

Presenting a model of factors influencing on political connections creation in banks with financial constraints

Karim Yarahmadi

Mazandaran Payam Noor University, Behshahr Center, Mazandaran. Iran

(Communicated by Sirous Moradi)

Abstract

The present study has analyzed and presented the model of factors influencing the creation of political communication in banks with financial constraints. For this purpose; The information of 12 banks accepted in the Tehran Stock Exchange for ten years (from the beginning of 2014 to the end of 2023), research variables were calculated, and necessary statistical tests were done. The current research method is descriptive-correlation, and its design is experimental and uses a post-event approach to test research hypotheses. Multivariable linear regression was used, which was investigated and tested using statistical and econometric methods. Hypotheses have been discussed. Research findings indicated that in banks with financial restrictions, the size of the board of directors hurts creating political connections in banks with financial constraints; The independence of the board of directors harms creating political connections and in banks with financial restrictions; and the dual role of the CEO hurts creating political connections.

Keywords: Financial constraints, Board of directors size, Independence board of directors, Dual role of the CEO, Political connections
2020 MSC: 91G15

1 Introduction

The world of banking is growing and developing unpredictably. Improving the performance of banks, whether in the period of financial crises or the absence of crises, is one of the basic elements of their competition. Obviously, the more banks can improve their performance, the better the basis for their existence in competitive markets will be provided. On the other hand, the need to pay attention to the factors affecting the improvement of the financial performance of banks is not without grace. From this factor, we can refer to political communication and corporate management. What is clear is that the higher the amount of disclosure of corporate management information by banks, the more the confidence of investors towards carrying out investment activities, and from this point of view, the financial performance of banks is evaluated in a better way. On the opposite point, banks tend to show their favourable financial performance and improve the quality of the qualitative characteristics of their financial information by reducing harmful political communications and increasingly revealing corporate governance information. It should be known that the theory of political economy was introduced to financial and economic texts approximately in the second half of the 20th century. The mentioned theory attracted the attention of economists, politicians and sociologists. Based on the theoretical foundations of this theory, economic activities and policies are interdependent. In this way, economic activities and decisions affect political relations and political decisions and relations affect the performance of companies and financial

Email address: karim.yarahmadi1403@gmail.com (Karim Yarahmadi)

institutions. On the other hand, the mentioned theory states that political relations in dealing with economic relations are a more fundamental factor in influencing performance. Because it is believed that political relations are formed under the influence of government decisions [9]. On the other hand, in banks and financial institutions, corporate governance is synonymous with the concept of managing business affairs, and this includes identifying and explaining goals, clarifying the risk-taking situation, and protecting the interests of shareholders and other stakeholders. Based on this; It is as if the goal of establishing a corporate governance system in banks and financial institutions is to maximize correct relationships and explain authority and power correctly. In such a way that the correct use of bank resources is aimed at achieving the intended goals and the improvement of financial performance is at the top of the goals [6].

2 Theoretical and Research background

In the past several years; During the fall of the stock market value of many companies, as well as the occurrence of financial crises in various industries, the eyes of the world were focused on the positive effects of corporate governance in controlling this issue. Because the mechanisms of the corporate governance system could improve intra-organizational relations with various external groups; to be the foundation for optimal performance [13]. Considering the effects of political communication and corporate governance on financial activities; The need to pay attention to corporate governance factors to improve performance in the banking industry is felt more. Because banks are one of the most important financial institutions that consider their main task to attract customer deposits, and this makes banks, due to their position, the focus of most stakeholders' attention [15]. Iranian banks in order to fulfil their main mission, which is increasing wealth and creating added value; have always been determined to improve their performance. Because it is financial institutions and banks that play the main economic role in improving the country's situation. It is obvious that while performing these tasks, along with the need to protect the interests of investors and create trust of banks for customers, as well as predicting financial crises, they can be the basis for their better performance. One of the factors that can be the basis for the correct interaction between banks and customers is that it is necessary to observe the principles of corporate governance by banks and its increasing development. In recent years, we have seen significant changes in the field of establishing corporate governance systems in the financial structure of banks, which has been noticed by banks in developed countries in the past. on the opposite point; Stakeholders and depositors have shown their interest in establishing a corporate governance system in banks. Because corporate management and the absence of harmful political connections can play a positive role in the optimal allocation of banking resources and provide the means for economic prosperity. From this point of view, in different countries, legislators have tried to establish the principles of corporate governance such as the implementation of internal controls, explaining the duties of the board of directors and the managing director, the need to separate the role of the managing director from the policy of the board of directors, the creation of an audit committee and the establishment of an audit unit. implement the internal to reduce the destructive effects of political communication and reduce the possibility of facing financial crises in the shadow of this [4].

When the banking crisis starts, it spreads. In explaining this sentence, it can be generally said that the loss of trust in financial institutions and bankruptcy of creditors is the most obvious indicator of the crisis. Due to the existence of the crisis and the lack of financial ability of the debtors, which stems from their unemployment or low income, the banks have faced failure to receive their claims and as a result, their reserves have decreased, and as a result, with the increase in liquidity risk, they are unable to fulfil their obligations towards They are not depositors. The result is that the financial crisis causes the loss of public trust and the rush of depositors to banks to recover their deposits. In this case, due to the existence of systemic risk in the banking industry, the acute problems and bankruptcy of small banks are transferred to other banks and involve the entire banking system of the country and then the banking system and economic space of other countries as well. For example, in the Asian financial crisis in 1998, one of the reasons for creating a crisis in the banking network of Indonesia was the large amount of loans about 57% of the total loans granted, negative profit margin and the weak banking system and the NPL is small. The financial crisis in this country led to a sharp decrease in the ratio of equity to the total assets of the banks, and about two-thirds of the total assets of the banks were lost, and the majority of the banks went bankrupt, and the intermediary role of the banks in the country's economy was lost, and the government was unable to avoid collapse. Prevent the banking system. If the problems of a bank become public, the depositors get scared and withdraw their money from that bank. This causes the bank to go bankrupt, resulting in bigger headlines in the newspapers and more people withdrawing their deposits, causing more banks to go bankrupt. Suddenly, a huge rush to the banks begins. As a result, governments and bankers are afraid of panic and spend all efforts to keep information secret. This behaviour can make it difficult for journalists to report on banking. The progress achieved in the age of communication has provided inter-bank information access and has provided a platform for different banks to be aware of each other's performance status. Therefore, people should be

made aware of the efficiency of banks and how they use the available resources. Because inter-bank communication as well as interaction between banks and people is the platform for evaluating their performance. In this context, the evaluation of financial performance is one of the criteria that mandate the extent of communication between different banks and causes the different disclosure of the use of financial statements of banks to provide the necessary grounds for the analysis of financial statements and better interaction between different strata with banks. It should also be known that the need to reduce financial crimes and improve the financial performance of banks is to create effective regulatory mechanisms. Because determining the optimal ownership structure and the optimal combination of shareholders is one of the most important control and governance tools in banks and is effective on the operational policies of banks and can help improve their financial performance on the opposite point. Problems of representation may arise in the form of political communication, which is the result of this; Banks tend towards certain political goals that may question their financial performance [7].

In this way, Ronaghi [11] discussed the effect of corporate governance on the performance of banks. He stated that one of the dimensions of the pathology of the banking system is the examination of challenges that are related to internal banking issues and internal structures and how banks are run, as well as external banking issues and institutional platforms. The banking system is currently in a situation where it is facing significant inefficiency based on various economic and financial indicators. Examining the historical progress of the banking system of other countries shows that the challenges mentioned above are not specific to the banking system of a single country, and many successful banking systems have been able to gradually increase their efficiency by using optimal reform policies, including the establishment of corporate governance principles. In practice, they provide optimal and efficient allocation of resources and, as a result, favourable and continuous economic growth. Although the issue of corporate governance is an endogenous process and must start from within the bank, there is no doubt that the realization of desirable corporate governance in the banking network without the existence of appropriate economic-political institutional platforms, as well as the absence of a powerful and independent supervisory authority due to the requirement of standards, supervision of all processes and platforms It is not possible to achieve desired corporate governance. Jan et al. [8] investigated the effect of corporate governance system mechanisms on the performance of banks. They stated that the risk of default occurs when the borrower does not fulfil his obligations to the lender on the due date due to his inability or unwillingness. In this way, banks must have enough capital to cover the risk of their activities, through which they can prevent damage to depositors. In addition, the improvement of the corporate governance structure can strengthen the supervisory structure of the company and thus affect the performance and risk. The results of the research hypotheses test showed that at the 95% confidence level, the variables of capital adequacy ratio, independence of the board of directors and the percentage of institutional shareholders have a negative and significant effect on the default risk of banks. Also, the results showed that dual duties of the CEO and internal ownership have a positive and significant effect on bank default risk, and increasing managerial ownership and dual duties of the CEO increases the risk of bank default.

Tessema [13] investigated the effect of corporate governance and political communication on the information asymmetry of banks. He found that corporate governance includes all the processes and structures that help financial institutions in the direction and management of affairs, to ensure the safety and soundness of their operations. Corporate governance (corporate management system) means the distribution of powers and the use of appropriate mechanisms by the board of directors, the executive board and shareholders to respond to other stakeholders of Bank Nazir; It is depositors, customers, employees and society members in general, and in this regard, it provides a structure to develop the organization's goals and their implementation, and makes monitoring and control of performance possible. Also, the findings stated that corporate governance and political communication have a significant positive and negative effect on the information asymmetry of banks, respectively. Naciti [10] investigated the effect of corporate governance and board composition on the financial stability of banks. He found that corporate governance, the size of the board of directors, the independence of the board of directors and the separation of the role of the CEO from the chairmanship of the board of directors have a positive and significant effect on the financial stability of banks.

Chen et al. [3] provided a model of the effect of political communication and corporate governance on the performance of banks in the event of financial crises. They found that political communication has a negative and significant effect on the financial performance of banks, corporate governance has a positive and significant effect on the financial performance of banks, and the effect of political communication on the financial performance of banks is stronger during financial crises and the effect of corporate governance on the financial performance of banks. It is weaker during financial crises. Deniz et al. [1] investigated the role of corporate governance on the financial stability of banks. They found that due to the necessity of using effective methods of corporate governance to gain and maintain public trust in the banking system and considering that in recent years, on the one hand, considerable progress has been made in establishing the corporate governance system, through legislation, and regulatory measures. Also, the voluntary actions

of the banks have been carried out and on the other hand, the depositors and other beneficiaries of the banks have also gained more knowledge about the necessity and importance of the corporate governance system and have become interested in following the establishment of this system, so it is natural that the establishment of a comprehensive and effective governance system A company can influence the development and efficient functioning of financial markets, optimal allocation of resources, preventing banks from facing liquidity crisis and even their bankruptcy.

Diallo [6] investigated the relationship between corporate governance, ownership concentration and the growth and financial performance of banks. He found that the main reason for using corporate governance is to monitor the part of the company that controls the assets of shareholders and investors. This ensures that the balance of power is appropriately distributed among board members, that executives are fairly rewarded or rewarded, that the board accepts responsibility for overseeing executives and managing risks, that external auditors are independent, and that the company is not influenced by their performance. Salim et al. [12] investigated the effect of internal corporate governance mechanisms on the performance of banks. They found that banks, as mediators of funds, have always played an irreplaceable role in the economy of every country, but playing this role, along with "protecting the interests of depositors", and "maintaining trust and confidence in banks" on the one hand, and the other hand, the increasing complexity of operations Banks and their sensitivity to the liquidity crisis have created complex conditions in establishing a balance of interests among all the stakeholders of a bank, and in this regard, one of the appropriate solutions to establish this balance is to promote corporate governance in banks.

3 Research hypotheses

1. In banks with financial restrictions; Financial crises affect the creation of political connections.
2. In banks with financial restrictions; The size of the board of directors affects the establishment of political connections.
3. In banks with financial restrictions; The independence of the board of directors affects creating political connections.
4. In banks with financial restrictions; The dual role of the CEO affects creating political connections.

4 Analytical model of research

In order to test the hypotheses that were explained; The following regression models are used.

$$POL_{it} = \beta_0 + \beta_1 BDS_{it} + \beta_2 IBD_{it} + \beta_3 DUAL_{it} + \beta_4 LOSS_{it} + \beta_5 SIZE_{it} + \beta_6 LEV_{it} + \beta_7 CFO_{it} + \beta_8 CS_{it} + \beta_9 BTM_{it} + \beta_{10} TANG_{it} + \beta_{11} CASH_{it} + \beta_{12} CUR_{it} + \varepsilon_{it}$$

5 Research variables

Political Connection: In this research, two criteria of long-term debts and the presence of members affiliated with the government and other elements of the political system have been used in the composition of the bank's board of directors. If the ratio of long-term debts to the total debts of the bank, as well as the ratio of government-affiliated board members to the total board members of the company, is more than the average of other banks, they will be assigned several one and will be among banks with political connections, otherwise, several zero will be assigned. will take

Board size: The size of the board of directors can be measured by calculating the total number of board members

Independence of the board of directors: Independence of the state It can be calculated from the following relationship.

$$IBD = \frac{\text{obligatory members in the composition of the board of directors}}{\text{membersof number The total}} \cdot \frac{\text{The number of non}}{\text{The total}}$$

CEO Duality: The mentioned variable is defined as a bimodal variable . In this way, if the role of the CEO is separated from the role of the chairman of the board of directors ; A score of one and otherwise a score of zero will be the basis of calculations.

Loss Report: The mentioned variable is defined as a bimodal variable . In this way, if the bank has reported a net loss every year; A score of one and otherwise a score of zero will be the basis of calculations.

Bank size: The size of the bank can be calculated from the natural logarithm of the balance of assets at the end of the year.

Financial Leverage: The mentioned variable can be calculated from the following relationship.

$$LEV = \frac{\text{Total Depts}}{\text{Total Assets}}$$

Operating cash flows: The mentioned variable can be calculated from the following relationship.

$$CFO = \frac{\text{Cash flows from operating activities}}{\text{Total Assets}}$$

Capital Structure: The mentioned variable can be calculated from the following relationship.

$$CS = \frac{\text{Received financial facilities (long-term + short-term)}}{\text{Total Assets}}$$

The ratio of book value to market value of equity: The mentioned variable can be calculated from the following relationship.

$$BTM = \frac{\text{Common equity}}{\text{Number of shares* market value of each share}}$$

Tangible Assets Ratio: The mentioned variable can be calculated from the following relationship

$$TANG = \frac{\text{Tangible Assets}}{\text{Total Assets}}$$

Cash maintenance ratio: The mentioned variable can be calculated from the following relationship.

$$CASH = \frac{\text{Cash + short-term investments}}{\text{Total Assets}}$$

Assets ratio Current: The mentioned variable can be calculated from the following relationship.

$$CUR = \frac{\text{assets Current}}{\text{liabilities Current}}$$

In order to measure banks' financial constraints, initially according to the research of Ball [2], the simple model of cash is defined as follows:

$$CASH_{i,t} = \beta_0 + \beta_1 CASHFLOW_{i,t} + \beta_2 Q_{i,t} + \beta_3 SIZE_{i,t} + \varepsilon_0.$$

After fitting the above model, the regression coefficient related to cash flows in the simple cash model indicates the financial limitation.

6 Research methodology

The investigated research method is descriptive-causal. Because this research seeks to investigate cause-and-effect relationships between variables. On the other hand, the current research is post-event research in terms of data collection. In the next step, after formulating the hypotheses, we will test them through multivariate regression. It is important to mention that before testing the hypotheses, to ensure the results, default and regression tests are performed.

6.1 Data collection method

In the first step, to collect the theoretical foundations of the variables, related information sources such as theses, treatises, articles, etc. are referred to and those theoretical foundations that are related to the subject of the current research are collected. Also, by referring to databases such as Irandoc, Sika, and Civilica, the background of the research has been challenged and those domestic and foreign backgrounds are related; It was used in the second season. In the second step, the financial information of the banks that were selected as the statistical population, by referring to stock exchange sites such as the Kodal site and their published financial statements; are collected and analyzed.

6.2 Data analysis methods and tools

To analyze the data, it is necessary to go through two steps. In the first stage, the descriptive statistics of the variables are explained, and based on them, the status of the variables is discussed in general terms and based on the dispersion indices. In the second stage, statistical tests are described. In this way, at first, the normality of the error sentences of the hypothesis test model is checked by using the Jarek-Bera test. In the next step, the reliability of the variables is challenged through the Levin, Lin and Chu test. In the next step, colinearity between variables is tested through tolerance indices and variance inflation factor. In the following, the variance of the heterogeneity of the variables is checked using the White test and the selection of the panel data method against the pooled data is done using the Limer F test. In the following, using the Hausman test, the selection of fixed effects method against random effects is discussed and finally, the hypotheses are tested using multivariable multi-linear regression. Finally, based on the findings of neural networks and non-linear power regression, the model is presented.

6.3 Statistical population, sampling method and sample size

The statistical population studied in the current research; The banks are listed in the Tehran Stock Exchange. The time period under review; for ten years between 2014 and 2023 Designated.

7 Findings

Descriptive statistics of research variables

Descriptive statistics of research variables based on dispersion indices (including average, median, maximum, minimum, standard deviation, skewness and kurtosis) are shown in the table 1.

Table 1: Descriptive statistics of research variables in the studied period

Symbol	Average	Middle	The most	The least	Standard deviation
POL	0.317	1.000	1.000	0.000	2.212
BDS	1.946	2.197	2.398	1.609	0.180
IBD	0.444	0.333	0.556	0.111	1.420
DUAL	0.257	0.000	1.000	0.000	2.214
SIZE	12.967	12.917	18.014	9.054	0.491
LEV	0.636	0.678	0.876	0.398	1.665
CFO	0.612	0.511	0.953	-0.089	0.199
CS	0.351	0.325	0.711	0.338	0.442
BTM	0.922	0.995	1.364	0.197	0.756
TANG	0.514	0.57	0.812	0.322	0.315
CASH	0.473	0.495	0.882	0.334	3.776
CUR	2.156	2.138	2.623	1.365	0.164

Testing the normality of error sentences in research hypothesis model

The results of the said test are presented in the table 2. In terms of the probability value of the Jarak-Bara statistic being higher than the 5% error level; the normality of the statistical distribution of the error sentences of the research hypothesis model; It is verified.

Table 2: The results of the normality test of the error sentences of the research hypothesis model

Symbol	Amare Jarek - Bra	Statistical probability Jarek - for
Resid1	256.255	0.074

Table 3: Reliability test results of research variables

Variable name	Symbol	Statistics Levin, Lin, and Chu	Levin, Lin and Chu's proba- bility statistic
Board size	BDS	- 11.201	0.0000
Independence of the board of directors	IBD	-56,985	0.0000
The dual role of the CEO	DUAL	-10.125	0.0000
Political communication	POL	-54,569	0.0000
Financial crises	CRI	-22,541	0.0000
loss report	LOSS	-40.152	0.0000
Bank size	SIZE	-36,956	0.0000
Financial Leverage	LEV	-60.254	0.0000
Operating cash flows	CFO	-99,253	0.0000
Capital Structure	CS	-46.251	0.0000
The ratio of book value to market value	BTM	-63.365	0.0000
Ratio of tangible assets	TANG	-54.158	0.0000
Keeping cash	CASH	-19.257	0.0000
current ratio	CUR	-16.251	0.0000

Checking the reliability of research variables

The result of the said test is shown in the table 3.

From the point of view that the probability of Levin, Lin and Chu's test statistic in all variables is less than the 5% error level; The reliability of the variables in the period under review is confirmed.

Checking the collinearity between research variables

The results of the collinearity check are shown in the table 4.

Table 4: The results of collinearity analysis among research variables

Variables		Collinear statistics	
Variable name	Symbol	Tolerance	Variance inflation factor
Board size	BDS	0.422	2.370
Independence of the board of directors	IBD	0.415	2.410
The dual role of the CEO	DUAL	0.444	2.252
loss report	LOSS	0.413	2.421
Bank size	SIZE	0.454	2.203
Financial Leverage	LEV	0.474	2.110
Operating cash flows	CFO	0.405	2.469
Capital Structure	CS	0.413	2.421
The ratio of book value to market value	BTM	0.422	2.370
Ratio of tangible assets	TANG	0.463	2.160
Keeping cash	CASH	0.411	2.433
current ratio	CUR	0.414	2.415

For these two reasons that for all variables; The tolerance value is more than 0.2 and the variance inflation factor is less than the standard level of five; The assumption of non-collinearity between research variables is confirmed.

Heterogeneity variance test

In the current research, White's test was used to detect the variance of heterogeneity and the results are shown in the table 5. Considering that the probability of White's statistic is more than the 5% error level, the results indicate homogeneity of variance and it was confirmed that there is no problem of heterogeneity of variance.

Table 5: The results of investigating the variance of heterogeneity of research variables

Title of exam	Test statistics	Degrees of freedom	Probability of the test statistic
White	5.256	(3 and 157)	0.0785

7.1 Chaw and Hausman's test

In the first step, in order to test the hypotheses of the research, choosing the appropriate regression model is a priority. In the first stage, by using the F-test of Chaw, the panel data pattern has been selected against the consolidated data, and the result of the mentioned test is shown in the table 6.

Table 6: Selection of panel data model versus pooled data in research hypotheses

Title of exam	The value of the test statistic	Degrees of freedom	Probability of the test statistic
F Leamer	21.256	(695 and 77)	0.0000

Considering that the probability of the Chaw F test statistic is less than the 5% error level, the use of panel data is approved. For this reason and to select the fixed effects model against the random effects model, the Hausman test was used to perform the regression and test the hypotheses. The result of the said test is shown in the table 7.

Table 7: Choosing the pattern of fixed effects versus random effects in research hypotheses

Title of exam	The value of the test statistic	Degrees of freedom	Probability of the test statistic
Hausmann	50.123	6	0.0000

Considering that the probability of the Hausman test statistic is less than the 5% error level. Therefore, the use of a fixed model is confirmed against the random effects model in the mentioned hypotheses.

7.2 Testing the research hypotheses

The results of the fixed effects regression model of the mentioned hypotheses are shown in the table 8.

The results of the above table describe these contents:

In banks with financial restrictions; The size of the board of directors affects the creating of political connections. Because while the sign of the regression coefficient is negative (-15.639); The significance level of the t statistic (0.0000) is less than the 5% error level. Therefore, the first research hypothesis is confirmed at the 95% confidence level.

In banks with financial restrictions; The independence of the board of directors affects creating political connections. Because while the sign of the regression coefficient is negative (-0.828); The significance level of the t statistic (0.0000) is less than the 5% error level. Therefore, the second hypothesis of the research is confirmed at the 95% confidence level.

In banks with financial restrictions; The dual role of the CEO affects creating political connections. Because while the sign of the regression coefficient is negative (-26.687); The significance level of the t statistic (0.0000) is less than the 5% error level. Therefore, the third research hypothesis is confirmed at the 95% confidence level.

The adjusted coefficient of determination of the model states that about 85% of the dependent variable is explained by changes in the independent variables.

To check the significance of the model, the F test has been used, and the results of the mentioned test indicate that the fitted regression model has sufficient validity. Because the probability of the corresponding test statistic (0.0000) is less than the 5% error level.

In the last step; the Durbin-Watson test was used to check the autocorrelation between research variables, and its value is equal to 1.987, and since it is in the optimal range of 1.5 to 2.5, the assumption of autocorrelation between variables is rejected.

Table 8: Fixed effects regression model of research hypotheses

Variables	Statistics	symbol	Regression coefficients	co-t statistic	t statistic
Constant		C	0.111		0.8099
Board size		BDS	-15.639		0.0000
Independence of the board of directors		IBD	-0.828		0.0000
The dual role of the CEO		DUAL	-26.687		0.0000
loss report		LOSS	-0.333		0.6537
Bank size		SIZE	-46.857		0.1153
Financial Leverage		LEV	66.487		0.5194
Operating cash flows		CFO	-65.257		0.2297
Capital Structure		CS	-52.776		0.0215
The ratio of book value to market value		BTM	-73.170		0.6052
Ratio of tangible assets		TANG	-64.148		0.3417
Keeping cash		CASH	-37.812		0.749
current ratio		CUR	84.978		0.0682
The coefficient of determination		Adjusted coefficient of determination	Watson camera statistics	F statistic	F statistic probability
0.914		0.852	1.987	51.671	0.0000

8 Findings Analysis

A banking crisis refers to a situation where a large number of banks in a country are unable to repay their debts. The nature of the banking profession, due to its special characteristics, is always prone to receive instability and risks and, in higher degrees, crises. In general, the high degree of leverage and the lack of capital of banks in proportion to the size of their balance sheets in comparison with other commercial companies, the disproportion of maturity between assets and liabilities, the need to maintain the permanent trust of depositors, suffering from various risks such as exchange rate risk and lack of transparency Discontinuities in published financial statements due to the high speed of change in balance sheet items in comparison with commercial and manufacturing companies are among the cases that have identified banks as one of the sources of crises in the economy. It has been observed in most of the major banking crises, that two important components of banking (financial) crises, which are the loss of trust in financial institutions and the bankruptcy of creditors, occur.

Due to the crisis and the inability of bank debtors due to their unemployment and low income, banks are faced with not receiving their claims, and as a result, their reserves are decreasing, and as a result, they are not responsible for their obligations to depositors. The result is that the creation of a crisis causes the loss of public trust in banks and the rush of depositors to the banks to withdraw their deposits. In this situation, due to the existence of systemic risk in the banking industry, the acute problems and bankruptcy of small banks spread to other banks and involved the entire banking system of the country and then the banking system and the macroeconomic space of other countries as well. In this situation, the banking crisis destroys the country's economic situation. For example, in the financial crisis of Indonesia in 1997, which probably left the heaviest effects on the Asian economy, the GDP rate decreased by 15.3%, and in 1998, the GDP and unemployment increased to 22%, and almost half of the population in They lived in poverty. In such a situation, a very large capital expenditure from public funds was needed. The environment that governs the activity of banks is a special and unique environment focusing on different financial laws. This has made the corporate governance implementation framework; In them, it is more complex and appropriate than the implementation of corporate governance principles in other companies, among these features, we can mention ethical issues, conflict of interests of shareholders and depositors, insurance and liquidity creation. One of the subsets of corporate governance that are more visible in banks under the microscope due to the destructive effects of the board of directors' political connection is the characteristics and arrangement of the board of directors. Because the alignment of the main goals of the banks with their desired goals is very rare, and the alignment of these goals can improve the financial performance of the banks and guarantee the interests of the shareholders. In this way, the elected managers may be among the main shareholders of the bank. Studies have shown that most of the managers selected to lead and direct the activities of banks; are chosen from among the main shareholders, which becomes necessary when the shareholders do not have enough knowledge to guide the banks' operations to achieve their goals.

In this case, it is necessary to choose professional managers who have sufficient expertise. However, it is possible that the chosen manager does not necessarily have the characteristics synonymous with the shareholders' motives for wealth maximization. It is important to mention that the establishment of the corporate governance system in banks and financial institutions is a novel and new issue in Iran; During the last few years, it has been the center of attention and it has been seriously considered in the banking sector, and it has been discussed and implemented only indirectly and insufficiently in the money and capital market. What is clear is establishing a corporate governance system to reduce political connections and improve the performance of banks to prevent financial crises through control mechanisms, that too for a specific financial environment such as banks and financial institutions; It is necessary and inevitable. In the shadow of the lack of proper corporate governance as well as the presence of destructive political connections, the health of the banks' financial performance is threatened and the occurrence of financial crises in the banking industry is likely. In this way, the effects of unfavourable corporate governance can be influential on the macroeconomic level, the payment system, the deposit insurance system, etc., and threaten the resources of a large part of society. An example of this can be found in the financial crisis of 2007. Among the other destructive effects of political communication and lack of control mechanism, we can mention the loss of trust in the bank to manage bank deposits and protect the interests of investors. This causes people to withdraw their bank deposits, which will lead to bankruptcy and financial crises.

References

- [1] D. Anginer, A. Demirguc-Kunt, H. Huizinga, and K. Ma, *Corporate governance of banks and financial stability*, J. Financ. Econ. **130** (2018), no. 2, 327–346.
- [2] R. Ball, *Infrastructure requirements for an economically efficient system of public financial reporting and disclosure*, Brookings-Wharton Papers Financ. Serv. **2001** (2001), no. 1, 127–169.
- [3] H.-K. Chen, Y.-C. Liao, C.-Y. Lin, and J.-F. Yen, *The effect of the political connections of government bank CEOs on bank performance during the financial crisis*, J. Financ. Stab. **36** (2018), 130–143.
- [4] Y. Cong, F. Sun, F. Wang, and Q. Ye, *Information assimilation and stock return synchronicity: Evidence from an investor relations management platform*, Emerg. Markets Rev. **53** (2022), 100937.
- [5] C.M. Deegan, *Financial accounting theory*, McGraw-Hill, 2007.
- [6] B. Diallo, *Corporate governance, bank concentration and economic growth*, Emerg. Markets Rev. **32** (2017), 28–37.
- [7] L. Falat, Z. Stanikova, M. Durisova, B. Holkova, and T. Potkanova, *Application of neural network models in modelling economic time series with non-constant volatility*, Proc. Econ. Finance **34** (2015), 600–607.
- [8] A.A. Jan, F.-W. Lai, and M. Tahir, *Developing an Islamic corporate governance framework to examine sustainability performance in Islamic banks and financial institutions*, J. Cleaner Prod. **315** (2021), 128099.
- [9] H. Latan, C.J.C. Jabbour, A.B.L. de Sousa Jabbour, S.F. Wamba, and M. Shahbaz, *Effects of environmental strategy, environmental uncertainty and top management's commitment on corporate environmental performance: The role of environmental management accounting*, J. Cleaner Prod. **180** (2018), 297–306.
- [10] V. Naciti, *Corporate governance and board of directors: The effect of a board composition on firm sustainability performance*, J. Cleaner Prod. **237** (2019), 117727.
- [11] M.H. Ronaghi, *Contextualizing the impact of blockchain technology on the performance of new firms: The role of corporate governance as an intermediate outcome*, J. High Technol. Manag. Res. **33** (2022), no. 2, 100438.
- [12] R. Salim, A. Arjomandi, and J.H. Seufert, *Does corporate governance affect Australian banks' performance?*, J. Int. Financ. Markets Inst. Money **43** (2016), 113–125.
- [13] A. Tessema, *The impact of corporate governance and political connections on information asymmetry: International evidence from banks in the Gulf Cooperation Council member countries*, J. Int. Account. Audit. Tax. **35** (2019), 1–17.
- [14] X. Wang, Z. Xiang, W. Xu, and P. Yuan, *The causal relationship between social media sentiment and stock return: Experimental evidence from an online message forum*, Econ. Lett. **216** (2022), 110598.
- [15] Y. Xu, A. L. Jiang, N. Fargher, and E. Carson, *Audit reports in Australia during the global financial crisis*, Aust. Account. Rev. **21** (2011), no. 1, 22–31.