

## A Study of Impact Mechanism of Political Connection on Enterprise Performance-Based On the Perspective of Agency Theory

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### Abstract

The crucial role of every firm to enhance the profit and make a good reputation in the corporate world. All the previous evidence elucidates prove that political connections have the main role to eradicate the market competition and speculations. These are considered are known as a dominant player in the area of business. Most of the researchers argue that these are degree of the intense growth of corporations. Arguably, it is the unique opportunity to raise capital of the corporations. All these evidence prove that political connections are considered unanimously support for increasing the performance. Prior researchers prove that it is most conspicuously way to forgo enhance the progress. They can gain the lucrative contracts to enhance the firms. Sometime, it is a glimmer of hope that in future, these will be more beneficial rather than others peer.

### Introduction

#### Overview of Political Connections

The main motivation of this model shows that political connections have greatly influenced on corporate performance. There are enough evidences that prove that financial constraint is considered major obstacles to the development of corporations. Political connections are beneficial to remove such types of barriers by utilization their sources. These associations have a significant impact on the labor market due to social networks. Therefore, it shows that these peers have the highly positive impact on firm efficiency and performance. To survive, in the business world it is very crucial for a corporation that works at social stander. Corporate social responsibility is also known as another channel through which firms can promote their performance [1]. It motives the potential investors that have a great influence on the firm's value [2]. These are some factors that are proving that political connections are beneficial for the development of firms.

Strong market positions also exert the significant impact on the firm performance. Mostly, political members are huge market share and they have a golden share. Therefore, these are considered most valid instruments to promote the efficiency as well as the performance of the firms [3]. There are dozens of benefits of political connections but political donations are more known as key benefit among all these advantages to promote the firm performance. In the US, donations are made by political campaigns to increase the firm's value There are different dimensions to enhance the performance of firms but political connections are more pervasive due to maintain the corporate performance in the long run.

There are some plausible pieces of evidences which prove that these associations are more vital for nurturing the firm value. Similarly, Political aliens play the main role to pursue the profitability of firms in the global market. Most of studies prove that these connections are known as substantial proportion for the development of firms. These involve to enhancing the investment opportunity and playing the crucial role to spur economic development. We believed that it is more convenient and effective channel to enhance the corporate performance.

Through these links can gauge the financial outcomes of corporations. Political capitals are considered one of the significant tools to enhance the extreme performance of firms. For the better progress of firms, political strategies are playing the more prominent role. Most of studies inaugurate that such associations are essential for the better performance of firms. In the same vein, production dynamics is another importance vehicle that motive firms to take advantages from such sort of connections. Now, it is totally apparent that political resources are considered merely channel through which firms can generate more revenue and enhance the firm performance.

There are tremendous of studies which are trying to solve this dilemma that political connections are valuable for firms or not. Some of studies prove that in some conditions these connections are not beneficial for firms. In the context of business, managerial skills are known as crucial element to enhance the profitability of firms. Generally, political enterprises have lack of managerial incentives and their own cost hurt the performance of firms. Therefore, these connections influence negative impact on the firm efficiency.

Consequently, such firms utilize sources of firms for their political career. The basic trajectory of corporations is that to increase the wealth of shareholders but due to agency cost, it has a detrimental effect on the performance of the firm. In such circumstances, these firms experience sluggish growth.

An abundant of studies shows that when political members join a firm, it has the positive or negative impact on the corporate performance. Therefore, their termination can squeeze the stock prices of firms. Their termination can alleviate the performance of firms. Financial resources are the main part of all the enterprises and to stimulate a business there is need to utilize financial sources in an efficient way. Government-linked peers have lower profitability due to excess use of financial resources. Such types of firms try to chase their political aims such as excess employment on the behalf of shareholder's wealth. It looks like plausible those politicians give benefits to firms and also request various political benefits. Therefore, it has a significant negative impact on the firms performance.

In the real world, to the extent the business there is always need of security or backup to enhance the performance of firms. Similarly, the bailout is known as a more effective tool to boost the progress of corporations. During the financial crisis, the government will render financial support to their corporations [4]. Therefore, more reputable investors frequently like to invest in government link corporations due to financial support [5]. During distress period these connections can maintain their performance. Therefore, it proves that political connections have significant impact on the performance of firms. Prior studies provide that political connections are known as extreme social capital for corporations. It is very difficult to quantify that it has the positive or negative impact on firm performance.

However, some other studies examine that conflict between principle and agent is known as the major reason to deter the employees of firms and such types of demotivation is considered major obstacle of underperformance [6]. There are massive studies that prove these connections are known as inevitable budgets of firms that are difficult to control. In the context of business, operational efficiency can be measured on the basis of high return. For any corporation employees are known as more useful assets. It is known as more vital part of any corporations. There is a negative association between politically connected firms and operational efficiency due to unnecessary employment [7].

### Agency theory and Political Connections

Agency theory is known as study of agency associations between principle and agent like executives and managers of a company. The basic concept of this theory is that owners of company hire an agent to perform their work properly. Particularly, it is known as dilemma in which there is nominally working at the same objective. But separations of ownership have influence on interest of shareholder [8]. Agency theory is based on concepts that in an organization manager and employees are self-interested [9]. In this theory, agent is focus on self-interest and opportunistic behavior. Although the main object of this theory is to explain the separation of ownership and control [10]. Principle and agent focus on projects that have choices of high return instead on fluctuating incentive payments and they have fixed salary without any incentive. Here he has used positive approach where principles made rules are applied, with the aim to maximize shareholders' profit. In this theory they focus on individualistic view. Agency problem is known as classical economic

behavior in which parties are involved in a contracts and principles faces problem while agent wants to just increase its self-interest [11]. Politically connected firm's performance better when politician as managers monitor firms operations and provide key sources like low interest rate and gain capital from outside the firms. So, in such firms there is need of monitoring. Politically connected firms face the agency problem due to lack of external and internal monitoring. There is found conflict between both minor and controlling shareholders. Politically connected firms prove their poor quality accounting due to conflict among board's members).

To summarize that, agency theory politically connected firm's leads to high agency cost. When boards are politically connected there are more chances of conflict between owner and employee due to their political influence. On the other hand, it is suitable way to monitor the operations on corporations.

### Conclusion

Political connections are recognized as assets of enterprise. Indeed, there some theoretical and empiric evidences prove that these connections have some crucial role for development of firms. There are wide ranges of evidences which prove that these are known as a burgeoning industry across the world. It is clearly proved that these are privileges for the development of corporations. They are beneficial to mount the value of firms. In this chapter, we have developed three main strategies that are showing that there are the various associations between political connections and firm's performance.

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