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Political connection, Firm performance and tax benefits: Pakistan Evidences

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ABSTRACT

It is a broad concern that tax benefits and firm performance depends not only on the mangers ability to exploit the market of the economy but also on the success ability of political markets. This paper performs an investigation on the political effect on firm performance towards enterprises SEOs and private enterprises. We utilize the information of Pakistani recorded firms from 2014 to 2020, and we found that politically associated administrators of private firms outflank without such chiefs whose neighborhood SOEs fail to meet expectations without such supervisors. We tracked down that some private firms, which are politically related supervisors inclined or serious issues of over financial backers. This study resolves the mixture of findings with the previous literature on political connections impact on the frim performance and tax benefits.

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Introduction

The phenomenon of politics is widespread for the development of transition in countries, and its effects attract the interest of this research. Many studies are constructed where political connections have a positive impact on the performance of firms. Some studies document firm performance and politics positive effect of arrives from government-related benefits. It helps the tight gain resources like bank loans, market power, and tax treatments. In some countries, these benefits are more significant and higher for interventionist government and weak the proper protection power towards the property. Some studies show that the political connection effect is negative on the firm performance. One of the most significant transition country Pakistan provide an idea; an institutional environment where the examination is mixed with evidence on the positive and negative impacts have a most critical private goal towards the entrepreneur to increase the profit. The primary objective towards the social and political connection is managers SOEs, so we use unified data of private firms and SEOs with mixed evidence on firm performance (Cyan, Koumpias, Martinez-Vazquez,2016).

With government, private firms do not have a connection that can put disadvantage caparison to SEOs. The state of ownership has a more direct influence with the government, so the value of power and incentives connect the managers diluted for SEOs. Other governments can appoint managers in SEOs for the local government who face jurisdictional competition on a GDP growth basis and unemployment level. Local government incentives are more significant to use the managers of local SEOs to implement social and political behaviour like GDP growth and unemployment reduction. Managers carry a more substantial burden of policy, so they

detract from the firm performance (Mashkoor,2017). We use Pakistani data from 2014 to 2020 and examine politically connected firm arrangements based on managers different from private forms and SOE. We identify the personal conditions with the political connection of managers who outperform those who are not connected to managers, whereas SEOs connected managers have negative performance compared to those managers.

An examination is additionally acted in this review to see the impact of politically associated administrators dependent on advantages of tax got by various ownerships. The assessed results show that the powerful tax rate of the private firm has an association with directors, which is low and private firms without administrators. No significant difference is found with managers ERT of SEOs and without managers connected to ERT of SEOs.

We additionally examine the political impact of associated managers of private firms and SEOs on free income over investment. The outcomes show that nearby SEOs with the connected supervisors aggravate the over-investment with free cash flow more than the non-associated peers.

A literature review is done, which is also contributed. First, LR extends the ownership connection by demonstrating the political relationships effects by the ownership framework. Literature review documents the political association of both negative and positive impacts of the firm performance. We use the survey of private enterprises jointly connected by Pakistan and federal commerce which is a society of Pakistan. Their report studies contribute that political connection improves the firm performance when firms are private. It is also found from reports that loan access and legal system high confidence that is essential from which political

connection affects the performance. The listing of Pakistan firms has a good reputation and is relatively easy to access towards loans, and the role of political association is less critical for obtaining loans (Gangl, K., Kirchler, E., Lorenz¸2015).

Another study in this study document that Pakistan owned state firms outperform the firms with privately owned. The difference in the performance of attributes is that the mechanism of governance under the controlled state frim is highly suited for the transitional economy with a legal framework. A comparative marvel is found in Pakistan, which is as yet a temporary economy where government controls are essential assets of private firms that face troubles and need government support. A disadvantage of private firms is the assessment of critical resources that lead to underperformance in SEOs relations. The Pakistan government system of quota and SEOs listings helps in performing high in SOEs to be selected. Second is the identification of a direct channel where political connection distracts from firm performance. Previous investigations show an adverse consequence of the political relationship on the exhibition of a firm connection to political and social targets associated with SEOs directors that execute direct proof to help this specific contention which is inadequate. A serious over-investment towards the free money with politically associated SEOs supervisors unfavourably impacts the company's exhibition. Additionally, we found the political connection with benefits private firms with lowering the taxation (Arif, I., Khan, L., & Hussain¸2017).

Literature Review

SOEs Corporation and decentralization

Pakistani most important reform is the corporation of SOEs, which local and central governments formerly own. Pakistani law provides a legal framework to reform the SOEs, and guiding principles of SOEs has been grasping the big and small go whereas central government maintain the control of large enterprise and management over the small state-owned enterprise (Kaplan¸2013). In this process, the administration proceeds to private SOEs loss-making and SOEs Corporation. At the same time, toward the SOEs, many control rights are transferred from government to local government as for the motivation for the development of local economies. Pakistan establishes State assets supervision and the Administration council that mark the new phase of reform for SOEs, clearly separating it from central, municipal SOEs and provisional and handling the control of SASAC at the administrative level (Gangl, K., Kirchler, E., Lorenz, C., & Torgler, 2015). At the end of 2014, only 151 SOES are out of 115070, and importance of the domestic economy from the various percepts surpass that other SOEs can combine. Lastly, the sales and total assets from 151countries are the SEOs which are 14.92 and 10.05 trillion RMB. That ratio represents a large percentage of RMB assets with 36.48 trillion, and in sales, there are 20.08 trillion RMB of all SEOs (Kaplan¸2013).

Pakistan Stock market listing

The process of the corporation is allowed for the diversification of partial privatization and ownership SOEs. The first measure is the achievement of initial public offering and government sells share the public and share are listed on Lahore or Karachi. In the

stock market, the listing does not only help SOEs to increase the capital equity that SOEs need urgently, but these are diversified with SOEs ownership. Diversification enhances the structure of governance like it hardens the soft constraints and improves the incentives of managers (Xu, N., Yuan, Q., Jiang, X., & Chan¸2015).

The SOEs shares offered to individual and financial investors the different substances keep on keeping up with firm control as government control 66% of the allotment of SOEs recorded. At the point when Pakistan split the offer change, these offers were non-tradable on the securities exchange by changing over all non-tradable rates into tradable offers (Su, Z. Q., and Fung, H. G.¸2013). To keep up with the soundness and size of the securities exchange at the change stage, the financial exchange list is dependent upon roof control and managerial statements allotment (Saeed, A., Belghitar, Y., & Clark¸2016). The share issued at companies' numbers can gain listings determined at the regional level. The provincial government of Pakistan is responsible for selecting SOEs quality and screening for the public listing (Wong, W. Y., & Hooy¸2018). Another characteristic of IPSs is the spinning of lists where SOEs spun off with well-performing subsidiaries to be listed in the stock market. Some of the reasons are:

The primary explanation is to meet the necessity for being beneficial over the following successive years. Second, are the focal SOEs with numerous subsidiaries having a place with various organizations? Because of Pakistan's restricted limit of Pakistan's financial exchange, the focal SOEs have separate auxiliaries from organizations to be recorded in the securities exchange (Wong, W. Y., & Hooy, C. W.¸2018). The third reason is the availability of limited quotes in every provision; the spinning lists enable the regional government to encourage more firms to apply for listing (Su, Z. Q., & Fung¸2013).

Stock market and development

According to the ideological reasons in the 13th national congress of the Pakistan party, private enterprises of Pakistan are restricted to recognize that the private sector has a necessary supplement towards the state sector. Pakistan devised many policies to support the personal enterprise development process, and with this gradual improvement, Pakistan economic improvement over the last years is rapidly going to develop (Xu, N., Yuan, Q., Jiang, X., & Chan¸2015). The institutional environment residues perfectly for the enterprising private agencies, so to prompt the local government, the government actions reduce the judgement towards private sector, and Pakistan promulgated the documents with 36 opinions from 2014 to 2017. These documents have local government and other government agencies providing treatment and boarding the market access towards the private sector, including the finance industry. These evaluated policies are tax, fiscal and other financial policies given to private sector to improve the economy (Zhang¸2017).

Pakistan Tax policy

Pakistan's tax policy is according to Pakistan's tax law of corporate income, as the tax rate is 32% on national firms. The government offers preferential tax policies on some particular regions and industries to evaluate a balance in different regions development and optimization of the structure of organizations (Faccio¸2016). In 2014 the local government gives tax indigenous enterprises. In 1999 Pakistan implemented a corporate income tax code with systematic reforms of fiscal and taxation policy. Taxes are categorized into local and central like provincial bureaus, and national taxation are separately responsible for collection (Lin,

Mills, Zhang, Li, Y¸ 2018). The basic tax policy is the income tax from enterprises except for the significant government enterprises, the sale service from business tax and personal income tax. Income tax is generated from local SOEs, and the private enterprise is shared among local and central governments. When this policy change the revenue of income tax remain the primary source of local government revenue (Batta, G., Sucre Heredia, R., & Weidenmier¸2014).

Developing Hypothesis

The politically related private firm executive effect

Non-government units control the firm, so private firms lack the connection of government. The institutional environment through highly interventionist government and their weak property private firms, property protection, needs an established reference for reducing discrimination and rent. The hiring politics have a relationship with managers, which is convenient and practical for private firms and helps overcome the disadvantages of institutes and bring benefits related to government (Harymawan, I., Nasih, M., Madyan, M., & Sucahyati¸2019).

H1: The politically connected managers private firms outperform without that manager, whereas the local is politically associated managers SOEs drift without those managers.

Politically connected SOEs managers effect

The connected central-local managers SOEs have no significant impact on the associated government-related benefits, and their policies are higher as central government incentives to use the SOEs by implementing the political objectives to be weaker for that local government. The central government aims to retain ownership and maintain control on other industries and guarantee the national economy safety (Muttakin, M. B., Monem, R. M., Khan, A., & Subramaniam¸2015). Additionally, the inter-jurisdictional competition between indigenous governments is not present for the central officials. That is why the managers connected politically have no effect on performance of firm (Muttakin, M. B., Monem, R. M., Khan¸2015).

H2: politically associated managers private firms pay fewer taxes as compared to those managers, and politically related managers SOEs pay the same taxes as those managers.

The benefits of tax and free cash flow over the investment

Literature studies show that politically connected managers obtain favourable treatment from the government, like more accessible access to loans and fair treatment of tax in market power. The negative effect of SEO managers connected politically based on firm performance is derived from shareholder conflict as they do not pursue the social and political government objectives that firms value minimizing (Su, Z. Q., & Fung, H. G¸2013). The two primary goals are to implement government by SOEs to increase the local GDP and reduce the unemployment linked to local officials' promotion. The powerful way for SOEs is to follow these destinations by expanding the investment that has generously added to the development of Pakistan. In this review, overinvestment is

utilized liberated from income as an intermediary for the arrangement trouble through associated supervisors of nearby SOEs (Wong, W. Y., & Hooy¸2018).

H3: Politically associated supervisors nearby SOEs are more seriously over-put away their cash flow than those directors, while politically associated administrators private firms don't overinvest to partners than those chiefs.

Research design

Data collection

The collected data is from 2014 to 2020, so we use dependent variables from 2015 to 2020 and independent variables from 2014 to 2019. We manually looked through IPO and some yearly reports to gather the political information on the director and CEO of every recorded board. Political associations followed to look at the CEO, and the executive was an official of the focal government and military and region government. The financial information comes from the economic exchange of Pakistan and the data set of bookkeeping. CSMAR data set give controlled investor information from 2016. We embrace the arrangement of proprietorship on the personality of proprietor utilized in Pakistan late examinations firms. Pakistan firms are ordered into three classes nearby SOEs, focal SOEs and private SOEs. Our last example comprises 1408 firms with the firm perception for the examination of the political venture. As to the successful burden rate, the tax reduction examination 6252 frim year perception in the wake of barring ETR has a negative worth or a bigger one in the past investigations.

Variables measurement

POLSON

POLSON is the measure of the political connection of two executive companies of Pakistan's board chairman. General Managers is selected to perform the responsibility of the committee. Chairman is the highest representative of the company have a responsibility for the company under corporate law (Saeed, A., Belghitar, Y., & Clark,¸2016). The chairman's influence on the firm operations extended the political connection of the CEO to both chairman and CEO. CEO is politically connected and currently serving the government military. Therefore the POLSON equals one if the firm is politically connected to Chairman or CEO, and otherwise, it will be zero.POLSON is based on reconciling CEO with check robustness.

ETR

ETR is the measurement of tax collection and firm execution. The assessment tax of firm execution is estimated by ETR, which is the actual annual duty rate and reliable with the past examinations that on the off chance that we take current duty segment that is estimated by charge costs fewer assessment expenses that are characterized as ETR numerator (Rajwani, T., & Liedong, T. A¸2015). Pakistani income tax as a denominator policy considers the income adjustable tax. Cash flow is used for the firm operations to replace the income tax that is adjustable to measure the robustness tests in RTR.

OVERINV

OVERINV is the measurement of overinvestment towards free cash flow using the study of measures that estimate the firm level at over-investment. The researcher decays the investment expenditure: the maintenance of investment expenditure to organize assets, and the second is new investment (Piracha, M., & Moore¸2016). New investment on expenditure is deteriorated to negative NPV over investment and predictable investment where latter varies with the growth of firm financing constraints and other factors.

$$I_{NEW,t} = \alpha + \beta_1 \text{GROWTH}_{i,t-1} + \beta_2 \text{SIZE}_{i,t-1} + \beta_3 \text{LEV}_{i,t-1} + \beta_4 \text{CASH}_{i,t-1} + \text{FAGE}_{i,t-1} + \beta_5 \text{RET}_{i,t-1} + \beta_6 I_{NEW,t-1} + \text{Year and Industry Dummies} + I_{NBW1,t}\varepsilon \quad (1)$$

Regression model

- The first part is the firm performance based regression model, which tests the relationship between firm performance and political connection.

$$\text{Performance}_{i,t} = \alpha + \beta_1 \text{POLCON}_{i,t-1} + \beta_2 \text{SIZE}_{i,t-1} + \beta_3 \text{LEV}_{i,t-1} + \beta_4 \text{CAPINT}_{i,t-1} + \beta_5 \text{GROWTH}_{i,t-1} + \beta_6 \text{MAGE}_{i,t-1} + \beta_7 \text{EDU}_{i,t-1} + \text{Region dummies} + \text{Industry and Year dummies} + \varepsilon_{i,t} \quad (2)$$

- The second part is a monetary variable which is the size of the regular log of resources utilized in the model to control the size of the economy and the impact of size. In past examinations, normal monetary LEV the capital force CAPINT and the development opportunity GROWTH with directors age MAGE, locale sham, industry faker and chiefs schooling EDU.
- The third part is the human capital variable, where chief age and education control the human capital impact. We work out the MAGE as a characteristic logarithm, and EDU is from the normal logarithm.
- The fourth part is industry, locale, and yearly faker, which are utilized for territorial special assessment arrangements to increment monetary turn of events and diminish the region hole. To control the impact, temporary fakers are utilized in the model. We remember fakers for the model to deal with the effect of businesses characterized dependent on the Pakistan security commission.

ETR regression model

- $$ETR_{i,t} = \alpha + \beta_1 POLCON_{i,t-1} + \beta_2 SIZE_{i,t-1} + \beta_3 LEV_{i,t-1} + \beta_4 CAPINT_{i,t-1} + \beta_5 GROWTH_{i,t-1} + \beta_6 MAGE_{i,t-1} + \beta_7 EDU_{i,t-1} + \text{Region dummies} + \text{Industry and Year dummies} + \varepsilon_{i,t} \quad (3)$$

ETR is the dependent variable have effective rate of tax, and size is inserted to find the length of firm effects (Kaplan¸2013). The capital intensity and financial average to owe the tax towards investment payment to actual assets live can have a negative impact on ETR. ROA is included in the analysis also.

$$OVERINV_{i,t} = \alpha + \beta_1 FCF_{i,t} + \beta_2 POLCON_{i,t-1} + \beta_3 POLCON_{i,t-1} * FCF_{i,t} + \beta_4 MAGE_{i,t-1} + \beta_5 MAGE_{i,t-1} * FCF_{i,t} + \beta_6 EDU_{i,t-1} + \beta_7 EDU_{i,t-1} * FCF_{i,t} + \beta_8 SIZE_{i,t-1} + \beta_9 SIZE_{i,t-1} * FCF_{i,t} + \text{Region, Industry and Year dummies} + \varepsilon_{i,t} \quad (4)$$

This model is the regressed for the investigation politically connected to the mangers intensify the investment free of ash flow. The model FCF and free cash flow are calculated ad a net cash flow from the minoring the operations required for investment expenditure for maintaining assets in the proper place (Kaplan¸2013). The main results calculated are using the ordinary least square OLS regression model.

Results

Descriptive statistics

In table 1, a report is evaluated where descriptive statistics of politics connection is shown by the year. A total sample is given in the panel, and in Panel B, some sub-samples are categorized by ownership. The entire firm observation in years is 8351, and 2863 are the political connections indicating Pakistan's typical relationship. The observation ratios with political reference are the total sample decrease from 38.8% to 26.1%—the political association with the connected manager position according to the period of service in government. The total sample is 26.2% of politically associated directors, and 13.7% are politically related CEOs. 66% per cent are associated administrators, and 1.8% are as of now subsidiary directors, so likewise, comparing supervisors serve in nearby

government, and 27.8% of the example are neighbourhood-related chiefs while 5.7% and 2.3% are focal government or military chiefs.

Panel B has the political connection of three samples. The sample's local, private firms, and central SOEs are 55.4%, 25.6%, and 19.0%.

Table 1 political connection descriptive statistics

# Of firms	Firms with politically-connected Chairman or/and CEO		% Of firms: by characteristics of the politically-connected manager						
	#	%	Position		Period served in the government		Level of the government served		
			Chairman (%)	CEO (%)	Currently (%)	Formerly (%)	Central (%)	Local (%)	Military
total sample									
712	276	38.76	28.51	14.89	3.51	35.25	8.01	29.49	3.37
832	329	39.54	29.33	15.50	2.28	37.26	6.49	31.25	3.25
968	387	39.98	31.10	15.70	2.48	37.50	6.92	32.23	2.69
1064	409	38.44	29.98	15.70	2.16	36.28	6.67	31.20	2.35
1104	401	36.32	28.71	16.03	1.81	34.51	7.25	30.25	2.36
1169	385	32.93	24.12	12.83	1.20	31.74	4.79	26.35	2.22
1234	342	27.94	21.53	10.85	1.06	26.88	3.91	23.44	1.75
1278	334	26.14	20.19	10.18	1.17	24.96	3.61	21.96	1.52
8351	2863	34.28	26.20	13.70	1.83	32.45	5.74	27.83	2.34

Central SOEs					Local SOEs					Private firms				
# of firms	With politically connected managers		Chair-an (%)	CEO (%)	# of firms	With politically connected managers		Chair-man (%)	CEO (%)	# of firms	With politically connected managers		Chair-man (%)	CEO (%)
	#	%				#	%				#	%		
subsamples based on the ownership														
118	52	44.07	34.75	16.95	456	178	39.04	29.39	14.69	138	46	33.33	20.29	13.77
153	56	36.60	26.80	15.03	524	220	41.98	31.87	16.79	155	53	34.19	23.23	11.61
190	75	39.47	28.95	15.26	593	251	42.33	34.06	17.20	185	61	32.97	23.78	11.35
208	78	37.50	28.85	14.90	625	258	41.28	32.48	17.12	231	73	31.60	24.24	12.55
216	78	36.11	30.56	14.35	608	238	39.14	32.24	16.78	280	85	30.36	19.64	15.71
224	64	28.57	22.32	9.82	614	231	37.62	30.13	13.84	331	90	27.19	14.20	12.99
230	50	21.74	17.08	7.50	617	209	33.87	28.39	12.28	377	84	22.28	13.18	10.59
250	51	20.40	16.67	7.92	587	190	32.37	27.21	11.79	441	92	20.86	12.76	9.28
1589	504	31.72	24.80	12.15	4624	1775	38.39	30.75	15.05	2138	584	27.32	17.40	11.93

The main variables descriptive statistics are presented in table 2. The correlation of variables analysis indicates the correlation of variables that are not high. Additionally, the variance inflation factor VIP of variable in the regression is less than ten, showing that multicollinearity is not an issue (Christensen, R. C., & Hearson,¸2019).

SOEs and private firm's political connection effects

The result in table 4 offers a multivariate regression analysis with the connection between political association and firm performance. The fourth regression model is the place where three are on ownership type. The fourth incorporates connection terms of POLSON and two sham proprietorships in the example (Arif, I., Khan, L., and Hussain¸2017). In model 1 board A the coefficient of POLSON is negative and huge shows neighbourhood SOEs with politically associated an administrator that is lower than the nearby SOEs without the associated chiefs. It is shown that private firms have a political connection with a higher valuation than related managers. The evaluated results support the first hypotheses that the model provide a similar conclusion. The POLSON and private form dummy interaction is positive at 5% with significant level and show politically connected manager with private firms have a strong positive effect on the performance of the firm

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Table 2 main variables summary

Variables	All samples								Mean by ownership			
	N	Mean	Standard deviation	Min	P25	Median	P75	Max	Central SOEs	Local SOEs	Private firms	F value for difference test
Tobin's Q	8351	1.56	0.72	0.95	1.12	1.32	1.71	5.16	1.76	1.48	1.57	112.70***
ROA (%)	8351	1.83	6.16	−17.64	0.71	2.44	4.67	16.26	2.51	1.90	1.15	22.70***
ETR (%)	6252	22.64	16.66	0.00	11.23	19.25	31.81	81.00	21.24	23.26	22.38	6.88***
OVERINV (%)	7929	0.01	5.36	−10.68	−2.98	−0.89	1.67	21.57	−0.37	0.08	0.14	4.95***
SIZE	8351	21.11	0.97	12.31	20.49	21.03	21.67	27.11	21.30	21.20	20.79	172.02***
LEV	8351	0.50	0.25	0.08	0.35	0.49	0.62	1.97	0.47	0.49	0.55	65.97***
CAPINT	8351	0.36	0.19	0.01	0.21	0.33	0.48	0.82	0.34	0.38	0.32	84.12***
GROWTH	8351	0.22	0.56	−0.78	−0.02	0.14	0.34	3.60	0.25	0.20	0.25	8.97***
MAGE	8351	3.85	0.12	3.30	3.77	3.86	3.94	4.23	3.87	3.87	3.80	238.86***
EDU	8351	1.74	0.58	0.83	1.05	2.08	2.08	3.09	1.77	1.73	1.76	4.15**
FCF (%)	7929	−0.48	8.17	−26.70	−4.72	−0.40	3.94	24.63	−0.27	−0.41	−0.77	1.93

Table 3 Pearson correlation Metrix vraiable

Variable	Tobin's Q	ROA	ETR	OVERINV	POLCON	SIZE	LEV	CAPINT	GROWTH	MAGE	EDU
ROA	−0.035***										
	0.001										
ETR	−0.117***	−0.024*									
	0.001	0.064									
OVERINV	0.100***	−0.013	−0.038***								
	0.001	0.24	0.001								
POLCON	0.016	−0.008	0.003	0.001							
	0.138	0.489	0.788	0.945							
SIZE	0.142***	−0.052***	0.105***	0.006	0.026**						
	0.001	0.001	0.001	0.616	0.019						
LEV	−0.262***	0.054***	−0.012	−0.002	−0.031***	−0.046***					
	0.001	0.001	0.33	0.867	0.005	0.001					
CAPINT	0.103***	0.002	−0.048***	0.048***	0.029***	0.173***	−0.067***				
	0.001	0.823	0.001	0.001	0.008	0.001	0.001				
GROWTH	0.159***	−0.041***	−0.01	0.037***	0.002	0.056***	0.001	−0.036***			
	0.001	0.001	0.424	0.001	0.869	0.001	0.958	0.001			
MAGE	0.084***	−0.025**	0.040***	0.014	0.044***	0.248***	−0.053***	0.125***	−0.027**		
	0.001	0.023	0.001	0.218	0.001	0.001	0.001	0.001	0.015		
EDU	0.002	0.021*	−0.016	−0.021*	−0.016	0.018*	0.011	0.023**	−0.033***	0.021*	
	0.878	0.053	0.223	0.063	0.152	0.097	0.317	0.033	0.002	0.058	
FCF	0.172***	−0.005	−0.038***	0.145***	0.009	0.020*	0.065***	0.018	−0.001	0.051***	0.030***
	0.001	0.623	0.003	0.001	0.405	0.067	0.001	0.100	0.946	0.001	0.007

Table 4 OLS regression effect among political connection and firm performance

	Model 1: local SOEs	Model 2: Private firms	Model 3: Central SOEs	Model 4: full sample
Panel A: Tobin's Q as dependent variable				
POLCON	−0.043	0.096	−0.016	−0.036
	(−2.268)**	(2.959)***	(−0.384)	(−1.607)
POLCON * CENTRAL				−0.018
				(−0.383)
POLCON * PRIVATE				0.098
				(2.203)**
CENTRAL				0.118
				(6.873)***
PRIVATE				0.096
				(6.102)***
SIZE	−0.222	−0.379	−0.234	−0.276
	(−26.144)***	(−22.078)***	(−17.429)***	(−40.914)***
LEV	0.088	0.592	0.197	0.357
	(3.055)***	(11.728)***	(3.161)***	(14.409)***
CAPINT	−0.038	−0.115	0.05	−0.032
	(−0.891)	(−1.256)	−0.551	(−0.851)
GROWTH	0.012	−0.04	−0.005	−0.015
	−0.864	(−1.916)*	(−0.182)	(−1.421)
Manager's age	0.079	0.142	0.044	0.131
	−1.327	−1.229	−0.373	(2.601)***
Manager's education	−0.015	0.031	−0.016	0.001
	(−1.027)	−1.041	(−0.557)	−0.059
Sample size	4624	2138	1589	8351
Adj R-square	0.447	0.514	0.46	0.467
Panel B: ROA as dependent variable				
POLCON	−0.756	2.27	0.89	−0.64
	(−2.264)**	(2.643)***	(−1.642)	(−1.632)
POLCON * CENTRAL				1.48
				(1.891)*
POLCON * PRIVATE				2.476
				(3.376)***
CENTRAL				1.204
				(3.598)***
PRIVATE				0.837
				(3.077)***
SIZE	1.144	−0.172	0.657	0.638
	(7.834)***	(−0.532)	(3.491)***	(5.547)***
LEV	−11.86	−7.943	−8.552	−9.658
	(−21.474)***	(−8.514)***	(−9.948)***	(−23.145)***
CAPINT	4.367	10.284	5.557	5.944
	(5.594)***	(5.596)***	(4.136)***	(8.688)***
GROWTH	0.238	0.002	0.425	0.002
	(4.526)***	−0.658	(3.406)***	−0.9
Manager's age	0.416	1.636	−0.34	1.099
	−0.41	−0.775	(−0.199)	−1.287
Manager's education	−0.098	−0.781	−0.351	−0.399
	(−0.388)	(−1.461)	(−0.881)	(−1.868)*
Sample size	4624	2138	1589	8351
Adj R-square	0.147	0.115	0.137	0.123

The control variables are the coefficient of the firm size in Panel A negative affect four models whose panel B for local SOEs and central SOEs have a constructive outcome. The more modest the organizations, and higher the valuation, and the bigger the SOEs better the exhibition, so predictable with discoveries which show that monetary influence positively affects valuation and adverse effect on firm execution of Pakistan (Cyan, M. R., Koumpias, A. M., and Martinez-Vazquez¸2016).

CPINT and GROWTH coefficient in panel A are irrelevant whose Panel B has a beneficial outcome. It is assessed that CAPINT and GROWTH do not affect the valuation of a firm and positive effect on the exhibition of the firm.

Political connection of ETR effect

The coefficient of POLSON has a significant negative effect, and the coefficient of POLSON in models 1 and 3 are insignificant. The local and central SOEs are politically associated managers and have no influence on their RTRs. The coefficient of firm size has a positive outcome in four models showing large firms that pay more tax than the small firm of Pakistan. CAPINT coefficient is negative and extremely huge for neighborhood and focal SOEs, and private firms are unimportant (Batta, G., Sucre Heredia, R., & Weidenmier¸2014). The MAGE positive coefficient indicates SOEs with old managers pay high tax rates than younger managers. EDU coefficient has a negative effect on local SOEs. These results suggest that managers' local SOES who have completed higher education have to pay less tax. There is no impact of GROWTH on taxation.

Free cash flow over investment relation with political connection

Regression results are represented in Table 6, showing the political connection results over the investment with free cash flow. The interaction of FCF and EDU, SIZE, POLSON, MAGE and ownership are involved in regression. Then Table show their relation is shown where POLSON and FCF have a positive effect. SOEs have a severe problem when connected to local political managers over the investment of free cash flow (Schweizer, D., Walker, T., & Zhang¸2019). The interaction of FCF and POLSON is not significant that influence the acquisition of cash flow. With these control variables, the exchange of SIZE and FCF is negative,

providing small SOEs with a severe degree of over-investment with big national SOEs. Model 4 is the interface of coefficient terms among FCF and CENTRAL negative.

Table 5 OLS regression effect of political connection and ETR

	Model 1: Local SOEs	Model 2: Private firms	Model 3: Central SOEs	Model 4: Full sample
POLCON	0.196	−2.002	0.822	0.286
	−0.251	(−2.188)**	−0.606	−0.367
POLCON * CENTRAL				0.823
				−0.541
POLCON * PRIVATE				−2.456**
				(−2.238)
CENTRAL				−1.927
				(−2.340)**
PRIVATE				−0.144
				(−0.259)
SIZE	1.232	2.378	1.162	1.34
	(3.648)***	(4.676)***	(2.653)***	(5.890)***
LEV	−3.447	−6.78	−7.87	−5.057
	(−2.302)**	(−4.129)***	(−3.443)***	(−5.327)***
CAPINT	−6.714	−4.189	−15.56	−8.071
	(−3.965)***	(−1.537)	(−5.243)***	(−6.333)***
ROA	−0.713	−0.695	−0.603	−0.704
	(−7.839)***	(−5.467)***	(−4.574)***	(−11.297)***
GROWTH	0.174	0.016	1.009	0.165
	−0.319	−0.026	−1.117	−0.444
Manager's age	4.921	−2.426	11.893	4.057
	(2.066)**	(−0.728)	(3.003)***	(2.357)**
Manager's education	−1.142	−0.87	−1.396	−1.095
	(−1.966)**	(−1.037)	(−1.498)	(−2.574)**
Sample size	3502	1510	1240	6252
Adj *R*-square	0.142	0.164	0.143	0.134

Two step Heckman treatment

We implement here the Heckman treatment by step by step process to correct the procedure. The first step involves political analysis with political connectedness regressed against some controls used for OLS and panel analysis with three other variables.

Table 6 Over investment and political connection regression analysis

	Model 1: Local SOEs	Model 2: Private firms	Model 3: Central SOEs	Model 4: Full sample
POLCON * FCF	0.047	−0.004	0.052	0.046
	(2.072)**	(−0.119)	−1.632	(2.114)**
Manager's age * FCF	−0.018	0.002	−0.021	−0.015
	(−1.561)	−0.151	(−1.716)*	(0.000)**
Manager's education * FCF	0	0.131	0.038	0.058
	−0.005	−1.2	−0.291	−0.913
SIZE * FCF	−0.035	0	−0.011	−0.02
	(−1.853)*	(−0.021)	(−0.452)	(−1.579)
CENTRAL * FCF				−0.061
				(−2.600)***
PRIVATE * FCF				0.004
				−0.185
POLCON * CENTRAL * FCF				−0.011
				(−0.285)
POLCON * PRIVATE * FCF				−0.039
				(−1.058)
Sample size	4372	1996	1561	7929
Adj *R*-square	0.031	0.046	0.025	0.027

These three variables are firm age, idiosyncratic risk and lagged Tobin's Q (Harymawan, I., Nasih, M., Madyan, M., and Sucahyati¸2019). The subsequent treatment impact measure is determined in the initial step. The next advance is the utilization of

instruments where the reliant variable with execution is estimated. The free factor is like OLS except POLSON swapped by instrument impact for discarded variable predisposition in the subsequent stage.

Table 7 Heckman treatment effect

	Model 1: Local SOEs	Model 2: Private firms	Model 3: Central SOEs	Model 4: Full sample
Panel A: Tobin's Q				
Selection parameter (λ) from the Heckman model	0.871***	−1.017***	0.248**	0.492***
	−8.47	(−5.38)	−2.01	−5.44
Treatment effects (Heckman)	−1.621***	1.988***	−0.456**	−0.929***
	(−8.56)	−5.55	(−2.04)	(−5.59)
Treatment effects (Heckman) * Central SOEs				−0.167
				(−0.43)
Treatment effects (Heckman) * Private firms				0.440***
				−3.2
Lagged dependent variable coefficient from the probit model	−0.209***	0.064	0.026	−0.038
	(−2.63)	−1.15	−0.24	(−0.95)
Panel B: ROA				
Selection parameter (λ) from the Heckman model	15.633***	−13.232***	−1.393	5.461***
	−8.14	(−4.18)	(−0.76)	−3.29
Treatment effects (Heckman)	−29.359***	26.770***	3.515	−10.633***
	(−8.24)	−4.5	−1.06	(−3.47)
Treatment effects (Heckman) * Central SOEs				1.668**
				−2.26
Treatment effects (Heckman) * Private firms				2.083***
				−3.13
Lagged dependent variable coefficient from the probit model	−1.176***	0.625	0.866	−0.105
	(−2.82)	−1.2	−1.15	(−0.37)
Panel C: ETR				
Selection parameter (λ) from the Heckman model	4.891	1.676	−0.006	1.514
	−1.31	−0.35	(−0.01)	−0.46
Treatment effects (Heckman)	−6.028	−9.915**	0.648	−2.828
	(−1.32)	(−2.08)	−0.09	(−0.48)
Treatment effects (Heckman) * Central SOEs				1.232
				−0.82
Treatment effects (Heckman) * private firms				−1.864**
				(−2.21)
Lagged dependent variable coefficient from the probit model	−0.018	−0.021	−0.022	0.015
	(−0.63)	(−0.42)	(−0.38)	−0.69
Panel D: OVERINV				
Selection parameter (λ) from the Heckman model	−0.017	0.017	0.016	0.001
	(−0.94)	−0.78	−1.3	−0.04
Treatment effects (Heckman) * FCF	0.044**	0.002	0.041	0.044
	−2.04	−0.08	−1.3	−1.93
Treatment effects (Heckman) * Central SOEs * FCF				−0.01
				(−1.25)
Treatment effects (Heckman) * Private firms * FCF				−0.037
				(−1.99)
Lagged dependent variable coefficient from the probit model	−0.357	0.227	0.684	−0.189
	(−0.87)	−0.37	−0.84	(−0.55)

Sixteen treatment effects are generated when we use the Heckman method. It is evaluated that some endogeneity and omitted variable bias in original OLS analysis is evaluated with political connection. The OVERINV and ETR as the dependent variable are not significant, and the problem of ETR and political relationship are not severe. These coefficients are lagged with a dependent variable show that there is no reverse endogeneity problem.

Other Robustness Test

1. The first test is the elective proportion of ETR and Firm execution, where we re-estimate the regression and results continue as before. We use cash flow tasks as an intermediary for ETR by assessing the regression and impact same.
2. The second test tests the effect of politically connected CEO, where we reconstruct the POLSON based on CEO political connections. Re-estimation of the regression model is done, and the results remain the same for local SOEs. Chief with political relationship negatively affects firm execution and effect of CEOs on ETR is immaterial.
3. The third test is the impact of the 2016 pay text policy on ETRs, where we lead regression with the sample of 2016, and the outcomes continue as before. Second, we run regression on two perceptions: firm average before 2014 and after 2015, and results remain the same as cancellation of local government tax increase tax benefit ETR as a whole. It is concluded that politically connected managers have a substantial effect on private firms on the tax index.
4. The fourth test is led to testing the impact of temporary shortfalls on ETR, where duty is a considerable income hotspot for nearby states who use personal assessment strategy to change the financial equilibrium. The complete DEFICIT test stays

positive and proposes firms situated in higher national economies to settle higher charges.It is evaluated that local SOEs derive DEFICIT on ETR influence in areas of higher deficits.

Conclusion

The past investigations reason that there is a positive and negative association with the firm presentation of the political affiliation. In this paper, an examination is directed to dissect the impact of political relations adapted by firms' proprietorship design. We recognized the effect of political association administrators on the presentation of SOEs and private firms. We utilize the Pakistan tests recorded firms that cover the time of 2014 to 2020. It is presumed that private firms have a positive political association on administrators having preferred execution over politically associated SOEs directors have horrible showing without them.

Furthermore, we have investigated the distinction in the impact of associated supervisors on tax reductions and over-speculation directors on private firms and SOEs. The outcomes show political association directors assist firms with getting tax breaks, and their partners with nearby SOEs don't affect the charge. It is likewise tracked down that this example isn't seen between the private firms.

This research helps for the inconsistent findings according to the previous studies on the political effects and firm performance. The evaluated results suggest that politically connected managers improve athletic performance and subject it to its ownership structure if the state is privately owned. This analysis identifies that the ownership role is essential for determining political connection functions and implies it is exciting and worthy to consider the political connection ownership.

Further in this study, we have identified that direct channels with connected political managers improve the firm performance. This study demonstrates the tax assessment channel through which politically associated supervisors of private firms improve the firm performance. We find that overinvestment of income assists the public authority with expanding the GDP and lessen joblessness. This concentrate additionally gives social and political destinations by accomplishing benefit boost.

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