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Political Connections, Ownership Structure and Quality of Governance

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Abstract: In this study, we asked if a link exists between political connections, quality of governance and ownership structure in corporations. We then examined Canadian companies from the 2015 S&P/TSX Composite Index. Our statistical results were mixed. According to the bivariate analyses, being politically connected did not appear to make a significant difference in the quality of corporate governance. Only the shareholder rights index showed a barely significant difference in that connected companies had a higher level of governance risk than other companies. Concentrated ownership companies had more governance risk than non-concentrated ownership companies on the overall governance index, the board of directors index and the shareholder rights index. When a company was both politically connected and had a concentrated ownership, governance risk was higher than the other companies on the three same indexes mentioned above. The results of the multivariate analyses were reversed.

Key words: political connections, ownership, companies, governance index, Canadian.

Résumé : Dans cette étude nous posons la question suivante : y-a-t-il un lien entre le fait d'être politiquement connecté, la qualité de gouvernance et la structure d'actionnariat de l'entreprise ? Nous avons alors examiné les entreprises canadiennes de l'indice S&P/TSX pour l'année 2015. Nos résultats statistiques sont mitigés. Selon les analyses bivariées, le fait d'être politiquement connecté ne semble pas faire une différence significative quant à la qualité de gouvernance des entreprises. Seul l'indice lié aux droits des actionnaires présente une différence à peine significative : les entreprises connectées sont plus risquées à ce niveau que les autres. De plus, les entreprises à actionnariat concentré présentent plus de risque de gouvernance que celles à actionnariat non concentré concernant l'indice global de gouvernance, l'indice du conseil d'administration et l'indice des droits des actionnaires. Lorsque l'entreprise est à la fois connectée politiquement et a un actionnariat concentré, son risque de gouvernance est plus élevé que les autres concernant toujours les trois indices sur cinq sus mentionnés. Les analyses multivariées présentent des résultats contraires.

Mots clés : connexion politique, actionnariat concentré, entreprises, indice de gouvernance.

1. Introduction

Companies are central to market economic system and create wealth at all levels and in all spheres of society. The actions of companies can therefore have an impact on the entire population. In their role as social institutions, companies should act impeccably, respect governance rules and adhere to a strict ethical code. Instead, crises and financial scandals in the business world are becoming increasingly common. The corruption and collusion in the construction industry in Quebec, which were disclosed during the Charbonneau Commission, are just the latest relevant example in the Canadian context. The various testimony and statements heard during the Commission showed that the construction industry in particular uses political connection networks.

In the literature, some authors have shown that political connections in corporations are prevalent in all sectors and in most countries worldwide (Faccio, 2006). However, few studies have actually examined the potential impact of those connections on society as a whole, particularly in the Canadian context. It is important and even essential to examine and better understand the characteristics of firms with political connections in order to anticipate the effects of the phenomenon on the economy and to regulate these effects effectively. It is an important issue of governance for both companies and society in general.

In market economies, the most characteristic and probably most-watched aspects (usually by investors and financial regulators) of companies are related to their governance practices. It is also accepted that a company with good governance practices adds value and increases its financial performance (La Porta et al., 1998; Liu, 2006; Claessens and Yurtoglu, 2013; Matoussi and Jardak, 2012). However, several authors have agreed that companies with political connections create more value than others because these companies are likely to receive many benefits, including winning contracts and loans more easily and more flexible monitoring of regulation implementation (Dinc, 2005; Charumilind et al., 2006; Faccio et al., 2016; Claessens et al., 2008; Chen et al., 2014; Houston et al., 2014). According to this logic, companies with political ties do not need to adopt good governance practices to create value; however, there is no empirical evidence in the current literature that confirms this reasoning.

Ownership structure is an important characteristic of market economies and financial governance (Aggarwal et al., 2009). The whole market-based governance system is centered on the idea that companies have a dispersed ownership structure (more shareholders holding the capital of the same company), and that there is a separation between those who manage (managers) and those who hold capital (shareholders). But in reality, there are more concentrated ownership companies (one owner or a majority shareholder) than dispersed ownership companies. The type of ownership generally determines how the business is run and therefore has a probable impact on the quality of its governance.

In this study, we asked the following question: is there a link between being politically connected, quality of governance and ownership structure? Our objective was threefold: first, to establish a link between being politically connected and quality of corporate governance, then to examine the link between being politically connected and corporate ownership structure, and finally, to investigate whether ownership structure plays a mediating or moderating role between being politically connected and the quality of corporate governance.

2. Theoretical Foundations

There are two main approaches to corporate governance in the literature: a purely financial and economic approach, and a sociological approach. According to proponents of the former (primarily supported by agency theory), governance comprises a set of mechanisms intended to control managerial actions in order to make managers' interests converge with shareholder interests and reduce agency costs (related to managing conflicts of interest between managers and shareholders), as well as ensure returns on investment (Jensen and Meckling, 1976; Fama and Jensen, 1983).

The basic presupposition of agency theory is the separation of management and ownership. In the classical economic model, capitalist companies are supposed to be owned by several shareholders scattered across the market, each of whom holds a small share. The shareholders then hire a professional manager who, in return for a substantial payment, is supposed to ensure that shareholders get a return on their investment. Given the opportunistic nature of human beings, managers can act in their own interest at the expense of shareholders to

maximize their own personal utility—hence the potential conflicts of interest between shareholders and management and the resulting costs.

Governance mechanisms are tools to ensure that managers act in the interest of shareholders. The most important governance tool is the board of directors, which recruits, controls and monitors managers, in addition to deciding on the salary paid to managers. The system of internal control and the external audit that ensure the integrity of the management process. These mechanisms reduce the cost of conflicts of interest and increase the company's financial value. Governance practices are a means of improving the company's financial performance, since they reduce management costs (Yammeersi and Herath, 2010; Claessens and Yurtolu, 2013).

Nevertheless, in capitalist economies there are many companies in which no separation exists between ownership and management. This is the case for companies controlled by an individual or a family. In such companies the nature of agency conflict is different than described above. It occurs between the majority shareholder and minority shareholders. The main agency problem in this case occurs when majority shareholders ignore the interests of minority shareholders and make decisions that only take into account their own interests. Canada is recognized for having many companies with a concentrated ownership structure compared to the United States (Bozec et al., 2008).

In contrast, according to the sociological approach, governance is a set of practices that enable companies to connect to their environment by giving access to the resources they need, and is supported mainly by resource dependence theory (Pfeffer and Salancik, 1978). For sociologist Mark Granovetter, economic activities are socially constructed and embedded in social relationship networks (Granovetter, 1973; 2008); all economic activity is therefore a social interaction.

Social capital theory states that individuals possess a certain level of inherited or acquired social capital according to their social class, which allows them to access different types of resources and privileges such as recognition, reputation, fame, economic capital and financial capital (Bourdieu 1979; 1986; 2000). In companies, people with social relationships are most popular

because they allow economic activities to grow through their connections (Ameer et al., 2010; DelVecchio, 2010) by facilitating access to key resources. Governance practices are therefore mechanisms that increase social connections within companies, but always with the aim of creating value either for individuals, organizations or both.

Whatever the approach, the most-watched governance practices by market participants and regulatory agencies generally revolve around four main aspects: the structure and operation of the board of directors (BoD), executive compensation structure, rights and protection of investors, and audit and risk control (Institutional Shareholder Services, ISS, www.issgovernance.com, accessed December 12, 2014). Quality governance should comply with a number of standards and regulations relating to each of these four aspects, which we will examine in this study.

3. Literature Review and Research Hypothesis

The literature on corporate governance shows that economic and institutional determinants influence both its nature and quality. Elements such as the country's legal system (common law versus civil law), level of economic and financial development, level of law enforcement, protection of shareholder rights, and culture and policy all have an impact (LaPorta et al., 1998; Claessens and Yortuglu, 2013; Matoussi and Jardak, 2012). Moreover, authors such as Faccio (2006) have established a link between companies' political connections and institutional factors, such as the level of corruption in the country and the degree of law enforcement. There is therefore a logical link between governance and the level of corporate political connections. It is important to empirically investigate such a link.

3.1 The Impact of Political Connections on Firms

Most previous studies of politically connected companies have looked at financial performance and have shown that politically connected corporations perform better than firms without political links (Ang et al., 2013; Dicko and Breton 2013a; 2013b; and El Dicko Ibrami, 2013; Li and Xia, 2013). These studies, conducted mainly in the United States and Canada, have shown that companies with connections have better market (Goldman et al., 2009) and accounting performances (Dicko and Khemakhem, 2015) than companies that are not connected. Moreover, some studies have also shown that politically connected firms get more government

contracts than unconnected firms, both in the United States (Wang, 2014) and Canada (Dicko, 2016).

3.2 Political Connections and Corporate Governance

So far, there is no empirical evidence of a direct link between corporate political connections and quality of corporate governance. However, there are indications that politically connected companies may not make much effort to improve governance quality. We note the study by Chaney et al. (2011), which demonstrated that politically connected companies disclose poor-quality financial information compared to companies that are not connected. The authors argued that politically connected firms do not need to respond to market pressure to increase the quality of information because they have easy access to financial resources. Note that in a market economy, the information disclosed by companies is a central governance mechanism because it reduces information asymmetry between shareholders and managers and between majority and minority shareholders, and also reduces agency costs and problems. Following the logic of Chaney et al.'s conclusions (2011), it is possible that firms with political ties have sufficient resources to avoid good governance practices without suffering financially. We therefore formulated the following hypothesis:

> H1: The quality (risk) of politically connected firms' governance is lower (higher) than that of politically unconnected firms.

3.3 Political Connections, Governance and Ownership Structure

Some authors, such as Aggarwal et al. (2009), have argued that only companies with dispersed ownership have a real interest in observing good governance practices because they require stable external financing the most. In a company with a concentrated or family ownership, much of the financing is provided by the majority shareholder. The quality of governance also depends on the ownership structure. It is generally accepted that a company's ownership structure is a primary factor of its governance.

In a concentrated ownership (or family-owned) company, conflicts of interest are different, given the lack of separation between ownership and management. Schulze et al. (2001) argued that Jensen and Meckling's (1976) agency model, which is based on the separation of ownership and management, ignores family-owned firms (concentrated ownership firms)

because these firms may present different characteristics and agency problems in governance and daily management than other firms.

Several studies have shown that in a market system, such as in the United States and Canada, concentrated ownership is not associated with good governance. After examining a sample of Canadian companies, Bozec and Bozec (2007) found a negative relationship between better governance and ownership concentration, measured by the difference between voting rights and cash flow rights. Bozec (2008) also showed that earnings management increases when voting rights and property rights are separated (multiple voting shares). In addition, Bozec et al.'s study (2010) highlighted the fact that when there is a separation between voting rights and cash flow rights, there is a positive and significant relationship between firm value (Tobin's Q) and the governance risk index of Canadian companies. Also in Canada, Bozec et al. (2014) demonstrated that the presence of dominant shareholders increases the cost of capital.

According to LaPorta et al. (1998), ownership concentration exists on every continent, depending on the legal system (common law versus civil law). In Canada, the separation between voting rights and cash flow rights, as well as multiple voting shares, is common and is explained by the fact that most companies are family-owned or have concentrated ownership (Bozec et al., 2008). It is logical to say that a concentrated ownership company is more likely to have a low quality of governance than a dispersed ownership company. In addition, as mentioned above, a lower quality of governance can be expected in companies with political connections than in companies without them. This brings us to our second and third hypotheses (H2):

> H2: The quality (risk) of governance is lower (higher) for concentrated ownership companies, whether they are politically connected or not.
>
> H3: The quality (risk) of governance is lower (higher) for concentrated ownership companies with political connections than for other companies.

4. Research Methodology

4.1. Sample and General Model of Analysis

This study will focus on Canadian companies listed on the Toronto Stock Exchange and included in the S&P/TSX Composite Index in 2015. Approximately 250 companies were included in this index, excluding financial institutions. The names of these companies, along with all financial data for the study, were downloaded from the Compustat database. To meet our research objectives, we used the general model below:

$$\text{Quality of Governance} = \text{Political Connections} + \text{Ownership Structure} + \text{Control Variables} + \text{Error Term}$$

4.2. Variables, Measurements and Data Sources

4.2.1. The Dependent Variable: Quality of Governance

The governance index developed by ISS was used to measure quality of governance. This index assesses corporate governance risk. The assessment is based on an average of 300 items, each related to one of the four governance aspects most watched by regulatory agencies worldwide, including board structure (composition, committees, practices and policies), executive compensation, shareholder rights (voting, decision-defense against hostile control), and audit and risk control. Items on the index are valued from 1 to 10, 1 meaning that governance risk is very low and the company has good practices (high quality), while 10 means that the governance risk is very high and the company has very poor practices (low quality). Note that for each company, there is an overall index and an index for each of the four aspects. In total, there were five sub-dependent variables: overall governance index, BoD index, compensation structure index, shareholder rights index, and audit and risk control index.

4.2.2. The Independent Variables

We had two independent variables, political connections and ownership structure.

a- Political Connections

In the literature, a company is considered politically connected if its majority shareholder or one of its executive officers or board members is or has been a member of government, prime minister or head of government, member of parliament, member or leader of a political party,

has a connection to politicians and/or has contributed or currently contributed to political parties (Faccio, 2006; Dicko, 2011; Dicko and Breton, 2013a; 2013b; El Dicko Ibrami, 2013).

In most studies, political connections were measured using a dichotomous variable with the value of 1 if the firm was politically connected and 0 otherwise. To better capture the effects of companies' political connections, it is important to think differently about how to measure them. For this study, we decided to use three variables to measure political connections:

- Being politically connected (political connections): this variable was equal to 1 if the firm was politically connected and 0 otherwise.
- Number of political connections, measured by the number of people with political connections among BoD and executive members. This variable was split into two: the number of political connections on the BoD (political connections—BoD) and the number of political connections among the executive (political connections—executive). Decision-making power is not the same on the BoD as on the executive management team.

Information on political connections was collected from the BoardEx database, which lists the organizational affiliations of hundreds of thousands of managers and directors worldwide. For each company, the database provides past and current information on the personal and professional backgrounds of each manager and member of the board.

b- Ownership Structure

In the literature, a company was usually called a concentrated (or family) ownership when one shareholder (or members of the same family) controlled 10% or more of its capital (Corbetta and Salvato, 2004; and Boubaker Labégorre, 2008; Bozec et al., 2008). To measure ownership structure, we chose three key indicators:

- Concentration of ownership: the variable took the value of 1 if the ownership was concentrated and 0 otherwise.
- Managerial ownership: when executive members hold shares in the company, it is recognized as a governance mechanism that reduces agency costs, because the interests of shareholders and managers are aligned. However, some authors, such as Wright et al. (1996), argued that beyond a certain threshold of shares held by managers, managerial ownership

becomes counterproductive (over 5% or 7.5%). In this study, we chose to integrate the percentage of shares held by the entire management team into our model of analysis.

– Institutional shareholders: we also integrated the percentage of shares held by institutional investors, as they are recognized as important players in corporate governance oversight in market economies. Governance indices used in this study were developed by an institutional investor service.

Information on shareholding was collected from circulars and annual reports. These documents are available at www.sedar.com.

4.2.3. The Control Variables

Previous studies (Aggarwal et al., 2009) have suggested that the following variables can influence a company's quality of governance:

– Firm size: measured by the natural logarithm of total revenue

– Indebtedness: measured by the total long-term debt to total equity

– Company value: measured by the market-to-book ratio (market value divided by total equity)

– Relative cash: measured by total cash divided by total assets

– Property, plant and equipment (PP&E): measured by the total net tangible assets to total assets

– Industry: measured by a dichotomous variable that takes the value of 1 to 19 based on industry according to the North American Industry Classification System (NAICS), as follows: 1 for agriculture, forestry, fishing and hunting; 2 for mining, quarrying, and oil and gas extraction; 3 for utilities; 4 for construction; 5 for manufacturing; 6 for wholesale trade; 7 for retail trade; 8 for transportation and warehousing; 9 for information and cultural industries; 10 finance and insurance; 11 for real estate and rental and leasing; 12 for professional, scientific and technical services; 13 for management of companies and enterprises; 14 for administrative and support, waste management and remediation services; 15 for educational services; 16 for health care and social assistance; 17 for arts, entertainment, and recreation; 18 for accommodation and food services; and 19 for other services

– Listing on a U.S. stock exchange, measured by a dichotomous variable that takes the value of 1 if the company is listed on a U.S. stock exchange and 0 otherwise. It is generally

recognized that U.S. markets are more stringent than Canadian markets in terms of governance regulations, so Canadian companies that are also listed on a U.S. exchange should have better governance practices.

These variables were used in our model above as control variables. The financial data relating to these controls were downloaded from Compustat. Other data (industry and trading on U.S. stock exchanges) were collected from www.sedar.com.

Our detailed analysis model was as follows:

QG = a + b1PC + b2Con.O + b3PC*Con.O + b4MO + b5IO + b6Size + b7Indebtedness + B8Value + b9Trésorerie + b10Immob. + B11Industry + b12U.S. Listing + ε

QG = quality of governance
PC = political connections
Con.A = concentration of ownership
MO = managerial ownership
IO = institutional ownership
Size = firm size
Indebtedness = debt ratio
Value = market-to-book ratio
Cash = relative cash, cash over total assets
Immob. = fixed assets over total assets
U.S. Listing = listing on a U.S. stock exchange

5. Results of Statistical Analyses

5.1 Descriptive Statistics

Table 1 shows that 52% of sample firms were politically connected, compared to 48% that were not connected (Panel A). The results of Faccio's study (2006) showed that only 2% of the 534 companies surveyed had a political connection. Our statistics showed a much higher number in 2015 in the Canadian context. Panel B shows that almost 55% of the companies

studied had concentrated ownership, compared to 45% with dispersed ownership. These results were consistent with Bozec's results (2008), which showed that 56% of Canadian firms are family-owned. Meanwhile, Panel C shows that only 28% of companies surveyed had both political connections and concentrated ownership.

Table 1
Statistics of Frequencies

Panel A—Political connections

		Frequency	Percentage	Valid percentage	Cumulated percentage
Valid	Firm is not politically connected	124	47.9	47.9	47.9
	Firm is politically connected	135	52.1	52.1	100.0
	Total	259	100.0	100.0	

Panel B—Ownership concentration

		Frequency	Percentage	Valid percentage	Cumulated percentage
Valid	Non-concentrated ownership	116	44.8	45.0	45.0
	Concentrated ownership	142	54.8	55.0	100.0
	Total	258	99.6	100.0	
Missing	System	1	.4		
Total		259	100.0		

Panel C—Political connections and ownership concentration

		Frequency	Percentage	Valid percentage	Cumulated percentage
Valid	Firm is either not politically connected or does not have concentrated ownership	186	71.8	71.8	71.8
	Firm is politically connected with concentrated ownership	73	28.2	28.2	100.0
	Total	259	100.0	100.0	

Table 2 shows that on average, the overall index of politically connected companies was slightly higher than the index of unconnected firms (5.17 versus 5.15). Note that the governance indices measure governance risk on a scale of 1 to 10 (very low risk to very high risk). This

suggests that overall, politically connected companies showed slightly more governance risk than unconnected companies. This observation also applied to the shareholder rights index, which was higher for connected companies than unconnected companies (4.91 versus 4.25). However, the situation was different for the BoD, compensation, and audit and risk control indices, which were higher for politically unconnected companies than for connected companies.

These first statistical data partially confirmed Hypothesis 1, which stated that the quality (risk) of politically connected firms' governance is lower (higher) than politically unconnected firms. This hypothesis seems to be confirmed in terms of the shareholder rights index.

Table 2
Means Statistics of Governance Indices According to the Variable of Political Connections

		N	Mean	St. deviation	Minimum	Maximum
Overall governance index	Firm is not politically connected	110	5.15	2.787	1	10
	Firm is politically connected	128	5.17	2.895	1	10
	Total	238	5.16	2.839	1	10
Board of directors index	Firm is not politically connected	110	5.32	2.977	1	10
	Firm is politically connected	129	5.16	2.721	1	10
	Total	239	5.23	2.836	1	10
Shareholder rights index	Firm is not politically connected	110	4.25	2.582	1	10
	Firm is politically connected	129	4.91	2.977	1	10
	Total	239	4.61	2.816	1	10
Compensation structure index	Firm is not politically connected	110	5.64	2.970	1	10
	Firm is politically connected	129	5.16	2.898	1	10
	Total	239	5.38	2.935	1	10
Audit and risk control index	Firm is not politically connected	110	1.39	1.730	1	10
	Firm is politically connected	129	1.09	.801	1	10
	Total	239	1.23	1.319	1	10

According to Table 3, with the exception of the audit and risk control index, on average, concentrated ownership companies had a higher (quality) risk of governance (lower) than non-concentrated ownership companies. This result seems to support Hypothesis 2. On average, the

overall governance, BoD, shareholder rights and compensation structure indices were higher for concentrated ownership companies than for other companies.

Table 3
Means Statistics According to the Variable of Ownership Concentration

		N	Mean	St. deviation	Minimum	Maximum
Overall governance index	Non-concentrated ownership	108	4.50	2.688	1	10
	Concentrated ownership	130	5.72	2.854	1	10
	Total	238	5.16	2.839	1	10
Board of directors index	Non-concentrated ownership	109	4.56	2.682	1	10
	Concentrated ownership	130	5.80	2.849	1	10
	Total	239	5.23	2.836	1	10
Shareholder rights index	Non-concentrated ownership	109	4.13	2.769	1	10
	Concentrated ownership	130	5.02	2.801	1	10
	Total	239	4.61	2.816	1	10
Compensation structure index	Non-concentrated ownership	109	5.02	2.835	1	10
	Concentrated ownership	130	5.68	2.994	1	10
	Total	239	5.38	2.935	1	10
Audit and risk control index	Non-concentrated ownership	109	1.43	1.892	1	10
	Concentrated ownership	130	1.05	.380	1	5
	Total	239	1.23	1.319	1	10

Table 4 shows statistics similar to those in the previous table. Companies that were politically connected and had concentrated ownership indicated more risk on governance indices than other companies. This result applies to the overall governance, BoD, shareholder rights and compensation structure indices. We found an exception concerning the audit and risk control index, which was smaller for firms with political connections and concentrated ownership. These data seem to partially confirm our hypothesis.

Table 4
Means Statistics According to the Variable of Political Connections and Ownership Concentration

		N	Mean	St. deviation	Minimum	Maximum
Overall governance index	Firm is either not politically connected or does not have concentrated ownership	168	4.85	2.811	1	10
	Firm is politically connected with concentrated ownership	70	5.91	2.786	1	10
	Total	238	5.16	2.839	1	10
Board of directors index	Firm is either not politically connected or does not have concentrated ownership	169	4.99	2.862	1	10
	Firm is politically connected with concentrated ownership	70	5.83	2.703	1	10
	Total	239	5.23	2.836	1	10
Shareholder rights index	Firm is either not politically connected or does not have concentrated ownership	169	4.18	2.693	1	10
	Firm is politically connected with concentrated ownership	70	5.66	2.848	1	10
	Total	239	4.61	2.816	1	10
Compensation structure index	Firm is either not politically connected or does not have concentrated ownership	169	5.31	2.974	1	10
	Firm is politically connected with concentrated ownership	70	5.54	2.852	1	10
	Total	239	5.38	2.935	1	10
Audit and risk control index	Firm is either not politically connected or does not have concentrated ownership	169	1.31	1.558	1	10
	Firm is politically connected with concentrated ownership	70	1.03	.168	1	2
	Total	239	1.23	1.319	1	10

In short, descriptive statistics seem to partially confirm the research hypotheses. Will they be confirmed by the results of other analyses?

5.2 Results of Variance Analysis

According to Table 5, there is a significant difference between politically connected companies and unconnected companies in terms of size (very significant), relative cash and industry. In

terms of governance indices, only the shareholder rights and audit and risk control indices seemed to indicate a barely significant difference between connected and unconnected companies. We also noted that there was no significant difference in terms of ownership concentration between connected and unconnected companies.

Table 5
Results of Variance Analysis
Factor: Political Connections

		Sum of squares	ddl	Mean square	F	Sig.
Firm size	Intergroups	49.175	1	49.175	23.308	.000
	Intragroup	523.240	248	2.110		
	Total	572.415	249			
Indebtedness	Intergroups	479.566	1	479.566	2.619	.107
	Intragroup	47052.048	257	183.082		
	Total	47531.613	258			
Relative cash	Intergroups	.025	1	.025	2.924	.088
	Intragroup	2.187	257	.009		
	Total	2.212	258			
PP&E/assets	Intergroups	.067	1	.067	.621	.431
	Intragroup	27.666	257	.108		
	Total	27.733	258			
Market-to-book ratio	Intergroups	1078.970	1	1078.970	1.574	.211
	Intragroup	176158.214	257	685.441		
	Total	177237.184	258			
U.S. listing	Intergroups	.017	1	.017	2.196	.140
	Intragroup	1.968	257	.008		
	Total	1.985	258			
Industry	Intergroups	75.796	1	75.796	5.060	.025
	Intragroup	3849.741	257	14.980		
	Total	3925.537	258			
Overall governance index	Intergroups	.018	1	.018	.002	.963
	Intragroup	1910.591	236	8.096		
	Total	1910.609	237			
Board of directors index	Intergroups	1.434	1	1.434	.178	.674
	Intragroup	1913.445	237	8.074		
	Total	1914.879	238			
Shareholder rights index	Intergroups	25.877	1	25.877	3.296	.071
	Intragroup	1860.935	237	7.852		
	Total	1886.812	238			
Compensation structure index	Intergroups	13.755	1	13.755	1.601	.207
	Intragroup	2036.354	237	8.592		
	Total	2050.109	238			
Audit and risk control index	Intergroups	5.546	1	5.546	3.220	.074
	Intragroup	408.253	237	1.723		
	Total	413.799	238			

Managerial ownership	Intergroups	.001	1	.001	.354	.552
	Intragroup	.443	256	.002		
	Total	.444	257			
Institutional ownership	Intergroups	.007	1	.007	.693	.406
	Intragroup	2.532	256	.010		
	Total	2.539	257			
Concentrated ownership	Intergroups	.026	1	.026	.106	.745
	Intragroup	63.819	256	.249		
	Total	63.845	257			

Table 6 shows a very significant difference between companies with concentrated ownership and those with non-concentrated ownership on all five governance indices. This result is in line with the above descriptive data showing that concentrated ownership companies have higher indices of governance than non-concentrated ownership companies. On the other variables, only firm size and percentage of institutional ownership made a significant difference between concentrated ownership companies and other companies.

Table 6
Results of Variance Analysis
Factor: Ownership Concentration

		Sum of squares	ddl	Mean square	F	Sig.
Firm size	Intergroups	11.745	1	11.745	5.176	.024
	Intragroup	560.479	247	2.269		
	Total	572.224	248			
Indebtedness	Intergroups	.141	1	.141	.001	.978
	Intragroup	47531.461	256	185.670		
	Total	47531.602	257			
Relative cash	Intergroups	.016	1	.016	1.920	.167
	Intragroup	2.192	256	.009		
	Total	2.209	257			
PP&E/assets	Intergroups	.074	1	.074	.686	.408
	Intragroup	27.475	256	.107		
	Total	27.549	257			
Market-to-book ratio	Intergroups	508.488	1	508.488	.737	.392
	Intragroup	176728.690	256	690.346		
	Total	177237.178	257			
U.S. listing	Intergroups	.000	1	.000	.021	.886
	Intragroup	1.984	256	.008		
	Total	1.984	257			
Industry	Intergroups	37.881	1	37.881	2.498	.115
	Intragroup	3882.464	256	15.166		
	Total	3920.345	257			
Overall governance index	Intergroups	87.140	1	87.140	11.278	.001
	Intragroup	1823.469	236	7.727		
	Total	1910.609	237			
Board of directors index	Intergroups	91.216	1	91.216	11.854	.001
	Intragroup	1823.662	237	7.695		
	Total	1914.879	238			
Shareholder rights index	Intergroups	46.641	1	46.641	6.007	.015
	Intragroup	1840.171	237	7.764		
	Total	1886.812	238			
Compensation structure index	Intergroups	25.715	1	25.715	3.010	.084
	Intragroup	2024.394	237	8.542		
	Total	2050.109	238			
Audit and risk control index	Intergroups	8.442	1	8.442	4.936	.027
	Intragroup	405.357	237	1.710		
	Total	413.799	238			
Managerial ownership	Intergroups	.000	1	.000	.003	.953
	Intragroup	.444	256	.002		
	Total	.444	257			
Institutional ownership	Intergroups	.055	1	.055	5.662	.018
	Intragroup	2.484	256	.010		
	Total	2.539	257			
Political connections	Intergroups	.027	1	.027	.106	.745
	Intragroup	64.334	256	.251		
	Total	64.360	257			

In Table 7, we can see a very significant difference in terms of the overall governance, BoD, and shareholder rights indices between companies with both political connections and concentrated ownership, and other companies. In terms of the other variables, only indebtedness was significantly different between the two categories of companies.

Table 7
Results of Variance Analysis
Factor: Political Connections and Ownership Concentration

		Sum of squares	ddl	Mean square	F	Sig.
Overall governance index	Intergroups	55.844	1	55.844	7.106	.008
	Intragroup	1854.765	236	7.859		
	Total	1910.609	237			
Board of directors index	Intergroups	34.959	1	34.959	4.407	.037
	Intragroup	1879.919	237	7.932		
	Total	1914.879	238			
Shareholder rights index	Intergroups	108.366	1	108.366	14.441	.000
	Intragroup	1778.446	237	7.504		
	Total	1886.812	238			
Compensation structure index	Intergroups	2.737	1	2.737	.317	.574
	Intragroup	2047.371	237	8.639		
	Total	2050.109	238			
Audit and risk control index	Intergroups	3.856	1	3.856	2.229	.137
	Intragroup	409.943	237	1.730		
	Total	413.799	238			
Firm size	Intergroups	2.691	1	2.691	1.171	.280
	Intragroup	569.724	248	2.297		
	Total	572.415	249			
Indebtedness	Intergroups	550.172	1	550.172	3.010	.084
	Intragroup	46981.442	257	182.807		
	Total	47531.613	258			
Relative cash	Intergroups	.000	1	.000	.025	.874
	Intragroup	2.212	257	.009		
	Total	2.212	258			
PP&E/assets	Intergroups	.042	1	.042	.392	.532
	Intragroup	27.690	257	.108		
	Total	27.733	258			
U.S. listing	Intergroups	.006	1	.006	.787	.376
	Intragroup	1.978	257	.008		
	Total	1.985	258			
Industry	Intergroups	38.607	1	38.607	2.553	.111
	Intragroup	3886.930	257	15.124		
	Total	3925.537	258			
Managerial ownership	Intergroups	.000	1	.000	.010	.920
	Intragroup	.444	256	.002		
	Total	.444	257			
Institutional ownership	Intergroups	.016	1	.016	1.620	.204
	Intragroup	2.523	256	.010		
	Total	2.539	257			
Market-to-book ratio	Intergroups	557.896	1	557.896	.812	.369
	Intragroup	176679.288	257	687.468		
	Total	177237.184	258			

5.3 Results of Correlation Analysis

The Pearson correlation coefficients in Table 8 show that being politically connected is significantly correlated with industry and firm size. This result is consistent with the findings of previous studies (Dicko, 2016). The number of political connections on the BoD was significantly correlated with the compensation structure index only; this correlation was negative, indicating that the more politically connected a company is through its BoD, the lower its governance risk related to executive remuneration policies, which contradicts our first hypothesis. Similarly, the number of political connections among the executive was negatively and significantly correlated with three governance indices out of five—the overall governance, BoD and compensation structure indices. The more politically connected the company's management team is, the less governance risk the company experiences. Again, the results seem to contradict our first hypothesis.

Table 8
Results of Pearson Correlation Analysis

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1	Political connections	1																		
2	Concentrated ownership	-.020	1																	
3	Political connections—board of directors	.778**	.008	1																
4	Political connections—executives	.119	-.046	.190**	1															
5	Political connections and concentrated ownership	.600**	.568**	.498**	.012	1														
6	Overall governance index	.003	.214**	-.081	-.167**	.171**	1													
7	Board of directors index	-.027	.218**	-.089	-.130*	.135*	.763**	1												
8	Shareholder rights index	.117	.157*	.073	.052	.240**	.697**	.454**	1											
9	Compensation structure index	-.082	.112	-.178**	-.277**	.037	.779**	.492**	.244**	1										
10	Audit and risk control index	-.116	-.143*	-.106	-.068	-.097	-.008	-.056	-.086	.032	1									
11	U.S. listing	.092	.009	.072	.035	.055	-.042	.051	-.009	-.080	.011	1								
12	Industry	.139*	-.098	.163**	.052	.099	.083	-.017	.071	.074	-.076	-.130*	1							
13	Firm size	.293**	-.143*	.391**	.296**	.069	-.111	-.092	.075	-.299**	-.038	.043	.218**	1						
14	Indebtedness	.100	.002	.207**	.010	.108	.002	.045	-.023	.017	.011	-.002	.067	.122	1					
15	Relative cash	-.106	.086	-.082	.007	-.010	.035	.014	-.031	.082	-.022	.048	-.035	-.165**	.010	1				
16	PP&E/assets	-.049	.052	-.085	-.048	-.039	-.112	-.019	-.123	-.038	-.007	.138*	-.620**	-.145*	.067	-.192**	1			
17	Market-to-book ratio	.078	-.054	.096	.020	.056	.073	.082	.038	.092	.011	.001	.067	.082	.837**	.045	.071	1		
18	Managerial ownership	-.037	.004	-.046	-.097	.006	.192**	.237**	.063	.192**	-.006	.027	-.107	-.127*	.007	-.041	.096	.036	1	
19	Institutional ownership	.052	.147*	.039	.064	.079	.084	.020	.129*	-.007	.021	.042	.007	.051	-.080	.037	-.013	-.102	.016	1

**. The correlation is significant at level 0.01 (two-sides).
*. The correlation is significant at level 0.05 (two-sides).

However, ownership concentration had positive and significant correlation coefficients with the overall governance, BoD and shareholder rights indices. This result indicates that the more concentrated the ownership, the higher the company's governance risk. These results go hand in hand with the descriptive statistics and the results of the variance analysis, which also confirmed our second hypothesis.

Finally, being politically connected and having a concentrated ownership was positively and significantly correlated with the three governance indices—overall governance, BoD and shareholder rights, and the same results were obtained for concentration of ownership. A company that is both politically connected and has a concentrated ownership therefore has more governance risk than other companies, which seems to confirm our third hypothesis.

5.4 Results of Regression Analysis

To answer our research question, we chose to perform regression analysis by opting for a general linear model. Unlike a simple linear model, generalized models can be used for any kind of variable because they do not have the disadvantages and limitations of simple linear regressions.

Let us remember that our dependent variable, quality of governance, was measured using a governance risk index with four sub-indices, giving us a total of five indices: the overall governance, BoD, shareholder rights, compensation structure, and audit and risk control indices.

5.4.1 Results Regarding the Overall Governance Index

The results in Table 9 show that being politically connected had no significant effect on overall governance. By contrast, the number of political connections among the executive was significantly related, however negatively, to this index. This result was in line with the above correlation results. When the executive is politically connected, overall governance risk is reduced. These findings contradict Hypothesis 1.

In addition, concentration of ownership had a significant and negative effect on the overall governance index. The more ownership was concentrated, the less risk the company had in regard to overall governance. Contrary to the results of the correlation analysis, these results contradict Hypothesis 2 and do not correspond to the descriptive data, showing that on average, governance indices are higher for companies with concentrated ownership. Finally, being politically connected and having a concentrated ownership had no significant effect on the overall governance index.

Table 9
Results of Regression Analysis: General Linear Model
Dependent Variable: Overall Governance Index

Source	Type III Sum of squares	ddl	Mean square	F	t	Sig.
Corrected model	398.062[a]	27	14.743	2.045		.003
Constant	96.965	1	96.965	13.449	3.485	.000
Political connections	3.369	1	3.369	.467	-.684	.495
Political connections—BoD	7.981	1	7.981	1.107	-1.052	.294
Political connections—executive	29.436	1	29.436	4.083	-2.021	.045
Concentrated ownership	32.009	1	32.009	4.440	-2.107	.036
Political connections and concentrated ownership	.700	1	.700	.097	-.312	.756
Managerial ownership	62.101	1	62.101	8.613	2.935	.004
Institutional ownership	17.346	1	17.346	2.406	1.551	.122
U.S. listing	.540	1	.540	.075	.274	.785
Industry	76.176	14	5.441	.755	-.980	.717
Firm size	2.492	1	2.492	.346	-.588	.557
Indebtedness	16.462	1	16.462	2.283	-1.511	.132
Relative cash	1.223	1	1.223	.170	-.412	.681
PP&E/assets	12.483	1	12.483	1.731	-1.316	.190
Market-to-book ratio	40.341	1	40.341	5.595	2.365	.019
Error	1470.795	204	7.210			
Total	7983.000	232				
Corrected total	1868.858	231				
a. R-two = .213 (Adjusted R-two = .109)						

We noted that the percentage of shares held by executive members (managerial ownership) had a positive and very significant effect on the overall governance index. Managerial ownership therefore presents a governance risk for companies.

For the control variables, market-to-book ratio was positively and significantly related to overall governance risk.

5.4.2 Results Regarding the Board of Directors Index

As for the overall governance index, ownership concentration had a significant and negative effect on the BoD index. The more ownership was concentrated, the less risk the company had in terms of BoD governance. This contradicted Hypothesis 2 and the results of the correlations. Managerial ownership was also positively and very significantly linked to the governance risk of the BoD. This means it is not good for governance when executive members hold shares. These findings confirm the results of previous studies (Wright et al., 1996). Political connections had no significant effect on the BoD index.

Table 10
Results of Regression Analysis: General Linear Model
Dependent Variable: Board of Directors Index

Source	Type III Sum of squares	ddl	Mean square	F	t	Sig.
Corrected model	337.378[a]	27	12.495	1.672		.025
Constant	24.019	1	24.019	3.213	1.844	.075
U.S. listing	10.121	1	10.121	1.354	-1.164	.246
Industry	71.704	14	5.122	.685	.296	.788
Political connections and concentrated ownership	.224	1	.224	.030	.173	.863
Concentrated ownership	45.402	1	45.402	6.074	-2.465	.015
Political connections	3.993	1	3.993	.534	-.731	.466
Political connections—board of directors	7.131	1	7.131	.954	-.977	.330
Political connections—executive	10.370	1	10.370	1.387	-1.178	.240
Firm size	.010	1	.010	.001	.036	.971
Indebtedness	2.983	1	2.983	.399	-.632	.528
Relative cash	.891	1	.891	.119	-.345	.730
PP&E/assets	7.182	1	7.182	.961	-.980	.328
Market-to-book ratio	16.633	1	16.633	2.225	1.492	.137
Managerial ownership	94.854	1	94.854	12.690	3.562	.000
Institutional ownership	1.818	1	1.818	.243	.493	.622
Error	1532.313	205	7.475			
Total	8143.000	233				
Corrected total	1869.691	232				
a. R-two = .180 (Adjusted R-two = .073)						

5.4.3 Results Regarding the Shareholder Rights Index

Table 11 shows that neither political connections nor concentration of ownership had a significant effect on the shareholder rights index. Also, the model was barely significant ($p = 0.089$). Political connections combined with concentration of ownership had a negative and barely significant effect on the shareholder rights index. Contrary to the results of the correlation analysis, being politically connected and having a concentrated ownership reduced governance risk related to shareholder rights. This result also contradicts Hypothesis 3.

Table 11
Results of Regression Analysis: General Linear Model
Dependent Variable: Shareholder Rights Index

Source	Type III Sum of squares	ddl	Mean square	F	t	Sig.
Corrected model	287.431[a]	27	10.646	1.423		.089
Constant	52.529	1	52.529	7.024	2.453	.009
U.S. listing	.132	1	.132	.018	.133	.894
Industry	61.886	14	4.420	.591	-1.334	.870
Political connections and concentrated ownership	20.863	1	20.863	2.790	-1.670	.096
Concentrated ownership	1.904	1	1.904	.255	-.505	.614
Political connections	.231	1	.231	.031	-.176	.861
Political connections—board of directors	4.759	1	4.759	.636	-.798	.426
Political connections—executive	.866	1	.866	.116	.340	.734
Firm size	1.045	1	1.045	.140	.374	.709
Indebtedness	19.629	1	19.629	2.625	-1.620	.107
Relative cash	10.006	1	10.006	1.338	-1.157	.249
PP&E/assets	13.800	1	13.800	1.845	-1.358	.176
Market-to-book ratio	28.846	1	28.846	3.857	1.964	.051
Managerial ownership	10.271	1	10.271	1.373	1.172	.243
Institutional ownership	24.768	1	24.768	3.312	1.820	.070
Error	1533.187	205	7.479			
Total	6716.000	233				
Corrected total	1820.618	232				
a. R-two = .158 (Adjusted R-two = .047)						

Unlike the two previous models, here we noted that institutional ownership had a positive, albeit barely significant effect on the governance index, which means that institutional ownership increases governance risk and completely contradicts all theoretical predictions about the benefits of this type of ownership.

5.4.4 Results Regarding the Compensation Structure Index

The results in Table 12 show that among the main independent variables, executive political connections had a negative and very significant statistical effect on the compensation structure

index, which means that the more executive members are politically connected, the less risk the company has in terms of compensation.

Table 12
Results of Regression Analysis: General Linear Model
Dependent Variable: Compensation Structure Index

Source	Type III Sum of squares	ddl	Mean square	F	t	Sig.
Corrected model	527.942[a]	27	19.553	2.694		.000
Constant	204.639	1	204.639	28.194	4.153	.000
U.S. listing	3.876	1	3.876	.534	.731	.466
Industry	130.851	14	9.346	1.288	.211	.217
Political connections and concentrated ownership	3.062	1	3.062	.422	.649	.517
Concentrated ownership	19.906	1	19.906	2.743	-1.656	.099
Political connections	3.960	1	3.960	.546	-.739	.461
Political connections—board of directors	1.687	1	1.687	.232	-.482	.630
Political connections—executive	57.890	1	57.890	7.976	-2.824	.005
Firm size	45.179	1	45.179	6.225	-2.495	.013
Indebtedness	12.053	1	12.053	1.661	-1.289	.199
Relative cash	.213	1	.213	.029	.171	.864
PP&E/assets	2.406	1	2.406	.331	-.576	.565
Market-to-book ratio	39.934	1	39.934	5.502	2.346	.020
Managerial ownership	52.965	1	52.965	7.297	2.701	.007
Institutional ownership	3.403	1	3.403	.469	.685	.494
Error	1487.947	205	7.258			
Total	8647.000	233				
Corrected total	2015.888	232				
a. R-two = .262 (Adjusted R-two = .165)						

Managerial ownership was positively and significantly related to the compensation index. The more executive members owned shares, the more risk the company had in terms of remuneration governance. We also noted that the concentration of ownership had a negative effect, but it was not especially significant.

As for the control variables, firm size (negatively) and market-to-book ratio (positively) were significantly associated with the compensation index.

5.4.5 Results Regarding the Audit and Risk Control Index

It should be mentioned that the regression model for the audit and risk control index was not significant at all. We cannot rely on the results presented in Table 13. These findings could be explained by the fact that studied Canadian companies presented a very low governance risk related to the audit. There was almost no variation between companies on this index. It must be said that in Canada, aspects related to audit and disclosure are the only ones subject to regulatory rules. All other aspects are subject to recommendations most of the time and are at the company's discretion.

Nevertheless, we noted that concentration of ownership and political connections were positively and significantly related to the audit and risk control index. The more politically connected a company was and the more concentrated its ownership, the more risk it had in terms of audit and risk control.

Table 13
Results of Regression Analysis: General Linear Model
Dependent Variable: Audit and Risk Control Index

Source	Type III Sum of squares	ddl	Mean square	F	t	Sig.
Corrected model	35.986[a]	27	1.333	.725		.839
Constant	5.564	1	5.564	3.026	.282	.083
U.S. listing	.012	1	.012	.007	.082	.935
Industry	13.619	14	.973	.529	.471	.914
Political connections and concentrated ownership	4.398	1	4.398	2.392	-1.547	.124
Concentrated ownership	13.020	1	13.020	7.080	2.661	.008
Political connections	5.681	1	5.681	3.089	1.758	.080
Political connections—board of directors	.002	1	.002	.001	.031	.975
Political connections—executive	1.843	1	1.843	1.002	-1.001	.318
Firm size	.009	1	.009	.005	-.069	.945
Indebtedness	.191	1	.191	.104	.323	.747
Relative cash	.683	1	.683	.371	-.609	.543
PP&E/assets	2.206	1	2.206	1.200	-1.095	.275
Market-to-book ratio	.087	1	.087	.047	.218	.828
Managerial ownership	.283	1	.283	.154	-.392	.695
Institutional ownership	1.534	1	1.534	.834	.913	.362
Error	376.958	205	1.839			
Total	764.000	233				
Corrected total	412.944	232				
a. R-two = .087 (Adjusted R-two = -.033)						

6. Conclusions and Research Contributions

Ultimately, the objective of this study was to see if concentrated ownership plays a mediating or moderating role in the relationship between political connections and quality of governance for Canadian companies. After analyzing data from 2015, we got mixed statistical results. The results of the descriptive and bivariate analyses were not consistent with the results of the multivariate analysis (regression). The results of the bivariate analysis were as follows:

– Being politically connected does not appear to make a significant difference in the quality of corporate governance. Only the shareholder rights index indicated a barely significant difference between politically connected and unconnected companies. The connected companies had more risk at this level than other companies, which partially confirmed Hypothesis 1.

– Concentrated ownership companies had more risk on the overall governance, BoD, and shareholder rights indices, which partially confirmed Hypothesis 2.

– When the company was both politically connected and had a concentrated ownership, governance risk was higher on the three same previously mentioned indices, which partially confirmed Hypothesis 3.

However, the results of multivariate analysis were contrary to our research hypotheses. When other variables are taken into account, political connections had no significant effect on the quality of governance. By contrast, the number of political connections in the executive seemed to be linked to a lower level of governance risk on the overall governance and compensation structure indices. The concentration of ownership also appeared to reduce governance risk related to the overall governance index and the BoD index. Finally, political ties combined with concentrated ownership appeared to reduce governance risk related to the shareholder rights index.

This study's contributions are both theoretical and practical. In the literature, numerous studies have demonstrated the positive effects of good governance practices on firm value (Bozec et al., 2010; Bozec et al., 2014.). Several studies worldwide, including in Canada, have generally found a positive relationship between political connections and firms' market and financial performance (Goldman et al., 2009; Dicko and Khemakhem, 2015). Governance mechanisms and political connections both create value for firms. However, other studies have shown the negative nature of concentrated ownership, particularly in market economies such as Canada and the U.S.

Until now, no study has made a direct link between governance and political connections, or even between ownership concentration and political connections, especially in the Canadian context. In this study, we argued that there is a link, at least theoretically, between political

connections, governance structure and firm ownership structure. The literature has demonstrated the institutional dimension of corporate governance. In each country, regulations (mandatory or voluntary) and institutions determine corporate governance mechanisms; the same goes for the links between politics and business. In Canada, no law prevents a person from moving from politics to business and vice versa, so an individual can occupy a ministerial post one day and become an officer or director of a company the next day without any restriction or delay, with the exception of in the province of Quebec, where former ministers must observe a two-year waiting period before going into business.

The results of our study bring a double theoretical contribution. This study will enrich the literature on corporate governance and was also the first to analyze the relationship between political connections, quality of governance and ownership structure.

On a practical level, we hope that our results will provide information for regulators regarding the need not only to further regulate the relationship between business and politics, but also take into account the specific nature of concentrated ownership or family-owned companies. In Quebec, the controversy surrounding Pierre Karl Péladeau's (75% majority shareholder of Quebecor Inc., one of Quebec's largest companies) entry into politics is a relevant example.

The time limitation was the main weakness of this study and probably the cause of the mixed results. It is important to conduct a study over several years to better observe the relationships between key variables, especially the effects of political connections and concentrated ownership. Corporate governance indices also vary over time, so it would be more appropriate to capture their evolution over a longer period.

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