

# Political ties and corporate performance: why efficiency matters?

Rabia Najaf

*Sunway University, Subang Jaya, Malaysia, and*

Khakan Najaf

*Business School, Sunway University, Subang Jaya, Malaysia*

## Abstract

**Purpose** – The purpose of this paper is to examine and explain the complex interrelationships which influence the performance of politically connected firms to create value for their providers of finance and other stakeholders. In doing so, it examines the interrelationships between efficiency and delivering on corporate performance of a firm with political ties.

**Design/methodology/approach** – The authors gathered the literature from the Scopus website. They reviewed the literature of 58 manuscripts about the efficiency and performance of politically connected firms.

**Findings** – The research finds that the better quality of efficiency of politically connected firms is positively related to the corporate performance of politically connected firms. The authors' theoretical findings corroborate the political theory, agency theory, stakeholder theory, resource dependency theory and stewardship theory. These theories prove that political connections have an impact on firm performance as a politician reinforces the efficacy. To better understand the effect of political connections on solid performance due to efficiency, this study classifies various efficiencies and links them with political ties.

**Research limitations/implications** – Several avenues of research are suggested to examine further the interrelationships identified.

**Practical implications** – The authors' conceptual findings are valuable for institutional investors, policymakers and stakeholders. To sum up, all theoretical shreds of evidence prove that politically connected firms can enhance performance via efficiency.

**Originality/value** – The paper conceptualizes the efficiency and performance interrelationships of politically connected firms. The extant literature comparison allows an assessment of the extent to which different efficiency contexts lead to differences in performance.

**Keywords** Efficiency, Performance, Politically-connected, Agency theory

**Paper type** Research Paper

## Introduction

Politically connected corporations are more widespread across the world. Despite considerable research, mixed evidence proves that political connections influence the firm value. Prior researchers demonstrate that various ways can enhance performance, but business-government relations are essential. Extensive empirical studies argue that political

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connections help create the potential resources that can boost the firm value, for example, greater access to loans, lowering taxation, and providing subsidies to connected corporations.

In the capital market, investors pay the cost of political connections. These connections are appropriate to provide information about the stock market. The previous studies highlighted Indonesia's evidence, where investors would like to invest in country president corporations due to high market share. This study is contributing to the theoretical literature in different ways. First, this study's main objective is to extend literature and prove that political connections impact firm performance due to efficiency. Additionally, we categorize four significant efficiencies to see whether (or not) they have an impact on the firm's performance.

After the financial crisis, politically connected peers increase as compared to other firms. Therefore, it is a fascinating study to analyse which firms have more profitability. Despite the fact, it proves that these corporations are more efficient rather than non-political peers. Furthermore, because government banks render more loan corporations, they do not need to sell their assets and take loans at a high interest. Therefore, this study is convenient for investors. Overall, all these evithis prove that politically connected impact on the firm performance due to efficiency.

This issue entails consideration as a corporate governance mechanism is to provide better monitoring and advisory functions. Most studies prove that the government is known as a sizable force to enhance the firm's value. Naturally, non-connected firms make links with a politician to access adequate resources. Therefore this study will conceptualize one main research issue of whether (or not) political connections impact the firm's performance due to difference in efficiency streams.

### Literature review

A firm's characteristics evolve gradually from the early business plan to a small business entity and finally to an initial public offering that turns the entity into a corporate firm with public shareholdings (Scott and Bruce, 1987; Kaplan *et al.*, 2007). The small business entity usually establishes by an individual or a family before becoming a corporate firm. As the family business grows, it faces new challenges at the different stages of business expansion, for example, sourcing additional capital and acquiring business opportunities. Given this circumstance, a political connection provides an advantage in facing the business growth of small firms owned by the family. Therefore, family members often get involved in politics and participate in political parties; thus, many family firms' founders are politically connected (Bennedsen *et al.*, 2015). The privatization of public, commercial entities is another way a firm is linked to the political group.

### Political theory

In a simple theory refers to the relationship with the political governance associations in society. It is also known as the theory of the state. In this way, in contemporary times, this theory was definitely in a broad way. It means more general and power associations. The robustness of the studies proves that political theory suggests sharpening power. Popularly, political theories are known as a power in society. It is known as conceptualized as well as a scientific theory.

In ancient times, the political theory deals the s with such issues as best political orders and ideal state and a political obligation. Systematically, politics means freedom and justice. Most of the studies prove that politics is the potential to developing consistency and judgment. It is also conflicted in society at different levels (Leftwich, 1994). For political analysis, both theory and idea are used as a tool.

However, political analysis is based on thinking, analysing, viewing, criticizing explaining and informing political actions. According to Friedman (2006), the most vital freedom is

available in the free market. In simple words, freedom in effect means there is no government interference. Some studies have raised that humanity cannot be justified by silencing the person. If someone has power, he can silence society (Lesley, 1859). According to Thomas Hobbes, freedom means the silence of humanity. Culture, people should be free for freedom of expressions.

To sum up, all this evidence trying to prove that political theory mainly focuses on power. Political connections are a handy tool to boost performance. To increase the performance, there is a need for control for getting the external resources. It is a more appropriate way to get external resources.

### **Agency theory and political connections**

Agency theory is known as the study of associations between principal and agent. This theory's base idea is that the company owners hire an agent to perform their work efficiently. Mainly, it is a dilemma in which there is a conflict of interest between shareholders and managers – separations of ownership influence shareholders' interest (Jensen and Makling, 1976).

Agency theory is known as the study of associations between principal and agent. This theory's base idea is that the company owners hire an agent to perform their work – separations of ownership influence shareholders' interest. The main problem with this theory is to separate property, different decision making, and shareholders of the company face the residual risk. This sort of monitoring is costly for the peers' shareholder (Shleifer and Vishny, 1997). Principal and agent focus on projects that have high returns choices instead of fluctuating incentive payments, and they have a fixed salary without any incentive. In this theory, they focus on the individualistic view.

The agency problem is known as classical economic behaviour in which the agent wants to increase its self-interest (Ross and Staines, 1972). The political connected firm's performance is better because political allies monitor firms' operations, provide low-interest rates, and gain capital from external sources. So, there is a need for monitoring (Infante and Pizza, 2010).

Politically connected firms face the agency problem due to a lack of external and internal oversight. There are more chances of conflict between both monitoring and controlling shareholders. Agency theory suggests that politically connected firms lead to high agency cost, and top management is motivated by monetary tools. Therefore, it has the worst impact on the firms' value. When boards are politically connected, there are more chances of conflict between owner and employee due to their political influence.

### **Stakeholder theory and political connections**

Stakeholder theory defines a group and individuals who work to get the firm's objective as a stakeholder. In different views, stakeholder theory is a network of associations of people who work together to achieve their corporation's goal – other parties like employees, government bodies, trade unions and political groups in stakeholder theory. Most of the time, competitors are also considered a stakeholder. Stakeholder theory is mixtures of sociology as well as organizational disciplines. In stakeholder theory, managers also work for an organization, unlike an agency. Associations with different networks influence decision making, and it has also impacted on output and outcome of firms. This theory is based on organization management. This theory is based on managerial decision-making, and shareholders have found intrinsic value. Shareholders of the corporation are significant for all decisions, and they have their power in an organization (Clarkson, 1995).

According to stakeholder theory, clients, suppliers and customers have some stake in the corporations. They have an impact on the upswing and the failure of the corporation.

Therefore, the manager should ensure that all the corporation stakeholders have taken a fair return from the business (Donaldson and Preston, 1995). Stakeholder theory also advocates that corporate social responsibility is also a way stakeholders are conducting with corporations. Political members as a stakeholder of firms have a significant impact on the firm's performance. They provide sources to firms for better understanding. They examine that shareholder theory based on this concept to enhance the corporation's value. Different stakeholder provides money for maximizing the firms' performance (Arosa *et al.*, 2013). Political Allies as stakeholders lead to higher commission than others due to their market power and resources.

### Stewardship theory and political connections

The primary goal of the manager to improve shareholder wealth by enhancing company performance. Stewards are managers who work to increase the wealth of shareholders, according to this theory. This, like agency theory, was not concerned with the concept of individualism. The company's top executives can integrate the corporation's goals. The primary purpose of the corporation and its managers, according to stewardship, is to work for the benefit of their principal.

This theory is based on this assumption of a strong link between corporate performance and company satisfaction (Donaldson and Davis, 1991; Donaldson *et al.*, 1989; Davis *et al.*, 1997). The employee is the source of faith as the economy when controlling. This concept of theory supports the foundation of trust, however, and gives it maximal autonomy. Therefore, it is helpful to reduce surveillance costs (Agyris, 1973). Company managers can return their investors with funding to a better reputation and return to future investment. In addition, the philosophy of management is based on stewards regarded as a way to maximize the income of owners (Shleifer and Vishny, 1997). Most studies indicate that political leaders will earn more than non-political companies as corporate managers (Jay *et al.*, 2016). According to numerous reports, elected members will work well and make better financial choices as a corporate steward, in contrast to other businesses politically related corporations with more market capitalization. This is because politicians have more information on the market, and they can decide best on their behalf.

### Resource dependency theory and political connections

Resource dependency theory focuses on the different roles of boards in providing resources. This theory is based on the concept that there is a need for external help for superior growth. There are direct associations between energy and resources (Salancik and Pfeffer, 1978). Resource dependency theory is based on the concept that directors have a crucial role in assessing their corporation's funds.

This theory is a base concept that new representatives mean to provide a source to your corporation for their success. In this way, investors mainly invest. While most of the studies prove that resource provision is the small channel through which corporation can escalate the firms' performance. Most studies have shown that directors provide a source to their firms like market information, supplier's social groups and various policymakers. Politically connected boards are a single way to enhance the performance of firms. They provide sources, finance from external sources and promote firms' progress (Goldman *et al.*, 2009). Most studies argue that political connections are easier to finance (Khwaja and Mian, 2005). Politically connected boards have better performance rather than others. Appointments of political allies give higher stock prices (Niessen and Ruenzi, 2010).

To summarise, politically connected boards are known as active elements for generating resources. In-depth analysis is a speculative tool to boost the progress of firms. These lines

have a leading role in nurturing corporations. Such sort peers do not face capital security due to their links.

### Political connection and firm performance

Companies and politicians align themselves with similar trends around the globe. Most surveys indicate that the value of corporations and politically related organizations have a massive percentage of the world stock market. Political ties have a positive influence. Evidence suggests that more robust relations with the government will deter ideological segregation by regulating business failures but that corporations privatized cannot achieve any of this (Hay and Shleifer, 1998). Several founders have political ties and would like to name the second generation as directories (Bennedsen *et al.*, 2015). Different methods suggest that politically connected businesses have greater leverage than non-connected companies to long-term funding (Lee *et al.*, 2016). There are political ties to the success of companies in India. After the dynamic analysis, the political relationship can be taken to conclude that stock markets were affected. Many politicians cannot collaborate with businesses because of corruption (Datta and Ganguli, 2014). The positive association between political ties and short-term loans is also positive.

The findings illustrate that a politically related company will access credits quicker than NPPs (Bencheikh and Taktak, 2017). The analysis focuses on the export companies of politically associated companies and positively affects business results. They say that the profits of exporting businesses raise government control. Thus, higher than most corporations' results (Sharma *et al.*, 2020). The effect of liquidity-related policies on the performance of businesses.

For this reason, they have taken stock market data from China, and the findings show that political ties companies are positively connected to higher liquidity (Ding, 2014). However, political ties influence corporations' financial and management judgment (Najaf *et al.*, 2020). This analysis shows connections between political relations and the structure of finance, maturity of debt, surplus cash holdings, leverage and long-term debt. In recent years, widespread political connections have provided broad analytical literature on the business of political connections. Most experiments indicate that political relations are known as two sides of the blade. The results are favourable as well as harmful. There are more political extraction risks in some nations. Therefore, corporations have no liquid assets and are best able to conserve their assets from political extractions.

Many private equities favour effective redistribution of capital rather than government controls when political participants search for additional profits from private shareholders. Further relations with politicians could, under these conditions, affect the value of businesses. For the green climate, a great deal of accountability was attached from both industries. This occurs when stakeholder organizations are constantly demanding to defend themselves to achieve their objectives.

Corporate actions and results, considered one of the most critical companies performance instruments, are highly influenced by political ties (Cumming *et al.*, 2016). For example, in an area where unemployment is high and significant fiscal deficits, political companies are formed (Cheung *et al.*, 2010). Specifically, businesses with more political ties pursue maximizing shareholder spending ratios that are not conducive to corporate growth. Likewise, elected officials rely instead on the success of their companies.

However, with the rise of the PC index, the company's valuation decreases (North, 1990). Political relations are more common in less developed countries. The worst effect is recognized as a critical determinant of growth on foreign direct investment. The correlation between political ties and business results tends to be negative (Faccio, 2006). A growing text that government alliances provide businesses with a valuable source of business funding.

In a well-developed capital market, such as the US, policy ties have become more prevalent, and their owners have a strong presence. Most research indicates that politically related businesses have a higher market share, lower taxes, and more credit access than other companies (Faccio and Parsley, 2009). For medium and small firms. In the case report. They indicated that a politically related business had a favourable output effect. They give both companies every advantage. Therefore, they do well (Pham and Meignen, 2017).

The political corporations in the US, on the other hand, tax their clients with election expenses. The company's success affects these expenditures. Political relations thus affect firm efficiency in some circumstances (Ramanna and Roychowdhury, 2010). In such situations, it is well understood that a politically connected corporation has more significant influence than other businesses. Auditing agencies are at great risk (Bliss and Gul, 2012). It is noted that political corporations as non-political peers have low accounting results (Boubakri *et al.*, 2008). Comprehensive perspectives demonstrate how and why political relations affected the growth of the economy.

In developing countries, political relations are more common because of poor law enforcement and focus on the family business. Considering the positive impact, these debates have demonstrated that politically linked peers play a crucial role in stimulating economic development. Because of their business place, political relations worldwide influence. In comparison, the dark side of diplomatic ties is that members of the political class have no management capacity to improve profits and market efficiency for their owners. Corruption is another dark side of politically connected businesses, too. It impacts the success of companies most severely.

Prior literature provides some proof of the positive and lousy success of corporations in political terms. Impacts of political relations on the valuation of the business have long been regarded as essential subjective analysis. Democratic alliances were believed to be important mechanisms to uphold strong ideals. Thus, politics-related firms can benefit from several advantages: government incentives, rescues, and statutory and tax benefits. Moreover, it is the best source of good relationships with senior government officials.

Governmental relations play an essential role in accessing foreign outlets and resolving the instability condition. On the other hand, corporations are considered politically as being judicially biased, and they have not met with sufficient laws and legislation and have prevented tax payment. From this view, its output is favourably impacted, but its economic development is worst affected. There are numerous ways to create political connections in the world. These associations are in the shape of campaign and lobbying activity. In recent years, it is a brand new term that impacts political connections in the culture. There found negative consequences of political relations on the society due to their corruption and damages of corporation minority shareholders. In summary, the evidence provides that political links significantly impact both the firm's performance and efficiency.

Most of the studies prove that political connections are valuable to reduce policy risk. The worldwide effect of political relationships is considered still ambiguous. However, firms with the worst legal environment and facing financial constraints have adopted political links. Therefore, these connections significantly positively impact the firm performance (Pang and Wang, 2020). A growing body of the literature shows that firms with boards of director's link with parliament positively impact the firm performance. Because politically connection firm pressure has killed the competition (Artunç and Saleh, 2021). Numerous studies prove a strong correlation between stories between media and stock returns. Media is the channel to attract investor's towards state-owned enterprises. Therefore, these connections significantly impact the firm performance (Giosi and Caiffa, 2020).

Corporate governance is considered in every sphere of all societies, whether in general society, political environment and corporate environment. Most of the studies prove that a superior corporate level can boost the public faith and confidence in the political environment.

Good governance is more prevalent in the corporate world to enhance performance (Durnev and Kim, 2005). From the last few decades, corporate governance has gained more value. Most of the studies prove that corporate governance is enhancing due to the deregulation of the firms (Joyner and Payne, 2002).

One more critical factor is that better corporate governance is responsible for all corporations' greater accountability to their customers (Bushman and Smith, 2001). All this evidence prove that the corporate boards should monitor the implementation of the strategy. They should also disclose the reports of their organization. Corporate governance deal with in such a way that investors would want to invest in the business. It also includes ethics, behaviour and accounting. Most studies elaborate that the economic system needs more support for decarbonization. The energy sector takes a core role in global emission. Corporate governance covers many areas, such as reporting to the firm's owner, managers and stakeholders.

There are tremendous changes in society. Currently, people are thinking, and behaviour and the business environment are changing. Sustainability is a massive challenge in increasing performance with suitable sustainability (Székely and Knirsch, 2005). This paper is trying to explain how the business responds to this challenge. In simple words, sustainability is defined as the process that substantiates development. Corporate sustainability is the corporation's skill to run their firms and positively impact the ecosystem, society and economical operation. However, some authors believe that sustainability's economic dimension is more appropriate because it provides financial strength.

Sustainability is the way to enhance the firm's value by maximize positive social and minimize the negative impact of economic and social issues. All the enterprises should understand how to how to develop it. For an instant, efficient use of resources can increase the long term economic goals. Sustainability creates strategies that are useful to reduce environmental risk. It is an essential part of business strategies and impacts the growth of shareholder value. All these shreds of evidence prove that corporate governance with sustainability can enhance the financial performance of firms. Furthermore, organization need to educate in various business scandals to deal with environmental issues inefficiently (Dyllick and Hockerts, 2002). Sustainability reporting is a way to create the latest opportunities as a company's brand, and a sustainability report is a way to show business success and its strategies (Deloitte, 2014).

Most of the studies prove that sustainability reporting is a responsibility that the company will be responsible for economic, social and environmental issues. Accurate reporting of sustainability shows that the financial performance of the corporation. Some authors prove that sustainability reporting is beneficial for reducing management risk, direct labour cost, and removing the competition in the market. Some studies demonstrate that the current due rate of consumption of all the resources is caused by environmental disaster. To sum up, sustainability performance has a significant impact on the financial performance of the firms.

Some studies prove that the environmental disaster causes the current due rate of consumption of all the resources. Therefore, sustainability is more critical for the business because the business has a central role in economic development. In the new era, marketing is becoming more competitive and thinking to maintain their success into the future. In recent years, corporate sustainability has gained considerable attention from investors and consumers. Therefore, corporations encompass social, economic and environmental sustainability and develop strategies that focus on both social and environmental aspects. Corporate sustainability is known as the aspect that enhances performance through social and environmental issues.

According to resources dependency theory, there is a positive association between well organizes straorganised financial performance. This leads to competition and spurs the business activities. On the other hand, according to slack theory, corporations need enough resources to main suitability activities. At the same time, trade-off theory explains that

corporations are losing their profitability for sustainability stability. Overall, all this evidence proves a need for proactive management to central sustainability in the organization.

Politics and business are regarded as well-known phenomena for the last few decades. Most studies prove that politically connected corporations are beneficial for ecological performance. In Canada, 50 listed corporations are found politically connected. Because these corporations provide external resources to a firm that significantly impacts the firm's performance, these are three discolours: environmental, social, and governance. Besides, they provide more appropriate report rather than other firms (Dicko *et al.*, 2020).

Most of the studies prove that a positive association between financial analyst earning and corporate performance. Moreover, corporate discolours leads to enhance firm performance. Firm discolours are considered a more efficient way to forecast. As a result, more investors would invest in your firms (Cormier *et al.*, 2007). Green subsidies play a vital role in enhancing firm performance. It is another financial source for firm support. It is a channel that leads progress. Numerous studies prove that politically connected firms can quickly get green subsidies rather than non-politically firms.

Therefore, these are more useful in the business fields than others (Lin *et al.*, 2015). Most of the studies prove that CSR is known as the internal and external benefits of the firms. Currently, corporations are involving in CSR because it is a channel to kill competition from the market. Another critical factor is that CSR is a strategic value that helps enhance the firm reputation (Branco and Rodrigues, 2006). Globally, a politician is considered as the most famous and wealthy entrepreneurs. For this reason, investors would like work with them. However, political power is beneficial for corporation development.

Therefore, the investor tendency is more likely high in politically connected firms than non-political corporations (Maaloul *et al.*, 2018). Environmental responsibility is the principal duty of all industries. Most of the studies argue that research and development have not more expenditures to maintain environmental responsibility. Therefore, it significantly impacts corporate financial performance (Lee *et al.*, 2016).

In this era, the implementation of green infrastructure is more essential to spur firm development. In developing, country conglomerates have more value due to economic power. Most of the studies argue that political connections in a corrupt country like Indonesia are externally valuable for firms. Likewise, in-state block holders and family firms provide better monitoring than local firms (Wati *et al.*, 2019).

Government has the leading role in maintaining green infrastructure for water storm management. On the other hand, politically connected firm scan built policy for it. Significantly, the US Government can provide resources for the green infrastructure. Therefore, these corporations are more valuable in the US than non-political firms (Harrington and Hsu, 2018). All this evidence show that green financing has a crucial role in the mount the business progress and economic development.

### **Political connection and firm efficiency**

Political connections are known as a widespread phenomenon all over the world. Because politically connected networks gain various preferential treatments like lax regulations, bank financing and government Bailouts. These treatments have heavily influenced by the efficiency of firms (Claessens *et al.*, 2008). Most studies prove that there is a significant relationship between leverage and political connections. There are positive associations between market to book ratio and power. So, politically connected firms can enjoy high leverage compared to other firms, which significantly affects firms' efficiency. Politically related firms are associated with monitoring an inefficient manner, and it is a significant channel to improve firms' performance.



Monitoring has an influence on better decision making, which is helpful to simultaneously increase the efficiency of firms (Poczter, 2016). Government receipts are an effective channel to enhance the efficiency of firms. So, political networks can get such types of contracts based on their market power. A political member enjoys a specific amount of political rent in a rural area that helps enhance firms' efficiency. Politicians are well informed about future economic policies, which positively impacts the firm's performance (Niessen and Ruenzi, 2010).

Having good relationships with the government exhibits a high value of firms. Still, in some conditions, these move towards less profitability like politically connected firms can quickly gain long-term financing, and oversupply of credit harms firms' efficiency (Ling *et al.*, 2016). Politically related firms face different agency issues, and in such conditions, corporations cannot make decisions properly. So in this way, such firms have lower profitability than stand-alone (Poczter, 2016). Corruption has a simultaneously negative impact on the efficiency of firms.

It is a significant obstacle for firm efficiency, and it involves reducing the foundations of any organization. If a company has a bad reputation, then investors would not like to invest more. Therefore, corruptions harm investment and cash flows (Mauro, 1995). Politically connected firms suffer problems when a politician reaches to retire. In such a situation, corporations will face a different healthy way. Political connections have a significant role in obtaining external sources and overcoming the crisis of uncertainty. On the other side, politically, firms are seen as judicial biased, and they did not follow proper rules and regulations and avoid paying taxes.

From this perspective, it positively impacts the firm's performance, but it remains that it has the worst impact on its growth. Political connections have some supportive actions that promote business performance, while coercive measures harm firms' efficiency. Finally, it examines that political links significantly impact the firm's performance and firms' efficiency. Conventional wisdom argues that political connections have certain benefits that prove that it positively impacts firms' efficiency. Often the government makes investments in various small firms as results of getting superior growth. The financial market provides a high return rate on assets and equity compared to other firms. Most studies exhibit that politically connected firms positively influence banks' acquisition, and in this way, they benefit their firms by lending. These firms are also beneficial to provide private donations to different NGOs for their development and reputation.

It is well documented that politically connected firms are more crucial due to their more superior government practices. We believed that politically connected firms play an essential role in developing firms by providing leverage and bailout capital. Politically related firms can enhance the probability of firms after approaching the Initial Public Offer (IPO) market. Companies with high-level political connections like the prime minister can benefit from high offering pricing at a lower rate. In contrast, some companies which have ordinary political connections cannot take benefits from their political connections.

The phenomenon of political connections impacting firms' efficiency has drawn a lot of attention from various researchers worldwide. We believed that a politically connected firm also has some negative aspects of the high stock market crash risk experience compared to other peers. Because in these firms, there are numerous high profiles of political events that influence the stock price. Any bad managerial update is also directly associated with firm crash risk, so such a crash risk negatively affects corporations' efficiency. The financial reports of politically connected firms are not clear like other firms. Their reports are less conservative and less reliable due to political corruptions. Therefore, politically networks are more chances of misreporting the earning numbers because these firms are not transparent. So, due to corruption scandals, investors do not want to invest in politically connected firms. All the pieces of evidence are proving that political connections harm the efficiency of firms.

Prior literature gives some evidence that politically firms have both positive and negative on firm performance. However, impacts of political connections on the firm's value have always been known as significant research subjective. We believed that political associations are vital instruments to enhance firm values. From this perspective, it positively impacts the firm's performance, but it remains that it has the worst impact on its growth. Moreover, political connections have supportive actions that promote business performance, while coercive measures harm firms' efficiency. Finally, it examines that political links significantly impact the firm's performance and firms' efficiency.

To surmise, politically linked firms can enjoy many 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 a significant role in obtaining external sources and overcoming the situation of uncertainty. On the other side, politically, firms are seen as judicial biased, and they did not follow proper rules and regulations and avoid paying taxes.

### **Firm efficiency, corporate performance, and political connections**

For any corporation, employees are known as the most valuable assets. It is known as the most vital party of any corporations. There is a negative association between politically connected firms and operational efficiency due to unnecessary employment (Abdullaziz *et al.*, 2017). Most studies demonstrated that peers could achieve their goal after enhancing the profit efficiency. The crucial target of the firm is to maximize profit. Profit efficiency is one of the effective channels through which a corporation can become more efficient. There is various evidence that the government can increase its profit efficiency by providing preferential regulations, additional contracts, and other benefits such as tax advantages. These factors have a crucial role in enhancing firms' profit efficiency.

There is ample evidence that proves that politically connected firms have many agency problems due to their influence. It harms X efficiency because, in such firms, there is a lack of motivation among managers and employees (Boubakri *et al.*, 2013). In the corporate world, for the nurturing of firms, there is a need to enhance cost efficiency. These are some plausible pieces of evidence that prove that cost efficiency has a crucial role in promoting the entities. Politically connected firms have low-cost efficiency as compared to others because they incur high labour cost.

#### *Political connections and operational efficiency*

There is a need for the right combination of employees, new technology, and processes to improve operational efficiency. To boost the performance of the company, the management should be skill and efficient. Political members have the worst impact on the operational efficiency of their peers. The reason beyond that they are busy to enhance their income rather than firms' operations efficiency. In such firms, there is a lack of internal communications due to their influence.

They do not give incentives to competent persons while providing incentives to employees who have a close relationship with the government. As a result, the low morale of employee firm efficiency moves downward. For the development of business, there is a need for a positive culture. Furthermore, there is a conflict between political members and other employees due to their behaviour. They do not take an interest in the documents and maintain the corporation's stander because they are engaged in their political agenda. Overall, all this evidence prove that these associations harm the operational efficiency of firms.

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*Political connections and profit efficiency*

Most studies demonstrated that peers could achieve their goal after enhancing the profit efficiency. The crucial target of the firm is to maximize profit. Profit efficiency is one of the effective channels through which a corporation can become more efficient. Politically connected firms have higher yield due to their external links. Politically related firms are more likely involved in enhancing firms' profit, including adequate resources and subsidy.

In a developed country like China, their leaders provide plenty of capital, funds, and foreign investments. It is well recounted that political connections are indicators for investors. Because politically affiliated firms are government backup, investors want to invest a considerable amount in such firms. In this way, they are engaged to expand the profitability of firms. So, these shreds of evidence prove that political links have a significant impact on profit efficiency.

*Political connections and cost efficiency*

The practical means of evaluating the efficiency of the corporation is to determine the performance in the market. Most firms use this efficiency to measure the benefits, costs and analysis of the different investment project. In this way, the company can decide which project is more beneficial for further investment. Cost efficacy can measure it on the economy of the sale, more quality, and production at a lower cost. In the corporate world, for the nurturing of firms, there is a need to enhance cost efficiency.

These are some plausible pieces of evidence that prove that cost efficiency has a crucial role in promoting the entities. Political links are potential benefits to improve the cost efficiency of a corporation. Mostly, politically firms get more market share and survive in a large market due to better production. These firms are distinguished based on their cost-efficiency. In the competitive market, politically connected firms are more pronounced due to their high level of production. They provide various edges of their corporations, including the latest technology, skilled employees, effective strategy and state resources. Political aliens can make the law that low wage rate in all the corporations. Finally, all this evidence prove that political connections exert a positive impact on firm performance.

*Political connections and X- efficiency*

X-efficiency can measure based on the revenue of the firms. It is the way to measure firm performance because it indicates the suitable utilization of all resources and enhances profit. In the corporate world, numerous studies frequently discussed the impact of X-efficiency on firms' performance. It has a vital role in the stability and effectiveness of all the entities. In X-efficiency, there is a need a motivation between managers and workers to increase the production level. Most of the firms face agency problem, and it creates impediments to their growth. X-inefficiency is caused by a separation of ownership like principle and agent.

A company principle-agent problem creates organizational slack, and managers decide for their benefits, like hiring spare staff to do their work. To enhance efficiency, there is a need to remove the conflict between manager and employees, and it is vital to incentives for better results. Politically connected firms lead to serious agency problems due to their influence, which harms firms' X-efficiency. In particular, this study also provides the characteristics of political connections that significantly impact firm performance.

**Conclusion**

Mixed evidence of literature provides that political associations have both positive and negative impact on firms' performance and provides different channels of better (or worse) performance. For example, few studies prohibit that political connections harm the firms'

performance because the managerial cost is higher than the benefits. Some other factors like corruption, low morale of employees, and rent-seeking behaviour can harm the firm's performance. It is a challenging task to arbitrate between the advantages and costs of these connections. In contrast, recent studies prove that political connections positively impact the firm's performance because of the tax exemptions, utilization of state resources and power, and preferential access to leveraged and acquired tremendous market share. Overall, a large stem of prior literature suggests that efficiency plays a significant role in the corporate performance of politically connected firms.

In the business world, the connections between corporations and politician are deemed as core wise business idea. Previous studies prove that politically connected corporations are precious for a firm's performance because they have a high market share. International sales are going rapidly over the last few decades due to political ties. Outpacing the most remarkable expansion of market growth has a magnificent impact on the firm's performance. Throughout history, politicians use various channels to enhance the firm's performance. Such enterprises use multiple channels to boost progress, such as privileged access to loans, high market share, and bailout during the recession. The political connections are motivated to employ green practices and have received critical resources through political links. Therefore, green credit financing is also a factor to enhance firm performance and economic growth. Thus, firms with political connections have better versions due to efficiency.

Our findings have both academic and practical implications. This study contributes to the academic literature by highlighting a new phenomenon of the efficiency of politically connected firms. This study suggests the existence of an alignment of interests between politicians and corporate firms. Given the practical implications, it may be rational to reconsider the remuneration of the politician as a board member, as compensation should be granted according to productivity. Thus, this study implies that regulatory authorities review the corporate governance mechanisms of politically connected firms. Another practical implication is for investors that when the politicians of politically connected (PC) firms become the ruling party after the election, those PC firms outperformed their counterparts. The present study has several limitations that should be addressed by future research. First, we could not check whether this study empirically. Second, the findings of this study show that our central conceptualization persists, notwithstanding any type of efficiency models. However, future research can extend this study by testing whether politician affiliated firms' boards circumvent their efficiency after the government acquires their shares.

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**Corresponding author**

Khakan Najaf can be contacted at: [khakann@sunway.edu.my](mailto:khakann@sunway.edu.my)