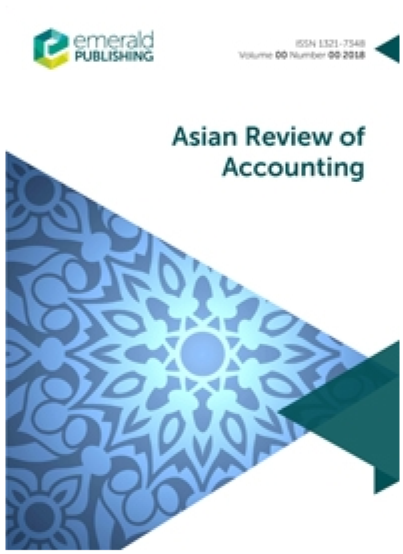

Political connections, board ethnicity and value relevance in Mauritius

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Abstract

Purpose - The paper aims to investigate the impact of political connections and board ethnicity on the value relevance of earnings and book value in Mauritius.

Design/methodology/approach - This study is based on a sample of 541 Mauritian listed firm-year observations for 2001-2016. Financial and board diversity data have been collected using the listed firms' annual reports and from reports published by the Stock Exchange of Mauritius. Political connection data was derived from the directory of Chief of State and Cabinet members. The research hypotheses were empirically tested using a modified Ohlson (1995) price model.

Findings - This study shows that political connections negatively impact the value relevance of earnings and book value. We find that firms with Franco-Mauritian directors will constrain political connections' negative impact. We find contrasting results for Indo-Mauritian directors since they form an integral part of the government in Mauritius.

Originality - This study contributes to the scarce accounting literature in Mauritius. Firstly, no study has investigated the relationship between the value relevance of accounting information and political connections in Mauritius. Secondly, Mauritius' capital market is dominated by a non-indigenous ethnic group, Franco-Mauritians, who remains the economic elite. Hence, Mauritius presents an opportunity to bring forth another important aspect in the capital market and corporate governance; diversity on the board of directors. Therefore, the study extends to the political connections and board diversity literature.

Keywords - political connections, board diversity, ethnicity, value relevance, Mauritius.

JEL classifications: G3, G14, M14, M41

Paper type Research paper

1. Introduction

Several studies have examined the economic consequences of political connections in capital markets. Studies on political connections center, but are not limited to, the quality of accounting information (Chaney *et al.*, 2011), audit fees (Gul, 2006), capital and resources allocations (Johnson and Mitton, 2001), financial analysts (Chen *et al.*, 2010; Gist and Abdul Wahab, 2021), firm performance (Fisman, 2001), auditor choice (Guedhami *et al*., 2014; Tantawy and Moussa, 2023), cost of equity capital (Boubakri *et al.*, 2012) and corporate lending (Khawaja and Mian, 2005).

The findings of these studies are rather mixed, suggesting that political connections could be detrimental or not to capital markets. On one hand, these studies suggest that political connections or politically connected firms are rent-seekers and promote cronyism and nepotism. On the other hand, conventional wisdom tells us that being connected would provide capital funding via grants and increase performance (Fisman, 2001). In addition, the stream or resources from the income for connected firms are relatively uncertain, volatile, and require higher scrutiny.

Mauritius's political connections and earnings quality studies are limited and in the infancy stage. The extant literature in Mauritius has primarily focused on the implementation of the code of corporate governance (Mahadeo and Soobaroyen, 2013), the investigation of board diversity (gender, age, and education), and corporate governance (Munisi and Randoy, 2013), firm performance (Mahadeo *et al*., 2012), and a case study investigating the role of shareholders activism in Mauritius (Beebeejaun and Koobloll, 2018).

We extend these studies on several grounds. First, none of the above studies has examined political connections, an essential feature in a developing capital market like Mauritius. Given the interest, we investigate whether political connections affect the value relevance of accounting information in Mauritius, as no study, to date, has investigated this relationship. Mauritius is an emerging economy in the African region, and the findings provide insight into the nature of connections in the country. Given the unique background that shapes its capital market, Mauritius provides an interesting avenue. We are driven by several high-profile ongoing cases surrounding politicians and heads of government. For example, soon after the December 2014 elections, the previous Head of Government, Dr. Navinchandra Ramgoolam, was arrested based on money laundering charges when two safes with billions of rupees and dollars were discovered at his residence (Wan, 2015).[1] In March 2016, the Prime Minister, Sir Anerood Jugnauth, asked the Minister of Environment to step down after bribery allegations were made against him (Reuters, 2016). These cases indicate that political connections are prevalent and influential in Mauritius, questioning the linkage between political board members and the value of published accounting numbers.

Secondly, the Mauritius capital market is dominated by a non-indigenous ethnic group, Franco-Mauritians, who remain the economic elite (Carroll and Carroll, 2000). Hence, Mauritius presents an opportunity to bring forth another important aspect of capital markets and corporate governance; diversity on the board of directors. Board diversity is important in promoting good governance (Carter *et al.*, 2010). The guiding ethics behind board diversity is to promote governance and better monitoring by providing helpful insight, obtaining external resources, expertise, and exercising diligence (Simkins and Carter, 2003; Srinidhi *et al.*, 2011; Tee, 2019). Consequently, in theory, these traits enhance firm value and the value relevance of accounting information (Ntim, 2013). However, this is not always true when coupled with a nation's socio-economy disparity (Darga and Joomun, 2005; Mishra and Jhunjhunwala, 2013).

A distinctive feature of the Mauritius capital market is that it is dominated by white Franco-Mauritians (Mauritians of White-French descendants), who only constitute around two percent of the total population. The other ethnic group, Indo-Mauritians, does not dominate the capital market despite forming almost 68 percent of the population (Srebrnik, 2002; Bunwaree and Kasenally, 2005). This 'disparity' or 'mismatch' between the ethnic groups and Franco-Mauritians' dominance in the capital market presents interesting avenues for research in this area. This landscape is not unique to Mauritius, as other countries, such as Malaysia, experience a similar situation. However, the dominance of the non-majority Chinese-Malaysian is not as prevalent as Franco-Mauritians in Mauritius. Mauritius has not had a question regarding ethnicity in the national census since 1972; however, Indo-Mauritians consist of two-thirds of the total population (CIA World Factbook, 2021), and several researchers refer to the following statistics: the Indo-Mauritians 68% (Hindus 52% and Muslims 16%); Creoles Mauritians 28%; Sino-Mauritians 3% and Franco-Mauritian less than 2% of the population (Srebrnik, 2002; Bunwaree and Kasenally, 2005; Salverda, 2015). We opted for these two board ethnicity measures as they represent 'extremes' (Salverda, 2015) as one group (Franco-Mauritians) is dominant in the capital market (in this case, board participation). At the same time, Indo-Mauritians are a minority in the capital market, although they have the largest population. These differences present us with competing hypotheses to test.

We predict that white Franco-Mauritian will mitigate the negative impact of political connections on the value relevance of book value and earnings. The premise of our argument is simple. The white Franco-Mauritians has been a dominant player in the capital market, providing diverse expertise, know-how, and, more importantly, experience. Their presence on the board of directors provides these characteristics that could offer a monitoring role and increase earnings quality. The white Franco-Mauritian are not known to be active participants in the political scene in Mauritius. One would say that their dominance in the capital market presents a form of check and balance to Mauritius's politicians or political connections. Since white Franco-Mauritians are not active in politics, their survival in the capital market could signal their ability to tap into the external capital market and demonstrate the ability to sustain themselves without government assistance (Salverda, 2015).[2]

In contrast, we predict that political connections will negatively impact the relevance of book value and earnings for Indo-Mauritians. The existing literature supports this view. Although dominant in the political scene, Indo-Mauritians are less prominent in the capital market. They often use their presence in the capital market as a symbol, mainly for attracting funding or government grants (Salverda, 2015). For example, the presence of Malay directors in Malaysia during the early stages of independence was largely ceremonial and served as an indicator of exposing government servants to the capital market (Abdul Wahab *et al*., 2018).

Based on a sample of 541 firm-year observations of Mauritian listed firms (SEM) for 2001-2016, we find that both the book value and earnings are value relevant in the capital market. As predicted, we find the value relevance of book value is lower for politically connected firms. This finding is consistent with the argument that politically connected firms have lower earnings quality and create uncertainty in the market. Furthermore, the negative impact of political connections is compounded by the recent high-profile cases involving local politicians, as mentioned above.

The results confirm our predictions: the presence of Franco-Mauritian directors mitigates the negative impact of political connections on the value relevance of earnings. This suggests that Franco-Mauritian directors mitigate agency issues and monitor and perform checks and balances on political connections. In support of our arguments, we find that Indo-Mauritian directors increase the negative impact of political connections on value relevance. The results are unsurprising since Indo-Mauritians dominate the government as politicians and officers. After controlling the selection test and several additional analyses, the results remain qualitatively similar.

The findings of this study contribute to the literature on political connections, ethnicity, and value relevance in the following ways. First, the paper extends the ever-growing literature on political connections, especially in Africa. Given Mauritius's unique political, legal, and social backgrounds relative to other African countries, the findings of this study act as a catalyst for further political connection studies.

The results of this study present another view on how ethnic groups interplay with the premise of political connections. The institutional background of Mauritius allows us to examine the different dimensions of political connections in the capital market. Second, the study tackles ethnicity and provides an exciting outcome on how ethnic groups play their role in developing the capital market. Third, the findings of this study contribute to the understanding of how the various ethnic groups in a capital market play a role.

The paper is organized as follows. Section 2 summarizes the political and social background in Mauritius. Section 3 provides the rationale behind the hypotheses developed. Section 4 presents the methodology and sample selection. The results and robustness tests are discussed in Section 5, while section 6 discusses the additional analysis. Section 7 concludes the paper.

2. Institutional background

2.1. Political Economy in Mauritius

Since 1810, British governors and officials administered the island of Mauritius. In the 1960s, the negotiations for independence started, and elections were held in 1967.

Consequently, Mauritius became a fully-fledged democracy and a Commonwealth member on 12 March 1968. The independent state was then run by the Labour Party and two smaller parties: The Independent Forward Bloc and the Muslim Action Committee – two ethnic-based parties. Since 1979, the elections have resulted in coalition governments with the same political parties rotating from the government to the opposition. Therefore, community-based favoritism and nepotism remain a source of public frustration even though corruption is not customary per regional standards.[3]

The political structure in Mauritius was adapted from the British Empire and implemented after independence in 1968.[4] In line with its globalization strategy, since the 1980s, the government of Mauritius has taken the role of a business facilitator to create a positive business environment on the political, economic, and social levels. The aim is to nourish and expand the private sector. Furthermore, the government has controlling shares in numerous listed firms: Air Mauritius – the national airline; State Bank of Mauritius; and Mauritius Telecom – the telecommunication company. The government also invests in various corporations via its investment entity – the State Investment Corporation. The board of directors' positions are primarily allocated to senior government officials, with the chairperson nominated by the ruling government. The chairpersons are rotated once there is a change in government. The new ruling party has the authority to remove a chairperson nominated by the previous government and replace him/her with a new chairperson fitting the ideologies of the new ruling party.

However, Franco-Mauritians have retained major land ownership; over time, they have created family holdings to manage those lands (Salverda, 2013). The family holdings still exist and are majorly quoted on the SEM. The boards of directors of those listed firms are composed of directors drawn from the same small and tightly-knit white

Franco-Mauritian business community. The directors are dominant male directors appointed to numerous boards for decades (Mahadeo *et al.*, 2012).

Mauritius has no indigenous population but is known for its cultural diversity. As Mahadeo and Soobaroyen (2013) mentioned, Mauritius has a dual colonial past being both an ex-French and British colony, and therefore its population came mainly from European colonialism and immigration. Also, Brautigam (2009) argues that even though the population originates from the world's four corners – Europe, Africa, India, and China- it has retained close links with French and British traditions.

In 1835, Mauritius' geographical setting was dominated by sugar cane plantations showing early signs of a one-crop economy that relied on slave labor (Holmberg, 1962). However, after the abolition of slavery in the British Empire in 1834, the demand for sugar cane plantations' labor increased, especially with preferential prices being introduced by Britain on Mauritian sugar. The need for such labor led to the "Great Experiment" initiated by the British government. More than 450,000 laborers were expatriated from India to Mauritius, with the status of indentured laborers working in Mauritius' sugar cane fields. Most of today's Indo-Mauritians, of Hindu or Muslim faiths, are descendants of these indentured laborers, while a minority came freely as traders or educators (Chiriyankandath, 2009). Two-thirds of these Indo-Mauritians remained permanently on the island, while one-third returned to their home country or migrated to other British colonies (Aapravasi Ghat Trust Fund, 2015).

2.2. Social background and its impact on financial reporting

Indeed, while the Mauritian population is diverse, the largest firms' property and business ownership remain concentrated and traced back to the heritage left by colonization (Lange, 2003). The World Bank (2010) reports that white Franco-Mauritian families control between 5 and 7 large listed firms. These families, which benefited mainly from the sugarcane industry, consequently invested massively in other local industries. This can also be observed in the directors' composition: most of the directors are white Franco-Mauritian directors, while some minority directors come from the Creole community, the Indo-Mauritian community, and the Sino-Mauritian community. This highlights the discrepancy between the composition of the Mauritian population and the diversity of the boards of directors. While many directors appear to have been appointed for their knowledge, skills, and expertise, some directors are appointed due to connections to family and majority shareholders. Therefore, those family-dominated management structures have a definite impact on the boards of SEM-listed firms.

Furthermore, the majority shareholder usually appoints non-executive directors, which questions the independence of those nominated. This again creates an interesting setting to probe the influence of board diversity on published accounting information's value relevance.

3. Hypotheses development

3.1. Value relevance in the Stock Exchange of Mauritius (SEM)

The accounting literature defines value relevance as the association between company values and accounting numbers (Ohlson, 1995; Francis and Schipper, 1999; Barth *et al.*, 2001; Kothari, 2001; Beisland *et al.*, 2010). Value relevance research investigates the usefulness of reported numbers to accounting information users and current and potential investors.

Ball and Brown (1968), Beaver (1968), and Beaver *et al.* (1980) explore a plausible association between accounting variables and share prices. Beaver (2002) explains that value relevance research examines how accounting variables relate to a dependent variable based on security price. Negakis (2005) believes that this research aims to assess how helpful accounting information is for users, like investors.

Indeed, investors widely use financial reports to assess the market value of firms for investment decisions (Adedeji and Kajola, 1999). Consequently, it can be seen that the main objective of financial reporting is to provide equity valuation information to potential investors. This objective is empirically analyzed by value relevance research. This justifies the study of the value relevance of accounting information in Mauritius; subsequently leading to the first hypothesis:

H_1: Accounting information produced by SEM-listed firms is value relevant.

Badu and Appiah (2018) studied the value relevance of accounting information of public firms using Ohlson's price model (1995) applied on the Ghana Stock Exchange for 2005-2014 using a sample of 224 firm-year observations. They find a significant and positive relationship between earnings and book values of equity to stock prices. Furthermore, the same conclusion is reached by Diftar and Elkalla (2019), who examined the value relevance across the different countries of North Africa and the Middle East from 2007 to 2016.

3.2. Political connections and value relevance

According to Faccio (2006), a firm is politically connected if one of the firm's largest shareholders or senior executives is a member of parliament (MP), a minister, or the head of government, or closely related to a top official. A large shareholder is defined as anyone who controls a minimum of 10% of the shareholders' votes directly or indirectly (Faccio 2006). Faccio (2006) also includes the political connections through a relative, whereby one relative of a head of state or minister is a large shareholder or a management executive. Firms are also classified as politically connected if: (i) A head of state or one of his/her relatives was also a top executive or MP during the study period; (ii) A current government minister or MP was a senior executive or significant shareholder of a company in the past; (iii) A top executive or substantial shareholder is a politician of another country; (iv) A substantial shareholder or senior executive is known to be associated with a political party whether the ruling parties or opposition parties (Civilize *et al.*, 2015). Other researchers classified state ownership as political ties with firms and special shares held by the government (Jones *et al.*, 1999; Bushman *et al.*, 2004; Nee *et al.*, 2007; Hanousek *et al.*, 2007).

There are many ways for firms to obtain benefits from political connections. Such connections can lower tax burdens (Adhikari *et al.*, 2006), increase the preferential treatment to financing (Dinc, 2005) and political bailouts in the event of financial distress (Faccio *et al.*, 2006), and result in a higher allocation of government investment during a financial crisis (Johnson and Mitton 2003). Chaney *et al.* (2011) suggest that political connections should increase earnings quality due to heightening media scrutiny, leading to increased firm monitoring. With increased scrutiny, better access to resources, and enhanced monitoring due to the public or state interest, these connected firms should have higher earnings quality relative to non-connected firms.

Batta *et al.* (2014) investigate whether a country's degree of expropriation risk could amount to a positive rapport between political connections and earnings quality. Batta *et al.* (2014) argue that countries with high expropriation risks will lower their quality of earnings, but not for politically connected firms since the risk is lower due to connections. Even though Mauritius has a low ranking in terms of expropriation risk, in 2014, the government took over the BAI Group, a leading conglomerate in Mauritius. The group's assets were seized and sold to local firms, while some were retained under the government's control. Moreover, Fung *et al.* (2015) similarly claim that the duration of a connection could suggest that the connected firm may self-sustain into the future and thus could increase earnings. Political connections create some form of certainty, especially in dealing with resources. The above suggests a positive affiliation between political connection and earnings quality; hence a positive affiliation between political connection and the value relevance of accounting information is a component of earnings quality. Conventional wisdom suggests that political connections or relationship-based economies provide an advantage to the connected firms to capital (Fisman, 2001) and information from the government on policy changes. Such advantages would improve the market value of connected firms relative to unconnected firms.

A classic example was from the work of Johnson and Mitton (2003) when they examined the impact of capital control on connected firms in Malaysia during the Asian Financial Crisis of 1998-1999. They uncovered that capital control restricted the outflow of funds and assisted or propped the connected firms during the crisis. Although the capital control period indicates that the connected firms were operating inefficiently before the crisis, such policy (e.g., restriction of the flow of funds) increases the value of connected firms.

Alternatively, existing literature suggests political connections could harm the firm's value and earnings quality. Political connections create agency costs between agent and principal and minority and majority shareholders (Faccio, 2006). The agency costs are owed to the high rent-seeking activities by the directors with political connections and the low level of transparency (Ball *et al.*, 2003). The high agency cost increases information asymmetry and creates uncertainty, decreasing earnings quality. Chaney *et al.* (2011) offer three reasons to contribute to a negative relationship between political connections and the quality of earnings. First, insiders of connected firms could hide, obscure, or delay reporting the advantages received to deceive investors. Second, Chaney *et al.* (2011) argue that the connected firms do not worry about the quality of accounting information as politicians shield them; and the third argument is that firms with poor earnings quality are more inclined to establish political connections. Therefore, the political connection appears to have an ambiguous impact on investors, and thus, this leads to the following research hypothesis:

H_2: Political connections weakens the value relevance of book value and earnings

The evidence examining the relationship between political connections and earnings quality is mixed. Chen *et al.* (2010) investigate the relationship between analyst forecast accuracy and political connections and find a negative relationship. They argue that uncertainty in the revenue-generation process of connected firms is highly questionable. Gul (2006) investigates the relationship between audit fees and political influences and finds a positive relationship. Gul argues that auditors perceived connected firms as risky due to the high agency costs. Faccio (2006) shows no significant price effect when a politician is appointed to corporate boards, yet the share price increases when an executive enters politics. On the same line, many authors establish that earnings quality is systematically lower for firms with political connections (Chaney *et al.*, 2011; Riahi-Belkaoui, 2004), and Leuz and Oberholzer-Gee (2006) find a reduction of foreign financing in politically-connected firms. Fisman (2001) shows that investors reacted to every rumor about the health of President Suharto. Thus, the share returns of politically connected Indonesian firms are noticeably lower than those of unconnected firms. The same is confirmed by Bertrand *et al.* (2004); Fan *et al.* (2007); Li *et al.* (2008); and Civilize *et al.* (2015) in the French, Chinese, and Thai contexts, respectively.

3.3. Political connections, board ethnicity, and value relevance

The agency theory suggests that board diversity increases the independence of the board as the differences in gender, ethnicity, and background trigger additional questioning of executive's decisions (Arfken *et al.*, 2004; Johnston and Malina, 2008; Carter *et al.*, 2010; Lincoln and Adedoyin, 2012; Abdullah, 2013; Triana *et al.*, 2014). As the human capital theory mentions, board diversity brings increased creativity and innovation, new ideas and perspectives, and new skills and knowledge, which will help decision-making (DiStefano and Maznevski, 2000; Baranchuk and Dybvig, 2009; Luckerath-Rovers, 2013). Board diversity can bring the company closer to its stakeholders and create a more general responsibility towards society (Van Der Walt and Ingley, 2003).

Consequently, several interdisciplinary theories strongly indicate a link between a firm financial performance and board diversity. Human capital and resource dependence theories suggest a positive relationship between firm performance and board diversity (Carter *et al.*, 2010). Yet, the agency theory advises that the nature of the relationship might not be explicit even though proper management monitoring may drive higher firm value (Ntim, 2013).

The appointments of directors based on ethnic grounds could be for several reasons. Resource dependency theory suggests that such appointments are based on human and social capital needs. These appointments are usually based on special skills only obtained by certain ethnic groups (human capital) or the needs of firms to seek economies of scale via networking (social capital). Many studies state that the board of directors remains one of the utmost crucial subsets within an organization (Lipton and Lorsch, 1992; Sonnenfeld, 2002; Bart and McQueen, 2013) as it performs many strategic functions within the organization (Bilimoria and Piderit, 1994; Lincoln and Adedoyin, 2012; Dale-Olsen *et al.*, 2013; Ntim, 2013). In addition, Agarwal and Knoeber (2001) argue that firms acquire different advantages and resources when they appoint ethnic minority directors, and boards with several dealings with the government or face government intervention and regulation are more likely to appoint the same directors.

The studies demonstrate that ethnic diversity enhances the corporate governance element of board independence, monitoring executives' decision-making, and acquiring resources, consequently improving the firm's value (Ntim, 2013). Furthermore, ethnic directors provide unique information to the board, which provides better information to the executives and improves decision-making (Abdullah, 2013).

Oppositely, Goodstein *et al.* (1994) explored board diversity's impact on decisions involving strategic changes, and they concluded that homogenous boards tend to initiate strategic changes more often than diverse boards. This implies that diverse boards might negatively impact firm valuation. Several researchers explain that directors from ethnic minorities might be chosen by tokenism; to tick a box imposed by the government (Hillman *et al.*, 2007; Abdullah, 2013; Ntim, 2013). Finally, a diverse board may increase conflicts between board members as they bring their interests and loyalties to the board (Roberson and Park, 2007; Wellage and Locke, 2013), preventing board cohesion (Goodstein *et al.*, 1994; Lincoln and Adedoyin, 2012).

Preceding studies have indicated that political affairs may impact board composition (Agarwal and Knoeber, 2001; Fan *et al.*, 2007; Chen *et al.*, 2010), as directors with political connections bring several advantages. Agarwal and Knoeber (2001) suggest that outside directors who have political connections can assist the firm in navigating political affairs by using their abilities to anticipate or influence government actions. These abilities can come from their previous involvement in government or political parties and their experience with legal proceedings against the government. Domadenik *et al.* (2016) mention that a government might use its power illegitimately to appoint people without adequate competencies to boards of state-owned firms as long as they belong to the political network. The appointed directors are positioned as a special purpose vehicle to extract rent or are being rewarded for previous political engagements.

From an accounting point of view, diverse boards, especially ethnically diverse boards, are expected to lead to better performance and higher earnings quality through enhanced corporate governance and accountability (Srinidhi *et al.*, 2011; Tee, 2019). Furthermore, Kim *et al.* (2013) studied the effect of boards with diverse political ideologies on firm performance. They concluded that boards with political diversity are linked with higher firm performance (Liang *et al.*, 2021). While the literature in this field is scarce, it might apply in Mauritius. Indeed, political connection measures the relationship between firms and political parties. However, in Mauritius, adherence to political parties or simply maintaining a relationship with a specific party is closely related to the ethnic group to which the person belongs.

We argue that board ethnicity, our proxy for board diversity, would moderate the negative impact of political connections on the value relevance of earnings and book value. The premise of the moderating variable is simple, and one would expect the positive impact of board diversity would mitigate the negative relationship between political connections and the value relevance of earnings and book value.

However, the institutional background in Mauritius would provide a different story. Our study focuses on two ethnic groups: Franco-Mauritians, primarily white and descended from French and British colonizers, and Indo-Mauritians. They originated from India and reached Mauritius as indentured laborers, merchants, traders, and high-profile teachers and officers under British rule. The Franco-Mauritians group, representing a minority ethnic group in Mauritius, dominates the local capital market. However, despite having massive control in the capital market, they are hardly present as officers or local representatives in the government. We expect that the negative impact of political connections on the value relevance of earnings and book value is weakened by the presence of Franco-Mauritian directors. This scenario presents a 'check and balances' to the government's influence in the capital market. In addition, their presence in the capital market signals their ability to tap into the external market. Based on the above, we predict the following hypothesis:

H_3: The negative impact of political connections on value relevance will be weakened by Franco-Mauritian directors

The appointment of Indo-Mauritian directors who dominate the political scene could be seen as ceremonial rather than as playing an active role in monitoring. In contrast, we expect that the presence of Indo-Mauritian directors will not mitigate the negative impact of political connections on the value relevance of earnings and book value. Carroll and Carroll (2000) highlight that the government deliberately expanded public employment in the 1970s by hiring unskilled and unemployed, mostly Indo-Mauritians. This has escalated to ministries and parastatal organizations (Carroll and Carroll, 2000). In anecdotal evidence supplied by Carroll and Carroll (2000), employment in these institutions is presented as a reward to supporters and clients. Hence, in line with prior theories and studies, the following is hypothesized:

H_4: The negative impact of political connections on value relevance will be heightened by Indo-Mauritian directors

Several studies have examined this relationship in a similar setting. Studies have documented evidence in a similar setting. Abdul Wahab *et al.* (2015) investigate the relationship between culture and analyst forecast accuracy in Malaysia. According to them, Bumiputera directors, the largest ethnic group in Malaysia but not as prominent in the capital market, have lower governance levels, less disclosure capacity, and more inherent risk and inefficiency due to preferential treatment. This will lead to an increase in agency costs. Based on this premise, they argue that the increased agency cost will increase information asymmetry, impacting analysts' forecasts. Abdul Wahab *et al.* (2015) find results that support their arguments.

4. Methodology

4.1. Sample and Data

The initial population of the study is the firms listed on the SEM from 2001 to 2016. The number of firms listed during the sample period is 43, resulting in 688 firm-year observations. We exclude financial firms as they are subject to different accounting regulations and risk structures. We exclude the three (3) financial firms, which result in 48 firm-year observations. Due to missing financial data, we exclude 99 firm-year observations. Hence, the final sample for this study is 541 firm-year observations, as shown in Table 1.

(Table 1 here)

Financial data has been collected using the Thomson Reuters DataStream database, Bureau van Dijk's Osiris database, and mostly the listed firms' annual reports. The stock prices were gathered from reports published by the Stock Exchange of Mauritius. Political connection data has been derived based on the directory of Chief of State and Cabinet members of Foreign Countries, compiled by the Central Intelligence Agency of the United States of America. Finally, data used to identify board diversity was gathered primarily using the firms' annual reports and company websites.

The value relevance of accounting information is indicated by a statistical association between stock prices or stock returns and a set of accounting information

(Beaver, 2002; Liu and Liu, 2007). Indeed, value relevance research intends to provide empirical data displaying the degree to which accounting numbers shape equity valuation and subsequently aims to assess the usefulness of these numbers to investors' decision-making.

Therefore, value relevance is usually tested using regression analysis: price regression or return (price change) regression. Early research in value relevance started with price regression, examining the relationship between the book value and the market value of equity. It is usually denoted as follows:

$$P^{it} = \beta_o + \beta_1 BV^{it} + \varepsilon^{it}$$

Where:

P^{it} = Market value or price per share of firm *i* at time *t*

BV^{it} = Book value of total equity or Book Value per share of equity of firm *i* at time *t*

Furthermore, Ohlson (1995) shows that firm's value is a linear function of its book value, earnings and other relevant information (Collins *et al.*, 1997; Kim and Kross, 2005). Hence, the formal regression of this study is as per the following equation:

$$P^{it} = \beta_o + \beta_1 EPS^{it} + \beta_2 BV^{it} + \varepsilon^{it}$$

EPS^{it} = Earnings per share of firm *i* for the period *t*

Glasscock et al. (2021) shed light on the ongoing debate for proper scaling in empirical accounting research. They believe alternative specifications, other than scaling, may be more effective in addressing heteroscedasticity issues. Lubberink and Willett (2021) and Boonlert-U-Thai and Schaberl (2022) argue that log-linear regression models are appropriately suited and provide valid estimates of the relationship between price and accounting data. Therefore, this study uses a log-linear model of Ohlson's (1995) model to estimate the value relevance of accounting information:

$$LnP^{it} = \beta_o + \beta_1 LnEPS^{it} + \beta_2 LnBV^{it} + \varepsilon^{it}$$

Where:

LnP^{it} = Log of market value or price per share of firm *i* at time *t*

$LnEPS^{it}$ = Log of Earnings per share of firm *i* for the period *t*

LnBV^{it} = Log of Book value of total equity or Book Value per share of equity of firm *i* at time *t.*

In line with the log-linear regression models used in Boonlert-U-Thai and Schaberl (2022), we use the following final regressions:

$$LnP_{it} = \beta_0 + \beta_1 LnEPS_{it} + \beta_2 LnBV_{it} + \beta_3 POLCON_{it} + \beta_4 BODFRANCO_{it} + \beta_5 BODINDO_{it} + \beta_6 LNSIZE_{it} + \beta_7 LEV_{it} + \beta_8\, MANOWN_{it} + \beta_9\, INSTOWN_{it} + \beta_{10}\, LNAGE_{it} + \beta_{11} CG2004_{it} + \beta_{12} INDUSTRY_{it} + \beta_{13} POL*EPS_{it} + \beta_{14} POL*BV_{it} + \varepsilon_{it} \qquad \textit{(Equation 1)}$$

$$LnP_{it} = \beta_0 + \beta_1 LnEPS_{it} + \beta_2 LnBV_{it} + \beta_3 POLCON_{it} + \beta_4 BODFRANCO_{it} + \beta_5 BODINDO_{it} + \beta_6 BODFRANCO*LnEPS_{it} + \beta_7 BODFRANCO*LnBV_{it} + \beta_8 BODINDO*LnEPS_{it} + \beta_9 BODINDO*LnBV_{it} + \beta_{10} POLCON*LnEPS_{it} + \beta_{11} POLCON*LnBV_{it} + \beta_{12} POLCON*LnEPS_{it} + \beta_{13} POLCON*LnBV_{it} + \beta_{14} POLCON*BODFRANCO_{it} + \beta_{15} POLCON*BODINDO_{it} + \beta_{16} POLCON*BODFRANCO*LnEPS_{it} + \beta_{17} POLCON*BODFRANCO*LnBV_{it} + \beta_{18} POLCON*BODINDO*LnEPS_{it} + \beta_{19} POLCON*BODINDO*LnBV_{it} + \textit{control variables} + \varepsilon_{it}$$

(Equation 2)

4.2. Independent variables

The political connection, $POLCON_{it}$, will be measured using Faccio's (2006) definition of politically connected firms and its methodology. In this study, the political connection variable takes the value of 1 if the firm is considered a politically connected firm; otherwise, a value of zero is granted. The methodology for identifying a politically connected firm is presented in Appendix B.

Board ethnic diversity has been measured based mainly on the ethnicity of the Mauritian population. The directors have been classified as Franco-Mauritian directors ($BODFRANCO_{it}$) and Indo-Mauritian directors ($BODINDO_{it}$). Franco-Mauritian directors are Mauritian whites, mostly descendants of French and British colonizers. In contrast, Indo-Mauritian directors originated from India and reached Mauritius as indentured laborers, merchants, and traders, and some as high-profile teachers and officers under British rule.

4.3. Control Variables

Following recommendations from the existing literature, control variables are exploited to manage the effect of firm-related variables: Size of the firm ($LNSIZE_{it}$), leverage of the firm (LEV_{it}), direct managerial ownership of the firm ($MANOWN_{it}$), institutional ownership of firm ($INSTOWN_{it}$), and lastly firm's age since incorporation ($LNAGE_{it}$). The firm's size is operationalized by the natural log transformation of total assets of firm *i* at time *t* in millions of Mauritian Rupees, while leverage is operationalized by the natural logarithm of total debt divided by total assets. Direct managerial and institutional ownership are quantified by the direct managerial ownership percentage of firm *i* and the ownership percentage by the top 5 direct institutional shareholders of firm *i*. Finally, the age of firms are calculated by the natural logarithm of the number of years since incorporation.

Industry effects are also controlled by the industry dummies, categorized into eight industries based on Mauritius's Official Market, the Stock Exchange.[5] Following the context of Mauritius, a dummy variable representing the year 2004 (*CG2004*) has been included to capture the effect of the enactment and implementation of the Code of Corporate Governance. Please refer to Appendix A for the variables' definitions.

(Appendix A here)

5. Results

5.1. Descriptive Statistics

Table 2 shows the descriptive statistics relating to this research. Panel A shows the descriptive statistics for the different variables included in Ohlson's value relevance model: the share price ($PRICE_{it}$), the Earnings per share (EPS_{it}), and the Book Value of shares in Mauritian Rupees of SEM-listed firms for the period 2001 – 2016. Panel B of Table 2 reports the descriptive statistics of the independent variables: Political connection and ethnicity. Political connection ($POLCON_{it}$) takes the value of 1 if the firm is politically connected; therefore, 36.6% of the sample have some political connections per the descriptive statistics. Appendix B explains our methodology for identifying the politically connected firms in Mauritius.

(Appendix B here)

Board diversity shows that, on average, 68% of directors are white, while 32% are non-white. Ethnicity is further analyzed by the percentage of Franco-Mauritian directors

($BODFRANCO_{it}$) and Indo-Mauritian directors ($BODINDO_{it}$). The average percentages of $BODFRANCO_{it}$ and $BODINDO_{it}$ are 60.71% and 7.4%, respectively. Boards of directors are mostly composed of Franco-Mauritian directors. This is explained by Mauritius being an ex-British and ex-French colony.

(Table 2 here)

*5.2. **Correlations***

Table 3 presents the Pearson and Spearman correlations for the variables included in Ohlson's model of value relevance, the experimental variables applicable to the context of Mauritius, and the control variables. They both yield similar results; however, the results from the Spearman correlations are more significant. The significant correlations support the hypotheses that political connections and the ethnic diversity of the board of directors influence the dependent variable. Both Pearson and Spearman correlations indicate that it will be relevant to test the hypotheses on the value relevance of accounting information.

(Table 3 here)

5.3. Univariate

5.3.1. Political connections

Table 4 exhibits the results from the univariate analysis for the test variables relating to politically connected and politically unconnected firms. Panel A of Table 4 shows that the share price varies for both groups; politically connected firms demonstrate higher share prices ($PRICE_{it}$) than non-politically connected firms (Rs 67.121 as opposed to Rs 58.589). The same is observed for the log variable $LnPRICE_{it}$. The earnings per share

(EPS_{it}) and the book value of equity (BV_{it}) and their associated log variables are higher for politically connected firms than politically unconnected firms, which suggests that the value relevance of accounting information is potentially different for both groups. Furthermore, politically connected firms are sizeable, more leveraged, and have higher institutional ownership but less managerial ownership, per panel C of Table 4.

(Table 4 here)

5.3.2. Ethnicity

We extend the univariate analysis by separating the sample based on the median values of the ethnic groups: $BODFRANCO_{it}$ and $BODINDO_{it,}$ as tabulated in Tables 5 and 6, respectively. Firms that have more than the median value of $BODFRANCO_{it}$ recorded significantly higher $LnPRICE_{it}$, higher earnings per share ($LnEPS_{it}$) *and* book value ($LnBV_{it}$), and fewer firms considered as politically connected ($POLCON_{it}$). Not surprisingly, firms above the median value of $BODFRANCO_{it}$ have significantly fewer $BODINDO_{it}$ directors. Furthermore, these firms are significantly smaller, have higher managerial ownership ($MANOWN_{it}$, Mann-Whitney only), and are significantly older than firms with less than the median value of *BODFRANCO* directors.

(Table 5 here)

We perform a similar test for $BODINDO_{it}$. We find no significant differences between the two groups of firms in *LnPRICE*, *LnEPS*, and *LnBV*. As expected, firms with more than the median value of $BODINDO_{it}$ are likely to be connected. Further, firms with a higher $BODINDO_{it}$ have many significantly lower $BODFRANCO_{it}$ directors. Panel C of Table 6 presents the control variables' mean and median differences. Firms with more than the median value of $BODINDO_{it}$ are significantly larger, have a significantly lower level of managerial ownership, and are younger firms.

These univariate analyses provide insight into the differences in firm characteristics for firms dominated by $BODFRANCO_{it}$ or $BODINDO_{it}$. A significant finding is that firms that $BODINDO_{it}$ dominates are more politically connected. In addition, the univariate analysis supports our argument that firms with a high level of $BODINDO_{it}$ directors are also politically connected.

(Table 6 here)

5.4. *Multivariate*

Table 7 presents the main regressions. Column 1 of Table 7 presents the baseline regression for Ohlson's model, and we find that $LnEPS_{it}$ and $LnBV_{it}$ are positively and significantly associated with $LnPRICE_{it}$, at the one percent level. Column 2 of Table 7 tabulates the regression to include the control variables. We find a positive and significant relationship between $POLCON_{it}$ and $PRICE_{it}$ (β = 0.130, $t=1.976, p<0.1$), suggesting that political connections positively affect share prices. We find a negative and significant relationship between $BODFRANCO_{it}$ and $PRICE_{it}$ (β = 0.309, $t=-4.266, p<0.01$) and no significant relationship for $BODINDO_{it}$. All the control variables are significantly associated with $PRICE_{it}$, except $LNSIZE_{it}$ and $LEV_{it.}$

Column 3 of Table 7 presents the regression to test the value relevance of political connections ($POLCON_{it}$). We find the coefficient for $POLCON*BV_{it}$ is negative and significant (β = -0.180, $t = -2.688, p<0.05$), and this signals that political connections reduce the value relevance of book value (BV). However, we could not find any evidence for $POLCON*EPS_{it}$. All control variables remain similar to column 2 of Table 7. The results overall support the notion that political connections decrease earnings quality. In addition, the results are similar to other political connection studies (please see Gul, 2006; Fung *et al*., 2015).

(Table 7 here)

5.5. Testing for endogeneity

Political connections have been proven to be endogenous by several studies (Abdul Wahab *et al*., 2011; Domadenik *et al*., 2016). Maddala (1991) argues that selection bias happens once observations are sorted into discrete groups non-randomly, leaving way for potential coefficient bias in ordinary least squares procedures. Indeed, political connection scores are not allocated randomly but based on the firm's relationship with the government over time.

A two-step procedure is suggested: the first stage involves identifying the endogenous independent variable and addressing the selection model by using a probit regression to compute the inverse Mills ratio ($IMILLS_{it}$), which will be, in the second phase, added to the main regression. The following first-stage model is applied to determine the inverse Mills ratio ($IMILLS_{it}$):

$$POLCON_{it} = \beta_0 + \beta_1 BIG4_{it} + \beta_2 LnEPS_{it} + \beta_3 LnBV_{it} + \beta_4 BODFRANCO_{it} + \beta_5 BODINDO_{it} + \beta_6 LNSIZE_{it} + \beta_7 LEV_{it} + \beta_8 MANOWN_{it} + \beta_9 INSTOWN_{it} + \beta_{10} LNAGE_{it} + \beta_{11} CG2004_{it} + \beta_{12} INDUSTRY_{it} \quad \text{(Equation 5)}$$

This regression equation differs slightly from the main regression equation as an exclusion restriction – *BIG4* has been added to the first stage of probit regression. The first added variable, *BIG4* is a dummy variable that holds the value of 1 if the auditor is one of the Big 4 international auditing firms; 0 otherwise. Many studies have incorporated the relationship between the choice of auditors and political connections. Guedhami *et al.* (2014) investigate the relationship between political connections and auditor choice and find that connected firms are more likely to appoint a Big 4 auditor, as the insiders in these firms are eager to improve accounting transparency and convince outside investors that they are not misappropriating resources. Liu *et al.* (2017) examined the relationship between political connection and auditor's choice in Chinese firms and found that politically connected firms hire auditors of lower quality. Cheng *et al.* (2015) reached the same conclusion.

However, several recent studies have found that political connections adversely determine the likelihood of engaging quality auditors. Cheng *et al.* (2015), Habib *et al.* (2017), and Liu *et al.* (2017) argue that the likelihood of engaging quality auditors by politically connected firms is driven by managerial incentives to distort numbers, expropriate assets, and mask related-party transactions. These studies find results consistent with their arguments. Therefore, it is argued that a relationship between political connections and the choice of auditors exists.

Column 1 of Table 8 presents the probit regression when we include $BIG4_{it}$ as a determinant for *POLCON*. The coefficient for $BIG4_{it}$ and the $IMILLS_{it}$ variable in columns 2 and 3 of Table 8 are insignificant, suggesting that the regressions do not suffer from selection bias. After controlling for selection bias, the results remain qualitatively similar to Table 7.

(Table 8 here)

5.6. Political connections, board diversity and value relevance

Table 9 presents the regression results when we test the impact of the ethnic groups on the value relevance of political connections. Column 2 of Table 9 shows the preliminary test for the value relevance for $BODFRANCO_{it}$ and $BODINDO_{it}$. We find $BODFRANCO_{it}$ and $BODINDO_{it}$ reduce the value relevance of EPS_{it} on $PRICE_{it}$. However, we find contrasting results for BV_{it}.

Column 3 of Table 9 tabulates the regression for $BODFRANCO_{it}$. The coefficient for $POLCON*BODFRANCO*EPS_{it}$ is positive and significant (β=0.639, $t=3.434$, $p<0.01$). This provides evidence that $BODFRANCO_{it}$ mitigates the negative impact of political connections on the value relevance of EPS_{it}. Column 4 of Table 9 presents the result for $BODINDO_{it}$. The interaction term $POLCON*BODINDO*EPS_{it}$ is negative and significant (β=-1.251, t=-3.320, $p<0.01$). The results support our arguments that $BODFRANCO_{it}$ directors are experienced and probably more trustworthy to various stakeholders and mitigate the negative perception of political connections.

Furthermore, we find that the negative impact of political connections on value relevance worsens with firms with a high level of $BODINDO_{it}$ directors. The results are not surprising since $BODINDO_{it}$ directors are often linked to the government, and their presence on the board could be largely ceremonial or an indicator of trying to tap into government grants. This indicator is usually perceived negatively since it signals the firm's inability to tap into the external market.

(Table 9 here)

6. Additional Analyses

We extend the test by separating the sample based on the median values of the ethnic groups; $BODFRANCO_{it}$ and $BODINDO_{it}$. The premise of our test is to investigate the collective impact of ethnic groups in mitigating the value relevance of political connections. The directors from various ethnic groups are expected to interact on the board. We argue that firms with Franco-Mauritian directors' domination will weaken the higher negative impact caused by the presence of Indo-Mauritian directors. In contrast, we argue that the positive impact of Franco-Mauritian directors will be weakened in firms that Indo-Mauritians dominate. To investigate these conjectures, we re-run the regressions presented in Table 9 by separating the samples according to the median values of $BODFRANCO_{it}$ and $BODINDO_{it}$, with minor adjustments. Table 10 presents the results for the impact of $BODFRANCO_{it}$ and $BODINDO_{it}$ directors, respectively.

Columns 1 and 2 present the regressions when we separate the sample based on the median values of $BODFRANCO_{it}$. The results are similar to those tabulated in Tables 7 and 9. We find the interactions $POLCON*BODINDO*LnEPS_{it}$ and $POLCON*BODINDO*LnBV_{it}$ are not significant.

Columns 3 and 4 of Table 10 tabulate the regression when we split the sample based on the median value of $BODINDO_{it}$. We find that the results for the interactions $POLCON*BODFRANCO*EPS_{it}$ and $POLCON*BODFRANCO*BV_{it}$ are not significant, suggesting the impact of the presence of $BODINDO_{it}$ is relatively minimal or non-existence.

(Table 10 here)

6.1. Elections

During the sample period, Mauritius experienced three elections in 2005, 2010, and 2014. We assigned dummy variables to control for each of the elections. The untabulated results find that the election years are significantly related to *PRICE*. The main test variables' results remain qualitatively similar to Table 7.

7. Conclusion

This study has two central objectives. The first and baseline objective is establishing the relationship between Mauritius's political connections and value relevance. We are motivated to conduct such an examination as there is limited evidence of Mauritius's political connections. The political landscape in Mauritius is very interesting and is seen as a country dominated by two prominent families. Based on our analysis of 541 firm-year observations for 2001-2016 and the operationalization of political connections based on Faccio's (2006) seminal work, we find that political connections mitigate the value relevance of earnings and book value. The results are consistent with studies (e.g. Chen *et al*., 2010; Chaney *et al*., 2011) that examine the impact of political connections on earnings quality. Further, the results remain similar after we perform a selection test.

The second and primary research objective is to examine whether board ethnicity mitigates the negative impact of political connections on value relevance. Mauritius is blessed with diverse ethnic groups working collectively since gaining independence. We conjecture that the ethnic groups in Mauritius represent the political landscape. We chose two contrasting ethnic groups: Franco-Mauritians, who dominate the capital market but are a minority in the population, and Indo-Mauritians, who control the government and are a majority.

We find contrasting results based on the two ethnic groups, Franco-Mauritians, and Indo-Mauritians. We find firms that have Franco-Mauritians as directors mitigate the negative impact of political connections on the value relevance of earnings and book value. In contrast, we find that Indo-Mauritian directors worsen the negative impact of political connections on value relevance. The contrasting findings highlight the unique institutional settings in Mauritius. The results add to the extant literature, especially on the role of ethnicity in the involvement of the capital market via political connections. The findings of this study should act as a catalyst for further research on political connections in this region, which is often deemed 'sensitive' for accounting researchers

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[1] The Court found him not guilty in November 2019 as the pieces of evidence presented by the prosecuting parties were vague and uncertain and therefore failed the test of certainty required under the provisions of the Law (Police V N. Ramgoolam, 2019).

[2] Mauritius had a Franco-Mauritian Prime Minister; Paul Berenger, between 2003-2005.

[3] Mauritius has an anti-corruption score of 73.1 out of 100 in the Mo Ibrahim Index in 2020 and ranked second out of 54 in Africa (Mo Ibrahim Foundation, 2021

[4] It is a customized version of the Westminster majoritarian model whereby the constitution appoints for a Head of State or President, Vice–President, Prime Minister or Head of Government, Deputy Prime Minister(s), Members of Parliament, Parliamentary opposition with an appointed Leader of the opposition and many parliamentary secretaries.

[5] The industries are Banks and Insurance; Commerce; Manufacturing; Investments; Leisure and Hotels; Property Development; Sugar Industry and Transport.

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APPENDIX A

Operational Definitions

Variable	Operational Definition	Source(s)
Panel A: Dependent Variable		
LnPRICE	Log transformation of Share Price of firm *i* for the period *t* in Mauritian Rupees.	Stock Exchange of Mauritius
Panel B: Independent Variables		
LnEPS	Natural log transformation of Earnings per share of firm *i* for the period *t* in Mauritian Rupees.	DataStream, BvD's Osiris, annual reports
LnBV	Natural log transformation of Book value per share of equity of firm *i* at time *t* in Mauritian Rupees.	DataStream, BvD's Osiris, annual reports
POLCON	Political connection of firm *i* at time *t*.	
BODFRANCO	Franco-Mauritian directors on the board of directors of firm *i*.	Annual reports
BODINDO	Indo-Mauritian directors from Indian descent on the board of directors of firm *i*.	Annual reports
Panel C: Control Variables		
SIZE	Total Assets of firm *i* at time *t* in millions of Mauritian Rupees.	DataStream, BvD's Osiris, annual reports
LNSIZE	Natural log transformation of Total Assets of firm *i* at time *t* in millions of Mauritian Rupees.	DataStream, BvD's Osiris, annual reports
LEV	Natural log transformation of Total Debt divided by Total Assets.	DataStream, BvD's Osiris, annual reports
MANOWN	Percentage of direct managerial ownership of firm *i*.	DataStream, BvD's Osiris, annual reports
INSTOWN	Percentage ownership by the top five direct institutional shareholders of firm *i*.	DataStream, BvD's Osiris, annual reports
AGE	Natural log transformation of the sum of years since incorporation	Annual reports
Panel D: Exclusion Restriction		
BIG4	An indicator variable that takes the value of 1 if the firm engaged an international Big 4 auditor	Annual reports

APPENDIX B

Politically connected firms

Politically connected firms were identified using Faccio (2006) 's definition of politically connected firms and/or significant government ownership in the firm. Therefore, politically connected firms satisfy any of the following:

(a) Had Member of Parliaments (MPs) on the board of directors,
(b) Had senior executives closely related to a MP or government official,
(c) Had significant ownership by government or government-linked organizations.

The data was collected through:

(a) Connections identified by linking the biodata of MPs and Government officials from the government websites and the biodata of senior executives in annual reports,
(b) Percentage of ownership of government and government-related entities in annual report and companies' websites
(c) Review of newspapers, government publications and firms' publications to established connections
(d) Review of biodata of board members in annual reports.

Due to the sensitive nature of political connections in Mauritius and the current political turmoil in the country, the names of the firms are not disclosed:

Firm A	1. A board member was the lawyer of one of the Prime ministers of Mauritius. The connection was identified through the obituary of this person as he passed away in 2013. 2. A board member was the brother of an MP: The connection was established through the biodata of the MP on the government website and the biodata of the director. 3. A board member was the sister-in-law of the Minister of Education and MP, she was the CEO of a state-owned organization and director on several government boards. This connection was established through the newspapers, the biodata of the Minister on the government website and the websites of the different organizations, of which she is a director. 4. Two government entities were also considered as major shareholders for the period 2009 – 2016. Connections identified in the annual reports.

Table 1: Sample Selection

Description	Sample Size
Firm-year Observations 2001-2016[a]	688
Less Observations from Financial Companies	(48)
	640
Less Observations with missing financial data	(99)
Firm-year Observations for the final sample	541

[a] The sample was developed starting with all audited firms listed on the Stock Exchange of Mauritius during the period. During the 2001-2016 period of this study, there were 43 firms listed on the main market of the Stock Exchange of Mauritius.

Table 2: Descriptive Statistics

	Mean	Median	Maximum	Minimum	SD
Panel A: Dependent variable					
PRICE	62.371	40.275	515	0.000	71.571
LnPRICE	3.526	3.696	6.244	-0.236	1.250
Panel B: Independent variables					
EPS	260.058	3.295	146372.5	-39.77	6109.267
LnEPS	1.111	1.401	11.894	-6.645	1.632
BV	7.135	10.000	10.700	0.010	3.945
LnBV	1.544	2.303	2.370	-4.605	1.272
POLCON	0.366	0.000	1.000	0.000	0.482
BODFRANCO	0.607	0.667	1.000	0.000	0.314
BODINDO	0.174	0.100	1.000	0.000	0.207
Panel C: Control variables					
SIZE (millions)	13068.601	3257.542	317704.8	38.895	31859.363
LNSIZE	21.032	21.502	26.484	11.905	2.847
LEV	-1.0945	-0.676	0.0284	-6.308	1.243
MANOWN	0.0280	0.0002	7.361568	0.000	0.319
INSTOWN	0.513	0.596	0.910	0.000	0.234
AGE	62.84	41	227	1.000	52.38
LNAGE	3.841	3.714	5.425	0.000	0.783

PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. The logged variables LnPRICE, LnEPS, LnBV, denote the logarithm of the respective variables. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is Natural log transformation of the sum of years since incorporation.

Table 3: Correlation Matrix

Correlations		1	2	2	4	5	6	7	8	9	10	11
PRICE	1		.675***	.487***	.014	.090**	-.085**	.171***	.313***	.091**	.123***	.475***
EPS	2	.549***		.363***	.026	.006	-.035	.166***	.270***	-.007	-.004	.337***
BV	3	.289***	.200***		.031	.111**	-.051	-.046	.217***	.082*	.075*	.131***
POLCON	4	.058	.046	.079*		-.245***	.309***	.122***	.144***	.134***	-.109**	-.027
BODFRANCO	5	.055	.015	.077*	-.239***		-.727***	-.143***	-.194***	-.006	.175***	.194***
BODINDO	6	-.130***	-.053	-.010	.395***	-.649***		.183***	.130***	-.026	-.252***	-.113***
LNSIZE	7	.014	.112***	-.121***	.101**	-.137***	.196***		.402***	-.073*	.096**	.111**
LEV	8	.240***	.088**	.258***	.053	.016	-.139***	.121***		.248***	.148***	.319***
INSTOWN	9	.086**	-.069	.107**	.148***	-.018	-.048	-.174***	.346***		-.207***	.080**
MANOWN	10	.065	.018	.038	-.062	.004	-.047	.032	.039	-.022		-.019
LNAGE	11	.397***	.266***	.165***	-.009	.261***	-.265***	-.013	.342***	.033	-.050	

PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is Natural log transformation of the sum of years since incorporation.
Significance at: *10, **5 and ***1 per cent levels.

Table 4: Univariate Analysis of Differences variables between Politically and Non-Politically connected Firms in Mauritius (2001-2016)

	(n=199) POLCON =1		(n=342) POLCON =0		*t* - Tests	Mann Whitney
	Mean	**Median**	**Mean**	**Median**	***p-Value***	***p-Value***
Panel A: Dependent variable						
PRICE	67.121	37.700	58.589	40.650	0.183	0.747
LnPRICE	3.592	3.630	3.444	3.705	0.187	0.747
Panel B: Independent variables						
EPS	5.401	3.330	4.492	2.975	0.300	0.588
LnEPS	1.252	1.401	0.965	1.340	**0.054**	0.171
BV	7.592	10.000	6.918	10.000	**0.054**	0.484
LnBV	1.584	2.303	1.540	2.303	0.694	0.484
BODFRANCO	0.512	0.556	0.665	0.750	**0.000**	**0.000**
BODINDO	0.278	0.222	0.112	0.091	**0.000**	**0.000**
Panel C: Control variables						
LNSIZE	21.418	21.942	20.814	21.455	**0.017**	**0.004**
LEV	-0.999	-0.553	-1.137	-0.718	0.210	**0.001**
MANOWN	0.002	0.000	0.043	0.000	0.151	**0.010**
INSTOWN	0.561	0.602	0.490	0.562	**0.001**	**0.002**
LNAGE	3.845	3.689	3.860	3.738	0.828	0.526

PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. POLCON is Political Connection. The logged variables *LnPRICE*, *LnEPS*, *LnBV*, denote the logarithm of the respective variables. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is the natural log transformation of the sum of years since incorporation. Significant p-values are bold.

Table 5: Univariate Analysis of Differences variables between Firms that are below/equal and above the median value of BODFRANCO (2001-2016)

	BODFRANCO =<median (n=279)		BODFRANCO >median (n=262)		t-test	Mann-Whitney
	Mean	Median	Mean	Median	p-value	p-value
Panel A: Dependent Variable						
PRICE	57.319	33.500	66.795	43.150	0.113	**0.001**
LnPRICE	3.312	3.497	3.312	3.765	**0.000**	**0.001**
Panel B: Independent Variables						
EPS	4.622	3.270	5.083	3.030	0.559	0.593
LnEPS	0.909	1.296	1.250	1.480	**0.017**	**0.037**
BV	6.691	10.000	7.683	10.000	**0.003**	**0.000**
LnBV	1.401	2.303	1.722	2.303	**0.003**	**0.000**
POLCON	0.484	0.000	0.240	0.000	**(0.000)**	
BODINDO	0.287	0.250	0.054	0.000	**0.000**	**0.000**
Panel C: Control variables						
LNSIZE	21.511	21.834	20.513	21.423	**0.000**	**0.002**
LEV	-1.055	-0.568	-1.126	-0.768	0.463	**0.000**
MANOWN	0.018	0.000	0.039	0.000	0.466	**0.000**
INSTOWN	0.518	0.596	0.513	0.573	0.793	0.379
LNAGE	3.753	3.689	3.966	3.761	**0.001**	**0.008**

PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. The logged variables *LnPRICE*, *LnEPS*, *LnBV*, denote the logarithm of the respective variables. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is Natural log transformation of the sum of years since incorporation. Significant p-values are bold.

Table 6: Univariate Analysis of Differences variables between Firms that are below/equal and above the median value of BODINDO (2001-2016)

	BODINDO =< median value (n-282)		BODINDO >median (n=259)		t-test	Mann-Whitney
	Mean	Median	Mean	Median	p-value	p-value
Panel A: Dependent Variable						
PRICE	69.887	43.650	53.221	29.000	**0.007**	**0.002**
LnPRICE	3.557	3.695	3.450	3.611	0.322	0.586
Panel B: Independent Variables						
EPS	5.472	3.830	4.164	2.620	0.123	**0.011**
LnEPS	1.065	1.391	1.070	1.353	0.974	0.967
BV	7.449	10.000	6.869	10.000	0.106	**0.008**
LnBV	1.569	2.302	1.545	2.303	0.827	0.903
POLCON	0.262	0.000	0.479	0.000	**(0.000)**	
BODFRANCO	0.791	0.833	0.408	0.455	**0.000**	**0.000**
Panel C: Control variables						
LNSIZE	20.690	21.479	21.395	21.575	**0.004**	**0.067**
LEV	-1.124	-0.750	-1.052	-0.580	0.494	**0.001**
MANOWN	0.042	0.001	0.013	0.000	0.263	**0.000**
INSTOWN	0.520	0.584	0.511	0.596	0.644	0.873
LNAGE	3.938	3.738	3.767	3.714	**0.011**	0.180

PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. *LnPRICE*, *LnEPS*, *LnBV*, denote the logarithm of the respective variables. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is Natural log transformation of the sum of years since incorporation. Significant p-values are bold.

Table 7: Main Regressions (2001-2016, n=541)

Variable	Expected Direction	1		2		3	
INTERCEPT	?	1.641		-0.586		-0.556	
		18.492	***	*-1.294*		*-1.308*	
LnEPS	+	0.475		0.409		0.394	
		13.897	***	***11.316***	***	***9.640***	***
LnBV	+	0.228		0.245		0.351	
		8.620	***	***8.897***	***	***5.862***	***
POLCON	?			0.130		0.435	
				1.976	*	***2.719***	***
BODFRANCO	+			-0.309		-0.320	
				-4.266	***	***-4.768***	***
BODINDO	-			0.108		0.029	
				0.513		*0.142*	
LNSIZE	+			0.018		0.003	
				1.336		*0.242*	
LEV	-			0.035		0.029	
				1.613		*1.478*	
MANOWN	+			0.118		0.117	
				4.073	***	***4.143***	***
INSTOWN	+			0.293		0.356	
				2.628	***	***3.225***	***
LNAGE	+			0.413		0.463	
				7.957	***	***8.919***	***
CG2004	+			-0.122		-0.122	
				-1.625		***-1.773***	*
*POLCON*EPS*	-					0.022	
						0.403	
*POLCON*BV*	-					-0.180	
						-2.688	**
Industries Fixed	?	Yes		Yes		Yes	
Adj R^2		0.727		0.757		0.761	
F-statistic		***142.393***	***	***83.100***	***	***76.3740***	***

This table presents the result after adjusted heteroscedasticity and t-statistics(in paratheses). PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. *LnPRICE*, *LnEPS*, *LnBV*, denote the logarithm of the respective variables. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is Natural log transformation of the sum of years since incorporation. Significant p-values are bold. . ***,**,* denote significance at 1%, 5% and 10% level, respectively (one-tailed).

Table 8: Self-selection Test

Dependent variable	POLCON		PRICE		PRICE	
Variable	1		2		3	
INTERCEPT	0.305		-1.141		-2.055	
	1.072		*-1.143*		***-1.712***	*
BIG4	0.043					
	0.823					
LnEPS	0.028		0.434		0.459	
	2.022	**	***7.385***	***	***7.150***	***
LnBV	-0.024		0.227		0.310	
	-1.658	*	***7.479***	***	***7.021***	***
POLCON			0.131		0.477	
			1.983	**	***2.634***	**
BODFRANCO	0.260		-0.115		0.202	
	2.732	***	*-0.370*		*0.519*	
BODINDO	0.957		0.917		2.201	
	8.802	***	*0.627*		*1.263*	
LNSIZE	0.002		0.021		0.009	
	0.228		*1.568*		*0.687*	
LEV	-0.083		-0.037		-0.163	
	-5.770	***	*-0.279*		*-1.033*	
MANOWN	-0.062		0.065		-0.027	
	-6.396	***	*0.671*		*-0.233*	
INSTOWN	0.386		0.630		1.272	
	4.086	***	*0.972*		*1.604*	
LNAGE	-0.082		0.337		0.263	
	-1.617		***2.139***	**	*1.613*	
CG2004	-0.035		-0.148		-0.196	
	-0.470		***-1.979***	**	***-2.567***	**
IMILLS			0.858		2.316	
			0.548		*1.234*	
*POLCON*LnEPS*					0.018	
					0.328	
*POLCON*LnBV*					-0.197	
					-2.582	**
Industry fixed	Yes		Yes		Yes	
McFadden R^2/ Adjusted R^2	0.338		0.757		0.761	
LR/F statistic	***14.424***	***	***78.606***	***	***72.913***	***
Obs with Dep=0	343					
Obs with Dep=1	198					

This table presents the result after adjusted heteroscedasticity and t-statistics (in paratheses). PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity1. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is Natural log transformation of the sum of years since incorporation. Significant p-values are bold. ***,**,* denote significance at 1%, 5% and 10% level, respectively (one-tailed).

Table 9: Regressions results on Political connections and Ethnicity (2001-2016, n=541)

Variable	Expected Direction	1		2		3		4	
Intercept	?	-0.586		-0.663		-0.703		-0.184	
		-1.294		-1.604		**-1.686**	*	-0.441	
LnEPS	+	0.409		0.752		0.605		0.310	
		11.316	***	**5.861**	***	**6.002**	***	**4.879**	***
LnBV	+	0.245		-0.020		0.134		0.253	
		8.897	***	-0.146		1.214		**3.282**	***
POLCON	?	0.130		0.133		0.266		0.128	
		1.976	*	**1.971**	**	1.251		0.617	
BODFRANCO	+	-0.309		-0.209		-0.319		-0.311	
		-4.266	***	**-0.932**	**	-1.406		**-2.414**	**
BODINDO	-	0.108		-0.206		-0.011		-1.597	
		0.513		-0.597		**-2.214**	**	**-2.309**	***
BODFRANCO*LnEPS	+			-0.358		-0.310			
				-2.092	**	**-2.114**	**		
BODFRANCO*LnBV	+			0.189		0.252			
				1.129		**1.661**	*		
BODINDO*LnEPS	-			-0.586				0.761	
				-3.741	***			**2.082**	**
BODINDO*LnBV	-			0.511				0.265	
				2.449	**			0.653	
POLCON*LnEPS	?					-0.355		0.312	
						-2.975	***	**3.644**	***
POLCON*LnBV	?					0.273		-0.269	
						2.065	**	**-2.820**	***
POLCON *BODFRANCO	?					0.299			
						0.844			
POLCON *BODINDO	?							1.564	
								2.123	**
POLCON *BODFRANCO*LnEPS	?					0.639			
						3.434	***		
POLCON *BODFRANCO*LnBV	?					-0.746			
						-4.091	***		
POLCON *BODINDO*LnEPS	?							-1.251	
								-3.320	***
POLCON *BODINDO*LnBV	?							0.248	
								0.585	
Control Variables		Yes		Yes		Yes		Yes	
Industry Fixed		Yes		Yes		Yes		Yes	
Adj R^2		0.757		0.768		0.778		0.785	
F-statistic		**83.100**	***	**72.412**	***	**67.280**	***	**70.363**	***

This table presents the result after adjusted heteroscedasticity and t-statistics(in parantheses). PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors.. Significant p-values are bold. ***,**,* denote significance at 1%, 5% and 10% level, respectively (one-tailed).

Table 10 Regression results for interaction between board ethnicity

Variable	Bodfranco<=med 1		Bodfranco>med 2		Bodindo<=med 3		Bodindo>med 4	
INTERCEPT	-0.188		3.280		-1.847		0.023	
	-0.301		***3.272***	***	*-1.480*		*0.037*	
LnEPS	0.407		0.203		1.421		0.298	
	3.825	***	***3.154***	***	***4.244***	***	***2.959***	***
LnBV	0.127		0.257		-0.426		0.323	
	0.901		***2.989***	***	***-1.737***	*	***3.002***	***
POLCON	-0.407		0.622		0.248		0.367	
	-1.452		***2.271***	**	*0.235*		*1.244*	
BODFRANCO	-0.778		-3.002		0.014		-1.416	
	-3.074	***	***-4.828***	***	*0.053*		***-3.807***	***
BODINDO	-0.583		-8.872		0.492		0.370	
	-0.610		***-3.975***	***	*0.380*		*1.338*	
*BODINDO *LnEPS*	-0.138		2.197					
	-0.318		***2.252***	**				
*BODINDO *LnBV*	0.704		1.759					
	1.227		*1.276*					
*BODFRANCO *LnEPS*					-1.244		0.058	
					-3.183	***	*0.338*	
*BODFRANCO *LnBV*					0.808		0.553	
					3.111	***	***2.559***	**
*POLCON*LnEPS*	0.284		0.188		-0.480		-0.014	
	2.131	**	***1.810***	*	*-1.043*		*-0.108*	
*POLCON*LnBV*	0.009		-0.291		0.016		-0.101	
	0.051		***-2.606***	***	*0.027*		*-0.621*	
*POLCON*BODINDO*	1.443		-2.564					
	1.383		*-0.418*					
*POLCON*BODFRANCO*					0.451		-0.360	
					0.366		*-0.341*	
*POLCON*BODINDO *LnEPS*	-0.425		-1.438					
	-0.939		*-1.210*					
*POLCON*BODINDO *LnBV*	-0.430		0.711					
	-0.725		*0.211*					
*POLCON*BODFRANCO *LnEPS*					0.696		0.231	
					1.306		*0.968*	
*POLCON*BODFRANCO *LnBV*					-0.402		-0.119	
					-0.643		*-0.229*	
Control variables	Yes		Yes		Yes		Yes	
Industry fixed	Yes		Yes		Yes		Yes	
N	279		262		282		259	
Adj R^2	0.865		0.732		0.767		0.836	
F-statistic	***65.456***	***	***26.187***	***	***30.764***	***	***55.266***	***

This table presents the result after adjusted heteroscedasticity and t-statistics(in parantheses). PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors.
Significant p-values are bold. ***,**,* denote significance at 1%, 5% and 10% level, respectively (one-tailed).

List of politically connected firms between 2001 – 2016:

The Mauritius Commercial Bank Ltd

The Mauritius Development Investment Trust Co Ltd

Omnicane Ltd

United Basalts Ltd

Mauritius Stationery Manufacturers Ltd

Mauritius Chemical and Fertilizer Industry Ltd

Rogers & Co. Ltd

Swan Insurance Co. Ltd

Terra Mauricia Ltd

Compagnies des Magasins Populaires Ltée

Vivo Energy Mauritius Ltd

Sun Resorts Ltd

Mauritius Union Assurance Co. Ltd

Mauritian Eagle Insurance Co. Ltd

Automatic Systems Ltd

Air Mauritius Ltd

State Bank of Mauritius Ltd

Innodis Ltd

Go Life International Ltd

Alteo Ltd

Cim Financial Services

Bramer Banking Corporation

Responses to Editor
Comments, Suggestions and Recommendations
on ARA-10-2022-0238.R1

Dear Prof. Nan Zhou,

Thank you for considering our paper for publication in Asian Review of Accounting. We are grateful to the editor and reviewer for their time and constructive comments on our manuscript. These have greatly helped us to improve the quality of our manuscript. We have implemented their comments and suggestions and we are grateful that the reviewer is satisfied with our revision.

The editor's comments are reproduced and our responses follow each of the comments and suggestions.

1. Your manuscript has not cited any articles from Asian Review of Accounting (ARA). To increase the impact of the journal, please cite three articles from ARA.

<u>Authors' response:</u>

The following papers were already included in the manuscript:

Abdul Wahab, E.A., Pitchay, A.A. and Ali, R. (2015), "*Culture, corporate governance and analysts forecast in Malaysia*", Asian Review of Accounting, Vol 23 No. 3, pp. 232-255. https://doi.org/10.1108/ARA-03-2014-0033

Boonlert-U-Thai, K. and Schaberl, P. (2022), *"Value relevance of book values, earnings, and future earnings: Evidence by time, life cycle stage, and market uncertainty"*. Asian Review of Accounting, ahead-of-print.

Therefore, the following source has been added as a third paper from ARA:

Tantawy, S.M. and Moussa, T. (2023), "The effect of political connections on firms' auditor choice decisions and audit opinions: evidence from Egypt", Asian Review of Accounting, ahead-of-print. https://doi-org.ezproxy.mdx.ac.uk/10.1108/ARA-07-2022-0161

Please refer to the first paragraph of the revised manuscript.

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4. Please have your paper copy-edited, if you haven't done so. If you have, please indicate in the response letter.

Authors' response:

We have sent our paper for professional copy editing. Further, we have made several changes to the paper for ease of reading. Please refer to the track-changed version of the manuscript.

We look forward to the outcome of your assessment.

Yours sincerely,

Effiezal Aswadi Abdul Wahab

(Corresponding author)

Political connections, board ethnicity and value relevance in Mauritius

Abstract

Purpose - The paper aims to investigate the impact of political connections and board ~~diversity~~ethnicity on the value relevance of earnings and book value in Mauritius.

Design/methodology/approach - This study is based on a sample of 541 Mauritian listed firm-year observations for 2001-2016. Financial and board diversity data have been collected using the listed firms' annual reports and from reports published by the Stock Exchange of Mauritius. Political connection data was derived from the directory of Chief of State and Cabinet members. The research hypotheses were empirically tested ~~with the use of~~using a modified Ohlson (1995) price model.

Findings - This study shows that political connections negatively impact the value relevance of earnings and book value. We find that firms ~~that have Franco-Mauritian directors will constraint the negative impact of political connections~~with Franco-Mauritian directors will constrain political connections' negative impact. ~~while~~ W~~w~~e find contrasting results for Indo-Mauritian directors since they form an integral part of the government in Mauritius.

Originality - This study contributes to the scarce accounting literature in ~~the context of~~ Mauritius. Firstly~~, to date~~, no study has investigated the relationship between the value relevance of accounting information and political connections in Mauritius. Secondly, Mauritius' capital market is dominated by a non-indigenous ethnic group, Franco-Mauritians, who remains the economic elite. Hence, Mauritius presents an opportunity to bring forth another important aspect in the capital market and corporate governance; diversity on the board of directors. Therefore, the study extends ~~on~~to the political connections and board diversity literature.

~~**This paper investigates the impact of political connections and board diversity on the value relevance of earnings and book value in Mauritius. Based on a sample of 541 Mauritian listed firm-year observations for 2001-2016, this study shows that political connections negatively impact the value relevance of earnings and book value. We find that firms with Franco-Mauritian directors will constrain the negative impact of political connections. We find contrasting results for Indo-Mauritian directors since they form an integral part of the government in Mauritius. Overall, this study contributes to the extant literature on political connections coupled with the context of ethnicity in a developing capital market. The research hypotheses were empirically tested using a modified Ohlson (1995) price model, and the results are robust after controlling for selection bias.**~~

Keywords -~~:~~ political connections, board diversity, ethnicity, value relevance, Mauritius.

JEL classifications: G3, G14, M14, M41

Paper type Research paper

~~**JEL classifications**: G3, G14, M14, M41~~

1. Introduction

Several studies have examined the economic consequences of political connections in capital markets. Studies on political connections center, but are not limited to, the quality of accounting information (Chaney *et al.*, 2011), audit fees (Gul, 2006), capital and resources allocations (Johnson and~~&~~ Mitton, 2001), financial analysts (Chen *et al.*, 2010; Gist and~~&~~ Abdul Wahab, 2021), firm performance (Fisman, 2001), auditor choice (Guedhami *et al*., 2014; Tantawy and Moussa, 2023), cost of equity capital (Boubakri *et al.*, 2012) and corporate lending (Khawaja and~~&~~ Mian, 2005).

The findings of these studies are rather mixed, suggesting that political connections could be detrimental or not to capital markets. On one hand, these studies suggest that political connections or politically connected firms are rent-seekers and promote cronyism and nepotism. On the other hand, conventional wisdom tells us that being connected would provide capital funding via grants and increase performance (Fisman, 2001). In addition, the stream or resources from the income for connected firms are ~~fairly~~ relatively uncertain, volatile, and require ~~a higher level of~~higher scrutiny.

Mauritius's political connections and~~or~~ earnings quality studies are limited and in the infancy stage. The extant literature in Mauritius has primarily focused on the implementation of the code of corporate governance (Mahadeo and~~&~~ Soobaroyen, 201~~6~~3), the investigation of board diversity (gender, age, and education), and corporate governance (Munisi ~~&~~and Randoy, 2013), firm performance (Mahadeo *et al*., 2012), and a case study investigating the role of shareholders activism in Mauritius (Beebeejaun and~~&~~ Koobloll, 2018).

We extend these studies on several grounds. First, none of the above studies has examined political connections, an ~~important~~ essential feature in a developing capital market like Mauritius. Given the interest, we investigate whether political connections affect the value relevance of accounting information in Mauritius, as no study, to date, has investigated this relationship. Mauritius is an emerging economy in the African region, and the findings provide insight into the nature of connections in the country. Given the unique background that shapes its capital market, Mauritius provides an interesting avenue. We are driven by several high-profile ongoing cases surrounding politicians and heads of government. For example, soon after the December 2014 elections, the previous Head of Government, Dr. Navinchandra Ramgoolam, was arrested based on money laundering charges when two safes with billions of rupees and dollars were discovered at his residence (Wan, 2015).[1] In March 2016, the Prime Minister, Sir Anerood Jugnauth, asked the Minister of Environment to step down after bribery allegations were made against him (Reuters, 2016). These cases indicate that political connections are prevalent and influential in Mauritius, questioning the linkage between political board members and the value of published accounting numbers.

Secondly, the Mauritius capital market is dominated by a non-indigenous ethnic group, Franco-Mauritians, who remain the economic elite (Carroll and~~&~~ Carroll, 2000). Hence, Mauritius presents an opportunity to bring forth another important aspect of capital markets and corporate governance; diversity on the board of directors. Board diversity is important in promoting good governance (Carter *et al.*, 2010). The guiding ethics behind board diversity is to promote governance and better monitoring by providing helpful insight, obtaining external resources, expertise, and exercising diligence (Simkins and~~&~~ Carter, 2003; Srinidhi *et al.*, 2011; Tee, 2019). Consequently, in theory, these traits enhance firm value and the value relevance of accounting information (Ntim, 2013). However, this is not always t~~he cas~~rue when coupled with a nation's socio-economy disparity (Darga~~r~~ and~~&~~ Joomun, 2005; Mishra and~~&~~ Jhunjhunwala, 2013).

A distinctive feature of the Mauritius capital market is that it is dominated by white Franco-Mauritians (Mauritians of White-French descendants), who only constitute around two percent of the total population. The other ethnic group, Indo-Mauritians, does not dominate the capital market despite forming almost 68 percent of the population (Srebrnik, 2002; Bunwaree and~~&~~ Kasenally, 2005). This 'disparity' or 'mismatch' between the ethnic groups and Franco-Mauritians' dominance in the capital market presents interesting avenues for research in this area. This landscape is not unique to Mauritius, as other countries, such as Malaysia, experience a similar situation. However, the dominance of the non-majority Chinese-Malaysian is not as prevalent as Franco-Mauritians in Mauritius. Mauritius has not had a question regarding ethnicity in the national census since 1972; however, Indo-Mauritians consist of two-thirds of the total population (CIA World Factbook, 2021), and several researchers refer to the following statistics: the Indo-Mauritians 68% (Hindus 52% and Muslims 16%); Creoles Mauritians 28%; Sino-Mauritians 3% and Franco-Mauritian less than 2% of the population (Srebrnik, 2002; Bunwaree and~~&~~ Kasenally, 2005; Salverda, 2015). We opted for these two board ethnicity measures as they represent 'extremes' (Salverda, 2015) as one group (Franco-Mauritians) is dominant in the capital market (in this case, board participation). At the same time, Indo-Mauritians are a minority in the capital market, although they have the largest population. These differences present us with competing hypotheses to test.

We predict that white Franco-Mauritian will mitigate the negative impact of political connections on the value relevance of book value and earnings. The premise of our argument is simple. The white Franco-Mauritians ~~have~~ has been a dominant player in the capital market~~ and provide~~, providing diverse expertise, know-how, and, more importantly, experience. Their presence on the board of directors provides these characteristics that could offer a monitoring role and increase earnings quality. The white Franco-Mauritian are not known to be active participants in the political scene in Mauritius. One would say that their dominance in the capital market presents a form of check and balance to Mauritius's politicians or political connections. Since white Franco-Mauritians are not active in politics, their survival in the capital market could signal their ability to tap into the external capital market and demonstrate the ability to sustain themselves without government assistance (Salverda, 2015).[2]

In contrast, we predict that political connections will negatively impact the relevance of book value and earnings for Indo-Mauritians. The existing literature supports this view. Although dominant in the political scene, Indo-Mauritians are less prominent in the capital market. They often use their presence in the capital market as a symbol, mainly for attracting funding or government grants (Salverda, 2015). For example, the presence of Malay directors in Malaysia during the early stages of independence was largely ceremonial and served as an indicator of exposing government servants to the capital market (Abdul Wahab *et al.*, 2018).~~In contrast, we predict that the negative impact of political connections on the value relevance of book value and earnings will worsen for Indo-Mauritians. Indo-Mauritians are dominant in the political scene but not in the capital market. Their presence in the capital market could be symbolized as rather ceremonial (Salverda, 2015) to attract funding or government grants. The extant literature supports this view. For instance, the presence of Malay directors in the early stages of independence has been seen as largely ceremonial and an indicator of exposing government servants to the capital market (Abdul Wahab *et al.*, 2018).~~

Based on a sample of 541 firm-year observations of Mauritian listed firms (SEM) for 2001-2016, we find that both the book value and earnings are value relevant in the capital market. As predicted, we find the value relevance of book value is lower for politically connected firms. This finding is consistent with the argument that politically connected firms have lower earnings quality and create uncertainty in the market. Furthermore, the negative impact of political connections is compounded by the recent high-profile cases involving local politicians, as mentioned above.

The results confirm our predictions: the presence of Franco-Mauritian directors mitigates the negative impact of political connections on the value relevance of earnings. This suggests that Franco-Mauritian directors mitigate agency issues and monitor and perform checks and balances on political connections. In support of our arguments, we find that Indo-Mauritian~~s'~~ directors increase the negative impact of political connections on value relevance. The results are ~~not surprising since Indo-Mauritians dominate the government as politicians and government~~unsurprising since Indo-Mauritians dominate the government as politicians and officers. After controlling the selection test and several additional analyses, the results remain qualitatively similar.

The findings of this study contribute to the literature on political connections, ethnicity, and value relevance in the following ways. First, the paper extends the ever-growing literature on political connections, especially in Africa. Given Mauritius's unique political, legal, and social backgrounds relative to other African countries, the findings of this study act as a catalyst for ~~other~~ further political connection studies.

The results of this study present another view on how ethnic groups interplay with the premise of political connections. The institutional background of Mauritius allows us to examine the different dimensions of political connections in the capital market. Second, the study tackles ethnicity and provides an exciting outcome on how ethnic groups play their role in developing the capital market. Third, the findings of this study contribute to the understanding of how the various ethnic groups in a capital market play a role.

The paper is organized as follows. Section 2 summarizes the political and social background in Mauritius. Section 3 provides the rationale behind the hypotheses developed. Section 4 presents the methodology and sample selection. The results and robustness tests are discussed in Section 5, while section 6 discusses the additional analysis. Section 7 concludes the paper.

2. Institutional background

2.1. Political Economy in Mauritius

Since 1810, British governors and officials administered the island of Mauritius. In the 1960s, the negotiations for independence started, and elections were held in 1967. Consequently, Mauritius became a fully-fledged democracy and a Commonwealth member on 12 March 1968. The independent state was then run by the Labour Party and two smaller parties: The Independent Forward Bloc and the Muslim Action Committee – two ethnic-based parties. Since 1979, the elections have resulted in coalition governments with the same political parties rotating from the government to the opposition. Therefore, community-based favoritism and nepotism remain a source of public frustration even though corruption is not customary ~~as~~ per regional standards.[3]

The political structure in Mauritius was adapted from the British Empire and implemented after independence in 1968.[4] In line with its globalization strategy, since the 1980s, the government of Mauritius has taken the role of a business facilitator to create a positive business environment on the political, economic, and social levels. The aim is to nourish and expand the private sector. Furthermore, the government has controlling shares in numerous listed firms: Air Mauritius – the national airline; State Bank of

Mauritius; and Mauritius Telecom – the telecommunication company. The government also invests in ~~a broad range of~~various corporations via its investment entity – the State Investment Corporation. The board of directors' positions are primarily allocated to senior government officials, with the chairperson nominated by the ruling government. The chairpersons are rotated once there is a change in government. The new ruling party has the authority to remove a chairperson nominated by the previous government and replace him/her with a new chairperson fitting the ideologies of the new ruling party.

However, Franco-Mauritians have retained major land ownership; over time, they have created family holdings to manage those lands (Salverda, 2013). The family holdings still exist and are majorly quoted on the SEM. The boards of directors of those listed firms are composed of directors drawn from the same small and tightly-knit white Franco-Mauritian business community. The directors are dominant male directors ~~who have been~~ appointed to numerous boards for decades (Mahadeo *et al.*, 2012).

Mauritius has no indigenous population but is known for its cultural diversity. As Mahadeo and Soobaroyen (2013) mentioned, Mauritius has a dual colonial past being both an ex-French and British colony, and therefore its population came mainly from European colonialism and immigration. Also, Brautigam (2009) argues that even though the population originates from the ~~four corners of the world – Europe, Africa, India, and China,~~world's four corners – Europe, Africa, India, and China- it has retained close links with French and British traditions.

In 1835, Mauritius' geographical setting was dominated by sugar cane plantations showing early signs of a one-crop economy that relied on slave labo~~u~~r (Holmberg, 1962). However, after the abolition of slavery in the British Empire in 1834, the demand for sugar cane plantations' labo~~u~~r increased, especially with preferential prices being introduced by Britain on Mauritian sugar. The ~~demand~~ need for such labo~~u~~r led to the

"Great Experiment" initiated by the British government. More than 450,000 labo~~u~~rers were expatriated from India to Mauritius, with the status of indentured labo~~u~~rers working in Mauritius' sugar cane fields. Most of today's Indo-Mauritians, of Hindu or Muslim faiths, are descendants of these indentured labo~~u~~rers, while a minority came freely as traders or educators (Chiriyankandath, 2009). Two-thirds of these Indo-Mauritians remained permanently on the island, while one-third returned to their home country or migrated to other British colonies (Aapravasi Ghat Trust Fund, 2015).

2.2. Social background and its impact on financial reporting

Indeed, while the Mauritian population is diverse, ~~property and business ownership of the largest firms remain concentrated and is traceabl~~the largest firms' property and business ownership remain concentrated and traced back to the heritage left by colonization (Lange, 2003). The World Bank (201~~2~~0) reports that white Franco-Mauritian families control between 5 and 7 large listed firms. These families, which benefited mainly from the sugarcane industry, consequently invested massively in other local industries. This can also be observed in the directors' composition: most of the directors are white Franco-Mauritian directors, while some minority directors come from the Creole community, the Indo-Mauritian community, and the Sino-Mauritian community. This highlights the discrepancy between the composition of the Mauritian population and the diversity of the boards of directors. While many directors appear to have been appointed for their knowledge, skills, and expertise, some directors are appointed due to connections to family and majority shareholders. Therefore, those family-dominated management structures have a definite impact on the boards of SEM-listed firms.

Furthermore, the majority shareholder usually appoints non-executive directors, which questions the independence of those nominated. This again creates an interesting setting to probe the influence of board diversity on published accounting information's value relevance.

3. Hypotheses development

3.1. Value relevance in the Stock Exchange of Mauritius (SEM)

~~In the accounting literature, value relevance has been defined~~The accounting literature defines value relevance as the association between company values and accounting numbers (Ohlson, 1995; Francis and Schipper, 1999; Barth *et al.*, 2001; Kothari, 2001; Beisland *et al.*, 2010). Value relevance research investigates the usefulness of reported numbers to accounting information users~~,~~ and current and potential investors.

Ball and Brown (1968), Beaver (1968), and Beaver *et al.* (1980) explore a plausible association between accounting variables and share prices. Beaver (2002) explains that value relevance research examines how accounting variables relate to a dependent variable based on security price. Negakis (2005) believes that this research aims to assess how helpful accounting information is for users, like investors.

~~Beaver (2002) states that value relevance research tests the associations between a set of accounting variables and a security price-based dependent variable, while Negakis (2005) argues that the primary goal of existing value relevance research is to investigate the usefulness of reported accounting numbers to users of accounting information such as investors.~~ Indeed, investors widely use financial reports to assess the market value of firms for investment decisions (Adedeji and~~&~~ Kajola, 1999). Consequently, it can be seen that the main objective of financial reporting is to provide equity valuation information to potential investors. This objective is empirically ~~analysed~~ analyzed by value relevance research. This justifies the study of the value relevance of accounting information in Mauritius; ~~henceforth~~ subsequently leading to the first hypothesis:

H₁: Accounting information produced by SEM-listed firms is value relevant.

Badu and Appiah (2018) studied the value relevance of accounting information of public firms using Ohlson's price model (1995) applied on the Ghana Stock Exchange for ~~the period~~ 2005-2014 using a sample of 224 firm-year observations. They find a significant and positive relationship between earnings and book values of equity to stock prices. Furthermore, the same conclusion is reached by Diftar and Elkalla (2019), who examined the value relevance across the different countries of North Africa and the Middle East from 2007 to 2016.

3.2. Political connections and value relevance

According to Faccio (2006), a firm is politically connected if one of the firm's largest shareholders or senior executives is a member of parliament (MP), a minister, or the head of government, or closely related to a top official. A large shareholder is defined as anyone who controls a minimum of 10% of the shareholders' votes directly or indirectly (Faccio 2006). Faccio (2006) also includes the political connections through a relative, whereby one relative of a head of state or minister is a large shareholder or a management executive. Firms are also classified as politically connected if: (i) A head of state or one of his/her relatives was also a top executive or MP during the study period; (ii) A current government minister or MP was a senior executive or significant shareholder of a company in the past; (iii) A top executive or substantial shareholder is a politician of another country; (iv) A substantial shareholder or senior executive is known to be associated with a political party whether the ruling parties or opposition parties (Civilize *et al.*, 2015). Other researchers classified state ownership as ~~a form of~~ political ties with firms and special shares held by the government (Jones *et al.*, 1999; Bushman *et al.*, 2004; Nee *et al.*, 2007; Hanousek *et al.*, 2007).

There are many ways for firms to obtain benefits from political connections. Such connections can lower tax burdens (Adhikari *et al.*, 2006), increase the preferential treatment to financing (Dinc, 2005) and political bailouts in the event of financial distress (Faccio *et al.*, 2006), and result in a higher allocation of government investment during a financial crisis (Johnson and~~&~~ Mitton 2003). Chaney *et al.* (2011) suggest that political connections should increase earnings quality due to heightening media scrutiny, leading to increased firm monitoring. With increased scrutiny, better access to resources, and enhanced monitoring due to the public or state interest, these connected firms should have higher ~~levels of~~ earnings quality relative to non-connected firms.

Batta *et al.* (2014) investigate whether a country's degree of expropriation risk could amount to a positive rapport between political connections and earnings quality. Batta *et al.* (2014) argue that countries with high expropriation risks will lower their quality of earnings, but not for politically connected firms since the risk is lower due to connections. Even though Mauritius has a low ranking in terms of expropriation risk, in 2014, the government took over the BAI Group, a leading conglomerate in Mauritius. The group's assets were seized and sold to local firms, while some were retained under the government's control. Moreover, Fung *et al.* (2015) similarly claim that the duration of a connection could suggest that the connected firm may self-sustain into the future and thus could increase earnings. Political connections create some form of certainty, especially in dealing with resources. The above suggests a positive affiliation between political connection and earnings quality; hence a positive affiliation between political connection and the value relevance of accounting information is a component of earnings quality. Conventional wisdom suggests that political connections or relationship-based economies provide an advantage to the connected firms to capital (Fisman, 2001) and information from the government on policy changes. Such advantages would improve the market value of connected firms relative to unconnected firms.

A classic example was from the work of Johnson and Mitton (2003) when they examined the impact of capital control on connected firms in Malaysia during the Asian Financial Crisis of 1998-1999. They uncovered that capital control restricted the outflow of funds and assisted or propped the connected firms during the crisis. Although the capital control period indicates that the connected firms were operating inefficiently before the crisis, such policy (e.g., restriction of the flow of funds) increases the value of connected firms.

Alternatively, existing literature suggests ~~that~~ political connections could ~~be detrimental to the firm~~harm the firm's value and earnings quality. Political connections create agency costs between agent and principal and minority and majority shareholders (Faccio, 2006). The agency costs are owed to the high rent-seeking activities by the directors with political connections and the low level of transparency (Ball *et al.*, 2003). The high agency cost increases information asymmetry and creates uncertainty, ~~resulting in decreased~~decreasing earnings quality. Chaney *et al.* (2011) offer three reasons to contribute to a negative relationship between political connections and the quality of earnings. First, insiders of connected firms could hide, obscure, or delay reporting the advantages received to deceive investors. Second, Chaney *et al.* (2011) argue that the connected firms do not worry about the quality of accounting information as politicians shield them; and the third argument is that firms with poor earnings quality are more inclined to establish political connections. Therefore, the political connection appears to have an ambiguous impact on investors, and thus, this leads to the following research hypothesis:

H_2: Political connections weakens the value relevance of book value and earnings

The evidence examining the relationship between political connections and earnings quality is mixed. ~~Indeed,~~ Chen *et al.* (2010) investigate the relationship between analyst forecast accuracy and political connections and find a negative relationship. They argue that uncertainty in the revenue-generation process of connected firms is highly questionable. Gul (2006) investigates the relationship between audit fees and political influences and finds a positive relationship. Gul argues that auditors perceived connected firms as risky due to the high agency costs. Faccio (2006) shows no significant price effect when a politician is appointed to corporate boards, yet the share price increases when an executive enters politics. On the same line, many authors establish that earnings quality is systematically lower for firms with political connections (Chaney *et al.*, 2011; Riahi-Belkaoui, 2004), and Leuz and Oberholzer-Gee (2006) find a reduction of foreign financing in politically-connected firms. Fisman (2001) shows that investors reacted to every rumo~~u~~r ~~on~~ about the health of President Suharto. Thus, the share returns of politically connected Indonesian firms are noticeably lower than those of unconnected firms. The same is confirmed by Bertrand *et al.* (2004); Fan *et al.* (2007); Li *et al.* (2008); and Civilize *et al.* (2015) in the French, Chinese, and Thai contexts, respectively.

3.3. Political connections, board ethnicity, and value relevance

The agency theory suggests that board diversity increases the independence of the board as the differences in gender, ethnicity, and background trigger additional questioning of executive's decisions (Arfken *et al.*, 2004; Johnston and~~&~~ Malina, 2008; Carter *et al.*, 2010; Lincoln and~~&~~ Adedoyin, 2012; Abdullah, 2013; Triana *et al.*, 2014). As ~~mentioned by the human capital theory~~the human capital theory mentions, board diversity brings increased creativity and innovation, new ideas and perspectives, and new skills and knowledge, which will ~~greatly~~ help decision-making (DiStefano and~~&~~ Maznevski, 2000;

Baranchuk and~~&~~ Dybvig, 2009; Luckerath-Rovers, 2013). ~~Diversity on boards~~Board diversity can bring the company closer to its stakeholders and create a more general responsibility towards society (Van Der Walt and~~&~~ Ingley, 2003).

Consequently, several interdisciplinary theories strongly indicate a link between a firm financial performance and board diversity. Human capital and resource dependence theories suggest a positive relationship between firm performance and board diversity (Carter *et al.*, 2010). Yet, the agency theory advises that the nature of the relationship might not be explicit even though proper management monitoring may drive higher firm value (Ntim, 2013).

The appointments of directors based on ethnic grounds could be for several reasons. Resource dependency theory suggests that such appointments are based on human and social capital needs. These appointments are usually based on special skills only obtained by certain ethnic groups (human capital) or the needs of firms to seek economies of scale via networking (social capital). Many studies state that the board of directors remains one of the utmost crucial subsets within an organization (Lipton and~~&~~ Lorsch, 1992; Sonnenfeld, 2002; Bart and~~&~~ McQueen, 2013) as it performs many strategic functions within the organization (Bilimoria and~~&~~ Piderit, 1994; Lincoln and~~&~~ Adedoyin, 2012; Dale-Olsen *et al*., 2013; Ntim, 2013). In addition, Agarwal and Knoeber (2001) argue that firms acquire different advantages and resources when they appoint ethnic minority directors, and boards w~~hich have~~ith several dealings with the government or face government intervention and regulation are more likely to appoint the same directors.

~~Overall, t~~The studies demonstrate that ethnic diversity enhances the corporate governance element of board independence, monitoring executives' decision-making, and acquiring resources, consequently improving the firm's value (Ntim, 2013). Furthermore, ethnic directors provide unique information to the board, which provides better information to the executives and improves decision-making (Abdullah, 2013).

Oppositely, Goodstein *et al.* (1994) explored board diversity's impact on decisions involving strategic changes, and they concluded that homogenous boards tend to initiate strategic changes more often than diverse boards. This implies that diverse boards might negatively impact firm valuation. Several researchers explain that directors from ethnic minorities might be chosen by tokenism; to tick a box imposed by the government (Hillman *et al.*, 2007; Abdullah, 2013; Ntim, 2013). Finally, a diverse board may increase conflicts between board members as they bring their interests and loyalties to the board (Roberson and~~&~~ Park, 2007; Wellage and~~&~~ Locke, 2013), preventing board cohesion (Goodstein *et al*., 1994; Lincoln ~~&~~and Adedoyin, 2012).

Preceding studies have indicated that political affairs may impact board composition (Agarwal and~~&~~ Knoeber, 2001; Fan *et al.*, 2007; Chen *et al.*, 2010), as directors with political connections bring several advantages. Agarwal and Knoeber (2001) suggest that outside directors who have political connections can assist the firm in navigating political affairs by using their abilities to anticipate or influence government actions. These abilities can come from their previous involvement in government or political parties and their experience with legal proceedings against the government.~~Agarwal and Knoeber (2001) argue that outside directors with political ties might help with the political dealings of the firm through their skills to predict or impact government actions, skills they have acquired from prior participation in government and political parties, or acquired through administration or legal proceedings against the government.~~ Domadenik *et al.* (2016) mention that a government might use its power illegitimately to appoint people without adequate competencies to boards of state-owned firms as long as they belong to the political network. The appointed directors are positioned as a special purpose vehicle to extract rent or are being rewarded for previous political engagements.

From an accounting point of view, diverse boards, especially ethnically diverse boards, are expected to lead to better performance and higher earnings quality through enhanced corporate governance and accountability (Srinidhi *et al.*, 2011; Tee, 2019). Furthermore, Kim *et al.* (2013) studied the effect of boards with diverse political ideologies on firm performance. They concluded that boards with political diversity are linked with higher firm performance (Liang *et al.*, 2021~~19~~). While the literature i~~s scarce in this field, it might be applicable~~n this field is scarce, it might apply in Mauritius. Indeed, political connection measures the relationship between firms and political parties. However, in Mauritius, adherence to political parties or simply maintaining a relationship with a specific party is closely related to the ethnic group to which the person belongs.

We argue that board ethnicity, our proxy for board diversity, would moderate the negative impact of political connections on the value relevance of earnings and book value. The premise of the moderating variable is simple, and one would expect the positive impact of board diversity would mitigate the negative relationship between political connections and the value relevance of earnings and book value.

However, the institutional background in Mauritius would provide a different story. Our study focuses on two ethnic groups: Franco-Mauritians, primarily white and descended from French and British colonizers, and Indo-Mauritians.~~The two ethnic groups in our study are Franco-Mauritians, who are dominantly white, and descendants of French and British colonizers, and Indo-Mauritians.~~ They originated from India and reached Mauritius as indentured labo~~u~~rers, merchants, traders, and high-profile teachers and officers under British rule. The Franco-Mauritians group, representing a minority ethnic group in Mauritius, ~~is dominant in~~dominates the local capital market. However, despite having massive control in the capital market, they are hardly present as officers or local representatives in the government. We expect that the negative impact of political connections on the value relevance of earnings and book value is weakened by the presence of Franco-Mauritian directors. This scenario presents a 'check and balances' to the government's influence in the capital market. In addition, their presence in the capital market signals their ability to tap into the external market. Based on the above, we predict the following hypothesis:

H_3: The negative impact of political connections on value relevance will be weakened by Franco-Mauritian~~s'~~ directors

The appointment of Indo-Mauritian directors who dominate the political scene could be seen as ceremonial rather than as playing an active role in monitoring. In contrast, we expect that the presence of Indo-Mauritian directors will not mitigate the negative impact of political connections on the value relevance of earnings and book value. Carroll and Carroll (2000) highlight that the government deliberately expanded public employment in the 1970s by hiring unskilled and unemployed, mostly Indo-Mauritians. This has ~~since~~ escalated to ministries and parastatal ~~organisations~~ organizations (Carroll and~~&~~ Carroll, 2000). In anecdotal evidence supplied by Carroll and Carroll (2000), employment in these institutions is presented as a reward to supporters and clients. Hence, in line with prior theories and studies, the following is hypothesized:

H_4: The negative impact of political connections on value relevance will be heightened by Indo-Mauritian directors

Several studies have examined this relationship in a similar setting. Studies have documented evidence in a similar setting. Abdul Wahab *et al.* (2015) investigate the relationship between culture and analyst forecast accuracy in Malaysia. According to them, Bumiputera directors, the largest ethnic group in Malaysia but not as prominent in the capital market, have lower governance levels, less disclosure capacity, and more inherent risk and inefficiency due to preferential treatment. This will lead to an increase in agency costs.~~They suggest that the Bumiputera directors, who are the dominant ethnic group in Malaysia, but less dominant in the capital market—and who have a lower level of governance, fewer disclosure capabilities, and carry a higher level of inherent risk and inefficiency due to preferential treatment—will increase the agency cost.~~ Based on this premise, they argue that the increased agency cost will increase information asymmetry, impacting analysts' forecasts. Abdul Wahab *et al.* (2015) find results that support their arguments.

4. Methodology

4.1. Sample and Data

The initial population of the study is the firms listed on the SEM from 2001 to 2016. The number of firms listed during the sample period is 43, resulting in 688 firm-year observations. We exclude financial firms as they are subject to different accounting regulations and risk structures. We exclude the three (3) financial firms, which result in 48 firm-year observations. Due to missing financial data, we exclude 99 firm-year observations. Hence, the final sample for this study is 541 firm-year observations, as shown in Table 1.

(Table 1 here)

Financial data has been collected using the Thomson Reuters DataStream database, Bureau van Dijk's Osiris database, and mostly the listed firms' annual reports. The stock prices were gathered from reports published by the Stock Exchange of Mauritius. Political connection data has been derived based on the directory of Chief of State and Cabinet members of Foreign Countries, compiled by the Central Intelligence Agency of the United States of America. Finally, data used to identify board diversity was gathered primarily using the firms' annual reports and company websites.

The value relevance of accounting information is indicated by a statistical association between stock prices or stock returns and a set of accounting information (Beaver, 2002; Liu and~~&~~ Liu, 2007). Indeed, value relevance research intends to provide empirical data displaying the degree to which accounting numbers shape equity valuation and subsequently aims to assess the usefulness of these numbers to investors' decision-making.

Therefore, value relevance is usually tested using regression analysis: price regression or return (price change) regression. Early research in value relevance started with price regression, examining the relationship between the book value and the market value of equity. It is usually denoted as follows:

$$P^{it} = \beta_o + \beta_1 BV^{it} + \varepsilon^{it}$$

Where:

P^{it} = Market value or price per share of firm *i* at time *t*

BV^{it} = Book value of total equity or Book Value per share of equity of firm *i* at time *t*

Furthermore, Ohlson (1995) shows that firm’s value is a linear function of its book value, earnings and other relevant information (~~Daniel W~~ Collins *et al.*, 1997; Kim and Kross, 2005). Hence, the formal regression of this study is as per the following equation:

$$P^{it} = \beta_o + \beta_1 EPS^{it} + \beta_2 BV^{it} + \varepsilon^{it}$$

EPS^{it} = Earnings per share of firm *i* for the period *t*

Glasscock et al. (2021) shed light on the ongoing debate for proper scaling in empirical accounting research. They believe ~~that using~~ alternative specifications, other than scaling, may be more effective in addressing heteroscedasticity issues. ~~In line,~~ Lubberink and Willett (2021) and Boonlert-U-Thai and Schaberl (2022) argue that log-linear regression models are appropriately suited and provide valid estimates of the relationship between price and accounting data. Therefore, this study uses a log-linear model of Ohlson's (1995) model to estimate the value relevance of accounting information:

$$LnP^{it} = \beta_o + \beta_1 LnEPS^{it} + \beta_2 LnBV^{it} + \varepsilon^{it}$$

Where:

LnP^{it} = Log of market value or price per share of firm *i* at time *t*

$LnEPS^{it}$ = Log of Earnings per share of firm *i* for the period *t*

LnBV^{it} = Log of Book value of total equity or Book Value per share of equity of firm *i* at time *t*.

In line with the log-linear regression models used in Boonlert-U-Thai and Schaberl (2022), we use the following final regressions:

$$LnP_{it} = \beta_0 + \beta_1 LnEPS_{it} + \beta_2 LnBV_{it} + \beta_3 POLCON_{it} + \beta_4 BODFRANCO_{it} + \beta_5 BODINDO_{it} + \beta_6 LNSIZE_{it} + \beta_7 LEV_{it} + \beta_8 MANOWN_{it} + \beta_9 INSTOWN_{it} + \beta_{10} LNAGE_{it} + \beta_{11} CG2004_{it} + \beta_{12} INDUSTRY_{it} + \beta_{13} POL*EPS_{it} + \beta_{14} POL*BV_{it} + \varepsilon_{it} \quad \text{(Equation 1)}$$

$$LnP_{it} = \beta_0 + \beta_1 LnEPS_{it} + \beta_2 LnBV_{it} + \beta_3 POLCON_{it} + \beta_4 BODFRANCO_{it} + \beta_5 BODINDO_{it} + \beta_6 BODFRANCO*LnEPS_{it} + \beta_7 BODFRANCO*LnBV_{it} + \beta_8 BODINDO*LnEPS_{it} + \beta_9 BODINDO*LnBV_{it} + \beta_{10} POLCON*LnEPS_{it} + \beta_{11} POLCON*LnBV_{it} + \beta_{12} POLCON*LnEPS_{it} + \beta_{13} POLCON*LnBV_{it} + \beta_{14} POLCON*BODFRANCO_{it} +$$

$\beta_{15}POLCON*BODINDO_{it} + \beta_{16}POLCON*BODFRANCO*LnEPS_{it} + \beta_{17}POLCON*BODFRANCO*LnBV_{it} + \beta_{18}POLCON*BODINDO*LnEPS_{it} + \beta_{19}POLCON*BODINDO*LnBV_{it}$ + *control variables* + ε_{it}

(Equation 2)

4.2. Independent variables

The political connection, $POLCON_{it}$, will be measured using Faccio's (2006) definition of politically connected firms and its methodology. In this study, the political connection variable takes the value of 1 if the firm is considered a politically connected firm; otherwise, a value of ~~0~~ zero is granted. The methodology for identifying a politically connected firm is presented in Appendix B.

Board ethnic diversity has been measured based mainly on the ethnicity of the Mauritian population. The directors have been classified as Franco-Mauritian directors ($BODFRANCO_{it}$)~~,~~ and Indo-Mauritian directors ($BODINDO_{it}$). Franco-Mauritian directors are Mauritian whites, mostly descendants of French and British colonizers. In contrast, Indo-Mauritian directors originated from India and reached Mauritius as indentured laborers, merchants, and traders, and some as high-profile teachers and officers under British rule.

4.3. Control Variables

Following recommendations from the existing literature, control variables are exploited to manage the effect of firm-related variables: Size of the firm ($LNSIZE_{it}$), leverage of the firm (LEV_{it}), direct managerial ownership of the firm ($MANOWN_{it}$), institutional ownership of firm ($INSTOWN_{it}$), and lastly firm's age since incorporation ($LNAGE_{it}$). The firm's size is operationalized by the natural log transformation of total assets of firm *i* at time t in millions of Mauritian Rupees, while leverage is operationalized by the natural logarithm of total debt divided by total assets. Direct managerial and institutional ownership are quantified by the direct managerial ownership~~'s~~ percentage of firm i and the ownership~~'s~~ percentage by the top 5 direct institutional shareholders of firm i. Finally, the age of firms are calculated by the natural logarithm of the number of years since incorporation.

Industry effects are also controlled by the industry dummies, categorized into eight industries based on Mauritius's Official Market, the Stock Exchange.[5] Following the context of Mauritius, a dummy variable representing the year 2004 (*CG2004*) has been included to capture the effect of the enactment and implementation of the Code of Corporate Governance. Please refer to Appendix A for the variables' definitions.

(Appendix A here)

5. Results

5.1. Descriptive Statistics

Table 2 shows the descriptive statistics relating to this research. Panel A shows the descriptive statistics for the different variables included in Ohlson's value relevance model: the share price ($PRICE_{it}$), the Earnings per share (EPS_{it}), and the Book Value of shares in Mauritian Rupees of SEM-listed firms for the period 2001 – 2016. Panel B of Table 2 reports the descriptive statistics of the independent variables: Political connection and ethnicity. Political connection ($POLCON_{it}$) takes the value of 1 if the firm is politically connected; therefore, 36.6% of the sample have some political connections ~~as~~ per the descriptive statistics. Appendix B explains our methodology for identifying the politically connected firms in Mauritius.

(Appendix B here)

Board diversity shows that, on average, 68% of directors are white, while 32% ~~of directors~~ are non-white. Ethnicity is further analyzed by the percentage of Franco-Mauritian directors (*BODFRANCO*$_{it}$) and Indo-Mauritian directors (*BODINDO*$_{it}$). The ~~percentage~~ ~~aver~~average percentages of *BODFRANCO*$_{it}$~~,~~ and *BODINDO*$_{it}$ ~~is~~ are 60.71% and 7.4%, respectively. Boards of directors are mostly composed of Franco-Mauritian directors. This is explained by Mauritius being an ex-British and ex-French colony.

(Table 2 here)

5.2. Correlations

Table 3 presents the Pearson and Spearman correlations for the variables included in Ohlson's model of value relevance, the experimental variables applicable to the context of Mauritius, and the control variables. They both yield ~~the same~~similar results; however, the results from the Spearman correlations are more significant. The significant correlations ~~grant initial support to~~support the hypotheses that political connections and the ethnic diversity of the board of directors influence the dependent variable. Both Pearson and Spearman correlations indicate that it will be relevant to test the hypotheses on the value relevance of accounting information.

(Table 3 here)

5.3. Univariate

5.3.1. Political connections

Table 4 exhibits the results from the univariate analysis for the test variables relating to politically connected and politically unconnected firms. Panel A of Table 4 shows that the share price varies for both groups; politically connected firms demonstrate higher share prices ($PRICE_{it}$) than non-politically connected firms (Rs 67.121 as opposed to Rs 58.589). The same is observed for the log variable $LnPRICE_{it}$. The earnings per share (EPS_{it}) and the book value of equity (BV_{it}) and their associated log variables are higher for politically connected firms than politically unconnected firms, which suggests that the value relevance of accounting information is potentially different for both groups. Furthermore, politically connected firms are sizeable, more leveraged, and have higher institutional ownership but less managerial ownership, ~~as~~ per panel C of Table 4.

(Table 4 here)

5.3.2. Ethnicity

We extend the univariate analysis by separating the sample based on the median values of the ethnic groups: $BODFRANCO_{it}$ and $BODINDO_{it}$, as tabulated in Tables 5 and 6, respectively. Firms that have more than the median value of $BODFRANCO_{it}$ recorded significantly higher $LnPRICE_{it}$, higher earnings per share ($LnEPS_{it}$) *and* book value ($LnBV_{it}$), and fewer firms considered as politically connected ($POLCON_{it}$). Not surprisingly, firms above the median value of $BODFRANCO_{it}$ have significantly fewer $BODINDO_{it}$ directors. Furthermore, these firms are significantly smaller, have higher managerial ownership ($MANOWN_{it}$, Mann-Whitney only), and are significantly older than firms with less than the median value of *BODFRANCO* directors.

(Table 5 here)

We perform a similar test for $BODINDO_{it}$. We find no significant differences ~~in *LnPRICE, LnEPS* and *LnBV* between the two groups of firms~~between the two groups of firms in *LnPRICE, LnEPS,* and *LnBV*. As expected, firms with more than the median value of $BODINDO_{it}$ are likely to be connected. Further, firms with a higher $BODINDO_{it}$ have many significantly lower $BODFRANCO_{it}$ directors. Panel C of Table 6 presents the control variables' mean and median differences. Firms with more than the median value of $BODINDO_{it}$ are significantly larger, have a significantly lower level of managerial ownership, and are younger firms.

These univariate analyses provide insight into the differences in firm characteristics for firms dominated by $BODFRANCO_{it}$ or $BODINDO_{it}$. A significant finding is that firms that $BODINDO_{it}$ dominates are more politically connected. In addition, the univariate analysis supports our argument that firms with a high level of $BODINDO_{it}$ directors are also politically connected.

(Table 6 here)

5.4. Multivariate

Table 7 presents the main regressions. Column 1 of Table 7 presents the baseline regression for Ohlson's model, and we find that $LnEPS_{it}$ and $LnBV_{it}$ are positively and significantly associated with $LnPRICE_{it}$, at the one percent level. Column 2 of Table 7 tabulates the regression to include the control variables. We find a positive and significant relationship between $POLCON_{it}$ and $PRICE_{it}$ ($\beta = 0.130$, $t=1.976$, $p<0.1$), suggesting that political connections positively affect share prices. We find a negative and significant relationship between $BODFRANCO_{it}$ and $PRICE_{it}$ (β = 0.309, t=-4.266, $p<0.01$), and no significant relationship for $BODINDO_{it}$. All the control variables are significantly associated with $PRICE_{it}$, except $LNSIZE_{it}$ and LEV_{it}.

Column 3 of Table 7 presents the regression to test the value relevance of political connections ($POLCON_{it}$). We find the coefficient for $POLCON*BV_{it}$ is negative and significant (β = -0.180, t = -2.688, $p<0.05$), and this signals that political connections reduce the value relevance of book value (BV). However, we could not find any evidence for $POLCON*EPS_{it}$. All control variables remain similar to column 2 of Table 7. The results overall support the notion that political connections decrease earnings quality. In addition, the results are similar to other political connection studies (please see Gul, 2006; Fung *et al*., 2015~~; Gul 2006~~).

(Table 7 here)

5.5. Testing for endogeneity

Political connections have been proven to be endogenous by several studies (Abdul Wahab *et al*., 2011; Domadenik *et al*., 2016). Maddala (1991) argues that selection bias happens once observations are sorted into discrete groups ~~in a non-randomly manner~~non-randomly, leaving way ~~to~~ for potential coefficient bias in ordinary least squares procedures. Indeed, political connection scores are not allocated randomly but based on the firm's relationship with the government over time.

A two-step procedure is suggested: the first stage involves identifying the endogenous independent variable and addressing the selection model by using a probit regression to compute the inverse Mills ratio ($IMILLS_{it}$), which will be, in the second phase, added to the main regression. The following first-stage model is applied to determine the inverse Mills ratio ($IMILLS_{it}$):

$$POLCON_{it} = \beta_0 + \beta_1 BIG4_{it} + \beta_2 LnEPS_{it} + \beta_3 LnBV_{it} + \beta_4 BODFRANCO_{it} + \beta_5 BODINDO_{it} + \beta_6 LNSIZE_{it} + \beta_7 LEV_{it} + \beta_8 MANOWN_{it} + \beta_9\ INSTOWN_{it} + \beta_{10}\ LNAGE_{it} + \beta_{11} CG2004_{it} + \beta_{12} INDUSTRY_{it} \quad \text{(Equation 5)}$$

This regression equation differs slightly from the main regression equation as an exclusion restriction – *BIG4* has been added to the first stage of probit regression. The first added variable, *BIG4* is a dummy variable that holds the value of 1 if the auditor is one of the Big 4 international auditing firms; 0 otherwise. Many studies have incorporated the relationship between the choice of auditors and political connections. Guedhami *et al.* (2014) investigate the relationship between political connections and auditor choice and find that connected firms are more likely to appoint a Big 4 auditor, as the insiders in these firms are eager to improve accounting transparency and convince outside investors that they are not misappropriating resources. Liu *et al.* (2017) examined the relationship between political connection and auditor's choice in Chinese firms and found that politically connected firms hire auditors of lower quality. Cheng *et al.* (2015) reached the same conclusion.

However, several recent studies have found that political connections adversely determine the likelihood of engaging quality auditors. Cheng *et al.* (2015), Habib *et al.* (2017), and Liu *et al.* (2017) argue that the likelihood of engaging quality auditors by politically connected firms is driven by managerial incentives to distort numbers, expropriate assets, and mask related-party transactions. These studies find results consistent with their arguments. Therefore, it is argued that a relationship between political connections and the choice of auditors exists.

Column 1 of Table 8 presents the probit regression when we include $BIG4_{it}$ as a determinant for *POLCON*. The coefficient for $BIG4_{it}$ and the $IMILLS_{it}$ variable in columns 2 and 3 of Table 8 are insignificant, suggesting that the regressions do not suffer from selection bias. After controlling for selection bias, the results remain qualitatively similar to Table 7.

(Table 8 here)

5.6. Political connections, board diversity and value relevance

Table 9 presents the regression results when we test the impact of the ethnic groups on the value relevance of political connections. Column 2 of Table 9 ~~presents~~ shows the preliminary test for the value relevance for $BODFRANCO_{it}$ and $BODINDO_{it}$. We find $BODFRANCO_{it}$ and $BODINDO_{it}$ reduce the value relevance of EPS_{it} on $PRICE_{it}$. However, we find contrasting results for BV_{it}.

Column 3 of Table 9 tabulates the regression for $BODFRANCO_{it}$. ~~We find t~~The coefficient for $POLCON*BODFRANCO*EPS_{it}$ is positive and significant (β=0.639, *t=3.434, p<0.01*). This provides evidence that $BODFRANCO_{it}$ mitigates the negative impact of political connections on the value relevance of EPS_{it}. Column 4 of Table 9 presents the result for $BODINDO_{it}$. The interaction term $POLCON*BODINDO*EPS_{it}$ is negative and significant (β=-1.251, t=*-3.320, p<0.01*). The results support our arguments that $BODFRANCO_{it}$ directors are experienced and probably more trustworthy to various stakeholders and mitigate the negative perception of political connections.

Furthermore, we find that the negative impact of political connections on value relevance worsens with firms with a high level of $BODINDO_{it}$ directors. The results are not surprising since $BODINDO_{it}$ directors are often linked to the government, and their presence on the board could be largely ceremonial or an indicator of trying to tap into government grants. This indicator ~~alone ~~is usually perceived negatively since it signals the firm's inability to tap into the external market.

(Table 9 here)

6. Additional Analyses

We extend the test by separating the sample based on the median values of the ethnic groups; $BODFRANCO_{it}$ and $BODINDO_{it}$. The premise of our test is to investigate the collective impact of ethnic groups in mitigating the value relevance of political connections. The directors from various ethnic groups are expected to interact on the board. We argue that firms with Franco-Mauritian directors' domination will weaken the higher negative impact caused by the presence of Indo-Mauritian directors. In contrast, we argue that the positive impact of Franco-Mauritian directors will be weakened in firms that Indo-Mauritians dominate. ~~In order t~~To investigate these conjectures, we re-run the regressions presented in Table 9 by separating the samples according to the median values of $BODFRANCO_{it}$ and $BODINDO_{it}$, with minor adjustments. Table 10 presents the results for the impact of $BODFRANCO_{it}$ and $BODINDO_{it}$ directors, respectively.

Columns 1 and 2 present the regressions when we separate the sample based on the median values of $BODFRANCO_{it}$. The results are similar to th~~e earlier results~~ose tabulated in Tables 7 and 9. We find the interactions $POLCON*BODINDO*LnEPS_{it}$ and $POLCON*BODINDO*LnBV_{it}$ are not significant.

Columns 3 and 4 of Table 10 tabulate the regression when we split the sample based on the median value of $BODINDO_{it}$. We find that the results for the interactions $POLCON*BODFRANCO*EPS_{it}$ and $POLCON*BODFRANCO*BV_{it}$ are not significant, suggesting ~~that~~ the impact of the presence of $BODINDO_{it}$ is relatively minimal or non-existence.

(Table 10 here)

6.1. Elections

During the sample period, Mauritius experienced three elections in 2005, 2010, and 2014. We assigned dummy variables to control for each of the elections. The untabulated results find that the election years are significantly related to *PRICE*. The main test variables' results remain qualitatively similar to Table 7.

7. Conclusion

This study has two central objectives. The first and baseline objective is establishing the relationship between ~~political connections and value relevance in Mauritius~~Mauritius's political connections and value relevance. We are motivated to conduct such an examination as there is limited evidence of Mauritius's political connections. The political landscape in Mauritius is very interesting and is seen as a country dominated by two prominent families. Based on our analysis of 541 firm-year observations for 2001-2016 and the operationalization of political connections based on Faccio's (2006) seminal work, we find that political connections mitigate the value relevance of earnings and book value. The results are consistent with studies (e.g. Chen *et al*., 2010; Chaney *et al*., 2011~~, Chen et al., 2010~~) that examine the impact of political connections on earnings quality. Further, the results remain similar after we perform a selection test.

The second and primary research objective is to examine whether board ethnicity mitigates the negative impact of political connections on value relevance. Mauritius is blessed with diverse ethnic groups working collectively since gaining independence. We conjecture that the ethnic groups in Mauritius represent the political landscape. We chose two contrasting ethnic groups: Franco-Mauritians, who ~~are dominating~~dominate the capital market but are a minority in the population, and Indo-Mauritians, who control the government and are a majority.

We find contrasting results based on the two ethnic groups, Franco-Mauritians, and Indo-Mauritians. We find firms that have Franco-Mauritians as directors mitigate the negative impact of political connections on the value relevance of earnings and book value. In contrast, we find that Indo-Mauritian directors worsen the negative impact of political connections on value relevance. The contrasting findings highlight the unique institutional settings in Mauritius. The results add to the extant literature, especially on the role of ethnicity in the involvement of the capital market via political connections. The findings of this study should act as a catalyst for further research on political connections in this region, which is often deemed 'sensitive' for accounting researchers.

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[1] The Court found him not guilty in November 2019 as the pieces of evidence presented by the prosecuting parties were vague and uncertain and therefore failed the test of certainty required under the provisions of the Law (Police V N. Ramgoolam, 2019).

[2] Mauritius had a Franco-Mauritian Prime Minister; Paul Berenger, between 2003-2005.

[3] Mauritius has an anti-corruption score of 73.1 out of 100 in the Mo Ibrahim Index in 2020 and ranked second out of 54 in Africa (Mo Ibrahim Foundation, 2021

[4] It is a customized version of the Westminster majoritarian model whereby the constitution appoints for a Head of State or President, Vice–President, Prime Minister or Head of Government, Deputy Prime Minister(s), Members of Parliament, Parliamentary opposition with an appointed Leader of the opposition and many parliamentary secretaries.

[5] The industries are Banks and Insurance; Commerce; Manufacturing; Investments; Leisure and Hotels; Property Development; Sugar Industry and Transport.

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APPENDIX A

Operational Definitions

Variable	Operational Definition	Source(s)
Panel A: Dependent Variable		
LnPRICE	Log transformation of Share Price of firm *i* for the period *t* in Mauritian Rupees.	Stock Exchange of Mauritius
Panel B: Independent Variables		
LnEPS	Natural log transformation of Earnings per share of firm *i* for the period *t* in Mauritian Rupees.	DataStream, BvD's Osiris, annual reports
LnBV	Natural log transformation of Book value per share of equity of firm *i* at time *t* in Mauritian Rupees.	DataStream, BvD's Osiris, annual reports
POLCON	Political connection of firm *i* at time *t*.	
BODFRANCO	Franco-Mauritian directors on the board of directors of firm *i*.	Annual reports
BODINDO	Indo-Mauritian directors from Indian descent on the board of directors of firm *i*.	Annual reports
Panel C: Control Variables		
SIZE	Total Assets of firm *i* at time *t* in millions of Mauritian Rupees.	DataStream, BvD's Osiris, annual reports
LNSIZE	Natural log transformation of Total Assets of firm *i* at time *t* in millions of Mauritian Rupees.	DataStream, BvD's Osiris, annual reports
LEV	Natural log transformation of Total Debt divided by Total Assets.	DataStream, BvD's Osiris, annual reports
MANOWN	Percentage of direct managerial ownership of firm *i*.	DataStream, BvD's Osiris, annual reports
INSTOWN	Percentage ownership by the top five direct institutional shareholders of firm *i*.	DataStream, BvD's Osiris, annual reports
AGE	Natural log transformation of the sum of years since incorporation	Annual reports
Panel D: Exclusion Restriction		
BIG4	An indicator variable that takes the value of 1 if the firm engaged an international Big 4 auditor	Annual reports

APPENDIX B

Politically connected firms

Politically connected firms were identified using Faccio (2006) 's definition of politically connected firms and/or significant government ownership in the firm. Therefore, politically connected firms satisfy any of the following:

(a) Had Member of Parliaments (MPs) on the board of directors,
(b) Had senior executives closely related to a MP or government official,
(c) Had significant ownership by government or government-linked organizations.

The data was collected through:

(a) Connections identified by linking the biodata of MPs and Government officials from the government websites and the biodata of senior executives in annual reports,
(b) Percentage of ownership of government and government-related entities in annual report and companies' websites
(c) Review of newspapers, government publications and firms' publications to established connections
(d) Review of biodata of board members in annual reports.

Due to the sensitive nature of political connections in Mauritius and the current political turmoil in the country, the names of the firms are not disclosed:

Firm A	1. A board member was the lawyer of one of the Prime ministers of Mauritius. The connection was identified through the obituary of this person as he passed away in 2013. 2. A board member was the brother of an MP: The connection was established through the biodata of the MP on the government website and the biodata of the director. 3. A board member was the sister-in-law of the Minister of Education and MP, she was the CEO of a state-owned organization and director on several government boards. This connection was established through the newspapers, the biodata of the Minister on the government website and the websites of the different organizations, of which she is a director. 4. Two government entities were also considered as major shareholders for the period 2009 – 2016. Connections identified in the annual reports.

Table 1: Sample Selection

Description	Sample Size
Firm-year Observations 2001-2016[a]	688
Less Observations from Financial Companies	(48)
	640
Less Observations with missing financial data	(99)
Firm-year Observations for the final sample	541

[a] The sample was developed starting with all audited firms listed on the Stock Exchange of Mauritius during the period. During the 2001-2016 period of this study, there were 43 firms listed on the main market of the Stock Exchange of Mauritius.

Table 2: Descriptive Statistics

	Mean	Median	Maximum	Minimum	SD
Panel A: Dependent variable					
PRICE	62.371	40.275	515	0.000	71.571
LnPRICE	3.526	3.696	6.244	-0.236	1.250
Panel B: Independent variables					
EPS	260.058	3.295	146372.5	-39.77	6109.267
LnEPS	1.111	1.401	11.894	-6.645	1.632
BV	7.135	10.000	10.700	0.010	3.945
LnBV	1.544	2.303	2.370	-4.605	1.272
POLCON	0.366	0.000	1.000	0.000	0.482
BODFRANCO	0.607	0.667	1.000	0.000	0.314
BODINDO	0.174	0.100	1.000	0.000	0.207
Panel C: Control variables					
SIZE (millions)	13068.601	3257.542	317704.8	38.895	31859.363
LNSIZE	21.032	21.502	26.484	11.905	2.847
LEV	-1.0945	-0.676	0.0284	-6.308	1.243
MANOWN	0.0280	0.0002	7.361568	0.000	0.319
INSTOWN	0.513	0.596	0.910	0.000	0.234
AGE	62.84	41	227	1.000	52.38
LNAGE	3.841	3.714	5.425	0.000	0.783

PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. The logged variables LnPRICE, LnEPS, LnBV, denote the logarithm of the respective variables. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is Natural log transformation of the sum of years since incorporation.

Table 3: Correlation Matrix

Correlations		1	2	2	4	5	6	7	8	9	10	11
PRICE	1		.675***	.487***	.014	.090**	-.085**	.171***	.313***	.091**	.123***	.475***
EPS	2	.549***		.363***	.026	.006	-.035	.166***	.270***	-.007	-.004	.337***
BV	3	.289***	.200***		.031	.111**	-.051	-.046	.217***	.082*	.075*	.131***
POLCON	4	.058	.046	.079*		-.245***	.309***	.122***	.144***	.134***	-.109**	-.027
BODFRANCO	5	.055	.015	.077*	-.239***		-.727***	-.143***	-.194***	-.006	.175***	.194***
BODINDO	6	-.130***	-.053	-.010	.395***	-.649***		.183***	.130***	-.026	-.252***	-.113***
LNSIZE	7	.014	.112***	-.121***	.101**	-.137***	.196***		.402***	-.073*	.096**	.111**
LEV	8	.240***	.088**	.258***	.053	.016	-.139***	.121***		.248***	.148***	.319***
INSTOWN	9	.086**	-.069	.107**	.148***	-.018	-.048	-.174***	.346***		-.207***	.080**
MANOWN	10	.065	.018	.038	-.062	.004	-.047	.032	.039	-.022		-.019
LNAGE	11	.397***	.266***	.165***	-.009	.261***	-.265***	-.013	.342***	.033	-.050	

PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is Natural log transformation of the sum of years since incorporation.
Significance at: *10, **5 and ***1 per cent levels.

Table 4: Univariate Analysis of Differences variables between Politically and Non-Politically connected Firms in Mauritius (2001-2016)

	(n=199) POLCON =1		(n=342) POLCON =0		*t* - Tests	Mann Whitney
	Mean	**Median**	**Mean**	**Median**	***p-Value***	***p-Value***
Panel A: Dependent variable						
PRICE	67.121	37.700	58.589	40.650	0.183	0.747
LnPRICE	3.592	3.630	3.444	3.705	0.187	0.747
Panel B: Independent variables						
EPS	5.401	3.330	4.492	2.975	0.300	0.588
LnEPS	1.252	1.401	0.965	1.340	**0.054**	0.171
BV	7.592	10.000	6.918	10.000	**0.054**	0.484
LnBV	1.584	2.303	1.540	2.303	0.694	0.484
BODFRANCO	0.512	0.556	0.665	0.750	**0.000**	**0.000**
BODINDO	0.278	0.222	0.112	0.091	**0.000**	**0.000**
Panel C: Control variables						
LNSIZE	21.418	21.942	20.814	21.455	**0.017**	**0.004**
LEV	-0.999	-0.553	-1.137	-0.718	0.210	**0.001**
MANOWN	0.002	0.000	0.043	0.000	0.151	**0.010**
INSTOWN	0.561	0.602	0.490	0.562	**0.001**	**0.002**
LNAGE	3.845	3.689	3.860	3.738	0.828	0.526

PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. POLCON is Political Connection. The logged variables *LnPRICE*, *LnEPS*, *LnBV*, denote the logarithm of the respective variables. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is the natural log transformation of the sum of years since incorporation. Significant p-values are bold.

Table 5: Univariate Analysis of Differences variables between Firms that are below/equal and above the median value of BODFRANCO (2001-2016)

	BODFRANCO =<median (n=279)		BODFRANCO >median (n=262)		t-test	Mann-Whitney
	Mean	Median	Mean	Median	p-value	p-value
Panel A: Dependent Variable						
PRICE	57.319	33.500	66.795	43.150	0.113	**0.001**
LnPRICE	3.312	3.497	3.312	3.765	**0.000**	**0.001**
Panel B: Independent Variables						
EPS	4.622	3.270	5.083	3.030	0.559	0.593
LnEPS	0.909	1.296	1.250	1.480	**0.017**	**0.037**
BV	6.691	10.000	7.683	10.000	**0.003**	**0.000**
LnBV	1.401	2.303	1.722	2.303	**0.003**	**0.000**
POLCON	0.484	0.000	0.240	0.000	**(0.000)**	
BODINDO	0.287	0.250	0.054	0.000	**0.000**	**0.000**
Panel C: Control variables						
LNSIZE	21.511	21.834	20.513	21.423	**0.000**	**0.002**
LEV	-1.055	-0.568	-1.126	-0.768	0.463	**0.000**
MANOWN	0.018	0.000	0.039	0.000	0.466	**0.000**
INSTOWN	0.518	0.596	0.513	0.573	0.793	0.379
LNAGE	3.753	3.689	3.966	3.761	**0.001**	**0.008**

PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. The logged variables *LnPRICE*, *LnEPS*, *LnBV*, denote the logarithm of the respective variables. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is Natural log transformation of the sum of years since incorporation. Significant p-values are bold.

Table 6: Univariate Analysis of Differences variables between Firms that are below/equal and above the median value of BODINDO (2001-2016)

	BODINDO =< median value (n-282)		BODINDO >median (n=259)		t-test	Mann-Whitney
	Mean	Median	Mean	Median	p-value	p-value
Panel A: Dependent Variable						
PRICE	69.887	43.650	53.221	29.000	**0.007**	**0.002**
LnPRICE	3.557	3.695	3.450	3.611	0.322	0.586
Panel B: Independent Variables						
EPS	5.472	3.830	4.164	2.620	0.123	**0.011**
LnEPS	1.065	1.391	1.070	1.353	0.974	0.967
BV	7.449	10.000	6.869	10.000	0.106	**0.008**
LnBV	1.569	2.302	1.545	2.303	0.827	0.903
POLCON	0.262	0.000	0.479	0.000	**(0.000)**	
BODFRANCO	0.791	0.833	0.408	0.455	**0.000**	**0.000**
Panel C: Control variables						
LNSIZE	20.690	21.479	21.395	21.575	**0.004**	**0.067**
LEV	-1.124	-0.750	-1.052	-0.580	0.494	**0.001**
MANOWN	0.042	0.001	0.013	0.000	0.263	**0.000**
INSTOWN	0.520	0.584	0.511	0.596	0.644	0.873
LNAGE	3.938	3.738	3.767	3.714	**0.011**	0.180

PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. *LnPRICE*, *LnEPS*, *LnBV*, denote the logarithm of the respective variables. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is Natural log transformation of the sum of years since incorporation. Significant p-values are bold.

Table 7: Main Regressions (2001-2016, n=541)

Variable	Expected Direction	1		2		3	
INTERCEPT	?	1.641		-0.586		-0.556	
		18.492	***	*-1.294*		*-1.308*	
LnEPS	+	0.475		0.409		0.394	
		13.897	***	***11.316***	***	***9.640***	***
LnBV	+	0.228		0.245		0.351	
		8.620	***	***8.897***	***	***5.862***	***
POLCON	?			0.130		0.435	
				1.976	*	***2.719***	***
BODFRANCO	+			-0.309		-0.320	
				-4.266	***	***-4.768***	***
BODINDO	-			0.108		0.029	
				0.513		*0.142*	
LNSIZE	+			0.018		0.003	
				1.336		*0.242*	
LEV	-			0.035		0.029	
				1.613		*1.478*	
MANOWN	+			0.118		0.117	
				4.073	***	***4.143***	***
INSTOWN	+			0.293		0.356	
				2.628	***	***3.225***	***
LNAGE	+			0.413		0.463	
				7.957	***	***8.919***	***
CG2004	+			-0.122		-0.122	
				-1.625		***-1.773***	*
*POLCON*EPS*	-					0.022	
						0.403	
*POLCON*BV*	-					-0.180	
						-2.688	**
Industries Fixed	?	Yes		Yes		Yes	
Adj R^2		0.727		0.757		0.761	
F-statistic		***142.393***	***	***83.100***	***	***76.3740***	***

This table presents the result after adjusted heteroscedasticity and t-statistics(in paratheses). PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. *LnPRICE*, *LnEPS*, *LnBV*, denote the logarithm of the respective variables. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is Natural log transformation of the sum of years since incorporation. Significant p-values are bold. . ***,**,* denote significance at 1%, 5% and 10% level, respectively (one-tailed).

Table 8: Self-selection Test

Commented [TM1]: To redo using log of price

Dependent variable	POLCON		PRICE		PRICE	
Variable	1		2		3	
INTERCEPT	0.305		-1.141		-2.055	
	1.072		*-1.143*		***-1.712***	*
BIG4	0.043					
	0.823					
LnEPS	0.028		0.434		0.459	
	2.022	**	***7.385***	***	***7.150***	***
LnBV	-0.024		0.227		0.310	
	-1.658	*	***7.479***	***	***7.021***	***
POLCON			0.131		0.477	
			1.983	**	***2.634***	**
BODFRANCO	0.260		-0.115		0.202	
	2.732	***	*-0.370*		*0.519*	
BODINDO	0.957		0.917		2.201	
	8.802	***	*0.627*		*1.263*	
LNSIZE	0.002		0.021		0.009	
	0.228		*1.568*		*0.687*	
LEV	-0.083		-0.037		-0.163	
	-5.770	***	*-0.279*		*-1.033*	
MANOWN	-0.062		0.065		-0.027	
	-6.396	***	*0.671*		*-0.233*	
INSTOWN	0.386		0.630		1.272	
	4.086	***	*0.972*		*1.604*	
LNAGE	-0.082		0.337		0.263	
	-1.617		***2.139***	**	*1.613*	
CG2004	-0.035		-0.148		-0.196	
	-0.470		***-1.979***	**	***-2.567***	**
IMILLS			0.858		2.316	
			0.548		*1.234*	
*POLCON*LnEPS*					0.018	
					0.328	
*POLCON*LnBV*					-0.197	
					-2.582	**
Industry fixed	Yes		Yes		Yes	
McFadden R^2/ Adjusted R^2	0.338		0.757		0.761	
LR/F statistic	***14.424***	***	***78.606***	***	***72.913***	***
Obs with Dep=0	343					
Obs with Dep=1	198					

This table presents the result after adjusted heteroscedasticity and t-statistics (in paratheses). PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity1. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors. SIZE is total assets in millions of Mauritian Rupees. LNSIZE is the Natural log transformation of SIZE. LEV is total debt divided by total assets. MANOWN is the percentage of direct managerial ownership. INSTOWN is percentage ownership by the top five direct institutional shareholders. AGE is Natural log transformation of the sum of years since incorporation. Significant p-values are bold. ***,**,* denote significance at 1%, 5% and 10% level, respectively (one-tailed).

Table 9: Regressions results on Political connections and Ethnicity (2001-2016, n=541)

Variable	Expected Direction	1		2		3		4	
Intercept	?	-0.586		-0.663		-0.703		-0.184	
		-1.294		*-1.604*		***-1.686***	*	*-0.441*	
LnEPS	+	0.409		0.752		0.605		0.310	
		11.316	***	***5.861***	***	***6.002***	***	***4.879***	***
LnBV	+	0.245		-0.020		0.134		0.253	
		8.897	***	*-0.146*		*1.214*		***3.282***	***
POLCON	?	0.130		0.133		0.266		0.128	
		1.976	*	***1.971***	**	*1.251*		*0.617*	
BODFRANCO	+	-0.309		-0.209		-0.319		-0.311	
		-4.266	***	***-0.932***	**	*-1.406*		***-2.414***	**
BODINDO	-	0.108		-0.206		-0.011		-1.597	
		0.513		*-0.597*		***-2.214***	**	***-2.309***	***
*BODFRANCO*LnEPS*	+			-0.358		-0.310			
				-2.092	**	***-2.114***	**		
*BODFRANCO*LnBV*	+			0.189		0.252			
				1.129		***1.661***	*		
*BODINDO*LnEPS*	-			-0.586				0.761	
				-3.741	***			***2.082***	**
*BODINDO*LnBV*	-			0.511				0.265	
				2.449	**			*0.653*	
*POLCON*LnEPS*	?					-0.355		0.312	
						-2.975	***	***3.644***	***
*POLCON*LnBV*	?					0.273		-0.269	
						2.065	**	***-2.820***	***
*POLCON *BODFRANCO*	?					0.299			
						0.844			
*POLCON *BODINDO*	?							1.564	
								2.123	**
*POLCON *BODFRANCO*LnEPS*	?					0.639			
						3.434	***		
*POLCON *BODFRANCO*LnBV*	?					-0.746			
						-4.091	***		
*POLCON *BODINDO*LnEPS*	?							-1.251	
								-3.320	***
*POLCON *BODINDO*LnBV*	?							0.248	
								0.585	
Control Variables		Yes		Yes		Yes		Yes	
Industry Fixed		Yes		Yes		Yes		Yes	
Adj R^2		0.757		0.768		0.778		0.785	
F-statistic		***83.100***	***	***72.412***	***	***67.280***	***	***70.363***	***

This table presents the result after adjusted heteroscedasticity and t-statistics(in parantheses). PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors.. Significant p-values are bold. ***,**,* denote significance at 1%, 5% and 10% level, respectively (one-tailed).

Table 10 Regression results for interaction between board ethnicity

Variable	Bodfranco<=med 1		Bodfranco>med 2		Bodindo<=med 3		Bodindo>med 4	
INTERCEPT	-0.188		3.280		-1.847		0.023	
	-0.301		***3.272***	***	*-1.480*		*0.037*	
LnEPS	0.407		0.203		1.421		0.298	
	3.825	***	***3.154***	***	***4.244***	***	***2.959***	***
LnBV	0.127		0.257		-0.426		0.323	
	0.901		***2.989***	***	***-1.737***	*	***3.002***	***
POLCON	-0.407		0.622		0.248		0.367	
	-1.452		***2.271***	**	*0.235*		*1.244*	
BODFRANCO	-0.778		-3.002		0.014		-1.416	
	-3.074	***	***-4.828***	***	*0.053*		***-3.807***	***
BODINDO	-0.583		-8.872		0.492		0.370	
	-0.610		***-3.975***	***	*0.380*		*1.338*	
*BODINDO *LnEPS*	-0.138		2.197					
	-0.318		***2.252***	**				
*BODINDO *LnBV*	0.704		1.759					
	1.227		*1.276*					
*BODFRANCO *LnEPS*					-1.244		0.058	
					-3.183	***	*0.338*	
*BODFRANCO *LnBV*					0.808		0.553	
					3.111	***	***2.559***	**
*POLCON*LnEPS*	0.284		0.188		-0.480		-0.014	
	2.131	**	***1.810***	*	*-1.043*		*-0.108*	
*POLCON*LnBV*	0.009		-0.291		0.016		-0.101	
	0.051		***-2.606***	***	*0.027*		*-0.621*	
*POLCON*BODINDO*	1.443		-2.564					
	1.383		*-0.418*					
*POLCON*BODFRANCO*					0.451		-0.360	
					0.366		*-0.341*	
*POLCON*BODINDO *LnEPS*	-0.425		-1.438					
	-0.939		*-1.210*					
*POLCON*BODINDO *LnBV*	-0.430		0.711					
	-0.725		*0.211*					
*POLCON*BODFRANCO *LnEPS*					0.696		0.231	
					1.306		*0.968*	
*POLCON*BODFRANCO *LnBV*					-0.402		-0.119	
					-0.643		*-0.229*	
Control variables	Yes		Yes		Yes		Yes	
Industry fixed	Yes		Yes		Yes		Yes	
N	279		262		282		259	
Adj R^2	0.865		0.732		0.767		0.836	
F-statistic	***65.456***	***	***26.187***	***	***30.764***	***	***55.266***	***

This table presents the result after adjusted heteroscedasticity and t-statistics(in parantheses). PRICE is share price of firm i for the period t in Mauritian Rupees. EPS is earnings per share. BV is Book value per share of equity. POLCON is Political Connection. BODFRANCO is the percentage of Franco-Mauritian directors on the board of directors. BODINDO is the percentage of Indo-Mauritian directors from Indian descent on the board of directors.
Significant p-values are bold. ***,**,* denote significance at 1%, 5% and 10% level, respectively (one-tailed).