

Political Connections, Family Ownership and Firms' Performance in Malaysia

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This study examines two issues relating to the performance of firms in Malaysia. The first section of this paper examines the relationship between family firms and their performance. The second section investigates the moderating effect of political connection on the performance of those firms. Our sample consists of 644 companies, all of which were listed in 2016 on Bursa Malaysia. It is hypothesized that a high percentage of family ownership and the existence of founders on boards enhances the performance of the firms. It is further hypothesized that political connections multiply the firms' performance. The findings of this study support the first hypothesis regarding family ownership and founders on boards in enhancing a firms performance. This study also found evidence that the existence of political connection within Malaysian companies does not appear to greatly enhance the performance due to the negative and insignificant relationships between the independent and dependent variables when the moderating variable was factored in.

Key words: *politics, family ownership, performance.*

Introduction

Malaysian companies are often associated with family ownership and possibly weak corporate governance practices. Several studies have been undertaken on the relationship between family firms in Malaysia and their performance. Despite the strong relationship between politics and businesses in Malaysia, the possibility of political influence on a firm's performance may have been overlooked. The lack of attention to this issue has warranted a study on family firms and their performance as well as the impact of political connections. This study attempts to examine the performance of 644 listed firms on Bursa Malaysia in 2016, which may vary when two types of proxies, i.e., return on assets (ROA) and return on equity (ROE) are used to gauge their performance. The performance is expected to change when these firms have certain political ties. Therefore, this study aims to integrate the effects of family ownership and political connections when analysing a firms performance.

Family firms in Malaysia have remained dominant and their contribution to the overall economy is significant. More than half of the companies listed on Bursa Malaysia's main board are owned and controlled by families (Amran and Che Ahmad, 2010; Ibrahim and Abdul Samad, 2011). These firms have successfully doubled the national Gross Domestic Product (GDP) (Amran and Che Ahmad, 2011). In fact, most of the richest individuals in the country are the owners of listed family firms, such as Lim Kok Thay from the Genting Group, Lee Shin Cheng from the IOI Group, Yeoh Tiong Lay from the YTL Corporation, and Vincent Tan from the Berjaya Group (Forbes.com). There are also smaller, successful family enterprises in their respective industry, including Habib Jewels and Kamdar (Amran and Che Ahmad, 2011, Muhammad et al., 2019, Mujtaba et al., 2018, Mujtaba et al., 2018, Ngara, 2017, Njegovanovic, 2018, Obi and Okekeokosisi, 2018). It can be concluded that family firms are important players in the Malaysian economy.

Prior studies have systematically examined the relationship between family firms and their performance. One of the most oft-cited papers is by Anderson and Reeb (2003) who discovered the prevalence of family firms in the United States and their superior performance compared to other widely-owned firms. Likewise, another pioneer in this research is Claessens, Djankov and Lang (2000), which was undertaken in the East Asian setting and has also been widely referred to in the family firms-performance research area. Although some effort has been made to study the performance of family firms in Malaysia (Ibrahim, Abdul Samad and Amir, 2008; Amran and Che Ahmad, 2010; 2011; Ibrahim and Abdul Samad, 2010; 2011), none of the existing research has considered the influence of political connections on the firms' performance.

2.0 Institutional Background

2.1 Family business in Asia and Malaysia

Continuing a study by Claessens et al. (2000), Carney and Child (2013) contended that large companies in East Asian countries have undergone some changes in ownership and control after the Asian Financial Crisis. Family firms are still a dominant feature even after the economic downturn and have become more entrenched, especially when no political changes have taken place in a country in that region (excluding Japan). For example, Malaysia has experienced an increasing pattern of state intervention in the economy following the turmoil. In addition, family-controlled firms in Malaysia have increased from 57.7% to 67.2% and its company ownership is among the most concentrated in East Asia (Claessens et al., 2000). Most of these family firms in the country are considerably successful, given their huge contribution to the national GDP (Amran and Che Ahmad, 2011; Hasnan & Hussain, 2015). Historically, family listed firms in Malaysia started operations as small enterprises, run by family members and relatives. Employing outsiders was strictly avoided, to preserve the business for the next generation. Economic expansion in Malaysia since independence has created greater opportunities for these then small-scale family enterprises to grow. To date, it can be observed that family firms have been very successful and have become a force to be reckoned with in Malaysia.

2.2 Political influence in the Malaysian economy

Historically, the Malaysian economy was segregated based on race during the occupation of Malaya by the British before Malaya gained its independence from them in 1957. During this time, the small Chinese population dominated the economy and earned the most, resulting in an imbalanced socio-economy and a wide economic gap. This economic disparity caused discontent among the races. This apparent unfair treatment triggered a racial riot in 1969, which led to the introduction of the New Economic Policy (NEP) in the following year as a response to the turmoil and to correct the imbalances. One of the agendas of the NEP is to increase the Bumiputras' share of equity to 30%, hence narrowing the ownership gap among all races. To date, these Bumiputras have increased their equity stake but the initial goal has yet to be achieved. The NEP comprises some discriminatory practices, whereby most Bumiputra-owned firms are given easy loan approvals and other funding assistance at lower repayment rates, besides other privileges.

It is clear the NEP has paved the way for the government to intervene in the economy. Selected Bumiputra-owned firms or companies with certain political ties have been prioritized in terms of resource distribution and reduction of red tape or bureaucracy. Although greater economic liberalisation was observed during Mahathir's era (Jomo, 1999), the preferential treatment continued to operate years after the NEP was introduced, i.e., during the Asian Financial Crisis in 1997. Politically connected firms, which were initially in great distress, exhibited speedy

recoveries subsequent to the implementation of capital control in 1998 by the Malaysian government compared to the non-politically connected firms. Although they were not badly affected, yet they did not recover as fast in the short period (Mitchell and Joseph, 2010). The initial plunge in performance of these politically connected firms was due to their inefficiency, especially when the government was not able to financially support them during the crisis. After the implementation of capital control, these firms quickly gained their investors' confidence.

2.3 Political connection and firms' performance in Asia

Various studies have uncovered the influence of politics on firms' performance. These two variables have also produced conflicting results. Faccio, Masulis and McConnell (2006) studied political influence on the performance of listed firms across 47 countries and found companies from 35 of the studied nations to have political connections. Politics is not a corporate value booster in countries with more systematic and strict regulations; it benefits countries with epidemic corruption and that impose restrictions on foreign investments. Political connections are reported to be dominant among large firms. A large increase in corporate values is observed in companies when managers or large shareholders are involved in the political arena.

Research on political connections in Asia is relatively scarce. Using a sample from Thailand, Imai (2006) researched on the power of politicians in the performance of Thai family businesses. It was found that politicians connected to family firms affected the performance of the differently. Firms related to cabinet members have better performance than firms connected to members of parliament or senators. Cingano and Pinotti (2013) posited that firms experienced a dramatic decrease in their performance, especially when unethical practices of these high-ranked politicians are revealed to the public. In a similar vein, Goldman, Rocholl and So (2009) asserted that larger companies in the United States benefit from political ties. This was observed through the increased stock returns in firms with directors who have certain ties with politicians when a winning political party is related to these companies. Therefore, politicians' reputation does play a significant role in influencing firms' performance.

In a transition and relationship-based economy like China, political connections are found to be an ultimate contributor to investment opportunities of Chinese family firms (Xu, Xu and Yuan, 2011). Discrimination in obtaining financing and entering the capital market is exercised whereby the state-owned companies are more preferred and subject to less cumbersome bureaucracy by the Chinese government. This result in limited financing options, leading to under-investment in family firms. Considering this unfair treatment, family firms alternatively establish political relationships for better investment opportunities and improved performance.

Su, Fung, Huang and Shen (2013) revealed that political connections can be a double-edged sword for Chinese firms. This is because firms with political ties can obtain government resources with less red tape, thus enabling higher cash dividend payments to their shareholders in general. These political ties can also be a mechanism for the controlling shareholders to seize some companies' wealth through related party transactions, which result in lower cash dividends being distributed. This finding that political connections moderate the negative effect brought on by excessive party related transactions is supported by Su and Fung (2013). It was discovered that using different proxies for political connections may lead to different results. Su and Fung (2013) identified politically connected firms as those related to high ranking politicians in the government.

In some cases, this political connection does not contribute to the improvement of productivity in these firms (Choi and Thum, 2009). The welfare and productivity of these politically connected firms have been documented as declining following the connections (Amore and Bennedsen, 2013; Cingano and Pinotti, 2013). This is because the enhanced performance is explained by competitive advantage gained when the demand for public goods and services is diverted to them due to their political influence, rather than their self-improved productivity levels (Cingano and Pinotti, 2013). Wu, Wu and Wu (2012) also studied the performance of politically connected Chinese firms revealed that private firms in China exhibit better performance than the state-owned enterprises (SOEs). This is because SOE managers ordinarily prioritise government objectives over their firms' and typically over- invest free cash flow, consequently sacrificing firms' opportunities for wealth creation. In addition, politically connected managers in the private firms can use their influence to obtain more tax benefits, whereas managers in the SOEs have no influence in their firms' tax rate. In summary, these connections which divert economic resources to incompetent producers can collectively result in huge economic losses to the country.

3.0 Hypotheses Development

3.1 Family ownership and firms' performance

Past scholars have documented mixed results on the relationship between family firms and their performance. Studies undertaken in East Asian (Claessens et al., 2000) and Western European (Maury, 2006) countries have proven that family firms are dominant, and exhibit a desirable performance compared to other firms with a more diluted ownership. Yammeesri and Lodh (2004) and Westhead and Howorth (2006) suggest that excessive family ownership, where the owners are also in the management team, does not significantly hinder the performance of listed Thai firms and private firms in the United Kingdom. Even though the employment of family members in family firms results in limited pool of expertise, they are still deemed as wealth creators. These firms are operated by first or later generations. Employing non-executive directors does not necessarily guarantee better performance, proving

that outsiders do not contribute to a firm's wealth at all times (Westhead and Howorth, 2006). This result supports the findings of Habbershon, Williams and MacMillan (2003) that the element of "familiness" that exists within family firms promotes the creation of the firms' value and wealth. The greater performance by first and multi-generation denies the assumption that outside professionals are better managers and that second generation family leaders pull down firms' performance and their overall value (Villalonga and Amit, 2006).

Similarly, Andres (2008) found that family firms in Germany only exhibit a more profitable performance when founding family members are among the board of directors. Eddleston and Kellermanns (2007) contended that active participation and interaction by family members can enhance the firms' value. Conflicts can lead to severe destruction. In addition, Anderson and Reeb (2004), who agreed on the positive influence of the founding families on the board, stated that healthy family firms can only be achieved if both independent and founding family directors have relatively similar control and power. Apparently, too much control by the family members can undermine effective monitoring by the independent directors. In addition, family firms in Taiwan only show positive performance when family ownership and management co-exist (Chu, 2011). This finding is in line with the stewardship and agency theories, whereby family managers who act as the stewards of the company have similar goals with the shareholders who are also their family members. In contrast, when a firm's chairperson is externally acquired or hired, Taiwanese firms exhibit a negative performance. This is explained by the existence of conventional agency problems (between managers and owners), when outsiders are involved in the management of family-owned companies. Despite mixed results, this study expects the performance of listed family firms in Malaysia to increase with greater percentage of family ownership, and therefore it is hypothesised as follows:

H1: Higher percentage of family ownership enhances firms' performance.

3.2 Founders on board and firms' performance

Earlier research on the influence of founders or successors on firms' performance has produced mixed findings. Amran and Che Ahmad (2010) observed that family firms in Malaysia have shown greater performance during the period when successors have taken over the business from the founders. The results consequently illustrate that the founders of family firms are committed to properly planning their companies' future. Therefore, improved performance is more visible after founders pass their businesses to their successors. This finding proves that Malaysian family firms prioritise continuity and survival of their businesses. Contrary to Amran and Che Ahmad (2010), Zahra (2005) found that family members from multiple generations of the same founder-family can make significant innovations in the family business, due to their knowledge and experiences gained over the years. In other words, the synergy between the older and younger generations has a more profound impact on firms' performance. Zahra's result is in line with a prior study by Anderson and Reeb (2003), who

concluded that both founders and successors (Chief Executive Officers (CEOs)) of family firms in the United States positively influence their firms' performance. Additionally, Chu (2011) stated that family members, as directors as well as shareholders, can prevent the classic agency problems between management and shareholders. In this regard, the existence of founders among the directors on the board can ensure better firms' performance. Andres (2008) emphasised that the highest performance of family firms can be observed particularly in firms with active founders. For these reasons, this study expects the existence of founders on the board of directors to better stimulate the performance of family firms in Malaysia. Hence, the following is hypothesised:

H2: Firms with founders who sit on the board of directors have higher performance than firms without founders on the board.

3.3 Family ownership, founders on board, political connections and firm performance

In general, scholars agree that firms with political connections have better performance than their non-connected counterparts, given the selective and protective behaviour of the government on its favoured firms. In the case of Malaysia, Mitchell and Joseph (2010) demonstrated that the Malaysian government financially rescued politically connected firms when the Asian financial crisis hit the country. Although politically connected firms were severely affected by the crisis, capital controls introduced by the Malaysian government at that time buffered the deteriorating performance of these firms. Other related studies have also reported similar findings, i.e., on the various advantages obtained by firms with certain political ties can eventually increase their performance. In addition, with political connections, founders can easily realise their firms' objectives, which are normally aligned with the political objectives of both parties (i.e., the firm and the government). Hillman (2005) emphasised that there must be a bi-directional relationship between firms and the government. Considering this statement, this study hypothesises that:

H3: The existence of political connections moderates the relationship between family ownership and firms' value, such that it further increases the firms' performance.

and

H4: The existence of political connections moderates the relationship between the existence of founders/successors on the board of directors and firms' value, such that it increases the firms' performance.

4.0 Research Design

4.1 Sample selection

The sample for this study is all Malaysian companies listed on Bursa Malaysia's (Bursa) Main Market in year 2016. A total of 903 companies are identified as being listed on Bursa Malaysia in 2016. Since companies operating in the finance sector are regulated under the Banking and Financial Act (BAFIA) 1989, this study excludes 37 companies that operated under this Act. Another 112 companies, as well as a further 109 companies are excluded due to incomplete information for the selected year and their listing on the ACE Market, respectively. The final number of companies taken as sample for this study is shown in Table 1 below.

1 The Banking and Financial Act (BAFIA) 1989 allows Financial Institutions (FIs) to make portfolio investments in non-financial businesses up to a maximum of 20% of FIs shareholders' funds and up to 10% of the issued share capital of a company in which the investment is made.

Table 1: Sample Selection

	Total
Total number of companies listed on Bursa Malaysia as at 31 December 2016	903
Less: Companies in finance sector	37
Companies with incomplete information	112
Companies listed on ACE market	109
Closed/funds	1
Final sample	644

4.2 Models and variables

We use the following two cross-sectional logistic models to analyse the relationship between family firms, founders on the board of directors, firms' performance, and political connections.

Model 1:

$$\text{PERF} = \beta_0 + \beta_1 \text{FAMOWN} + \beta_2 \text{FOUNDER} + \beta_3 \text{DECT} + \beta_4 \text{SIZE} + \beta_5$$

Model 2:

$$\text{PERF} = \beta_0 + \beta_1 \text{FAMOWN} + \beta_2 \text{FOUNDER} + \beta_3 \text{PCON} \\ + \beta_4 \text{DEBT} + \beta_5 \text{SIZE} + \beta_6 \text{FAMOWN} * \text{PCON} + \beta_7 \text{FOUNDER} * \text{PCON} + \beta_8$$

Where:

PERF = firms' performance measured by ROA and ROE
FAMOWN = the percentage of family ownership in firms

FOUNDER = the existence of founders on the board of directors

DEBT = the book value of long-term debt divided by total assets

SIZE = the natural log of the book value of total assets

Two independent variables are employed in this study. They are represented as the percentage of family ownership and the existence of founders on the board of directors. Family ownership is measured as the aggregate percentage of ownership of the ten top largest shareholders who own at least 5% of voting shares each (Munir and Mohd-Salleh, 2013; and Chu, 2011). Before aggregating the percentage of family ownership, we initially identified any family relationships based on the information given in the profile of the board of directors or in related party transaction section in the annual reports. Keywords, such as "relate", "family" and "relationship" were used to trace any disclosed family relationships in the annual reports. Bursa Malaysia has required listed firms on the Main Board to disclose any family relationship that exists among directors and major shareholders (Bursa Official Website). This disclosure requirement is also highlighted in the recent Malaysia Code of Corporate Governance (MCCG) 2012 to promote greater transparency in Malaysian companies (PwC, 2012).

Founders on the board was measured as the number of founders on the board divided by the total number of directors on the board (Hasnan, Abdul Rahman and Mahenthiran, 2013; Hasnan & Abdul Rahman, 2014; Hussain, Mohd Sanusi, Mahenthiran & Hasnan (2016)). Keywords, such as "found", "founder" and "incorporate" were used to identify founders' names in the annual reports. In addition, each of the profiles of directors was also scanned for founders. Founders are strictly distinguished in the way explained above to avoid overstatement. Villalonga and Amit (2006) also precisely defined founders in their sample as "the one responsible for the firm's early growth and development into the business that it later became known for, yet this need not be the same individual who started and incorporated the company or a predecessor business, nor the one who took the company public" (p. 392).

This study adopts two conventional proxies for firms' performance as the dependent variables. Accounting performance measures are utilised and proxied by ROA and ROE. They have been widely used by a number of studies in the past in various settings, such as in Malaysia (Ibrahim and Samad, 2011); or other countries, such as Thailand (Yammeesri and Lodh, 2004); the United States (Anderson and Reeb, 2003); and Chile (Martinez, Stohr and Quiroga, 2007). There have been mixed results from past literature on which proxy gauges performance the best. For this reason, multiple proxies have been used and each of their strengths and significances are measured to observe the variances for each measurement. Although a single interpretation of accounting-based performance does not necessarily provide a sufficiently clear picture of future performance, especially for an unstable company (Sun and Tong, 2003), this study utilises only accounting-based performance measurements. The ROA is the ratio of net income and total assets, while ROE is the ratio of net income and shareholders' equity. These performance measures are expected to be positively related to high family ownership and existence of founders on the board.

Debt and firm size are introduced as the control variables for this study. This is important in order to control for sample firms' different characteristics. Following the method of Amran and Che-Ahmad (2011) and Anderson and Reeb (2003), debt is calculated as the book value of long-term debt divided by total assets and firm size is the natural log of the book value of total assets.

Political connection is expected to shift the outcome of the relationship between family ownership and firms' performance. Determining the best proxy for political connection is also another difficult decision faced by researchers for it is contingent to a high degree of subjectivity (Imai, 2006). A political connection recognized in a country may not be considered so in another country, possibly due to their different business practices and norms. In this study, political connection is a moderating cum dummy variable whereby the presence or absence of political connection within a company is indicated as 1 or 0 respectively. While Imai (2006) considers Indonesian firms with any relationship with President Suharto to be politically connected, Gomez and Jomo (1997) and Johnson and Mitton (2003) similarly determine politically influenced Malaysian firms as those that have officers or major shareholders with a close relationship with key government officials, primarily Tun Mahathir Mohammad, Tun Daim Zainuddin, Tun Ghafar Baba and Dato' Seri Anwar Ibrahim. These definitions are in line with Faccio (2006, p. 369) who characterizes politically connected firms as having "a politician if at least one of its large shareholders (anyone controlling at least 10 percent of voting shares) or one of its top officers (CEO, president, vice-president, chairman, or secretary) is a member of parliament, a minister, or is closely related to a top politician or party". In addition, Gomez and Jomo (1997), Johnson and Mitton (2003), Fraser, Zhang and Derashid (2006) and Faccio (2006) also acknowledge a political connection if the companies are associated with the ruling coalition in Malaysia since independence 56 years ago, the Barisan Nasional. This is similar

with Cingano and Pinotti (2013) who consider companies which employ at least one officer who, at the same time, serve the local government to be connected as well.

In this study, political connection is deemed to exist when the board of directors and/or major shareholders of the company are linked to Malaysian politicians/ex-politicians and Prime Ministers. Companies that are listed as Khazanah Berhad investment companies are also identified as politically connected. Moreover, if a director of a company comes from the royal family, is/was a Senator, state assemblyman, former member of the Parliament, holds/held top post in government-linked companies or work/worked in the Prime Minister's Department or other ministries, that company is also deemed to be politically connected. Although they may have resigned or retired, their influence is assumed to continue. For this reason, the companies are deemed to be politically connected.

Tun Mahathir Mohamad is the fourth Prime Minister of Malaysia who had held the post for 22 years while Tun Daim Zainuddin was the Finance Minister during Mahathir's tenure and has close relationship with Mahathir. Tun Ghafar Baba was Mahathir's deputy who had replaced Dato' Seri Anwar Ibrahim. (Johnson and Mitton, 2003).

Khazanah Berhad is an investment holding company, controlled and owned by the Malaysian government. Senators are selected by the King as recommended by the current Prime Minister, which may be exposed to a certain bias in the cabinet.

5.0 EMPIRICAL RESULTS

5.1 Descriptive statistics

Table 2 shows the descriptive statistics for family ownership which is measured by the percentage of interest held by family members in the company that constitutes the top ten shareholdings, and the existence of founders on the board of directors. As reported in Table 2, some of the samples do not have any family members that have interest in the companies, as shown by the minimum value of 0. In other cases, family ownership is as high as 80.93%. This maximum value is similar to the finding of Amran and Che Ahmad (2010), which recorded a maximum value of family ownership in Malaysia of 84.14%. On the other hand, the frequency column of FOUNDER suggests that in this study, more than 70% of the companies do not have any founders among their directors, while the remaining 27.3% have at least one founder-director on the board.

Table 2: Descriptive Statistics of Dependent Variables for N=644

	Min.	Max.	Mean	Std. Dev.
FAMOWN	0.000	0.8093	0.2470	0.2365

FOUNDER	0.000	0.5000	0.0517	0.0959
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Table 3 shows the descriptive statistics for firms' performance measured by two accounting performance indicators. On average, sample firms record ROA and ROE of 4.04% and 6%, respectively. The maximum value of ROA is 51.26% and the minimum value is -57.81%. Meanwhile, the maximum value of ROE is 90.96% and the minimum value of ROE is -88.08%. These accounting ratios generally gauge a firm's ability and effectiveness in generating earnings from its investments, but of different kinds, namely assets and equities, as per the focus in this study.

Table 3: Descriptive Statistics of Independent Variables for N=644

	Min.	Max.	Mean	Std. Dev.
ROA	-57.8107	51.2589	4.0418	8.6740
ROE	-88.0781	90.9616	5.9949	16.1031

Table 4 shows the descriptive statistics for political connections as the dummy moderating variable in this study. A value of 0 indicates a non-politically connected firm, while a value of 1 indicates otherwise.

Table 4: Descriptive Statistics of Moderating Variables for N=644

	Min.	Max.	Mean	Std. Dev.
PCON	0.0000	1.0000	0.5300	0.5000

Table 5 shows the frequencies of politically and non-politically connected firms in the sample. As illustrated in the below table, 52.6% of the 644 sample firms are deemed to be politically connected, and 47.4% are deemed to be independent of political connections.

Table 5: Frequencies of Politically and Non-Politically Connected Firms

		PCON			
		Frequency	Percent	Valid %	Cumulative %
Valid	Non politically connected	305	47.4	47.4	47.4
	Politically connected	339	52.6	52.6	100.0
	Total	644	100.0	100.0	

5.2 Correlation analysis

Table 6: Pearson Correlation Matrix of Variables in the Study

	FAMOWN	FOUNDER	PCON	ROA	ROE	DEBT	SIZE
FAMOWN	1						
FOUNDER	0.194**	1					
PCON	-0.165**	-0.069	1				
ROA	0.102**	0.091*	-0.001	1			
ROE	0.083*	0.069	0.002	0.887**	1		
DEBT	-0.032	-0.008	0.034	-0.265**	-0.209**	1	
SIZE	-0.154**	-0.085*	0.236**	0.174**	0.184**	0.241**	1

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

Table 6 reports the correlations between all variables used in this study. FAMOWN and FOUNDER exhibit significantly positive relationships with ROA. Meanwhile, both FAMOWN and FOUNDER exhibit positive relationships with ROE, but only FAMOWN shows a significant relationship with the above-mentioned performance indicator, at 1%. In other words, these correlations can be collectively interpreted as the high percentage of family interests and the existence of family founders contribute to the betterment of firms' performance, measured by ROA and ROE. Family firms appear to be very efficient in utilising their assets and equities in generating returns. This result is in line with Yammeesri and Lodh (2004) and Shyu (2011) whose studies were done in Thailand and Taiwan, respectively. In addition, Shyu (2011) also found that although ROA increased in proportion with family ownership, it starts to move in an opposite direction as ownership becomes too concentrated.

Another Malaysian study by Ibrahim and Samad (2011), on the other hand, demonstrates a contradicting finding. In this study, family ownership and ROA have an insignificantly negative relationship. Despite the inconsistency, this result is also correlating with most previous studies, in particularly research conducted by Anderson and Reeb (2003) and Andres (2008). These studies were carried out in the United States and Germany, respectively. They collectively agreed that family members understand the firms better and active participation of family founders in the management eventually boosts firms' performance, based on similar indicators.

Besides, correlation between PCON and ROA depicts a negative yet insignificant relationship. This is supported by Wu et al. (2012), who also found a negative yet insignificant relationship between political connection and firms' performance, measured by ROA. This result indicates that politically connected directors on firms have no effect on firms' performance. However, this result contradicts the findings by Hillman (2005), Deng, Tian, Li and Abrar (2012) and Su and Fung (2013) that showed a positive significant correlation between these variables. PCON and ROE exhibit insignificantly positive relationships, which suggest that politically-connected representation on the board of directors does not guarantee the enhancement of a firms performance. The insignificant relationship between ROA and ROE with PCON could be due to the less stringent method chosen for determining 'political connection' in this study.

The significant correlations between DEBT and SIZE with independent variables of ROA and ROE suggest the appropriateness to include them as control variables. Positive correlation between SIZE and performance shows that bigger firms are usually associated with higher performance and vice versa. The negative correlation between DEBT and performance suggests that firms with less debt exhibit higher performance. It is logical for firms with higher earnings to take fewer loans to finance their operations as they have more financing options.

5.3 Multiple regression results

Tables 7 and 8 present the results of four regressions: Models 1 and 2 test the direct relationships among independent and dependent variables; and Models 3 and 4 examine the interaction of moderating variables with the independent and dependent variables simultaneously.

Table 7 presents the results of the regression of Hypotheses 1 and 2. Models 1 and 2 test the direct relationship as to whether family ownership and founder-directors contribute to positive performance, proxied by ROA and ROE. As indicated in Table 7, both models are statistically significant and their R²s illustrate that 15.5% and 11.9% of variations in ROA and ROE respectively are explained by the variations in the independent variables. In other words, FAMOWN, FOUNDERS, DEBT and SIZE contribute 15.5% and 11.9% of changes in ROA and ROE, respectively. The regression provides that FAMOWN significantly contributes to

ROA (4.295) and ROE (2.757). In addition, FOUNDER also enables firms to enjoy better ROA and ROE, illustrated by the significantly positive relationship of 8.090 and 11.715, respectively. The effect of FAMOWN is stronger for ROA, while the effect of FOUNDER is more pronounced on ROE.

Table 7: Regression Results for Direct Relationship of Family Ownership and Firm Performance

Variables	Exp. Sign	Model 1: ROA			Model 2: ROE		
		B	t	Sig.	B	t	Sig.
(Constant)		-4.287	-2.986	0.003	-9.572	-3.517	0.000
FAMOWN	+	4.295	3.230	0.001	6.950	2.757	0.006
FOUNDER	+	8.090	2.488	0.013	11.715	1.901	0.058
DEBT	+	-17.693	-9.030	0.000	-27.111	-7.300	0.000
SIZE	+	1.703	7.582	0.000	3.068	7.207	0.000
R ²		0.155			0.119		
Adjusted R ²		0.150			0.114		
F-value		31.333			23.098		
N		644			644		

Moreover, all variables for both models show significant results which suggests that firms with higher family ownership and founder-directors on the board, lower financial leverage, and that are smaller in size, have higher ROA and ROE independently. The elements of familiness and synergy among the founders and family directors are the main pillars to a family firm's successful performance. These results are generally analogous to the findings of Thomsen and Pederson (2000); Habbershon et al., (2003); Amran and Che Ahmad (2010); and Ibrahim and Abdul-Samad (2011). Owing to the significance of adjusted R²s, Hypothesis 1 holds true.

Table 8 presents the results of regression of Hypotheses 3 and 4. Models 3 and 4 test whether the positive performance is due to family ownership and founder-directors increases is due to the existence of politically connected directors on the board. As indicated in Table 8, both models are statistically significant and their adjusted R²s indicate that 14.9% and 11.3% of variations in ROA and ROE are explained by the variations in the independent variables. In other words, the independent, dependent and moderating variables contribute 14.9% and 11.3%

of changes in ROA and ROE. The regression results for ROA in Model 3 show that the coefficient of the interaction of FAMOWN*PCON is -0.740 while the interaction for FOUNDER*PCON is -6.195, and both are insignificant. In addition, the regression results for ROE in Model 4 show another insignificant interaction of FAMOWN*PCON which is -2.597 and for FOUNDER*PCON, the interaction is -0.839. These negative relationships suggest that no exceptionally good performance can be detected when politically connected directors are in the company with significant family ownership and also when they sit on the board as founding directors. Therefore, it is reasonable to deduce that political connections do not place family firms in Malaysia at an advantage (Bertrand, Kramarz, Schoar and Thesmar, 2004).

Model 3: ROA					Model 4: ROE				
Variables	Exp. Sign	B	t	Sig.	VIF	B	t	Sig.	VIF
(Constant)		-4.464	-3.207	0.003		-9.999	-3.577	0.000	

Model 3: ROA					Model 4: ROE				
Variables	Exp. Sign	B	t	Sig.	VIF	B	t	Sig.	VIF
FAMOW	+	4.657	2.444	0.015	2.173	8.216	2.275	0.023	2.173
N									
FOUNDE	+	10.712	2.505	0.012	1.801	16.625	2.006	0.045	1.801
R									
PCON	+	-0.049	-0.052	0.959	2.440	0.147	0.081	0.936	2.440
DEBT	+	-17.649	-8.972	0.000	1.069	-26.970	-7.233	0.000	1.069
SIZE	+	1.736	7.499	0.000	1.156	3.120	7.111	0.000	1.156
FAMOW	+	-0.740	-0.274	0.784	3.076	-2.597	-0.507	0.612	3.076
N									
*PCON									
FOUNDE		-6.195	-0.937	0.349	2.107	-10.507	-0.839	0.402	2.107
R									
*PCON									

R ²		0.158				0.122			
Adjusted R ²		0.149				0.113			
F-value		18.146		0.000		13.460			0.000
N		644				644			

Table 8 shows that there is a direct negative relationship between ROA and PCON and a positive relationship between ROE and PCON. These contradicting relationships are supported by Su et al. (2013), who documented that political connections can be a double-edged sword for the companies. Politicians and firms can both benefit a business where the existence of political connections can create greater opportunities to viable business resources and lucrative markets which favour the firm. At the same time, political connections can allow the appropriation of a companies' assets by the government of the political parties in the company at the expense of firms' performance.

Despite the initial hypothesis that the performance of family firms can be further enhanced with politically connected directors on the board, the regression results indicate otherwise. From this research, it becomes evident that the co-existence of family ownership, founders and politicians within the firm can diminish firms' performance. This is due to the negative coefficients of FAMOWN*PCON and FOUNDER*PCON for both ROA and ROE. In this study, the result is likely attributable to the incompatibility of family members and politically connected directors who may not come from the same family, resulting in a conflict of interests.

Similar to Amran and Che Ahmad (2010), this negative relationship raises the possibility that the decisions of these politically connected directors are bound to the family principles of doing business. Family directors usually prioritise their family business survival rather than having the ultimate aim of enhancing firm performance. Politically connected directors on the other hand, may have greater tendency to expand the business operations, resulting in a higher profit. It can be concluded that the intervention of outsiders cum political allies into the firm can stir up arguments between family managers and politically connected managers who apparently have similar objectives but different priorities. It is suggested by Westhead and Howorth (2006) that the existence of outsiders on the board of directors does not necessarily create wealth for the firm. This study also finds that political connection does not bestow any benefits in terms of the performance of Malaysian family firms, and worse still, can lead to financial losses. Thus, hypothesis 3 and 4 are rejected.

Based on the analysis, it can be concluded that firms with high family ownership and founding directors on the board result in better firm performance. In accordance with prior studies, the

regression analysis suggests that the relationships are positive and statistically significant, indicating its robustness. The concentrated ownership among family members and the existence of founding directors are deemed to drive the firm to better performance. Nevertheless, the existence of politically connected directors along with founders and family shareholders results in negative firms' performance. Those politically connected directors do not appear to enhance the corporate performance as measured by accounting based indicators, i.e., ROA and ROE.

6.0 CONCLUSION

There have been quite a number of studies conducted to examine the direct relationship between family firms and their performance. The most frequently cited research is by Anderson and Reeb (2003) who have investigated the relationship between founding family ownership and firm performance among the S&P 500 companies in the United States. There is also some evidence on the association between the existence of politicians among the board of directors and the performance of the firms in the United States (Hillman, 2005) and China (Su and Fang, 2013). However, to our knowledge, there is yet to be a formal study that concurrently examines the relationship among family firms, firms' performance and political connections, particularly in the Malaysian setting. This study believes that Malaysia provides an interesting setting, given the existing nexus of politics and business in the country based on its history.

Furthermore, many researches have claimed that doing business in Asian countries are more relationship- based instead of merit-based . Owing to this absence, this paper aims to fill the research gap by including all three variables (i.e. family firms, firm performance and political connections) in one study. Specifically, this study attempts to examine the relationship between family firms and their performance as well as the influence of political connections on firms' performance.

This study also aims to observe whether the domination of shareholdings by family members as well as the existence of founders on the boards of directors has a major impact on the firms' accounting performance. In addition, this study aims to shed some light on the possible influence political connections may have on the performance of family firms in Malaysia. There have been a significant number of studies that have emphasised on the relationship between different kinds of corporate structures and their performance. This study is the first of its kind which simultaneously examines two different characteristics of corporate structure, namely family firms and politically- connected firms in a single study. In addition, this study is conducted in a Malaysian setting, where family- owned firms and politically-controlled firms are dominant. Generally, Malaysian firms with significant interests held by family members and firms with founding directors show a significantly positive performance measured by two accounting performance indicators, namely ROA and ROE. The interaction of political



connection and the two independent variables appears to be negative and statistically insignificant. Thus, it is legitimate to deduce that political connections do not put family firms in Malaysia to advantage. Our results have the potential to inform research, practice and society about the fact that the existence of politicians among the board of directors does not necessarily create wealth to the firm. This study has found that political connection does not bestow any benefits to the performance of Malaysian family firms and worse, can lead to financial losses.

Findings from this study should be interpreted with care due to several limitations. The sample involved is limited to public listed companies on Bursa Malaysia in year 2016. Increasing the sample size by considering additional years can provide a better picture on the performance of family firms in the region, hence leading to a more robust result. The inclusion of longer periods, which covers different phases of economic cycles (e.g., before and after the financial crisis) may also give information on trends of performance by family firms with different degrees of political ties. Moreover, as it is generally known that most family firms in Malaysia are operating as small and medium enterprises (SMEs), selecting these businesses as part of the sample in future research can increase the quality of the sample as they are more representative of the population. Also, future research can also consider controlling the influence of industry as it has been found that different industries have different trends of performance (Hillman, 2005; Deng et al., 2012).

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