

# Does Political Connection and Family Business Create or Destroy Firm Performance: Lessons Learned from Malaysia

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## ABSTRACT

This study examined the effect of the family business on firm performance and whether the political connection moderates these relationships. Final sample consisted of 1,969 firm-year observations from 2013 - 2017. Family characteristics and political connections data were hand-collected from annual report and financial data were extracted from Eikon Datastream. We found that family chairmanship and high family ownership concentration can destroy firm performance, exhibited by low Tobin Q. However, the moderating effect of political connection between family business and firm performance showed a positive and significant association. This implies that politicians in the family firm can create firm performance as they can work as external watchdogs. Additional analysis showed that political connections in high family ownership can destroy firm performance. These findings provide practical implications for regulators and investors that they should be mindful of the designation of family members and appointment of politicians in firms as it may create agency costs and destroy firm performance. This study adds to the limited, albeit important evidence on the joint effect of politically connected firms and family businesses on firm performance.

**Keywords:** family business, political connection, firm performance

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## **INTRODUCTION**

Unlike other countries in the world, the Malaysian corporate sector is characterised by the existence of politically connected firms as it falls as the second highest politically connected firm after the United Kingdom (Faccio, 2010). Firms are categorised as a politically connected firms if their director is currently or used to be a member of parliament, a minister, a head of state or a state assemblyman (Chaney, Faccio, & Parsley, 2011) or a person who is either currently or was formerly a government bureaucrat (Fan, Wong, & Zhang, 2007). Prior studies in the political connection have consistently used this method to classify politically connection firms (Azmi, Zakaria, Sata, & Sanusi, 2020; Faccio, 2006; Kamarudin, Wan Ismail, Harymawan, & Shafie, 2021; Wahab et al., 2020). Appointing a politician or a politically linked figure in the boardroom has become an inclining trend among firms as they can enjoy benefits from the association. For instance, the connected firms can enjoy some advantages including easy access to financing bank loans, tax breaks, market power, and government contracts (Chung, Byun, & Young, 2019). Moreover, systematic evidence has found politically connected firms to have better market-based performance (Azmi et al., 2020; Do, Lee, & Nguyen, 2012)

Political connections of corporate board members are also an essential factor of firm success since government policies have a significant impact on corporate decision-making and operations. Prior studies by Faccio (2010), Chung, Byun, and Young (2019) and Sun, Hu, and Hillman (2016) extensively looked at the effect between political connection and firm performance. The political intervention in business may interfere in any type of firm and industry, including, in family businesses. Although family business was dominated by family members, they also might appoint politicians in the boardroom to enjoy the benefits from the appointment. Joni, Ahmed, and Hamilton (2020) revealed that stand-alone firms with political connections perform better than firms belonging to family business groups in Indonesia.

Despite higher political connection, the business environment in Malaysia is also dominated by majority family businesses. Prior studies have shown that 70% of Malaysian listed firms are based on family ownership (Che-Ahmad & Mustafa, 2017) and most large firms are family

businesses (Ibrahim & Abdul Samad, 2010). Their findings revealed that family business dominated and contributed to the major Gross Domestic Product (GDP) growth in Malaysia. However, the performance of family business declined due to the Covid-19 pandemic. According to PwC's Family Business Survey 2021, Malaysian family businesses saw mixed performance over the last financial years with 47% experiencing growth in terms of their sales performance while 29% of Malaysian family firms saw a sales reduction. Although 70% of listed firms among the business firms contributed to the major GDP growth, family business firms were struggling due to the Covid-19 outbreak. Hence, to sustain and be competitive in the market, they need to strategise their plan by securing many resources from directors as the directors are seen as resources to the firms based on the Resources Dependency Theory.

Despite, being sustainable and competitive in the market, family business is susceptible to Type II agency problems where the majority shareholders undermine the interest of minority shareholders (Che-Ahmad & Mustafa, 2017). Plus, the problem becomes serious or reduced if political intervention existed in the family business. Political connections can create Type I agency problem by diverting firms from their fundamental objectives to the politician's objectives (Azmi et al., 2020). On slip side, political intervention in the family firms may work as the external watchdog to corporate governance in mitigating the Type II agency problem between minority and majority shareholders (Mohd Suffian, Mohd-Sanusi, Rashid, Puteh & Ghazali, 2022).

Our study was built on two significant lines of inquiry. The first objective focuses on the impact of family ownership and political connection on firm performance. The second objective was to examine the interaction effect between political connection and family ownership on firm performance among public listed firms during the period 2013-2017. We specifically focussed within time frame 2013-2017 because of the stable political party during the Barisan Nasional (BN) Era and before the revised Malaysian Code of Corporate Governance (MCCG 2021) that recommended the restriction of active politicians in the boardrooms in Malaysia.

This study aimed to examine whether family firms and political connection are related to the performance of a company. This is due to

the limited studies that looked at the interaction effect between political interventions and family firms on firm performance. It is because according to the Resources Dependent Theory, politicians have better odds to be appointed as directors in family firms to enjoy benefits from the connection (Liew & Devi, 2021). This study also sought to contribute to the existing family ownership literature by investigating several moderator effects on this relationship. Furthermore, the effect of political connections and family ownership on firm performance has not been examined jointly. Prior research has focused on the impact of family ownership on firm performance, with little attention paid to the political connection. As a result, this paper adds to previous research by investigating the benefits, or lack thereof, that political ties can bring to firm performance. Accordingly, the current study aimed at examining the moderating role played by the family ownership on the association between political connection and the performance of a company.

Using a Malaysian sample of 1,969 firm-year observations, we investigated and found that family business proxied by family chairmanship (FCHAIR) and high family ownership (FDO) concentration had a high tendency to diminish firm performance, exhibited by a low Tobin Q. However, the moderating effect of political connection between the family business and firm performance showed a positive and significant association. This implies that politicians in a family firm's boardroom can create firm performance as the politician can work as an external watchdog in the highly concentrated family firms. Also, it is supported by the Resources Dependency Theories (RTD) where the connected firms can enjoy resources from the politician and reduce the Type II agency problem in the family business. In the additional analysis, we separated the sample into high and low family ownership concentration, and we found that political connection in high family ownership destroyed firm performance. Thus, this association created Type I and Type II agency problem in the firms.

Our results contribute to the literature by looking at the moderating effect of political connection and family business on firm performance. Our findings also provide critical input for regulators and investors on the designation of family members and appointment of politicians in the firms as it may create agency costs and create/destroy firm performance. Our findings provide a positive view of political connection into the business environment by revealing that having politicians in the boardroom does

not solely give negative effect to the firms, but significant number of interventions can work as external monitors over business. Hence, it can reduce agency problems in the firms.

This paper is organized into five sections. Section 1 is the introduction, and then Section 2 introduces the previous literature on the relationship between family ownership, political connection and firm performance and proposes the research hypotheses. Section 3 discusses the research method. Section 4 shows the results of the study, and in the end, Section 5 shows the conclusion with the implications of the study.

## **LITERATURE REVIEW AND HYPOTHESES**

### **Family Business and Firm Performance**

Family ownership is related to a firm that is controlled and managed by family members. Most firms are normally controlled by their founders, or by family members and heirs (Burkart, Panunzi & Shleifer, 2002). Family business can be classified into four categories, which are 1) intra-family relationships that exists among family members; 2) extra-family relationships that exist between family members not directly involved in the family firm and non-family individuals and groups; 3) intra-firm relationships that exist among family and non-family members of the firm; and 4) extra-firm relationships that exist between the firm or its members (family or non-family) and external stakeholders (Zellweger et al., 2019).

Based on the agency theory, the need for disputes between principals and agents can lead to agency conflicts, which will cause agency costs. However, family participation in company management can have a positive impact on complete and transparent reporting of company management can also align strategies for company performance growth between principals and agents. With this condition, the agency cost that should be incurred can be reduced (Halim & Suhartono, 2021).

There are two perspectives of agency costs in family firms. In the first perspective, family ownership is the internal mechanism to minimise information asymmetry and align resources to improve firm performance. In

this situation, the board of directors remains under family members' scrutiny, which minimises conflicts of interest. However, in the second perspective, family firms have a high tendency to generate agency problem Type II. This situation materialises when the presence of controlling shareholders has its associated costs, as they may engage in insider dealings at the expense of minority shareholders (Ahmed, Ali Shah, & Ali Bhatti, 2020). Firms with concentrated ownership are more likely to be tunnelled due to conflict of interest between controlling and minority shareholders (Che-Ahmad & Mustafa, 2017). In other words, the majority shareholders will undermine minority shareholders. Recent findings have found that the heterogeneity of family firm behaviours as reflecting the values, biases, and heuristics of individuals (Picone et al., 2021)

Further research has discovered that large family businesses (Félix & David, 2019) and highly concentrated family ownership positively affect firm performance (Mohd Suffian, 2021; Musallam, 2018). Ahmad, Omar, & Quoquab (2021) found that family involvement in businesses has a positive association with firm performance since a high family involvement can sustain a firm's longevity in the market. Family firms also have a positive relationship with financial strength and armed with superior strategic perspectives. These advantages can form the foundation for the firm's sustainability. A concentrated family ownership enjoys favourable business relationships with external firms when compared to non-family firms. This perk can spur the performance of family firms (Lee, 2019). However, Gonzalez, Idrobo, and Taborda (2019) found that family firms only positively affect the return on assets (ROA), but not Tobin Q. In other words, family firms can increase accounting-based performance, but not market-based performance.

Despite ample evidence of a positive association between family businesses and firm performance, other studies have found conflicting results. Directors' selection and appointment in family firms are based on social networking among family ties. Even though family firms can tolerate appointing inexpert family members as managers, the firm performance faced negative effects (Ibrahim & Abdul Samad, 2010). This observation is supported by Bhatt and Bhattacharya (2017), who found that board structures have a negative effect on family firm performance since they could be managed by individuals without the relevant knowledge, experience, and

professional qualification. However, Al Farooque, Buachoom, and Sun (2020) also discovered that family ownership does not have any significant impact on firm performance.

Mixed results were found because regulation and corporate governance environment might influence family ownership and firm performance (Paiva, Lourenço, & Branco, 2016). Studies based on the Malaysian environment cannot ignore the characteristics of ownership structures because this ownership can control the Malaysian capital market. In addition, family firms are concerned with their survival, reputation and performance since they have invested their personal assets in the business (Al-Duais et al., 2019). Family firms are more likely to run into agency problem Type II between minority and majority shareholders. This is due to large shareholdings having more substantial incentives to influence management decision making.

Furthermore, they are concerned with the firm's survival and reputation. Family firms have considerable control over the firms, and strong internal control and governance may improve performance in family firms. Even though family firms have the final say in decision-making, the thoughts of survival and reputation supersede the urge to improve firm performance. In short, the focus to create firm value becomes their fundamental objective since reputation and survival remain as the primary agenda of family firms. Thus, based on mixed findings above, we developed the following hypothesis:

**H1:** Highly concentrated family ownership has high firm performance.

## **Political Connection and Firm Performance**

Political influence appears to be a two-edged sword, with both positive and negative consequences. The literature provides several reasons to support the positive and negative relationship between political connections and firm performance. A review of literature indicates that politically connected firms experience high financial performance (Wang, Yao, & Kang, 2019; Faisal, Ridhasyah, & Haryanto, 2021). However, developing close ties with the government may not always be advantageous to a company.

There is an influence of a negative relationship between political connections and corporate performance which has implications for auditors, shareholders, and management. Companies that are included in political connections, spend a lot of money on funding and licensing fees for ease and smoothness in contracts or to win government projects so that the impact lower profitability and performance company (Osazuwa, Che-Ahmad, & Che-Adam, 2016).

The negative effect of political connection can be explained using the agency theory. According to the theory, governments pursue various objectives that may conflict with the firm's value-maximizing objective. According to Al-Sraheen, Saleh, & Alsmadi (2019) political influence had a significant impact on the Jordanian business environment and decreased the quality of financial reporting. Additionally, political connections businesses pay a price for being part of patronage networks that support the political leaders who currently hold power. (Johnson & Mitton, 2003). Based on the above discussion, this study postulated that:

**H2:** Political connection has low firm performance.

## **Family Business, Political Connection, and Firm Performance**

Family businesses may be susceptible to a certain number of conflicts and ultimately lead to nepotism that may jeopardize the firms. In addition, Dyer (2018) found that firms with continued founding family presence would perform better in accounting and market signal rather than non-family firms. However, the connection between family business and political connection in the boardroom has been a global issue extensively discussed in the academic literature. Dominant family owners are expected to control the politicians on the boards.

Family ownership contributes to mitigating the negative effect of the political connection on the level of corporate risk companies. Su and Fung (2013) studied the association between political ties and business performance in Chinese firms from 2004 to 2008 and found a positive relationship after controlling for ownership structure, related party transactions, and firm characteristics. Additionally, Joni, Ahmed, and Hamilton (2019) and Lidya (2020) found that firms with political ties performed better than those that belong to family business associations.



Accordingly, the current study aimed at examining the moderating role played by the family ownership on the association between political connection and the financial performance. Based on the agency theory, we proposed the following hypothesis:

**H3:** There is an interaction effect between political connection, family business, and firm performance.

## **METHODOLOGY**

The scope of this study was confined to Malaysian Public Listed Companies (PLC) listed in Bursa Malaysia Berhad (BMB). This analysis incorporated data from 2013 to 2017. The data set of five years was sufficient to reduce classification errors. The population of the study consisted of 3,120 firm-year observation after excluding those which were listed in the Financial Services Act 2013 due to the difference of regulation and high volatility. After excluding extreme outlier, the final sample of this study was 1,969 firm-year observation. The elimination of extreme outlier was by using Cook's *D* (Cook, 1977). Thus, this range of data enables this study to determine the impact of political connection and family businesses on firm performance.

To examine firm performance, prior studies had used market and accounting-based performance (Amran & Che Ahmad, 2011; Ma & Ma, 2017; Rouyer, 2016). However, many studies had argued that market-based performance (Tobin's *Q*) is a better proxy for firm performance (Fu, Singhal, & Parkash, 2016). Therefore, this study used Tobin's *Q* by ratio of market capitalisation plus total liabilities over total assets as proxied to firm performance.

The main independent variables were the political connection and family business. Political connection firms were measured by a ratio of number of politicians in the boardroom divided by board size. A firm is considered as politically connected firms if one of their director was currently or used to be a member of parliament, a minister, a head of state or a state assemblyman (Chaney et al., 2011) or a person who is either currently or was formerly a government bureaucrat (Fan et al., 2007). Meanwhile, family business was proxied by family member is a chief executive director

(FCEO), family member as a chairman (FCHAIR), percentage of family member (PFN), and family ownership (FDO). The dummy variable was used to measure FCEO and FCHAIR. Then, PFN was measured by percentage of family members divided by board size. FDO was measured by total direct share ownership owned by family members. The data on political connection and family business were gathered by reviewing director's profile in the annual report.

We also controlled firm's profitability which was proxied by Return on Equity (ROE), Return on Asset (ROA), Debt Ratio (DR), Current Ratio (CR), and firm size (FSIZE). ROE is a ratio of net incomes over total equities. ROA is a ratio of net income over total assets; DR is a ratio of total liabilities or total assets. CR is a ratio of current assets over current liabilities, and FSIZE is natural algorithm of total assets. The regression model for both independent variables were as follows:

$$\text{TobinQ} = \beta_0 + \beta_1 \text{FDUMMY} + \beta_2 \text{FCEO} + \beta_3 \text{FCHAIR} + \beta_4 \text{PFN} + \beta_5 \text{FDO} + \beta_6 \text{PCON} + \beta_7 \text{ROE} + \beta_8 \text{ROA} + \beta_9 \text{DR} + \beta_{10} \text{CR} + \beta_{11} \text{FSIZE} + \varepsilon \tag{1}$$

$$\text{TobinQ} = \beta_0 + \beta_1 \text{FDUMMY} + \beta_2 \text{FCEO} + \beta_3 \text{FCHAIR} + \beta_4 \text{PFN} + \beta_5 \text{FDO} + \beta_6 \text{PCON} + \beta_7 \text{PFN*PCON} + \beta_8 \text{ROE} + \beta_9 \text{ROA} + \beta_{10} \text{DR} + \beta_{11} \text{CR} + \beta_{12} \text{FSIZE} + \varepsilon \tag{2}$$

## RESULTS AND DISCUSSION

### Descriptive Results

Table 1 reports the descriptive statistics for all the variables. The results as in Panel A of Table 1 indicate that average Tobin's Q was 5.450, with values ranging from 3.533 to 7.937. The average number of family member (PFN) in the boardroom was 21.8, with values ranging from 0 to 0.875. The average direct share ownership (FDO) of family firms was 10%, with values ranging from 0% to 100%. The average number of politicians in the boardroom (PCON) was 0.711, with values ranging from

none to maximum 12 directors in the firms and reveals that the sample size consisted of largest politician in the boardroom. The control variables of average Return on Equity (ROE), Return on Assets (ROA), Debt Ratio (DR), Current Ratio (CR) and firm size (FSIZE) were 0.518, 0.035, 0.385, 3.448, and 5.732 respectively.

Panel B of Table 2 presents the descriptive statistics for the dummy variable. The percentage of family firm (FDUMMY) constituted 53% of the sample size. The percentage of family members holding the CEO position (FCEO) in the firms was 26.4. Meanwhile, the percentage of family members as the chairman in the firms was 21.8% of the sample size.

**Table 1: Descriptive Statistics – Continuous Variables**

<b>Panel A: Continuous variables</b>	<b>Mean</b>	<b>Median</b>	<b>Max</b>	<b>Min</b>	<b>SD</b>
TOBINQ	5.450	5.349	7.937	3.533	0.743
PFN	0.218	0.222	0.875	0.000	0.224
FDO	9.996	2.460	100.000	0.000	15.078
PCON	0.711	0.000	12.000	0.000	0.994
ROE	0.518	0.058	7.076	-9.282	0.381
ROA	0.035	0.032	6.495	-2.723	0.165
DR	0.385	0.367	4.561	-0.011	0.257
CR	3.448	1.921	107.536	0.015	6.833
FSIZE	5.732	5.657	8.159	3.916	0.657

*Note:* TOBINQ is ratio of market capitalisation plus total liability over total asset; PFN is percentage of family member divided by board size; FDO is the total direct share ownership owned by family members; ROE is a ratio of net income over total equity; ROA is a ratio of net income over total assets; DR is a ratio of total liabilities or total assets; CR is a ratio of current assets over current liabilities; and FSIZE is natural algorithm of total assets.

**Table 2: Descriptive Statistics – Dichotomous Variables**

<b>Panel B: Dichotomous variables</b>	<b>Yes (1)</b>		<b>No (0)</b>	
	<b>N</b>	<b>%</b>	<b>N</b>	<b>%</b>
FDUMMY	1,644	52.7	1,476	47.3
FCEO	823	26.4	2,296	73.6
FCHAIR	680	21.8	2,440	78.2

*Note:* FDUMMY is a dummy variable equal to 1 if firm is family business and 0 otherwise; FCEO is a dummy variable equal to 1 if CEO of the firm among the family members and 0 otherwise; and FCHAIR is a dummy variable equal to 1 if the chairman of the firm among the family members and 0 otherwise.

## **Correlation Results**

Table 3 report the correlation analysis of the variables. The tabulated results show that the correlation between the variables were relatively low. The highest correlation was between FDUMMY and FCEO, with a value of 0.763; PFN with FDUMMY and FCEO with a value of 0.788 and 0.758, respectively. However, there was no multicollinearity issue because the value was below than 0.8 (Hair, Black, Babin, & Anderson, 2010 & Gujarati, 1995). The results showed that all proxied family variables were negatively correlated with Tobin's Q, indicating that low firm performance in the family business. However, the appearance of politicians in the boardroom was positively correlated with Tobin Q and provided early findings that appointing politicians in the boardroom could boost firm performance.

The firm's profitability proxied by ROE and ROA, and solvency ratio of DR showed a positive correlation with Tobin's Q. As suspected, larger firm size (FSIZE) positively correlated with market-based performance Tobin's Q. However, the firm's liquidity of CR showed a negative correlation with Tobin's Q and provides early findings that firm's liquidity does not necessarily increase firm performance.

## **Regression Results**

Table 4 present the regression estimates for the effect of the political connection and family business on the firm performance. For Model 1, we first estimated the effect of the family business and political connection on firm performance, with results showing that FCHAIR and FDO had a negative and significant relationship on Tobin's Q. This result revealed that family firm chairmanship exhibited lower firm performance. Furthermore, high concentrated family ownership in the firms also showed lower firm performance suggesting that high concentrated family ownership has a higher tendency to create agency problem Type II and undermine the interest of minority shareholders. These finding rejected our first Hypothesis.

These findings are aligned with Gonzalez et al. (2019) who found that family firms had a negative relationship with Tobin's Q. Family firms did not take long-term performance or market based performance seriously due to the low quality of the board of directors. High director's tolerance

appointment leads to the recruitment of inexperience and unqualified family members as directors, which negatively affects the firm's performance among Malaysian family firms (Bhatt & Bhattacharya, 2017; Ibrahim & Abdul Samad, 2010).

In Model 2, we observed the same relationship between FCHAIR and FDO on the Tobin's Q. The PCON also showed an insignificant relationship on the Tobin's Q implying that there were not statistically differences between political and non-politically connected firms on firm performance and rejected our Hypothesis 2. However, we found the interaction effect between political connection and number of family members (PFN\*PCON) was a positive and significant relationship with Tobin's Q. This result supported our Hypothesis 3 that the appearance of politicians in the boardroom family business was able to increase firm performance. This finding aligns with the resources dependency theory that sees politicians as a resource to the firms and eliminate the Type II agency cost that existed between minority and majority shareholders. The political intervention in the business somehow was able to help firms to increase their market-based performance.

Table 3: Correlation Analysis

Variables	TOBINQ	FDUMMY	FCEO	FCHAIR	PFN	FDO	PCON	ROE	ROA	DR	CR	FSIZE
TOBINQ	1.000											
FDUMMY	-0.089***	1.000										
FCEO	-0.079***	0.763***	1.000									
FCHAIR	-0.044**	0.055***	0.423***	1.000								
PFN	-0.104***	0.788***	0.758***	0.558***	1.000							
FDO	-0.183***	0.388***	0.297***	0.191***	0.397***	1.000						
PCON	0.211***	-0.135***	-0.106***	-0.145***	-0.207***	-0.133***	1.000					
ROE	0.223***	0.005	0.002	0.002	0.008	0.004	-0.005	1.000				
ROA	0.218***	0.028	0.029*	0.005	0.033*	0.036*	0.003	0.645***	1.000			
DR	0.023	-0.039**	-0.024	-0.063***	-0.039**	-0.015	0.036**	-0.019	-0.111***	1.000		
CR	-0.057**	0.029*	0.009	0.088***	0.024	-0.048**	-0.097***	0.007	0.026	-0.322***	1.000	
FSIZE	0.858***	-0.051**	-0.052**	-0.017	-0.069***	-0.157***	0.277***	0.094***	0.074*	0.174***	-0.112***	1.000

Note: The reported t-statistics are in parentheses. Asterisks denote statistical significance at the 1%, (\*\*), 5%, (\*\*\*) or 10% (\*) levels, respectively. TOBINQ is ratio of market capitalisation plus total liability over total asset; FDUMMY is a dummy variable equal to 1 if firm is family business and 0 otherwise; FCEO is a dummy variable equal to 1 if CEO of the firm among the family members and 0 otherwise; and FCHAIR is a dummy variable equal to 1 if the chairman of the firm among the family members and 0 otherwise; PFN is percentage of family member over board size; FDO is the total direct share ownership owned by family members; ROE is a ratio of net income over total equity; ROA is a ratio of net income over total assets; DR is a ratio of total liabilities or total assets; CR is a ratio of current assets over current liabilities; and FSIZE is natural algorithm of total assets.

The control variables showed ROA and FSIZE in both Model 1 and 2 had a positive and significant relationship with Tobin's Q and it is expected high profitability and larger firm size had higher firm performance. However, DR in Model 1 and 2 show a negative and significant relationship with Tobin's Q. As expected, higher debt ratio led to lower firm performance.

**Table 4: Regression Result**

	Model 1	Model 2
INTERCEPT	0.585 3.17***	0.598 3.24***
FDUMMY	-0.043 -1.230	-0.047 -1.330
FCEO	-0.033 -0.880	-0.035 -0.950
FCHAIR	-0.061 -1.980**	-0.057 -1.830*
PFN	-0.044 -0.570	-0.069 -0.870
FDO	-0.002 -2.180**	-0.002 -2.290**
PCON	-0.008 -0.500	-0.027 -1.450
PFN*PCON	- -	0.122 1.790**
ROE	0.052 1.470	0.050 1.400
ROA	0.833 8.490***	0.835 8.510***
DR	-0.499 -10.060***	-0.499 -10.070***
CR	0.001 0.500*	0.001 0.490
FSIZE	0.895 27.130***	0.894 27.110***
Adj R <sup>2</sup>	41.42	41.54
N	1969	1969

**Note:** The reported t-statistics are in parentheses. Asterisks denote statistical significance at the 1% (\*\*\*), 5% (\*\*), or 10% (\*) levels, respectively. TOBINQ is ratio of market capitalisation plus total liability over total asset; FDUMMY is a dummy variable equal to 1 if firm is family business and 0 otherwise; FCEO is a dummy variable equal to 1 if CEO of the firm among the family members and 0 otherwise; and FCHAIR is a dummy variable equal to 1 if the chairman of the firm among the family members and 0 otherwise; PFN is percentage of family member over board size; FDO is the total direct share ownership owned by family members; ROE is a ratio of net income over total equity; ROA is a ratio of net income over total assets; DR is a ratio of total liabilities over total assets; CR is a ratio of current assets over current liabilities; and FSIZE is natural logarithm of total assets.

### Additional Analysis

The main analyses revealed that family ownership (FDO) was associated with lower market-based performance, Tobin Q. Therefore, we further examine whether high or low family ownership concentration gave a negative effect on Tobin Q. We divided the sample into high and low family ownership by partitioning firms with high and low family ownership based on a median ratio of 2.46% after excluding non-family firms.

Table 5 shows FCHAIR in low family ownership firms was negatively significant on the Tobin Q, but not in the high family ownership firms. However, FDO in high family ownership firms was negatively significant on Tobin Q and indicated that high family ownership created Type II agency cost by undermining the interest of the minority shareholders. It is contradicted with low family ownership firms where the majority shareholder does not create agency problem Type II.

Moreover, political connection (PCON) was negative and significant on the Tobin Q in high family ownership firms. These results provide evidence that the existence of politicians in the boardroom family firms could further reduce firm performance. Whereby high concentrated family ownership may undermine interest of the minority shareholders and the existence of politicians in the boardroom may further reduce firm performance because it may divert firm’s fundamental objectives to the politicians’ objectives. Our additional findings, offer evidence on the political connection in high family ownership firms on firm performance.

**Table 5: High and Low Family Ownership Concentration**

	High	Low
INTERCEPT	0.172	0.507
	1.15	3.16***
FDUMMY	0.015	-0.078
	0.330	-1.410
FCEO	-0.004	-0.003
	-0.130	-0.060
FCHAIR	-0.028	-0.822
	-1.210	-1.740*
PFN	-0.051	0.037
	-0.700	0.280



FDO	-0.002 -2.470**	0.004 0.180
PCON	-0.447 -2.690***	-0.005 -0.280
ROE	-0.150 -5.000***	0.114 3.720***
ROA	1.814 12.610***	0.000 0.000
DR	-0.332 -8.060***	-0.375 -7.180***
CR	0.005 1.940**	-0.001 -0.760
FSIZE	0.933 37.390***	0.902 31.330***
Adj R <sup>2</sup>	38.44	29.30
N	1,040	1,028

**Note:** The reported t-statistics are in parentheses. Asterisks denote statistical significance at the 1% (\*\*\*), 5% (\*\*), or 10% (\*) levels, respectively. TOBINQ is ratio of market capitalisation plus total liability over total asset; FDUMMY is a dummy variable equal to 1 if firm is family business and 0 otherwise; FCEO is a dummy variable equal to 1 if CEO of the firm among the family members and 0 otherwise; and FCHAIR is a dummy variable equal to 1 if the chairman of the firm among the family members and 0 otherwise; PFN is percentage of family member over board size; FDO is the total direct share ownership owned by family members; ROE is a ratio of net income over total equity; ROA is a ratio of net income over total assets; DR is a ratio of total liabilities or total assets; CR is a ratio of current assets over current liabilities; and FSIZE is natural logarithm of total assets.

## CONCLUSION

The objectives of this research were to see if the family business is related to firm performance and if the political connection moderates the association between the family business and firm performance. Based on a sample of 3,120 company-year data from the Main Market Bursa Malaysia from 2013 to 2017, we discovered that family chairmanship and high family ownership concentration undermined firm performance, as evidenced by a low Tobin Q. However, the presence of a political connection in the boardroom has been shown to improve corporate performance, and this is backed by the Resources Dependency Theories, since firms can benefit from the politician's resources. In the extra analysis, we divided the sample into high and low concentrations of family ownership, and we found that political connections in high concentrations of family ownership undermine firm performance. As a result, this relationship causes Type I and Type II agency problems in firms.

The key contribution of this study was a better knowledge of political connection and family business, particularly in developing nations like

Malaysia. This study has the potential to become the gold standard for examining existing rules and regulations on political connection and family business. Revisiting existing political connection norms and regulations necessitates a thorough understanding of the effects of political connections and their effects on corporate performance. For numerous reasons, the findings of this study may be useful to regulators and policymakers about the designation of family members and the appointment of politicians in firms, which may result in agency expenses and the destruction of corporate performance.

The findings should be regarded with caution. First, this study examined the impact of political connection and family business on the performance of Malaysian Public Listed Companies (PLCs). This study's sample included organisations having a political connection from 2013 to 2017. The conclusions of this study should not be extrapolated for a specified timeframe alone. Furthermore, the results are solely applicable to politically connected firms. Second, another weakness of the study is that characteristics other than family business such as institutional business and foreign business were chosen to determine the effect on firm performance. If other corporate governance criteria, as mentioned above, were used to analyse firm performance, the parameter estimations could generate different results.

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