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Impact of Corporate Political Connections and Audit Quality on Agency Cost: Evidence From Pakistan

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Abstract
This study examines the impact of corporate political connections and audit quality on agency cost using Pakistani listed non-financial firms from 2010–2015. In Pakistan's weak institutional framework, politically connected firms receive benefits such as tax relief, low-interest loans, and policy information but incur high agency costs due to political payments. Agency cost is measured through asset utilization ratio, while audit quality is assessed through Big4 auditors, audit report lag, auditor independence, audit committee meeting frequency, and auditor expertise. Using generalized least squares, fixed effects, and dynamic regression analysis, the findings reveal that political connections increase agency costs, while audit quality mitigates these costs and acts as a substitute for traditional governance mechanisms. Older and larger firms are more politically connected, leverage reduces agency costs, and politically connected firms exhibit lower growth rates.
Keywords: Agency cost, Audit quality, Political connections, Asset utilization.

1. INTRODUCTION

Corporate finance is concerned with the maximization of shareholders wealth (Kaal, 2017). Financial strategies are planned by the executives to gain maximum profit. Finance manager seeks ways of gaining profit by having more growth opportunities and lower investment. Agents are hired by the companies to gain economic help which create conflicts and give raise to agency cost (Jensen, 2013).

Agency cost determines the optimal capital structure of the firm as it is the fees paid on behalf of a principal to the agent (Arindam and Nandita, 2016). Agency cost arises because of conflicts of interest, between shareholders and managers when both want to run business in the way that can maximize their shareholder wealth (Kaal, 2017). In Addition, agency cost is high, when managers own none of the firm's share (Ang et al., 2000). Whereas, political lobbying is common among all the companies to seek economic benefits (Iqbal, 2012). Moreover, organizations which are politically associated are considered to be more valuable (Fisman, 2001). Therefore, corporate firms hire top government officials on the board of directors or on executive posts through lobbying, friendship, social and family networking (Cheema, 2016).

Researchers recognized the impact of political connections on the firms leverage, firm performance (Saeed et al., 2015) and in making financial decisions (Faccio, 2006). This study defines politically connected firm as if at

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least one of its top officers (member of company's board of directors) or a large shareholder (controlling at least 10% of the company's voting shares) is or was head of state, a government minister, or a member of the national assembly or parliament (Faccio, 2006).

Effective audit is necessary to produce beneficial effects (Piot, 2001). Key elements of audit quality are; level of audit engagement, jurisdictions of a country, audit committee expertise, audit report lag, internal control and audit firm level (International Auditing and Assurance Standards Board, 2014). Corporate governance exhibits auditing as an internal to mitigate agency costs (Grand, 1996). Auditing reduces information asymmetry on accounting numbers, and to minimize the loss resulting from managers' opportunism in financial reporting

Audit quality has a significant impact on agency cost (Gul et al., 2003). Gul (2006) argued that firms with political connections have high audit risks therefore they have to pay high audit fees. Moreover, the Securities and Exchange Commission of Pakistan (SECP) govern the non-financial institutions of Pakistan under the Companies Ordinance 1984.

This study examines the relationship among corporate political connections, agency cost and audit quality in Pakistan. There are controversial relations between firms and political parties in Pakistan (Khwaja and Mian, 2005). In the past two decades there have been three elected governments which were dissolved due to widespread corruption within the economy and political patronage. Although, Pakistan has low economic development, weak legal institutions, poor, regulations and high percentage of family ownership in the firms. There is no law to discriminate such connections (Rehman, 2006).

2. LITERATURE REVIEW

The mixture of Internal and external capital is the optimal capital structure of the firm which influences the firm value (Bradley et al., 1984). Miller (1977) proposed that the company decides how much debt and equity would use to balance the cost, benefits and financial distress. Theory explains the benefits of debt finance and states that, a firm is required to select debt until the benefits of using more debt balance the cost of utilizing debt. For overall value of the firm, it is determined that how much value of debt and how much value of equity is required for financing (Hovakimian et al., 2001).

Jensen and Meckling (1976) examined that the costs and benefits of a firm belong to the owner when there no separation of ownership in the business. When owners of the company hire agents on their behalf, ownership is divided which give raise to conflicts of interest. The main objective of a firm is to maximize its value agents. Moreover, It relates that all physical, financial, intellectual and human resources are the key to success for company and company should control its resources in a well-organized and planned way. To gai external resources is very important for a company at all management

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levels (Pfeffer an Salancik, 1978). There should be equal sharing of information between managers and outside investors. Following pecking order theory, firm focus on selecting debt or equity finance to avoid financial distress (Leary and Roberts, 2004). Mayers and Majluf (1984) argued that, debt is preferred mean to raise capital because managers are assumed to have more information regarding firm value than outsiders.

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2.1 Political Connections

The firms commonly try to establish political connections, which consequently enhances the firm performance (Boubakri et al., 2008). Political connections are beneficial for both politicians and firms. Politicians hand out important information regarding investment decisions, upcoming policies, and new interest rates while firms use this information to maximize their wealth (Boubakri et al., 2008). Firms provide huge support to the respective politicians in elections; give valuable presents in form of monetary values, shares or expensive gifts. Boubakri et al. (2008) noted that there is large number of firms having political connections in Pakistan. Political associations provide subsidies from the Government, issuance of licenses and in preference while giving government contracts (Daily Dawn, 2004).

Bertrand et al. (2006) carried out study in France and determined that politically connected firms have negative impact on organizational performance because of high labor cost. Political connections are common in countries having weak legal policies, high rate of corruption and poor judiciary system. Cooper et al. (2010) examines firms in US from the time period 1979 to 2004 and supported the study of Classens et al. (2008). In the economy where legal system is weak, poor rules and regulations and inefficiency of basic resources firms mostly depend upon political connections and politicians who can provide relief in equity and bank loans are most attractive for the firms, so that they can have access to leverage.

Moreover, leverage is one of the eventual outcomes of corporate political connections. Banks also demand incentives to provide low interest loans. They gain several other private benefits in order help firms (Infante and Piaza, 2010). Benefits provided to firms include bank credit, tax aversion, and low interest rates in order to enhance the firm value.

In spite of having advantages from political parties' firms face high agency cost (Boubakri et al., 2012) as firms influence political connection through enticement. Owners of the firms engage in politics to gain private benefits. By engaging in politics, they can increase firm value (Bartels and Brady, 2003). Politically connected firms are vulnerable to risks and increased agency costs because politically connected people are engaged in lobbying, corruption and bribery (Alam and Teicher, 2010).

2.2 Agency Cost And Political Connections

Johnson and Mitton (2003) argued that politically connected firms are less efficient than other firms. The nature of political connectedness varies across the country based on political and regulatory environment (Desai and Olofgard, 2011). Johnson and Mitton (2003) found that share price of politically connected firms fall as compared to politically unconnected firms. Whereas, firm whose profit heavily depends upon government contracts at least their one director or manger should hold a seat in politics.

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Where political connections provide several benefits to the respective firms, they also increase agency cost of the firm (Boubakri et al., 2012). Political connections are formed through corruption and bribes. Politicians seek advantage of poor legal environment to provide benefits to the connected firms (Bartels and Brady, 2003). Choy et al. (2011) suggested that businessmen seek position in politics for the welfare of their business. Their only motive is to generate high profit for the firm; they neither focus on economy of the country nor on their employees. Stronger will be the political connection, firms could gain more benefits. Similarly, if businesspeople have strong position in politics, they can provide more benefits to the firm e.g. prime minister can increase its firm value more than a member of assembly.

Agency cost increases with the strength of powered individual demands for more benefits. Political connections are used by the first favors from government in the form of tax relief and financial firms. Therefore, firms tend to establish political more often by engaging in politics a boring on their board of directors.

Hillman (2005) determined that political connections provide external information and advice regarding forthcoming policies so firms do not get uncertain information. Firms plan their future investment in accordance to the upcoming policies. Khwaja and Mian (2005) argued that connected firms have the benefit of debt financing and found that rent seeking activities increase with the strength of the politician. The party which is in power is more strengthened and seeks high political rent than the parties not in power.

External resources are important for the management of the company (Pfeffer and Sala 19781). Board may set up committees under it for the supervision of managers and implication of internal controls. Most efficient committee is audit committee which provide effective audit and reduces agency cost Agency relationship is settlement between owner and agent. Owners transfer responsibility and control to agents by deeply trusting that they will act in the best interest of the company Sensen and Meckling, 1976). Whereas, agents having control involve in fraudulent activities and create conflicts between principal and agents. To reduce agency problems, principal needs to supervise agents on regular basis and monitor policies and decision they take. Supervision of agents produces high agency cost (Jensen and Meckling, 1976). Agency cost incurred by monitoring of agents is bonding cost. The cost is borne to make sure that agents are working in the interest of shareholders and all actions of mangers are in the interest of the company (Jensen and Meckling, 1976). By following the above-mentioned studies, it is expected that politically associated firm face high agency cost. Thus, following hypothesis is proposed.

H1: Politically connected firms face high agency cost

2.3 Audit Quality And Agency Cost

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To achieve good corporate governance, the boards of commissioners ensure that overall functions of the firm are running effectively. So that internal controls are efficient for achieving good corporate governance. Board of commissioners makes sure that the management has implemented effective internal controls (Arens et al., 2012). Yatim et al. (2006) found that the independence of the board of commissioners and effectiveness of audit committee are positively linked. Expertise and independence of auditors are essential for audit quality. Efficient monitoring system requires better audit quality.

Higher will be the risk assessed by the auditor higher audit fees they charge (Gul, 2006). Firms having political connections tend to have higher audit fees because they have high chances of business risks. Along with political connections, good corporate governance influences high audit fees. Good corporate governance states that board of directors is a leader of the firm and it supervises the whole firm.

Politically connected firms have high inherent risk Gul, 2006) Inherite that auditors evaluate before applying internal controls (Tuanakotta 2013). Political branding gives raise to falsified statements and fraudulent activities within the company. Having control over the firm managers seek individual benefits rather than maximizing shareholders wealth. Monitoring of managers seek cost which has to be paid by the principal.

Asset utilization is an inverse proxy for the agency cost. Hence, low ratio means management is implementing poor investment decisions or having unnecessary benefits. Therefore, low asset utilization ratio means high agency costs (Beshkooh et al., 2013). Agency cost can be reduced by audit quality in two ways, by reducing the information asymmetry between shareholders and the firm and by resolving agency conflicts between shareholders and the management, by reducing agency problems agency cost is decreased. Carcello and Nagy (2004) stated that audit tenure is important to determine the audit quality.

3. DATA AND METHODOLOGY

Sample consists of non-financial companies listed on Pakistan Stock Exchange. There are 384 non-financial firms listed on Pakistan Stock Exchange. The study used 374 firms to determine the results while annual reports of 10 companies were not available. The sample consists of sectors such as: textile, electrical machinery and apparatus, fuel and energy, cement, food, motor vehicles, trailers and auto parts, paper, paperboard and products, chemicals, chemical products and pharmaceuticals, manufacturing, sugar, coke and refined petroleum products, information, mineral products, and other services activities. In Table 1. summary of sample distribution is provided. Data used for the study covers six years' time period (2010 to 2015). Furthermore, 2015 was the last year when research project was started. Data is collected from the

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annual reports of the companies. Study used number of sources of information to collect political connections data. The study investigates the individual directors of all firms for political affiliations while data from Pakistan election commission is analyzed to find which directors are having political association. Local newspapers are used to identify political associations of directors. This identification of political connection is consistent with the prior researches (Faccio, 2006; Chaney et al., 2011; Muttakin et al., 2015; Khan et al., 2016). Panel data is used in the study therefore, results are estimated by using Ordinary Least Square technique, Generalized Least Square technique, dynamic regression, descriptive statistics and fixed effect model. Housman test is used to identify fixed effect model. Ordinary Least Square is used for estimate unknown parameters in a linear regression.

Table 1: ***Sample Selection***

Sample Selection	
Number of firms	384
Less	
Number of firms without annual reports	10
Sample Distribution	
Textile	146
Electrical machinery and apparatus	7
Fuel and energy	20
Cement	19
Food	15
Motor vehicles, trailers and auto parts	18
Paper	8
Chemicals	42
Sugar	31
Manufacturing	30
Coal and refined petroleum products	9
Information	11
Mineral products	8
Other service activities	10
Total	374

Variables used in the study are briefly explained as following.

3.1.1 Dependent Variable

Agency cost is used as dependent variable in the study. Asset utilization ratio is used to measure agency cost. Asset utilization is an inverse proxy to measure agency cost. Increase in asset utilization shows decrease in agency cost and decrease in asset utilization ratio shows increase in agency cost. Higher asset utilization indicates that firm is involved in inefficient investment decisions. Asset utilization is also considered as efficiency

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indicator for the firms. This proxy for agency cost is also used in previous studies (Ang et al., 2000; Singh and Davidson, 2003; Mcknight and Weir, 2009; Khan et al., 2016).

3.1.2 Independent Variables

Political connections are used a dummy variable. It is equal to I if the organization is politically connected otherwise 0. Political connections are identified as; if any one of company's top officers (Director or manger) or a large shareholder (having 10% or more shares) is a politician or family member of a politician (current or a former member of the Parliament, National Assembly of Pakistan or Provincial Assembly of Pakistan). B4 is also used as dummy variable. It
is equal to I if firm is being audited by one of the big 4 audit firms of Pakistan otherwise 0. KPMG, Ernst & Young, Deloitte and A.F Ferguson & Core are considered as big 4 firms of Pakistan (Association of Chartered Certified Accountants, Pakistan). ARL (Audit report lag) is measured as the span of time between the occurrence of a claim and the date it is first reported, AE (Auditor expertise) is measured as proportion of financial experts in committee, ACI (Audit committee independence) is measured by calculating the proportion of independent directors in audit committee and MF (Meeting frequency) is determined by the number of meetings held by the audit committee in one year.

3.1.3 Control Variables

Firm age, growth, leverage and firm size are used as control variables in the study. Firm age (FA) is calculated by the log of the value between current year of operation and birth year, Growth (G) is measured by the rate of return in total assets, Leverage (Lev) is calculated by ratio of debt to equity and Firm size (FS) is determined by the natural logarithm of total assets.

3.2 Model

The study employs the following model to test the hypothesis.

$$AU_a = \alpha + \beta P_1 C_{it} + \beta_2 \beta_4 + \beta_3 ARL_{it} + \beta_4 ACI_{it} + \beta_5 AE_{it} + \beta_6 MF_{it} + \beta_7 FALog_{it} + \beta_8 G_{it} + \beta_9 FS_{it} + \beta_{10} Lev_{it} + €_{it}$$

The model is adopted from Khan et al. (2016). The model is used by considering that organization level variables can be modified to fit in this context.

4. RESULTS AND DISCUSSION

The model is estimated using generalized least square, fixed effect model and dynamic regression model. Generalized least square is preferred over ordinary least square because it relaxes the assumptions of autocorrelation and heteroskedasticity. Hausman specification test was applied to choose fixed effect model.

4.1 Descriptive Statistics

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Descriptive statistics are used to describe the basic features of the data, it summarizes the data set and measures central tendency and variability. Table 3 shows the sector wise and overall results of descriptive statistics. Cement sector shows that average value of AU in this sector is 0.25 whereas highest mean value of AU is possessed by sector of electrical machinery which means this sector uses its assets most efficiently. Leverage is low in all sectors that means in Pakistan firms have stronger equity position. In weak legal environment there is huge corruption and miss-pricing, companies do not declare their debts correctly as they seek advantage from institutions to abolish their debts. Growth rate of companies is low due to political association as firms do not focus on growth opportunities (Fan et al., 2007). Political connections are very common in all sectors shows that country's legal framework is very poor and firms rely more on establishing bond with powerful individuals to gain support and protection. There are few new companies being established either there is a need to incorporate huge amount of new business plans. Most of the companies are being audited by the big for audit firms or their associates. As per conduct of corporate governance all firms are following regular business meetings which can make their decisions efficient and effective.

Total results of descriptive statistics shows that mean value of asset utilization is very low tha means firms do not use their assets efficiently to generate sales. Similarly mean value of leverag is negative that shows cost of borrowing money is very high for all companies.

Table 4: ***Results of Generalized Least Square***

AU	Coef.	Std. Err.	Z	P>z	[95% Conf	Interval]
Lev	0.0047974	0.0029931	1.6	0.109	-0.001069	0.010664
G	-0.0003329	0.0002681	-1.24	0.214	-0.0008583	0.000193
FALog	0.1443808	0.0372433	3.88	0.000	0.0713852	0.217376
AS	0.8413134	0.1802928	-4.67	0.000	-1.194681	-0.48795
ACI	0.0933056	0.1389675	0.67	0.002	-0.1790656	0.365677
MF	0.3430314	0.1249106	2.75	0.006	0.0982112	0.587852
B4	0.33586	0.0553347	6.07	0.000	0.2274059	0.444314
ARL	0.1801393	0.0889771	-2.02	0.043	-0.3545312	-0.00575
PC	-0.0688979	0.0561482	-1.23	0.000	-0.1789464	0.041151
AE	0.3895617	0.150284	2.59	9.010	0.0950106	0.684113
C	1.070206	0.3189552	3.36	0.001	0.4450652	1.69534

4.2 Hetero and Auto Generalized Least Square

Table 4 presents the estimations of GLS regression results to test hypothesis 1 and 2. Asset utilization ratio is dependent variable whereas political connections and audit quality are independent variables. Asset utilization ratio as a measure of agency cost. Result shows that there is negative and significant coefficient of political connections (PC) that means politically

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connected firms are inefficient in using assets to generate revenue. Asset utilization is inverse proxy to measure agency cost that means if asset utilization is inversely proportional to political connections, then agency cost is directly proportional to political connections. The result suggests that politically connected firms incur high agency cost. Furthermore, BIG4 (B4) has positive and significant coefficient which determines that when firms are audited by big4 audit companies they experience lower agency cost, the results are consistent with our suggested hypothesis. Our results provide further support to Fan and Wong (2005) who contends that Big4 auditors can address Agency problems in East Asian countries through monitoring their clients. The variable for audit expertise (AE) is positive and significant that determines that auditors due to their expertise perform external monitoring roles and mitigate agency cost. Meeting frequency variable has positive and significant value which shows that by regular meeting and audit committee discussions agency problems can be resolved efficiently. Audit report lag (ARL) has positive and significant relation that means there are low chances of incurring high agency cost
when audit line is in a specific time. When there will be more independent directors in the board there is less chance of incurring high agency cost because independent directors lack internal pressure and familiarity threats. Moreover, we found that large firms employ assets more efficiently to generate revenue, Growth has significant and negative relation with agency cost means firms having political connections do not emphasize on growth opportunities. Researchers showed that growth rate of politically connected firms is very low (Fan et al., 2007). Our overall results are consistent with the findings of Khan et al. (2016)

4.3 Fixed Effect Model

Results show that political connections give raise to high agency cost whereas audit quality is a significant factor to reduce agency cost. Variables of audit quality have positive and significant value that shows audit quality is essential for the reduction of agency cost (Khan et al., 2016). FALog has positive and significant value which means older firms are more likely to establish political connection so their agency cost is high.

Table 6: ***Results of Fixed Effect Model***

AU	Coef.	Std. Err.	T	P>t	[95% Conf.	Interval]
Lev	0,005472	0.003414	1.60	0.109	-0.00123	0.012172
G	-0.00016	0.000323	-0.48	0.630	-0.00079	0.000478
FALog	0.199183	0.039858	5.00	0.000	0.120967	0.277399
AS	0.74215	0.194505	-3.82	0.000	-1.12384	-0.36046
ACI	0.117266	0.15053	0.78	0.436	-0.17813	0.41266
MF	0.330336	0.138005	2.39	0.017	0.059519	0.601153
B4	0.388152	0.057513	6.75	0.000	0.27529	0.501015

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ARL	0.22436	0.097599	-2.30	0.022	-0.41588	-0.03283
PC	-0.05782	0.060388	-0.96	0.000	-0.17632	0.060684
AE	2.967707	1.201326	2.47	0.014	0.610263	5.325152
C	0.262492	0.382481	0.69	0.493	-0.48808	1.013061

4.4 Correlation Analysis

Table 7 presents the correlation matrix. Variable of political connections (PC) is negatively correlated to asset utilization ratio which means political connections do not prefer efficient investment decisions. It also shows that B4, AE, MF and FALog are positively correlated with
act utilization ratio which suggests audit quality mitigated agency cost. Whereas Gis negatively correlated that shows politically connected firms do not have significant growth rate. AS and ACI are negatively but significantly correlated and Lev is positive and significantly correlated suggests that leverage helps to reduce agency cost and improve asset utilization.

Table 6: ***Results of Correlation Analysis***

	AU	**Lev**	**G**	**FALog**	**FA**	**ACI**	**AS**	**MF**	**B4**	**ARL**	**PC**	**AE**
AU	1.000											
Lev	0.139	1.000										
G	-0.020	-0.010	1.000									
FALog	0.124	0.039	0.021	1.000								
FA	0.124	0.039	0.021	1.000	1.000							
ACI	0.058	0.032	-0.008	0.154	0.154	1.000						
AS	0.074	-0.032	0.038	0.157	-0.089	0.544	1.000					
MF	0.101	0.062	-0.000	0.192	0.192	-0.192	-0.089	1.000				
B4	0.185	0.074	0.025	0.172	0.172	0.172	0.229	0.143	1.000			
ARL	0.073	0.065	0.010	0.027	0.027	0.098	0.293	-0.042	0.313	1.000		
PC	-0.081	-0.001	-0.041	-0.029	-0.029	0.191	0.157	-0.012	0.149	-0.068	1.000	
AE	0.166	0.007	-0.017	0.225	0.225	0.301	0.49	0.102	0.325	-0.207	0.099	1.000

4.5 Sector Analysis of the firms

The results shows that leverage is positively significant for sector; pharmaceutical, information and other service sectors shows that these sectors efficiently uses their assets to generate revenue whereas energy and paper sector have negative but significant leverage means these sectors do not uses their assets efficiently and rely on borrowing money from third parties

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which can increase agency cost for them. Growth rate of cement, electrical machinery, energy, motor vehicles sector showing that political connections reduces asset utilization ratio of these sectors and increase agency cost. These sectors gain more political advantages than other sectors, or political advantages are used in the interest of management not company. Big 4 auditors perform significant audit to mitigate agency cost in almost all sectors; cement, sugar, energy, paper, food, pharmaceutical, coke and refined products, mineral products, information and other
service activities. Auditor expertise is significant only in food sector that shows only experts in food industry are efficient in reducing agency cost.
Overall results show that political connections have negative and significant value that means politically connected firms exhibit high agency cost. Whereas measures of audit quality; FALog, MF, ARL and BIG4 are significant and positively related showing that audit quality can help to reduce agency cost

5. CONCLUSION

The study found the relation between political connections and agency cost and the effect of audit quality on agency cost. The study has used data of non-financial firms listed on Pakistan stock exchange. Asset utilization ratio is used to measure agency cost whereas audit quality is measured by different variables, Big4, Auditor expertise, Audit committee independence, audit report lag and meeting frequency. The results of this study show that politically connected firms incur high agency cost. Emerging economy, Pakistan has weak institutional framework due to many evils such as injustice, corruption, bribery, and miss-pricing. Powerful business elites have major shareholding in the firms; mostly CEO is one of the family members. They expropriate minority shareholders by using power and building strong political connections for the sake of tax evasion and low interest loans. This all leads to high agency cost for the certain firms in Pakistan,
Whereas, audit quality is an important factor to reduce agency cost as it increases economic prosperity. Audit quality can enhance the external monitoring mechanism. Big audit companies provide better audit because they to maintain their reputation in the market as well they have most experiences auditors along with advanced audit techniques either auditor expertise, audit report lag and meeting frequency of audit committee are important for audit quality.
The findings of the study are consistent with Khan et al. (2016) who suggested that audit quality moderates the relation between corporate political connections and agency cost. The study shows that institutional environment of the firms influences agency cost (Choy et al. (2011) and, Boubakri et al. (2012)). Pakistan's weak rules and regulation system, poor investor protection and high rate of corruption lead to positive relation between political connections and agency cost. The findings are also consistent with Fan and

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Wong (2005) who determined the importance of Big4 audit firms and the study of Gul et al. (2003) on the role of audit in mitigating agency cost.

5.1 Implications

Environment where there is huge corruption and family-oriented firms, audit quality can play an efficient role to foster market efficiency. Audit quality can be used as important governance mechanism. Investors should consider audit quality if they are willing to invest in politically connected firm. Auditors should seek more effort while auditing politically connected firms for which they can even charge high audit fees. The study offers implications for other commies that exhibit political connections similar to that of Pakistan.

5.2 Limitations

The study has few limitations, first, the study only covers five years of Pakistani firm data and hence an external validity problem exists in that the results may not be transportable over different time periods and locations, second, there are some firms which can be strongly connected to politics than other ones, third, there are few characteristics of audit quality are considered whereas there are several other characteristics which can be studied in future research although agency cost has more proxies measure its value. Future research could consider these points and further study about board ownership structure which can help to understand the relation of firm performance and political connections moreover future research in other emerging economies can refine the conclusion of this study.

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