INTERNATIONAL JOURNAL OF PROFESSIONAL BUSINESS REVIEW

JPB REVIEW

ISSN: 2525-3654

OPEN ACCESS

THE EFFECT OF POLITICAL CONNECTIONS AND FAMILY OWNERSHIP ON OPERATING CASH FLOWS MANAGEMENT: EMPIRICAL EVIDENCE FROM EGYPT

Omar Ikbal Tawfik[A]

ARTICLE INFO

Article history:

Received 01 May 2023

Accepted 28 July 2023

Keywords:

Family Ownership;
Political Connections;
Cash Flows Management;
Political Patronage.

ABSTRACT

Purpose: This paper aims to investigate the effect of political connections and family ownership Each separately and the interactive effect between them on cash flows management.

Design/Methodology/Approach: To analyze the research hypotheses, the author used a panel data model by ordinary least squares' Depending on historical data from 72 active non-financial firms listed on the Egypt Stock Exchange during the period of 2012-2019. The final data set comprises a total 576 firm-year observations from twelve major non-financial industry classifications.

Findings: The current study found that there is a Positive impact of family ownership on cash flow management, and there is a positive relationship between political connections and cash flows management while there is a negative relationship between family firms with political connections and cash flows management.

Research limitations/Implications: This research is limited to dealing with direct family ownership structures and does not deal with indirect family ownership. Likewise, this research does not deal with the political connections in companies that arise through direct government ownership. Also, this research was limited to using linear regression analysis that did not address nonlinear regression or the structural equation model to examine the effect of family ownership and political connections on cash flows management.

Practical implications: Practitioners such as investors and lenders dealing with companies in the Egyptian capital market, which is considered one of the emerging markets with low protection for small investors, benefit from the results of this study due to the impact of family ownership and political connections when making their investment decisions. At the same time, the study helps provide important information about the business environment and conditions. Investing in developing countries like Egypt.

Originality/Value: The current study contributes to the literature by showing that different characteristics of companies such as family ownership and political connections can produce different consistent results between an emerging and developed economy, especially in the area of cash flows management. As this is the first study to analyze these relationships in the financial market in Egypt, where the study demonstrates the important role of the impact of political connections and family ownership separately, in addition to the joint effect of political connections and family ownership on cash flows management through empirical evidence.

Doi: https://doi.org/10.26668/businessreview/2023.v8i8.3028

[A] *PhD. Associate. Professor. Accounting Department, College of Commerce and Business Administration, Dhofar University. Oman. E-mail: otawfik@du.edu.om Orcid: https://orcid.org/0000-0003-0904-2373*

O EFEITO DAS CONEXÕES POLÍTICAS E DA PROPRIEDADE FAMILIAR NA GERENCIAMENTO DE FLUXOS DE CAIXA OPERACIONAIS: EVIDÊNCIAS EMPÍRICAS DO EGITO

RESUMO
Objetivo: Este artigo tem como objetivo investigar o efeito das conexões políticas e propriedade familiar, cada uma separadamente, e o efeito interativo entre elas na gestão dos fluxos de caixa.
Design/Metodologia/Abordagem: Para analisar as hipóteses de pesquisa, o autor usou um modelo de dados de painel por mínimos quadrados ordinários' Dependendo de dados históricos de 72 empresas não financeiras ativas listadas na Bolsa de Valores do Egito durante o período de 2012-2019. O conjunto de dados final compreende um total de 576 observações ano-firma de doze classificações principais da indústria não financeira.
Resultados: O estudo atual descobriu que há um impacto positivo da propriedade familiar na gestão do fluxo de caixa, e há uma relação positiva entre conexões políticas e gestão de fluxos de caixa, enquanto existe uma relação negativa entre empresas familiares com conexões políticas e gestão de fluxos de caixa.
Limitações/Implicações da pesquisa: Esta pesquisa limita-se a lidar com estruturas de propriedade familiar direta e não lida com propriedade familiar indireta. Da mesma forma, esta pesquisa não trata das conexões políticas nas empresas que surgem por meio da propriedade direta do governo. Além disso, esta pesquisa limitou-se a usar a análise de regressão linear que não abordou a regressão não linear ou o modelo de equação estrutural para examinar o efeito da propriedade familiar e das conexões políticas na gestão dos fluxos de caixa.
Implicações práticas: Profissionais como investidores e credores que lidam com empresas no mercado de capitais egípcio, considerado um dos mercados emergentes com baixa proteção para pequenos investidores, se beneficiam dos resultados deste estudo devido ao impacto da propriedade familiar e conexões políticas ao tomar suas decisões de investimento. Ao mesmo tempo, o estudo ajuda a fornecer informações importantes sobre o ambiente e as condições de negócios. Investir em países em desenvolvimento como o Egito.
Originalidade/Valor: O presente estudo contribui para a literatura ao mostrar que diferentes características das empresas, como propriedade familiar e conexões políticas, podem produzir diferentes resultados consistentes entre uma economia emergente e uma desenvolvida, especialmente na área de gestão de fluxos de caixa. Como este é o primeiro estudo a analisar essas relações no mercado financeiro no Egito, onde o estudo demonstra o importante papel do impacto das conexões políticas e da propriedade familiar separadamente, além do efeito conjunto das conexões políticas e da propriedade familiar nos fluxos de caixa gestão por meio de evidências empíricas.

Palavras-chave: Propriedade familiar; Conexões Políticas; Gestão de Fluxos de Caixa; Patrocínio Político.

EL EFECTO DE LAS CONEXIONES POLÍTICAS Y LA PROPIEDAD FAMILIAR EN LA GESTIÓN DE LOS FLUJOS DE EFECTIVO OPERATIVOS: EVIDENCIA EMPÍRICA DE EGIPTO

RESUMEN
Propósito: Este documento tiene como objetivo investigar el efecto de las conexiones políticas y la propiedad familiar Cada uno por separado y el efecto interactivo entre ellos en la gestión de flujos de efectivo.
Diseño/Metodología/Enfoque: Para analizar las hipótesis de investigación, el autor utilizó un modelo de datos de panel por mínimos cuadrados ordinarios según datos históricos de 72 empresas no financieras activas que cotizan en la Bolsa de Valores de Egipto durante el período 2012-2019. El conjunto de datos final comprende un total de 576 observaciones de año de empresa de doce clasificaciones importantes de la industria no financiera.
Hallazgos: El estudio actual encontró que existe un impacto positivo de la propiedad familiar en la gestión del flujo de caja, y que existe una relación positiva entre las conexiones políticas y la gestión de los flujos de caja, mientras que existe una relación negativa entre las empresas familiares con conexiones políticas y la gestión de los flujos de caja.
Limitaciones/Implicaciones de la investigación: Esta investigación se limita a tratar con estructuras de propiedad familiar directa y no trata con la propiedad familiar indirecta. Asimismo, esta investigación no se ocupa de las conexiones políticas en las empresas que surgen a través de la propiedad directa del gobierno. Además, esta investigación se limitó al uso de un análisis de regresión lineal que no abordó la regresión no lineal o el modelo de ecuación estructural para examinar el efecto de la propiedad familiar y las conexiones políticas en la gestión de los flujos de efectivo.
Implicaciones prácticas: Los profesionales como inversores y prestamistas que tratan con empresas en el mercado de capitales egipcio, que se considera uno de los mercados emergentes con baja protección para los pequeños inversores, se benefician de los resultados de este estudio debido al impacto de la propiedad familiar y las conexiones políticas. a la hora de tomar sus decisiones de inversión. Al mismo tiempo, el estudio ayuda a proporcionar información importante sobre el entorno y las condiciones comerciales. Invertir en países en desarrollo como Egipto.

Originalidad/Valor: el estudio actual contribuye a la literatura al mostrar que las diferentes características de las empresas, como la propiedad familiar y las conexiones políticas, pueden producir diferentes resultados consistentes entre una economía emergente y una desarrollada, especialmente en el área de gestión de flujos de efectivo. Como este es el primer estudio que analiza estas relaciones en el mercado financiero de Egipto, donde el estudio demuestra el importante papel del impacto de las conexiones políticas y la propiedad familiar por separado, además del efecto conjunto de las conexiones políticas y la propiedad familiar en los flujos de efectivo. gestión a través de la evidencia empírica.

Palabras clave: Propiedad Familiar; Conexiones Políticas; Gestión de Flujos de Caja; Patronato Político.

INTRODUCTIONS

Cash flows are an important feature for predicting the future of companies, and they are an important factor in evaluating companies. Therefore, the statement of cash flows is manipulated in order to show the image to be disclosed. The manipulation of cash flows does not only stop at the limits of generally accepted accounting principles, but rather deviates from them using actual activicon, and therefore the actual cash flows and cash flows presented in the statement of cash flows are often intertwined or overlapped (Slavic & Serbia, 2013). Cash flow management (Matis, 2009) is defined as the steps and procedures used to create or change the impression of cash flows from operating activities , which help give misleading signals about the company's ability to continue generating cash. Slavica & Serbia, 2013) defined it as the management's conduct of actions that would give a false impression of basic cash flows and cash flows from operating activities to the public, in order to send signals that the company is able to generate cash and cash equivalents despite the fact that the sources of this cash , not from operational activities or at least from unsustainable sources. Elmaasrawy, 2021 defined it as the deliberate control of the cash flows declared in the statement of cash flows through the use of management flexibility in accounting standards, to achieve some private benefits at the expense of stakeholders. (Dittmar et al., 2003) argue that cash flows represent the lifeblood of companies and depend on them mainly to invest in new projects, pay debts, pay dividends to shareholders, and at the same time provide or provide protection related to the companies' future.

Operating cash flows are considered one of the most important indicators of the cash flow of the enterprise because it reflects the efficiency of the enterprise in performing its operations, and it represents the main and continuous source of cash. Despite the importance of cash flow from other activities (investing and financing), both of them reflect long-term decisions that are ultimately reflected in cash flows from operating activities. Investors and financial analysts are very interested in cash flows from operating activities in the statement of cash flows because they represent the cash generated from the company's operations and not from unsustainable sources such as selling equipment, borrowing or issuing securities. Unfortunately, it is not always 100% of operating activities. In addition, in times of financial crisis, investors are more interested in cash flow information from operating activities than in profit information (Chiang et al., 2020).

Although the statement of cash flows displays information about cash inflows and outflows, it is sometimes believed that managers have the ability to influence cash flows through Carrying out some activities before the end of the fiscal year in order to influence the working capital report, such as changing creditors' conditions.In addition, re-classification of the elements of cash flows in the list of cash flows(Lari, 2011). The phenomenon of political connections to companies listed in the Egyptian capital market is one of the distinguishing features of companies. A study (Abdul-Wanis, 2017) found that 35% of the total companies listed in the Egyptian capital market have political connections, 45% of these political connections are made through state ownership of companies, while 55% of companies have political connections through the presence of a president The board of directors, a member of the board of directors, the executive director, or a major shareholder in the company in a political position. Many companies in both developed and developing countries are keen to have levels of political connections. Many studies have confirmed that the political connections of companies are associated with distortion of published financial reports and a decrease in accounting transparency, because high levels of transparency may result in political and legal scandals. Directors with political connections can exploit corporate resources or at least misuse corporate resources, which they later conceal by distorting published data and reports (Hu et al., 2017), in some companies where ownership structures allow KVPs. Companies benefit from corporate advantages at the expense of minority shareholders, especially in countries with relatively weak corporate structures and governance (Guedhami et al., 2013). Family businesses are those businesses that are owned or controlled by related persons who control strategic decisions related to them. The study (Bodnauk et al., 2017) found that family businesses represent attractive investment opportunity connections in countries where the values of political connections are high, meaning that families benefit from political connections, but at the same time they are more vulnerable to minority rights. But that depends on the level of corporate governance in each country.

The current study adds value to the existing literature on political connections and family ownership. The study aims to obtain empirical evidence of the effect of political connections and family ownership on cash flow management, and to test the combined effect of political connections and family ownership on cash flow management. Thus, the main question of the study: Do political connections and family ownership affect the management of cash flows in financial markets? What is the joint interactional effect of the political connections of family firms on the management of cash flows in financial markets? The study provides many contributions, first expansion of existing literature on political connections, family ownership, cash flows management in developing country, as well as clarifies the important role of the impact of family ownership and political connections separately, Finally, show the joint effect of political connections and family ownership in the management of cash flows.

The remainder of the paper is structured as follows. Section 2 presents Literature review and hypotheses development, Section 3 show research design . Section 4 appears empirical results. finally section, sections 5 appears the concluding.

THEORETICAL FRAMEWORK

Family Ownership and Cash Flow Management

Family-owned companies are the most common type of company among companies listed in the stock market in 27 countries in the world (La Porta et al., 2000; Maheresmi, et al. 2023). Anderson & Reeb, (2003) found that family businesses represent about a third of companies in the S&P 1500 index. What are family businesses? According to Bodnaruk et al., (2017) family businesses are those companies in which an individual or a group of individuals related by blood (kinship) owns at least 25% of its shares. The researcher believes that family businesses are those companies that are owned or controlled by people with close connections who control the strategic decisions related to them. There are two opinions or points of view regarding the impact of family ownership on companies, and they are as follows:

The first opinion: the effect of monitoring (positive effect): indicates that the control and follow-up of management by family members, in addition to their desire to preserve the reputation of the company and its continuity for long periods, leads to an increase in the quality of accounting disclosure for family companies. (Chen, 2012) argues that there is an effect of convergence of interests in family firms, especially if the managers are from the same family. Due to the fact that conflicts will decrease, there is a long-term orientation by the family towards the development of the company. While other types of owners focus on profits in the short term, the family is willing to invest in projects that generate competitive advantages. Many studies supported this view, including the study (Tong, 2008), which found that there is an increase in the quality of financial reports for family companies compared to non-family companies for companies included in the S&P500 index during the period from 1993 to 2003, due to the desire of companies to maintain their reputation in long term. In the same direction, a study (Mengoli et al., 2011) showed that the financial reports of family companies in Italy are of high quality through a sample of 279 companies listed in the capital market during the period from 1995 to 2008. Also, a study (Chen et al. 2010) that family businesses are less aggressive in their tax practices than their peers, this is due to the fact that family businesses are more concerned about any penalty and more concerned about their reputation than non-family businesses. The study of Attia & Hegazy, (2015)) found that there is a positive relationship between family ownership and the value of the company, and that family ownership limits the opportunistic behavior of management in managing profits through a sample of 49 companies listed in the Egyptian capital market during the period from 2006 to 2013, in In the same way, a study (Alzoubi, 2016), which was conducted on a group of Jordanian companies, found that there is a positive relationship between family ownership and the quality of financial reports, meaning that family ownership has the ability to reduce profit management practices.

Second Opinion: Impact of entrenchment (Negative Effect): The social status of families is considered one of the most important motives and incentives in family businesses for the survival of the company and its continuity in the future. Family ownership negatively affects the level of accounting disclosure due to the acquisition of senior management and executive positions by family members. In the case of increasing the proportion of family ownership, it is possible to increase the tendencies with the minority shareholders, also, when the family participates in the management, it is a disincentive for the hired technical managers, which weakens the efficiency (Chen, 2012). Many studies supported this view, including the study (Klai & Omri, 2011), which found that there is a negative relationship between the quality of financial reports and family ownership, and the relationship increases with the concentration of ownership. In the same direction, the study (Razzaqe et al, 2016) found that there is a positive relationship between family ownership and profit management from real activities , more than the rest of the companies listed in the financial market in Bangladesh during the period from 2006 to 2011, where the concentration of ownership prevails in the market and the weak environment Investor protection. A study (Nagar & Sen, 2016) concluded that family businesses in India manipulate the classification of cash flows more than non-family companies, due to the fact that after applying governance measures, non-family companies in

India became more attractive to foreign capital, which prompted family businesses to manipulate In the classification of cash flows, but this was not observed in the United States of America, and that it was the non-family companies that increased the manipulation in the classification of cash flows after the governance procedures. The study (Barry et al., 2016) examined whether corruption in bank lending is affected by the ownership structure of banks, the regulatory environment, and the level of economic development in the country, and found that corruption in lending is higher when family-owned banks provide a large percentage of credit in developing and developed countries over Both, and in the case of a stronger regulatory environment (through a stronger supervisory system or higher quality auditing processes) helps reduce corruption in bank lending in family-owned banks. In the researcher's opinion, family ownership leads to a poor quality of financial reports, and then an increase in cash flow management practices, given that the family that wants to maintain its reputation and status is the one who prepares the financial reports through a family management, and at the same time it is the one who controls In choosing the external auditor, the family also controls the various decision-making, and in light of the weak legal environment to protect small shareholders. Based on the foregoing, the first hypothesis can be derived as follows:

H1: There is a positive relationship between family ownership and cash flow management.

Political Connections and Cash Flows Management

Political patronage theory suggests that there are benefits and costs in establishing relationships and connections with ruling elites. Businessmen and politically connected companies can obtain many commercial advantages and political protection from politicians (Faccio, 2006 & Cooper et al., 2010). But in return,

Politicians receive political donations, support and sometimes bribes from corporations (Tee, 2018). Thus, it is expected that the decisions of the agents (management) will be affected by the political interests of the families that control the companies and are linked to political relationships and interests, which affects the quality of the published accounting information. Several studies have examined the relationship between political connections and the quality of financial reporting. A study (Bata et al., 2014) found that industrial companies in Venezuela with political connections have a higher level of financial reporting quality than other companies. The study (Chi et al., 2016) tested whether a CEO's political connections influence earnings management practices, the study found that politically connected executives practice significantly lower levels of based accounting earnings management and higher levels of real earnings management (measured by cash flow management).) of politically unconnected CEOs in Latin America. A study (Wang et al., 2018) focused on the impact of political connections on IPOs and real earnings management in China. The study found that politically connected companies had lower levels of real earnings management (including operating cash flow management) upon initial public offering. While the study (Hashmi et al., 2018) attempted to examine the relationship between political connections and earnings quality in companies listed in the capital market in Pakistan, the study found that companies with political connections are associated with a greater volume of earnings management practices (lower earnings quality). The study (Tee, 2018) found that there is a positive relationship between politically connected companies and income smoothing in Malaysia, and the study (Belghitar et al., 2019) documented that politically connected companies are associated with increased earnings management through accrual in Pakistan. Also, the study (Guo et al., 2013) found that state-owned companies in China (as one type of political connections) manipulate cash flow information downward (by decreasing). They are careless about cash flows, which reduces their willingness to deal with numbers, and that managers may deliberately reduce cash flows in order to obtain government aid. In the same direction, a study (Nagar & Arora, 2016) found that government companies in India are more likely to manipulate cash flows than other companies. Alsmady, (2023) examined the relationship between the accounting information quality, tax avoidance, and political connection in Jordanian companies listed on Amman Stock Exchange. The study also investigated the moderating effect of political connections on accounting information quality and company performance relationships.

From the foregoing, it is clear that there is a contradiction in the results of different studies in different countries about the relationship between political connections and the quality of published accounting information, in addition to the absence of previous studies conducted in the Egyptian environment on the relationship between political connections and cash flow management within the limits of the researcher's knowledge, and therefore the second hypothesis can be derived As follows:

H2: There is a relationship between political connections and cash flow management.

Political Connections for Family Businesses and Cash Flows Management

Family businesses represent attractive investment opportunities in countries where the value of political connections is high. In the sense that families benefit from political connections , but at the same time they are more able to control minority rights (Bodnauk et al., 2017). There are many reasons that push families with money and businesses to form strong connections with politicians or for some family members to engage in political activities from them:

1. Politically connected firms can obtain resources through government channels and authorities, in addition to obtaining financial assistance and bailouts, avoiding strict regulations, and reducing contract costs (Faccio, 2006).
2. Politicians find that family firms are preferred partners for resource acquisition, since the relationship between the firm and politicians can last longer (La Porta et al.; 1999; Morck & Yeung, 2004).
3. Families can give corrupt officials more power than CEOs. This makes politicians more likely to establish relationships with family members (Morck & Yeung, 2004).

All the above makes family businesses more able to establish and maintain political relationships. There are many studies that have examined the relationship between the political connections of family firms and the quality of financial reports, including the study (Hashmi et al., 2018) which aimed to examine the effect of political connections on the quality of profits in family firms in Pakistan. The study found that there is an effect of political connections on decreasing the quality of earnings in family businesses more than in other businesses. While the study (Tee, 2018) aimed to examine the impact of political connections in family businesses on audit fees on a sample of companies listed on the financial market in Malaysia, with a total of 7848 observations during the period from 2002 to 2015. The study found that there is a positive relationship between family businesses with political connections and higher audit fees. A study (Sanchez et al., 2019) tried to find out the impact of political connections to family businesses on credible earnings. The results showed that family businesses with political connections disclose a greater amount of information than other family businesses that do not have political connections. Thus, political connections in family businesses reduce information asymmetry.

The study of Chi et al. (2019) showed that political connections weaken the positive relationship between family ownership and conservatism in financial reports using data on listed Taiwanese companies between 1996 and 2012, and the final sample views were 13,877 views, and the study indicates (Bona-Sánchez et al. .,2019), that family businesses with political connections show more information about profits compared to family businesses without political connections , in other words, information asymmetry in family businesses with political connections is less compared to other family businesses. It is clear from the foregoing that all previous studies were conducted in an environment other than the Egyptian environment, and there were no studies dealing with the impact of political connections to family businesses on managing cash flows. There is also inconsistency in the results of different studies in different countries on the relationship between political connections and the quality of financial reports, in addition, the absence of previous studies conducted in the Egyptian environment of the relationship between political connections and cash flow management within the limits of the researcher's knowledge, and therefore the third hypothesis can be derived as follows:

H3: **There is a relationship between the political connections of family-owned firms and cash flow management.**

RESEARCH DESIGN

Data and Sample Selection

Data used for this study was hand-collected from the annual reports of the Egyptian Exchange from listed companies. Since there is no formal database for annual reports of Egypt listed companies, we relied upon the annual reports available, through a sample of 72 non-financial companies listed in the capital market in Egypt from Twelve major non-financial industry classifications with a total of 576 observations during the period From 2012 to 2019 . We use a number of sources of information to collect political connections data. I investigate the individual directors , Members of the Board of Directors and the political role of the dominant families who own a percentage of the shares of all firms for political affiliations.

Methodology

Panel data Models in recent years have occupied a prominent place in accounting studies; Given that it takes into account the impact of change in time, and the impact of change in companies, Panel Models include three types of models: Pooled (ordinary least squares OLS) Regression Model (PM), Fixed Effects Model (FEM), and Random Effects Model, REM. it is long established that when using cross-sectional time-series data, the use of pooled (whereby a single regression is estimated for all Companies over all periods) may lead to misleading inference. In effect, if the parameters differ across Companies and/or over time, then a pooled regression is not appropriate because the heterogeneity in the parameter estimates is not adequately dealt with (Chang and Lee, 1977& O'Connell, 2007), So the researcher will use the OLS Panel data models and a comparison will be made between Fixed Effects Model (FEM), and Random Effects Model, REM. Using the Hausman test.

Measurement of the Variables

The researchers will use the model of Dechow et al., 1998, which is used by several studies(Roychowdhury, 2004; Zhang, 2006) in order to measure cash flow management with the introduction of some explanatory variables by the researcher. The model divides the net cash flows from operating activities into two parts, a normal part (unmanaged) and the other part is extraordinary (managed). It is one of the most famous and best models in estimating normal cash flows with the use of regression to separate normal operating cash flows from abnormal operating cash flows as follows :

First: Estimating the normal/unmanaged net operating cash flows

$$CFO_{it}/TA_{it-1}=\beta_{0i}+\beta_{1i}*(1/TA_{it-1})+\beta_{2i}*(REV_{it}/TA_{it-1})+\beta_{3i}*(\Delta REV_{it}/TA_{it-1})+£_{it}$$

Where,

CFO it: The net cash flow from the operating activities of company i for the period t.
TA _(it-1): The total assets of company i in the period t-1.
β0: regression relationship constant
B1, β2, β3: regression coefficients for the independent variables
REV_it: The net sales revenue of company I at the end of period t
ΔREV_it: The net sales revenue of company I in for period t less the net sales revenue for period t-1
$\mathcal{E}_{it}$: Residuals or random errors not accounted for by the model
Corporate index i = 1, 2 , ... , n
Years index t = 1, 2 ,... , T

Therefore, the cash flows from normal operating activities will equal

$$NCFO_{it}/TA_{it-1}=\beta_{0i}+\beta_{1i}*(1/TA_{it-1})+\beta_{2i}*(REV_{it}/TA_{it-1})+\beta_{3i}*(\Delta REV_{it}/TA_{it-1})$$

Where

NCFOit :Net cash flows from normal or unmanaged operating activities.

The researcher will measure the variable of political connections through the Dummy variable coded as 1 for politically connected firms and 0, and the firm will be politically connected in the event that one of the managers and / or a member of the board of directors practices political work, or the families that own and/ or control the firm have roles Political or political connections. The methods of measuring the various research variables can be shown in the following table 1

Table 1 The methods of measuring the various research variables

variables	symbol	Measurement	Previous studies used the same measurement method
Dependent			
cash flows management	CFM	The absolute value of the abnormal/managed operating cash flows calculated according to a model Dechow et al.,1998	Roychowdhury,2004 ;Zhang,2006 ; Elmaasrawy,2021
Experimental variables			
political connections	PC	Dummy variable coded as 1 for politically connected firms and 0 otherwise	Faccio et al., 2006; Faccio, 2010; Muttakin et al.,2015; Hashmi et al. ,2018
Family owenership	FAMOW	The ratio of shares owned by one family to the total issued shares	le,2015;Alzoubi,2016; Nazir & Afza, 2018; Asghar et al.,2020
political connections for family firm	FAMPC	Interaction variable between FAMOW and PC	Muttakin et al.,2015
Control			
firm size	size	The natural logarithm of total assets	(Dimitropoulos & Asteriou, 2010; Machuga & Teitel, 2009 ; joni et al.,2020
leverage	LEV	The ratio of total liabilities to total assets of the firm	(Dimitropoulos and Asteriou, 2010; Jiang et al., 2008; joni et al.,2020
Firm profitability	ROA	Net income divided by total assets at the beginning of the year	Ashbaugh et al., 2003; Tee,2018; joni et al.,2020
Market-to-book ratio	MTB	(The market value of equity /Total assets	Guizani, M. and Abdalkrim, G. (2021
Liquidity	LIQ	Current assets divided by current liabilities	Jabbouri, & Almustafa,. (2020
Institutional ownership	INSOW	Percentage of institutional ownership to total issued shares	Alves, 2012; Guo et al.,2014
Big four auditor	B4	A dummy variable, coded 1 if the firm is a big four audit firm, and 0 otherwise	Tee,2018; Mousavi Shiri,et al.,2018; joni et al.,2020

Source: Prepared by the author (2023)

Model Construction

In order to empirically test the above, the following regression modelswere constructed in this paper:

$$CFM_{it} = \beta_0 + \beta_1 LIQ_{it} + +\beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 ROA_{it} + \beta_5 PC_{it} + \beta_6 FAMOW_{it} + \beta_7 INSOW_{it} + \beta_8 FAMPC_{it} + \beta_9 MTB_{it} + \beta_{10} B4_{it} + e_{it}$$

EMPIRICAL RESULTS

Descriptive Statistics

Table 2 display the descriptive statistics

Variables	Mean	Median	Maximum	Minimum	Std. Dev
SIZE	8.804903	8.951208	9.998639	7.492153	0.590617
LEV	0.449128	0.431954	2.537293	0.004621	0.251666
ROA	0.047890	0.037352	0.501532	-0.703697	0.090672
CFM	0.099655	0.087352	0.289505	0.000412	0.069080
B4	0.508274	1.000000	1.000000	0.000000	0.500524
INSOW	0.227574	0.088100	0.989336	0.000000	0.292380
FAMOW	0.069337	0.000000	0.756300	0.000000	0.172744
PC	0.319149	0.000000	1.000000	0.000000	0.466699
FAMPC	0.034718	0.000000	0.676800	0.000000	0.129115
MTB	1.213309	0.898071	9.471257	-4.353462	1.156234

Source: Prepared by the author (2023)

Depending on a table 2, we find that the Mean political connection (PC) in the sample is 0.3199, so if the political connection (PC) variable is a dummy variable (0.1), this indicates that one third of the companies in the sample have political connection(PC) . Also, we find that the Mean of the B4 variable is 0.513889, which means that more than Half of the sample companies contract with the four major accounting firms. We also find that the maximum family ownership limit 0.75630 is the maximum limit for family ownership with political connection(FAMPC), indicating that the greater the family ownership, the more political connection to the family business.

DISCUSSION

The present study uses panel data approach in order to test research hypotheses . Therefore, it is required to select the best estimator between fixed effects and random effects for this model. In this regard, we use Hausman test to choose the appropriate estimator. The results of Hausman test are reported in . Since the *p*-value of this model is Less than the margin of error of 0.05, we choose fixed effects model as the desirable estimator for estimating regression model. The result of the Hausman test for both the basic test and the additional test was less than 5%. Basic exam (2012: 2019)

Table 3 We display the results of the two search models

Variables	basic exam (2012: 2019)			The additional exam (2013:2018)		
	Coefficient	t-statistic	Sig	Coefficient	t-statistic	Sig
C	0.913273	27.65632	0.0000	0.876170	22.95989	0.0000
SIZE	-0.092096	-24.22961	0.0000	-0.088865	-20.51239	0.0000
ROA	0.030247	1.247726	0.2128	0.024693	0.820812	0.4123

B4	-0.007563	-1.632207	0.1034	-0.009598	-1.836742	0.0671
FAMOW	0.076398	4.264258	0.0000	0.072414	3.486674	0.0006
PC	0.017570	3.346852	0.0009	0.017218	2.931551	0.0036
FAMOW*PC	-0.043817	-1.719440	0.0863	-0.050417	-1.711328	0.0879
INSOW	-0.009018	-1.161935	0.2459	-0.009768	-1.110550	0.2676
MTB	0.000121	0.062279	0.9504	-7.27E-05	-0.035444	0.9717
LEV	-0.009826	-1.054860	0.2921	-0.007829	-0.748668	0.4546
LIQ	-0.002885	-0.841069	0.4008	0.004733	0.788960	0.4307
R-squared	0.609094			0.576890		
Adjusted R-squared	0.594687			0.559365		
F-statistic Prob(F-statistic)	42.27807		0.0000	32.91760		0.000

Source: Prepared by the author (2023)

First hypothesis testing (there is apositive relationship between family ownership and cash flow management)

Table No.3 shows that there is a significant positive relationship between family ownership and cash flow management. This result is consistent with the study of (Razzaqe et al, 2016), which found that there is a positive relationship between family ownership and the management of profits from real activities more than the rest of the concentrated properties. Ownership and weak investor protection environment during the period from 2006 to 2011. The study (Nagar & Sen, 2016) concluded that family companies in India manipulate the classification of cash flows more than non-family companies in India, and this is due to the fact that after applying governance procedures, companies became non- Family in India is more attractive to foreign capital, which prompted family companies to manipulate the classification of cash flows, but this was not noticed in the United States of America, and that it was non-family companies that increased the manipulation in the classification of cash flows after government measures. The financial markets in both India and Bangladesh are similar to the Egyptian capital market, where the concentration of ownership prevails in the market and the weak environment for protecting investors, and thus accepting the first hypothesis that there is a positive relationship between family ownership and cash flow management.

Second hypothesis testing (there is a relationship between political connections and cash flow management)

It is clear from table(3) that there is a positive relationship between political connections and cash flow management. This can be explained by the fact that political connections are associated with a low degree of corporate governance quality (Borisova et al., 2012). The study (Guo et al., 2013) found that state-owned companies in China (as one type of political connections) manipulate cash flow information downward (by decreasing). around cash flows, which reduces their willingness to deal with numbers, and that managers may deliberately reduce cash flows in order to obtain government aid. In the same direction, a study (Nagar & Arora, 2016) found that government companies in India are more likely to manipulate cash flows than other companies.

Third hypothesis testing (*there is a relationship between* political connections for family firms and cash flow management)

is clear from the table (3) that there is a negative relationship between the political connections of family businesses and the management of cash flows. This can be explained by the fact that families with political leanings tend to have their companies serve as political propaganda for them, not just work for them, and that any defect in the work of their companies will undoubtedly affect their political situation. (Ha&Frommel, 2020) found that companies that have political connections have less value than companies that do not have political. The study also found that the concentration of ownership when mediating between political connections and the value of the company.

CONCLUSION

Operational cash flow information is of great importance to both current and potential investors and all stakeholders in the company. Hence, companies are keen to show their cash flows in a way that improves the image of the external company, using the flexibility offered by accounting standards related to cash flows, as well as choosing Among the decisions it makes is controlling the reported cash flows. The management of cash flows is not limited to accounting activities by waiting until the end of the year to use the flexibility of accounting standards such as the overlapping of accounting tabulations between the different groups within the statement of cash flows. Cash from operating activities that managers want to manipulate is greater than the amount of cash flows from operating activities that can be managed through the flexibility in accounting standards. In addition, manipulation of the cash flow classifications is easier to detect by auditors and regulators than actual cash flow management.

Political connections represent a relatively high percentage of the market value of corporate shares in 28 countries around the world (Guedhami et al., 2013). Politicians consider family businesses that cooperation with them is easier and continuous in the long term, and transaction costs are lower, which makes politicians tend to establish Links to wealthy families and allowing them to control many economic sectors (Fukuyama, 1995; Elmaasrawy, 2020: Morck & Yeung, 2004) The phenomenon of political connections to companies listed in the

Egyptian capital market is a distinctive feature of companies. A study (Abdulounis, 2017) found that 35% of the total companies listed on the Egyptian financial market have political connections , and 45% of these political connections are through state ownership of companies, while 55% of companies are politically connected by being president. The board of directors, a member of the board of directors, the executive director, or one of the major shareholders in the company exercises political work. Many companies in both developed and developing countries are keen to have levels of political connections .

The current study aims to obtain empirical evidence of the effect of political connections and family ownership separately on managing cash flows, as well as testing the combined effect of political connections and family ownership on managing cash flows. This is based on a sample of 72 companies from 12 non-financial sectors during the period from 2012 to 2019. The time series approach for sectoral data was used using the OLS method, and the results of the study indicate that there is a statistically significant positive relationship between family ownership and cash flow management. There is also a statistically significant positive relationship between political connections and cash flow management. In other words, in addition to that, there is a statistically significant negative relationship between political connections in family-owned companies and cash flow management.

The researcher recommends practitioners such as investors and lenders who deal with companies in the Egyptian capital market, which is one of the emerging markets with low protection for small investors, to benefit from the results of this study of the impact of family ownership and political connections when making investment decisions. At the same time, the study helps provide important information about the business environment and investment conditions in developing countries by applying to Egypt. Investors and financial analysts must take into account the existence of political connections to companies before making investment decisions or not, and not rely on descriptive disclosure and financial disclosure published by the company only. The Capital Market Authority must also oblige companies to disclose the political connections of board members, managers, and major shareholders/owners in companies. Likewise, the concerned authorities entrusted with setting accounting and auditing standards should pay attention to developing and amending the process of issuing accounting standards related to cash flows on an ongoing basis to limit the flexibility that allows manipulation of declared cash flows. And provide further guidance to reduce cash flow management. Future research can examine the impact of political connections and family ownership on cash flow management in Arab countries, which will allow consideration of the role of culture and other country-specific factors in determining the quality of cash flows. Likewise, future research may also examine the relationships that were reached in the current study using different measures to measure cash flow management, such as other models for measuring cash flow management, ... etc., and future research may also study the effect of political connections and family ownership on costs Borrowing from banks and bonds. As well as their impact on the disclosure of social responsibility.

REFERENCES

Abdelounis, Iman, 2017, Measuring the Impact of Political Links on the Cost of Capital and Stock Returns for Companies Listed in the Stock Market, “PhD Thesis, Cairo University, Egypt.

Ali, A., &Chen, T. & Radhakrishnan, S. (2007), “*Corporate disclosure by family firms*”, *Journal of Accounting and Economics* , Vol. 44 Nos 1/2, pp. 238-286.

Alsmady, A. A. (2023). Accounting Information Quality, Tax Avoidance and Companies' Performance: the Moderate Role of Political Connection. *International Journal of Professional Business Review: Int. J. Prof. Bus. Rev.*, *8*(1), 1.

Anderson, R.C. & Reeb, D.M. (2003), “*Founding-family ownership and firm performanc: evidence from the S&P 500*”, Journal of Finance, Vol. 58 No. 3, pp. 1301-1328

Amara, I. & Khlif, H. (2020), "A review of the influence of political connections on management’s decision in non-US settings", *Journal of Financial Reporting and Accounting*, Vol. ahead-of-print No. ahead-of-print. https://0810b314r-1104-y-https-doi-org.mplbci.ekb.eg/10.1108/JFRA-03-2020-0075

Alves, Sandra ,2012 ."Ownership structure and earnings management: Evidence from Portugal". Australasian Accounting, Business and Finance Journal, vol 6(1), pp 57-74.

Alzoubi ,Ebraheem Saleem Salem , 2016 "Ownership structure and earnings management: evidence from Jordan", International Journal of Accounting & Information Management, Vol. 24 Iss: 2, pp.135 – 161 .available at: http://www.emeraldinsight.com

Attia, Eman Fathi & Hegazy, Ibrahim Raslan ,2015 "Evaluating the Relationship between Ownership Structure as Corporate Governance Mechanism and Accounting Earnings Management Tools on the Financial Performance: A Case of Egypt" Journal of Emerging Trends in Economics and Management Sciences (JETEMS) 6(6):390-406

Asghar, A., Sajjad, S., Shahzad, A. and Matemilola, B.T. (2020), "Role of discretionary earning management in corporate governance-value and corporate governance-risk relationships", *Corporate Governance*, Vol. 20 No. 4, pp. 561-581. https://0810b1uxc-1103-y-https-doi-org.mplbci.ekb.eg/10.1108/CG-11-2019-0347

Bertrand Mand Schoar.A, 2006The role of family in family firmsThe Journal of Economic Perspectives, 20 (2006), pp. 73-96

Bona-Sánchez, Carolina& JerónimoPérez-AlemánDomingo& JavierSantana-Martín,2019" Earnings credibility in politically connected family firms, The British Accounting Review Volume 51, Issue 3, April 2019, Pages 316-332

Bubolz, m2001,Family as source, user, and builder of social capita The Journal of Socio-economics, 30 (2001), pp. 129-131

Cascino, S., Pugliese, A., Mussolino, D. and Sansone, C. (2010), "*The influence of family ownership on the quality of accounting information*", Family Business Review, Vol. 23 No. 3, pp. 246-265.

Chang, H.S. and Lee, C.F. (1977), "*Using pooled time-series and cross-section data to test the firm and time effects in financial analyses*", *The Journal of Financial and Quantitative Analysis*, Vol. 12 No. 3, pp. 457-71.

Chi C.W. , K. Hung, H.W. Cheng, P.T. 2015LieuFamily firms and earnings management in Taiwan: Influence of corporate governance International Review of Economics & Finance, 36 (2015), pp. 88-98

Chiang, S., Kleinman, G. and Lee, P. (2020), "The effect of auditor industry specialization and board independence on the cash flow reporting classification choices under IFRS: evidence from Taiwan", *International Journal of Accounting & Information Management*, Vol. ahead-of-print No. ahead-of-print. https://doi.org/10.1108/IJAIM-07-2019-0084

Dechow, P., Ge, W. and Schrand, C. (2010), "*Understanding earnings quality: a review of the proxies, their determinants and their consequences*", *Journal of Accounting and Economics* (in press)..

Dittmar, A.& Mahrt-Smith, J. & Servaes, H. (2003)"International corporate governance and corporate cash holdings" Journal of Financial and Quantitative Analysis, volume 38(1): pp111–133

Ding, Y. , Qu, B. and Zhuang, A. (2011), "*Accounting properties of Chinese family firms*", *Journal of Accounting, Auditing and Finance* , Vol. 26 No. 4, pp. 623-640.

Duong, L., Evans, J. and Truong, T.P. (2020), "Getting CFO on board – its impact on firm performance and earnings quality", *Accounting Research Journal*, Vol. 33 No. 2, pp. 435-454. https://0810b1sl0-1103-y-https-doi-org.mplbci.ekb.eg/10.1108/ARJ-10-2018-0185

Elmaasrawy,Hamada Elsaid,2020,The effect of Political connections and family ownership on financial reporting quality: Empirical evidence from Egypt, Conference: "International Conference on Contemporary Issues in Accounting (CIA 2020)." in Kuwait, online via Zoom, the conference date 26 of September 2020.

Elmaasrawy, Hamada Elsaid,2021, The Impact of the relationship between ownership structure and cash flow management on the cost of capital: An Empirical study on listed companies in te Egyptian capital market, PHD,tanta university,egypt

Ernst, U. (2004), "*Methods for resolving problems of responsibility and transparency in the activities of SMEs in market economies: models and results*", Corporate Ownership & Control, Vol. 1 No. 3, pp. 37-43

Fama, E. and Jensen, M. (1983), "*Separation of ownership and control*", Journal of Law and Economics, Vol. 26 No. 2, pp. 301-325.
Ferramosca, S. & M. Allegrini,2018 The complex role of family involvement in earnings management Journal of Family Business Strategy (2018), 10.1016/j.jfbs.2018.01.001

Fukuyama,F 1995Trust: The social virtues and the creation of prosperityFree Press, New York (1995)

Ghosh A.A. & Tang C.Y. Assessing financial reporting quality of family firms: The auditors′ perspective Journal of Accounting and Economics, 60 (1) (2015), pp. 95-116

Ha, Phuoc Vu& Frömmel, Michael ,2020" Political connection heterogeneity and firm value in Vietnam". *Available at: "https://www.researchgate.net*

Hashmi, M.A., Brahmana, R.K. and Lau, E. (2018), "Political connections, family firms and earnings quality", *Management Research Review*, Vol. 41 No. 4, pp. 414-432. https://0810b30ld-1104-y-https-doi-org.mplbci.ekb.eg/10.1108/MRR-05-2017-0136

Hsin-Yi, Chi; Weng, Tzu-Ching; Guang-Zheng, Chen; Shu-Ping,2019, Do Political Connections Affect the Conservative Financial Reporting of Family Firms?Chen.Sustainability; Basel Vol. 11, Iss. 20,

Jensen, M.C. and Meckling, W.H. (1976), "*Theory of the firm: managerial behavior, agency costs and ownership structure*", Journal of Financial Economics, Vol. 3 No. 40, pp. 305-360.
Jiraporn, P. and DaDalt, P. (2009), "*Does founding family control affect earnings management?*", *Applied Economics Letters* , Vol. 16 No. 2, pp. 117-124.

López-&de-Silanes,& A. Shleifer,1999, Corporate ownership around the world The Journal of Finance, LIV (1999), pp. 471-517

Maheresmi, M., Probohudono, A. N., Arifin, T., & Widarjo, W. (2023). Do Tax Avoidance and Firm Ownership Matter for Sustainable Finance Disclosure? Evidence From the Listed Banks in Asean Countries. *International Journal of Professional Business Review*, *8*(4), e01559-e01559.

Mansor N. , A. Che-Ahmad, N.A. Ahmad-Zaluki, A.H. Osman, 2013Corporate governance and earnings management: A study on the Malaysian family and non-family owned PLCs Procedia Economics and Finance, 7 (2013), pp. 221-229

Morck.R and Yeung, B2004,Family control and the rent-seeking society Entrepreneurship: Theory and Practice, 28 (2004), pp. 391-409

Mousavi Shiri, M., Salehi, M., Abbasi, F. and Farhangdoust, S. (2018), "Family ownership and financial reporting quality: Iranian evidence", *Journal of Family Business Management*, Vol. 8 No. 3, pp. 339-356. https://0810b1siq-1103-y-https-doi-org.mplbci.ekb.eg/10.1108/JFBM-

Muttakin, Mohammad Badrul &Reza M. Monem& Arifur Khan& Nava Subramaniam,2015, Family firms, firm performance and political connections: Evidence from Bangladesh, Journal of Contemporary Accounting & Economics December

O'Connell, V. (2007), "Dealing with panel data in accounting and managerial finance research", *International Journal of Managerial Finance*, Vol. 3 No. 4, pp. 372-389. https://0810bbkb9-1105-y-https-doi-org.mplbci.ekb.eg/10.1108/17439130710824370

Paiva, I.S., Lourenço, I.C. and Branco, M.C. (2016), "Earnings management in family firms: current state of knowledge and opportunities for future research", Review of Accounting and Finance, Vol. 15 No. 1, pp. 85-100. https://0810b1mg9-1103-y-https-doi-org.mplbci.ekb.eg/10.1108/RAF-06-2014-0065

Prencipe, A. , Markarian, G. and Pozza, L. (2008), "Earnings management in family firms: evidence from R & D cost capitalization in Italy", Family Business Review , Vol. 21 No. 1, pp. 71-88.

Prencipe, A. , Bar-Yosef, S. , Mazzola, P. and Pozza, L. (2011), "Income smoothing in family firm-controlled companies: evidence from Italian listed companies", Corporate Governance: An International Review , Vol. 19 No. 6, pp. 529-546.

Prencipe, A. , Bar-Yosef, S. and Dekker, H.C. (2014), "Accounting research in family firms: theoretical and empirical challenges", European Accounting Review , Vol. 23 No. 3, pp. 361-385.

Tong, Y. (2007), "*Financial reporting practice of family firms*", *Advances in Accounting* , Vol. 23 No. 1, pp. 231-261.

Wang, D. (2006), "*Founding family ownership and earnings quality*", *Journal of Accounting Research* , Vol. 44 No. 3, pp. 619-656.