Title Page (with Author Details)

The politician as a CEO, corporate governance and firm value

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ABSTRACT

Using a data set of two important emerging markets namely Taiwan and Pakistan, we investigate an unexplored dynamic of the top leadership i.e. the politician as a CEO and determine their impact on firm value. We show that the presence of the powerful politician as a CEO tends to limit the board power and endorse managerial entrenchment i.e. put their self-interests ahead of the firm's goals, which in turn, damage the firms' value. We find a significant negative moderating effect of the political CEOs on the relationship of concentrated ownership, board independence and firm value.

Keywords: The Politician as a CEO; Agency theory; Corporate governance; Firm value

JEL classification: C23, G30, G32, G34

1. Introduction

The predominant research on corporate finance highlights the significance of the firm's political connectedness in the context of resource dependence theory predicting that political connections help corporations in securing economic resources (Florackis & Ozkan, 2009; Subrahmanyam et al., 2019; Veprauskait & Adams, 2013; Wu et al., 2018). Prior literature documents that political connections positively impact firm performance as it ties with government support to gain economic benefits. The literature shows that this positive effect is mainly derived from government-related benefits where firm political connections help to attain key resources, including market power, tax holidays, bank loans, and a higher IPO offering price (Wu et al., 2012).

In contrast, several studies report that politically connected firms suffer several problems including corruption, operational inefficiencies, low financial reporting quality, poor financial performance and lack of investor protection (Al-Dhamari & Ismail, 2015; Braam et al., 2015; Chane et al., 2011; Faccio, M. 2010; Huang et al., 2014; Leuz & Oberholzer-Gee, 2006). Consequently, despite a large volume of research, the empirical evidence regarding political connectedness and its impact on corporate behaviour is inconclusive.

Prior research also shows that firms develop political connections either implicitly or explicitly (Hashim et al., 2011). The implicit political links may develop when a firm gives donations or support the election campaign of a political party. On the other hand, explicit political connections develop when a politician joins the firm as a CEO or board member (Aggarwal et al., 2012; Cooper et al., 2010; Faccio, 2010). Noticeably, prior research mainly emphasis on the implicit political connections and investigate the single aspect of firms' political connectedness – the benefits/detriments of government support derive from firms' political connections.

Contrary to the prior research, we contribute to the literature by focusing on the explicit political connections by investigating the impact of political CEOs (i.e. CEO is a member/former member of the parliament/senate) on firm value. [1] To our knowledge, the present study is the first to investigate an unexplored dynamic of the top leadership: a politician as a CEO and determine their impact on firm value.

(1). The term 'firm value' and 'Tobin's Q (TQ')' are used interchangeably in this study.

Second, we also investigate the moderating role of the politician as a CEO on the relationship between a) the concentrated ownership and firm value, and b) between independent non-executive directors (INEDs) and firm value. As the governance literature established that the presence of concentrated ownership and INEDs significantly influence corporate decision making hence we hypothesize that the politician as a CEO may intervene in the strategic role of controlling shareholders and the monitoring function of INEDs.

For instance, a politician as a CEO may influence the firms' merit policy at the time of external recruitment or internal promotion for a higher executive position which destroys the firm value. Broadly speaking, we test whether the presence of the politician as a CEO may alter the strength and the direction of the relationship of concentrated ownership, board independence and firm value. To our knowledge, the present study is the first to estimate the moderating role of the politician as a CEO on the relationship with concentrated ownership, board independence and firm value.

Third, prior studies employed the context of resource dependence theory to understand the behaviour of politically connected firms (Florackis & Ozkan, 2009). These studies emphasize that firms' political connections tend to help in securing economic resources while ignoring the context of agency theory. To fill this research gap, we incorporate the agency theory in the leadership context and conjecture that if the power and authority rest in the hand of a powerful parliamentarian/ex-parliamentarian as a CEO, it may support the partisan decisions leading to minority shareholders' expropriation. To this end, we determine whether Type II agency problems proxied by a politician as a CEO may influence firm value.

Our motivation to understand the impact of the politician as a CEO is derived from prior literature which shows that politicians of leading political parties often channel funds to their connected firms to maintain and enhance political strength (Rajan & Zingales, 2003). In addition, the political elites tend to dominate in the corporate market and influence the demand and supply mechanisms by exploiting their political positions, particularly in emerging economies (World Bank, 2012). In this scenario, the shareholders and managers become a pawn in a 'great power' game that leads to Type II agency conflicts, which in turn, destroy firm value.

We argue that in most cases, powerful CEOs prefer to adopt leadership strategies that are consistent with their own beliefs and personal agendas. We conjecture that in emerging markets where the legislative and regulatory regime is not strong and minority shareholders' rights are

not fully protected, the presence of a CEO as a politician may restrict the freedom of expression of minority shareholders leading to Type II agency conflicts.

We undertake a cross-country study of two important emerging markets of the Asian region namely Taiwan and Pakistan. The Asian region is recognized for its political insatiability across the members' countries (World Bank, 2004; 2007). Notably, a large number of parliamentarians in Taiwan and Pakistan are the CEOs of leading business groups (Economic Survey of Pakistan, 2010-11; Mobrand, 2012). [2] In addition, the corporate sectors of Taiwan and Pakistan are coupled with extensive political involvement of the top leadership and weak governance arrangements which tend to affect the quality of financial reporting (Saeed et al., 2019).

Moreover, there is a political polarization in Taiwan and Pakistan which tend to continuously add complexity and uncertainty in their political, social and corporate environment (Lee et al., 2019; Saeed et al., 2019; Ullah & Kamal, 2019). The economic and political setup of Taiwan and Pakistan tend to address financial and economic matters related to urban planning and policymaking in which the municipality or other tier of government is involved (Hashmi et al.2011; Lee et al., 2019). To this end, the political involvement of CEOs in Taiwanese and Pakistani politics gives them discretion over local industry matters and access to credit facilities through the government sectors' banks (Mobrand, 2012).

Zhu and Chung (2014) conducted interviews of CEOs of the Taiwanese corporate sector and report that a large number of CEOs of different business groups and their family members are directly and indirectly involved in politics. The study shows that Taiwan's Parliament acts as the hub for the flow of information about industry regulations and economic policies, therefore, it is beneficial for CEOs to be a part of national politics.

Likewise, the CEO of the Want Want group (i.e., one of the largest business groups in Taiwan), based on their political affiliations, use the media as a tool for building social ties with the government and exerting political influence on Taiwanese society (Lin & Lee, 2017). In addition, Lee et al., (2019) investigate the impact of political connection on stock return in the Taiwan context and report that different perspectives of political parties affect the existing trade treaties and stock market performance.

[2] There is a multi-party system in Taiwan, as the Kuomintang Party and the Democratic Progressive Party are dominating political parties in Taiwanese politics. Pakistan also corroborates equivalent political dynamics; i.e., the dominance of two major political parties in the country.

Correspondingly, Saeed et al., (2019) report that a large number of politicians are serving as the CEOs of listed firms in Pakistan whilst 29.9% of firms are politically connected through their CEOs and 71% are connected through their directors. The study further reports that political favouritism is common in Pakistan in the form of unauthorised tax incentives, preferential credit, and utility bill exemptions. By the same token, Ullah & Kamal, (2019) investigate a data set of listed firms of Pakistan and report that powerful CEO with strong political connections tend to influence the corporate key decision which destroys firm value. Further, using a data set of 238 listed firms of Pakistan, Hashmi et al. (2011) report that political influence negatively impacts earnings quality. Given that compared with other countries in the Asian region, Taiwan and Pakistan markets are highly representative regarding the presence of a large number of politicians as CEOs hence providing an interesting setting to conduct this analysis.

Using the Generalized Method of Moments (GMM), the Instrumental variable approach (IV), the Heckman selection model, Propensity Score Matching (PSM) techniques, and the Difference-in-differences model (DiD), we contribute to the literature in three important ways. First, we advance the literature by first time investigating whether the presence of the politician as a CEO impacts firm value. Our evidence shows that political CEOs negatively impact firm value in the case of family firms while this relationship is insignificant in the case of non-family firms of Taiwan. Regarding Pakistan, we report a negative relationship between political CEOs and firm value for both family and non-family firms hence the economic significance of the politician as a CEO in Pakistan is greater than that of Taiwan.

We argue that legal arrangements and minority shareholders' protection in Pakistan is relatively weaker than that of Taiwan hence political CEOs has a more detrimental impact on firm value in Pakistan. To this end 'The Index of Economic Freedom' score of Pakistan (51.7) is significantly lower than Taiwan (78.6) reflecting a weak legal and regulatory framework. We also report that struggling firms are more likely to hire a politician CEO who would bring valuable political connections. Thus, firm values are lower for politician CEO firms because lower value firms hire politicians. We argue that power politics is an inherent behaviour of most politicians hence political CEOs seek excessive power to dominate in the board decision making that damage the confidence of external investors leading to a negative impact on firm value. Therefore, the presence of the powerful politician as a CEO tends to limit the board power and endorse managerial entrenchment i.e. put their self-interests ahead of the firm's goals, which in turn, damage the firms' value. Moreover, political CEOs takes undue advantage

of their influential position by exploiting weak legal arrangements and intervene in the strategic role of the shareholders/directors and restrict the impartial monitoring role of the INEDs which destroys firm value.

Second, we present substantive evidence regarding the negative moderating effect of the politician as a CEO on the relationship between concentrated ownership and firm value and between the INEDs and firm value. We argue that this negative effect is due to the fact that INEDs are not independent in a true sense as the politician CEO limits the INEDs' control function by developing a coalition with them – a cultural trait that exists not only in the social fabric of Taiwan and Pakistan but also in several other emerging markets.

Third, we extend the context of agency theory by establishing that presence of a politician as a CEO leading to 'entrenchment effect' which in turn, negatively impact firm value. To this end, we report that the excessive powers of the CEO as a politician and the greater level of information asymmetries between the minority shareholders and political CEO leads to non-value-adding decisions making.

The paper is organized as follows: Section 2 discusses the significance of emerging markets, a literature review, and our hypotheses. Section 3 explains the variables used in the model estimation. Section 4 discusses the details of the model specifications; the methodology and the results presented in Section 5 followed by the Conclusion of the study.

2. Literature Review and Hypotheses Development

2.1. The Rationale for Taiwan and Pakistan as emerging markets

We undertake a cross country study of two important emerging markets in the Asian region namely Taiwan and Pakistan owing to several common characteristics. For example, the institutional context of Taiwan and Pakistan are underpinned by the weak legal framework; highly volatile capital market, strong corporate-political connections, and lower investor protections which affect the quality of financial reporting (Amin & Cumming, 2021; Yeh et al., 2001). In addition, the equity markets of Taiwan and Pakistan are tightly held among state ownership, multinational firms, regional corporations, large business groups, pyramidal structure and entrepreneurial families (Cheema et al., 2016; Ullah & Kamal, 2019). However, the complexity of the governance and ownership patterns in Taiwan and Pakistan is not fully recognized in previous literature.

The economic and financial transition of Taiwan and Pakistan has unfolded in an environment of high-level political instability where the rule of law is largely ineffective (Amin & Farquhar, 2021). Moreover, minority shareholders' rights are not fully protected in Taiwan and Pakistan (Ullah & Kamal, 2019). Further, the governance settings of these two economies are weak and fluid while institutions are not closely connected whilst the regulatory scrutiny is less rigorous than in developed economies (Amin & Cumming, 2021).

Despite several constitutional amendments in Taiwan and Pakistan for the improvements in the legal system, particularly in the last two decades, the market-oriented legal arrangements have remained untested. In developed economies, the corporate rights to operate freely are secured by the legal and institutional infrastructure while in the merging economy like Taiwan and Pakistan such rights are not enforced automatically due to the lack of supporting institutions. (2) As such, these unique characteristics of the Asian market offer an interesting platform to conduct this study in the context of the Asian region.

2.2. Agency theory context

A large strand of studies has deployed agency theory to better understand the significance of CG mechanisms and their impact on firm performance (Filatotchev & Boyd, 2009; John & Senbet, 1998). Agency theory predicts that top leadership focuses on effective monitoring and tends to mitigate the likelihood of the extraction of private benefits; therefore, a higher level of concentrated ownership positively influences firm value (i.e., incentive/monitoring effect). In an opposing scenario, politically powerful CEOs/managers focus on self-interest and do not serve the best interest of the minority shareholders unless a strong internal governance mechanism is put into place to protect the shareholders from expropriation (i.e., the entrenchment effect).

A large number of firms in Taiwan and Pakistan are closely held, such as business groups, pyramidal structures, cross-holdings, and family-controlled businesses, whilst in a close-ended business, there is always a risk of expropriation by the politically powerful CEOs at the cost of the minority shareholders' interest (Gilson, 2007; Singh et al., 2018). Accordingly, if ultimate power and authority rest in the hands of a politically powerful CEO, it may lead to partisan decisions. Granting all this, particularly the significance of agency theory in the emerging markets context, we link the agency theory in the leadership context with our econometric model and specifically test the presence of Type II agency conflicts due to the presence of political CEOs.

2.3. The politician as a CEO

The role of the board is delineated by its relationship with the senior management, particularly with the CEO, since the business information tend to disclose only in the board meetings (Subrahmanyam et al., 2019). Prior literature highlights the significance of the CEO's political connections by incorporating the context of resource dependence theory and emphasizes the importance of the firm's connections with the external contingencies to mitigate interdependence and uncertainty. For example, Otchere et al. (2020) examine the effects of political connection on corporate risk-taking and shows that political connections link with firm higher risk-taking behaviour.

Unsal et al., (2016) examine the impact of CEOs' political orientation on firm lobbying efforts and report that the impact of lobbying on firm performance differs across managers' political orientations. Cohen et al. (2019) show that firms led by Republican CEOs are less transparent in dealing with investors. Wu et al., (2018) investigate a data set of Chines firms and document that local political ties positively impact CEO pay. Li et al., (2008) show that political connections help firms to obtain credit from banks. Kattan et al., (2007) point out that political divisions in national politics negatively impact the corporate sector and leads to environmental chaos and economic instability.

The board monitoring is compromised when the politician as a CEO dominates in the board decision making, where directors and external investors are unable to raise critical issues which adversely affect their judgment. The lack of independent leadership in a firm with the politician as a powerful CEO tends to limit the monitoring function which enhances the tendency to withhold important business information from outside stakeholders.

Notably, a large number of corruption scandals stem from the association between politics and business in Taiwan and Pakistan (Mobrand, 2012; World Bank report, 2004). In addition, Zhu and Chung (2014) investigate the ties between the rival political parties in Taiwan and show that ties to the ruling political party tend to facilitate the business groups in unrelated industries, and ties to the opposition political parties restrain such moves. Choi et al., (2020) report that Taiwan corporate sector with poor CG practice often develops political connectedness for corporate valuations based on their high marginal returns and low marginal costs. Likewise, Lin (2001) investigates the data set of Taiwan firms and documents that the political ties between the business executive and political parties significantly impact corporate strategies. Further, Wealth Magazine (2004) reports that the president of the Democratic Progressive Party

(DPP) in Taiwan influenced the government-controlled financial institutions to provide large amounts of preferential loans to his connected firms.

We argue that a politically powerful CEO with a political background may limit board power, which tends to accelerate managerial entrenchment, which may heighten agency conflicts and damage the firm value. The CEOs may exploit minority shareholders particularly through pyramidal ownership structure, voting pacts, stock splits, and complex interlocking directorships (Amin & Farquhar, 2021). The politicians as the CEOs may utilize their political connections to proceed in terms of self-socio□political status to enhance their wealth which is more likely to drive at the cost of minority shareholders (Adhikari et al., 2006; Wu et al.,2012; Tu et al., 2013). We hypothesize that in emerging markets where institutional and legal arrangements are relatively poor, the politician as a CEO is more likely to prefer an autocratic environment to consolidate their power that restricts the freedom of expression of minority shareholders. This situation accelerates the likelihood of Type II agency conflicts and leads to the minority shareholders' expropriation.

Moreover, in most of the emerging markets, politically powerful CEOs dominate in board decision making and tend to use private transactions to tunnel resources from an affiliated chain of pyramidal structures. The study results of Singh and Harianto (1989) report that large boards perform better by reducing the dominance of the CEO. To this end, we argue that the political position with ultimate autonomy allows more leeway to the CEOs to pursue private incentives such as 'rigged payoffs' under-compensation package and through the higher rates of perquisite consumption. This scenario becomes more intense when the politician as a CEO tend to exercise the structural power over the board key decision, particularly regarding the appointment of directors, member remunerations, and the nomination of INEDs which compromises the role of minority shareholders (Veprauskaite & Adams, 2013).

The prior study of Engelberg, Gao, & Parsons, (2013) in the US context shows that a powerful CEO with a strong political and professional network may benefit shareholders by valuable market information leading to value□adding decisions making. We argue that studies in the developed countries context are less likely to be generalizable to emerging markets owing to the difference in legal and institutional arrangements.

The present study is set in the context of emerging markets i.e. Taiwan and Pakistan where the concentration of power in a single hand cannot always be taken in the interests of the company. To this end, we conjecture that a politician as a CEO tends to hold excessive power and

authority which may lead to the moral hazard problem. In such a scenario, the external investors are reluctant to invest, particularly when the preference of corporate projects differs across the CEOs and minority shareholders due to the dominant position of a politician as a CEO. Based on these arguments, we expect a negative impact of the politician as a CEO on firm value in the emerging market context. Hence, we hypothesize:

H1: The politician as a CEO (e.g., a member/former member of Parliament) tends to pursue excessive power and control to influence key corporate decisions, which in turn, negatively impacts firm value (Tobin s' Q) – the entrenchment effect.

2.4. Ownership Concentration

A large strand of studies has investigated the relationship between ownership concentration and firm performance (see, for example, Francis, Schipper, & Vincent, 2005; Miller et al., 2007; Wang & Shailer, 2015). The empirical literature on the relationship between ownership concentration and firm value reports mixed outcomes and relate it with the trade-off between the alignment and entrenchment effects whilst later is more prevalent in emerging markets.

The extant literature about ownership concentration cites that the controlling shareholders have an incentive to monitor the managers' actions more effectively to protect their interests, which leads to a monitoring effect (Shleifer and Vishny, 1986). The extant literature largely examines resource dependence theory and reports that political affiliation may bring several benefits, including favourable regulatory conditions, tax holidays, and credit from state sector banks (Dinç, 2005; Johnson & Mitton, 2003; Faccio, 2006; Hillman, 2005). In addition, a politically powerful CEO with a strong political network may be beneficial for the shareholders by providing valuable market information, which leads to value□adding decisions (Engelberg, Gao, & Parsons, 2013).

In the opposing view, ownership concentration tends to escalate agency issues as the powerful CEO and the controlling shareholders pursue private benefit at the expense of minority shareholders' interests, which negatively impacts firm value (Lee et al., 2014). We explicitly shed light on the entrenchment effect leading to Type II agency conflicts in the context of Taiwan and Pakistan to understand whether the presence of a politician as a CEO moderate the hypothesized relationship between ownership concentration and firm value.

Taiwan and Pakistan are recognized for their weak institutional and legal framework, highly volatile capital market, and strong corporate-political connections. Moreover, a large majority

of firms are closely held in most of the emerging markets with no exception to Taiwan and Pakistan which tends to enhance the controlling influence of dominant shareholders (Amin & Cumming, 2021; Lee et al., 2011). We hypothesize that a CEO may utilize his/her political connections to proceed in terms of self-socio□political status and tends to enhance his/her wealth at the cost of minority shareholders.

The Leadership theorist accentuates that CEOs set the corporate vision, make strategic corporate decisions, and thereby have a significant impact on corporate performance. We thus posit that the politician as a CEO pursues ultimate power and control to extract private benefits at the cost of minority shareholders' interests. To this end, a firm with a higher level of concentrated ownership, particularly under the leadership of a politician, may lead to Type II agency conflicts. Given the weak legislative and regulatory regime and the higher level of ownership concentration in the Asian market, we develop the following hypothesis:

H2: The politician as a CEO is more likely to develop a control coalition with the controlling shareholders for the extraction of private benefits hence the concentrated ownership in the leadership of a politician as a CEO negatively influences firm value.

2.5. Presence of Independent Non-Executive Directors (INEDs)

Independent non-executive directors (INEDs) are part of the internal CG mechanism that alleviates agency problems arising from the separation of cash flow rights and control rights (Chen et al.,2000; Hermalin & Weisbach, 2003). The corporate board is the ultimate centre of control and plays the role of scrutinizing the corporate strategy. INEDs perform the board monitoring function to protect shareholders' interests and ensure that board decisions are transparent and based on merit (Cadbury report, 1992). Prior literature incorporates the presence of INEDs as a measure for monitoring various functions, such as board vigilance, monitoring managers' function, ensuring a balance of power between CEO and board members, and the effectiveness of the board committees. Agency theory predicts that the board independence tends to improve the oversight function, mitigate the agency issues, and ensure that the managers perform in the best interest of the shareholders.

On the contrary, several studies report a negative impact of INEDs on firm value (see, for example, Hermalin & Weisbach, 2003; Yermack, 1996). However, Akbar et al. (2016) and Wintoki et al. (2012), among others, have not found any association between INEDs and firm value. The positive impact of INEDs on firm value has been established primarily in developed markets. Therefore, it is unclear whether the established positive relationship between board

independence and firm value in the UK and US markets can be generalized to emerging markets. These inconsistencies lead us to investigate the relationship between board independence and firm value.

Following governance standards of developed economies, several reforms have been taken up by the Company Law and Securities and Exchange Law in Taiwan to encourage the corporate sector to appoint INEDs. Likewise, the Security Exchange Commission of Pakistan (SECP) revised the CG code in 2012 and released a mandatory requirement of one-third of the board members as INEDs.

The institutional arrangements in the Asian region, particularly in Taiwan and Pakistan are relatively weak, hence a truly independent and impartial monitoring role of INEDs is not expected, particularly in the presence of the politician as a CEO. Consistent with the common phenomena across several emerging markets, we conjecture that the powerful CEO may link with the INEDs and compromise board independence, which, in turn, can negatively impact firm value. Hence, we hypothesize:

H3: The politician as a CEO is more likely to prefer acquiescent individuals as INEDs i.e., the directors who are ostensibly independent and develop a coalition with the CEO, hence the presence of INEDs is negatively associated with firm value (Tobin 's Q).

2.6. Moderating effect of the politician as a CEO

We have thus far highlighted the significance of INEDs and concentrated ownership in the emerging market context. It is possible, however, that the politician as a CEO may have an intervening impact on the controlling function of shareholders/directors or the monitoring role of INEDs. Therefore, it is worth to investigate whether the presence of the politician as a CEO may alter the strength and the direction of the relationship between concentrated ownership and firm value and between the INEDs and firm value.

From an agency theory perspective, the presence of a politically powerful CEO is more likely to link with the common agency issue of divergence of interest between the CEO and minority investors (Anderson & Reeb, 2004). Agency theory also argues that a politically powerful CEO may weaken the effectiveness of the board monitoring function and suggests the balance of power between the CEO and shareholders limits the dominance of a single individual on board decision making.

We argue that the presence of the politician as a CEO may enhance the likelihood of Type II agency conflicts, while minority shareholders may nonetheless persist with them, owing to the benefit that they provide. We postulate that politically powerful CEOs are more likely to focus on the private benefit, thus seeking an extension of tenure and thereby compromising the impartial role of shareholders/directors and INEDs. We thus conjecture that the presence of the politician as a CEO may negatively moderates the relationship: (a) between the concentrated ownership and firm value, and (b) between INEDs and firm value. In this regard, we develop two hypotheses:

H4a: The politician as a CEO is more likely to intervene in the strategic role of the shareholders, which in turn, negatively moderates the relationship between concentrated ownership and firm value (Tobin 's Q).

H4b: The politician as a CEO tends to limit the monitoring function of INEDs, hence the presence of the politician as a CEO negatively moderates the relationship between INEDs and firm value (Tobin 's Q).

3. Research Strategy

3.1. Data and Sample

Our preliminary sample consists of all listed firms of the Taiwan Stock Exchange (TWSE) and the Pakistan Stock Exchange (PSX). We exclude financial industries (SIC codes, 6000–6999) and utilities (SIC codes, 4900–4999), subject to differences in listing and regulatory requirements. We extract the financial and ownership data mainly from the Osiris database (www.osiris-bvdinfo.com). Our data is supplemented by the Taiwan Stock Exchange (TWSE), Taiwan Economic Journal (TEJ), Market Observation Post System (MOPE), the Business Groups in Taiwan (BGT) directory (affiliated with Standard & Poor's), and the firm's annual reports. In the case of Pakistan, our data are supplemented by the Pakistan Stock Exchange (PSX), the State Bank of Pakistan's audited financial statements, the Election Commission of Pakistan (ECP), and annual reports from firms' websites.

Our final data consist of an unbalanced panel data set of 609 firms and 5297 observations of Taiwan and 320 firms and 2795 observations of Pakistan covering the period 2010-2018. Our sample period starts from 2010, one year after the global financial crisis of 2007-2008. We further split our samples into family and non-family firms. In addition, by the end of 2011, the Legislative Yuan (Parliament of Taiwan) approved a revision to the Company Law which is

directly associated with governance arrangements in Taiwan. Likewise, in March 2012, the Security Exchange Commission of Pakistan revised the CG code to enhance the level of compliance. Therefore, considering the release of revised governance regulations of Taiwan and Pakistan in 2011 and 2012, respectively, we consider these governance arrangements as a natural exogenous shock and test whether our estimated results are driven by the release of this governance revision.

3.2. Family and non-family firms

Considering the unique characteristics of family-controlled firms, we split our sample between family and non-family firms. The rationale of separate analysis of family and non-family business is evident as the agency theory argue that family-controlled firms experience different incentives to diversified and atomized shareholders. These distinguishing incentives manifest themselves through differences in the utilization of other control mechanisms such as lack of external discipline and monitoring, which in turn, display a different corporate behaviour of family firms compared to non-family firms (Jaggi et al., 2009; Prencipe & Bar-Yosef, 2011; Wang, 2006). Moreover, the corporate sectors of Taiwan and Pakistan are recognised as the markets with family capitalism and the dominance of concentrated ownership which provide a suitable platform to conduct this study. Table 1 presents the definitions of the variables used in the study.

TABLE 1 ABOUT HERE

3.3. Model Specification

To investigate the impact of politicians as the CEO on firm value, we rigorously address the potential sources of endogeneity by using five strategies namely, the GMM model, an instrumental variable (IV) estimation, the Heckman selection model, the Propensity score matching (PSM) technique, and Difference-in-Differences (DiD) approach. Prior literature on CG documents that board characteristics are dynamic in nature.

Moreover, it is widely acknowledged that endogeneity is inherent in the governance and firm performance relationship (Nguyen et al., 2014). Therefore, following prior literature, we employ a two-step system GMM estimator to test the dynamic nature of the corporate board and ownership structures and address the potential sources of endogeneity.

Our theoretical arguments start with Hermalin and Weisbach's (1991) model, which revealed that board structure is partly a function of a bargaining process between the CEO and the

members of the board. Broadly speaking, the bargaining position of the CEO is the function of his abilities and skills which is determined by past performance; therefore, the board structure depends on past performance (Gibson et al,2013; Wintoki et al, 2012). Further, the GMM estimator covers the orthogonality conditions which assume that there is no serial correlation in the error term. The orthogonality conditions allow the researcher to use a lagged level as an instrument for difference equations and lagged differences as an instrument for the level equation, respectively. Therefore, considering the above-mentioned dynamics, we employ the GMM model as the main estimation technique.

Prior studies incorporate the historical values of endogenous variables as an instrument to control for potential sources of endogeneity. We, therefore, use the lag of the dependent variable as an instrument in the first-differences equation and the lag difference as an instrument in the level equation. Moreover, the dynamic GMM model is more suitable in a situation where it is difficult to find an appropriate instrument outside the model to fix the endogeneity, particularly in the case of 2SLS estimation (Amin & Liu, 2020). Given the unavailability of appropriate external instruments in the CG literature, the GMM model is considered to be a feasible solution to fix the endogeneity problem (Amin & Cumming, 2021; Wintoki et al., 2012). We, therefore, prefer GMM as the main estimation technique to conduct this study.

As a robustness test, we employ an instrumental variable approach and the Heckman selection model to avoid sample selection bias. Fourth, we conduct the propensity score matching (PSM) technique to account for observable differences in firm characteristics across sample firms. Finally, we use the governance regulations (2011) as an exogenous shock to test whether our estimation results are driven by the release of regulations (2011). To this end, we employ the Difference-in-differences (DiD) model to test the robustness of the results by incorporating the propensity score-matched sample.

3.4. Variables

We measure firm value in terms of Tobin's Q (TQ) i.e., the ratio of the market value of equity plus book value of debts divided by the book value of total assets. TQ demonstrates the firm's market performance, which is a less myopic measure of firm value than accounting measures of performance, such as ROA and ROE (Farag & Mallin, 2019; Singh et al., 2018; Watson & Head, 2004).

Prior studies have defined political connectedness in different ways—for example, a director's participation in the election, a close relationship between dominant shareholders and

government officials, a CEO who is an official in the central government or the military, or a director who is a member of a political party (Faccio, 2006; Fisman, 2001; Johnson & Mitton, 2003; Khwaja & Mian, 2005); Li & Zhang, 2010; Wang & Qian, 2011). In this study, in order to capture a more concrete meaning of political connectedness, we define the politician as a CEO 'the member/former member of Parliament.

In addition, we also consider those CEOs who contested the election but didn't become a member of Parliament, as members are also considered to be politicians. Moreover, we incorporate ownership concentration (i.e., the proportion of shares held by the top 5 largest shareholders) and INEDs (i.e., the proportion of independent non-executive directors on board) as the main governance variables. We include five control variables that may affect the governance and firm performance relationship, i.e., the board size, firm size, leverage, and sales growth (Anderson & Reeb, 2004; Ciftci et al., 2019; Singh et al., 218; Wintoki et al., 2012).

3.5. Summary Statistics

Table 2 presents the summary statistics of the main variables used in the model estimation. The analysis shows that overall, the TQ of the Pakistan sample firms (1.19) is greater than Taiwan firms (1.14), while the TQ of non-family firms in both samples is also greater than the family firms. Consistent with the common phenomena of emerging markets in the Asian region, both sample firms are highly concentrated i.e., the mean value of ownership concentration across all the samples is above (0.40). Also, the ownership concentration of family firms is greater than that of non-family firms.

Taiwan sample firms show that an average of one-fifth of board members are INEDs, as per the recommendation of CG Best-Practice Principles of Taiwan Stock Exchange. Likewise, Pakistani firms also show that an average of one-third of board members are INEDs, as per the recommendation of the Security Exchange Commission of Pakistan. The average board size of Taiwan firms is (9.15), which is greater than the board size of Pakistani firms (7.25). The family-controlled ownership is prevalent in both samples. To this end, the family ownership of the Pakistani sample (0.47) is greater than the Taiwan sample (0.44).

The firm size of Pakistan firms is (5.05), which is marginally close to the Taiwan firms (5.55). Furthermore, the leverage of the Taiwanese sample (28.3) is marginally different from the Pakistani firms (26.4), while the non-family firms are highly leveraged than family firms in both samples. The sales growth of the Taiwan sample (0.09) is greater than that of Pakistani firms (0.035), while the growth in family firms is larger than non-family firms in both samples.

Moreover, the EPS of non-family firms is larger than non-family firms in both samples. Further, Taiwanese firms have a higher ROA and EPS than Pakistani firms. In addition, the ROA of family firms is greater than that of non-family firms for the sample, whereas the EPS of family firms is lower than that of non-family firms for both samples.[3]

TABLE 2 ABOUT HERE

3.6. Diagnostic Tests

We begin our analysis with the diagnostic assessment of our model estimation. Table 3 shows the testing results of multicollinearity, heteroskedasticity, autocorrelation, and endogeneity for Taiwan and Pakistan across family and non-family firms. Column 1 of Table 3 shows that the mean values for the VIF test of all the sample firms are significantly lower than the threshold value of 10 that reject the likelihood of multicollinearity (Gujarati & Sangeetha, 2007). In addition, the sample data are also subject to the Woolridge and Breusch-Pagan/Cook-Weisberg test for autocorrelation and heteroskedasticity, respectively.

Column 2 of the sample firms shows that the p-value of the Woolridge test for autocorrelation is less than one (e.g., p-values < 1), demonstrating that the residuals of the sample firms are autocorrelated to their respective first order, which, in turn, rejects the null hypothesis, leading to the absence of AR (1). More specifically, this test result shows that the errors that link with any specific observations are correlated with the other parameters' errors. Column 3 shows that the p-value is less than one (e.g., p-values < 1) for all samples, rejecting the null hypothesis of Breusch-Pagan/Cook-Weisberg test for heteroskedasticity; i.e., 'constant variance' (error variances are all equal), confirming the presence of heteroskedasticity across the sample firms. Finally, we examine the presence of endogeneity by employing the Durbin-Wu-Hausman test, which shows the significance of p-values across all samples suggesting the potential source of endogeneity. We, therefore, prefer the GMM estimator over static models based on the above diagnostic tests.

TABLE 3 ABOUT HERE

4. Empirical Results

(3) The variables, such as market capitalization, EPS, and ROA are used only in descriptive statistics for the comparison of sample firms and are not part of the regression analysis.

Table 4 presents the regression results of the politician as a CEO and firm value relationship across both sample firms. We employ a well-developed two-step system GMM estimator. As a standard procedure of the dynamic GMM estimation, the value of the AR (2) and Hansen test need to be insignificant for the validity of model estimation. All of our estimations show the insignificant values of AR (2) and the Hansen test, confirming the validity of model estimation. [4]We proceed with a stepwise estimation by the inclusion of interaction terms in each model, while Model 4 of each respective sector includes all interaction terms. Accordingly, we rely on Model 4 of each sector to determine whether respective hypotheses are supported or not.

Although Taiwan and Pakistan have several common characteristics of emerging markets, however, both markets differ from each other in terms of legal arrangements and governance mechanisms. Therefore, we separately estimated the results for Taiwan and Pakistan and report the findings in Panel A and B, respectively and compare their results for a better understanding of political CEOs and firm value relationships. Regarding Taiwan, Panel A of Table 4 shows that the coefficient on the politician as a CEO is negatively significant across family firms (= -0.474, $p < 0.05$, Model 4) while it remains insignificant in the case of non-family firms (= -0.567, $p > 0.10$, Model 8). Panel B of Table 4 shows that in the case of Pakistan, the coefficient on the politician as a CEO is negatively significant (= -0.610, $p < 0.05$, Model 12) (= -0.641, $p < 0.10$, Model 16) across family and non-family firms.

This result advocates the assertion that the CEOs exploit their political position to pursue personal incentives leading to the minority shareholders' expropriation. This outcome also reflects that the presence of the powerful politician as a CEO tends to limit the board power and authority and endorse managerial entrenchment i.e. put their self-interests ahead of the firm's goals, which, in turn, damages the shareholders/firm value. To this end, these findings imply that the politician as a CEO is more likely to support the patriarchal, autocratic, and even dictatorial elements leading to Type II agency conflicts.

Another explanation of this result is that the struggling firms are more likely to hire a politician CEO who would bring valuable political connections. Thus, firm values are lower for politician CEO firms because lower value firms hire politicians. The results also show that the relevance of a politician as a CEO is more pronounced in Pakistan compared to Taiwan, while the

[4] We estimate the historical values of explanatory variables as an instrument for the model estimations and use the lagged levels from period t-1 or more of the dependent and explanatory variables as an instrument to control the potential source of endogeneity, such as unobserved heterogeneity, dynamic endogeneity, and simultaneity.

economic significance of the politician as a CEO is greater in Pakistan. Based on these results, we accept hypothesis H1 for all samples except for Taiwan non-family firms.

Panel A further show that the coefficient on ownership concentration is negatively significant with regard to the Taiwan family firms (= -0.153, $p < 0.05$, Model 4) supporting entrenchment effect, while in the case of non-family firms, it shows a positive impact on firm value, reflecting a 'monitoring effect' (= 0.239, $p < 0.05$, Model 8). While Panel B shows that in the case of Pakistan, the coefficient on ownership concentration is significantly negative across family and non-family firms (= -0.562, $p < 0.10$, Model 12). (= -0.322, $p < 0.01$, Model 16), implying that the politician as a CEO tends to opportunistically engage in seeking private benefits at the cost of firm value. Based on these findings, we accept hypothesis H2 for family firms and non-family firms of Pakistan, while we failed to accept it for the non-family firms of Taiwan.

In terms of INEDs and the firm value relationship, Panel A shows that the coefficient on INEDs is significantly negative (= -0.221, $p < 0.10$, Model 4) in the case of family firms in Taiwan. This result is consistent with prior studies (e.g., Ciftci et al., 2019; Hermalin & Weisbach, 2003), while it shows a positive coefficient in the case of non-family firms in Taiwan (= 0.374, $p < 0.10$, Model 8). Panel B shows that the coefficient on INEDs is negatively significant for both family and non-family firms in the case of Pakistani firms (= -0.672, $p < 0.10$, Model 12), (= -0.577, $p < 0.10$, Model 16), implying that the politician as a CEO restrict the intervention of INEDs in corporate decisions and prefers to appoint INEDs who are not independent in a true sense.

In addition, this shows that the CEO tends to develop a coalition with the INEDs which limits the monitoring function of the INEDs. Another potential explanation for this result is that INEDs might be reluctant to work independently, as they can be re-elected if they have a good affiliation with the powerful CEO. Based on these findings we accept hypothesis H3 for all sub-samples except for the Taiwan non-family firms.

Hypothesis H4a predicts that the presence of the politician as a CEO negatively moderates the association between concentrated ownership and TQ. Our results support this inference since the coefficient on the interaction terms of CEO (e.g., concentrated ownership*CEO) is negatively significant for family firms in the case of Taiwan firms (= -0.654, $p < 0.10$, Model 4). This result demonstrates that the presence of the politician as a CEO enhances the negative relationship between concentration ownership and firm value. This result shows the presence of an entrenchment effect, i.e., politically powerful CEOs tend to form a coalition with the

family controlling shareholders to pursue ultimate power and control to extract private benefits at the cost of minority shareholders' interests.

While in the case of non-family firms the coefficient on interaction terms of CEO is insignificant for non-family firms in the case of Taiwan firms (= -0.212, $p > 0.10$, Model 8), reflecting that presence of the politician as a CEO unable to influence the relationship between concentrated ownership and firm value. The possible explanation of this result is that non-family firms hold a strong internal CG mechanism that curbs the CEOs dominant role in corporate decision making. Panel B shows that the coefficient on interaction terms of CEO is negatively significant for both family and non-family firms in the case of Pakistani firms (= -0.289, $p < 0.05$, Model 12), (= -0.412, $p < 0.01$, Model 16). This result reflects that powerful CEOs take the advantage of their influential position by exploiting weak legal arrangements which is one of the main reasons for poor CG practice in emerging markets. We thus accept hypothesis H4a for all sub-samples except for the non-family firms of Taiwan firms.

Hypothesis H4b proposes a negative moderating effect of the politician as a CEO on the relationship between INEDs and TQ. We found strong evidence for this conjecture since the coefficients on the interaction terms of CEO (e.g., INEDs*CEO) is negatively significant across all the models in Panel A and B, (= -0.522, $p < 0.01$, Model 4), (= -0.341, $p < 0.10$, Model 8), (= -0.327, $p < 0.05$, Model 12), (= -0.404, $p < 0.05$, Model 16). Based on this result we accept hypothesis H4b for both samples. We argue that the politician as a CEO tends to appoint INEDs merely for compliance purposes whilst compromising their monitoring role in the corporate decision making whilst INEDs tend to link with powerful CEOs to protect their personal interests.

Turning to the control variables, Panel A shows a significant positive association between board size and TQ in the case of the Taiwan sample across family and non-family firms (= - 0.522, $p < 0.05$, Model 4), (= 614, $p < 0.10$, Model 8), reflecting that a larger board provides a firm with greater expertise and accessibility to scarce resources. This result is consistent with the previous studies such as Bozec (2005) and Dalton et al., (1998). On the contrary, Panel B shows that there is no relationship between board size and TQ in the case of Pakistani firms for family and non-family firms (= 0.432, $p > 0.10$, Model 12), (= 0.343, $p > 0.10$, Model 16). The possible explanation of this result is that the majority of Pakistani firms have less diversity in board composition owing to the CEOs' intervention leading to an insignificant impact on firm

value. In terms of firm size, both the samples show a positive impact on firm value which is congruent with previous studies such as Bozec, (2005) and Weir & Laing (2000).

With regard to leverage, Panel A shows that the coefficient on leverage is negatively significant in the case of Taiwan firms (= -0.174, p < 0.10, Model 4), (= -0.224, p < 0.10, Model 8), indicating that firms are using the leverage for the value maximisation rather than a tool of minority shareholders' expropriation. On the contrary, Panel B shows a significant positive impact of leverage on TQ in the case of Pakistani firms (= 0.154, p < 0.05, Model 12), (= 0.493, p < 0.10, Model 16), reflecting that firms in Pakistan prefer leverage over equity financing to inflate their equity stakes leading to Type II agency conflicts. The coefficient on sales growth is insignificant with regards to both the samples suggesting that sales growth is not relevant in a politician as a CEO and firm value relationship.

TABLE 4 ABOUT HERE

4.1. Robustness Tests (Endogeneity of Family-Control Firms)

4.1.1. IV Approach, the Heckman Selection Procedure and Propensity Score Matching (PSM)

Although our econometric model addresses the omitted heterogeneity by using year dummy, fixed effects and a separate estimation of each sample, we cannot ignore the likelihood of some omitted variables that may influence the relationship between governance variables and TQ. In addition, our main estimation of Model 4 shows an overall negative impact of the politician as a CEO and concentrated ownership on firm value.

We argue that the level at which ownership is systematically linked to the difference across firm characteristics, the effect of the family element on TQ could result from such differences. Further, there is a possibility that our results may drive by reverse causality. For instance, a family-controlled firm with a specific political background may be less attractive for potential investors owing to political rivalry. In order to address the potential sources of endogeneity regarding family elements and to avoid sample selection bias, we employ the Instrumental variable approach (IV), the Heckman selection model and the Propensity score matching technique (PSM).

We begin by employing an instrumental variable (IV) approach in Table 5. At the first stage, we estimate a probit model by regressing a dummy variable of family-controlled firms on all explanatory and control variables. Following Lin et al. (2011), we incorporate the average value

of the control rights of family firms by considering the industry as an instrumental variable for family firms. Second, we regress the family dummy on the fitted estimation by the probit regression including all predictors. We then regress TQ on the predicted family-dummy and control variables. Table 5 shows that the coefficient on family-dummy is negatively significant in Columns 1 and 5 for Taiwan and Pakistan samples, respectively.

Third, we employ the Heckman selection model for the robustness of our results. At the first stage, as a standard procedure of the Heckman technique, we again perform the probit estimation to regress the family dummy, instrumental variable and the respective control variables which are presented in Column 2 of each sector. We then determine the inverse Mills ratio (λ) and regress TQ on (λ) including family-dummy and control variables and present the results in Columns 3 and 6 of both samples. [5] The results show that family-dummy is negatively significant across both samples. These estimations reinforce our main findings by incorporating family elements as a potential source of endogeneity.

We also estimate the propensity score matching technique (PSM) for the robustness of our findings and present the results in Columns 4 and 8 of each sample. To this end, we determine the propensity scores using the probit model by incorporating the family dummy along with its corresponding instrumental and control variables. We match each observation of family firms (without replacement) to the non-family firm that holds the nearest score to the respective family-controlled firm. We then estimate the regression model using the sample of PSM to determine whether the relationship between the family dummy and TQ remain significantly negative.

The result demonstrates that the family dummy continues to show a negative impact on TQ across both samples, even the non-family firms exhibit those firm-level specific characteristics which are similar to the family firms. In sum, the underlying endogeneity tests consistently support our main findings, presented in Table 4, suggesting that endogeneity does not influence our empirical results.

TABLE 5 ABOUT HERE

[5] We estimate the inverse Mills ratio (λ) by using the STATA command.

4.1.2. Governance Regulations (2011) as a natural exogenous shock (DiD Estimation)

By the end of 2011, the Legislative Yuan (Parliament of Taiwan) passed the revision in the Company Law which is directly associated with governance arrangements in Taiwan. Likewise, in March 2012, a revised Code of CG was issued in Pakistan. These governance regulations required a minimum of one-fifth and one-third of the total board members as INEDs in Taiwan and Pakistan, respectively. Table 6 presents the robustness test of our results by using the governance regulations 2011 and 2012 across Taiwan and Pakistan, respectively as an exogenous shock to test whether the results of our model estimation are driven by the release of these revised regulations. In this regard, we employ the difference-in-differences (DiD) estimation by incorporating the requirement of INEDs by the governance regulations. The DiD is a quasi-experimental estimation technique used in the literature to compare the changes in outcomes over time by studying the differential effects of a treatment on a targeted ' treatment group' versus a 'control group'. This arrangement mitigates the potential source of endogeneity as the change in the proportion of INEDs is endogenously triggered by new governance regulations.

As a standard procedure of the DiD estimation, our 'treatment group' are the firms being affected by the revised governance regulations (2011) and (2012) for Taiwan and Pakistan respectively, while the 'control group' represents the firms not being affected (e.g., no increase/decrease in the proportion of INEDs). To this end, we include a binary variable 'Treated' by taking the value 1 if there is a change in the proportion of INEDs across the sample firms after the release of governance regulations (2011) and (2012) for Taiwan and Pakistan respectively, 0 otherwise.

In addition, we control the post-regulation period using an indicator variable 'post-regulation' by taking value 1 if the sample year is (2011) for Taiwan and (2012) for Pakistan, 0 otherwise. Moreover, we incorporate the interaction term (i.e., Treated *Post-regulations) as a binary variable that equals 1 if the TQ affects by the governance regulations (2011) and (2012), respectively, 0 otherwise. The results show that the variable 'Treated*Post-regulations' remain insignificant for both samples indicating that the increase in the proportion of INEDs has no significant impact on firm value, therefore, our estimated results have not been driven by the release of regulations (2011) and (2012) for Taiwan and Pakistan, respectively.

TABLE 6 ABOUT HERE

5. Discussion and Conclusion

We have three core objectives of this study. First, to investigate an unexplored dynamic of the top leadership i.e. the politician as a CEO and determine their impact on firm value in the context of Taiwan and Pakistan. Second, we also investigate the moderating role of the politician as a CEO on the relationship between a) the concentrated ownership and firm value, and b) between independent non-executive directors (INEDs) and firm value. Third, prior contrary to the prior studies, we incorporate the agency theory in the leadership context and conjecture that if the power and authority rest in the hand of a powerful parliamentarian/ex-parliamentarian as a CEO, it may support the partisan decisions leading to minority shareholders' expropriation. To this end, we determine whether Type II agency problems proxied by a politician as a CEO influence firm value.

We report that the political CEO takes undue advantage of their influential position by exploiting weak legal arrangements which is one of the main reasons for weak CG practice in emerging markets. Our evidence shows that the presence of a politician as a CEO negatively impacts firm value in the case of Taiwanese family firms while this relationship is insignificant for non-family firms. In addition, we find a negative relationship between political CEOs and firm value in the case of Pakistan for both family and non-family firms hence the economic significance of the politician as a CEO in Pakistan is greater than that of Taiwan.

We argue that legal arrangements and minority shareholders' protection in Pakistan is relatively weaker than in Taiwan hence political CEOs has a more detrimental impact on firm value in Pakistan. To this end 'The Index of Economic Freedom' score of Pakistan (51.7) is significantly lower than Taiwan (78.6) reflecting the weak legal and regulatory framework. Our findings support the arguments of Khwaja and Mian (2005) reporting that firms connected to the politicians generally do not protect the minority shareholders leading to the agency problems (Ashraf and Ghani, 2005).

Our results also relate to the study results of Hashmi et al. (2011) who report that the political influence is one of the main reasons of opaque financial reporting environment and inferior financial reporting quality in Pakistan leading to an adverse impact on firm performance.

We report that the presence of a powerful politician as a CEO tends to limit the board power and endorse managerial entrenchment i.e. put their self-interests ahead of the firm's goals, which in turn, damage the firms' value. We argue that power politics is an inherent behaviour of most politicians hence political CEOs seek excessive power to dominate in the board

decision making that damage the confidence of external investors leading to a negative impact on firm value. We report that the politicians as a CEO are more likely to intervene in the strategic role of the shareholders/directors and restrict the impartial monitoring role of the INEDs which destroy firm value. We also report that struggling firms are more likely to hire a politician CEO who would bring valuable political connections. Thus, firm values are lower for politician CEO firms because lower value firms hire politicians.

Another notable finding of this study is the estimation of the moderating role of the politician as a CEO on the relationship between concentrated ownership and firm value and between the INEDs and firm value. In the case of Taiwan, we report a negative moderating effect of the politician as a CEO on the relationship between ownership concentration and firm value for family firms, while our estimation failed to support the significant moderating role of CEO in the case of non-family firms. While our evidence shows a stronger moderating effect of the politician as a CEO in the case of Pakistan across family and non-family firms. We argue that the political CEO concentrates on the ultimate power and tends to intervene in the controlling function of shareholders/directors which destroy firm value.

In terms of the second moderating hypothesis, we show that the negative relationship between INEDs and firm value is further amplified by the presence of the politician as a CEO across both the sample firms. We report that the political CEOs may tend to prefer acquiescent individuals i.e., the directors who are ostensibly independent and develop a coalition with the CEO which impairs the board monitoring function. We argue that this scenario could eventually create a severe mental misalignment between a political CEOs and minority shareholders leading to the disperse interests between them. This contradiction between the CEO and minority shareholders tends to be more intense when INEDs have a more vocal voice and the CEO exerts a higher level of power and authority to influence the board decisions. This is perhaps due to the fact that in most of the emerging markets, the INEDs are not independent in a true sense − a cultural trait that exists not only in the social fabric of Taiwan and Pakistan but also in several emerging markets as well.

We extend the context of agency theory by establishing that presence of a politician as a CEO leading to‘entrenchment effect’ which in turn, negatively impact firm value. We relate our theoretical findings with the previous literature and report that political influence on the board members causes agency issues leading to lower firm value (Al-Dhamari & Ismail, 2015; Faccio, 2010). This scenario fortifies the assertion that the excessive authority of the top

leadership tends to damage the confidence of external investors leading to a negative impact on firm value.

5.2. Policy Implications

Our results suggest a clear policy implication for policymakers and regulators. We suggest that regardless of recent moves to enhance governance standards in Taiwan and Pakistan, the policymakers and regulators need to ensure that CG should implement in its true sense. The policy makers should also emphasize that the political CEOs should not give priority to their personal interest over firm long-term objectives leading to an autocratic environment. In addition, we emphasize the need for balanced power distribution between powerful CEO and minority shareholders as a way to enhance corporate value. To this end, considering the compromised position of the INEDs owing to the intervention of the politician as a CEO in Taiwan and Pakistan, the policy makers need to redefine the role of INEDs.

Our findings provide new avenues for future research. Given the present study emphasis on dynamic of the top leadership, we suggest that futures studies may explore the impact of the politician as a CEO on earning management. We expect that it might be interesting to examine how the politician as a CEO play their role in restraining earnings management.

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Table 1. Definitions

Variables	Definition
Tobin's *Q* (*TQ*)	The ratio of the market value of equity plus total assets minus total equity divided by total assets.
CEO (Politician)	Binary variable value 1 if CEO is a member/ex-member of parliament/senate, 0 otherwise
Ownership Con	The proportion of shares held by the top 5 largest shareholders
INEDs	The proportion of independent non-executive directors in board
Treated	Binary variable value 1 if there is an increase in the proportion of INEDs during the regulation year 2012, 0 otherwise
Post-regulations	Binary variable value 1 if the sample year is 2012, 0 otherwise
Treated * Post-reforms	An interaction term. Binary variable value 1 for the firms being affected by the governance regulations 2012 due to an increase in the INEDs, 0 otherwise.
Ownership Con * CEO (Political)	An interaction term of CEO with political background on the relationship between associated ownership and Tobin's *Q*
INED * CEO (Political)	An interaction term of CEO with political background on the relationship between INEDs and Tobin's *Q*
Family Own	Where CEO is a family member and 51% or more of family members belong to the same family and at least 10% of total equity is held by the family members
Board Size	Number of board members in the board composition
Ln (Firm Size)	Book value of total sales (natural logarithm)
Leverage	The ratio of total debt to total assets
Sale Growth	Current year sales less last year sales, divided by last year sales
Ln (Market cap)	Market value of the firms' outstanding shares (natural logarithm)
EPS	Earnings per share (Net profit after tax scale by the number of ordinary shares)
ROA	The ratio of profit before tax to total Assets

Notes: Table 1 presents the definitions of the variables used in the study.

Table 2 Summary Statistics

Panel A: Taiwan	Pooled				Family				Non-Family			
	Mean	SD	P25	P75	Mean	SD	P25	P75	Mean	SD	P25	P75
Tobin's Q	1.14	0.37	0.41	1.68	1.07	0.33	0.39	1.59	1.22	0.44	0.37	1.56
CEO (Politician)	0.27	0.11	0.11	0.51	0.31	0.17	0.14	0.49	0.23	0.19	0.12	0.48
Ownership Con	0.54	0.17	0.16	0.75	0.59	0.13	0.16	0.77	0.51	0.25	0.14	0.67
INEDs	0.17	0.08	0.05	0.21	0.16	0.07	0.06	0.21	0.18	0.06	0.07	0.19
Board Size	9.15	1.11	2.52	12.33	9.30	1.29	2.39	10.43	9.01	1.17	2.43	12.1
Family own	0.44	7.26	14.32	61.45	-	-	-	-	-	-	-	-
Ln (Firm Size)	5.55	0.11	1.98	9.03	5.42	2.31	1.45	8.65	5.69	2.11	1.87	9.01
Leverage	28.3	0.11	9.76	48.3	28.2	0.16	9.51	41.54	28.4	0.14	9.55	49.6
Sale Growth	0.06	0.02	0.03	0.11	0.07	0.01	0.02	0.07	0.05	0.01	0.02	0.09
EPS	5.24	1.94	2.11	8.31	4.38	2.22	1.99	7.87	6.11	3.11	1.91	6.89
ROA	0.09	0.02	0.01	0.14	0.08	0.01	0.03	0.12	0.10	0.03	0.04	0.14
Panel B: Pakistan	Pooled				Family				Non-Family			
	Mean	SD	P25	P75	Mean	SD	P25	P75	Mean	SD	P25	P75
Tobin's Q	1.19	0.44	0.37	1.56	1.13	0.41	0.39	1.43	1.25	0.41	0.37	1.39
CEO (Politician)	0.25	0.17	0.15	0.44	0.26	0.16	0.14	0.52	0.24	0.21	0.15	0.51
Ownership Con	0.58	0.13	0.16	0.67	0.61	0.12	0.16	0.63	0.55	0.27	0.12	0.62
INEDs	0.41	0.11	0.10	0.54	0.39	0.09	0.12	0.61	0.43	0.10	0.16	0.59
Board Size	7.25	1.29	2.52	10.22	7.30	1.23	2.39	9.71	7.20	1.21	1.16	9.52
Family own	0.47	0.13	15.58	63.19	-	-	-	-	-	-	-	-
Ln (Firm Size)	5.05	2.3	2.11	7.11	5.42	2.6	1.9	7.7	4.69	2.51	2.47	8.51
Leverage	26.4	0.16	10.01	40.61	26.7	0.15	9.51	38.58	26.1	0.17	0.14	37.81
Sale Growth	0.035	0.01	0.02	0.09	0.039	0.01	0.02	0.08	0.033	0.02	0.01	0.08
EPS	5.74	2.22	2.09	8.49	5.38	2.11	1.99	8.07	6.11	3.41	2	7.91
ROA	0.07	0.01	0.02	0.12	0.08	0.01	0.02	0.11	0.06	0.02	0.07	0.12

Notes: Table 2 presents the summary statistics of Taiwan and Pakistan sample.

Table 3: Country level diagnosing testing

Sectors	VIF Statistics	Woolridge	Breusch − Pagan	Durbin Wu Hausman Test
	Mean VIF	**f-statistic (p-value)**	**χ2 (p-value)**	**t-stat (p-value)**
Taiwan (Family)	1.44	21.7***	16.4*	2.32**
Taiwan (Non-Family)	1.21	13.1**	11.8*	1.62*
Pakistan (Family)	1.77	17.6*	14.7*	2.89*
Pakistan (Non-Family)	1.51	14.3*	12.4***	3.27**

Notes: Table 3 presents the testing results of multicollinearity, heteroskedasticity, autocorrelation and endogeneity test for both the sample.

Table 4: Impact of CEO (Politician) on firm value (Taiwan Sample)

Panel A:	**Family**				**Non-Family**			
Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
CEO (Politician)	-0.363*	- 0.425*	-0.387**	-0.474**	-0.213	-0.232	-0.282	-0.267
	(0.064)	(0.071)	(0.022)	(0.024)	(0.137)	(0.121)	(0.143)	(0.127)
Own Con	-0.551*	- 0.024*	- 0.321**	-0.153**	0.076	0.306*	0.533*	0.239**
	(0.094)	(0.069)	(0.023)	(0.043)	(0.157)	(0.059)	(0.087)	(0.066)
INEDs	-0.254**	-0.377*	-0.312***	-0.221*	0.611***	0.904*	0.831*	0.374***
	(0.045)	(0.078)	(0.001)	(0.065)	(0.000)	(0.098)	(0.093)	(0.000)
Own Con * CEO Political		-0.402*		-0.654**		-0.381		-0.212
		(0.089)		(0.012)		(0.127)		(0.154)
INEDs * CEO Political			-0.493***	-0.522***			-0.319*	-0.341*
			(0.000)	(0.000)			(0.088)	(0.099)
Board Size	0.410**	0.506***	0.533**	0.522**	0.602*	0.612***	0.621	0.614*
	(0.021)	(0.000)	(0.019)	(0.017)	(0.064)	(0.000)	(0.124)	(0.098)
Firm size	0.725**	0.111*	0.435**	0.484*	0.533**	0.054*	0.551	0.199
	(0.035)	(0.057)	(0.062)	(0.079)	(0.049)	(0.092)	(0.112)	(0.443)
Leverage	-0.147*	-0.191*	-0.197**	-0.174*	-0.282*	-0.251***	-0.217*	-0.224*
	(0.066)	(0.075)	(0.036)	(0.054)	(0.078)	(0.000)	(0.087)	(0.091)
Sales Growth	0.521	0.175*	0.184***	0.925**	0.622**	0.426***	0.542*	0.532**
	(0.271)	(0.081)	(0.000)	(0.024)	(0.012)	(0.000)	(0.091)	(0.027)
N	2331	2331	2331	2331	2966	2966	2966	2966
Tobin 's Q (t-1)	0.957*	0.899*	0.837**	0.891***	0.922***	0.852*	0.867**	0.813*
	(0.089)	(0.076)	(0.017)	(0.002)	(0.000)	(0.091)	(0.036)	(0.078)
AR (1) (p-value)	0.003	0.001	0.002	0.021	0.001	0.011	0.01	0.04
AR (2) (p-value)	0.49	0.31	0.24	0.73	0.19	0.59	0.49	0.31
Hansen test	0.46	0.56	0.91	0.11	0.32	0.83	0.46	0.56
Diff in Hansen test	0.43	0.71	0.95	0.19	0.52	0.39	0.43	0.71
Years FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Table 4 presents the results of CG and firm value relationship across industrial sectors. The AR (1) and AR (2) are first and second order test respectively for serial correlation. Hansen test examines the validity and strength of instrument. Diff-in-Hansen test examine that whether instruments used for the equations in levels are exogenous or not. The p-values are reported in parentheses, whereas, ***; **; * represent significance at the 1%, 5%, and 10% level, respectively.

Table 4. Cont. (Pakistan Sample)

Panel B:	**Family**				**Non-Family**			
Variables	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
CEO (Politician)	-0.606***	-0.782***	-0.212**	-0.610**	-0.641**	-0.686**	-0.371*	-0.641*
	(0.000)	(0.000)	(0.022)	(0.042)	(0.041)	(0.011)	(0.082)	(0.093)
Own Con	-0.551*	-0.355	-0.445***	-0.562*	-0.361	-0.331*	-0.421***	-0.322***
	(0.062)	(0.198)	(0.000)	(0.076)	(0.231)	(0.096)	(0.000)	(0.000)
INEDs	-0.640**	-0.552*	-0.602***	-0.672*	-0.529*	-0.533**	-0.581***	-0.577*
	(0.018)	(0.015)		(0.065)	(0.081)	(0.031)	(0.000)	(0.078)
Own Con * CEO Political		-0.231*		-0.289***		-0.401*		-0.412***
		(0.076)		(0.000)		(0.069)		(0.000)
INEDs * CEO Political			-0.341***	-0.327**			-0.233**	-0.404**
			(0.000)	(0.021)			(0.021)	(0.012)
Board Size	0.429	0.411	0.422	0.432	0.352	0.341	0.333	0.343
	(0.189)	(0.155)	(0.166)	(0.267)	(0.278)	(0.223)	(0.222)	(0.228)
Firm size	0.263	0.211	0.345	0.132	0.323	0.214	0.419	0.044
	(0.622)	(0.037)	(0.216)	(0.232)	(0.124)	(0.076)	(0.431)	(0.331)
Leverage	0.213	0.114***	0.151*	0.154**	0.425*	0.430**	0.512*	0.493*
	(0.116)	(0.000)	(0.071)	(0.034)	(0.083)	(0.021)	(0.061)	(0.081)
Sales Growth	0.202	0.313	0.141	0.231	0.421	0.082	0.018	0.244
	(0.521)	(0.621)	(0.771)	(0.031)	(0.621)	(0.333)	-(0.421)	(0.082)
N	1314	1314	1314	1314	1481	1481	1481	1481
Tobin 's Q (t-1)	0.823**	0.890**	0.831*	0.841**	0.911 *	0.882***	0.802**	0.873***
	(0.042)	(0.037)	(0.078)	(0.035)	(0.077)	(0.000)	(0.074)	(0.000)
AR (1) (p-value)	0.01	0.002	0.000	0.001	0.002	0.001	0.002	0.001
AR (2) (p-value)	0.49	0.73	0.19	0.59	0.59	0.19	0.59	0.31
Hansen test	0.54	0.11	0.32	0.32	0.51	0.46	0.56	0.33
Diff in Hansen test	0.28	0.19	0.52	0.52	0.22	0.43	0.71	0.22
Years FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Table 4 presents the results of CG and firm value relationship across industrial sectors. The AR (1) and AR (2) are first and second order test respectively for serial correlation. Hansen test examines the validity and strength of instrument. Diff-in-Hansen test examine that whether instruments used for the equations in levels are exogenous or not. The p-values are reported in parentheses, whereas, ***; **; * represent significance at the 1%, 5%, and 10% level, respectively.

Table 5. Robustness tests: Endogeneity of family-controlled ownership

	Taiwan Sample				Pakistan Sample			
Dependent variable: Tobin 's Q	**IV**	**Probit**	**Heckman**	**PSM**	**IV**	**Probit**	**Heckman**	**PSM**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Family-dummy	-0.201***		-1.441*	-0.329**	-0.288**		-0.249**	-0.221*
	(0.000)		(0.081)	(0.012)	(0.021)		(0.013)	(0.098)
Inverse Mills' ratio (λ)			0.451**				0.218***	
			-0.031)				(0.000)	
CEO (Politician)	-0.422*	-0.325*	-0.258**	-0.332*	-0.321**	-0.221**	-0.622**	-0.551*
	(0.067)	(0.087)	(0.037)	(0.077)	(0.039)	(0.041)	(0.012)	(0.098)
Own Con	-0.025*	-0.031*	-0.257**	-0.116**	-0.527***	-0.686***	-0.048***	-0.107*
	(0.071)	(0.093)	(0.029)	(0.045)	(0.000)	(0.000)	(0.000)	(0.063)
INEDs	-0.421*	-0.215*	-0.905*	-0.322*	-0.419*	-0.876*	-0.383***	0.275**
	(0.061)	(0.088)	(0.079)	(0.082)	(0.066)	(0.073)	(0.000)	(0.041)
Board Size	0.322	0.322	0.405	0.399	0.127	0.138	0.382	0.402
	(0.21)	(0.138)	(0.271)	(0.367)	(0.102)	(0.211)	(0.178)	(0.322)
Firm size	0.236	0.185	0.125	0.986	0.389	0.312	0.621	0.521
	(0.201)	(0.231)	(0.432)	(0.271)	(0.187)	(0.201)	(0.114)	(0.313)
Leverage	0.037*	0.014*	0.621*	0.033*	0.603***	0.783***	0.499**	0.112*
	(0.072)	(0.061)	(0.099)	(0.089)	(0.000)	(0.000)	(0.032)	(0.056)
Sales growth	0.498	0.741	0.314	0.342	0.261*	0.481*	0.532***	0.621***
	(0.211)	(0.167)	(0.132)	(0.141)	(0.067)	(0.081)	(0.000)	(0.000)
N	355	355	355	355	1908	1908	1908	1908
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R- Sq	0.51	0.56	0.52	0.49	0.51	0.54	0.46	0.52

Notes: Table 5 presents the results of Robustness tests: Endogeneity of family-controlled ownership and its impact on Tobin 's *Q* by employing by employing Instrumental variable (IV), Heckman selection technique and propensity score matching estimation (PSM). ***$p < 0.01$; **$p < 0.05$; *$p < 0.10$; two-tailed tests.

Table 6. Robustness test: Difference in difference (DiD) estimation

Variables	**Taiwan**		**Pakistan**	
	Family	Non-Family	Family	Non-Family
Post-regulations	0.411**	0.547**	0.973**	0.288**
	(0.023)	(0.046)	(0.041)	(0.021)
Treated	0.311***	0.267*	0.115***	0.342*
	(0.000)	(0.086)	(0.000)	(0.085)
Treated * Post-regulations	0.341	0.123	0.903	0.721
	(0.312)	(0.166)	(0.641)	(0.197)
CEO (Politician)	-0.312**	-0.931***	-0.251*	-0.616*
	(0.041)	(0.000)	(0.092)	(0.098)
Own Con	-0.322***	0.315*	-0.018*	0.115***
	(0.000)	(0.071)	(0.086)	(0.000)
INEDs	-0.342**	0.239*	-0.021***	-0.043*
	(0.041)	(0.078)	(0.000)	(0.066)
Board size	0.532*	0.621*	0.511	0.039
	(0.077)	(0.058)	(0.132)	(0.187)
Firm size	0.686	0.048	0.107	0.210
	(0.322)	(0.451)	(0.263)	(0.041)
Leverage	-0.654***	-0.651***	0.344**	0.329**
	(0.001)	(0.001)	(0.036)	(0.022)
Sales growth	0.876*	0.383*	0.275	0.965
	(0.073)	(0.065)	(0.341)	(0.242)
Year FE	0.324	0.612	0.031	0.727
R-Sq	0.49	0.55	0.57	0.39

Notes: Table 6 shows the results of the difference-in-differences (DiD) estimation by incorporating the governance regulations 2011 and 2012 in Taiwan and Pakistan respectively. ***$p < 0.01$; **$p < 0.05$; *$p < 0.10$; two-tailed tests.

Authors Statement

All authors certify that they have participated sufficiently in the work to take public responsibility for the content, including participation in the concept, design, analysis, writing, or revision of the manuscript.

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