International Journal of Financial, Accounting, and Management (IJFAM)
ISSN: 2656-3355, Vol 6, No 1, 2024, 135-149 https://doi.org/10.35912/ijfam.v6i1.1649

CEO political connection, shareholding and financial distress of deposit money banks in Nigeria

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Article History
Received on 13 March 2024
1st Revision on 20 April 2024
2nd Revision on 11 June 2024
3rd Revision on 21 June 2024
Accepted on 28 June 2024

Abstract

Purpose: Prior studies investigating the effects of CEO political connections and shareholding on financial distress remain inconclusive. This study examines the effect of CEO political connections and shareholdings on the financial distress of DMBs.

Research methodology: This study adopted an ex post facto research design based on the nature and problems of the research. This study utilized annual financial data from quoted DMBs from 2012 to 2021. The data were subjected to diagnostic tests, and the Hausman test selected the use of REM over FEM to test the hypotheses.

Results: The main results showed that CEOP had a positive non-significant effect on financial distress, and CEOS had a negative significant effect on financial distress.

Limitations: This study does not include other control variables, such as firm size and firm leverage, which can also affect financial distress.

Contribution: This study contributes to the corporate governance literature by examining how political affiliation and CEO shareholding relate to financial distress in a developing country setting. This empirical standpoint helps us comprehend how the political connections and shareholding status determine their distress scores in the presence of a weak corporate and legal framework.

Novelty: This study, from the context of a developing nation with weak institutional governance, examines how CEO political connections and shareholdings explain the financial distress score of DMBs that prior studies have weakly examined.

Keywords: *CEO political connection; CEO shareholding; Financial Distress*

How to Cite: Agbo, E. and Egbunike, C. (2024). Financial governance: Cases at Village-Owned Enterprises (BUMDEs) in Lampung Province. *International Journal of Financial, Accounting, and Management*, 6(1), 135-149.

1. Introduction

A CEO's political connections influence a company's performance (Sun & Zou, 2021). CEOs with strong personal, professional, and academic ties to politicians are more likely to make riskier strategic choices such as tax dodging (Kim & Lee, 2021). Studies by Fisman and Wang (2015), and Cao, Lemmon, Pan, Qian, and Tian (2019), demonstrate that a CEO's political ties play a critical impact in a company's market success and competitive advantage. For instance, Islam, Wong, and Yusoff (2023) showed a negative effect of CEO political ties on firm performance. Additional research reveals that CEOs with political ties blame the negative effects of political connections on corporate performance (Islam et al., 2023). According to studies by Blau, Brough, and Thomas (2013) and Bunkanwanicha and Wiwattanakantang (2009), CEOs can build relationships with politicians through lobbying,

campaign donations, family, and social networking. They could also choose to run for the office. Similarly, companies hire politicians and (former) high-ranking government officials to their boards of directors in order to benefit from their connections now or in the past (Jackowicz, Kozłowski, & Mielcarz, 2014).

Globally, the nexus of corporate CEO political connections and their effects have been studied (Goldman, Rocholl, & So, 2009; Ullah, Khan, Hussain, Alam, & Haroon, 2021). As postulated by Islam et al. (2023), political connections can be difficult in nations with high levels of corruption and numerous risks. CEO shareholding is a term used to describe a CEO's ownership of stock in a company. In this instance, the CEO often holds a significant number of shares as part of their compensation package, or as a sign of their commitment and alignment with the company's success. CEO shareholding can serve as a measure of the CEO's confidence in the company's performance and can incentivize them to work towards maximizing shareholder value. Investors and stakeholders need to be aware of the CEO's shareholding, as it can affect decision-making and corporate governance within the organization.

There are different scholarly viewpoints on the impact of CEO political connections at the firm level on the operations of a firm (Wang, Chen, Chin, & Zheng, 2017). Politically connected firms frequently incur significant agency costs. Politicians and managers may behave opportunistically because of the engagement of politically connected people in a company (Wang et al., 2017; Wong, 2004). Therefore, those with political clouts frequently seek to maximize their interests, which can be detrimental to investor interests. However, the underlying mechanisms connecting CEO's political ties and shareholdings in firms' financial distress have not been fully studied. For instance, Khwaja and Mian (2005) find that firms with political ties are given large amounts of credit despite having much higher default rates than businesses without such connections. On the other hand, some studies have shown that political affiliations can open doors to valuable resources such as capital, land, licences, market power, and financing (Saeed, Belghitar, & Clark, 2017); government support for financially troubled businesses (Faccio, Masulis, & McConnell, 2006; Ha & Frömmel, 2020); immunity from regulatory intervention (Kroszner & Stratmann, 1998); government contracts for the provision of goods and services (Goldman, Rocholl, & So, 2013); and access to finance with higher priority (Khwaja & Mian, 2005), reduced taxation (Faccio, 2010), and superior earnings quality (Batta, Sucre Heredia, & Weidenmier, 2014). Thus, firms with CEOs with political connections perform better than those without political connections (Goldman et al., 2009).

CEO shareholding also plays a role in the principal-agent relationship. CEO shareholding improves the CEO's advantage over other board members as he owns a sizable portion of the company's stock (Saidu, 2019). This can also affect the board's decision-making because having a sizable share of the company gives the CEO the ability to control how board members are compensated, prevent them from being fired if necessary, and predominate in most board decisions (Zhang, Tang, & Lin, 2016). The question of whether ownership in businesses can influence firm performance and value in all contexts remains unresolved. In addition, the nature and character of political affiliations and sociopolitical circumstances differ significantly among nations. According to resource dependence theory, a firm's external connections are essential to granting it a competitive advantage over other companies (Islam et al., 2023). Political ties bolster a company's external interconnections, giving it an advantage over unconnected enterprises in the marketplace (Hashmi, Brahmana, & Lau, 2018).

Nigeria, which has a diverse ethnic population, is regarded as an African behemoth. Nigeria is the most populated country in West Africa, and a major actor in international trade and political scenario (Anoke, Onu, & Agagbo, 2022). Recently, the country has also seen a rise in political turmoil and ethnic conflicts around the nation. A regional spike in coup d' état in Francophone nations results in regional instability. The country's recent general election also caused an uproar. However, many CEOs in Nigeria have political ties (Saidu, 2019).
The banking sector has undergone an ongoing reform process since 1999 to enhance the capacity and well-being of DMBs. The market has changed as a result of competitive economic reforms,

necessitating a new banking approach (Seneviratne & Gunawardane, 2022). This ranged from the recapitalisation of the DMBs to the assessment of the risk asset quality of banks which led to the removal of eight CEOs and the injection of N600 billion into the banks in 2010 (Oluwafemi, Adebisi, Simeon, & Olawale, 2013). The majority of financial distress in DMBs is attributed to bad loans and advances. Even though there are guidelines on credit policies, some banks fail to adhere when granting loans. A lot of financial institutions have collapsed or at the verge of collapse due to badly functioning loan lending to firms and people with bad and unreliable credit reputations (Olalekan, Olumide, & Irom, 2018). The collapse of large financial institutions during the global financial crisis between 2007 and 2008 made governments, even in the wealthiest nations, come up with strategies to rescue their financial system. It can be deduced from this problem that even though DMBs have laid down rules on how credit can be granted to customers, some banks still went into liquidation because of risk. DMBs are engaged in the business of providing financial capital to the business community as well as individuals (Arif, Nasir, Rodrigo, Bujang, & Supar, 2023). They do so with the expectation of achieving a targeted rate of returns as a result of credit granted to customers over time. It should be noted that any extension of credit carries the risk of non-payment under the terms of the financial relationship between the bank and the individual or corporate body. Prior studies conducted to investigate the effects of CEO political connections and shareholding on financial distress remain inconclusive. This study examines the effect of CEO political connections and shareholdings on the financial distress of DMBs.

This study is important from both theoretical and practical standpoints. In reality, this will matter greatly to shareholders because it will help them align their interests in the business. They also gain from tracking performance over time to see whether CEO traits have any impact on financial distress. Classic agency theory, which was utilized in earlier studies, is also noteworthy from a theoretical standpoint. The main objective of this study is to examine the impact of political connections and shareholdings on corporate financial distress. The frequency of bank failures in Nigeria has raised serious concerns among those in the country's banking sector. Forty-eight (48) deposit of money banks (DMBs) were liquidated between 1994 and 2006 (NDIC 2011). The causes of bank failure have been attributed to a variety of factors, including bank subpar risk management (Kargi 2011). The crisis led to the establishment of the Asset Management Corporation of Nigeria (AMCON), which started operating in 2010 to take over the administration of hazardous assets in banks' books as well as the management of intervening banks (Aruwa & Musa, 2014).

2. Literature review

2.1 Conceptual Framework

2.1.1 CEO Shareholding

CEO shareholding refers to the number of shares held by the CEO in a company. This is typically a reflection of the CEO's shareholding in the company and can vary depending on various factors such as the CEO's compensation package, performance incentives, and personal investments. To ensure the independence of the position and their capacity to keep an eye on management behavior, agency theory promotes the separation of the CEO and board chair roles (Musah & Adutwumwaa, 2021). The CEO's shareholding is significant, as it aligns their interests with those of shareholders and can also influence important decisions related to the company's direction and strategy. In both theory and practice, CEO shareholding is one of the best sources of power (S). Wu, Quan, & Xu, 2011). According to agency theory, CEO shareholding is a key factor in determining the agent-principal relationship. The CEO shareholding percentage is the sum of the CEO's direct and indirect ownership interests in the company. The CEO's direct holdings are the shares he or she still owns at the end of the year, while all indirect holdings are the CEO's shares in other companies that have a sizable stake in the company they manage. The percentage of the CEO's direct and indirect shares in the company's total equity is therefore used to calculate the CEO's shareholding (Duru, Iyengar, & Zampelli, 2016). Li, Wang, and Zhang (2018) performed a regression analysis utilising information from 300 businesses listed in China's A-share market in 2015. They found that CEO's equity incentives have no discernible impact on firm performance.

2.1.2 CEO Political Connection

A CEO's political connections refer to their associations and relationships with political figures and institutions. These connections range from personal friendships to formal endorsements or financial contributions to political campaigns. Such political connections can be beneficial to CEO in several ways. It can provide access to policymakers and enable CEO to have a voice in shaping policies that affect their industry or company. Political connections can also help a CEO navigate regulatory processes, secure government contracts, and influence decision-making processes.

However, it is important to note that political connections can also raise ethical concerns such as potential conflicts of interest or favoritism. Sun and Zou (2021) and Cherkasova and Ivanova (2019) argue that CEOs with political ties frequently choose to nominate bureaucrats to their company's board of directors rather than those with necessary professional knowledge. This ultimately undermines the company's worth. As in many countries, political connections in Nigeria play a significant role. According to prior research, politically connected board members positively impact the market (Goldman et al., 2009). PC CEOs of IPO firms have a competitive advantage (Liu et al., 2012).

Nigeria has a multiparty political system, and political connections can influence various aspects of business and governance in the country. Political connections can provide access to government officials, allowing individuals or businesses to voice their opinions in policy-making and decision-making processes. These connections can help navigate bureaucratic processes, gain contracts, secure permits, and receive favorable treatment in various sectors.

Furthermore, political connections can provide opportunities for individuals to secure political appointments or positions within the government, enabling them to exert influence and shape policies in their respective areas of interest.

However, it is important to note that political connections in Nigeria can be a double-edged sword. Politically connected people frequently seek to advance their interests to the greatest possible extent (Wang et al. 2017). For instance, politically connected individuals may provide access to confidential information on governmental policy and regulations in exchange for financial incentives, such as welfare payments, donations, campaign contributions, and bribes (Claessens et al., 2008). They may also create connections between public institutions and businesses.

2.1.3 Financial Distress

Financial distress (FD) refers to a situation in which an individual or business experiences significant financial difficulties or challenges. It can occur for various reasons, such as economic downturns, poor financial management, excessive debt, unexpected expenses, or external factors, such as natural disasters (Whitaker, 1999). According to Whitaker (1999), poor management causes more firms to experience financial distress than economic hardships. Generally, businesses with poor corporate governance are more susceptible to economic downturns and are more likely to experience financial difficulties (Lee & Yeh, 2004). Younas, UdDin, Awan, and Khan (2021) conducted a study in Pakistan using a sample of 152 non-financial enterprises between 2003 and 2017 and found a positive association between the corporate governance index and financial distress, proxied using the Z-score. Additionally, the analysis demonstrates a significant inverse relationship between CEO duality, board size, and FD indicator.

2.1.4 CEO Shareholding and Financial Distress

According to agency theory, CEO shareholding is a key factor in determining the agent-principal relationship (Saidu, 2019). In contrast to an agency relationship, the CEO will be an agent-cum-principal officer, giving him good grounds to affect almost every decision made within the company (Mio, Fasan, & Ros, 2016). According to the agency interest alignment hypothesis, when an owner-manager is in charge of a company, there is a good chance that he will work hard to assist it in achieving its goals (Saidu, 2019). While some studies supported this hypothesis, many real data contradicted it. Adams, Almeida, and Ferreira (2005) examined the effect of CEO power on the variability of a firm's

performance. Similar to this, Onali, Galiakhmetova, Molyneux, and Torluccio (2016) investigated the impact of company leadership on the business performance of European banks. Using 9-year panel data, CEO ownership has an impact on a company's market-to-book performance.

By contrast, using data spanning 10 years, Fahlenbrach (2004) examined the connection and discovered that CEO ownership has a negative effect on firm performance, as suggested by Tobin's q. Kaczmarek, Kimino, and Pye (2014) also examined the impact of CEOS to ascertain the consequences of interlocking directorships. This study's findings demonstrate an inverse relationship between CEOS and firm performance. Limbach, Schmid, and Scholz (2016), on the link between CEO power and firm value, finds a non-linear U-shaped relationship. Thus, it is pertinent to expand prior studies to a different context in light of inconsistent findings, since variations in culture, conventions, and practice may vary across different locations.

Therefore, we propose the following hypothesis:
H_1: CEO firm shareholding has a significant relationship with DMB financial distress rating .

2.1.5 CEO Political Connection and Financial Distress

Overall, political connections can influence business opportunities and policy decisions. Additionally, politically connected persons and firm managers who are looking to advance their interests may negotiate and bargain with one another. Shleifer and Vishny (1994) created a bargaining model between those with political clouts and corporate management. Their research implies that politically connected employees (such as directors) may bribe managers to advance their political goals. Additionally, managers may pay off people with political connections to stop them from using the company and further their political agendas (Islam et al., 2023). According to Faccio (2010), businesses with political ties are more likely to engage in management rent extraction, which has a negative impact on their ability to generate profits, especially in corrupt countries.

Similar to this, Tu, Lin, and Liu (2013) provide evidence that connected political enterprises are more likely to engage in excessive tunnelling through the direct exploitation of corporate resources, the expropriation of wealth from minority shareholders, and the receipt of financial kickbacks from business dealings. Fan, Wong, and Zhang (2007) claim that businesses with political connections are more likely to practise nepotism by electing bureaucrats to their boards rather than directors with suitable professional qualifications.

On the other hand, RDT contends that such linkages add value. Political connections aid businesses in building a solid reputation and achieving long-term success (Eissa and Eliwa 2021). Past studies (Houston, Jiang, Lin, & Ma, 2014; Maaloul, Chakroun, & Yahyaoui, 2018) have demonstrated that politically connected businesses have better market power than unconnected businesses, which in turn leads to higher market value. According to earlier research (Houston et al., 2014; Nuswantara et al., 2023), political connections provide firms with valuable resources in the form of favorable relationship-based contracts and greater access to outside financing. These resources improve firm performance (Claessens et al., 2008; Eissa & Eliwa, 2021; Islam et al., 2023). Political economy literature has acknowledged that political relationships are valuable resources for individual firms that positively impact profitability (for example, Saeed et al. (2017)). According to Harianto (2020), businesses should appoint politicians to their boards to take advantage of their knowledge of policymaking, procurement, and government planning processes, as well as their political connections and technical know-how, all of which increase the value of the company.

This leads to the following hypothetical proposition.
H_2: There is a significant relationship between CEO political connections and DMB financial distress ratings.

Figure 1 demonstrates the study's research framework along with all variables of the study
Independent Variable **Dependent Variable**

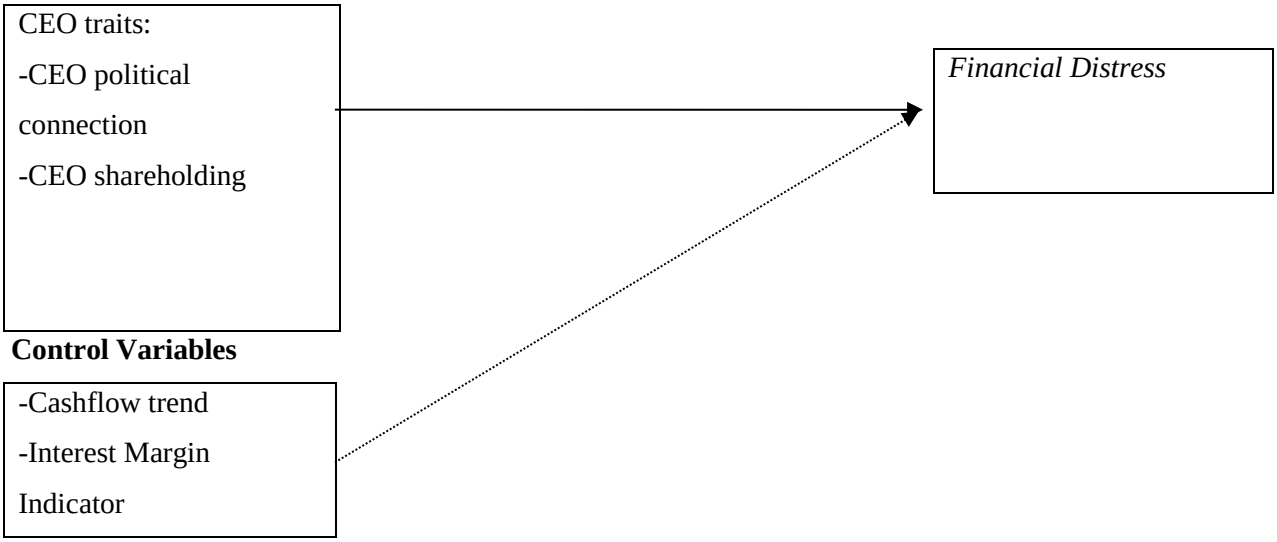

Figure 1 Research Framework
Source: Author's conceptualization (2023)

2.2 Theoretical Framework

2.2.1 Agency Theory

AT is widely used in governance studies and was developed by Jensen and Meckling (1976). According to the theory, contracts between principals and agents, in which the latter performs services and provides goods on the former's behalf, are rooted in agency relations (Asien, 2023). AT addresses the division of ownership and control, as well as the conflict of interest between agents and principals (Jensen & Meckling, 1976). This avoids potential conflicts of interest among other parties in favor of focusing on the traditional agency conflict between managers and shareholders. AT investigates the interaction between principals, such as owners or shareholders, and agents, such as managers or workers within a given organization. It seeks to comprehend and clarify how conflicts of interest between principals and agents could develop as well as how these conflicts might be resolved. According to AT, a principal-agent relationship exists because the principal delegates decision-making authority to the agent to act on their behalf. Edwards and Nibler (1999) indicated that giving the board of directors the duty to oversee management may result in another agency conflict between the board of directors and shareholders.

Therefore, BoDs may shun effective monitoring because they rely on managers or because they do not have the reason to put much effort into monitoring managers. However, there is often an inherent misalignment of goals and interests between parties. Principals want agents to act in their best interests and maximize value, whereas agents may have their own self-interests and motivations. Conflicts can arise owing to information asymmetry, where the agent has more knowledge about its actions, performance, or intentions than the principal. This can lead to issues such as moral hazard, where the agent might take risks or engage in opportunistic behavior knowing that they will not bear the full consequences of their actions.

2.2.2 Resource Dependency Theory (RDT)

According to RDT, businesses with political connections may better manage external business risks and secure crucial resources, which increases the value of the business (Miner, 2005). RDT suggests that organizations may face resource-dependent capabilities, which make them able to attract external influences. For example, H. Wu, Li, Ying, and Chen (2018) contend that CEOs' political connections could give them a competitive edge and access to resources controlled by the government as well as political legitimacy. According to RDT, organizations strive to reduce their dependency on external resources by seeking control over them. They do so through strategies, such as forming strategic alliances, partnerships, mergers, or even appointing CEOs with political ties. Firms with right ties can

acquire unique benefits from the government, including lower tax rates and rules that keep competitors out of the market (Claessens et al., 2008; Khwaja and Mian, 2005).

2.3 Empirical Review

Islam et al. (2023) examined the effect of political connections on firm performance in Pakistan. Regression is used in this study to test the hypotheses using a final sample of 2479 (257 firms) firm-year observations for firms registered on the Stock Exchange of Pakistan from 2010 to 2019. According to the study's findings, political linkages are negatively and significantly significant across all three performance metrics: ROA, ROE, and Tobin's Q. In contrast, the study by Ganguly, Mishra, and Platt (2023) in India on the impact of political proximity and enterprises' cash-holding practices on firm value and operational performance reveals that enterprises with political ties do better than their non-connected counterparts using large datasets of political donations and relationships for listed Indian firms surrounding three general elections in India from 2009 to 2019. Additionally, Indian companies with strong political ties and larger cash holdings over time earn significantly higher valuations.

Brahma, Zhang, Boateng, and Nwafor (2023) looked at the stock market performance throughout the short-term announcement phase and the long-term post-merger era of Chinese M&A from 1998 to 2017. OLS analysis of secondary data demonstrates that political ties significantly and favorably affect business performance for both private (POEs) and state-owned enterprises (SOEs).

Nuswantara et al. (2023) analysed the moderating effect of political connection on the nexus of board size, women on boards and financial distress. They used a demographic sample comprising 29 businesses listed on the IDX between 2016 and 2021 and a quantitative methodology. These data were analyzed using the moderating regression of corporations on the IDX. The moderation results showed that the influence of political connections was positive for both BS and FD. The importance of political ties decreases and greatly affects WOMC's effect of WOMC on financial distress. The last illustrates how political connections' influence on financial distress reduces the impact of female directors.

Saidu (2019) analyzed CEO characteristics and firm performance using 37 firms and data spanning 2011 to 2016 in Nigeria. The data were analyzed using the ordinary least squares (OLS) technique on firms in the financial sector. The results show that CEO ownership negatively affects stock prices and positively affects ROA and ROE.

Boubakri, Cosset, and Saffar (2008) examined the extent of political ties between 1980 and 2002 in 87 privatized businesses with headquarters in 27 developing and 14 developed nations. They found that politically connected businesses typically have significant levels of leverage, operate in regulated industries, and are incorporated into big cities. Finally, compared with competitors who are not politically connected, enterprises with political ties perform poorly in the accounting department.

3. Research methodology

This study analyzed CEO traits, with a particular emphasis on their political connections and the shareholding effect on the FD of DMBs. This study adopted an ex-post facto research design based on the nature and problems of the research. Denga and A. (1983) stated that ex-post facto design helps to investigate relationships by identifying some existing consequences, thus helping to analyze the data through an established possible relationship among variables. This is because it is adequate for determining the relationship between two or more variables. Similarly, Gujarati (2004) and Huang, Rose-Green, and Lee (2012), stated that such research design is mainly on the measurement of relationship quantitatively after the event has occurred.

3.1 Sample and Period

The purposive sampling technique was used in this study. The study selected 13 DMBs that had up-to-date information on the variables to make up the study sample. This study takes into account information from the ten years between 2012 and 2021, yielding 130 firm-year observations. This period is taken

into account because 2012 was the year that Nigerian companies were required to record their financial data per the International Financial Reporting Standard (IFRS).

Table 1. Names of DMBs included in this study

S\N	Company	Year of Listing
1.	Access Bank PLC	1998
2.	Eco Bank	2006
3.	Fidelity Bank Plc.	2005
4.	First bank holdings	1971
5.	First City Monument Bank Plc.	2013
6.	Guarantee Trust Bank Plc.	1996
7.	Stanbic IBTC Bank Plc.	2012
8.	Sterling Bank Plc.	1993
9.	Union Bank Plc.	1971
10.	United Bank of Africa Plc.	1970
11.	Unity Bank Plc.	2005
12.	Wema Bank Plc.	1991
13.	Zenith Bank Plc.	2004

Source: Nigerian Exchange Group (NGX) (2023)

The study sample included the above-named DMBs for meeting the criteria on availability of information and on or before 2012, and the DMB must publish financial statements from the year 2012-2021. However, one bank, Jaiz Bank Plc., was excluded from the Banking Principles. Therefore, the final sample of the study is the above 13 DMBs on the floor of the NGX.

3.2 Sources of Data

This study utilized secondary sources of data. The data for the current study were collected from annual reports for a period of ten years from 2012 to 2021. Secondary data have the following advantages: it serves as the primary corporate communication tool, offers businesses an efficient way to manage external perceptions, and lends credibility to the report because auditors are required to examine such materials.

3.3 Variables and their Measurements

This study uses three types of variables: the dependent variable, independent variable, and control variables. DV is represented by FD. The IVs are CEOP and CEOS, whereas the CVs are CAST and WOCR. Table 2 presents the variables with their acronyms and measurement sources of the research variables.

Table 2. Measurement and operational definitions of the variables

Variable	Description	Measurement	Source
FD (Dependent variable)	Financial Distress	Bank rating using a scale of 1 to 5	Yulistyawati, Suardikha, and Sudana (2019)
CEOP (Independent variable)	CEO Political Connection	The CEOP variable takes the value of 1 for CEOs with political connections and 0 for those without any connections	Hashmi et al. (2018)
CEOS (Independent variable)	CEO shareholding	The proportion of shares owned by the CEO at the end of the financial year	Saidu (2019)
CAST (Control variable)	Cash flow Trend	Change in cash flow = average CF_t – CF_{t-1}	Lokanan and Sharma (2018)

WOCR (Control variable)	Interest Margin Indicator	Investment returns minus investment expenses/ average earning assets.	Lokanan and Sharma (2018)

Source: Author's Compilation (2023)

3.4 Techniques of Data Analysis

To analyze the effect of CEO traits on the FD of listed DMBs in Nigeria, descriptive statistics, correlation, and OLS were employed. The analysis was also complemented by diagnostics, such as normality tests, multicollinearity, and heteroscedasticity. This enabled researchers to obtain more information on the nature of the data analyzed. The following econometric model was employed to determine the effect of CEOP and CEOS on FD:

$Y = \beta_0 + \beta_{1\text{-}4} F_{it} + \varepsilon_{it}$

Where Y is the dependent variable, β_0 is a constant; $\beta_{1\text{-}4}$ is the coefficient of the explanatory variable, F_{it} is the explanatory variable, and ε_{it} is the error term (assumed to have zero mean and independent across the period).

$FD_{it} = \beta_0 + \beta_1 CEOP_{it} + \beta_2 CEOS_{it} + \beta_3 CAST_{it} + \beta_4 WOCR_{it} + \varepsilon_{it} \ldots\ldots\ldots$ (1)

Where:

FD = Financial Distress
CEOP = CEO political connection
CEOS = CEO shareholding
CAST = Cashflow Trend
WOCR = Net Interest Margin

β_0 is the Constant; and, ε_{it} is the Error term

4. Results and discussions

4.1 Descriptive Statistics

The results of the descriptive statistics for the sample of DMBs include mean, maximum, minimum, and standard deviation. Based on a sample of 13 DMBs registered in the NGX, the data for the period 2012–2021 are shown in Table 2.

Table 3. Descriptive statistics

	FD	CEOP	CEOS	CAST	WOCR
Mean	2.446154	0.038462	0.990641	1.808639	0.580508
Median	2.000000	0.000000	0.129851	-0.793042	0.300202
Maximum	5.000000	1.000000	9.287945	276.0980	22.27469
Minimum	1.000000	0.000000	0.000000	-36.37410	0.011781
Std. Dev.	1.618984	0.193052	2.292801	25.26842	1.968462
Skewness	0.542613	4.800000	2.706352	9.941561	10.45873
Kurtosis	1.627140	24.04000	9.035593	108.5522	115.3186
Jarque-Bera	16.58832	2897.059	356.0145	62489.97	70703.81
Probability	0.000250	0.000000	0.000000	0.000000	0.000000
Sum	318.0000	5.000000	128.7833	235.1230	75.46600
Sum Sq. Dev.	338.1231	4.807692	678.1445	82365.63	499.8545
Observations	130	130	130	130	130

Source: E-Views 11

The 130 observations (N) in the output table demonstrate that the minimum and maximum values of FD are 1 and 5, respectively. The average value of the FD observations was 2.446 with a standard deviation of 1.619 units. The average CEOP value (median) is 0.038 (0.000), and the minimum (maximum) value is 0.000(1.000). The average CEOS value (median) is 0.991 (0.130), and the

minimum (maximum) value is 0.000(9.288). The average CAST value (median) is 1.809 (-0.793), and the minimum (maximum) value is -36.374(276.098). The average WOCR value (median) is 0.581(0.300), and the minimum (maximum) value is 0.012(22.275). The *p*-values of the Jarque-Bera statistics for FD, CEOP, CEOS, CAST, and WOCR were as follows: 0.000, 0.000, 0.000, 0.000, and 0.000, respectively. The figures show the non-normal status of the variables FD (p=0.000<.05), CEOP (p=0.000<.05), CEOS (p=0.000<.05), CAST (p=0.000<.05), and WOCR (p=0.000<.05).

4.2 Correlation Analysis

The Pearson Correlation Test measured the relationship between the variables FD, CEOP, CEOS, CAST, and WOCR, as shown in Table 3. However, if the Pearson correlation test r value is higher than 0.05 (5%), it indicates a significant association with the independent variable; if it is lower than 0.05 (5%), it does not.

Table 4. Pearson correlation test

	FD	CEOP	CEOS	CAST	WOCR
FD	1	0.019079	-0.25945	-0.19031	-0.05196
CEOP	0.019079	1	-0.0837	0.015419	-0.02386
CEOS	-0.25945	-0.0837	1	-0.02643	-0.02554
CAST	-0.19031	0.015419	-0.02643	1	-0.0302
WOCR	-0.05196	-0.02386	-0.02554	-0.0302	1

Source: E-Views 11

According to the matrix in Table 3, FD was positively correlated with CEOP (0.019) and negatively associated with CEOS (-0.259), CAST (-0.190), and WOCR (-0.052). The conclusion that there is no significant multicollinearity issue within the purview of this study is further supported by the VIF values for the model that are lower than 10.

Table 5. Pearson correlation test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.041397	1.218502	NA
CEOP	0.519810	1.028224	1.005591
CEOS	0.004691	1.139348	1.003844
CAST	2.79E-05	1.005144	1.002456
WOCR	0.004586	1.046868	1.001380

Source: E-Views 11

This shows that all examined variables are suitable for use in the regression model. Table 4 shows the findings obtained using the Hausman specification test (HST). The estimator that should be utilized for our panel dataset was determined using the HST. REM was used for the test results.

Table 6. REM *vs.* FEM

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.361779	4	0.3593

Source: E-Views 11

This shows that the REM is more suitable for testing the regression model. Table 5 contains the findings obtained using the HST; the *p*-value of the HST was 0.3593 (p>.05), so REM was utilized.

4.3 Test of Hypothesis

Table 6. Model goodness of fit and coefficients analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.

C	2.698252	0.203463	13.26162	0.0000
CEOP	0.275582	0.720978	0.382233	0.7029
CEOS	-0.201171	0.068491	-2.937192	0.0039
CAST	-0.011885	0.005284	-2.249129	0.0263
WOCR	-0.072200	0.067720	-1.066164	0.2884
R^2	0.106495			
Adj. R^2	0.077903			
F-stat.	3.724632			
Prob(F-stat.)	0.006723			

Source: E-Views 11

The DV of interest in this study is FD, with CEOP and CEOS being the IVs. The R^2 (0.1065) and adjusted R^2 (0.078) values for the model demonstrate that 7.8% of the variation is caused by the explanatory variables in the model to the corresponding DV, that is, attributable to the CEO traits and CVs. The model is a statistical fit, as evidenced by F-stat. (3.725) with a *p*-value of 0.007.

The two previously formulated hypotheses were tested using the corresponding *p*-values of the coefficients of β_1 and β_2; that is, CEOP (*t*-stat. =0.382233; *p* =0.7029), and CEOS (*t*-stat. = -2.937192; *p*-value=0.0039)

The coefficient for CEOP is positive and not significant, indicating that PC exposes firms more to distress ratings, whereas the coefficient for CEOS is negative and significant, indicating that shareholding has an inverse relationship with the FD of DMBs. The results showed no significant relationship between CEOP and FD, whereas there was a significant association between CEOS and FD.

4.4 Discussion of Findings

CEOP demonstrates that the estimated positive coefficient does not support the basic premise. With non-significant *p*-values of 0.7029 in the REM model and 0.8679 in the robust model, the t-test results demonstrate that CEOP does not significantly affect financial distress. The study by H. Wu et al. (2018) using empirical Chinese data finds that political connections shape executive remuneration practises and that political connections positively influence business performance. Thus, firm performance is significantly affected by the political ties of executives worldwide (Boubakri et al., 2008; Faccio, 2010; Hillman, 2005). The positive coefficient of CEOP is somewhat consistent with Nuswantara et al. (2023) and supports Hidayati and Diyanty's (2018) political power theory thesis. Political connections can enhance the performance of a company because they might provide subsidies and low effective tax enforcement for the parties involved. If the political connection is positive and strongly affects financial distress, it affects the chance of financial distress in the company. For instance, Ganguly et al. (2023) in India on the impact of political proximity and enterprises' cash-holding practices discovered that enterprises with political ties do better than their non-connected counterparts using a large dataset of political donations and relationships for listed Indian firms.

Using data from the IDX, Nuswantara et al. (2023) the moderation results showed that CEOP had a positive influence on BS and FD. However, in contrast, Islam et al. (2023) using data from Pakistan on a sample of 257 firms finds, Political linkages are negatively and significantly significant across ROA, ROE, and Tobin's Q. Brahma et al. (2023) looked at the stock market performance throughout the short and long-term post-merger era of Chinese M&A from 1998 to 2017. The OLS analysis of secondary data demonstrates that political ties significantly and favorably affect the business performance of POEs and SOEs.

CEOS demonstrates that the estimated negative coefficient supports the basic premise. With significant *p*-values of 0.0039 in the REM model and 0.5062 in the robust model, the t-test results demonstrated that CEOS significantly affected FD. This is consistent with the study by Fahlenbrach (2004), which.

used 10-year data and reported that CEOS has a negative impact on Tobin's q. Similarly, Kaczmarek et al. (2014) revealed a significant negative relationship between CEOS and FP. In the same direction, Adams and Mehran (2012) revealed a negative impact of CEOS on FP.

4.5 Robustness Analysis

To bolster this finding, the model is re-estimated using an alternate measure, that is, the GMM approach (Arellano & Bond, 1991), a widely used estimation method in finance, to guarantee the reliability of our findings. The system GMM successfully resolves concerns related to unobservable heterogeneity, simultaneity, and dynamic endogeneity, as shown in several prior studies, and is consistent with the effect of CEO political connections and shareholding effects on the financial distress of DMBs. The results showed that CEOP continues to exert a positive effect, whereas CEOS has a negative effect on FD. In summary, our main results are robust to sophisticated estimation techniques.

5. Conclusions

This study contributes to the literature by examining the effect of CEO political connections and shareholdings on the FD of DMBs quoted on the NGX from 2012 to 2021. Using a sample of 13 DMBs from 2012 to 2021, the results suggest that CEO political connections and shareholdings play a crucial role in a firm's financial distress. The study finds that CEO political connections positively improve the financial distress score; politically connected CEOs contribute to improving FD ratings across the short- and long-term periods. In addition, CEO shareholding negatively affects the financial distress scores. Similarly, CAST and WOCR are negatively affected, that is, they lower financial distress. The study's findings have implications for shareholders regarding the influence of shareholding and political ties on financial distress. The study recommends the following in the context of developing countries.

Boards should appoint CEOs with political connections in DMBs; our findings imply that political linkages have a beneficial impact on FD rating and that such political ties can encourage strategic government alliances in developing markets which infuse political contacts, favourable tax treatment, and larger subsidies. This considerable contribution to the operational funds implies that politically active boards use diverse corporate methods to boost firm success.

CEO shareholding should be discouraged, as it encourages managerial manipulation and expropriation with serious policy ramifications for DMBs' financial distress scores. This is mainly because the CEO's shareholding implies that authority increases with increased ownership. This undermines the principal–agent contract nexus in such firms, which implies more managerial rent extraction initiatives and shareholder neglect. Thus, to address these agency issues, boards may have to consider limiting the shareholding status of CEOs or executives.

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