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The moderating role of women directors in politically connected companies on the performance of Liberian companies

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Abstract

Purpose – The purpose of this paper is to analyse the impact of political connections and gender diversity on the performance of Iberian companies as a singular market and considering Portugal and Spain separately.

Design/methodology/approach – The authors used panel data methodology, specifically GMM system estimation model by Arellano and Bond (1991) for the period from 2015 to 2020.

Findings – Results show that the performance of listed Iberian companies is influenced by political connections, by gender diversity and that gender diversity has a mitigating effect on the effects of political connections in each country. The mitigating effect of women is evident in both Portugal and Spain, as they are more cautious and principled, which is valued by short-term investors interested in an immediate investment. However, considering the Iberian Peninsula as a whole, the results indicate that – in the long term – women's political relationships can benefit performance through a better reputation and image, which can lead to better social and economic results in the long term.

Originality/value – To the best of the authors' knowledge, this paper is original and covers an important gap in the literature when considering political connections and women's impact on these connections as determinants of the performance of Iberian companies.

Keywords Gender diversity, Political connections, Corporate performance, GMM system

Paper type Research paper

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1. Introduction

There is no consensus regarding how political connections influence company performance (Hashmi *et al.*, 2018; Sani, *et al.*, 2020). Some authors –such as Li and Jin (2021), Pérez *et al.* (2015) and Saeed *et al.* (2019) – find a positive sign in this relationship, whereas others consider political connections to be detrimental to company performance (Shahzad *et al.*, 2021).

The European Commission – through the Women on Boards EU directive – established that a minimum of 40% of women should be sitting on boards of directors by 2026 (EU Commission, 2022). Certain European countries – such as Portugal and Spain – have already individually implemented their gender quotas in listed companies (Terjesen *et al.*, 2015). This paper studies the effect of gender diversity on the relationship between political and business connections and is – to the best of our knowledge – a topic only addressed in the studies by Proença *et al.* (2020), who explored this same relationship in the context of banks in the eurozone. Companies looking to ensure their long-term sustainability may view board gender diversity as key to adapting to changing market dynamics and societal expectations. At the same time, there is also a desire to meet the expectations of various stakeholders, including employees, customers, and the broader community, who may value diversity and transparency in corporate governance and its impact on corporate performance. This work may trigger government bodies and politicians who may be interested in understanding the relationship between political connections and gender diversity on boards with a view to making informed political decisions. Likewise, companies and markets are increasingly recognizing the importance of corporate social responsibility. This research may help the companies in our sample to evidence their commitment to diversity and gender equality, which can improve their reputation and brand image or help them pinpoint what they still need to do to improve. Using the panel data methodology, the results indicate that the performance of Iberian companies is influenced by political connections and board gender diversity as well as characteristics of the board together with specific director and company characteristics, which present different signals and significance depending on the performance variable considered as well as different stakeholder perceptions.

The rest of the paper is organized as follows. Section 2 presents the literature review and hypotheses to be tested. Section 3 presents the research design of the investigation, data, variables and estimation method. Section 4 discusses the main results for each subsample and, finally, Section 5 presents the conclusions, some limitations and the main lines of future research.

2. Literature review

Political connections can provide companies with advantages such as access to government contracts, regulatory favours and protection from competition.

Gender diversity is an indicator of inclusion and equal opportunities in a world that aims to be fairer and more equal. Looking at how gender affects the impact of political connections on corporate performance can reveal potential prejudices and disparities in the business – which has its own characteristics.

2.1 Corporate governance factors

2.1.1 Political connections. Companies can adopt different ways of relating to the government (Pang and Wang, 2021), and there is no single construct that defines what a political connection is (Chen *et al.*, 2010). The most frequently followed concept for political connections stems from Fisman (2001), who considers that a company has political connections when there is a board member who has served in government or who has worked for a government-related department.

Companies with political connections enjoy fewer financial constraints and are less sensitive to pressure from their competitors (Boubakri *et al.*, 2012), and are thus able to obtain more competitive advantage (Duchin and Sosyura, 2012; Faccio *et al.*, 2006). Likewise, companies with political connections are granted more tax benefits (Adhikari *et al.*, 2006; Faccio, 2006; Wenfeng *et al.*, 2010), preferential treatment in tenders for government contracts (Goldman *et al.*, 2009; Tahoun, 2014) and enjoy regulatory protection with tighter connections or control over competing companies (Faccio, 2006).

In the literature, we also find arguments that point to negative consequences for companies that establish political connections. The main theory to explain this negative relationship is the agency theory by Jensen and Meckling (1976), according to which political connections lead to information asymmetries between shareholders, as there is a certain opacity in the costs the company incurs for establishing these relationships (Wenfeng *et al.*, 2010; Pang and Wang, 2021; Shahzad *et al.*, 2021). Another argument for the negative relationship is that companies with political connections are funding the political endeavours of politicians, which leads to reduced profitability and may suggest lacklustre financial performance (Niazi *et al.*, 2023). Therefore, the following hypothesis is defined with no predicted sign:

H1. Political connections influence corporate performance.

2.1.2 Gender diversity. The literature on behavioural finance points out that men and women are biologically and psychologically different as each gender has its own characteristics (Ho *et al.*, 2015). Specifically, behavioural finance points to women as being less assertive, less aggressive, less self-confident, more anxious, more risk averse and as displaying a greater sense of ethics which, despite possibly making them more conservative thinking, makes them less prone to commit fraud (Ho *et al.*, 2015).

However, both risk aversion and ethical sensitivity, as well as conservatism and firm opposition to fraud, may impact company performance (Ahmadi *et al.*, 2018). In addition, the negative relationship between gender diversity and performance is attributed to the low representation of women on corporate boards, which are predominantly male dominated, with female members often appointed merely in an attempt to meet legal requirements (Anas *et al.*, 2022).

Several studies indicate a positive relationship between gender diversity and performance (Adams and Ferreira, 2009; Campbell and Mínguez-Vera, 2008; Erhardt *et al.*, 2003; Li and Chen (2018); Rao and Tilt, 2016; Sanan, 2016). These authors state that gender diversity improves corporate performance as there is a better understanding of market conditions, a better perception of the company by society as well stronger knowledge of the business environment. The presence of women on the board is also associated with higher levels of voluntary disclosure of information, which may prove important *vis-à-vis* enhancing performance, particularly about sustainability (Gul *et al.*, 2011). The presence of female on boards can positively influence firm performance by bringing innovative perspectives, signaling a commitment to diversity, enhancing the company's image, and maintaining a competitive edge (Kılıç and Kuzey, 2016). Brahma *et* al. (2021) and Proença and Neves (2022) point out that the critical mass level is reached with at least 30% of women on the board, which means that less than this quota will have negative effects on performance. Given the above, the following hypothesis is proposed:

H2a. Gender diversity influences corporate performance.

Following Proença *et al.* (2020), we also aim to study whether the effects of political connections are mitigated or accentuated by board gender diversity. According to the agency theory, political connections lead to information asymmetries and cause multiple conflicts (Pang and Wang, 2021; Wenfeng *et al.*, 2010), which leads to the company incurring agency costs. Given that the literature considers women to be more capable of monitoring company management (Kirsch, 2018), this greater capacity for control can help reduce the agency costs caused by political connections and thereby improve company performance.

These relationships are created for companies to obtain certain benefits that they would not otherwise be able to secure without such a relationship – which sometimes involves dubious situations from an ethical point of view. Here, the characteristics attributed to women – being more risk averse (Palvia *et al.*, 2014) and displaying a greater sense of ethics (Ku Ismail and Abdul Manaf, 2016) – may also help offset the effects of political connections. To understand the mitigating effect of gender diversity in political connections on performance, the following hypothesis is proposed:

> *H2b.* Gender diversity mitigates the effects of political connections on corporate performance.

2.1.3 Board size. The board of directors must ensure the best management for the company, protect the interests of the stakeholders and function as a control mechanism to restrict potential conflicts of interest between managers and shareholders (Vieira *et al.*, 2019). A larger board motivates more attitudes of dominance and authority on the part of leaders, giving rise to conflicts of interest (Neves *et al.*, 2022b). De Andres *et al.* (2005) show that a larger board harms company performance in terms of market value, and Rodriguez-Fernandez *et al.* (2014) also point to the same negative sign. Cancela *et al.* (2020) – using ROA and Tobin's *Q* as dependent variables – also show a negative relationship between board size and corporate performance. In contrast, other authors defend a positive relationship between these variables, arguing that involving more people implies greater discussion of ideas, which can thereby favour business (Drobetz *et al.*, 2004).

2.1.4 Academic degrees in boards. The academic qualifications of board members have often been determinants of business performance, primarily because they are highly valued by society in general (Boadi and Osarfo, 2019; King *et al.*, 2016; Ochotnický *et al.*, 2019). Board members who have more academic qualifications usually provide the company with new perspectives – both in terms of human as well as social capital (Ochotnický *et al.*, 2019) – which leads to better company performance.

However, some authors argue that board members with more academic qualifications are more risk-averse and more conservative (Boadi and Osarfo, 2019), which can negatively affect performance. The diversification of board members' academic qualifications can lead to the board becoming segmented into several groups depending on qualification levels, thereby creating barriers between the different groups and harming company performance (Fernandez-Temprano and Tejerina-Gaite, 2020). Proença and Neves (2022) found antagonistic results depending on the dependent variables considered.

2.2 Companies' specific characteristics

2.2.1 Company size. Although company size is a widely used variable in the literature on corporate performance, there is still no consensus *vis-à-vis* its sign and significance (Neves *et al.*, 2022a, 2022b). Goddard *et al.* (2005) and Proença and Neves (2022) explain that increased company size entails less control over managers' activities, which may lead to them using their resources for their own benefit, thereby destroying company value. In contrast, Serrasqueiro and Nunes (2008) argue that increased corporate size improves firm performance because it allows companies to produce more at a lower average cost; that is, to create economies of scale.

2.2.2 Leverage. Debt influences the company's financial risk and requires greater outflows (Cancela *et al.*, 2020).

The trade-off theory positively correlates debt with business performance. Companies should obtain as much debt as they can to deduct the amount paid for interest in taxes and so obtain the maximum tax benefits. The pecking order theory negatively correlates debt level and performance. Companies only resort to external financing when internal sources are exhausted. As a result, some authors support a negative relationship between leverage and business performance (Mathur *et al.*, 2021). In contrast, some studies conclude that companies' leverage positively influences their performance (Graham, 2000).

3. Research design

3.1 Sample

A total of 41 companies between 2015 and 2020 were analysed, 15 belong to the PSI-20 and 26 to the IBEX-35. Financial companies and sports companies were excluded from the study due to their specific characteristics (Neves *et al.*, 2022c). Companies whose information was not complete for at least four consecutive years were also excluded – a necessary condition for complying with the absence of second-order correlation (Neves, 2018).

There were two stages of data collection: economic and financial reports were analysed and accounting and financial data were collected through the Iberian Database, SABI (Iberian Balance Sheet Analysis System). Companies' economic-financial reports were used to obtain data on board members.

Biographical data were gathered through company reports and accounts. LinkedIn pages and press information regarding administrators were used to determine how many of them had political connections and what their academic qualifications were, following Proença *et al.* (2020). Given that this variable entails a certain degree of inherent subjectivity in terms of characterizing political connections, the criterion used by Faccio (2006) and Proença *et al.* (2020) was used.

3.2 Variables

3.2.1 Dependent variables. Table 1 relates the dependent and independent variables.

3.3 Models

The models proposed to analyse determinants of Iberian listed companies' performance are as follows.

Specifically, the following models are presented:

$$\begin{aligned} \textit{Financial Performance}_{it} = {} & \beta_0 \textit{Financial Performance}_{it-1} + \beta_1 PC_{it} + \beta_2 FEM_{it} \\ & + \beta_3 PCFEM_{it} + \beta_4 Bsize_{it} + \beta_5 GRAD_{it} + \beta_6 SIZE_{it} \\ & + \beta_7 LEV_{it} + u_{it} + v_i \end{aligned} \quad (1)$$

Table 1.
Variables

	Code	Proxy	Authors
Dependent			
Accounting			
Return on assets	ROA	$\frac{EBIT}{Total\ Assets}$	Li and Jin (2021)
Return on equity	ROE	$\frac{Net\ Income}{Equity}$	Shahzad *et al.* (2021)
Market			
Tobin¨s Q	Tobin	$\frac{Total\ Market\ Value}{Total\ Asset\ Value}$	Pang and Wang, 2021
Market-to-book	MTB	$\frac{Market\ Capitalization}{Book\ Value}$	Abolhassani *et al.* (2020); Proença and Neves (2022)
Independent			
Corporate governance			
Political connections	PC	$\frac{Number\ of\ board\ members\ with\ political\ connections}{Total\ board\ members}$	Adams and Ferreira, (2009), Tsai *et al.* (2019)
Gender	FEM	$\frac{Number\ of\ women\ on\ the\ board}{Total\ board\ members}$	Campbell and Mínguez-Vera (2008); Owen and Temesvary (2018)
Moderation	PCFEM	$\frac{Number\ of\ board\ members\ with\ political\ connections}{Total\ board\ members} * \frac{Number\ of\ women\ on\ the\ board}{Total\ board\ members}$	Proença *et al.* (2020)
Board size	Bsize	$ln\,(Total\ board\ members)$	Cancela et. Al. (2020); Guest (2009); Rodriguez-Fernandez *et al.* (2014)
Degrees	GRAD	$\frac{Board\ members\ with\ masters\ or\ doctorates}{Total\ board\ members}$	Boadi and Osarfo (2019); Proença and Neves (2022)
Control			
Size	SIZE	$\ln(Total\ Assets)$	Proença and Neves (2022); Halili *et al.* (2015)
Leverage	Lev	$\frac{Total\ \mathrm{Liabilities}}{Total\ Assets}$	Neves *et al.* (2020); Serrasqueiro and Nunes (2008)

Source: Authors' own creation

$$Market\ Value_{it} = \beta_0 Market\ Value_{it-1} + \beta_1 PC_{it} + \beta_2 FEM_{it} + \beta_3 PCFEM_{it} + \beta_4 Bsize_{it} + \beta_5 GRAD_{it} + \beta_6 SIZE_{it} + \beta_7 LEV_{it} + u_{it} + v_i \quad (2)$$

where *Financial Performance* and *Market Value* $(ROA_{it}, ROE_{it}, Tobin_{it}$ and $MTB_{it})$ are the dependent variables and represent Return on Assets, Return on Equity, Tobin's Q and Market-to-Book, respectively. The independent variables are those presented in Table 1. All variables are indexed by companies (index i) and by period (t). Finally, the error term is composed of two elements: a random element (u_{it}), which can vary between companies and periods; an individual effect (v_i), specific to each company and invariant over time. The beta letters denote parameters.

3.4 Estimation method

We use panel data methodology to estimate our models. Specifically, we use the GMM system estimation method, originally proposed by Arellano and Bond (1991) and later enhanced by Blundell and Bond (1998) and Arellano and Bover (1995). This methodology solves two fundamental problems: endogeneity and unobserved heterogeneity (Neves, 2018).

This method addresses endogeneity problems that might persist when there is a correlation between the independent variables and the error term (Okoyeuzu *et al.*, 2021); that is, said endogeneity may exist when the dependent variable can also explain the explanatory variables (Neves *et al.*, 2022a, 2022b). The GMM method allows consistent estimators to be obtained using fewer observations (Blundell and Bond, 1998). We also used VIF to check the absence of multicollinearity in the model (Appendix).

4. Results

4.1 Descriptive statistics

In Table 2, the descriptive statistics for PSI-20 and IBEX-35 companies are presented.

As regards the standard deviation, it appears that this value is higher for the ROE and Lev variables. As for the dependent variables, it appears that the accounting variables – ROA and ROE – have slightly higher averages for PSI-20 companies, while the market variables Tobin and MTB have slightly higher averages in the IBEX-35 panel of companies.

	PSI-20				IBEX-35			
Variables	Mean	SD	Minimum	Maximum	Mean	SD	Minimum	Maximum
ROA	6,6873	8,4711	−29,1100	33,6700	6,0298	10,5524	−41,0530	68,7970
ROE	15,4558	13,3034	−45,0420	48,0520	12,3937	24,8045	−117,3400	93,0270
Tobin	0,9037	1,1898	0,0670	6,5090	1,0242	1,1145	0,0710	6,3740
MTB	1,7229	1,0939	0,5180	5,9560	3,0161	4,3794	0,4570	32,0470
PC	0,0460	0,0683	0,0000	0,2500	0,1343	0,1289	0,0000	0,4615
FEM	0,1871	0,1238	0,0000	0,4000	0,2053	0,1094	0,0000	0,5000
PCFEM	0,0085	0,0152	0,0000	0,0800	0,0311	0,0394	0,0000	0,1837
Bsize	10,2651	4,8767	3,0000	21,0000	12,5658	3,0246	5,0000	20,0000
GRAD	0,2225	0,1744	0,0000	0,5000	0,2899	0,1626	0,0000	0,6429
SIZE	14,5437	1,5438	11,8784	17,6016	15,4719	1,4879	11,8686	18,2705
Lev	57,2663	21,3103	1,4470	96,9670	50,9036	21,2071	0,0228	88,3780

Source: Authors' own creation

Table 2.
Descriptive statistics

The fact that companies in the IBEX-35 index have higher averages of market variables than companies in PSI-20 may be related to the greater market capitalization of this market. It appears that political connections are greater for companies in the IBEX-35, with an average of 13%, while in the PSI-20, this average is only 4%.

In terms of female presence on the board of directors, companies in both markets evidence similar values. Whereas PSI-20 companies have an average of 18% of women on their boards, IBEX-35 companies average 20%. Perhaps because they operate in the European market, these companies have been taking a path towards integrating the least represented gender – i.e. women –to comply with current legislation.

4.2 PSI-20 results

Table 3 shows the results of Portuguese companies.

The results show that political connections have no impact on the performance of these companies – in line with Pang and Wang (2021). The resources spent on establishing political connections equal the potential benefits that companies can obtain from this relationship, with zero impact on performance, whatever the stakeholder perspective.

Managers, who have decision-making power over operational issues and impact on ROA, do not attribute specific skills and characteristics to women who are sufficiently capable of increasing operational profitability. In Portugal, on average, the presence of women represents only around 18.7% of boards. This result may be based on theories of social justice and critical mass, which postulate that gender diversity will only have a positive effect on performance if it is greater than 20% and 30%, respectively (Kogut *et al.*, 2014). Likewise, this result can also be attributed to the law that requires the existence of minimum quotas in board composition, suggesting that the administrators selected for the position may not be the most competent but rather those with the greatest networks of contacts (Campbell and Mínguez-Vera, 2008).

However, from the perspective of potential investors, external to the company, the existence of more women on boards is valued in the market. Those stakeholders perceive that women can give companies a better understanding of market conditions, reinforce the level of business understanding and bring more ethics to business as well as greater control over management (Rao and Tilt, 2016). Furthermore, from the perspective of agency theory, gender diversity helps reduce existing conflicts of interest (Nielsen and Huse, 2010).

Regarding the effect of gender diversity on the relationship between political connections and performance, the results indicate that the existence of more women on boards makes the relationship between political connections and performance negative, both from an accounting point of view and from a market perspective. In Portuguese companies, women see political connections as unfavourable, and as shaping the behaviour of politically connected administrators, since it can lead to conditioning potential competitive advantages (Pang and Wang, 2021), access to indebtedness as well as funds and subsidies (Tsai, 2019). The existence of women can expose existing information asymmetries between shareholders and politically connected managers and thereby cause greater agency conflicts (Wenfeng *et al.*, 2010).

Board size positively influences performance from the managers' perspective and negatively from the standpoint of potential investors. However, for those outside the company, being larger may be seen as causing greater internal conflicts and coordination problems – negatively influencing the company's market value (Rodriguez-Fernandez *et al.*, 2014; Terjesen *et al.*, 2016).

Managers and external stakeholders view the academic qualifications of directors of Portuguese companies differently. For managers, having administrators with a master's

Table 3.
Results – Portuguese companies

Variable	ROA	ROE	Tobin	MTB
L1.	0.3295** [0.1281]	0.1262 [0.3172]	0.2987*** [0.0801]	−0.1819** [0.0786]
PC	111.8712 [87.2344]	109.3457 [160.4857]	12.8189 [8.7123]	−8.0621 [25.9338]
FEM	−17.8491*** [4.7998]	−42.8567 [58.8935]	0.3338 [0.9172]	13.4824** [6.3435]
PCFEM	−381.4008** [168.7228]	−713.5483* [371.5889]	−31.9823** [16.6460]	−65.7802 [56.4424]
Bsize	0.6401* [0.3769]	2.1032 [1.6631]	0.0496 [0.0406]	−0.3137** [0.1558]
GRAD	−44.3883*** [13.5579]	−125.0501 [105.7647]	3.0943*** [0.8213]	10.8986*** [3.4993]
SIZE	2.8788*** [0.8097]	11.6883*** [2.6489]	0.0778 [0.0773]	0.1523** [0.7082]
LEV	−0.3095*** [0.0309]	−0.4358*** [0.0859]	−0.0312*** [0.0104]	0.0032 [0.1091]
$m1$	−1.2899 (0.1971)	−0.1359 (0.8918)	−1.1057 (0.2688)	−0.2798 (0.7796)
$m2$	1.9601 (0.0500)	0.6065 (0.5442)	1.5021 (0.1331)	0.5227 (0.6012)
Sargan	3.7320 (0.0037)	10.6154 (0.6430)	7.2972 (0.8862)	3.6077 (0.0047)
Wald	16943.7300 (0.0000)	1425.4600 (0.0000)	98561.2700 (0.0000)	3879.7500 (0.0000)

Notes: *, ** and *** indicate significance levels at 10%, 5% and 1%, respectively; The Sargan test with a p-value greater than 5% shows that the instruments are valid, with the test values in parentheses representing the degrees of freedom; the Wald test presents a p-value less than 5% which means that the joint significance and the coefficients are significant asymptotically distributed as χ^2 under a null hypothesis without significance, with the degrees of freedom in parentheses; The m1 test has a normal distribution N (0.1) and tests the null hypothesis of absence of first-order autocorrelation against the alternative hypothesis of the existence of first-order autocorrelation; The m2 test has a normal distribution N (0.1) and with a p-value greater than 5% accepts the null hypothesis of absence of second-order autocorrelation
Source: Authors' own creation

degree and/or a PhD does not translate into added value, with managers valuing most the experience that administrators accumulate throughout their professional careers (Proença and Neves, 2022). This result suggests that most of these managers probably do not have this type of academic degree in Portugal. However, from a market perspective, qualifications are highly valued, as these highly qualified managers bring new perspectives to companies, valuing human and social capital and focusing on sustainability issues, thus positively affecting performance (Ochotnický *et al.*, 2019).

Company size positively influences performance by taking advantage of synergies, creating economies of scale, and reducing average costs (Serrasqueiro and Nunes, 2008). Debt harms performance – both for accounting and market variables. This effect is in line with the pecking order theory, in which companies resort to external financing when internal sources are exhausted (Mathur *et al.*, 2021).

4.3 IBEX-35 results

Table 4 shows the results of the companies representing the Spanish market benchmark.

The results show that political connections in the board have a negative effect on performance from the perspective of current shareholders and a positive one from the perspective of external stakeholders. For existing shareholders, politically connected administrators detract from the profitability of the companies in which they invest as the latter prioritize their interests, seconding the company's interests and leading to multiple agency conflicts (Pang and Wang, 2021; Wenfeng *et al.*, 2010). Shahzad *et al.* (2021) even state that these managers' objectives are incompatible with the shareholder value principle. However, the market understands the existence of politically connected directors as offering potential for greater business and other associated advantages, which will allow access to key resources (resource dependency theory), such as financing funds, interest rates, a requirement for fewer collaterals and tax benefits (Claessens *et al.*, 2008; Saeed *et al.*, 2019).

Shareholders, with an immediate interest in ROE – as well as potential investors interested in market variables – evaluate the impact of political connections on profitability differently due to their different positions and objectives. Shareholders may be concerned that political connections might harm profits for reasons of image and ethical values or even political changes, and they are more focused on protecting their existing investments and on avoiding risks. Potential investors may view political connections differently because they

Variable	ROA	ROE	Tobin	MTB
L1.	0.3989*** [0.0344]	0.1209*** [0.0336]	−0.1176*** [0.0279]	0.2844*** [0.0311]
PC	6.9010 [13.9177]	−81.9205** [34.3066]	2.6524*** [0.8848]	43.3731*** [11.1235]
FEM	1.1386 [11.5804]	−26.2456 [33.1009]	2.2001*** [0.6298]	9.5311 [6.8852]
PCFEM	7.3636 [45.2771]	−27.3071 [124.0298]	3.4089 [3.9706]	−96.7066** [43.4791]
Bsize	−1.0982*** [0.2536]	0.0927 [0.7423]	0.0231 [0.0220]	−0.3084*** [0.0672]
GRAD	1.4537 [3.4639]	27.3469 [18.7618]	−2.8238*** [0.5787]	10.8958*** [2.8909]
SIZE	0.5285* [0.2866]	−1.2199* [0.6419]	−1.3027*** [0.0499]	−3.2848*** [0.6583]
LEV	0.1436*** [0.0529]	0.4987*** [0.1216]	−0.0025 [0.0016]	0.0223* [0.0123]
*m*1	−2.2243 (0.0261)	−1.4457 (0.1483)	−1.2326 (0.2177)	0.1019 (0.9188)
*m*2	0.1258 (0.8999)	1.5485 (0.1215)	1.4285 (0.1532)	−0.9009 0.3676
Sargan	10.4588 (0.6561)	16.9546 (0.2014)	18.6763 0.1335	14.8559 0.3164
Wald	1980.0700 (0.0000)	512.6500 (0.0000)	839.8300 (0.0000)	2469.5500 (0.0000)

Note: To read the table, follow the notes in Table 2
Source: Authors' own creation

Table 4. Results – Spanish companies

are evaluating whether these connections can lead to more profitable deals. They are often looking for opportunities to maximize returns, even if this means committing to companies with strong political connections.

From the perspective of investors outside the company, they believe that firms with strong political connections can have easier access to resources and that these connections can provide privileged information about future political changes or government decisions.

It should be noted that the existence of more women on the board will lead to greater levels of opportunities for future growth as they understand market conditions better and seek more inclusive management practices (Ahmadi *et al.*, 2018; Rao and Tilt, 2016). This positive effect is in line with the theory of social justice, as the percentage of women on the boards of Spanish-listed companies is around 20%, the minimum percentage for there to be social justice in the organization (Kogut *et al.*, 2014). The other variables have no current statistical significance, as the quota recommendation law had already been implemented in 2007, which may mean that companies have already adjusted to this new reality.

Regarding the effect of gender diversity on the relationship between political connections and performance, it appears that more women on boards make the relationship between political connections and performance negative when using MTB – from a market perspective. In Spanish companies, only potential investors – because they have less knowledge of the legal system in force in this country – see women as a factor that can condition the behaviour of politically connected managers (Pang and Wang, 2021).

Board size negatively influences ROA. For managers, more administrators will lead to more internal conflicts and coordination problems, negatively affecting the efficiency of resource use and the company's market value (Terjesen *et al.*, 2016). Moreover, from the perspective of potential investors, more managers do not translate into better performance levels.

The academic qualifications only impact performance from a market perspective – but with different effects. On the one hand, from a perspective of growth opportunities, administrators with a master's degree and/or a PhD will be more risk averse, thereby negatively affecting performance (Proença and Neves, 2022). However, from the perspective of potential investors, qualifications are highly valued, as high qualifications provide companies with new perspectives, valuing human and social capital, and thus positively affecting performance (Ochotnický *et al.*, 2019).

Company size positively influences performance from the perspective of managers who believe they can efficiently manage more resources, thereby boosting profitability. However, the other stakeholders do not believe that this management of additional resources is more efficient, and they think that it may mean loss of management control, greater complexity in decisions and a decrease in the company's ability to adapt to adverse conditions (Serrasqueiro and Nunes, 2008). Debt positively influences the performance of companies listed on the IBEX-35, as these companies will be able to get into debt until they obtain maximum tax benefits (Fama and French, 2002).

4.4 Discussion

Table 5 shows the results of the global sample.

The determinants of business performance may vary depending on the stakeholder's perception (Vieira *et al.*, 2019). The results suggest that considering countries *per se*, women add market value to companies. However, their reliability and immediacy can lead to a negative moderating effect on the perceptions of external stakeholders, who believe that political connections can improve business, but that women mitigate this effect by being more suspicious about the reliability of these connections. Stakeholders outside companies

Variable	ROA	ROE	Tobin	MTB
L1.	0.4039*** [0.0497]	0.2049*** [0.0509]	0.1527*** [0.01174]	0.6468*** [0.0199]
PC	5.4652 [20.8776]	−123.1123** [51.3584]	−0.5679 [0.5801]	51.9646*** [10.4959]
FEM	−3.3399 [7.8622]	−27.0352 [18.8239]	−0.0051 [0.3208]	7.1372* [4.1083]
PCFEM	−11.7346 [48.6107]	152.6811 [127.2474]	8.9378*** [1.9949]	−123.5624*** [32.0553]
Bsize	−1.1075*** [0.3791]	−0.2439 [0.7419]	−0.0370** [0.0143]	−0.2065 [0.1291]
GRAD	7.8749 [7.1832]	−5.5477 [13.3763]	0.3333 [0.2315]	14.1301*** [2.4900]
SIZE	0.7714** [0.3139]	−9.7994*** [2.2923]	−0.7728*** [0.0701]	−0.4361*** [0.1116]
LEV	0.0338 [0.0687]	0.2177 [0.1691]	−0.0202*** [0.0032]	0.0327** [0.0131]
*m*1	−2.3100 (0.0209)	−1.5717 (0.1160)	−1.2321 (0.2179)	−0.1015 (0.9192)
*m*2	0.1004 (0.9201)	1.2745 (0.2025)	1.5553 (0.1199)	−0.0969 (0.0228)
Sargan	11.0171 (0.6094)	19.3762 (0.1119)	21.9079 (0.0568)	21.8667 (0.0575)
Wald	319.6100 (0.0000)	129.3300 (0.0000)	1079.4500 (0.0000)	9998.1800 (0.0000)

Note: To read the table, follow the notes in Table 2
Source: Authors' own creation

Table 5. Results – Iberian companies

believe that women are *a priori* suspicious of the legitimacy of using political connections to create value. They are in principle more averse to the potential risk of such political connections and the image that the company may suffer from this as a result.

When we consider the results of the overall sample, Iberian Peninsula, we notice a significant difference in the moderating effect that women have on political connections concerning performance variables with market values. This difference is related to the positive effect in the long-term performance variable (Tobin's). It seems that long-term investors –with an interest in the company's and therefore in Tobin's future growth opportunities (Neves, *et al.*, 2022a, 2022b, 2022c) – believe that women's political relationships can be a positive sign of promoting equality and can also benefit from improved employee morale, reduced turnover and a more diverse and inclusive work culture, which can contribute to the long-term value. So, in a larger sample from the Iberian Peninsula, it is possible to see that in the long term, women's political relationships can benefit performance through better reputation and image. Connected women can have access to larger networks, potentially opening doors to new business opportunities and partnerships. Companies that have strong connections to women in politics may be better positioned to navigate regulatory changes and benefit from favourable policies. Consumers and investors may view these companies as socially responsible and progressive, which can have a positive impact on the company's value.

The other results are like those obtained for Spain, as this market also has greater participation in sample. These results show the relevance of analysing each of the markets separately, due to the differentiating and unique characteristics of each (Neves *et al.*, 2022a). It thus appears that in Spain the relevance of political connections is much greater than in Portugal, as in the period under analysis, on average, the percentage of politically connected elements on the board was 4.6%, while in Spain it was 13.43%. As regards the different results of gender diversity, this can be explained by the difference between the two countries when applying gender laws, with Spain being one of the pioneering countries.

Board size also influences performance differences in the two countries. Regarding governance factors, the Securities Market Commission in Portugal does not establish the number of directors a company must have, while in Spain the good governance code recommends that companies have between five and 15 directors (Oliveira *et al.*, 2018). Furthermore, Portuguese, and Spanish managers will have different perceptions, perhaps suggesting differences in the work structure and relationships in the board. However, in the market perception – which sees organizations from an external perspective – the importance of board size is similar in both countries.

Potential Portuguese and Spanish investors also react similarly to directors' academic qualifications, as they attribute a positive value to more training in business. However, this perception does not apply to the long term as the same relationship is not borne out. In fact, the market's valuation of training is perhaps more present than future. Indeed, given the rapid evolution of research and development (R&D), the question arises as to whether companies will value more specialized training in the future.

The effect of debt on performance is also differentiated, considering the different tax benefits in the two countries. Spain offers a deduction of up to 42% of corporate income tax on R&D activities, which makes Spain – according to the OECD/European Union (2017) – one of the most favourable countries in which to conduct these activities, whereas in Portugal's special regime it is possible to deduct a maximum of 32%.

5. Conclusions

Studying the impact of political connections and gender on corporate performance in Portugal and Spain is key to gaining insights into the economic, political and social dynamics of these countries. The findings can inform policies, promote transparency and contribute to more equitable and competitive business environments.

Based on this assumption we highlight among the corporate governance variables the political connections of board members and the presence of women, both in board composition and in the moderating effect they can have in political relations. To achieve this aim, we used data from 41 Iberian-listed companies between 2015 and 2020.

Using the GMM system estimation method, our results indicate that company performance is influenced by political connections and the presence of women on the board. It should also be noted that women can moderate and mitigate the negative effects that political connections may have on the image and performance of these companies.

The similarities found between the results of the global sample and those obtained for Spain reinforce the need to individually study small countries that have specific particularities, as is the case of Portugal. The fact that the law on quotas is much older in Spain brings about significant differences in how this influences performance measures. Despite this, our results suggest that the perception of stakeholders who are external to the Iberian market differs regarding the sign and significance of the moderating effect of women's political connections on how they impact performance measures. The mitigating effect of women is once again in evidence, as they are more cautious and principled, which is valued by short-term investors interested in an immediate investment in the PBV. As regards the future growth opportunities of Iberian companies – viewed as a single market – female politicians are seen as more trustworthy and empathetic, which can help build stronger relationships and secure more solid business partners.

The relationship between board size and operating profitability is also the opposite for the two countries. This may suggest that the working conditions and organizational structure in decision-making within the company differ between countries.

The main limitations of this work are related to the difficulty in obtaining complete data for all the variables as well as the difficulty in obtaining data about political connections. Another limitation that can be addressed in future work is related to the fact that the different sectors of activity were not considered.

5.1 Theoretical contributions

Academics and researchers will be able to find in this paper a solid foundation for future inquiry since political, licit and less licit relations are increasingly on the covers of newspapers and media. Researchers can investigate whether businesses with political connections outperform or underperform their peers and the reasons behind these outcomes.

5.2 Practical contributions

Shareholders and managers have a vested interest in the determinants of corporate performance considered herein because they can inform decision-making, risk assessment, reputation management and ethical considerations, all of which ultimately impact the company's financial health and sustainability.

Investors differentiate between how Spanish companies have evolved compared to Portuguese companies about corporate governance characteristics and transparency. Investors can use this scientific research to improve their due diligence process when evaluating potential investments. A better knowledge of political connections and corporate performance can be valuable to investors by providing them with data-driven insights that help them assess risks, make informed investment decisions, align with their values and develop effective investment strategies while realizing the importance of board composition and the impact its decisions have on the profitability of Iberian companies.

This paper is of interest to civil society and Iberian politicians because it can inform efforts to promote transparency, accountability, fairness and ethical business practices, as well as guide policy development and legal reforms to ensure a more equitable and just business environment. Policymakers and regulators may use this research to design and implement regulations that promote fair competition and gender equality.

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Appendix

Dependent variables	VIF	1/VIF
PC	4.9200	0.2032
FEM	1.8500	0.5403
PCFEM	6.6600	0.1501
Bsize	1.9500	0.5140
GRAD	1.2500	0.8001
SIZE	1.8600	0.5387
LEV	1.1600	0.8606
MEAN VIF	2.8100	

Source: Authors' own creation

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