

## The moderating role of director's financial expertise in political connections and corporate financial performance in Pakistan

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### ABSTRACT

Prior theoretical and empirical studies have suggested that political influence affects the application of corporate governance and firm performance enormously. However, several fundamental questions remain to be answered. To fill this knowledge gap, the study's main objectives are examining the direct impact of political connection on firm financial performance in Pakistani non-financial listed companies and the moderating effect of director's financial expertise on political connections and firm financial performance. The study utilised panel data of 220 firms from 2008 to 2017 and used panel corrected standard error regression analysis. The results show that political connection negatively impacted firm financial performance, and director financial expertise as a moderator strengthened the relationship between political connections and firm financial performance. This study's results supported political economy theory in that weak judicial systems and unstable political systems have immense effects on investor's rights. The study contributes to extending the existing literature on political connection by providing evidence of the impact of politically connected firms on firm performance in an emerging market. The study also deliberates on how the director's financial expertise contributes towards the relationship. The findings could be generalised to other countries with similar degrees of development and culture.

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## 1. Introduction

Modern corporations have faced numerous challenges for survival in the 21<sup>st</sup> century. Among the most significant challenges that need more attention are the appropriate education and financial expertise of company directors, particularly at top-level management. Researchers have provided abundant evidence that content knowledge alone is insufficient for hierarchical success, that is, job advancement or upward promotion, and that a unique combination of various capabilities and personality factors is required (Boudreau, Boswell, & Judge, 2001; Yukl, 2012; Laud et al., 2016). Due to worldwide corporate governance failures and accounting scandals in recent years, interest has grown in studying the role and responsibility of the board of directors in a firm and what tactics companies should use to enhance company performance. Among these tactics is developing linkages with politicians by engaging politicians on the board because companies believe that political connections (POCON) enhance a company's financial performance (FP). Interestingly, past studies have found that the impact of POCON on company FP was both positive and negative (Sokolov & Solanko, 2016; Dicko, 2016; Wang et al., 2018). For example, empirical evidence has confirmed that POCON positively impacts a company's FP (e.g., Ding et al., 2014; Unsal, 2017; Wang et al., 2018; Maaloul

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et al., 2018).. For example, empirical evidence has confirmed that POCON positively impacts a company's FP (e.g., Ding et al., 2014; Unsal, 2017; Wang et al., 2018; Maaloul et al., 2018). Politically connected companies have been found to enjoy substantial economic benefits due to systematic exchanges of favours between the companies and politicians (Chaney et al., 2011), a greater likelihood of being bailed out in times of economic distress (Faccio, Masulis, & McConnell, 2006), more favourable bank lending (Khwaja & Mian, 2005) and have better competitive positions and greater market power (Faccio, 2006). Conversely, some empirical evidence has found the POCON had a negative impact on company FP and reduced company efficiency (Faccio, 2010; Bliss & Gul, 2012; Dicko, 2016; Berkman & Galpothhage, 2017; Habib et al., 2017). Additionally, some researchers also found that the quality of the accounting information provided by politically connected companies was significantly lower than that of their non-connected peers (Chaney et al., 2011). In Pakistani settings, the prior researchers (e.g., Cheema et al., 2016; Saeed et al., 2016; Sadiq et al., 2019) argued that political connections reduced company financial performance. These results provided evidence that engaging politically connected directors (a politician's relative or close friends, government ownership, civil bureaucracy and military bureaucracy) is not that effective in Pakistan. One main reason is that most of these directors were not qualified or had a vested interest in joining these companies. Fan et al. (2007) and Cheema et al. (2016) reported that companies often appointed politically connected directors to serve on the board without any experience, appropriate qualifications or financial expertise but were appointed only based their political background. Therefore, these directors are unable to understand the complexities and dynamics of the markets in most cases that the incompetence of these boards is clearly shown in their decisions.

Some view that director financial expertise is an essential dimension of corporate governance and plays a vital role in governance (Ujunwa, Salami, & Umar 2013; Osazuwa et al., 2016). That is because an expert and competent and qualified board member can underpin a company's best practices by controlling undue political influence to protect investors and boost their confidence in a company. Such a scenario encouraged an examination of the moderating role of directors' financial expertise with political connections and company financial performance.

## **2. Literature Review and Hypothesis Development**

In emerging economies, political connections with companies are widespread (Jaffar & Abdul-Shakoor, 2016; Sadiq & Othman, 2017; Idris et al., 2020). Politically connected members often serve on the boards of companies in Pakistan (Faccio, 2010, Cheema et al., 2016; Maaloul et al., 2018; Aldhamari et al., 2020) along with relatives or close friends (Bliss & Gul, 2012; Cheema et al., 2016) and members of the civil and military bureaucracy (Faccio, 2006; Sadiq & Othman, 2017). Additionally, government ownership is common (Jaffar & Abdul-Shakoor, 2016; Sadiq & Othman, 2017). Therefore, to determine the complete intensity of POCON on firm financial performance, this study incorporated all of the dimensions of POCON (direct and indirect POCON). In this study, director financial expertise was examined as a moderator in relation to POCON and financial performance. The hypotheses development process is explained in detail below.

### *2.1 Political connection and firm financial performance*

The abundance of politicians in the corporate sector has created curiosity among researchers and academicians to comprehend the thought-provoking relationship between political connections and firm financial performance (Saeed et al., 2017; Wang et al., 2018; Sadiq et al., 2019). Additionally, prior literature has found that political connections impact firm financial performance, both positively and negatively. In terms of political economy theory, if a country has a robust judiciary system, stable political and sound economic system, investors will be more encouraged to invest in companies. Ultimately, this investment will improve a firm's financial performance as companies will have adequate fund to expand the business and enhance productivity and sales. So, the presence of a stable political environment and strong judiciary should have a positive impact of POCON on a company's financial performance. Based on the political economy theory, the helping hand approach occurs when politically connected directors capitalise upon their connections, which is eventually favourable for a company and the entire economy. For instance, some research believes that political connectedness will positively impact company financial performance (e.g., Boubakri, Cosset & Saffar, 2012; Lashitew, 2014; Maaloul et al., 2018). Some researchers (e.g., Dicko, 2016; Wang et al., 2018) found that politically connected companies have advantages over non-politically connected companies in a stable environment. In this instance, engaging politicians will bring positive changes, and, in turn, these positive changes will enhance the financial performance of a firm. Based on the political economy theory, board priorities are protecting the rights of investors and boosting investor morale. Also, agency theory has suggested that directors should play the role of an agent and work for the principals' best interest (Van Horne & Wachowicz, 2005). Even though some studies have found positive impacts for politically connected companies on firm financial performance, abundant empirical evidence has shown the negative impacts of POCON on firm financial performance. Certain researchers (Faccio, 2010; Cheema et al., 2016; Aldhamari et al., 2020) believe that political connections do not always work in a firm's favour. For instance, some have found that politically connected companies have low earnings' growth and return on sales (Jackowicz et al., 2014; Sadiq & Othman, 2017). Sadiq et al. (2019);

and Aldhamari et al. (2020) provided evidence of poor financial information quality by politically connected companies because of their engagement in accruals based-earning.

In emerging economies like Pakistan, several researchers (for instance, Saeed et al., 2015; Cheema et al., 2016; Sadiq et al., 2019) have found a negative impact of POCON on firm financial performance. These researchers provided two reasons for the negative relationship of POCON with firm performance. First, these listed companies lacked proper control of these politicians, and second, they lacked the capacity to benefit from these political linkages. Based on the political economy theory, stable political and sound judiciary systems are required to take advantage from the political connections. Unfortunately, both are lacking in Pakistan. Moreover, due to political instability, politically connected directors are more inclined towards a grabbing-hand approach, rather than prioritising the interests of companies. A high proportion of empirical evidence has found a negative association between POCON and firm FP.

Based on the above arguments, the following hypothesis is posited:

H1: *Political connections negatively influence the financial performance (ROE) of a firm.*

## 2.2 Director Financial Expertise as a Moderator

The current wave of corporate scandals, for instance, Wells-Fargo (fake account scandal), Volkswagen (the diesel gate scandal), Tesco (accounting irregularities), Patisserie Valerie (illicit overdrafts), and many more scandals have adversely affected the corporate world. In the modern-day corporate world, these financial scandals emphasised the importance of financial experts serving on the board of directors. In response to these scandals, several corporate governance reports (for instance, CalPERS in 1997, Blue Ribbon Commission report in 1998, SOX in 2002 and NYSE in 2004) have been issued. The primary focus of these reports was to recommend parameters and guidelines regarding the financial expertise of board members. According to Sarwar et al. (2018), after the Sarbanes-Oxley Act (SOX) of 2002, companies preferred to have more financial experts on the company board of directors. SOX (Section 407) required the Securities and Exchange Commission (SEC) to issue the rule of financial literacy. According to some researchers (Francis et al., 2012; Johl et al., 2015; Irianto & Anugerah, 2018), a financial expert and financial literate person is someone who has a degree in accounting or finance or has supervisory expertise (for instance five years' experience in audit or finance or compliance functions). These financially expert directors can play a key role in ensuring transparency, integrity and accountability on a wide range of corporate issues (Johl et al., 2015). Several researchers have studied the association between director financial expertise and firm performance, including Francis et al. (2012); Johl et al. (2015); Shaw et al. (2016); Merendino and Melville (2019); Erin et al. (2019); and Aluoch et al. (2020). These studies have produced mixed findings regarding the association of directors' financial expertise and firm performance. From the positive side, Gunner et al. (2008) stressed that it was important for board members to understand accounting principles and financial statements, which will lead to better board oversight and serve to the better interests of shareholders. Erin et al. (2019) found that the higher the proportion of board members holding degrees in finance-related fields, the higher the performance. Along the same line, Arumona et al. (2019); Harjoto et al. (2019); Swarnodeep and Aurelie (2019); Saidu (2019); and Aluoch et al. (2020) found a positive impact of director financial expertise on firm performance. According to Ettredge et al. (2019), directors with financial expertise are more effective based on resource-based theory. They can perform better on the board, as financial expertise enhances their competencies compared to independent directors. In contrast, when unstable political and weak judicial systems are present, based on political economy theory directors are more inclined towards grabbing-hand approach, the politicians (direct and indirect) and the rest of the management of the company prioritise their self-seeking objectives rather than focusing on a company's overall objectives (De Andres et al., 2020). According to Jaffar and Abdul-Shukoret al. (2016), the grabbing-hand approach suggests that engaging politicians (direct and indirect) on the BOD would influence the company board towards achieving the politicians' political goals of achieving social goals. As a result, it negatively affects a company's financial performance.

In the Pakistani case, the corporate governance codes in 2002, 2012, and 2017 did not address director expertise. Thus, in the Pakistani setting, director financial expertise remains a novel phenomenon. Moreover, little literature exists concerning the relation of POCON and director financial expertise with a company's financial performance. Additionally, the moderating relationship of the director financial expertise between POCON and company FP has not been documented yet in the Pakistani setting. Thus, the present study posits the following hypothesis:

H2: Director financial expertise moderates the relationship between POCON and company financial performance.

### 3. Method

#### 3.1 Data and Sample Size

The population data in this study were non-financial companies listed on the Pakistan Stock Exchange (PSE). The company financial performance and director financial expertise data were collected from annual reports and company websites from 2008 to 2017. The main reason behind selecting ten years period was because of the tenure of two political regimes. The data related to POCON were manually collected from the company annual reports, websites of the companies and Election Commission of Pakistan (ECP) websites (<http://www.ecp.gov.pk/>). The sample size of this study was 220 non-financial listed companies having a total of 2200 observations. The samples eliminated all financial institutions, companies with missing data for directors, and those companies whose data were missing due to delisting or mergers.

#### 3.2 Model Specifications

Two models were developed to achieve the objectives of the study. First, the regression model (Model I) was used to test the direct connexion of POCON on firm FP (ROE) with the control variables of FMSIZE, BIG4, LEVE and INDUS. Second, the regression model (Model II) was employed to examine the moderating effect of director financial expertise on the association between POCON and firm FP (ROE) with control variables including BIG 4, leverage, firm size, Industry effect and year effect.

The regression equations are expressed as follows:

$$\text{Model I} \quad \text{RoE}_{it} = \beta_0 + \beta_1 \text{PCs}_{it} + \beta_2 \text{LEV}_{it} + \beta_3 \text{BIG4}_{it} + \beta_4 \text{FMSIZE}_{it} + \beta_5 \text{INDUS effect}_{it} + \beta_6 \text{YEAR effect}_{it} + \varepsilon_{it}$$

$$\text{Model II} \quad \text{RoE}_{it} = \beta_0 + \beta_1 \text{PCs}_{it} + \beta_2 \text{DEF}_{it} + \beta_3 \text{PCs}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{FM SIZE}_{it} + \beta_7 \text{INDUS effect}_{it} + \beta_8 \text{YEAR effect}_{it} + \varepsilon_{it}$$

#### 3.3 Summary of Variable Measurement and Proxies used in Model I and Mode II

Table 1 presents a summary of variable measurements and proxies used in this study.

**Table 1**

*Summary of Variable measurements and proxies*

Variable	Measurement	Proxies used in previous studies
<b><u>Dependent Variable</u></b>		
Return On Equity (ROE)%	Earnings after Taxes / Total Shareholders' Equity	Buallay et al., 2017; Wang et al., 2018; Hamdan et al., 2019
<b><u>Independent Variable</u></b>		
Political Connections (POCON)	POCON is a dummy variable equal to 1 if a company is POCON and otherwise equal to 0.	Cheema et al., 2016; Saeed et al., 2016; Wang et al., 2018; Sadiq et al., 2019, Idris et al., 2020
<b><u>Moderating Variable</u></b>		
Director Financial Expertise's (DFEs)	The number of directors with financial expertise divided by the total number of directors on the BoD.	Johl et al., 2015; Erin et al., 2019
<b><u>Control Variables</u></b>		
<b><u>Firm Size (FMSIZE)</u></b>	The natural log of total assets.	Sokolov & Solanko, 2016; Ciftci et al., 2019
<b><u>BIG 4 (BiG4)</u></b>	The auditor is a dummy variable equal to 1 if the auditor is a Big4 audit firm and 0 if otherwise .	Juhmani, 2017; Sadiq & Othman, 2017; Sadiq et al., 2019
<b><u>Leverage (LEV)</u></b>	The ratio of total liabilities to total assets.	Bansal et al., 2016; Khan et al., 2016; Ciftci et al., 2019
<b><u>Industry (INDUS)</u></b>	Dummy variable 1 if the company is industry and 0 if otherwise.	Sadiq & Othman, 2017; Maaloul et al., 2018; Ciftci et al., 2019
<b><u>YEAR effect (YEAR)</u></b>	A dichotomous variable equal to 1 if the company i in the range of one of these years (2008 to 2017) and 0 if otherwise.	Sadiq & Othman, 2017

## 4. Results and Discussion

### 4.1 Descriptive Statistics

Table 2 shows the descriptive statistics for all of the variables in the main models of the study. Table 2 shows the minimum, maximum, mean, median, standard deviation skewness, and kurtosis of all the variables. These results were based on 2200 observations (220 firms) and for the ten-year period from 2008 to 2017.

**Table 2**  
Summary Statistics of the Variables used in the Analysis

Variable	N	Mean	SD	Min	Max	Skewness	Kurtosis
<b>Dependent Variables</b>							
ROE	2230	10.1157	22.4236	-62.77	68.31	-0.4876	4.0240
<b>Independent Variables</b>							
POCON	2230	0.5805	0.4935	0	1	-0.32643	1.1156
<b>Moderating Variables</b>							
DFEs	2230	2.10950	0.0979	0	0.5714	1.2482	4.9469
<b>Control Variables</b>							
LEVE	2230	0.60444	0.30348	0.05	1.88	1.60633	6.5197
BIG4	2230	0.43324	0.49564	0	1	0.26944	1.1026
FMSIZE	2230	14.5555	1.5552	9.25	20.36	0.1029	3.6167

Note: ROE represents Return on Equity calculated using Hamdan et al.'s (2019) model. POCON is the proxy of political connection, which contains all five attributes (both direct & indirect). DFEs represent director financial expertise, LEVE represents leverage, BIG4 is the top four audit firms globally; FMSIZE represents firm size.

#### 4.1.3 Correlation Matrix and Multicollinearity Test

Table 3 shows the Pearson correlation matrix where the highest correlation between variables was DFEs moderating variable and the interaction term POCON×DFEs at 0.677. According to Hair et al. (2006) if the highest value is less than 0.9, this means no multicollinearity issue is present.

**Table 3**  
Pearson's Correlation Matrix (2200 Observations)

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) ROE	1.000						
(2) POCON	0.001	1.000					
(3) DFEs	0.029	0.020	1.000				
(4) POCON*DFEs	-0.007	0.502***	0.677***	1.000			
(5) LEVE	-0.187***	-0.022	-0.054**	-0.088***	1.000		
(6) BIG4	0.240***	0.135***	0.206***	0.195***	-0.229***	1.000	
(7) FMSIZE	0.217***	0.233***	0.052**	0.112***	-0.184***	0.327***	1.000

Notes: ROE represents Return on Equity calculated using Hamdan et al. (2019) model. POCON is the proxy of political connection, which contains all five attributes (both direct & indirect) DFEs represents director financial expertise, LEVE represents leverage, BIG4 is the top four audit firms in the world; FMSIZE represents firm size. \*\*\* p<0.01, \*\* p<0.05, \* p<0.10. Table 1 defines all variables

According to Hamilton (2012), researchers cannot rely entirely on a correlation matrix to detect multicollinearity, and examining the variance inflation factor (VIF) test for collinearity among variables is important. According to Hair et al. (2006), the VIF value should not be greater than 10 to avoid the collinearity issue. This study has no multicollinearity problem, as shown in Table 4 because all values were less than 10.

**Table 4**  
Standard Tests on VIF Results

	VIF	1/VIF
POCON×DFEs	3.338	.3
DFEs	2.533	.395
POCON	1.893	.528
BIG4	1.21	.827
FMSIZE	1.192	.839
LEVE	1.08	.926
<b>Mean VIF</b>	<b>1.874</b>	

## 4.2 Regression Analysis

The current study employed the panel corrected standard error (PCSE) for regression analysis based on the diagnostic tests. Table 5 shows the main model. First, the Breusch and Pagan LM (B&P LM) test was conducted to decide whether the Pooled OLS or Random Effect Model was appropriate for the present study. The B&P LM test was rejected as  $H_0$ , 979.94 (0.000)\*\*\*,  $p < .01$ ), which suggested that Random Effects was a more appropriate model than Pooled OLS. Second, after the B&P LM test, further clarification required that a decision be made as to whether the fixed model or Random effect model was more appropriate. For that purpose, the Hausman test was conducted. The Hausman test was accepted as  $H_0$  needed clarification and the Hausman test was accepted as  $H_0$ , 9.93 (0.8707,  $p > .05$ ). The Hausman results demonstrated that the Random Effect Model was more appropriate than the Fixed Effect Model, which means that FEM was not an appropriate model compared to the REM for non-financial listed companies. Finally, further diagnostic tests examined heteroskedasticity and serial correlation problems. Heteroskedasticity and serial correlations issues were rejected at 52630 (0.000)\*\*\* and 40.048 (0.000)\*\*\*, respectively. Hence, the current study employed the Panel Corrected Standard Error technique. See Table 5.

**Table 5**

Main regression results (PCSE) for Model (Dependent Variables= ROE and 2200 Observations)

Variables	Coefficient	Z-Statistics
Constant	-15.569	(-2.57)**
POCON	-2.7352	(-3.84)***
LEV	-10.870	(-4.59)***
BIG 4	5.834	(4.67)***
CMSIZE	1.8480	(5.14)***
INDUS	Included	
YEAR	Included	
R <sup>2</sup>	0.1511	

Notes: ROE represents Return on Assets, calculated using Maaloul et al. (2018) model. POCON is the aggregate proxy of political connection direct & indirect both, which includes all five categories (politicians, close relatives and allies, government, army bureaucracy and civil bureaucracy) of political connections in a single proxy; indicator value 1 for politically connected companies and 0 otherwise, LEVE is the percentage debt to total assets, BIG 4 represents audit quality, BIG4 is the top four audit firms in the world; indicator value 1 for BIG4 auditors and 0 otherwise, CMSIZE is the log of total assets, \*\*\*, \*\*, and \* represent significant at 1%, 5%, and 10% levels respectively; t-statistics are in parentheses.

Table 5 indicates that POCON had a negative and ( $<0.01$ ) significant relationship with ROE. The negative association suggests that companies with political connections perform lower than non-politically connected companies. This result aligns with H1. These results align with Saeed et al. (2016) and Dicko (2018), who concluded that the ROE of politically connected companies was lower than non-politically connected companies. The political economy theory grabbing-hands approach supports the results of the present study. In such a case, management is entrenched, and politically connected directors prefer to engage in activities for their own benefits and establish personal links that could damage the interests of minority shareholders. Moreover, the present results do not align with either agency theory or resource dependency theory. Political directors on the board prioritise their own interests rather than those of the majority shareholders. So, in this kind of setting, the board of directors will lead a company towards agency problems. The board will be unable to use politicians properly as an external resource.

### 4.2.1 Sensitivity Test: The Moderating Effect of Director Efficacy

Table 6 presents the regression model with the director's financial expertise's moderating effect on the association between POCON and ROE). The results in Table 6 indicate that director's financial expertise enhances the negative linkage between political connection and ROE. The result does not support H<sub>2</sub>; hence, the hypothesis is rejected. The above-stated interaction terms results support the political economy theory. According to political economy theory, if there is a weak judicial, political, and economic system, then the company's directors and management will more be inclined towards the grabbing-hand approach to create personal linkages with these politicians and take personal benefits rather than protect and utilise company resources effectively.

Thus, company's strategy has led to a grabbing-hand approach, which adversely affects the company's financial performance. Moreover, according to Bertrand and Karmariz (2007) and Fan et al. (2007), the primary concern of management in engaging politicians on the board is to establish links with them rather than focus on the financial expertise of these politicians. In emerging economies like Pakistan, company management is well aware of the power, influence, and links of these politicians. Therefore, they are also more likely to appoint politicians to the board and management rather than nominate candidates with appropriate professional qualifications.

**Table 6**

Main regression results (PCSE) of Moderating Effect of Director Financial Expertise (Dependent Variable= ROE and 2200 Observations)

Variables	ROE	
	Coefficient	Z-Statistics
Constant	6.471	(2.35)**
POCON	0.688	(0.66)
DEFs	0.054	(0.15)
POCON × DEFs	-1.102	(-2.46)**
LEVE	-15.752	(-21.49)***
BIG 4	4.688	(8.99)***
CMSize	0.471	(3.04)***
Industry Effect:	Included	
Year Effect:	Included	
R <sup>2</sup>	0.2988	

Notes: \*\*\*, \*\*, and \* represent significant at 1%, 5%, and 10% levels respectively; t-statistics are in parentheses. DEFs is the composite score of director's financial expertise. All other variables are defined in Table 1.

## 5. Discussion

This study's objective was to investigate the association between political connection and firm performance among non-financial Pakistan listed firms. This paper provides empirical evidence of how the political connections of non-financial firms impact their performance, with a moderating variable, i.e., director financial expertise. This study used Pakistan as an empirical setting for several reasons. First, Pakistan is perceived as a country with a high level of corruption, and poor corporate governance, thus it is pertinent for this study to share its findings, emphasising the importance of politically connected firms in the country's economic activities. Second, Pakistan is a country commonly known for its political connections and its effects on firm behaviour. It is pertinent to study the level of political connections to predict future firm behaviour. Saeed, Belghitar and Clark (2019) commented that it is essential to study Pakistan's political connections with firm behaviour. Experience has shown that many Pakistani firms are politically connected, and even highly placed political individuals like the prime minister have been involved. Third, related issues stem from political connection such as tax issues, corruption and access to credit markets affect Pakistan's economic growth. Hence, it is essential to study Pakistan's environment considering emerging market growth is significant in Asia.

Congruent with the previous studies (Faccio, 2010; Cheema et al., 2016; Sadiq et al., 2019; Aldhamari et al., 2020), the results of this study showed that political connection harms firm performance. Several researchers have implied that political connections are expected to assist firms in allocating credit and the procurement of government contracts. In contrast, others have predicted that political influence is for personal interest rather than companies' interest. Regardless, the result of this study raises an important question for future study related to what caused the negative relationship between politically connected firms and firm performance. So far, no affirmation answer to this question has been found as previous studies do not elaborate upon this concern. However, this study assumed politicians depend on the firms to support their political agenda, resulting in low firm performance. If this is so, stakeholders and the like should pay more attention and there should be regulatory control to lobbying contribution to the political parties. This paper suggests that the securities commission should regulate the involvement of politically connected firms. Also, political contributions should be regulated to monitor the misuse of power by the political parties.

In general, the management of the companies engaged politically connected directors on the board to utilise their links as external resources of the firm to enhance the performance. However, in emerging economies like Pakistan, the negative result of present study provide support of the argument that company management engaged politically connected directors to utilise the links of politically connected directors to achieve management's personal interests rather than to use these links in favour of company and majority shareholders. As a result, firm financial performance was unsatisfactory as political connections harmed firm performance.

In an additional analysis, the study also found that the role of director's financial expertise was significant in a politically connected firm as this expertise impacted firm performance. The negative result of the interaction term of director financial expertise strengthened and gave furtherance to the impact of political connection in influencing ROE. One reason for this may be that the Pakistan code of corporate governance (2017) is silent about director financial expertise. Due to undefined policies, companies are taking advantage of the vague rules of corporate governance code to engage politically connected directors who do not have any financial expertise or qualifications. This study results support the argument that most political directors in listed firms in Pakistan are not well educated, particularly in terms of financial expertise, and have poor managerial skills, which adversely affect the company's financial performance. As a result, minority shareholders and the company face troubles derived from their self-centred decisions.

## 6. Conclusion

The study investigated the impact of political connection on organisational performance in Pakistan. Contrary to the expectations, political connection in Pakistan was negatively associated with firm performance. The findings of this study support political theory, agency theory, and resource-based theory. This study advances the existing literature in two ways. First, the findings extend the literature in this area of interest. The finding that there are adverse effects of politically connected firms and firm performance in a weak regulated and poor governance country could be of use to study the trend of their non-financial firm performance. For example, financial institutions could use the findings to give credit to politically connected companies. Second, the result is unique. Although many studies have found otherwise, the inverse relationship between politically connected firms and firm performance implied that politically connected firms in Pakistan probably serve the personal interests of management rather than the interests of firms.

Like any other study, this research has limitations. One major limitation and challenge was the difficulty in collecting data because no Datastream database exists to collect information in Pakistan. This meant that data were manually collected. A second limitation was that this study was constrained to the ten-year period from 2008 to 2017. Other periods might have different results. Third, this study examined only non-financial firms.

In future studies, researchers should examine other dimensions such as female directors serving on the board, director remuneration, audit, and risk, as moderators on the relationship between POCN and firm performance. They also might consider financial firms. Lastly, researchers might consider other countries in Asia with different cultural and regulation.

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