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Examining the link between political connection and firm performance: the moderating effect of audit quality

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Abstract

Purpose – The purpose of this paper is to examine the relationship between political connections, audit quality and firm performance.

Design/methodology/approach – The sample of this investigation was sourced from 51 industry-listed firms on the Amman Stock Exchange (ASE) from 2009 to 2022. Ordinary least squares regression was used to investigate the association between political connections, audit quality and firm performance. Generalized least squares estimation method was used to verify that the outcomes are robust.

Findings – The study finds that listed companies with political connections have better performance than those without such ties. The findings also suggest that politically connected firms would prefer higher-quality financial reporting and, hence, appoint Big 4 auditors.

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Originality/value – To the best of the authors' knowledge, this analysis is one of the first to explore the relationship between political connections, audit quality and firm performance in Jordan. By documenting the role of Big 4 auditor as a motivating factor for politically connected firms to enhance firm performance, this paper enriches the political connection and auditor choice literature.

Keywords Political connections, Audit quality, Firm performance, Jordan

Paper type Research paper

1. Introduction

Keeping good friends with government officials serves as valuable social capital for companies. Almarayeh *et al.* (2022) define corporate political connections (henceforth PCs) as "the direct political connections if a board member has a former political background, i.e. prime ministers, ministers, member of the parliament, the senate and the House of Representatives, ambassador, or senior military officer)". Numerous studies have identified a positive association between closer government relations and improved corporate performance (Tarmizi and Brahmana, 2023; Boubakri *et al.*, 2012; Faisal *et al.*, 2021; Khan and Iqbal, 2024). However, conflicting findings also exist, indicating that politically connected firms may underperform (Faccio, 2010; Fan *et al.*, 2007). Due to these mixed results, further research is warranted to explore the potential benefits and costs associated with PCs. Despite extensive examinations in the political connection realm, limited studies have delved into the context of developing countries.

Previous studies have observed the prevalence of politically connected firms globally. As an example, Pérez *et al.* (2015) highlight that 50% of companies in Spain have PCs. In addition, a relatively small number of studies has provided evidence of such existence of connections within a developing-country setting. In China, 40% of the companies have PCs (Bao *et al.*, 2016), and 13% of the enterprises in Malaysia have PCs (Fung *et al.*, 2015). Meanwhile, in Pakistan, 29% of firms are politically connected (Saeed *et al.*, 2017). In Jordan, approximately 34% of companies have PCs (Almarayeh *et al.*, 2022).

Faccio *et al.* (2006) suggested that in developing countries, companies encounter various constraints and operate in volatile environments where governments wield influence over resource distribution. As a result, it has become a common strategy in these economies for businesses to foster ties with the government by appointing individuals with PCs to their boards. This practice aims to navigate challenges such as resource limitations, market competition, conflicts and bureaucratic issues (Agrawal and Knoeber, 2001).

The role of PCs is theoretically grounded in the resource dependence theory formulated by Pfeffer and Salancik (1978). This theory provides a coherent rationale for corporate engagement in political networks. According to the theory, companies frequently lack all the essential resources required for their survival and expansion, leading to a reliance on external sources for these resources. Governments often control crucial resources crucial to firms, intensifying their dependence. This dependence introduces risks and uncertainties that can impact the firm's performance. Therefore, cultivating PCs may serve to mitigate uncertainties arising from external dependence, ultimately benefiting the firm. A stream of prior empirical studies provide evidence in favor of the resource-dependent theory (Houston *et al.*, 2014; Bi and Wang, 2018; Tarmizi and Brahmana, 2023). For instance Houston *et al.* (2014), reveal that PCs lead to a reduction in the firm's cost of equity and the cost of bank loans. Similarly, Bi and Wang (2018) find that financially connected advisors generate significantly higher market value for acquiring companies. Conversely, alternative theories shed light on the negative aspects of PCs. The agency theory, for instance, proposes that influential stakeholders may prioritize their interests over others, leading to various agency conflicts that can detrimentally impact a company's performance. Numerous empirical studies have explored the adverse consequences of PCs (Islam *et al.*, 2023; Johnson and Mitton, 2003; Bertrand *et al.*, 2007; Chaney *et al.*, 2011). For example, Chaney *et al.* (2011) find that politically connected companies exhibit significantly lower accounting quality compared to non-connected firms, as PCs shield them from capital market penalties. Similarly, Islam *et al.* (2023) demonstrate that PCs can have detrimental effects on firm performance.

While considerable research has delved into the assessment of the value or cost associated with PCs, the impact of such connections on global enterprise performance remains unclear. Given the varied empirical results from prior studies and the imperative to attain a comprehensive understanding of this subject, we aim to contribute to the existing knowledge in this research domain. Hence, this study endeavors to illuminate the effects of PCs, utilizing connections with various government levels as a proxy, on firm performance. Audit quality is anticipated to foster a more robust reporting environment and enhance corporate transparency, ultimately leading to improved firm performance. The Jordanian setting presents an interesting case for our research for several reasons. First, we selected Jordan as our target because of the significant presence and influential impact of politicians on businesses within the country (Almarayeh *et al.*, 2022). Many industry firms affiliated with business groups maintain direct associations with various government levels. Second, unlike the situation in developed nations, the Jordanian context is marked by ownership concentration, limited financial market influence, and a prevalence of family-owned listed companies. Moreover, as one of the MENA countries, Jordan exhibits distinctive cultural features such as strong hierarchical social structures, as highlighted by scholars (Al-Bassam *et al.*, 2018). Given these conditions, it becomes crucial to explore how PCs may impact the performance of listed firms in Jordan. Finaly, while the topic of PCs is extensively examined in developed markets, it remains relatively scarce in developing markets, particularly in the MENA region, including Jordan. Hence, Jordan provides an ideal setting to further investigate whether PCs exhibit any discernible correlation with firm performance.

This paper aims to fill the gap in the literature by analyzing the effect of PCs on firm performance and the mediating effect of audit quality on the relationship between PCs and firm performance in Jordan. Specifically, we seek to answer the following research questions:

RQ1. Do political connections affect firm performance?

RQ2. Does audit quality mediate the link between political connections and firm performance?

To answer these questions, data was gathered from the Jordanian firms spanning from 2009 to 2022 (corresponding to an unbalanced data panel of 689 observations). The results indicate a significant positive impact of PCs on firm performance. This positive influence suggests that the advantages of establishing such connections outweigh the associated costs. These findings align with prior studies in emerging markets that have identified a positive correlation between PCs and firm performance (Wong and Hooy, 2018; Faisal *et al.*, 2021). Furthermore, the results suggest that politically affiliated firms are inclined to prioritize higher-quality financial reporting and, consequently, tend to engage Big 4 auditors. The choice of Big 4 auditors by politically connected firms is likely driven by their aim to improve performance through the presentation of financial statements that accurately reflect their economic standing.

This study contributes to the existing literature in several ways. First, it adds to the growing body of international research on the influence of PCs on firm performance by specifically examining Jordan. This addresses a gap in the literature by offering the first analysis of the relationship between PCs and firm performance using non-Anglo-Saxon data from Jordan, thus extending the research beyond developed markets. Second, this article is among the early investigations that present evidence on the mediated effect of audit quality in the link between PCs and firm performance in Jordan. Considering the mediating role of audit quality enhances the understanding of the impact of PCs on firm performance. Third, this study distinguishes itself by incorporating data spanning a duration of 14 years, which strengthens the foundation for drawing conclusions and facilitates the potential application of findings to emerging market contexts. Third, this study theoretically supports the resource dependence theory by showing that politically connected firms outperform those without such connections. This insight offers a fresh theoretical foundation for formulating research hypotheses and interpreting findings on the relationship between PCs and firm performance in emerging markets. Finally, this study investigates both market-based and accounting-based firm performance by employing two measures to assess overall performance. This sets our research apart from prior studies, which commonly relied on a single indicator of firm performance (Merendino and Melville, 2019; Wong and Hooy, 2018).

The subsequent sections of this paper are organized as follows: Section 2 provides a review of the literature and develops hypotheses. Section 3 focuses on the research design and methodology. In Section 4, we present our empirical findings along with robustness checks and discussions. The article concludes in Section 5 with implications, limitations and suggestions for future research.

2. Literature review and hypothesis development

2.1 Effects of political connection on firm performance

PC have been a persistent issue for many years. Previous research (Fan *et al.*, 2007; Berkman *et al.*, 2010; Khan and Iqbal, 2024) has shown that such connections are common in nations with inadequate protection of property rights. Recent studies have also revealed their prevalence in the USA (Acemoglu *et al.*, 2016). The intersection of business and government is also a concern in developing countries. Remarkable studies such as those by Faisal *et al.* (2021) and Li and Jin (2021) have shed light on this matter.

Generally, PC is seen as an external dimension of corporate governance mechanisms that affect the behavior of an organization. The literature presents two conflicting perspectives regarding the outcomes of politically connected individuals (PCs). One viewpoint suggests that PCs could lead to compromised corporate governance and escalate agency costs as a result of rent-seeking behavior (Fisman, 2001). For instance, Shahzad *et al.* (2021) show that the PCs of board directors have a detrimental impact on firm performance across various performance distributions. Likewise, La Rocca *et al.* (2022) demonstrate an adverse impact of corporate PCs on firm performance, especially in the presence of senior executives and CEOs. Recently, Hashmi and Brahmana (2023) and Islam *et al.* (2023) indicate that PCs exhibit a consistently strong and negative significance on firm performance. An opposing perspective suggests that politically affiliated companies have the ability to gain advantages for themselves, such as subsidies, securing government contracts and anticompetitive favors (Baysinger, 1984), receiving preferential tax treatment (Faccio *et al.*, 2006), and accessing financing more easily (Khwaja and Mian, 2005). Consequently, these benefits can contribute to the enhanced performance of politically connected firms (Hillman, 2005; Khan and Iqbal (2024).

Using data from Brazil and Canada, Arantes *et al.* (2023) document a significant and positive link between PCs and firm performance in both countries. More recent empirical studies have also provided evidence stating that the practice of PC has a positive impact on a company's value increase (Tarmizi and Brahmana, 2023; Maaloul *et al.*, 2018; Wang *et al.*, 2018). Furthermore, Joni *et al.* (2020) and Ben Cheikh and Loukil (2023) find that PCs enhance a firm's market performance.

Since there is no unanimous agreement regarding the effects of politically connected individuals, we rely on the foundational theory of resource dependence. This theory suggests that companies appoint politically connected board members to enhance company value and secure economic advantages for the firms. Consequently, the following hypothesis is formulated:

H1. Politically connected boards have a positive relationship with firm performance.

2.2 Political connection, audit quality and firm performance

Previous studies have established that firms with PCs are motivated to generate value for the company and secure economic advantages (Tantawy and Moussa, 2023; Liu *et al.*, 2023; Khan and Iqbal (2024). The act of auditing compels corporate managers to adhere to ethical behavior, as it impacts their reputation among shareholders, potential employers, and society as a whole.

The inherent agency conflict between shareholders and managers necessitates auditors, who provide impartial assurance to corporate stakeholders regarding the compliance of financial statements prepared by managers with generally accepted accounting principles (GAAP) (Watts and Zimmerman, 1983). Consequently, auditing is pivotal in preserving and protecting investors' rights by uncovering possible insider expropriation (Newman *et al.*, 2005). Additionally, it benefits management by signaling the credibility of financial information provided by the management. Hence, a firm's choice of auditor holds significant importance as a fundamental component of the auditing framework.

Based on the literature suggesting that Big 4 auditors enhance the credibility of financial statements (DeFond *et al.*, 2017), it can be argued that politically connected firms would have a preference for appointing Big 4 auditors. Additionally, Xiao *et al.* (2020) found evidence suggesting that audit effort plays a crucial role in enhancing audit quality by positively influencing both the audit process and its outcomes. Saeed *et al.* (2024) revealed that Big 4 auditing firms ensure the credibility and reliability of their auditees' nonfinancial disclosures through rigorous auditing processes. Guedhami *et al.* (2014) documented that politically connected firms exhibit a higher likelihood of selecting Big 4 auditors in comparison to their non-connected counterparts. Recently published studies by Tantawy and Moussa (2023) and Liu *et al.* (2023) further support this notion, indicating that a firm's choice of auditor is significantly influenced by its PCs. Tantawy and Moussa (2023) reveal that firms with PCs through their boards of directors and major shareholders tend to engage Big 4 audit firms to enhance corporate legitimacy. Liu *et al.* (2023) uncover that companies generally experience positive abnormal returns when politically non-connected CEOs are replaced by connected ones.

The significance of PCs in relation to the demand for Big 4 audits remains an open empirical question, contingent upon the prevailing financial reporting incentive. Building on the idea that audit quality serves as a monitoring mechanism to mitigate agency costs, our expectation is that higher audit quality will likely moderate the nexus between PCs and firms' performance, an aspect overlooked in prior studies. Thus, this research also examins the extent to which audit quality moderate the nexus between corporate PCs and firm performance. Our hypothesis suggests that companies with PCs are inclined to hire high-quality auditors to bolster their corporate credibility and gain a competitive edge. As a result, we anticipate confirming the second hypothesis as follows:

H2. Firms with Big 4 auditors are more likely to have a higher performance, and this is more pronounced for politically connected firms.

3. Data and methodology

3.1 Data

This study examines the influence of PCs on firm performance, taking into account the moderating impact of audit quality. The primary data sources include annual reports and capital market information retrieved from the ASE website (www.ase.com.jo). Additionally, any missing data are supplemented through manual collection efforts conducted at the companies' headquarters. Table 1 provides an overview of the composition of the final sample.

3.2 The variables' selection

3.2.1 Dependent variables. In this study, we utilize two dependent variables. Following Almarayeh (2021), we employ two indicators, namely, earnings per share (EPS) as an accounting measure and dividend yield (DY) as a market-based measure of firm performance. EPS is calculated by dividing net income by total shares, while DY is determined by dividing the dividend per share divided by the price per share. Previous researchers (Almarayeh *et al.*, 2022; Singh *et al.*, 2018) have highlighted limitations associated with relying solely on accounting performance measures, citing concerns about potential manipulation and variations in accounting and consolidation methods. Additionally, it has been noted that market-based performance measures may be influenced by investor expectations (Sanan *et al.*, 2019). To address these issues and mitigate potential misinterpretations, our study incorporates both accounting and market-based performance measures.

3.2.2 Independent variables. Following Almarayeh *et al.*, (2022, p. 369), a firm is considered politically connected if "a board member has a former political background (i.e. prime ministers, ministers, member of the parliament, the senate and the House of Representatives, ambassador, senior military officer." To obtain information on politically connected boards we collect data manually from the biographies presented in the annual reports. These reports are sourced from the ASE, company websites. Additionally, we introduce audit quality as a moderating variable in our analysis.

3.2.3 Control variables. Compatible with previous literature (Almarayeh *et al.*, 2022; Maaloul *et al.*, 2018) that exploring such a relationship, we add several control variables to

Table 1. The sample

Panel A: Sample distribution			No
Initial sample			133
Excluded:			
Financial firms			33
Service firms			49
Final industry firm sample			51
Panel B: Industrial sample	N	Obs	%
Medical and pharmaceutical	6	84	11.8
Chemical industries	8	112	15.6
Food and beverages	10	135	19.6
Engineering and construction	7	91	13.7
Mining and extraction	14	195	27.4
Textiles and clothing	6	72	11.8
Total	51	689	100

Source: Elaborated by authors

lessen the probability of omitted variable bias (Griffin and Mahon, 1997). We include Audit Committee Size (A-SIZE), the leverage of the company (LEV), firm size (SIZE), growth (GROW), Board Meetings (B-MEET), Board Independence (B-IND) and Audit Committee Size (A-SIZE). Finally, we consider firm age (FIRM-AGE) and loss (LOSS). Table 2 outlines the measurement of variables.

3.2.4 Specification of models. Our study employs established models, commonly utilized in prior research on the impact of PCs on a firm performance. Utilizing Stata 13, we construct two distinct panel regression models to clarify the relationship among PCs, audit quality, and firm performance. Model (1) is employed to investigate the association between PCs and firm performance, while Model (2) is utilized to assess the impact of political affiliations on company performance, taking into account audit quality. This research employs pooled ordinary least squares (OLS) to analyze the influence of PCs on the performance of listed companies in Jordan. Considering the data set encompasses 51 firms over fourteen years (2009 to 2022), a panel data approach is considered more suitable. Panel data sets are better suited for identifying and evaluating effects that may not be discernible in pure cross-sectional or time-series data alone:

$$\begin{aligned} \mathrm{EPS,\ D}Y\mathrm{i,\ t} = \alpha + \beta 1\mathrm{B} - \mathrm{PCit} + \beta 2\mathrm{LEVi,\ t} + \beta 3\mathrm{GROWi,\ t} + \beta 4\mathrm{SIZEi,\ t} \\ + \beta 5\mathrm{B} - \mathrm{INDi,\ t} + \beta 6\mathrm{B} - \mathrm{MEETit,\ } + \beta 7A - \mathrm{SIZEi,\ t} \\ + \beta 8\mathrm{FIRM} - \mathrm{AGEi,\ t}\varepsilon i\mathrm{,\ t} \end{aligned} \tag{1}$$

$$\begin{aligned} \mathrm{EPS,\ D}Y\mathrm{i,\ t} = \alpha + \beta 1\mathrm{B} - \mathrm{PCit} + \beta 2\mathrm{AUDSIZE} + \boldsymbol{\beta 3\mathrm{AUDSIZE} * \mathrm{PCi},\ \mathrm{t}}\beta 4\mathrm{LEVi,\ t} \\ + \beta 5\mathrm{GROWi,\ t} + \beta 6\mathrm{SIZEi,\ t} + \beta 7\mathrm{B} - \mathrm{INDi,\ t} + \beta 8\mathrm{B} - \mathrm{MEETit,} \\ + \beta 9A - \mathrm{SIZEi,\ t} + \beta 10\mathrm{FIRM} - \mathrm{AGEi,\ t} + \varepsilon i\mathrm{,\ t} \end{aligned} \tag{2}$$

where “i” represents a specific firm, “t” denotes the time in years and εi, *t* stands for a stochastic error term.

3.3 Descriptive statistics and correlation of variables

Table 3 presents descriptive statistics for the variables utilized in the regression analysis within this study. The data set comprises a panel of 51 Jordanian firms listed on the ASE, with 689 firm-year observations spanning from 2009 to 2022. The results indicate that the mean values for earnings per share (EPS) and dividend yield (DY) are 0.050 and 2.33, respectively. Additionally, the mean values for independent board membership (B-IND), board meetings (B-MEET), and audit committee size (A-SIZE) are 32.40, 7.42, and 3.19, respectively. In Panel B of Table 3, it is revealed that 36% of directors possess PCs. The table also highlights that big four auditors handle the audit for 25% of the sample companies, while non-big four firms are responsible for auditing approximately 75% of the sample. Additional descriptive statistics for the remaining variables can be found in Table 3.

Table 4 presents the correlation matrix and variance inflation factor (VIF) for distinct variable groups, including PCs, firm performance, audit quality, and control variables. The correlation matrix indicates either low or moderate correlations between dependent and explanatory variables, as well as among explanatory variables. This suggests that concerns regarding multicollinearity in our analysis are unlikely. To further assess the potential for severe multicollinearity among independent variables, VIF statistics are computed. If VIF

Table 2. Overview of variables

Variables	Description	Source
Panel A: Dependent variable		
Earnings per share (EPS)	Net income divided by total shares	Wang *et al.* (2019)
Dividend yield (DY)	Denotes the ratio dividend per share of firm i at the end of calendar year divided by market per share of firm i at the end of calendar year t	Bista *et al.* (2019) and Budagaga (2017)
Panel B: Independent variable: the board of director's characteristics		
Political connection (PC)	A dummy variable, 1 if a board member has a former political background (i.e. prime ministers, ministers, member of the parliament, the senate and the House of Representatives, ambassador, senior military officer), 0 otherwise	Almarayeh *et al.* (2022)
Auditor size (AUDSIZE)	A dummy variable which assumes the value of 1 if the firm is audited by a big 4 auditor, and 0 otherwise	Almarayeh *et al.* (2020)
Panel C: Control variables		
Firm leverage) LEV)	The ratio total long-term debt of firm i at the end of calendar year *t* divided by total assets of firm i at the end of calendar year t	Al-ahdal *et al.* (2020)
Firm growth (GROW)	Denotes the relation of the difference in sales and sales of the previous period for firm i in year	Bennouri *et al.* (2018)
Firm size (SIZE)	The natural logarithm of total assets of firm i at the end of calendar year t	Bennouri *et al.* (2018)
Independent board membership (B-IND)	Denotes the ratio of non-executive directors on board-to-board size for firm i in year t	Wang *et al.* (2019)
Board meeting (B-MEET)	Denotes the number of board meetings over the calendar year for firm i in year t	Uribe-Bohorquez *et al.* (2018)
Audit committee size (A-SIZE)	Denotes the number of audit committee member for firm i in year t	Almarayeh *et al.* (2022)
Firm age (FIRM- AGE)	A log of firm age since incorporation, measured in number of years	Wang *et al.* (2019)

Source: Elaborated by authors

Table 3. Descriptive statistics

Panel A: Continuous variables

Variable	Mean	SD	p25	p50	p75
EPS	0.050	0.403	−0.075	0.021	0.14
DY	2.33	5.744	0	0	4.59
LEVERG	36.469	26.537	14.88	30.589	51.47
GROW	2.537	21.524	0.64	0.988	1.62
SIZE	7.239	0.733	6.87	7.207	7.57
BRDIND	32.401	31.171	0	22.23	55.56
BRDMEET	7.415	2.171	6	6	8
ACSIZE	3.186	0.502	3	3	3
AGE	26.768	15.77	16	22	37

Panel B: Dummy variables

Variable	Frequency of 1’s (Yes)	Frequency of 0’s (No)	Percent of 1’s (Yes)	Percent of 1’s (No)
PC	248	441	36%	64%
AUDSIZE	172	517	25%	75%

Source: Elaborated by authors

exceeds 10, it signifies the presence of multicollinearity (Albassam and Ntim, 2017). However, Table 4 demonstrates that the VIF values for both models range from 1.13 to 1.65, significantly below the critical threshold of 10. This further confirms that our analysis is not compromised by multicollinearity issues.

4. Empirical tests and results

4.1 Impact of political connection on firm performance

In a pooled ordinary least squares (OLS) model, we assess the influence of politically PCs on firm performance to test Hypothesis 1 (*H1*). Subsequently, we investigate Hypothesis 2 (*H2*), which predicts that audit quality will moderate the relationship between PCs and firm performance. The regression results for the association between PCs and firm performance (Model 1), as well as the impact of audit quality on this association (Model 2), are presented in Table 5. Industry and year fixed effects are controlled for in all regression models.

In Table 5, evidence from the regression result (Model 1) indicates that that the PC is positively and significantly related to EPS’s measure, suggesting that politically connected firms have better performance than those without such ties. For this, *H1* is supported. The correlation between PCs and firm value aligns with previous research suggesting that PCs generally enhance a firm’s worth (Ang *et al.*, 2013), elevate the value of loan collaterals (Banerji *et al.*, 2018) and lead to improved performance and value for companies (Wang *et al.*, 2018). This finding supports the resource-based view (RBV) theory, which posits that PCs serve as intangible resources (Barney, 1991) capable of augmenting a company’s value when effectively utilized. Furthermore, Cheng and Leung (2016) and Arantes *et al.* (2023) have asserted that PCs result in economic interests that contribute to enhanced performance.

4.2 Moderation of audit quality in the relationship of political connection and firm performance

In this section, we assess our hypothesis regarding the significant moderating role of audit quality on the relationship between PCs and firm performance. We anticipate a positive coefficient, aligning with our theory that companies with political ties are inclined to enlist

Table 4. The Pearson's correlation matrix and VIF values

Variables	EPS	DY	PC	AUDSIZE	LEVERG	GROW	SIZE	BRDIND	BRDMEET	ACSIZE	AGE	VIF
EPS	1											
DY	0.181***	1										
PC	0.123*	0.099*	1									1.16
AUDSIZE	0.132*	0.056*		1								
LEVERG	−0.282***	−0.193***	0.006	0.301*	1							1.21
GROW	−0.039	−0.0491	0.101	0.207	0.145**	1						1.13
SIZE	0.508***	0.047	0.135**	0.32**	0.135**	−0.177***	1					1.65
BRDIND	0.284***	0.008	0.051	0.001*	0.169**	−0.039	0.410***	1				1.26
BRDMEET	0.126*	0.186***	0.163**	0.007	0.007	0.049	0.237***	0.143**	1			1.14
ACSIZE	0.166**	−0.094	−0.074	0.12**	−0.099	0.034	0.114*	0.0437	0.065	1		1.19
AGE	0.211***	0.097	0.195***	0.112	0.0431	0.0909	0.269***	−0.0215	0.189***	−0.0677	1	1.2

Notes: ***, ** and *indicate statistical significance at the 1, 5 and 10% levels, respectively
Source: Elaborated by authors

Table 5. OLS estimates of the relations among political connections, audit quality and firm performance

Variables†	(1) EPS	(2) AUDSIZE	(3) EPS
PC	0.0712* (2.27)	0.203*** (5.23)	0.0787* (1.98)
AUDSIZE			*0.0868** (0.79)
LEVERG	−0.005*** (−7.57)	0.001 (1.24)	−0.005*** (−7.60)
GROW	0.00885* (2.41)	0.0103* (2.47)	0.008* (2.28)
SIZE	0.250*** (8.16)	0.007 (0.22)	0.249*** (8.14)
BRDIND	0.00213*** (3.71)	0.003*** (5.62)	0.0019*** (3.34)
BRDMEET	−0.011 (−1.46)	0.008 (0.09)	−0.012 (−1.46)
ACSIZE	0.130*** (3.82)	0.0870* (2.25)	0.127*** (3.70)
AGE	0.0019 (1.84)	0.0113*** (9.23)	0.0015 (1.31)
Los	−0.232*** (−6.06)	0.0725 (1.67)	−0.235*** (−6.10)
Constant	−1.978*** (−9.39)	−0.691** (−2.90)	−1.953*** (−9.16)
Year effect	Yes	Yes	Yes
Industry effect	Yes	Yes	Yes
R^2	0.11	0.481	0.11
N	689	689	689

Notes: ***, ** and *indicate statistical significance at the 1, 5 and 10% levels, respectively; †Please see Table 3 for variable definitions
Source: Elaborated by authors

the services of Big 4 audit firms to enhance corporate legitimacy. The outcomes presented in Table 5 (Model 2) align with our anticipated findings.

The results indicate that the interplay between audit quality and PCs signifies that companies with politically affiliated directors and Big 4 auditors are more likely to strengthen their firm's performance. It is noteworthy to observe the positive and statistically significant coefficient associated with audit quality (AUDSIZE), (as seen in column 3 of Table 5), which implies that politically connected firms are more inclined to engage the services of Big 4 auditors. Overall, the results suggest that companies with PCs enjoy greater benefits compared to those without such connections, as evidenced by their superior firm performance. Consequently, the advantages of maintaining political relations within the board outweigh any associated costs. These results are consistent with Tantawy and Moussa (2023) and Liu *et al.* (2023). Thus, the results support our second hypothesis (*H2*).

4.3 Robustness tests

To ensure the reliability of the findings, we conducted three robustness analyses. First, we handled endogeneity concerns using the Generalized Method of Moments (GMM) panel regression. Endogeneity arises when an independent variable is correlated with the model's residuals (Lu *et al.*, 2018). GMM estimator, widely used in corporate accounting literature (Arellano and Bond, 1991), effectively addressed this issue. The results from the GMM estimator demonstrate consistent and stable outcomes, confirming the reliability of the main results documented before. Second, the main model was re-estimated using the random effect (RE) method to verify the robustness of the ordinary least squares (OLS) results. The results exhibit qualitative similarity to those observed in Tables 5. Third, we repeated the main model discussed earlier, but this time, we employed the Dividend yield (DY) ratio as a substitute measure for firm performance. The results obtained align closely with our baseline models presented in Table 5. In summary, our findings indicate that the positive association between PCs and firm performance is particularly prominent for companies with political affiliations.

5. Conclusion and future research

The presence of PCs has been shown to aid companies in obtaining various advantages and resources for economic success, particularly in emerging countries where there are shared political affiliations. Nonetheless, research has not extensively examined how PCs affect firm performance in developing countries. Key questions, such as the extent to which PCs can contribute to a company's performance, remain unanswered and warrant further investigation.

Our study examines how PCs influence firm performance, with a focus on the moderating role of audit quality, using data from Jordanian industry-listed firms over a 14-year period. While our research contributes to the ongoing discourse on the impact of PCs and audit quality on firm performance, it notably pioneers in investigating how audit quality moderates the relationship between PCs and performance, an aspect overlooked in prior literature. Analyzing a data set spanning from 2009 to 2022, we find that firms with PCs tend to exhibit better performance compared to those without such connections. Furthermore, our findings suggest that politically connected firms tend to prioritize higher-quality financial reporting, often engaging Big 4 auditors for their auditing needs. The results of this research align with previous studies that have explored the positive impact of PCs on firms' performance (Maaloul *et al.*, 2018; Wang *et al.*, 2018) and the role of auditing in enhancing firms' efficiency. Our findings also support the conclusions drawn by Tantawy and Moussa (2023) and Liu *et al.* (2023), who have documented that a firm's selection of an auditor is significantly influenced by its PCs, particularly in developing countries. This study adds to the current body of literature concerning the effectiveness of auditing in reducing agency costs (Salehi, 2020) by presenting empirical evidence of the role of auditors in politically connected firms. Our research adds to the existing body of literature emphasizing the links between firms' PCs, audit quality, and firm performance.

The study offers several important implications. From a theoretical standpoint, it contributes to the literature by providing empirical evidence on the relationship between PCs, audit quality, and firm performance in developing countries. Using the Resource-Based View (RBV) framework, the findings suggest that stakeholders may benefit from leveraging politically connected individuals to enhance a company's competitive advantage. This perspective highlights the strategic value of PCs as a unique resource that can positively impact firm performance. In practical terms, In practical terms, our findings offer several insights: First, they provide valuable guidance for managers. Managers can leverage PCs within companies to enhance performance. These connections may offer strategic advantages, such as access to government contracts, favorable regulatory treatment, or other political benefits. Second, our study yields insights for investors. The findings suggest that firms with PCs can positively impact their financial performance. This implies that investors should consider the role of PCs in a firm's operations, as these connections can influence both profitability and overall value. Finally, our study provides empirical evidence useful for regulators. The descriptive findings carry significant implications for regulatory bodies, including stock exchange organizations and accounting standards. These findings can help guide regulators and policymakers in establishing and enforcing robust corporate governance regulations. Effective implementation of internal audit units within companies is also essential to strengthen oversight and accountability. Investors and lenders are encouraged to assess the quality of corporate governance in their investment or credit decisions, as this is a key indicator of a firm's financial health and credibility.

This study comes with certain limitations and prompts potential areas for future research. First, the scope of our findings could be constrained by the availability of data. We were unable to include additional dimensions of PCs, such as years of experience, age, level of education, and other demographic characteristics, which could have a substantial influence on corporate outcomes. Consequently, as more relevant data becomes accessible, future research could aim to expand on our results by considering and controlling for these factors. Second, future investigations in other emerging markets could also strengthen and validate the findings of this study or to refine them as necessary. Third, we urge researchers to delve into the examination of corporate governance mechanisms that hold the greatest importance in augmenting corporate value within the banking industry, as our current sample does not encompass this sector. Finally, all our variables are evaluated using data from archives, and we recommend that future research could greatly enhance its effectiveness by adopting mixed-method research approaches. Specifically, by combining archival sources with primary data gathered through surveys and interviews. This would provide a more comprehensive understanding of managerial perspectives and attitudes regarding firm performance and the involvement of political individuals on corporate boards.

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