



The effect of political connections on companies' performance and value: Evidence from Tunisian companies after the revolution

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Abstract

Purpose – The objective of this paper is to examine the effect of companies' political connections on their financial and stock performance, as well as on their market values.

Design/methodology/approach – A sample of non-financial companies listed on the Tunis Stock Exchange (TSE) between 2012 and 2014 was used. The accounting and financial data of these companies were obtained from their financial statements, whereas data on political connections of their officers and directors were collected manually from various sources. Correlation and multivariate regression analyses were performed to test the hypothesis of this research.

Findings – The results showed that political connections improve companies' performance and value. These results could be explained, on the one hand, by the benefits and favours that companies can get from their political ties and, on the other hand, by investors' tendency to invest in politically connected companies to benefit from these advantages.

Research limitations/implications – The limited number of non-financial companies listed on the Tunis Stock Exchange (TSE) is a limit for this research.

Practical implications – Our results show that investment in companies which are politically interconnected may be beneficial for investors, and especially for small minority shareholders.

Social implications – Our results confirm that political links are essential for business success in emerging economies, such as Tunisia. However, the positive link between politics and business might highlight the issue of corruption after the revolution.

Originality/value – To the best of our knowledge, this is the first study to examine the effect of political connections on the performance and value of Tunisian companies after the 2011 revolution.

Keywords: Political connections, performance, market value, Tunisia.

Note: In this study, we target no businessman or politician, no political party, no business, and no officer or director. The objective of this study is purely academic and scientific.

Introduction

In many countries, politicians are famous entrepreneurs and wealthy businessmen^[1]. This interaction between politics and business has been explained by the benefits generated for both politicians and businesses.

According to Brogaard *et al.* (2015), the existence of a political power in the company helps its officers and directors have an impact on laws and regulations and gives them access to inside information, which enables them to anticipate economic changes and reduce uncertainty. On the other hand, the entry to the world of business allows politicians to receive financial support during periods of elections, essentially in the form of donations.

The entry of several politicians into the business world (or several businessmen in the political arena) encouraged some researchers to study the impact of political connections on the quality of financial statements (Chaney *et al.*, 2011), the financial analysts' forecasts (Chen *et al.*, 2010), the cost of equity (Boubakri *et al.*, 2012a), the characteristics of corporate governance (You and Du, 2012), the social responsibility strategies (Lin *et al.*, 2014), and financing decisions (Boubakri *et al.*, 2012b).

Other researchers have examined rather the effect of political connections on the company's performance and value (Li *et al.*, 2008; Gilabert, 2011; Jacowicz *et al.*, 2014). However, the results of the previous research studies are generally mixed^[2].

These mixed results may be explained by the differences of the political systems and the levels of institutional and economic development of the studied countries that make the interpretation of results difficult. In other words, the results of previous studies are closely linked to the context.

Although most of the past research studies focused on developed countries, which are known for reliable legal systems and low corruption levels, it would be interesting to examine this issue in developing (emerging) countries. These countries are characterized by a weak institutional setting, a massive intervention by government, ineffective companies' governance structure, a high level of nepotism, corruption, and informal relationships (Faccio, 2006; Attia *et al.*, 2016). These characteristics create a business-friendly environment for building political relationships with the government and ensure political favours in terms of resources controlled by the government.

1 In fact, in the emerging countries, business depends on the government because it controls most of the
2
3 scarce resources. However, companies are always trying to find strategies to benefit from those
4
5 resources and achieve a competitive advantage. One such strategy is to co-opt directors with political
6
7 experience. Moreover, companies could invite people who hold a governmental position to join their
8
9 boards of directors.

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11 In this context, Tunisia seems an ideal subject for the study of the political connections phenomenon
12
13 for a variety of reasons. First, since the 2011 uprising, several businessmen entered into the political
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15 arena and became members of political parties and/or the constituent assembly (Parliament). Also, the
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17 Tunisian Government controls most of the scarce resources and banks and it has a considerable impact
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19 on business. Finally, like other emerging economies, the Tunisian institutional setting is characterized
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21 by the importance of formal and informal relationships, a weakness of the legal system and a high
22
23 level of corruption.
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26
27 To the best of our knowledge, this study is the first to examine the effect of the political connections
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29 on the performance and value of Tunisian companies after the revolution.
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31 The rest of this article is structured as follows: Section 2 describes the Tunisian institutional
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33 framework. The previous literature's synthesis of the **companies' political connections** is presented in
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35 Section 3. Section 4 presents the theoretical background and develops the research hypothesis while
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37 the methodological aspects of our study are detailed in Section 5. The results and analyses are covered
38
39 in Section 6. The final section summarizes and concludes with suggestions for future research.
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44 **Institutional framework**

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46 According to the African Development Bank (2012), the nine largest Tunisian companies, in terms of
47
48 turnover, are state-owned where the commodity prices are controlled by the government. The
49
50 Organisation for Economic Co-operation and Development (2012) adds that Tunisian public
51
52 companies hold monopoly positions in many areas, including imports and exports, and that about 50
53
54 percent of the Tunisian economy belongs to sectors subject to restrictions on access.
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1 Indeed, by the end of 2011, there were 104 public companies in the portfolio of the Tunisian
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3 Government in 14 strategic sectors, such as industry, transport, banking, infrastructure, etc.

4
5 These companies, which have a major role in the economic activity, enjoy many advantages,
6
7 including tax benefits in the form of tax exemptions and capital transfers. They can also receive
8
9 funding, such as credits and preferential loans from the Government banks as well as guarantees with
10
11 respect to general management of debts for companies in financial difficulty. However, these forms of
12
13 aid are not available for all businesses, mainly private businesses.

14
15
16 The absence of fair conditions between companies and the development of restrictions on the
17
18 activities of the private sector encourage companies to forge political links with the government in
19
20 order to limit growth impediments. In other words, to invest in these sectors, companies adopt a
21
22 political connection.

23
24 This interaction between business and politics was observed and intensified after the 2011 uprising in
25
26 which several businessmen entered into the political arena and became members of political parties
27
28 and/or the constituent assembly (Parliament). Indeed, during the rule of the dictator Ben Ali, only
29
30 three functioned as independent opposition parties. The number of legalised political parties in Tunisia
31
32 has grown considerably since the revolution to reach now more than 100 legal parties (Sy, 2014).

33
34 Unfortunately, this democratization has intensified the problem of corruption, as seen in many other
35
36 poor countries^[3]. Indeed, corruption in Tunisia has multiplied during the last few years, mainly after
37
38 the revolution. According to the *Corruption Perceptions Index* (CPI) published by *Transparency*
39
40 *International* in 2014, Tunisia fell from the 30th place internationally in 2001 to 79th place in 2014
41
42 (see Figure 1).

43
44
45
46 **[Insert Figure 1 here]**

47
48 The president of *Transparency International* explained this classification as being related to the abuse
49
50 of power by politicians and senior officials that hinders economic growth, and to efforts to fight
51
52 against corruption. This corruption has affected various fields including the public sector, media,
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54 politics, the judiciary, security, and customs.

1 The World Bank (2014) also issued a report on corruption in Tunisia showing that corruption
2
3 increased after the revolution because of the increase of fraud in imports by ordinary companies and
4
5 the intensification of informal trade.
6

7 Recently, the chairman of the *National Anti-corruption Authority* in Tunisia announced that three
8
9 ministers and CEOs of public institutions (without disclosing their names) are linked to corruption
10
11 cases. They are suspected to be involved in misappropriation of public funds, fraud in the results of
12
13 public procurement contracts, competition and recruitment, and bribes in public services (Dejoui,
14
15 2017). The corruption in public contracting alone is costing the country nearly \$1 billion a year, about
16
17 2.4 billion Tunisian dinars (Gall, 2017).
18
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20 In order to combat this scourge of corruption, the Tunisian Government declared war on corruption on
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22 May 23, 2017. The campaign started with the arrest of a prominent businessman and former
23
24 presidential candidate in 2014, and one of the biggest smuggling barons and wealthy businessmen
25
26 who is known for his links with some politicians (Gall, 2017; Nasri, 2017).
27
28

29 The intensification of corruption during the past few years, especially after the revolution, the change
30
31 in the political landscape, and the integration of businessmen in politics make Tunisia an ideal setting
32
33 to study the effect of political connections on a company's performance and value.
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36 37 38 **Literature synthesis**

39
40 So far, there has been no generally accepted definition of the political connection. The definitions
41
42 used by the researchers in previous studies are usually multiple and varied. Each author used a
43
44 definition specific to the studied context (institutional environment).
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46 According to most researchers, a company is identified as politically connected if its leaders (CEO,
47
48 chairman or members of the Board) are 1) embedded in the political arena, 2) engaged in other
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50 governmental activities, 3) in a friendly relationship with politicians, or 4) known for their political
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52 past (Faccio, 2006; Chen *et al.*, 2010; Gilabert, 2011; Boubakri *et al.*, 2012a; Goldman *et al.*, 2013 ;
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54 Su and Fang, 2013; Pérez *et al.*, 2015; Bao *et al.*, 2016).
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1 While some researchers are interested in examining the benefits of political connections for
2 companies, other researchers studied the costs imposed by **these political connections**. Still other
3 researchers examined the effect of the **political connections** on the **companies' performance and value**.
4
5 Among the advantages of the **political connections**, some researchers found that, compared to non-
6 connected companies, politically connected firms get preferential access to credit (Li *et al.*, 2008;
7 Chow *et al.*, 2012; Boubakri *et al.*, 2012b; Yeh *et al.*, 2013; Yang *et al.*, 2014; Lashitew, 2014),
8 preferential treatment from government-controlled banks (Chen *et al.*, 2011; Chen *et al.*, 2014), and a
9 higher leverage while paying less interest and giving fewer guarantees (Faccio, 2006).

10
11 Other researchers also showed that politically connected firms have more contracts and government
12 grants (Min, 2011; Wu *et al.*, 2012; Batta *et al.*, 2014), more tax benefits in the form of tax deductions
13 and tax cuts (Adhikari *et al.*, 2006; Li *et al.*, 2008; Faccio, 2010; Wu *et al.*, 2012), and are less likely
14 to be pursued by the Securities and Exchange Commission (SEC) of the United States, due to pressure
15 from politicians on this committee (Correia, 2014).

16
17 Regarding the costs associated with **political connections**, some researchers showed that politically
18 connected firms are more likely to have boards of directors dominated by former or current
19 government bureaucrats who generally have low degrees of professionalism (Su *et al.*, 2014). They
20 are also more likely to appoint other politicians to the board and to management rather than to
21 nominate candidates with appropriate professional training (Bertrand and Kramarz, 2007; Fan *et al.*,
22 2007).

23
24 Other researchers also found that directors of politically connected companies usually have a sense of
25 impunity that leads to fraudulent behaviour (Bourveau *et al.*, 2014) and are less likely to be fired (You
26 and Du, 2012). Some researchers also showed that the quality of the accounting information provided
27 by politically connected companies is significantly lower than that of their non-connected peers
28 (Chaney *et al.*, 2011).

29
30 Finally, some researchers found that **political connections** have a positive effect on both performance
31 (Hillman, 2005; Boubakri *et al.*, 2012b; Su and Fung, 2013; Ding *et al.*, 2014) and **companies' value**
32 (Goldman *et al.*, 2009; Coulomb and Sangnier, 2014; Pérez *et al.*, 2015; Civilize *et al.*, 2015).

1 However, other researchers showed that **political connections** have a rather negative effect on both
2 performance (Fisman, 2001; Faccio, 2006; Menozzi *et al.*, 2011; Liu *et al.*, 2013.) and **companies'**
3 **value** (Fan *et al.*, 2007; Liu *et al.*, 2013).
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10 **Theoretical background: political connections and companies' performance and value**

11 The effect of **political connections** on companies' performance and value is unclear. Although
12 **political connections** can generate various benefits that should improve companies' performance and
13 value, they may also lead to the expropriation of **non-controlling shareholders** and the entrenchment of
14 politically connected managers.
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20 *The positive effect of political connections on companies' performance and value*

21 On the one hand, Hillman *et al.* (2009) **suggest** the application of resource dependence theory on
22 political action. According to this theory, the company is an open system that depends for its survival
23 and growth on the existing resources in the external environment (Pfeffer and Salancik, 1978). This
24 theory indicates the importance of linking the company with its external environment through its
25 board of directors because boards act as providers of resources that are lacking internally (Pfeffer and
26 Salancick, 1978; Hillman *et al.*, 2009).
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35 **Political power is considered as a major force in the external environment and a critical basis of**
36 **external interdependencies (Hillman *et al.*, 2009).** Pfeffer and Salancik (1978) argue that in
37 conformity with resource dependence theory, companies seek to form ties with political actors in
38 order to reduce dependencies on scarce resources controlled by external entities. This theory views
39 **political connections** as an effective way to manage environmental uncertainties. These connections
40 come out through the government integration of directors or their integration in the political parties. In
41 fact, the directors act as suppliers of resources in accordance with organisational requirements.
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50 **Several studies** have been based on the resource dependence theory to explain the positive link
51 between performance and the political connections (Hillman *et al.*, 2009; Guo *et al.*, 2014; Bona-
52 Sanchez *et al.*, 2014; Jackowicz *et al.*, 2014). In fact, political connections can facilitate the
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1 acquisition of resources through loans, contracts, and government grants, which positively affects the
2 company's performance and value.
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5 **Similar to Guo *et al.* (2014)**, we suggest that the value of political ties is more important in emerging
6 and transition economies. Take Tunisia, for example, where the lack of control over scarce resources
7 in the environment creates significant uncertainty for firms operating in that environment.
8 Additionally, the Tunisian government has had a central role during the period of economic transition
9 after the revolution. Since the revolution, some Tunisian managers tend to be connected politically to
10 moderate environmental uncertainties and to create competitive advantages. As political actors, they
11 effectively make policies, allocate resources, and approve projects.
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20 On the other hand, the resource-based theory assigns a greater importance to internal factors, such as
21 corporate resources, some of which form the basis for sustainable competitive advantage (Wernerfelt,
22 1984). Political connections are regarded as a key and scarce intangible resource that enables
23 companies to gain government support and therefore gain a competitive advantage and produce higher
24 performance (McWilliams *et al.*, 2002; Su *et al.*, 2014; Wu *et al.*, 2012). In fact, the presence of
25 politicians-directors constitutes a resource and a key to success that competitors could not possess.
26 Furthermore, Bonardi (2011) examines corporate political resources with the lens of resource-based
27 theory of the firm and argues that having politicians on the board seems to have a significant effect on
28 the firm's ability to obtain favours from governments.
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40 For both theories: resource dependence and resource-based, political connections are considered as a
41 competitive advantage and a valuable resource that is not available for all companies. In addition,
42 these theories imply that political connections possess the ability to improve company's performance
43 and value. The combination of these two theories led us to the development of the following
44 hypothesis:
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50 **Ha:** Political connections have a positive effect on a company's performance and value.

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53 ***The negative effect of political connections on companies' performance and value***

54
55 **Some researchers** consider that political connections increase agency problems (Cao *et al.*, 2011; Ding
56 *et al.*, 2015; Bona-Sanchez *et al.*, 2014). Indeed, managers-politicians can feel protected by their
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1 political connections and therefore can use their power via their entrenchment and the expropriation of
2
3 minority shareholders to achieve goals that are not suitable for the maximization of the company's
4
5 value (Su *et al.*, 2014).
6

7 On the one hand, political connections can also increase the majority shareholders' motivation to
8
9 expropriate the minority shareholders' wealth in pursuing their own social and political goals (Bona-
10
11 Sanchez *et al.*, 2014). More specifically, Tunisian politically connected companies are characterized
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13 by weak protection for minority shareholders owing to the weaknesses of the disciplinary constraints
14
15 encountered by these companies (Attia *et al.*, 2016). Consequently, controlling shareholders might
16
17 have the incentive to expropriate minority shareholders, and so the market, in response, evaluates the
18
19 ownership concentration negatively (Lemmon and Lins, 2003).
20
21

22 On the other hand, the political connections can affect corporate governance by increasing the
23
24 entrenchment of politically connected managers (Cao *et al.*, 2011). Generally, entrenched and
25
26 politically connected directors prefer to engage in activities that could damage the interests of
27
28 minority shareholders.
29
30

31 Using a sample of Polish non-financial firms, Jackowicz *et al.* (2014), find that political connections
32
33 lower firm profitability. In a similar study, Jaffar and Abdul-Shukor (2016) find that political
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35 connections have a negative effect on performance of Malaysian companies. These results indicate
36
37 that political connections would actually destroy companies' value. Other things being equal, our
38
39 hypothesis will be reformulated as follows:
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41

42 **Hb:** Political connections have a negative impact on a company's performance and value.
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46 **Methodology**

47 **Sample**

48 Our sample includes all companies listed on the Tunis Stock Exchange (TSE) between 2012 and
49
50 2014. From this initial sample, we made the following eliminations (See Table 1).
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54 **[Insert Table 1 here]**
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1 As in previous studies, financial institutions, such as banks, insurance, and leasing companies were
2
3 dropped from our sample due to the different accounting rules and performance models applied to
4
5 these institutions relative to commercial and industrial companies. Moreover, we excluded companies
6
7 for which accounting and financial data were missing because of a merger or delisting. This reduced
8
9 our final sample to 32 non-financial companies, or 96 observations for the 2012/2014 period.

11 The choice of the 2012/2014 period is motivated by the fundamental changes in the political
12
13 landscape in Tunisia after the 2011 uprising. In fact, before 2011, there was only one political party
14
15 which dominated the whole economic activity of the country. However, after the revolution, the
16
17 situation changed as the number of political parties multiplied. This drove businessmen, on the one
18
19 hand, to enter political life and, on the other hand, encouraged politicians who had governmental
20
21 activities to join companies' boards. Finally, the 2011 data were excluded due to the political and
22
23 economic instability that accompanied the uprising.
24
25

26 Table 2 shows the distribution of our sample by sector. As shown in the table, our sample is mainly
27
28 composed of industrial companies that represent 50% of our overall sample, followed by the transport
29
30 sector (12.52%). Companies in the food, distribution, real estate, and telecommunication sectors
31
32 represent 9.37% each of our total sample. These figures reflect the characteristics of the Tunis Stock
33
34 Exchange (TSE) where most listed companies belong to the industrial sector.
35
36

37
38 **[Insert Table 2 here]**
39

40 ***Data source***

41
42 Our sample companies' accounting and financial data were collected from their financial statements
43
44 available on the website of the TSE.
45

46 The data regarding the political connections were manually collected from various sources. In a first
47
48 step, we created a list of officers and directors of our sample companies using information available
49
50 on the website of the TSE and in annual reports. Then, from the names of these people, we browsed
51
52 the economic and political websites (companies' websites, the Tunisian business website
53
54 (www.leaders.com), lists of campaign contributions, the list of constituent assembly members, and the
55
56 Tunisian personality list of the business sector published by Wikipedia, etc.) to look for the non-
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1 visible information about these people. Finally, from these websites, we collected the personal data
2
3 about these officers and directors. These data took into account both the professional and political
4
5 careers of the officers and directors.
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10 ***Variable measurement***

11 *Dependent variables*

12
13 As in the previous studies, we used return on assets (ROA) to measure financial performance, Tobin's
14
15 Q to measure the stock market performance, and the log of market capitalization to measure the
16
17 market value of a company. These three variables are determined as follows:
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19

- 20 • Return on assets (ROA) is measured by the ratio of “net income to total assets”. It is used as a
21
22 proxy for the company’s financial performance (Fan *et al.*, 2007; Wu *et al.*, 2012; Su and Fung,
23
24 2013; Brockman *et al.*, 2013; Ding *et al.*, 2014).
25
26
- 27 • Tobin's Q (Q) is used rather as a proxy for the company’s stock market performance. It is
28
29 calculated by dividing the company’s market value by the replacement value of its assets. The
30
31 market value is equal to the equity market (stock price × number of outstanding shares) plus the
32
33 total debt value; while the asset replacement value is equal to the book value of total assets (Su
34
35 and Fung, 2013; Ding *et al.*, 2014; Pérez *et al.*, 2015).
36
37
- 38 • The market capitalization log (MC) is used as a proxy for the company's market value. This
39
40 variable is calculated by multiplying the company’s share price by the number of its common
41
42 shares (Goldman *et al.*, 2009). In an efficient market, if the information about the political
43
44 connections is relevant for investors, it should be integrated immediately and completely in the
45
46 company’s share price.
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50 *Independent variable*

51
52 The independent variable in this study is the **political connections** (PC). This is a dichotomous
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54 variable that takes value 1 if the firm is politically connected and 0 otherwise.
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1 According to previous literature, a company is politically connected if at least one of its members
2
3 (CEO, chairman, or members of the board): 1) belongs to a political party, 2) has a key government
4 position, 3) is known by his political past, or 4) is connected to a politician through direct family ties
5 (Faccio, 2006; Chaney *et al.*, 2011; Boubakri *et al.*, 2012a,b; Goldman *et al.*, 2013; How *et al.*, 2014;
6 Pérez *et al.*, 2015; Infante and Piazza, 2014; Yu *et al.*, 2015).

14 *Control variables*

15
16 To control the potential effect of the company's characteristics on its performance and value, the
17 following variables were used:

- 18 • The company's size (SIZE) is measured by the log of total assets (Fan *et al.*, 2007; Bliss and Gul,
19 2012; Ding *et al.*, 2014; Pan and Tian, 2015; Pérez *et al.*, 2015).
- 20 • The leverage level (LEV) is measured by the ratio between the book value of debt and total assets
21 (Li *et al.*, 2008; Chen *et al.*, 2011; Bliss and Gul, 2012; Su and Fang, 2013; Pérez *et al.*, 2015).
- 22 • The directors' independence (INDEP) is measured by the ratio of the number of outside directors^[4]
23 to the total number of directors (Yeh *et al.*, 2013; Su and Fung, 2013).

24
25 Following prior studies (Faccio, 2010; Boubakri *et al.*, 2012b; Ding *et al.*, 2014; Infante and Piazza,
26 2014), we also controlled for sector and year effect:

- 27 • The sectors are: industrial sector, food sector, distribution sector, transport sector, real estate
28 sector, and telecommunication sector. The sector is a dichotomous variable that takes the value 1
29 if the company belongs to one of these sectors and 0 otherwise^[5].
- 30 • The years are: year 2012, year 2013 and year 2014. The year is a dichotomous variable that takes
31 the value 1 if the company belongs to one of these years and 0 otherwise^[6].

Empirical models

To answer our research objective, we intend to empirically test the three following regression equations related to the financial performance model (Model 1), the stock market performance model (Model 2), and the company's market value model (Model 3):

$$ROA_{it} = \beta_0 + \beta_1 PC_{it} + SIZE_{it} + LEV_{it} + INDEP_{it} + Sector\ effect_{it} + Year\ effect_{it} + \varepsilon_{it} \text{ (Model 1)}$$

$$Q_{it} = \beta_0 + \beta_1 PC_{it} + SIZE_{it} + LEV_{it} + INDEP_{it} + Sector\ effect_{it} + Year\ effect_{it} + \varepsilon_{it} \text{ (Model 2)}$$

$$MC_{it} = \beta_0 + \beta_1 PC_{it} + SIZE_{it} + LEV_{it} + INDEP_{it} + Sector\ effect_{it} + Year\ effect_{it} + \varepsilon_{it} \text{ (Model 3)}$$

With

ROA_{it} = Return on Assets (ROA) of company i at time t

Q_{it} = Tobin's Q of company i at time t

MC_{it} = Log of market capitalization of company i at time t

PC_{it} = **Political connections** of company i at time t

$SIZE_{it}$ = Size of company i at time t

LEV_{it} = Leverage level of company i at time t

$INDEP_{it}$ = Directors' independence in company i at time t

$Sector\ effect_{it}$ = A dichotomous variable equal to 1 if company i belongs to one of these sectors (industrial, food, distribution, transport, or real estate) and 0 otherwise

$Year\ effect_{it}$ = A dichotomous variable equal to 1 if company i belongs to one of these years (year 2012 or year 2013) and 0 otherwise.

Empirical results

Descriptive statistics

Table 3 shows the distribution of the study sample according to a company's **political connections**. As indicated in the table, there are 49 observations out of a total of 96 observations considered politically connected, or 51 % of the overall sample.

[Insert **Table 3** here]

To examine the distribution of the politically connected companies in detail, we classified, in **Table 4**, these 49 observations **by year, by position, by definition, and by sector**.

[Insert **Table 4** here]

Table 4 shows that **political connections** (PC) rose from 28.57 % in 2012 to 34.69 % in 2013 to reach 36.74 % in 2014. This could be explained by the proliferation of political parties that were created after the 2011 uprising and the political stability that followed it. Indeed, the further we get from the uprising date, the more stable the political scene will be. This stability may drive companies to create political ties with the government. In this context, Lu and Choi (2013) argue that there are more political connections in companies of countries where political systems are more stable.

Table 4 also shows that companies are generally politically bound by their directors who represent 77.55 % of people connected to the company. The proportions of the politically connected **boards' chairmen/CEOs (combined)** and boards' chairmen are 8.16 % and 12.25 %, respectively. However, the proportion of connected CEOs represents only 2.04 % of the total number of politically connected persons. Moreover, **Table 4** shows that **political connections** in Tunisia are usually developed by the co-opting of persons occupying a government position (44.90 % of those politically connected in the company) as well as people belonging to a political party (48.98 %). However, people known by their political past represent only 6.12 % of those who are connected politically to the company.

Table 4 also shows that the importance of **political connections** in Tunisia differs from one sector to another. Actually, most of the politically connected firms belong to the industrial sector (42.86 %). The real estate and transport sectors have the second and third places regarding the importance of politically connected companies (18.37 % and 16.33 %, respectively). The weakest politically connected company rates are in the distribution and food sectors (12.24 % and 10.20 %, respectively). It is worth noting that the telecommunication sector in Tunisia contains no politically connected companies. These results may be explained by the nature of our sample, which is already dominated by the industrial sector. Moreover, it is not surprising that the **political connections are** more developed in the industrial sector, which is considered a crucial sector from the political and economic point of view and plays a strategic role in creating the country's wealth. Companies operating in this

sector are not only heavily controlled by the government but also dependent on the resources it controls. To take advantage of these resources, it is necessary for this sector to develop political ties with the government. These results are similar to those found in China by Su and Fung (2013) who argue that **political connections are** more important in industry because it is a key sector to promote the national interest. The World Bank (2014), in its report, adds that 45 % of the politically connected companies in Egypt operate in industrial sectors and, in addition, are heavily subsidized by the Government.

Before doing the **correlation and regression analyses**, it is interesting to compare the study variables between politically non-connected and connected companies. **Table 5** presents the *t*-test mean difference results.

[Insert Table 5 here]

This table shows that the average return on assets (ROA) is higher in the connected companies (0.052) than in the non-connected ones (0.022), and that the mean difference is statistically significant at 10% threshold. Regarding the stock market performance (Q), the results also show that politically connected companies are, on average, better performing than the non-connected ones ($1.904 > 1.526$) with a significance level of 5%. The same holds true for the mean market value (MC) which is statistically and significantly higher (at 1% level) in politically connected companies (2.103) than in the non-connected ones (1.610). These results confirm those found by Su and Fung (2013) in China where politically connected companies are much more efficient than the non-connected ones. This is likely attributable to the positive contribution of political connections.

Moreover, **Table 5** shows that the size (SIZE) of the politically connected companies in Tunisia is on average larger than that of the non-connected ones ($18.620 > 17.773$), and that the mean difference is statistically significant at 1% threshold. This result confirms the findings of Faccio (2006), who shows, using an international sample, that political connections are common in larger firms. It also indicates that politicians generally join large companies to benefit from the size effect of these companies. The average level of leverage (LEV) of connected companies is also higher than that of the non-connected ones ($0.617 > 0.524$), which proves the political favouritism in terms of obtaining

1 bank loans. However, this mean difference is not statistically significant at conventional levels.
2
3 Finally, regarding the independence of the Board of Directors (INDEP), Table 5 shows that the
4 average difference between the two groups of companies is small but non-significant: 0.361 for
5 politically connected companies and 0.342 for the non-connected ones. This result indicates that the
6 governance quality of politically connected companies is not usually different from that of the non-
7 connected ones.
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16 **Correlation analysis**

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18 Pearson's correlation coefficients between the variables are presented in Table 6.
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20 [Insert Table 6 here]
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22 As shown in this table, political connections (PC) are positively and significantly correlated with
23 financial performance (ROA), stock market performance (Q), and market value (MC). This implies
24 that politically connected firms outperform their non-connected counterparts. These results support
25 our **H_a** hypothesis according to which political connections have a positive effect on the companies'
26 performance and value. They also confirm the results of previous studies which found that politically
27 connected firms reap benefits in terms of performance and market valuation from their ties with
28 politicians (Boubakri *et al.*, 2012b; Su and Fung, 2013; Pérez *et al.*, 2015).
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31 Table 6 also shows that political connections (PC) are positively and significantly correlated with the
32 company's size (SIZE). This confirms that politicians generally join large companies to benefit from
33 the size effect of these companies. The other control variables, namely the leverage level (LEV) and
34 the directors' independence (INDEP), do not seem to be significantly correlated with the political
35 connections (PC). Since there is no correlation between the studied variables that exceeds the limit of
36 0.7, it can be concluded that there is no multi-collinearity problem in our empirical models.
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53 **Regression analysis**

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55 The correlation analysis results are a first approach to test our hypothesis. We continue to test our
56 hypothesis through the multivariate regression analysis of the financial performance model (ROA),
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1 the stock market performance model (Q), and the market value model (MC). The ordinary least
2 squares (OLS) regression results related to these three models are presented in **Table 7**.

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4
5 **[Insert Table 7 here]**
6

7 As shown in the table, each of the regression models seems to be satisfactory since Fisher's F values
8 are globally significant. Moreover, the adjusted R² varies between **36.0 %** for the financial
9 performance model (ROA), **22.0 %** for the stock market performance model (Q), and **79.2 %** for the
10 market value model (MC). This implies that there is at least one independent variable that might
11 explain the variation of the dependent variable.
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17 In accordance with the correlation analyses, **Table 7** shows that the **political connections (PC)** have a
18 positive and significant effect on financial (ROA) and stock market (Q) performance as well as on
19 market value (MC), which supports our **H_a** hypothesis. These results confirm evidence in Boubakri *et*
20 *al.* (2012b) and Brockman *et al.* (2013) who found that politically connected firms are more profitable
21 than non-politically connected firms, especially in countries with weak legal systems or high levels of
22 corruption like Tunisia^[7]. Our results could be explained by the benefits and favours gained from
23 political ties that will, therefore, improve the company's performance and value. Indeed, our findings
24 are in accordance with the resource dependence theory according to which firms will adjust
25 themselves to line up the external environment to secure more resources controlled by the
26 government. They are also in line with the resource-based theory according to which **political**
27 **connections** are regarded as an intangible resource that enables companies to gain government support
28 and therefore gain a competitive advantage and produce higher performance (Su and Fung, 2013).
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44 The positive effect of **political connections** on companies' performance and value can reflect that
45 political directors/CEOs create value through their networks and have an influence on the
46 development of laws that affect a company's competitiveness, or through the achievement of favours
47 that benefit the company (Faccio, 2006; Goldman *et al.*, 2009; Boubakri *et al.*, 2012b; Pérez *et al.*,
48 2015).
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54 Moreover, the positive association between **political connections** and market value seems to indicate
55 that investors tend to invest more in politically connected companies to benefit from these advantages.
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1 These results are in accordance with the idea that the **political connections** could be beneficial for
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3 businesses and investors, and confirm the results of the previous studies (Goldman *et al.*, 2009; Sheng
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5 *et al.*, 2011; Boubakri *et al.*, 2012b; Civilize *et al.*, 2015).

6
7 Regarding the control variables, **Table 7** shows that the company's size (SIZE) is negatively and
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9 significantly associated with the stock market performance (Q). This result indicates that the larger the
10
11 company is, the weaker its performance will be. This could be explained essentially by the fact that
12
13 the company size in Tunisia necessarily imposes agency problems, which is in conformity with the
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15 study by Pérez *et al.* (2015). However, the association between the company's size (SIZE) and market
16
17 value (MC) is significantly positive. This result could be explained by investors' tendency to invest in
18
19 large companies without taking into account their performance levels.

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21 The company's leverage level (LEV) is also negatively and significantly associated with its financial
22
23 performance (ROA) and market value (MC). This result indicates that a high leverage level has a
24
25 negative impact on both the company's performance and value. This negative relationship could be
26
27 attributed to the misuse of resources in the Tunisian companies. It also confirms the results found by
28
29 Su and Fung (2013) in China.

30
31 Finally, **Table 7** shows that the directors' independence (INDEP) has a positive and significant effect
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33 on the stock market performance (Q) and **the company's market value** (MC). This indicates that the
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35 quality of governance in Tunisian companies could play a role in improving their performance and
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37 stocks levels. This result is in agreement with the agency theory according to which the existence of a
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39 high proportion of external directors helps limit the managerial opportunism, protects the
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41 shareholders, and reduces the agency costs through the reduction of the rent-seeking act by the leaders
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43 and by giving a better representation of the stakeholders' interests (Jensen and Meckling, 1976).
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51 ***Sensitivity test: The moderator effect of political connections***

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53 Previous studies showed that the effect of the political connections (PC) on the **companies'**
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55 performance and value may be indirect, through the firms' characteristics, such as the size, leverage,
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57 and the directors' independence. To carry out a further statistical analysis, we propose to test the
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1 moderating effect of political connections (PC) in the relationship between the companies'
2 characteristics and their performance and values. For this reason, we created three interactive
3 variables, SIZE*PC, LEV*PC and INDEP*PC, and re-estimated our three regression models. The
4 results of the OLS regression related to the moderator effect of the political connections are presented
5 in Table 8.
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11 [Insert Table 8 here]

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13 The results in Table 8 confirm that political connections (PC) still have a positive and significant
14 direct effect on financial performance (ROA). However, the direct effect of the political connections
15 (PC) on the stock market performance (Q) or the market value (MC) does not seem to be significant.
16 These results may indicate that political ties affect past performance but not future performance,
17 which partially supports our **H_a** hypothesis.
18
19

20 Table 8 also shows that the direct effect of the company's size (SIZE) on financial performance
21 (ROA), the stock market performance (Q), and the company's value (MC) is positive and significant.
22 However, the interactive effect of the company's size and the political connections (SIZE*PC) on the
23 financial performance (ROA) is significantly negative, which confirms the moderating effect of
24 political connections. This result implies that, in politically connected companies, the company's size
25 has a negative effect on financial performance. This effect seems to be the consequence of the
26 intervention of the political connections in the company. It may also be explained by the fact that
27 politicians develop an expropriation behaviour on the boards of directors that use the company's
28 resources for their own purposes (Boubakri *et al.*, 2012b; Attia *et al.*, 2016).
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44 Moreover, Table 8 shows that the direct effects of the leverage level (LEV) on financial performance
45 (ROA) and market value (MC) remain statistically negative. However, the interactive effect of the
46 leverage level and political connections (LEV*PC) on the financial (ROA) and stock market (Q)
47 performance is significantly positive, which partially confirms the moderating effect of the political
48 connections. This result shows that, in politically connected companies, the leverage level positively
49 affects the financial and stock market performance. This may be explained by the favouritism of
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1 politically connected companies in terms of obtaining bank loans at favourable conditions (Faccio,
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3 2006; Boubakri *et al.*, 2012a; Bliss and Gul, 2012).

4
5 Finally, Table 8 shows that the direct effect of the directors' independence (INDEP) on the stock
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7 market performance (Q) is significantly positive whereas the direct effect of the directors'
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9 independence (INDEP) on the financial performance (ROA) is negative but non-significant. However,
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11 the interactive effect of the directors' independence and the political connection (INDEP*PC) on
12
13 financial (ROA) and stock market performance (Q) is positive and significant, which partially
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15 confirms the moderating effect of the political connection. This result implies that, in politically
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17 connected companies, directors' independence positively influences the financial and stock market
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19 performance. This result could be explained by the fact that, to strengthen their control in these
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21 companies, shareholders appoint independent directors who can manage the interests of both parties,
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23 reduce agency conflicts, and, subsequently, improve the company's performance and value.
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29 *Sensitivity test: Endogeneity issues*

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31 In order to take into account the potential problem of endogeneity between political connections and
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33 companies' performance/value, we use the two-stage-least squares (2SLS) method. The first stage of
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35 the 2SLS method estimates the political connections based on exogenous variables of the financial
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37 performance model and market value model together with instrumental variables. The second stage
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39 relates the estimated value of the political connections with the company's performance/value.
40
41 Instrumental variables selected in our analysis of the financial performance and market value are
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43 growth opportunity measured by the market-to-book (M/B) ratio and previous financial performance
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45 measured as ROA_{t-1} . We have not tested the stock performance model (Model 2) because the first
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47 instrumental variable (M/B) is considered in the literature as a proxy of Tobin's Q.
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51 The 2SLS regression results related to the financial performance model and market value model are
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53 presented in Table 9.

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55 [Insert Table 9 here]

As shown in **Table 9**, the results are quite similar to those based on the OLS method presented in **Table 7**. Therefore we can conclude that our results are robust to the employed regression method. Thus, our **H_a** hypothesis, according to which the **political connections have** a positive effect on a company's performance and value, remains supported.

Conclusion

The aim of this study is to examine **the effect of companies' political connections on their financial and stock performance, as well as their market values**. Using a sample of non-financial firms listed on the Tunis Stock Exchange (TSE) between 2012 and 2014, the results are enlightening in several respects. First, our **descriptive statistics** show that 1) the political connections rose between 2012 and 2014 and became more and more widespread, 2) companies are generally politically linked through their directors, 3) these political links are usually developed by co-opting the people who hold a governmental position or belong to a political party, and 4) most of the politically connected companies belong to the industrial sector.

Second, our descriptive statistics also show that politically connected companies' performance and value are statistically higher than those of their non-connected counterparts. The same applies to the company's size, which confirms that politicians generally join large companies to benefit from the **economies of scale** of these companies.

Third, our correlation and regression results show that **political connections have** a positive and significant effect on the companies' performance and value, which confirms the idea that these connections improve the companies' performance and value. These results may be explained, on the one hand, by the benefits and favours that companies can get from their political ties and, on the other hand, by investors' tendency to invest in politically connected companies to benefit from these advantages. Our findings are in accordance with the resource dependence theory according to which firms will adjust themselves to line up the external environment to secure more resources controlled by the government. They also in line with the resource-based theory according to which **political connections are** regarded as an intangible resource that enables companies to gain government support

1 and therefore gain a competitive advantage and produce higher performance (Su and Fung, 2013). The
2
3 positive effect of **political connections** on company's performance and value can reflect that political
4
5 directors/CEOs create value through their networks and influence on the development of laws that
6
7 affect company's competitiveness or through the achievement of favours that benefit the company
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9 (Faccio, 2006; Goldman *et al.*, 2009; Boubakri *et al.*, 2012b; Pérez *et al.*, 2015).

11 Finally, our regression analyses confirm that **political connections have** a moderator (indirect) effect
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13 on the relationship between the company's characteristics (size, leverage, directors' independence)
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15 and its performance and value. This could be explained by the fact that politically connected firms are
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17 larger, more indebted, and have more independent directors on their boards than their non-connected
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19 peers.

22 Our results have several theoretical, practical, and socio-economic implications. Theoretically, this
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24 study contributes to the enrichment of previous literature regarding the links between politics and
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26 business in the context of an emerging economy. In practice, this study underlines the importance of
27
28 political ties in the company. In fact, the results show that investment in politically connected
29
30 companies may be beneficial for investors, and mainly for small minority shareholders. Finally, on the
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32 socio-economic side, and as in most other emerging economies, it seems that in Tunisia, one cannot
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34 succeed in business without making the appropriate connections. Indeed, the positive link between
35
36 politics and business could highlight the corruption issue after the uprising.

39 Like any other research, our study is not without limitations. First, the limited number of non-financial
40
41 companies listed on the Tunis Stock Exchange (TSE) is the main limit. Future research may use more
42
43 expanded samples by taking into account financial institutions, which represent about half of the total
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45 listed companies on the TSE, and are known for the entrenchment of their politically connected
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47 directors. Second, **our analysis of the political connections** was limited only to companies listed on the
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49 stock exchange, despite the fact that these companies represent only a small part of all the Tunisian
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51 companies. However, the unavailability of accounting and financial data about the non-listed
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53 companies makes it almost impossible to examine the political connections of these companies.
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55 Third, the lack of personal data about the directors also forced us to use mainly the explicit
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connections of these people. Future research may use other implicit links to measure political connections, such as the indirect links that include family ties, friendships, and the funding of electoral campaigns. Finally, non-politically connected firms may be less efficient than their connected counterparts because they tend to show their profits lower, under the political cost hypothesis, in order to steer away the eyes of the government who will place higher regulation on them. Future research needs to control for the earnings management effect in the relationship between political connections and company's performance and value.

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Notes

¹ For example, we can cite the Italian former Prime Minister, Silvio Berlusconi, who is the major shareholder in four Italian listed companies, or Donald Trump, the wealthy businessman who became the 45th president of the United States.

² While some researchers found a positive effect of the political connection on the company's performance and value (Li *et al.*, 2008; Goldman *et al.*, 2009; Pérez *et al.*, 2015), other researchers found a negative (Fan *et al.*, 2007; Menozzi *et al.*, 2011; Jackowicz *et al.*, 2014) or neutral effect (Gilabert, 2011).

³ According to Jetter *et al.* (2015): "democracy reduces corruption but only in economies that have already crossed a GDP/capita level of approximately US\$2,000 (in 2005 US\$). For poorer economies (like Tunisia), democratization is suggested to increase corruption".

⁴ External directors are those who do not have family ties with management and do not directly have a significant part of the company's capital.

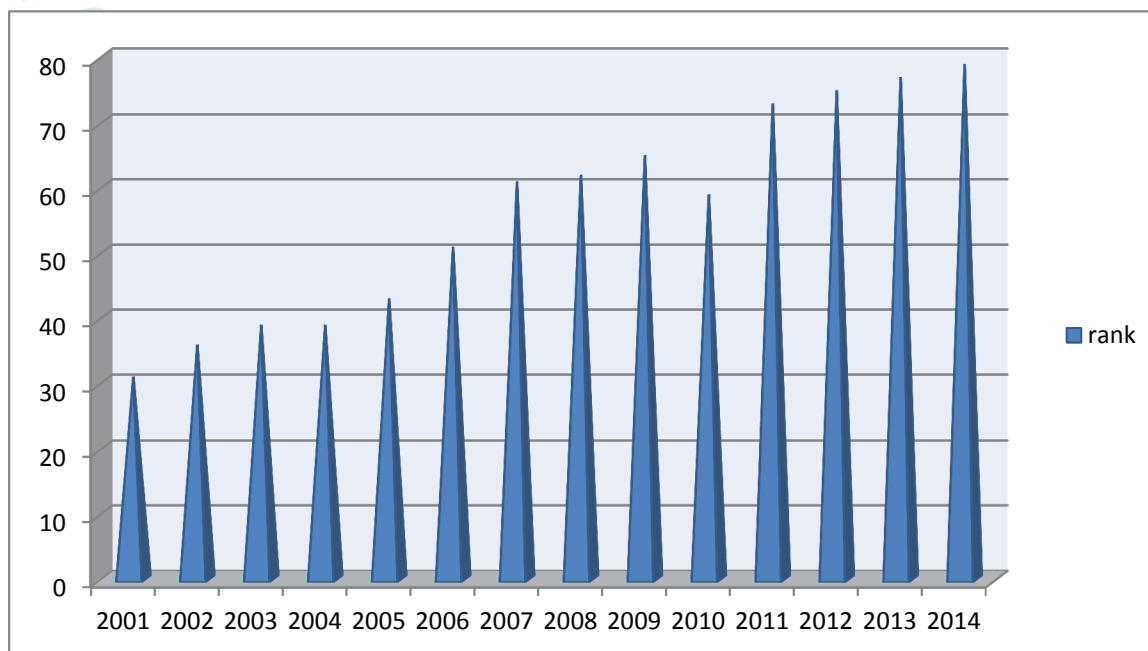
⁵ In a multivariate regression on a variable that can take several modalities (such as sector), this variable should be broken down into a number of dummy variables (binary) equal to all the different modalities excepting one. The removed modality acts then as a reference. For this reason, the telecommunication sector is not retained (it already contains no politically connected companies).

⁶ Year 2014 acts as a reference and therefore is not retained in the multivariate regression.

⁷ According to Brockman *et al.* (2013), the effect of political connection on performance depends on the institutional setting. In this sense, they found that politically connected firms underperform their non-connected peers in countries with strong level systems or low levels of corruption. In contrast, in countries with weak legal systems or high levels of corruption, their evidence shows that politically connected firms outperform their non-connected peers.

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4 **Figure and Tables:**
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7 **Figure 1:** Changes of Tunisia's ranking according to the Corruption Perceptions Index (CPI)
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31 Source: *Adapted from* Transparency International (2014)
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40 **Table 1:** Summary of the sample selection process
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	Number of companies	Number of observations 2012-2014
<i>Initial sample (TSE)</i>	78	234
Financial institutions	-40	-120
Companies with missing data	-6	-18
<i>Final sample</i>	=32	=96

Table 2: Sample distribution by sector

Sector	Number of companies	Number of observations 2012-2014	%
Industry	16	48	50.00
Food	3	9	9.37
Distribution	3	9	9.37
Transport	4	12	12.52
Real estate	3	9	9.37
Telecommunication	3	9	9.37
Total	32	96	100

Table 3: Sample distribution according to the company's political connections

Companies	No.	%
Non-connected companies	47	49
Connected companies	49	51
Total	96	100

Table 4: The distribution of politically connected companies by year, by position, by definition and by sector.

By year			By position		
<i>Year</i>	<i>No.</i>	<i>%</i>	<i>Position</i>	<i>No.</i>	<i>%</i>
2012	14	28.57	CEO	1	2.04
2013	17	34.69	Boards' chairman/CEO	4	8.16
2014	18	36.74	Boards' chairman	6	12.25
			Director	38	77.55
Total	49	100 %	Total	49	100 %
By definition			By sector		
<i>Definition</i>	<i>No.</i>	<i>%</i>	<i>Sector</i>	<i>No.</i>	<i>%</i>
Belongs to a political party	24	48.98	Industry	21	42.86
Occupy a government position	22	44.90	Real Estate	9	18.37
Known by his/her political past	3	6.12	Transport	8	16.33
			Distribution	6	12.24
			Food	5	10.20
Total	49	100 %	Total	49	100 %

Table 5: *t*-test of the mean difference

Variables	Non-connected companies (<i>n</i> = 47)		Connected companies (<i>n</i> = 49)		<i>t</i>	Sig.
	Mean	S.D.	Mean	S.D.		
ROA	0.022	0.071	0.052	0.091	-1.805	0.074*
Q	1.526	0.837	1.904	0.962	-2.051	0.043**
MC	1.610	0.361	2.103	0.573	-5.001	0.000***
SIZE	17.773	0.690	18.620	0.946	-4.995	0.000***
LEV	0.524	0.238	0.617	0.534	-1.102	0.273
INDEP	0.342	0.256	0.361	0.274	-0.354	0.724

ROA = return on assets, used to measure the financial performance; Q = Tobin's Q, used to measure the stock market performance, MC = log of market capitalization, used to measure the company's value; PC = political connection; SIZE = company's size; LEV = leverage level; INDEP = directors' independence.

***, **, *Significant at 1, 5, and 10 per cent level, respectively.

Table 6: Correlation matrix (N = 96)

	ROA	Q	MC	PC	SIZE	LEV	INDEP
ROA	1						
Q	0.332***	1					
MC	0.491***	0.468***	1				
PC	0.183*	0.207**	0.460***	1			
SIZE	0.052	0.088	0.612***	0.458***	1		
LEV	-0.565***	0.041	-0.316***	0.113	0.188*	1	
INDEP	0.029	0.220**	0.145	0.037	0.161	0.038	1

ROA = return on assets, used to measure the financial performance; Q = Tobin's Q, used to measure the stock market performance, MC = log of market capitalization, used to measure the company's value; PC = political connection; SIZE = company's size; LEV = leverage level; INDEP = directors' independence.

***, **, *Significant at 1, 5, and 10 per cent level, respectively.

Table 7: OLS regression results

Independent and control variables	Dependent variables					
	Model 1		Model 2		Model 3	
	ROA		Q		MC	
	β	<i>t</i>	β	<i>t</i>	β	<i>t</i>
Intercept	0.068	0.427	0.862	2.502**	-0.297	-7.255***
PC	0.237	2.251**	0.848	3.997***	0.350	5.414***
SIZE	-0.019	-0.179	-0.213	-1.848*	0.347	9.873***
LEV	-0.587	-6.863***	-0.048	-0.233	-0.639	-10.128***
INDEP	0.156	1.581	1.500	3.968***	0.278	2.430**
Sector effect	Included		Included		Included	
Year effect	Included		Included		Included	
<i>Adj. R</i> ²	36.0 %		22.0 %		79.2 %	
<i>F-value</i>	5.860***		3.434***		33.568***	
<i>N</i>	96					

ROA = return on assets, used to measure the financial performance; Q = Tobin's Q, used to measure the stock market performance, MC = log of market capitalization, used to measure the company's value; PC = political connection; SIZE = company's size; LEV = leverage level; INDEP = directors' independence.

Notes: Unstandardized coefficients. ***, **, *Significant at 1, 5, and 10 per cent level, respectively.

Table 8: OLS regression results: moderator effect of political connections

Independent and control variables	Dependent variables					
	<i>Model 1</i>		<i>Model 2</i>		<i>Model 3</i>	
	ROA		Q		MC	
	β	<i>t</i>	β	<i>t</i>	β	<i>t</i>
Intercept	-0.639	-2.016**	0.166	2.311**	-0.373	-3.431***
PC	0.955	2.382**	0.476	1.292	0.288	0.178
SIZE	0.045	2.329**	0.431	1.785*	0.357	4.602***
LEV	-0.216	-4.727***	-0.892	-1.561	-0.716	-3.898***
INDEP	-0.044	-1.004	1.049	1.937*	0.126	0.721
SIZE*PC	-0.057	-2.527**	0.344	1.216	-0.006	-0.061
LEV*PC	0.117	2.340**	1.058	1.685*	0.099	0.492
INDEP*PC	0.176	2.992***	1.584	2.152**	0.342	1.430
Sector effect	Included		Included		Included	
Year effect	Included		Included		Included	
<i>Adj. R</i> ²	45.2 %		30.5 %		79.1 %	
<i>F-value</i>	6.600***		3.977***		26.412***	

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N	96
ROA = return on assets, used to measure the financial performance; Q = Tobin's Q, used to measure the stock market performance, MC = log of market capitalization, used to measure the company's value; PC = political connection; SIZE = company's size; LEV = leverage level; INDEP = directors' independence.	

Notes: *Unstandardized coefficients.* ***, **, *Significant at 1, 5, and 10 per cent level, respectively.

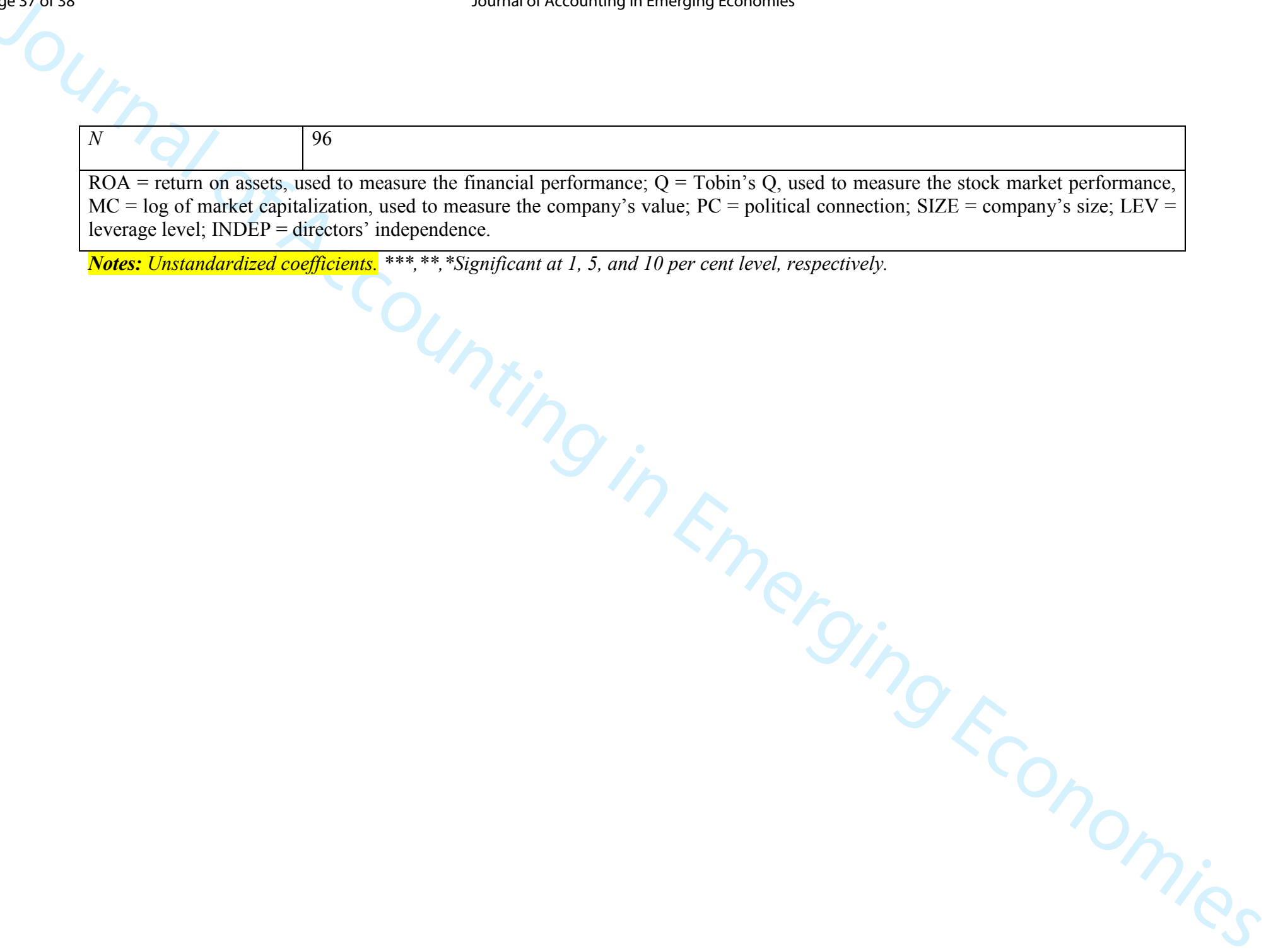


Table 9: 2SLS regression results

Independent and control variables	Dependent variables			
	<i>Model 1</i>		<i>Model 3</i>	
	ROA		MC	
	β	<i>t</i>	β	<i>t</i>
Intercept	0.276	2.109**	-0.312	-0.155
PC	0.339	2.610**	1.320	3.123***
SIZE	-0.072	-2.034**	0.114	0.965
LEV	-0.146	-3.813***	-0.741	-5.763***
INDEP	0.107	1.524	0.465	1.993*
Sector effect	Included		Included	
Year effect	Included		Included	
<i>Adj. R</i> ²	19.1 %		49.1 %	
<i>F-value</i>	1.802**		9.238***	
<i>N</i>	96			
ROA = return on assets, used to measure the financial performance; MC = log of market capitalization, used to measure the company's value; PC = political connection; SIZE = company's size; LEV = leverage level; INDEP = directors' independence.				
Instrumental variables are <i>growth opportunity</i> measured by the market-to-book (M/B) ratio and <i>previous financial performance</i> measured as ROA _{t-1} .				

Notes: Unstandardized coefficients. ***, **, *Significant at 1, 5, and 10 per cent level, respectively.