

Review Article

How Does Political Connection Impact the Firm Performance?

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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 a 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 lucrative contracts to enhance firms. Sometimes, it is a glimmer of hope that in the future, these will be beneficial rather than others peer.

Keywords: Political connections; Market competition; Performance; Progress

Introduction

Background

Considering the positive impact of political connections on the corporation's efficiency, there are found enough evidence. A core argument is that political connections provide adequate resources to the corporation to enhance their performance. Theory suggests that valuable resources are beneficial to kill competitive that can be translated into superior growth. The first hypothesis is based on the conceptual framework and prior research. Indeed, the establishment of political connections is extremely valuable for the corporation because they are share markets anticipate. Besides, these associations mitigate financial risk and provide exclusive opportunity to boost the performance. Financial risk is such type of risk, which is associated with financing like financial transactions that include company loans.

Political connection and firm performance

Following mainstream literature, believe that gaining political links having a significant impact on the firm's performance. Therefore, Government has influenced economic activities through various channels such as financiers. Essentially, a politician by utilization their links can enhance market position and boost firm performance. Firm performance can be measured based on market share, sales, and employment growth. Market share comes based on the real monopolistic condition. Such types of a corporation can get edge up market shares by sizable government contract and obtain concessions. Alternatively, large-scale connections have a large market share and more valuable rather than small firms. In other work, for quantify performance, such type of corporation is perceived as a channel to enhance their market share.

The associations between firms and politician are common phenomena in all over the world. Most of the studies exhibit that political connections have a positive impact on firms' value and politically connected firms have accounted for the huge percentage

of the world stock market. Empirical evidence supports that the Close ties with the government can control market failure avoid ideological discrimination but privatized firms cannot handle all these tasks. A lot of founders are politically connected and they like to appoint the second generation as directors so, this thing will be economically significant and will reduce the transfer cost [1].

Different approaches prove that politically connected firms have more access to long-term financing then non-connected firms [2]. There is the existence of political connections have to impact on firms performance of India. After the rigorous study, it is safe to assume that political connection has influenced stock prices. Due to involvement in corruption, most of the political leaders are not able to work with firms [3]. Similarly, there is found a positive relationship between political connections and access short-term loans. The results emphasize that politically connected firms can access loans more easily than non- political connected firms.

The impact of political connections with the liquidity effect on the efficiency of firms. For this purpose, they had taken the data of China stock market and results indicate that political connections firms are highly associated with higher liquidity However, political connections have an impact on the managerial financial decision of firms. Their study reveals that there are associations between political connections and capital structure, debt maturity, excess cash holdings, leverage and long-term debts.

Widespread political connections in recent years have generated huge empirical literature concerning the impact of political connections on the firm's performance. Most of the studies prove that political connections are known as two sword edges it has both positive and negative effect. In some countries, there is more threat of political extraction. Therefore, firms did not keep their assets in liquid shape and they try best to save their assets from political extractions [4]. Most of the private ownership prefaces efficient resources

allocation rather than political controls because political members seek extra benefits from private shareholders. In such circumstances, more connections with political members can detriment the value of firms.

The politically connected firms are establishing in a region with a high level of unemployment and huge fiscal deficits [5]. In particular, the firms with more political connections make such type of strategies, which are not favorable for the development of corporations like maximization the employment level at the expenses of shareholders with more political connections make such type of strategies, which are not favorable for the development of firms like maximization the employment level at the expenses of shareholders. Similarly, Political members have the base focus on their political agendas rather than firms' performance. Therefore, with increasing PC index the firm's value starts decreasing [6]. In fewer developing countries political connections are more prevalent. It has the worst impact on foreign direct investment, which is known as the main determinate of progress. Therefore, it is seen that there is a negative association between political connections and firms performance [7].

A growing literature document that political associations provide a valuable source to firms for nurturing of firms [8]. Show that political connections are more prevalent in a well-developed financial market like the US and their shareholders are seen well protected. politically connected firms have a larger market share, pay low taxes and they have more access to credit rather than other firms. The politically connected firms in the US impose their elections expenses to their shareholders. These expenses are influenced by corporate performance. Therefore, it is believed in some situations political connections harm firm value [9].

It is well documented that politically connected firms have more leverage than other firms in such circumstances, audit firms are high risk [10]. It is observed that politically connected firms have poor accounting performance as non-politically peers [11]. There are some comprehensive views, which indicate that how and why political connections have influenced the development of the economy. In developing country, the business-government relationship is more beneficial because they are taking benefit from to raise loans while non-political firms are suffering credit discrimination.

However, political connections are more prevalent in the emerging country because these firms are operating under weak law enforcement and concentrated on the family business. Considering the positive impact, all these discussions proved that politically connected peers have the crucial role for enhancing the growth of the economy and political connections have influenced in all over the world economy due to its market position. On the other hand, dark- side of political connections is that political member's do not have managerial skills to maximize the shareholder s' profits and firms performance. Corruption is also another dark-side of politically connected firms it has the worst impact on the progress of firms.

Prior literature gives some different pieces of evidence that politically firms have both positive and negative on firms performance. Impacts of political connections on the firm's value have always been known as major research subjective. We believed that political associations are key instruments to enhance firm values. Therefore, Politically linked firms can enjoy a lot of benefits like government

subsidies, bailouts, legislative conditions, and tax advantages. It is the best source to make associations with top government management in a healthy way.

Political connections have the major role to obtain external sources and overcome the situation of uncertainty. On the other side, politically firms are seen judicial bias and they did not follow proper rules and regulations and avoid paying taxes. From this perspective, it has a positive impact on a firm's performance but the worst impact on the growth of the economy. Finally, it is examined that political links have a significant impact on a firm's performance.

Stewardship theory and political connections

The main objective of steward to enhance the wealth of shareholders through boost the performance of firms. On the basis of this theory, stewards are known as organization s manager and execute that work for increasing the wealth of shareholders. Like agency theory, this did not focus on the concept of individualism. Here, top managers of organization can integrate the objectives of the corporation. This theory suggested that after the success of organization steward are motivated. According to stewardship the main objective of CEO and managers of the corporate to work for the benefit of their principle.

This theory is the basis on this assumption that there is a strong association between organizational achievement and satisfaction of owner of a corporation. Employee as the economy being while stewardship is the basis of trust. However, this theory base concept that steward empower the base of trust and offer them maximum autonomy. It is useful to minimize the cost of monitoring. Managers of firms can return finance to their investors for a better reputation and they can re-enter the for future finance. Moreover, stewardship theory is based on the stewards are known as safeguards for the can increase the wealth of shareholders.

Most of the studies prove that politician as the steward of a corporation can get more profit as compared to non-political firms. According to conjunctions of different studies, political members as a steward of firms can work a better and they can take the better financial decision [12]. Politically connected firms have more market capitalization as compared to other firms. The reason is that political members can take they have more market information and can take the decision on their behalf [13-16].

Conclusion

The prima facie of corporate entities is to enhance the performance of the firm. Most of the firms pursue their goal through their political links. Considering that, enough studies prove that political connections have a positive impact on the firms because they yield high payoff rather than other firms. The nexus between government and business is considered as the most intense public debate in this era. Several studies documented those financial advantages corporations can get from maintaining associations with political links. Most of the papers argued that political leaders mostly use their powers to gain extremely economic favors. All this evidences plausible that political connections are beneficial for the magnificent performance. From last few years, the conception of the latest world orders has been motivated by the analysis of the perceived turbulence in the political world. It has influenced the firm performance.

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