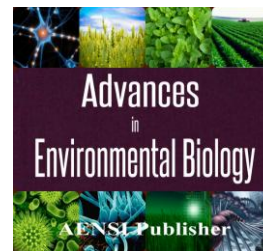




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### Political Connection, Board Independence And Firm Value: Evidence From Industrial Diversification Firm

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#### ABSTRACT

This study aims to investigate the relationship between political connection, board independence and firm value of diversified firm. There are 253 Malaysian public listed companies being randomly selected from eight sectors. The study applies helping hand and grabbing hand theory to analyze the conflicting between government institution, shareholders and managers and how they affect governance structure and firm value. Considering a quantitative data method, the regression model is tested by employing univariate and multivariate data analysis. From the results, it is found that there is a positive relationship between government ownership and firm value. However independence board did not support the relationship between government ownership and firm value.

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#### INTRODUCTION

The relationship between firm values and both direct political connection and board independence continues to be heavily studied aimed the conflicting empirical evidence and theoretical disagreement documented in the extant empirical economic and strategic management literature.

According to several previous literatures, an empirical judgment on firm value is significantly important because it reflects the market value as a whole business [1,6]. The determinant on firm value allows stakeholders to make a valuable economic decision by utilizing information about firm growth and capabilities [32]. In addition, firm values have also been as a signal to foreign investors to make an investment decision in terms of analyzing the success of firm strategies [1]; investment efficiencies [14] and even the company relationship, reputation and trust [6].

Furthermore, in the emerging markets, the determinant of firm value is very crucial to the foreign direct investors, especially in small emerging markets such as Malaysia. Numerous empirical evidences show that companies in such markets faces the obstacle in gaining access to global capital compared to develop countries [20,24]. Moreover, in order to achieve high economic growth, firm value as a proxy to the investment efficiencies also can be a benchmark to the government in analysing the capabilities of capital spending in private sectors [28]. Hence, the debate on firm value and the factors affecting it especially in emerging markets remains an important topic in the literature.

Currently, there are various obstacles that contribute to the fluctuation of firm values and one of them which continue to be highlighted in the literature is direct political connection. Faccio [9] defined direct political connection as a direct control of government or politicians with at least 10% of voting right or direct control through politicians in firm's Board of Directors. In the earliest studies, they found that direct political connection through government internal mechanism (e.g. governments' monopoly, reputation, policymaker and campaign contributions) viewed as a vital channel to improve firm value [3,4,25] especially when company implements diversification strategies. A firm's political connection, as an effective internal mechanism could help companies break through administrative barriers, enter new investment, and get access to more credit compared with those firms without political connections [6,25,33]. Thus, there is no doubt about the crucial role of political connection in this situation.

On the other hand, it is not at all clear that government interests are aligned with shareholder interests. Governments are much more likely to use their influence to maximize employment, increase tax collection,

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stabilize financial system and maximizing non-profit goals, which sometimes carried no weight to the company value [3]. The conflicts of interest between government and shareholders could be reluctant to allow corporate governance improvements. Thus, what are the relationship between direct political connection and firm value especially in diversified firm? Provide as a first question to this paper.

In line with diversification strategies, Lins and Servaes [26] stated that Malaysia was the most diversified country among the seven East Asian countries. CEOs in Malaysia have also been very aggressive toward adopting diversification strategy across different industries. The increasing trend of diversification strategies in Malaysia again; offers the changes for unique research in this study. In reality, although non-western companies such as Malaysia have started to diversify their companies to the open world market, little is known about their effects on firm value [24]. Indeed, these economics typified differently in culture and regulation as compared to western companies. Furthermore, based on the Worldscope database compiled from Gomez and Jomo (1997), approximately 90% of the Malaysian firms that have been listed as an identifiable connection with high-ranking political figures, is from diversified firm. Thus, for these reasons, it's could offer a different snapshot of the relationship between diversification effect and firm value.

Usually, there is often concentrated ownership in non-western companies [15,24]. Which means that, majority of company shareholders own by government or family business which also hold the highest position in the companies serves as an efficient monitoring mechanism that can mitigate the incentive, information, and control problems associated with agency conflicts, thereby reducing agency costs and improving firm value. However, the effectiveness of board composition and board leadership is still needed to ensure the protection interest of both majority and minority stakeholders. A recent study Hadani (2012) advocated more transparency in corporate political activities when it comes to portraying the complexity of ownership structure, such as government ownership. Without such transparency, these unique structures continue to act as berries to corporate governance reform. In addition, the presence of independent directors on boards is supposed to add more value, as these directors impartially oversee the executive directors. This concept seems to have been accepted as conventional wisdom around the world [21]. Thus, the second question in this study is concern with, to what extent board independence able to strengthen the relationships between direct political connection and firm value?

This study measures the presence of direct political connection into two proxies; first, as the percentage of government ownership in the sample of public listed companies. Which, previous study suggest that government ownership plays a significant role in capital market development and governance disclosure in order to mitigate the higher agency cost and to monitor any dysfunctional governance structure of the companies that they hold the ownership [3,15]. Second, investigates how the presence of additional voting rights through golden shares affects the relationship between direct political connection and firm value.

#### *Research Questions:*

1.2.1 What are the relationship between direct political connection and firm value of diversified firm?

1.2.2 To what extent board independence able to strengthen the relationships between direct political connection and firm value of diversified firm?

#### *Research Objectives:*

To answer the entire question above, this study focuses on two broad issues:

1. To examine the relationship between direct political connection and firm value of diversified firm.
2. To examine the moderating effect of board independence on the relationship between direct political connection and firm value of diversified firm.

#### *Research Contribution:*

It is aim that, this paper could provide details empirical evidence documenting the above phenomenon and tried to contribute or fill the research gaps in three ways:

##### 1. Theory Contribution

Extensive research on political connection and firm value [26,25,33,4] with extensive evidence on industrial diversified firm in Malaysia.

Use helping hand and grabbing hand theory in exploring the debate on political connection and firm value of diversified firm in Malaysia. Previous studies used such perspectives as the agency theory, the resource-based view [5] and institutional theory [6] in exploring political connection and value effects in diversification firm. However, due to Malaysian scenario which implement the open market, high FDI and involve in a 'double sword edge', this research feel that the helping hand vs grabbing hand theory is the suitable theory in explaining the relationship between political connection and firm value.

##### 1. Methodology Contribution

Provide moderating effects of board independence in the direction of political connection of corporate

diversification firm and firm value; with first evidence in Malaysia.

Provide a new data on politically connected firm which related to diversification firm in Malaysia.

Classified firm value into related and unrelated industrial diversification strategies, which provide first evidence in Malaysia.

#### 1. Policy Contribution

Provide as a guideline to Malaysian government on the effectiveness of government intervention towards the performance of private sectors.

Provide additional information to Malaysian Securities Commission in line with the objective of increasing the quality of Corporate Governance in Malaysia.

#### *Conclusion:*

As a conclusion, this first chapter attempt to provide an introduction and issues that theoretically hypothesize tested in this study. The rest of this paper is organized in the following manner: Section 2 reviews the literature and theoretical concepts on the political connection, board independence and firm value of diversified firm. Section 3 describes the sample data collection procedures, Section 4 measurement and measures of variables, Section 5 final results, Section 6 discussion and Section 7 concludes the paper.

#### *Literature Review and Hypothesis Development:*

Despite the abundance literature on the value of diversification firm, there is little agreement on whether political connection has a positive or negative relationship with firm value. Thus far, many empirical studies conducted to investigate the corporate benefits of political connection have yielded inconsistent results. The earlier studies on political connection were mostly conducted for the develop countries, and only later extended to other advanced and emerging countries.

#### *The Debate on Corporate Diversification's Firm Value:*

Currently, corporate diversification has empirically discussed by many researchers in develop country such as United States [1,5,13] and little evidence in emerging markets [24]. In Malaysia for example, The difference in ownership structures and less capital market provide a different results on diversification firm's value compare to the develop country. As contrasts to United States studies, Lee, Hooy and Hooy (2012) found that international diversification has no significant impact on firm value. Meanwhile, industrial diversification slightly increased firm value, even after controlling for the degree of ownership concentration. By considering Lee, Hooy and Hooy (2012) results and less evidence focuses on industrial diversification strategies in Malaysia, this study attempt to focus on industrial characteristics and further broken down the results into two groups which is related and unrelated industrial diversification strategies.

#### *The Debate on Direct Political Connection and Firm Value:*

Drawing insights from recent studies on direct political connection and firm value in Malaysian economics [10,17,27], this study believe that government helping hand theory is likely to exist. According to helping hand theory of government, a certain level of state ownership may have beneficial effects on stakeholders' welfare. As evidence from prior studies, they argue that shareholders in firms with close ties to governments benefit from political connections [10] for Malaysia; Leuz and Oberholzer-Gee(2006) for Indonesia). Organization with political connection can create value through political resources ties (e.g. kinship, friendship, reputation and trust) and political power such as government monopoly, and country legal and regulatory framework. These important ties able to mitigate agency problems in poor corporate governance and managerial incentive problems [29]. The hidden reason is that politicians do not want the resources over which they have influence to be diminished. For examples, Wei Wu [33] researched the political relationship building on business activities in Chinese firm from 2001 to 2003. The sample found that on decision making level, firm can obtain benefits of political connection through three type of government resources; first, tangible resources such as the budgets, funds, and personnel involved with governments; second, intangible resources such as corporate reputation and political image; and third, relational resources such as the existing relationships with customers, governments, society, and other stakeholders. However, based on the "grabbing hand" view; some argue that government relationships may actually harm shareholders [6,7,31]. In the context of Deng, Tian et al. study, they argued that the unrelated diversification of politically connected firm would have a negative impact upon its future performance and damage the company's market value. Thus, base on the above point of view, this study proposed hypothesis 1 as follows:

H1. There is a relationship between direct political connection and firm value of industrial diversified firm.

#### *The Debate on Direct Political Connection, Board Independence and Firm Value:*

Financial theories indicate that agency conflicts motivate negative effects on firm value of diversified firm

[1,13,22]. The increases in the number of segments of diversified firm raises interest conflicts between headquarters and division managers; administrative cost and unallocated of resources viewed as a major cause of diversification discounts [8,16,18,19]. Indeed, one purpose of corporate governance reform is to mitigate the agency costs by improving the quality of good corporate governance.

When considering the issues of board independence in diversified firm, political connections has rarely been taken into account. However, some scholars have started to pay attention to this impact in other perspective. For instance, Borisova *et al.* [3] studies the impact of government influence on corporate governance practices in European Union. Their study shows that government ownership is associated with lower governance quality and the preferential voting rights of golden shares are especially damaging governance quality. In similar research findings Bliss and Gul [2] believed that in Malaysia CEO duality present in political connection firms is perceived by lenders as being more risky. However, the higher proportion of independent directors on the audit committee mitigates this perceived risk. In addition, Hadani [11] reveal that investors' portfolio concentration is associated with increased corporate political activities among S&P 500 firms across five election cycles in United States and Wenfeng Wu *et al.* [34] find that in China private firms with politically connected managers enjoy tax benefits, whereas local SOEs with politically connected managers are prone to more severe over-investment problems.

Prior studies have documented links between board independence and firm value. Associations have been found between board independence and firm value in terms of the proportion of independent directors with total board of directors [21]; independence busyness [16]; leadership structure [5]; the strong of shareholders rights and audit commitment. Others study also viewed links between governance mechanism and firm value [13,15] among others. By considering the similar results across countries, therefore this study hypothesizes the second hypothesis as follows:

H2. Board Independence moderate the relationship between direct political connection and the value of diversification firm.

#### *The Study Framework:*

The study framework is viewed as Figure 2.1 below:

#### *Figure 2.1: The Study Framework:*

Hypothesis one tests a direct relation between direct political connection and firm value of diversified firm. Hypothesis two tests the moderating effect of board independence in strengthening the relationship between political connection and firm value.

#### *Sample selection and data collection:*

##### *Sample selection:*

The initial sample is obtained from DataStream database which contained a set of annual financial data for Malaysian publicly listed firms over the period of 2011. Based on Main Board Bursa Malaysia classification standard and DataStream database, a firm is classified as industrially diversified if its report more than one segment in the two-digit SIC codes. In line with the convergence of SFAS 131 and IAS 14 segment reporting which effective after 1 July 2009, IASB under International Financial Reporting Standard 8 Operating Segments has sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. Under IAS 8, segment reporting adopted management approach and provides more detailed information about industrial and geographic segments. Financial industry firms are excluded from the sample because these industries are subject to different regulations compared to those in other industries. Any firms that have missing data were also been excluded.

In terms of research design, stratified random sampling technique is used to obtain a sample of public listed companies on the Bursa Malaysia by sectors. Each sector represents a particular industry as classified by the Bursa Malaysia and, wherever necessary, some sectors are combined due to small observations. Consequently, a total of ten sectors emerged and used, namely; construction, consumer product, finance, hotel, industrial product, mining, plantation, properties, technology and trading/service. This sampling technique permits a better understanding of the companies' practices within various sectors in the Bursa Malaysia. The rationale of mixing those sectors is to ensure that all industries are included. A final list of sectors is as per Table 1.

#### *Measurement and measures of variables:*

##### *Exceed value:*

To determine firm value for diversified firms, this research use [1] excess value measure. The main reasons is, eventhough tobin's q-ratio is also widely used in studying the level of firm value with firm structure, attempting to industry-adjust q is, however, problematic when studying diversification, because neither segment

market values nor segment replacement values can be computed directly from available data. However, by using industry multiplier approach it is not only provides a direct estimate of the excess value associated with diversification, but also allows further investigation at the segment level of the sources of any overall value effect. Thus, the excess value measure is computed as follows:

**Table 1:** Demography of the respondents

Industry	Total Listed Companies	Percentage (%)
Construction	21	8
Consumer Product	36	15
Industrial Product	81	32
Mining	4	2
Plantation	31	12
Property	31	12
Technology	5	2
Trading & Service	42	17
Total	253	100

$$EV_{i,t} = \log(MV_{i,t} / \text{Imputed Value}_{i,t}) \quad (1)$$

$$\text{Imputed Value}_{i,t} = \sum(SSale_{i,t} \times \text{Multiplier}) \quad (2)$$

Where;

$EV_{i,t}$  Firm i's exceed value in year t

$MV_{i,t}$  Firm's market capitalization (Market value common equity + book value of debt) for firm i in year t.

$SSale$  Segment sales.

$\text{Imputed}$  The sum of the product of segment Value sales,  $SSale$  and the sales multiplier.

$\text{Multiplier}$  Is measured as the median total market capitalization to sales for the single-segment firms in the same industry in the same year.

This research uses single-segment firm as the benchmark to compute excess value. A positive excess value indicates that the firm is worth more than the sum of its segments whereas a negative excess value implies that the firm as a whole is worth less than the sum of its segments. Thus, a positive excess value implies a diversification premium while a negative excess value indicates a diversification discount.

#### *Direct Political Connections:*

This research defined the proxies of direct political connection into two difference proxies;

1. Direct political connection; government ownership (GWON). It is referred to the percentage of government ownership (% of GOWN) hold by Government Link Corporation (GLCs). GLCs are the corporation that is controlled by Malaysian Government via Federal Government. According to [15], Putrajaya Committee GLC (PCG) high performance, (2007) defined GLCs as a companies that have a primary commercial objective in which the Malaysian Government has a direct controlling stake through Khazanah, Ministry of Finance (MOF), Kumpulan Wang Amanah Pencen (KWAP), Bank Negara Malaysia (BNM), Permodalan Nasional Berhad (PNB), Employees Provident Fund (EPF) and Tabung Haji. The role played by the GLC in the selected firms is that they have a right to appoint the members on boards of directors, as well as monitoring and controlling the decisions made by the boards. The government connection mainly helps firms through share ownership, subsidizing activities, tax incentives and grants. On the other hand, government connection also able to grab firm's capabilities in meeting government agenda.

2. The second proxy is based on a dummy variable of golden share (GOLD). It is a special share hold by government or politicians on the board of directors. By holding even one golden share, government has a control right through the management and operational decision of those particular companies. Thus, the value of 1 is given if the government has a control right of golden share and 0 if otherwise. The DIC is compute as follows:

#### *Diversification Strategies:*

There are two types of diversification strategies that have been implemented in various studies which is international diversification strategies and industrial diversification strategies [1,24,30]. However, as evidence in [24] study, they found that in Malaysia there is no evidence that international diversification has any significant impact on firm value but industry diversification locally slightly increases firm value. Thus, this paper only tests on industrial diversification strategies (INDDS) with the effect of related and unrelated diversification industries. Following [12], related business segments is defined as those having the same two-digit SIC codes and unrelated business segments is defined otherwise. The diversification industries dummy is equal to 1 if it is related diversification industries and 0 if otherwise.

#### *Board Independence:*

Board independence is measured by two difference proxies:

1. The percentage of board independence (%IND). It is the proportion of independent directors and is calculated as the number of independent directors divided by the total number of directors.

2. The busier independence directors (IBUSY). Larcker et al. reported that the busier the directors, the lower the firm performance. The variable BUSY is the percentage of busy independent directors. Thus, an independent director is classified as a busy director if he or she serves as a director at more than three other companies.

#### Control Variables:

In testing for the effect of direct political connection on firm's excess value, it is imperative to consider other factors that could affect the firm's value [1,24]. These determinants include:

Firm's size (FSIZE)    General log of total assets  
 Profitability (EBIT)    EBIT ratio  
 Growth opportunities (FCF)    Free cash flow ratio  
 Leverage (LEV)    Debt ratio  
 Capital Expenditure (CE)    Capital expenditure to total assets ratio

This research also considers Board size (BSIZE), Blockholders ownership and audit committee size as a control variable for board independence characteristics. Board size is the total number of board of directors. Blockholders ownership (BLOCK), is the cumulative percentage of shares held by shareholders holding at least 5% of ordinary shares in the firm. According to [21], this variable generally have high level of ownership concentration. Meanwhile, audit committee size (ACSIZE) is expected to enhance the monitoring role of directors.

Thus, the control variable equal to:

$$\text{Control} = f(\beta_1\text{FSIZE} + \beta_2\text{EBIT} + \beta_3\text{FCF} + \beta_4\text{LEV} + \beta_5\text{CE} + \beta_6\text{BSIZE} + \beta_7\text{BLOCK} + \beta_8\text{ACSIZE})$$

#### Data Analysis:

This research use quantitative research approached in analyzing the data. The research begins with descriptive analysis in representing the characteristics of phenomena, univariate analysis to establish the differences between characteristics of phenomena and followed by multivariate analysis in testing the hypothesis. The multi regression analysis will be based on 3 equation models as follows:

$$EV_{i,t} = \beta_0 + \beta_1\text{GOWN} + \beta_2\text{GOLD} + \beta_3\text{INDDS} + f(\beta_4\text{Control}) + \varepsilon \quad (1)$$

$$EV_{i,t} = \beta_0 + \beta_1\text{GOWN} + \beta_2\text{GOLD} + \beta_3\%IND + \beta_4\text{IBUSY} + f(\beta_4\text{Control}) + \varepsilon \quad (2)$$

$$EV_{i,t} = \beta_0 + \beta_1\text{GOWN} + \beta_2\text{GOLD} + \beta_3\%IND + \beta_4\text{IBUSY} + [\beta_5\text{GOWN} + \beta_6\text{GOLD}] * [\beta_7\%IND + \beta_8\text{IBUSY}] + \beta_9\text{INDDS} + f(\beta_{10}\text{Control}) + \varepsilon \quad (3)$$

By comparing equation (1) and (2), the data is used to analyse the moderating effects of corporate governance and try to investigate whether board independence play a significant role in strengthening the relationship between political connection and firm value of diversification firm.

#### Results and Conclusion:

##### Summary of Descriptive Statistics:

**Table 5.1:** Descriptive Statistics

Variables	Mean	Std. Deviation
government ownership	5.95	9.37
no of segment	3.22	1.13
exceed value	1.07	0.17
% independence	0.46	0.12
% independence busy	0.29	0.34
FSIZE	8.67	0.61
Debt	0.43	0.33
EBIT	0.06	0.10
FCF	0.05	0.10
CE	0.03	0.06
BLOCK	1.68	0.16
BSIZE	0.46	0.12
Audit Committee	3.17	0.45
Variables (N = 253)	Category	Frequency      Percentage

Industrial Diversification	Related	133	52.6
	Unrelated	120	47.4
Golden share	Yes	4	1.6
	No	249	98.4

Table 5.1 presents the value of mean and standard deviation of all the variables in the study. The analysis is based on sample size of 253 firms and the annual reports selected and analyzed in year of 2011. By referring to the result, mean for all variables range between 0.03 to 8.67 and the standard deviation falls within range of 0.06 to 9.37. Exceed value average percentage is 1.07 with standard deviation of 0.17, signified the positive value of diversified firms.

#### Correlation Analysis:

Table 5.2 shows the pearson correlation (2-tailed) analysis. From the results, government ownership, board independent and board size shows positive significant relationship with firm exceed value, with the significant level of 1%. However, no of segment provide a negative significant value of 1% with the relationship of firm exceed value.

**Table 5.2:** Pearson Correlation

	EXCEED	GOWN	GOLD	RELATED	NOSEG	FSIZE	Debt	EBIT	FCF	CE	IIND	BLOCK	IBUSY	BSIZE	Audit Committee
EXCEED	1	0.163**	-0.054	-0.054	-0.260**	-0.110	0.054	-0.035	0.107	0.018	0.168**	-0.061	-0.104	0.168**	-0.076
GOWN		1	-0.091	-0.091	0.002	0.042	0.021	0.055	0.058	-0.063	-0.092	0.007	0.017	0.092	0.010
GOLD			1	-0.057	0.059	0.292*	-0.065	-0.028	-0.027	0.001	0.031	0.104	0.141*	0.031	0.094
RELATED				1	-0.299**	-0.072	0.098	-0.067	-0.026	0.029	-0.073	0.069	0.149*	0.073	0.054
NOSEG					1	0.115	0.212**	-0.098	0.076	-0.164**	0.022	-0.064	-0.038	0.022	0.115
FSIZE						1	-0.010	0.139*	-0.004	0.075	0.010	0.109	0.139*	0.010	0.251*
Debt							1	-0.396*	0.189**	-0.041	-0.048	-0.044	0.065	0.048	-0.059
EBIT								1	0.194**	0.038	0.016	0.113	0.023	0.016	0.082
FCF									1	-0.578**	-0.115	-0.098	0.036	0.115	-0.037
CE										1	-0.031	-0.017	-0.089	0.030	0.107
IIND											1	0.042	-0.026	1.000**	0.132*
BLOCK												1	-0.038	0.042	0.085
IBUSY													1	-0.026	-0.046
BSIZE														1	0.132*
Audit Committee															1

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

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

*Multivariate Analysis:*

Table 5.3 shows the multivariate analysis. The findings found support for H1 hypothesis. It can be said that, there is a positive significant relationship between government ownership and firm value, with the significant level of 5%. This result consistent with previous studies such as [10,17,27] which believe government helping hand theory is likely to exist.

**Table 5.3:** Multiple Regression Analysis – Political Connection and Firm Value Coefficients<sup>a</sup>

Model	Coefficients		
	B	t	Sig.
(Constant)	1.307	7.125	0
GOWN	0.003	3.168	0.002
GOLD	-0.012	-0.14	0.889
FSIZE	-0.025	-1.388	0.167
Debt	-0.014	-0.397	0.692
EBIT	-0.156	-1.298	0.196
FCF	0.429	3.271	0.001
CE	0.567	2.716	0.007
BLOCK	-0.069	-1.07	0.286
BSIZE	0.337	3.853	0
Audit_Committee	-0.032	-1.368	0.173

a. Dependent Variable: excess

ANOVA <sup>a</sup>				
Model		Sum of Squares	df	Mean Square
1	Regression	0.877	10	0.088
	Residual	6.026	242	0.025
	Total	6.903	252	
	F	3.523		
	Sig.	.000 <sup>b</sup>		
	R Square	0.127		
	Adjusted R Square	0.091		

Table 5.4 shows no support for H2 (the moderating effects of board independence). Thus, give a contradict results with others study that viewed links between independence board and firm value [13,15] and [21] which stated that board independence able to improved firm value.

**Table 5.4:** Multiple Regression Analysis – The moderating effects of Board Independence on Political Connection and Firm Value Coefficients<sup>a</sup>

Model	Coefficients		
	B	t	Sig.
(Constant)	1.314	7.454	0
Political Connection	0.003	1.09	0.277
Board Independence	-0.048	-1.312	0.191
Mediator	0.001	0.267	0.79
FSIZE	-0.022	-1.27	0.205
Debt	-0.008	-0.228	0.82
EBIT	-0.142	-1.186	0.237
FCF	0.42	3.201	0.002
CE	0.535	2.554	0.011
BLOCK	-0.074	-1.148	0.252
BSIZE	0.376	4.1	0
Audit_Committee	-0.034	-1.469	0.143

a. Dependent Variable: excess

ANOVA <sup>a</sup>				
Model		Sum of Squares	df	Mean Square
1	Regression	0.927	11	0.084
	Residual	5.976	241	0.025
	Total	6.903	252	
	F	3.399		
	Sig.	.000 <sup>b</sup>		
	R Square	0.134		
	Adjusted R Square	0.095		

*Conclusion:*

The present sought to explain the relationship between political connection and firm value. After considering the moderating effects of Board independence, it is found that independence board did not support



the relationship between government ownership and firm value. However, the results of the study are mostly consistent with the previous studies; which show that there is a positive relationship between direct political connection and firm value. Following the guideline by the MCCG, it will be more of superlative guidance for the firm to maintain their firm value by managing their board characteristics. However, there are possible limitations in relation to the research design of this study. The study based on the cross-sectional study which is concern about the single year period may not provide more generalized result. Furthermore, the explanatory independent variable used in this study are very limited which is subjected to the direct political connection and independence board characteristics and may not be able to provide evidence of other possible factors that may affect firm value. Therefore, in future study, it is suggested to consider the longitudinal study which comprise of more than one year period in order to get more generalized results. It is also suggested to include other mechanisms of political connection and corporate governance structure in order to examine the overall influence of political connection and firm value.

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