



Political Connections and Financial Performance of Companies Accepted in Tehran Stock Exchange

Majid Mazandarani¹, Ali Reza Ma'toufi^{*2}

¹Department of Accounting, Gorgan Branch, Islamic Azad University, Gorgan, Iran

²Corresponding Author, Department of Management, Gorgan Branch, Islamic Azad University, Gorgan, Iran

Abstract

Political behavior is one of the activities that are not necessary as part of a formal role in the organization, but they influence the distribution of benefits and shortcomings within the organization. In other words, political behavior includes activities that are carried out in an organization for the acquisition, development, use of power and other resources to achieve the priorities of a person, in a situation where uncertainty (or disagreement) about the options would have existed. The purpose of this research is Political Connections and Financial Performance of Companies Accepted in Tehran Stock Exchange. The research period is 2011-2011. In this study, 109 companies listed in Tehran Stock Exchange were selected as sample size. In order to test the hypothesis of the research, multiple regression was used and the results of the research showed that there is a positive and significant relationship between political communication and financial performance of the companies accepted in Tehran Stock Exchange.

Keywords: Political Connections, Financial Performance

Introduction

Empirical accounting studies have shown that economic, social and political structures such as legal-judicial systems, commercial and tax laws, the nature and type of relations defined in economy, customs, culture and political system, along with capital market pressures, are the behavior of managers, auditors, investors, Legislators and other market players influence financial reporting (Bushman and Piotroski, 2009). In developing countries, where their economic systems are often relationship-based, one of the main factors influencing management's motivation in financial reporting is one of the main factors influencing the political leadership of corporate executives and owners due to the statehood of companies and the influential large industries. On the economy and the economic system governing the country, the state economy. (Nikoomaram et al, 2013). The political economy insists that the relationships of power as the fundamental forces and processes in the market must be brought into the analysis and highlighted. The neglect of power relations in social, political or any other analysis is by no means justifiable. (Mosco, 2009). Ling et al (2016) States that a good relationship with the government can help companies access them to resources such as land and capital. Therefore, political relations in this way can affect the company's operations. Companies with strong relationships, more bank loans and, as a result, too much investment, can explain the impact of the image of political relationships on corporate performance. In other words, there is a negative relationship between political relations and asset returns.

Background Research

Abaszadeh (2016) In a research entitled "Investigating the Relationship between Political Connections and the Investment Level of Companies Accepted in the Tehran Stock Exchange", 114 companies from 2008 to 2014 reviewed. The results of analyzing corporate data using multiple regression at 95% confidence level showed that there is a significant direct relationship between political relations and the amount of investment in fixed assets and inventory of materials, and there is no relationship between political relations and the amount of investment in human resources. In another study, Correia (2012) In his research in the United States, he showed that companies that have political affiliations are fined less by the Securities and Exchange Commission. These companies push and influence the Stock Exchange Commission through communication with the congressional representatives and payment of their funds, which will make the commission less penalized. Also, the results of the research showed that companies whose quality of accounting information is lower than other companies use political relations to prevent the fine of the Stock Exchange Commission. Boubakri et al (2012) They examined the impact of political connections on corporate performance and financing decisions. The results of the research showed that the first companies after the establishment of political relations improve their performance and increase their debt. Second, political relations have a strong correlation with the change in leverage and operational performance. Third, companies with a political relationship have easier access to credit resources.

Methodology

The purpose of this study is to investigate the applied method and the method of data collection as a post-semis experimental post-event research in the field of positive accounting research that has been done using multivariate regression and econometric models. The statistical population of this study is the companies accepted in the Tehran Stock Exchange between 2011 and 2015.

Experimental Results

Descriptive Statistics

Descriptive statistics are referred to as sets of criteria that can provide the general characteristics of the data collected to the researcher. It should be noted that descriptive statistics can not generalize the results to general conditions, but only to provide an overview of the research, these criteria are used. In a compilation, descriptive statistics can be used to describe the characteristics of a category of information. The central parameters and dispersion are used for this purpose. Table (1) shows the descriptive statistics of the variables of the models that include the mean, maximum and minimum of the standard deviations.

Table (1) Descriptive statistics of model variables

Variable	Mean	Max	Min	Standard deviation
Financial performance	0/1189	0/6291	-0/4509	0/1339
Political Connections	0/1412	1/000	0/0000	0/3486
Independence of the board	0/6516	1/000	0/0000	0/2309
Board size	5/0733	7/000	4/0000	0/3812

The central central indicator is the mean, which represents the balance point and the distribution center, and is a good indicator of the centrality of the data. For example, the average for the board size is 5.07333, which indicates that most data is centered around this point. Spreading parameters are the criteria for determining the degree of dispersion of each other or their dispersion to the mean. The most important parameter of dispersion is standard deviation.

Test of research hypothesis

The research hypothesis) has a significant relationship between political relationships and corporate performance.

To test the first hypothesis, regression model (1) was used.

$$ROA_{it} = \beta_0 + \beta_1 PC_{it} + \beta_2 Indepen_{it} + \beta_3 Bsize_{it} + \varepsilon_{it} \quad \text{Model (1)}$$

According to table (2), in order to test the significance of the whole model from F statistics and to test the significance of regression coefficients from t statistic. Also, the coefficient of determination of R2 was used to examine the relationship between dependent and independent variables. The results of fitting the model (1) are presented in Table (2).

Table 2: Results of data analysis to test the first hypothesis

Variable	Coefficients	standard error	Statistics t	Sign
C	0/0619	0/0451	1/37	0/171
Political Connections	0/0238	0/0091	2/60	0/009
Independence of the board	0/0715	0/0127	5/63	0/000
Board size	0/0001	0/0087	0/02	0/983
Wald statistic	40/658	Wald statistic		0/000

Given the probability value obtained for the probability of a parent statistic less than 0.05, the assumption H0 is rejected, which indicates that all regression coefficients are not simultaneously zero. Therefore, at 95% confidence level, this model is significant. According to Table 2, the coefficient of political relations is equal to 0.0238, which is positive and the probability of statistical t for the political-political variable (PC_{it}) is equal to 0.009. This probability is less than the 0.05 error level. So the zero assumption is rejected. As a result, there is a significant relationship between political relations and corporate performance. As a result, the first hypothesis of research results in a 95% confidence level. It should be noted that among the control variables, the independence of the board of directors ($Indepen_{it}$) has a significant effect on corporate performance. Because the probability of t statistics for variables, the independence of the board is less than the error level of 0.05.

Discussion and conclusion

The experts believe that politics is a natural element of strategic decision makers. They define strategic decisions as engaging in material gain. This pushes managers to side by side to control information and form a coalition. More effective strategic decision makers do not have a positive view of political behavior. Since political behavior often refers to the use of information for personal gain by managers, it can be said that politics distorts the database and ends with a poor strategic decision making process that is easily visible and This political behavior is more likely to emerge where managers are confronted with financial issues. In fact, the result of the hypothesis test showed that a good relationship with the state could help companies to more easily access resources such as land and capital. Therefore, political relations in this way can affect the company's operations. Having good relationships with the government is a valuable social capital for business. In other words, political relationships have many benefits, such as market access privileges, tax cuts, easier access to credit, government subsidies, and so on. Their access to more and more resourceful resources places them in a more distinct position than other actors in the economic arena. Therefore, it can be concluded that the goals of managers in companies with political relationships are in line with the interests of shareholders and the managers of these companies are trying to create value and wealth for shareholders. Therefore, companies improve their performance by establishing political relations. Results of this hypothesis with results Faccio (2006), Boubakri et al (2012); Shen et al (2015) Compatibility. But with the results of the research Fan et al (2007); Faccio (2010) and Ling et al (2016) Not compatible.

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