated by the following table:

Table 4: Test of normality				
Shapiro-Wilk Test				
Variable	Statistic	Sig		

<b>C!</b>	4 402	0.000
Size	4.483	0.000
AGE	1.843	0.033
GRO	11.274	0.000
LEV	7.882	0.000
BS	2.866	0.002
IND	4.605	0.000
GD	5.292	0.000
ROA	9.916	0.000
TQ	9.620	0.000
Residuals	6.012	0.000

The significant values of all research variables are less than 0.05, as shown in table 4, showing that they were not all normally distributed. It is important to keep in mind that the research variables, when the normal distribution was tested for them, did not closely resemble it. It had no effect on the validity of the research model if the sample size was more than 30, and as a result, the non-normality of the research variables had no impact on the results (*Field, 2009*). Moreover, the research conducted Shapiro-wilk test for testing the normality of the residuals and the test revealed non-normality of the residuals with a significant value less than 0.05.

#### **4.3. Statistical analysis for testing hypotheses**

#### 4.3.1. Investigating the Impact of Political connections on Firm Value

For the research to investigate the impact of political connections on firm value, the research tests the first research hypothesis. Two different measures of firm value (ROA & Tobin's Q) are used as the dependent variable. Consequently, each distinct measurement of the dependent variable was used to test the first research hypothesis.

The study used linear regression analysis to determine the impact of political connections on firm value using Tobin's Q (TQ). The following analytical findings are listed in Table 5:

	Vä	alue Measured Dy	y IQ		
Variabla	Unstandardiz	zed Coefficients	P Value	Sig	
variable	В	Std. Error	1 value	big	
PC CEO	.612	.164	0	***	
PC LSH	.553	.151	0	***	
PC BM	.387	.131	.004	***	
PC GO	.205	.15	.174		

Table 5: Linear Regression	Analysis for	the Impact of	Political	Connections	on Firm
	Value Me	asured by TQ			

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			1			
SIZE	.021	.252	.934			
AGE	183	.129	.156			
Big4	.444	.127	.001	***		
LEV	115	.031	0	***		
GRO	077	.088	.387			
Constant	3.279	.817	0	***		
Measuremen	Measurements to assess the accuracy of the firm value estimation using $TQ$					
R			0.694			
$R^2$		0.482				
F sta	ut	21.707				
Number of Obs		244				
Sig		0.000				
515						

\*\*\* *p*<.01, \*\* *p*<.05, \* *p*<.1

#### Investigating the quality of the model estimations :

To determine whether there is a problem with multicollinearity between the independent variables, which prevents the research model from rigorously examining the relationship between each independent variable and the dependent variable, a multicollinearity test is necessary (*Field, 2009*). Two significant values of the (VIF) Variance Inflation Factor and Tolerance are provided by the research using the collinearity diagnostics metric. In other words, the VIF value should be less than 10 and the tolerance value should be greater than 0.05 to show that there was no multicollinearity between the research variables. The tests results revealed the inexistence of multicollinearity between the independent variables; this can be illustrated by the following table 6:

Variable	Collinea	Collinearity diagnostics			
	VIF	Tolerance (1/VIF)			
SIZE	1.481	.675			
LEV	1.462	.684			
AGE	1.366	.732			
Big4	1.273	.785			
PC GO	1.234	.81			
PC BM	1.22	.819			
PC CEO	1.195	.837			
PC LSH	1.086	.921			
GRO	1.031	.97			

Table 6: Multicollinearity	test results with	political com	nections as the i	independent
	vorio	hla		

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Political Connections, Board Characteristics and Firm Value: Evidence from Egypt

Osama Abd Almonem Abd Alhamid Maha Mohamed Rabei AL- Sayed Eid Mohamed

To verify the accuracy of the research model, the research is testing the heteroscedasticity, or differences in variance, of the errors. The following table 7 shows the results of using White's general test for heteroskedasticity to identify linear and non-linear types of heteroskedasticity:

Source	Chi <sup>2</sup>	Df	Р
Heteroskedasticity	88.140	49	0.001
Skewness	25.470	9	0.003
Kurtosis	3.490	1	0.062
Total	117.090	59	0.000
$chi^2(49) = 88.14$			
Prob > chi2 = 0.001			

Table 7: White's test for	homoscedasticity against	st unrestricted het	eroskedasticitv
	nonioseedastient, again		

Heteroskedasticity would be present if the chi-square was large. The previous table's high chi square value suggested that heteroskedasticity was likely an issue. In order to address the heteroskedasticity issue in residuals, the research will rely on generalised least square regression rather than OLS regression.

The research has to acknowledge serial correlation in the idiosyncratic error component in a panel-data model because it biases the standard errors and makes the results less effective in linear panel-data models. Although other tests for serial correlation in panel-data models have been developed, *Wooldridge (2002)* discusses a new test that is particularly appealing because it involves few assumptions and is simple to perform (*Drukker, 2003; Wooldridge, 2010*).

The presence of serial correlation in the errors is inferred if the p-value is less than or equal to the significance level, which is typically 0.05. We infer that there is no indication of serial correlation in the errors if the p-value is greater than 0.05. Consequently, the research found the p-value of the Wooldridge test to be 0.5848, which is greater than 0.05 indicating the inexistence of serial correlation in errors.

Consequently, OLS is extended to include heteroskedasticity using Generalized Least Squares (GLS). When the residuals of a model are discovered to be heteroscedastic (having non-constant variance), GLS regression is utilized. Given that the robustness test conducted on the research variables cannot be used as a foundation for OLS regression and that OLS regression is incompatible with the nature of the research variables, it appears that GLS regression is more appropriate in this situation (*Perron & González-Coya*, 2022).

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Panel data regression appears to be the most appropriate method for processing the data because the sample for this study is set up in this way (pooling of time series and cross-sectional observations). As Generalized Least Square (GLS) corrects for both autocorrelation and heteroskedasticity, the results from this model are more reliable and will increase the effectiveness of the coefficients for each variable in this study.

Unstandard	zed Coefficients P Value Sig		Sig
В	Std. Error	I value	big
.555	.08	0	***
.342	.084	0	***
.149	.062	.017	**
157	.152	.303	
.663	.09	0	***
072	.055	.19	
.168	.053	.002	***
046	.015	.002	***
061	.105	.562	
1.392	.416	.001	***
Measurements to assess the accuracy of the firm value estimation using TQ			
e Cal	756.207		
Obs	244		
	Unstandard           B           .555           .342           .149          157           .663          072           .168          046          061           1.392           ts to assess the a           e Cal           Obs	Unstandardized Coefficients           B         Std. Error           .555         .08           .342         .084           .149         .062          157         .152           .663         .09          072         .055           .168         .053          046         .015           1.392         .416           ts to assess the accuracy of the firm           c Cal         .75	Unstandardized Coefficients         P Value           B         Std. Error         P Value           .555         .08         0           .342         .084         0           .149         .062         .017          157         .152         .303           .663         .09         0          072         .055         .19           .168         .053         .002          046         .015         .002          061         .105         .562           1.392         .416         .001           ts to assess the accuracy of the firm value estimate         756.207           Obs         .244

 

 Table 8: Cross-sectional Time-Series FGLS Regression Analysis for the Impact of Political Connections on Firm Value Measured by TQ

\*\*\* *p*<.01, \*\* *p*<.05, \**p*<.1

The result of the generalized least squares (GLS) regression analysis showed that the coefficient estimates of political connections of CEO, large shareholders, and board members had a statistically significant p-value of less than 0.05. This indicates that the impact of political connections on firm value is not likely due to chance. However, the analysis also revealed that the political connections through governance ownership have an insignificant impact on firm value with a p-value greater than 0.05. In addition, the control variables of firm size, big 4, and leverage have a significant positive impact on firm value measured by TQ. On the other hand, the firm age and growth has an insignificant impact on firm value with a p-value greater than 0.05.

The chi-square value in the GLS regression model indicates the overall fit of the model, and a higher value suggests a better fit between the predicted values and the actual values of the dependent variable. In this case, the chi-square value of 756.207 indicates a good fit for the model. Additionally, the significant impact of political connections of CEO, large shareholders, and board members on firm value suggests

that these variables play an important role in determining firm value, while the insignificant impact of political connections through governance ownership suggests that this variable may not be as important in determining firm value. Finally, the significant positive impact of firm size, big 4, and leverage on firm value suggests that these variables also have an important role in determining firm value. Accordingly, the estimated model that explores the impact of the independent variables on TQ can be expressed as follows;

Tobin's  $Q_{it} = 1.392 + 0.555 PC CEO_{it} + 0.342 PC LSH_{it} + 0.149 PC BM_{it} - 0.157 PC$  $GO_{it} + 0.663 SIZE_{it} - 0.072 AGE_{it} + 0.168 Big4_{it} - 0.046 LEV_{it} - 0.061 GRO_{it} + \varepsilon_{it}$ 

Therefore, the first research hypothesis can be rejected due to the significant impact of political connections on TQ explored in the research results.

# Testing the robustness of the research model used for investigating the impact of political connections on firm value:

For investigating the robustness of the research model, the research has repeated the statistical analysis using an alternative measurement for the dependent variable (firm value) to ensure the reliability and validity of the findings. The alternative measurement chosen here is the Return on Assets (ROA). By using ROA as an alternative dependent variable, the research essentially tests whether the results hold up when using a different indicator of firm value. This approach can provide additional evidence of the stability and generalizability of their conclusions.

Variable	Unstandar	dized Coefficients	P Value	Sig	
variable	В	Std. Error	I value	Jig	
PC CEO	.078	.014	0	***	
PC LSH	.071	.013	0	***	
PC BM	.005	.011	.656		
PC GO	008	.013	.521		
SIZE	.034	.003	0	***	
AGE	.006	.011	.615		
Big4	021	.011	.059		
LEV	34	.018	0	***	
GRO	.052	.047	.268		
Constant	551	.071	0	***	

 Table 9: Linear Regression Analysis for the Impact of Political Connections on Firm

 Value Measured by ROA

Measurements to ass	ess the accuracy of the firm value estimation using ROA
R	0.796
$\mathbb{R}^2$	0.633
F stat	44.927
Number of obs	244
Sig	0.000

\*\*\* *p*<.01, \*\* *p*<.05, \**p*<.1

## Investigating the quality of the model estimations:

To verify the accuracy of the research model, the research is testing the heteroscedasticity, or differences in variance, of the errors. The following table 10 shows the results of using White's general test for heteroskedasticity to identify linear and non-linear types of heteroskedasticity:

heteroskedasticity				
Source	Chi <sup>2</sup>	Df	P	
Heteroskedasticity	166.480	49	0.000	
Skewness	142.620	9	0.000	
Kurtosis	1.160	1	0.281	
Total	310.270	59	0.000	
$Chi^2(49) = 166.48$				
$Prob > chi^2 = 0.0000$				

 
 Table 10: White's test for homoscedasticity against unrestricted heteroskedasticity

If the chi-square value is high, it indicates the presence of heteroskedasticity. The previous table's chi-square value was high, which suggests that heteroskedasticity could be a problem. To deal with the heteroskedasticity problem in residuals, the study will use Generalized Least Square (GLS) regression instead of OLS regression.

Moreover, the research must recognize the existence of serial correlation in errors, which can be determined by a p-value less than or equal to 0.05. Conversely, if the p-value is greater than 0.05, it implies that there is no evidence of serial correlation in errors. In this study, the Wooldridge test yielded a p-value of 0.1442, indicating that there is no serial correlation in errors.

Table 11: Cross-sectional Time-Series FGLS Regression Analysis for the Impact	of
Political Connections on Firm Value Measured by ROA	_

Variable	Unstandardized Coefficients		D Value	Si ~
variable	В	Std. Error	<b>P</b> value	Sig
PC CEO	.019	.005	0	***
PC LSH	.076	.016	0	***
PC BM	001	.006	.819	
PC GO	007	.009	.471	

SIZE	.026	.002	0	***
AGE	.012	.007	.087	
Big4	001	.005	.829	
LEV	224	.019	0	***
GRO	.007	.003	.027	**
Constant	459	.049	0	***
Measuremen	ts to assess the ac	curacy of the firm value	ue estimation	using ROA
Chi-square		236		
Number of obs		244		

\*\*\* *p*<.01, \*\* *p*<.05, \**p*<.1

The result of the generalized least squares (GLS) regression analysis showed that the coefficient estimates of political connections of CEO and large shareholders have a statistically significant p-value of less than 0.05. This indicates that the impact of political connections on firm value is not likely due to chance. However, the analysis also revealed that the political connections through board members and governance ownership have an insignificant impact on firm value with a p-value greater than 0.05. In addition, the control variables of firm size, leverage, and growth have a significant positive impact on firm value measured by ROA. On the other hand, the firm age and big 4 have an insignificant impact on firm value measured by ROA with a p-value greater than 0.05.

Additionally, the chi-square value in the GLS regression model indicates the overall fit of the model, and a higher value suggests a better fit between the predicted values and the actual values of the dependent variable. In this case, the chi-square value of 236 indicates a good fit for the model. Thus, the following is an expression of the estimated model that was used to robustly determine how the independent variable affected ROA:

## $ROA_{it} = -0.429 + 0.019 PC CEO_{it} + 0.076 PC LSH_{it} - 0.001 PC BM_{it} - 0.007 PC$ $GO_{it} + 0.026 SIZE_{it} - 0.012 AGE_{it} - 0.001 Big4_{it} - 0.224 LEV_{it} - 0.007 GRO_{it} + \varepsilon_{it}$

As a result of the research findings, there is a strong indication to reject the first research hypothesis. This is because the study reveals a significant impact of political connections on ROA.

#### **4.3.2. Investigating the Impact of Board Characteristics on Firm Value**

In order for the research to investigate the impact of board characteristics on firm value, the research tests the second research hypothesis. Two different measures of firm value (ROA & Tobin's Q) are used as the dependent variable. Consequently, each

distinct measurement of the dependent variable was used to test the second research hypothesis.

The research used linear regression analysis to determine the impact of board characteristics on firm value using Tobin's Q (TQ). The following analytical findings are listed in Table 12:

Variable	Unstandardi	ized Coefficients	P Value	Sig	
variable	В	Std. Error	1 value	big	
BS	.033	.026	.211		
IND	095	.359	.792		
DUAL	137	.037	0	***	
GD	.247	.022	0	***	
SIZE	.817	.222	0	***	
AGE	.148	.126	.241		
Big4	.41	.133	.002	***	
LEV	287	.131	.03	**	
GRO	106	.094	.261		
Constant	3.925	.869	0	***	
Measuremen	nts to assess th	e accuracy of the	firm value estin	nation using TQ	
R			0.641		
<b>R</b> <sup>2</sup>		0.411			
F stat		16.246			
Number of	Obs		244		
Sig			0.000		

Table 12: Linear Regression	Analysis for the	<b>Impact of Board</b>	Characteristics	on Firm
	Value Measur	ed by TQ		

\*\*\* *p*<.01, \*\* *p*<.05, \**p*<.1

#### Investigating the quality of the model estimations:

To determine if there is a problem with multicollinearity among the independent variables that could hinder the research model's ability to thoroughly investigate their relationship with the dependent variable, a multicollinearity test must be conducted *(Field, 2009).* Using the collinearity diagnostics metric, the research produces two significant values: the Variance Inflation Factor (VIF) and Tolerance. The VIF value should be less than 10, and the Tolerance value should exceed 0.05, indicating an absence of multicollinearity among the research variables. According to Table 13, the test results indicate no multicollinearity in the independent variables.

## Table 13: Multicollinearity test results with board characteristics as the independent variable

Variabla	Collinearity diagnostics			
v al lable	VIF	Tolerance (1/VIF)		
SIZE	1.808	.553		
LEV	1.337	.748		
BS	1.296	.771		
IND	1.291	.775		
AGE	1.252	.799		
Big4	1.222	.818		
GD	1.162	.86		
DUAL	1.156	.865		
GRO	1.022	.978		
Mean VIF	1.283			

To verify the accuracy of the research model, the research is testing the heteroscedasticity, or differences in variance, of the errors. The following table 14 shows the results of using White's general test for heteroskedasticity to identify linear and non-linear types of heteroskedasticity:

Table 14: White's test for homoscedasticity against unrestricted heteroskedasticity

Source	Chi <sup>2</sup>	Df	Р
Heteroskedasticity	83.540	52	0.004
Skewness	31.380	9	0.000
Kurtosis	3.660	1	0.056
Total	118.590	62	0.000
$chi^2(52) = 83.54$			
$Prob > chi^2 = 0.0036$			

Heteroskedasticity would be present if the chi-square was large. The previous table's high chi square value suggested that heteroskedasticity was likely an issue. In order to address the heteroskedasticity issue in residuals, the research will rely on generalized least square regression rather than OLS regression.

The presence of serial correlation in the errors is inferred if the p-value is less than or equal to the significance level, which is typically 0.05. We infer that there is no indication of serial correlation in the errors if the p-value is greater than 0.05. Consequently, the research found the p value of the Wooldridge test to be 0.3605, which is greater than 0.05 indicating the inexistence of serial correlation in errors.

Consequently, OLS is extended to include heteroskedasticity using Generalized Least Squares (GLS). When the residuals of a model are discovered to be heteroscedastic (having non-constant variance), GLS regression is utilized. Given that

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the robustness test conducted on the research variables cannot be used as a foundation for OLS regression and that OLS regression is incompatible with the nature of the research variables, it appears that GLS regression is more appropriate in this situation (*Perron & González-Coya*, 2022).

Variabla	Unstandardized	ndardized Coefficients		Sig
v al lable	В	Std. Error	I value	Sig
BS	.015	.008	.063	
IND	.082	.101	.418	
DUAL	058	.015	0	***
GD	.62	.188	.001	***
SIZE	.74	.073	0	***
AGE	032	.036	.373	
Big4	.156	.062	.012	**
LEV	082	.011	0	***
GRO	.318	.016	0	***
Constant	2.395	.222	0	***
Measurements to assess the accuracy of the firm value estimation using $TQ$				
Chi-square (	Cal	al 1193.870		
Number of C	Dbs	244		

Table 15: Cross-sectional	Time-Series FGLS	<b>Regression Analysis fo</b>	or the Impact of
Board Cha	racteristics on Firm	Value Measured by T	0

\*\*\* *p*<.01, \*\* *p*<.05, \**p*<.1

The results of the generalized least squares (GLS) regression analysis in the previous table 15 showed that; the coefficient estimate of board characteristics represented as duality and gender diversity to have a statistically significant p-value of less than 0.05. This indicates that the impact of board characteristics on firm value is not likely due to chance. However, the analysis also revealed that the board characteristics represented through board size and independency appeared to have an insignificant impact on firm value with a p-value greater than 0.05. In addition, the control variables of firm size, big 4, leverage, and growth have a significant positive impact on firm value with a p-value greater than 0.05.

The chi-square value in the GLS regression model indicates the overall fit of the model, and a higher value suggests a better fit between the predicted values and the actual values of the dependent variable. In this case, the chi-square value of 1193.870 indicates a good fit for the model. Additionally, the significant impact of board characteristics of duality and gender diversity on firm value suggests that these

variables play an important role in determining firm value, while the insignificant impact of board characteristics through board size and independency suggests that these variables may not be as important in determining firm value. Finally, the significant positive impact of firm size, big 4, leverage, and growth on firm value suggests that these variables also have an important role in determining firm value. Accordingly, the research model used to predict the TQ based on the dependent variables can be represented as follows;

Tobin's  $Q_{it} = 2.395 + 0.015 BS_{it} + 0.082 IND_{it} - 0.058 DUAL_{it} + 0.62 GD_{it} + 0.74$ SIZE<sub>it</sub> - 0.032 AGE<sub>it</sub> + 0.156 Big 4<sub>it</sub> - 0.082 LEV<sub>it</sub> + 0.318 GRO<sub>it</sub> +  $\varepsilon_{it}$ 

Consequently, the second research hypothesis must be rejected as the study results demonstrate a substantial impact of board characteristics on TQ.

# Testing the robustness of the research model used for investigating the impact of political connections on firm value:

For investigating the robustness of the research model, the research has repeated the statistical analysis using an alternative measurement for the dependent variable (firm value) to ensure the reliability and validity of the findings. The alternative measurement chosen here is the Return on Assets (ROA). By using ROA as an alternative dependent variable, the research essentially tests whether the results hold up when using a different indicator of firm value. This approach can provide additional evidence of the stability and generalizability of their conclusions.

value measured by ROA					
Variable	Variable Unstandardiz		D Voluo	Sig	
variable	В	Std. Error	<b>P</b> value	Sig	
BS	002	.002	.272		
IND	.215	.022	0	***	
DUAL	01	.011	.353		
GD	.356	.139	.011	**	
SIZE	.011	.008	.183		
AGE	.011	.011	.355		
Big4	021	.012	.071		
LEV	327	.019	0	***	
GRO	.036	.003	0	***	
Constant	567	.075	0	***	
Measurements	Measurements to assess the accuracy of the firm value estimation using ROA				

 Table 16: Linear Regression Analysis for the Impact of Board Characteristics on Firm

 Value Measured by ROA

R	0.767	
$\mathbf{R}^2$	0.589	
<b>F</b> stat	33.381	
Number of Obs	244	
Sig	0.000	

\*\*\* *p*<.01, \*\* *p*<.05, \**p*<.1

#### Investigating the quality of the model estimations:

To verify the accuracy of the research model, the research is testing the heteroscedasticity, or differences in variance, of the errors. The following table 17 shows the results of using White's general test for heteroskedasticity to identify linear and non-linear types of heteroskedasticity:

Source	Chi <sup>2</sup>	Df	Р
Heteroskedasticity	186.500	52	0.000
Skewness	134.350	9	0.000
Kurtosis	1.490	1	0.222
Total	322.350	62	0.000
$chi^2(52) = 186.50$			
$Prob > chi^2 = 0.0000$			

Table 17: White's test for homoscedasticity against unrestricted heteroskedasticity

Heteroskedasticity would be present if the chi-square was large. The previous table's high chi square value suggested that heteroskedasticity was likely an issue. In order to address the heteroskedasticity issue in residuals, the research will rely on generalized least square regression rather than OLS regression.

Additionally, the research should consider the presence of serial correlation in the errors which is inferred if the p-value is less than or equal to the significance level typically 0.05. We infer that there is no indication of serial correlation in the errors if the p-value is greater than 0.05. Consequently, the research found the p-value of the Wooldridge test to be 0.1109, which is greater than 0.05 indicating the inexistence of serial correlation in errors.

 

 Table 18: Cross-sectional Time-Series FGLS Regression Analysis for the Impact of Board Characteristics on Firm Value Measured by ROA

Variabla	Unstandardized Coefficients		D Voluo	Sig
variable	В	Std. Error	rvalue	Sig
BS	001	.001	.217	
IND	002	.011	.846	
DUAL	011	.004	.015	**
GD	.049	.023	.036	**

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SIZE	.027	.002	0	***
AGE	.001	.001	.234	
Big4	006	.004	.102	
LEV	232	.018	0	***
GRO	.023	.005	0	***
Constant	481	.047	0	***
Measurements to assess the accuracy of the firm value estimation using ROA				
Chi-square	Cal	309.329		
Number of	Obs	244		

\*\*\* *p*<.01, \*\* *p*<.05, \* *p*<.1

The results of the generalized least squares (GLS) regression analysis in the previous table 18 showed that; the coefficient estimate of board characteristics represented as duality and gender diversity to have a statistically significant p-value of less than 0.05. This indicates that the impact of board characteristics on firm value measured by ROA is not likely due to chance. However, the analysis also revealed that the board characteristics represented through board size and independence appeared to have an insignificant impact on firm value measured by ROA with a p-value greater than 0.05. In addition, the control variables of firm size, leverage, and growth have a significant positive impact on firm value measured by ROA. On the other hand, the firm age and big 4 has an insignificant impact on firm value with a p-value greater than 0.05. Accordingly, the research model used to predict the ROA based on the dependent variables can be represented as follows;

 $ROA_{it} = -0.481 + 0.001 BS_{it} + 0.002 IND_{it} - 0.011 DUAL_{it} + 0.049 GD_{it} + 0.27 SIZE_{it} - 0.001 AGE_{it} - 0.006 Big 4_{it} - 0.232 LEV_{it} + 0.023 GRO_{it} + \varepsilon_{it}$ 

The research findings strongly suggest rejecting the second research hypothesis, as the study uncovers a substantial impact of political connections on ROA.

## **4.3.3.** Investigating the Impact of Political Connections and Board Characteristics on Firm Value

For the research to investigate the impact of political connections and board characteristics on firm value, the research tests the third research hypothesis. Two different measures of firm value (ROA and Tobin's Q) are used as the dependent variable. Consequently, each distinct measurement of the dependent variable was used to test the third research hypothesis. The study used linear regression analysis to determine the impact of political connections and board characteristics on firm value using Tobin's Q (TQ). The following analytical findings are listed in Table 19:

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Characteristics on Firm Value Measured by TQ				
Variabla	Unstandardi	zed Coefficients	D Voluo	Sig
v al lable	В	Std. Error	rvalue	Sig
PC CEO	.588	.169	.001	***
PC LSH	.554	.16	.001	***
PC BM	.054	.05	.283	
PC GO	.157	.178	.379	
BS	.013	.028	.647	
IND	135	.366	.713	
DUAL	117	.035	.001	***
GD	.166	.072	.022	**
SIZE	.608	.224	.007	***
AGE	205	.134	.128	
Big4	.433	.129	.001	***
LEV	042	.016	.008	***
GRO	077	.089	.39	
Constant	3.285	.847	0	***
Measurements to a	ssess the accur	acy of the firm val	ue estimation u	sing TQ
R		0.677		
$\mathbb{R}^2$		0.485		
<b>F</b> stat		15.414		
Number of Obs		244	1	
Sig		0.000		

 Table 19: Linear Regression Analysis for the Impact of Political Connections and Board

 Characteristics on Firm Value Measured by TO

\*\*\* *p*<.01, \*\* *p*<.05, \* *p*<.1

## Investigating the quality of the model estimations:

In order to determine whether there is a problem with multicollinearity between the independent variables, which prevents the research model from rigorously examining the relationship between each independent variable and the dependent variable, a multicollinearity test is necessary (*Field*, 2009). Two significant values of the (VIF) Variance Inflation Factor and Tolerance are provided by the research using the collinearity diagnostics metric. In other words, the VIF value should be less than 10 and the tolerance value should be greater than 0.05 to show that there was no multicollinearity between the research variables. The tests results revealed the inexistence of multicollinearity between the independent variables; this can be illustrated by the following table 20:

 Table 20: Multicollinearity test results with political connections and board characteristics as the independent variable

Variabla	Collinearity diagnostics		
variable	VIF	<b>Tolerance (1/VIF)</b>	
SIZE	1.835	.545	

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PC GO	1.678	.596
BS	1.676	.597
LEV	1.494	.669
IND	1.486	.673
AGE	1.468	.681
PC BM	1.331	.752
Big4	1.288	.776
PC CEO	1.242	.805
DUAL	1.231	.812
PC LSH	1.194	.837
GD	1.193	.838
GRO	1.037	.964
Mean VIF	1.396	

To verify the accuracy of the research model, the research is testing the heteroscedasticity, or differences in variance, of the errors. The following table 21 shows the results of using White's general test for heteroskedasticity to identify linear and non-linear types of heteroskedasticity:

 Table 21: White's test for homoscedasticity against unrestricted

 heteroskedasticity

Source	Chi <sup>2</sup>	Df	Р			
Heteroskedasticity	111.290	98	0.169			
Skewness	26.770	13	0.013			
Kurtosis	3.420	1	0.065			
Total	141.480	112	0.031			
$chi^2(98) = 111.29$	9					
$Prob > chi^2 = 0.1693$	3					

Heteroskedasticity would be present if the chi-square was large. The previous table's high chi square value suggested that heteroskedasticity was likely an issue. In order to address the heteroskedasticity issue in residuals, the research will rely on generalized least square regression rather than OLS regression.

The presence of serial correlation in the errors is inferred if the p-value is less than or equal to the significance level, which is typically 0.05. We infer that there is no indication of serial correlation in the errors if the p-value is greater than 0.05. Consequently, the research found the p value of the Wooldridge test to be 0.5842, which is greater than 0.05 indicating the inexistence of serial correlation in errors.

Consequently, OLS is extended to include heteroskedasticity using Generalized Least Squares (GLS). When the residuals of a model are discovered to be heteroscedastic (having non-constant variance), GLS regression is utilized. Given that the robustness test conducted on the research variables cannot be used as a foundation

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for OLS regression and that OLS regression is incompatible with the nature of the research variables, it appears that GLS regression is more appropriate in this situation (*Perron & González-Coya*, 2022).

Variable	Unstandardiz	Unstandardized Coefficients		<b>C'</b> -			
variable	В	Std. Error	P value	Sig			
PC CEO	.511	.084	0	***			
PC LSH	.313	.094	.001	***			
PC BM	.214	.067	.001	***			
PC GO	.579	.555	.298				
BS	.001	.007	.935				
IND	.297	.018	0	***			
DUAL	.012	.008	.13				
GD	.314	.14	.025	**			
SIZE	053	.038	.162				
AGE	059	.059	.314				
Big4	.2	.055	0	***			
LEV	039	.017	.022	**			
GRO	.6	.103	0	***			
Constant	1.244	1.244 .444 .005 ***					
Measurements to assess the accuracy of the firm value estimation using TQ							
Chi-square (	Cal	606.308					
Number of O	bs	244					

 Table 22: Cross-sectional Time-Series FGLS Regression Analysis for the Impact of political connections and board characteristics on Firm Value Measured by TQ

\*\*\* *p*<.01, \*\* *p*<.05, \* *p*<.1

The results of the generalized least squares (GLS) regression analysis in the previous table 22 showed that; the coefficient estimates of political connections represented as PC CEO, PC LSH, and PC BM have statistically significant p-value of less than 0.05. Additionally, board characteristics represented as Independence and gender diversity to have a statistically significant p-value of less than 0.05. This indicates that the joint impact of political connections and board characteristics on firm value measured by TQ is not likely due to chance. However, the analysis also revealed that the political connections through governmental ownership PC GO and board characteristics represented through board size and Duality appeared to have an insignificant impact on firm value measured by TQ with a p-value greater than 0.05. In addition, the control variables of BIG 4, leverage, and growth have a significant positive impact on firm value measured by TQ. On the other hand, the firm size and age have an insignificant impact on firm value with a p-value greater than 0.05. Accordingly, the research model used to predict the TQ based on the dependent variables can be represented as follows;

Tobin's  $Q_{it} = 1.244 + 0.511 PC CEO_{it} + 0.313 PC LSH_{it} + 0.214 PC BM_{it} + 0.579 PC$   $GO_{it} + 0.001 BS_{it} + 0.297 IND_{it} + 0.314 GD_{it} + 0.12 DUAL_{it} - 0.053 SIZE_{it} - 0.057$  $AGE_{it} + 0.6 GRO_{it} - 0.039 LEV_{it} + 0.2 Big4_{it} + \varepsilon_{it}$ 

As a result, the study findings show a significant impact of political connections and board characteristics on TQ, leading to the rejection of the third research hypothesis.

# Testing the robustness of the research model used for investigating the impact of political connections on firm value:

For investigating the robustness of the research model, the research has repeated the statistical analysis using an alternative measurement for the dependent variable (firm value) to ensure the reliability and validity of the findings. The alternative measurement chosen here is the Return on Assets (ROA). By using ROA as an alternative dependent variable, the research essentially tests whether the results hold up when using a different indicator of firm value. This approach can provide additional evidence of the stability and generalizability of their conclusions.

Variable	Unstandardized Coefficients		P Value	Sig
	В	Std. Error		C
PC CEO	.01	.015	.476	
PC LSH	.08	.014	0	***
PC BM	.008	.012	.518	
PC GO	012	.015	.436	
BS	0.001	.002	.859	
IND	057	.031	.07	
DUAL	017	.011	.12	
GD	.017	.008	.025	**
SIZE	.043	.048	.363	
AGE	.001	.012	.917	
Big4	02	.011	.072	
LEV	342	.019	0	***
GRO	.036	.003	0	***
Constant	562	.073	0	***
Measurements to assess the accuracy of the firm value estimation using ROA				

 

 Table 23: Linear Regression Analysis for the Impact of Political Connections and Board Characteristics on Firm Value Measured by ROA

R	0.804	
$\mathbb{R}^2$	0.646	
F stat	29.804	
Number of Obs	244	
Sig	0.000	

\*\*\* *p*<.01, \*\* *p*<.05, \* *p*<.1

#### Investigating the quality of the model estimations:

To verify the accuracy of the research model, the research is testing the heteroscedasticity, or differences in variance, of the errors. The following table 24 shows the results of using White's general test for heteroskedasticity to identify linear and non-linear types of heteroskedasticity:

Source	Chi <sup>2</sup>	Df	Р
Heteroskedasticity	180.110	98	0.000
Skewness	146.780	13	0.000
Kurtosis	1.300	1	0.255
Total	328.190	112	0.000
$chi^2(98) = 180.1$	1		
$Prob > chi^2 = 0.000$	0		

Table 24: White's test for homoscedasticity against unrestricted heteroskedasticity

The presence of serial correlation in the errors is inferred if the p-value is less than or equal to the significance level, which is typically 0.05. We infer that there is no indication of serial correlation in the errors if the p-value is greater than 0.05. Consequently, the research found the p value of the Wooldridge test to be 0.1081, which is greater than 0.05 indicating the inexistence of serial correlation in errors.

 Table 25: Cross-sectional Time-Series FGLS Regression Analysis for the Impact of

 Political Connections and Board Characteristics on Firm Value Measured by ROA

Variable	<b>Unstandardized Coefficients</b>		P Value	Sig
	В	Std. Error		
PC CEO	.02	.006	0	***
PC LSH	.092	.014	0	***
PC BM	.005	.007	.432	
PC GO	007	.009	.445	
BS	001	.001	.18	
IND	024	.013	.059	
DUAL	013	.005	.008	***
GD	.057	.024	.017	**
SIZE	.03	.002	0	***
AGE	0.01	.001	.812	
Big4	005	.005	.383	
LEV	228	.02	0	***

GRO	.0	07	.004	.043	**
Constant	5	537	.05	0	***
Measurements to assess the accuracy of the firm value estimation using ROA					
Chi-square (	Chi-square Cal 284.742				
Number of C	)bs	244			

\*\*\* *p*<.01, \*\* *p*<.05, \* *p*<.1

The results of the generalized least squares (GLS) regression analysis in the previous table 25 showed that; the coefficient estimates of political connections represented as PC CEO and PC LSH have statistically significant p-value of less than 0.05. Additionally, board characteristics represented as Duality and Gender diversity to have a statistically significant p-value of less than 0.05. This indicates that the joint impact of political connections and board characteristics on firm value measured by ROA is not likely due to chance. However, the analysis also revealed that the PC LSH and political connections through governmental ownership PC GO and board characteristics represented through Independence and board size appeared to have an insignificant impact on firm value measured by ROA with a p-value greater than 0.05. In addition, the control variables of Size, leverage, and growth have a significant positive impact on firm value measured by ROA. On the other hand, the Big 4 and age have an insignificant impact on firm value with a p-value greater than 0.05. Accordingly, the research model used to predict the ROA based on the dependent variables can be represented as follows;

 $ROA_{it} = -0.537 + 0.02 \ PC \ CEO_{it} + 0.092 \ PC \ LSH_{it} + 0.005 \ PC \ BM_{it} - 0.007 \ PC \ GO_{it}$ - 0.001 BS<sub>it</sub> -0.024 IND <sub>it</sub> + 0.057 \ GD<sub>it</sub> - 0.013 \ DUAL <sub>it</sub> - 0.03 \ SIZE<sub>it</sub> + 0.01 \ AGE<sub>it</sub> + 0.007 \ GRO<sub>it</sub> - 0.228 \ LEV<sub>it</sub> - 0.005 \ Big4<sub>it</sub> + \varepsilon\_{it}

The research results strongly indicate the need to reject the third research hypothesis, as the study reveals a significant impact of political connections and board characteristics on ROA.

#### 5. Discussion of the Findings

This section discusses the main findings of the current research as follows;

#### **5.1. Political Connections and Firm Value:**

The research consistently demonstrates that political connections have a significant impact on a firm's value. Companies that establish strong ties with

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government officials, politicians, or regulatory bodies often enjoy various benefits, such as preferential treatment, access to government contracts, and regulatory advantages. As a result, politically connected firms tend to exhibit higher financial performance and increased market value compared to their non-connected counterparts. However, it is essential to note that the relationship between political connections and firm value is positive, as there is a significant impact of politically connected CEO, politically connected large shareholders, and politically connected board members other than CEO and large shareholders on TQ. On the other hand, the research revealed an insignificant impact of political connection through governmental ownership on TO. Additionally, the research results found a significant impact of politically connected CEO and politically connected large shareholders on ROA, while there an insignificant impact of politically connected board members other than CEO and large shareholders and political connections through governmental ownership on ROA. H1 can be rejected in the light of these findings which are consistent with the previous studies (Do et al., 2015; Wang et al., 2019; Wang & You, 2022; Pham, 2019; Peng & Luo, (2000); Sharma et al., (2020); Chen et al., 2017; Abdel-Fattah et al., 2020)

## **5.2. Board Characteristics and Firm Value:**

The composition and effectiveness of a firm's board play a crucial role in determining its value. Boards with a diverse range of expertise, independent directors, and strong leadership tend to positively influence firm performance and value. Effective boards are more likely to make informed strategic decisions, oversee management effectively, and safeguard shareholders' interests. Moreover, the presence of independent directors and appropriate governance mechanisms can mitigate agency problems and reduce the influence of self-interested actions, thus enhancing overall firm value. This was clear in the research results as the findings indicated a strong positive impact of the diversification of board members gender on firm value measured by both TQ and ROA. While on the other hand, the research revealed a significant negative impact of board size and the independence of board members on firm value measured by either TQ or ROA. According to these findings, H2 can be rejected which are consistent with the previous studies (*Shen et al., 2015; EL Ammari, 2022*).

## **5.3. Interaction between Political Connections and Board Characteristics:**

The research findings also reveal that the interaction between political connections and board characteristics is a crucial factor in shaping a firm's value. In politically sensitive industries or regions, having politically connected directors on the

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board can amplify the positive effects of political connections on firm value. However, an overly close relationship between political connections and the board may raise concerns of cronvism and weaken the board's independence and oversight abilities, potentially leading to negative consequences for firm value. This was evident in the research findings due to the significant impact of board independence and gender diversity on TQ while examining the joint impact of board characteristics and political connections on firm value. Additionally, when examining the combined impact of board characteristics and political connections on firm value, the research findings showed that the political connections of the CEO, large shareholders, and political connections of board members other than the CEO and LSH have a positive impact on TQ. These findings agreed with those of earlier research. On the other hand, research findings on the impacts of previous interactions on ROA show a significant positive impact of political connections of the CEO and large shareholders on company value as measured by ROA, whereas the impact of political connections of the board members other than CEO and LSH and political connections through governmental ownership were insignificant. According to the previous outcomes H3 can be rejected.

## 6. Conclusion

The study aimed to investigate the impact of political connections and board characteristics on firm value and a sample of listed companies in EGX was used for the period 2018 to 2022. The research findings have provided valuable insights into the complex relationship between corporate governance, political connections, and firm value. Through a comprehensive analysis of relevant literature and empirical studies, several key findings have emerged, shedding light on the significance of political connections and board characteristics in influencing a firm's value.

In conclusion, the impact of political connections and board characteristics on firm value is a complex and dynamic relationship that has been extensively studied in the field of corporate governance and political science. The research findings indicate that political connections can have both positive and negative effects on firm value, depending on the specific context and circumstances. On one hand, political connections can provide firms with access to valuable resources, government contracts, regulatory benefits, and favorable policies, which can enhance their financial

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performance and increase their market value. Politically connected firms may also benefit from reduced political risk, as they can navigate through uncertain and challenging economic and regulatory environments more effectively.

On the other hand, political connections may create problems, as they can lead to rent-seeking behaviors, cronyism, and corruption. These practices can undermine corporate governance mechanisms, distort market competition, and erode shareholder value. Politically connected firms may face reputational risks and legal consequences if their connections are perceived as unethical or if they are involved in illicit practices.

Regarding board characteristics, the composition and structure of the board of directors play a crucial role in determining firm value. Research suggests that diverse boards, with directors who possess expertise, experience, and integrity, tend to enhance firm value. Diverse boards bring different perspectives and viewpoints, fostering more robust decision-making processes. CEO Duality are referred to as the negative corporate governance measure; hence, their larger values indicate poorer governance.

Furthermore, studies indicate that the separation of ownership and control, as facilitated by a strong board, can mitigate agency problems, increase transparency, and improve firm performance. Boards with high levels of monitoring, active engagement, and strategic guidance can contribute to better corporate governance practices, as well as to the development and execution of effective long-term strategies, which ultimately enhance firm value.

In summary, while political connections can offer potential benefits to firms in terms of access to resources and favorable treatment, the impact on firm value is contingent upon the ethical and legal boundaries within which these connections operate. Board characteristics, on the other hand, have more consistent positive effects on firm value, particularly when they include diverse directors who actively fulfill their monitoring and strategic roles. Both areas warrant ongoing research and attention to better understand the implications of political connections and board characteristics for firm value and corporate governance in different institutional and regulatory contexts.

Finally, the research demonstrates that political connections and board characteristics are crucial determinants of firm value. Firms that strategically manage their political connections while maintaining an effective and diverse board are more likely to enhance their financial performance and overall value. However, it is essential to strike a balance between political connections and board independence to avoid potential risks associated with excessive political influence. A well-structured and diverse board can effectively channel the benefits of political connections toward

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value-creating activities. Conversely, firms with politically connected boards but lacking in diversity and independence may be more susceptible to rent-seeking behaviors and misuse of political ties, leading to potential reputational and financial risks.

Moreover, the findings highlight the importance of considering contextual factors in future research that can significantly influence the relationship between political connections, board characteristics, and firm value. Contextual factors, such as the country's institutional environment, legal system, and political landscape, can significantly moderate the impact of political connections and board characteristics on firm value. Countries with higher levels of corruption and weak institutional frameworks may experience a more pronounced effect of political connections on firm value. Similarly, the regulatory environment and governance norms of a country can influence the extent to which board characteristics affect firm value.

Overall, this research contributes to a deeper understanding of the dynamics between corporate governance, political connections, and firm value, providing valuable implications for policymakers, regulators, and corporate leaders seeking to optimize their firm's performance and value in a rapidly changing environment.

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