Asian Journal of Accounting and Governance **12**: 65–76 (2019) ISSN 2180-3838
(http://dx.doi.org/10.17576/AJAG-2019-12-06)

Political Connection Types and Investors' Perceived Risk: Evidence from Malaysia

MAS NORDIANA RUSLI, NORMAN MOHD. SALEH, HAFIZUDDIN-SYAH, B.A.M. & MOHAMAT SABRI HASSAN

ABSTRACT

This study examines the pervasive political influence in Malaysian businesses, specifically the investors' perceived risk of political connection. A sample of 312 firm-year observations between 2014 to 2017 reveals that politically connected Malaysian firms are less likely to be perceived as risky compared with their non-connected peers. In particular, reduction of systematic risk in cost of equity as a proxy to perceived risk is more significant for firms connected through directorship because political figures effectively channel substantial benefits in connecting firms under his/her political power. The link between types of political connections and investors' perceived risk provides a new insight and direction for research about governance factors that affect firm risks.

Keywords: Political connection; perception of risk; cost of equity; systematic risk; information asymmetries.

INTRODUCTION

Dynamic economic transformation in most Asian countries highlights the prominent government influence in business decisions. Establishment of government-linked companies (GLCs) with wealth maximisation and social and political objectives may impact investors' perceived risk, particularly those in countries that practice relationship-based economic systems such as China, Singapore, Korea and Malaysia. The presence of government ownership or political directors in firms (hereafter politically-connected or PCON firms) that enhance the effective board functions may provide certain assurance of long-term business survival. Political economy literature reports that due to strong political connections in high capital intensity projects (Hamid 2011), firms receive trade priorities, subsidies, lucrative projects (Agrawal & Knoeber 2001; Goldman et al. 2009; Gomez & Jomo 1997), protection such as tariffs (Agrawal & Knoeber 2001; Faccio 2006) and even a chance to be bailed out during distress. Hence, with this helping-hand effect, investors may perceive PCON firms as the best option to generate returns.

However, due to the effects of systematic exchange of favours between firms and political directors, political influence may encourage rent-seeking activities that divert firm's resources and enable politicians to achieve political and social objectives (grabbing-hand effect) (Boateng et al. 2019). As such, investors could also perceive investments in PCON firms as risky, and thus increases the systematic risk of financing costs (e.g., Al-Hadi et al. 2017; Bliss & Gul 2012b; Boubakri et al. 2012; Houston et al. 2014; Pham 2019; Tee 2018). This paradoxical nature of the impact of political influence in business decisions is worth reconsidering by looking at the types of political connections (directorship or ownership), which may have different impacts on the benefits obtained by PCON firms. On the one hand, institutional investors often perceive firms owned by politicians to mitigate agency cost through effective monitoring roles by block-holders. In addition, firms connected by ownership through GLCs are perceived less risky because government stakeholders lead to substantially helpful effects and a guarantee to be bailed-out during distress. (e.g., Abdul Wahab et al. 2009; Jaffar & Abdul-Shukor 2016; Tee 2017). On the other hand, appointing a politician as a director in the board may provide greater or substantial benefits from the government under his/her political position of power, and such firms are perceived as good investment. Malaysia is selected as a case study because it has been regarded as an economy that depends on relationships, which is prominent among developing countries (Rajan & Zingales 1998).

The present study specifically follows Boubakri et al. (2012) but differs in arguments on the effects of political connection types on investors' perceived risk. Similarly, Cooper et al. (2010) further document higher stock returns for PCON firms through directorship. However, Abdul Wahab et al. (2009) suggest that auditors perceive GLCs to associate with high inherent risks, and are thus charged with higher audit fees than non-GLCs.

In addition, Jaffar and Abdul-Shukor (2016) find a negative association between PCON firms and performance when the appointment of such political directors advocates the grabbing-hand effect. All these findings provide arguments on how different stakeholders perceive connection types to have different effects on business decisions. Given the focus of this study, we believe that connection types perceived by investors affect firms' financing decisions through systematic risk. Financing facilities may derive from debt and equity issuance. However, cost of debt is perceive to be less risky for its relative seniority in case of liquidation and covenant protection prior to default. Studies on debt financing decisions under Malaysian setting can be reviewed from Tee (2018) and Bliss and Gul (2012a; 2012b).

In this study, we focus on the investors' perceived risk measured by COE, which is directly related to the perception of capital market players and is sensitive to changes in the firm's riskiness. While most previous literature focus on impact on firm's valuation (e.g., Faccio 2006; Faccio & Mura 2016; Fisman 2001; Goldman et al. 2009; Guerra et al. 2015; Hillier & Loncan 2019) and cost of capital (e.g., Al-Hadi et al. 2017; Bliss & Gul 2012a; Jaffar et al. 2012; Houston et al. 2014; Tee 2018), fewer studies examine the impact of political connection on investors' perceived risk (Boubakri et al. 2012; Pham 2019). The present study seeks to answer the following questions: (1) Is there a relationship between political connection and investors' perceived risk? (2) Do the types of political connection differ in terms of impact on investors' perceived risk?

This study contributes to expanding literature on political connections in several ways. First, while several studies examine the value of connections (e.g., Acemoglu et al. 2016; Faccio 2006; Fisman 2001; Goldman et al. 2009; Sapienza 2004) and discount rate of future cash flows (e.g., Claessens et al. 2002; Hillier & Loncan 2019), ours provide evidence on the link between political connection types and investors' perceived risk through the appointment of political directors on the board or their ownership by shares. We follow the classification of connections from Boubakri et al. (2012) that are also adopted from Faccio (2006). Boubakri et al. (2012) discovered that the connection types bring no difference in terms of benefits under the helping-hand effect. However, under relationship-based economy practices and the dominant political influence on business decisions of firms in emerging countries, we believe that the position of power of a political director and shares owned by GLCs may provide new insight in governance literature.

To evaluate our research questions, we consider non-financial listed firms from the main market of Bursa Malaysia between 2014 to 2017. From these annual reports, a list of PCON firms is produced using the content analysis technique. To estimate firms' COE capital, we follow Embong et al. (2012) and employ the model in Ohlson and Juettner-Nauroth (OJ) (2005). Using multivariate regressions, we find that PCON firms are more likely to be perceived less risky compared with their non-connected peers. Our findings also suggest that political connection through directorship (and not ownership) influences investors' perceived risk.

The remainder of this paper is structured as follows. In the next section, we review the literature and develop hypotheses. We then include discussions on the research methods and findings from analyses. Robustness and conclusions are discussed in the last sections of this paper.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The economic system of East Asian economies can be characterised as relationship-based rather than market-based (Rajan & Zingales 1998). Such relationship has its roots in cultural and political forces that lead to the self-governing network of close connections with stakeholders. Consistently described for Malaysian businesses, PCON firms are found to enjoy substantial benefits that include considerable access to government subsidies and lucrative government contracts (e.g., Goldman et al. 2009; Agrawal & Knoeber 2001; Gomez & Jomo 1997), reduced regulatory requirements simultaneous with imposed tariffs on competitors (e.g., Agrawal & Knoeber 2001; Faccio 2006), ease of obtaining government bank loans with special interest rates (e.g., Johnson & Mitton 2003; Khwaja & Mian 2005) and lower taxes (Faccio 2006). In addition, the government is likely to bail-out PCON firms in distress (e.g., Boubakri et al. 2012; Johnson & Mitton 2003). These findings support the arguments of helping-hand effects. However, the undesirable effects of systematic exchange of favours between firms and politicians increases the agency conflicts through political expropriation activities (e.g., Bliss & Gul 2012a, 2012b; Chen et al. 2009; Keefe 2019). Political influence in business decisions is prevalent around the world. In the Malaysian perspective, government intervention in business decisions began since the introduction of the National Economic Policy in 1971 and increased in significance after the National Development Policy in 1991 was established. These policies were introduced to improve the issues on socio-economic imbalance among ethnic groups in Malaysia after its independence in 1957. The policies also triggered preliminary government efforts to politically commit in business decisions after a series of privatisation and corporatisation of government departments, which led to the formation of various public-listed companies (PLCs). In particular, the formation of new statutory bodies and GLCs to further assist the implementation of such policies encouraged the widespread growth of political connections in Malaysia. Although the number of PCON firms are relatively small, representing less than 10% of the firms listed on Bursa Malaysia, they account for approximately MYR 260 billion in market capitalisation or approximately 36% of the Bursa Malaysia market capitalisation (Chong et al. 2018).

Previous literature posits for high systematic risk embedded in PCON firms (e.g., Abdul Wahab et al. 2009; Bliss & Gul 2012b; Boubakri et al. 2011; Houston et al. 2014; Wong & Hooy 2018), but investors may perceive the helping-hand effect to be less risky because the position of power brought by political directors and GLC stakeholders in a firm's ownership provide more guarantees and less uncertainty in investment opportunities. Thus, the impact of agency conflicts is alleviated through the reduction of systematic risk. In accordance to Malaysian political culture, cronyism is a common practice that highlights the importance of personal relationship in business relations (Gomez & Jomo 1997). Having personal and early friendships with rising politicians are also suggested (Mahathir, Anwar and Daim) to be valuable in the long term. Pham (2019) also posits that the systematic risk embedded in a firm's investment is reduced among PCON firms. The information advantage of PCON firms results

in lower COE. Furthermore, the political risk brought by partisan political conflict and economic policy uncertainties may have different types of impact on COE depending on the firms' connectedness. In this study, given that Malaysian settings are characterised under the emerging market, we believe investors perceive PCON firms as less risky than non-PCON firms. The benefits are even greater for firms connected through directorship due to the position of power of politicians in government decisions. Hence, we predict that:

H_1: *There is a negative association between political connection and investors' perceived risk.*

H_{1a}: *The negative association between political connection and investors' perceived risk is greater for firms connected through directorship than ownership.*

Research Method

With the exception of those in the financial industry, all PLCs between 2014 and 2017 in Bursa Malaysia are included in the sample of this study. The selection of firms is initiated with the identification of forecasted data from Thomson Reuters I/B/E/S. The COE computation requires several forecasted financial data, including earnings and dividend payments. Such data are quite limited and less available to all firms, and those with no forecasted data are excluded from the sample (Embong et al. 2012). Furthermore, analysts normally follow large firms for their forecasting activities, hence, only firms listed in the main market are chosen for their large size and available data (Embong et al. 2012; Lang & Lundholm 1996).

To further refine our sampling criteria, firms with missing values of at least one control variable or annual report are not considered. Finally, to obtain efficient estimations using a balanced sample, we further exclude firms with missing values of COE for any of the four years of the sampling period. Table 1 shows the sampling criteria that leads to the final sample.

In this study, we determine the effects of connection types on investors' perceived risk through the power of political position brought by political directors and GLC stakeholders in firm's ownership, which reduces the equity financing cost through decreased systematic risk. Hence, we use the COE to proxy for investors' perceived risk as the dependent variable and the binary coding of political connection as the independent variable.

The binary coding system identifies the connected firms following the definitions by Faccio (2006), which has been adopted by Boubakri et al. (2012) with a few modifications according to Malaysian practices. As suggested by Boubakri et al. (2012), Faccio (2006) classified PCON firms into two main categories of directorship or ownership. On the one hand, connection through directorship can be conducted if anyone among a firm's top officers namely, CEO, chairman of the board, president, vice-president or secretary, is a member of parliament, a minister or head of state. However, we provide new insights of closely-related firms by identifying if the directors have been previously appointed in one of the GLCs.

On the other hand, connection through ownership is identified if the government[1] or any political individual or party holds a stake of at least 10% of direct or indirect voting rights. In this study, another criterion is added to this category. The issuance of golden shares by firms to the government grants the latter a special right to veto any company decision that deviates from the main objective of MOF. Hence, we believe that the impact of connection through ownership contributes to both distinctions of PCON firms and support for arguments of the political hypothesis. Despite previous literature providing definitions and lists of PCON firms[2], we generate the latest list of PCON firms using content analysis on the annual reports. The increasing number of PCON firms confirm our expectation that the influence of politics in business decisions is more dominant during the rulings of the sixth Prime Minister, Najib Razak.

As for perceived risk, we use COE as a proxy to investors' perceived risk following previous literature (e.g., Boubakri et al. 2012). We compute for COE using the ex-ante approach adopted by Embong et al. (2012) following the OJ model (2005) for several reasons. First, we define perceived risk as potential losses suffered by investors due to investment decisions made under risky environments (Sindhu & Kumar 2014). Second, unlike the ex-post method, the estimation of ex-ante approach explicitly controls for cash flows and growth potential (e.g.,

TABLE 1. Sampling procedures

Sample selection process	Obs. Removed	Obs. Remaining
Total observation with forecasted data to compute cost of equity capital (COE) using OJ model (2005) extracted from Thomson Reuters I/B/E/S from year 2014 to 2017.		1,072
Firms/ observations from financial institution that have forecasted data	(92)	980
Missing values by observations of at least one control variables	(508)	472
Firms/obs. that have missing value of COE for any of 4 years following the sampling period	(140)	332
Firms with missing annual report	(20)	**312**
Final sample		312

Chen et al. 2011; Ferris et al. 2017; Hail & Leuz 2006). In addition, the weaknesses of realised returns to capture the time invariant effects increase the relevance and reliability of the ex-ante method (e.g., Elton 1999; Pástor et al. 2008). Moreover, the disadvantages of the traditional Capital Asset Pricing Model (CAPM) method as suggested by previous scholars (e.g., Botosan 1997; Chen et al. 2003; Fama & French 1997) have encouraged us to further adopt the ex-ante approach. These disadvantages of COE under CAPM include high variation (noisier), less flexibility of beta factor, imprecise estimates of risk loadings and factor risk premiums. The details of the OJ model (2005) and its assumptions are shown in Appendix A.

In this study, we also control for the factors that affect the estimations of COE to obtain an accurate inference. These factors considered as control variables are cross-firm differences in leverage, firm size, firm age, growth, dispersion of forecast error, volatility, auditor's choice, and number of independent directors on the board. High-leverage firms are likely to exhibit high COE because the component of risk premium increases as the function of leverage (e.g., Boateng et al. 2019; Boubakri et al. 2012; Dhaliwal et al. 2011; Gode & Mohanram 2003; Javakhadze et al. 2016; Upadhyay & Sriram 2011). For firm size and age, large and mature firms tend to follow more analysts and have high disclosure levels in bridging the gap of information between firms and investors. Thus, the systematic risk associated in portfolios decreases (e.g., Boubakri & Cosset 2012; Easton et al. 2004; Gebhardt et al. 2001).

As for growth, dispersion and returns volatility, the positive association with information asymmetries may increase the risk premium component in systematic risk, and thus is more likely perceived as risky by investors (e.g., Embong et al. 2012; Gode & Mohanram 2003). In terms of governance structure, high composition of independent directors and firms audited by the "Big Four" are less likely perceived risky because of reduced inherent risk associated with agency cost (e.g., Gul 2006). We also control for effects of years and industry types that could impact a firm's COE. Ensuring that the results obtained from the analysis is free from such effect bias is important. Determined control variables are included in regression estimations and the results obtained are discussed in the following section.

MODELS AND MAIN ANALYSES: THE EFFECTS OF POLITICAL CONNECTION TYPES ON INVESTORS' PERCEIVED RISK

Empirical evidence posits mixed findings on the impact of political influence on investors' perspective. While several studies suggest the helping-hand effect from political connections, others report that grabbing-hand effects are detrimental to the value of shareholders. Hence, we classify the types of connections through directorship and ownership following Boubakri et al. (2012), as we believe that the degree of benefits to be obtained by PCON firms might not be similar across its types. Furthermore, in reducing investors' perceived risk, political influence might be greater on firms connected through directorship due to the power of political position brought by political directors compared with the stakes held by GLCs in firm's ownership.

This study uses the following regression model to test the main relationship between political connections and investors' perceived risk:

Model 1:

$$\begin{aligned} PRISK_{it} &= \beta_0 + \beta_1(CONNECT)_{it} + \beta_2(INDPDIR)_{it} \\ &+ \beta_3(BIG4)_{it} + \beta_4(SIZE)_{it} + \beta_5(LEV)_{it} + \\ &\beta_6(BTM)_{it} + \beta_7(AGE)_{it} + \beta_8(DISPERSE)_{it} \\ &+ \beta_9(VOLATILE)_{it} + \sum_{i=1}^{n} \beta(INDUSTRY) \\ &+ \sum_{i=1}^{n} \beta(YEAR) + \varepsilon_{it} \end{aligned} \tag{1}$$

The political connection *CONNECT* is then split into its types of connections, namely, through directorship or ownership. The estimation equation is shown in Model 2 below:

Model 2:

$$\begin{aligned} PRISK_{it} &= \beta_0 + \beta_1(DIRSHIP)_{it} + \beta_2(OWNSHIP)_{it} \\ &+ \beta_3(INDPDIR)_{it} + \beta_4(BIG4)_{it} + \beta_5(SIZE)_{it} \\ &+ \beta_6(LEV)_{it} + \beta_7(BTM)_{it} + \beta_8(AGE)_{it} + \\ &\beta_9(DISPERSE)_{it} + \beta_{10}(VOLATILE)_{it} + \\ &\sum_{i=1}^{n} \beta(INDUSTRY) + \sum_{i=1}^{n} \beta(YEAR) + \varepsilon_{it} \end{aligned} \tag{2}$$

The regression variables are as follows:

- *PRISK* is the implied cost of equity estimated using the OJ model (2005);
- *CONNECT* is a dummy that takes the value of 1 for PCON firms and 0 otherwise (Refer to Appendix A);
- *DIRSHIP* is a dummy that takes the value of 1 if PCON firms are connected through directorship and 0 otherwise;
- *OWNSHIP* is a dummy that takes the value of 1 if PCON firms are connected through ownership and 0 otherwise;
- *INDPDIR* is the ratio of independent directors to total directors;
- *BIG4* is a dummy variable that takes the value of 1 for Big Four audit firm and 0 otherwise;
- *SIZE* is firm size measured by the logarithm of total assets;
- *LEV* is firm leverage measured by debt-to-total assets ratio;

BTM is book-to-market of equity ratio;
AGE is the firm age, that is, number of years since establishment;
DISPERSE is the dispersion in analysts' forecasts measured with the coefficient of variation of 1-year-ahead analyst forecasts of earnings per share;
VOLATILE is volatility of stock returns over the previous 12 months;
INDUSTRY is dummy variable controlling for industry (across eight industries);
YEAR is dummy variable for years;
and ε is an error term.

DESCRIPTIVE AND BIVARIATE ANALYSIS RESULTS

Table 2 shows the descriptive information of each variable used in the regressions. All variables are transformed accordingly and are winsorised at 5% level (except for dummy variables) by replacing the smallest and largest values with their closest observations (e.g., Fan et al. 2007) to limit the effect of outliers. From the descriptive table, our mean of COE that represents investors' perceived risk PRISK between 2014 and 2017 is 13.04% (comparable with the COEs reported by Boubakri et al. 2012; Dhaliwal et al. 2006; Gode & Mohanram 2003; Hail & Leuz 2006). However, our mean of COE is much lower than that of Embong et al. (2012), who used the same model under the Malaysian setting and obtained the mean of COE of 17.7%. However, we notice that this higher COE (Embong et al. 2012) was due to the study period near the economic subprime crisis in 2007–2008.

Panel C in Table 2 shows the composition of PCON firms, including 232 firm-year observations or 74.36%. According to connection types, our sample shows that PCON firms are more likely connected through directorship (DIRSHIP) than ownership (OWNSHIP) with approximately 72% and 42% of firms, respectively, whereas 121 firm-year observations or 52.16% are connected through both categories.

In Table 3, the results show different means between PCON and non-PCON firms and between connection types on factors affecting PRISK. Specifically, the mean value of COE, or proxy of PRISK, shows a significant difference between PCON firms (estimate 12.7%) and non-PCONs firms (slightly higher estimate 14.1%) at 1% level. Thus, the mean of COE is 1.3 basis points lower for PCON firms compared with non-PCON firms. Such benefit is consistent with the findings of Boubakri et al. (2012). The connection types also exert significant impact on investors' perceived risk because the means of COE across categories significantly

TABLE 2. Descriptive statistics

Mean		Median	Maximum	Minimum	Std. Dev.
Panel A: Dependent Variable					
PRISK	0.130	0.118	0.271	0.064	0.055
Panel B: Control variables					
SIZE	6.450	6.437	7.937	4.578	0.645
LEV	0.146	0.109	0.585	0.000	0.140
BTM	4.223	4.192	5.445	3.104	0.692
AGE	2.656	2.890	3.434	0.693	0.741
DISPERSE	0.219	0.111	1.284	0.025	0.390
VOLATILE	0.240	0.226	0.498	0.073	0.168
INDPDIR	0.453	0.429	0.778	0.200	0.123
F_BIAS	0.214	0.223	1.000	-0.897	0.516
Panel C: Binary variables					
Independent variables:		N	%		
PCONs		232	74.36%		
DIRSHIP		223	71.47%		
OWNSHIP		131	41.99%		
BOTH		121	52.16%		
Control variables:					
BIG4		292	93.59%		
Constructions		8	2.56%		
Consumer Product		44	14.10%		
Industrial products		64	20.51%		
IPC		12	3.85%		
Plantation		36	11.54%		
Properties		24	7.69%		
Technology		12	3.85%		
Trading & Services		112	35.90%		

TABLE 3. Differences analysis using the t-test

	PCON (n=232)		NONPCON (n=80)		
	Mean	SD	Mean	SD	*t*-value
PRISK	0.127	0.055	0.14	0.052	1.919***

PCON firms

	OWNSHIP (n=131)		DIRSHIP (n=223)		BOTH (n=121)		
	Mean	SD	Mean	SD	Mean	SD	*F*-value
PRISK	0.149	0.040	0.137	0.058	0.117	0.052	4.362**
INDPDIR	0.468	0.140	0.450	0.110	0.485	0.131	2.259
BIG4	0.900	0.316	0.921	0.271	0.975	0.156	1.917
SIZE	2.728	0.105	2.721	0.090	2.684	0.081	5.540***
LEV	0.349	0.173	0.361	0.195	0.360	0.175	0.019
BTM	4.914	0.570	4.232	0.678	4.199	0.681	5.218***
AGE	3.022	0.542	2.677	0.757	2.594	0.765	1.618
DISPERSE	0.038	0.026	0.049	0.079	0.032	0.045	2.167
VOLATILE	26.165	9.618	26.988	9.899	20.888	8.005	13.176***

***, **, * is a significant level at 1%, 5% and 10% level. Appendix A provides definitions and data sources for all variables

differ from each other. From the table, the initial results show that firms connected through both categories enjoy the lowest COE, followed by those connected through DIRSHIP and OWNSHIP with means of 11.7%, 13.7% and 14.9%, respectively. The lowest COE enjoyed by firms connected through both connection types exhibit helping-hand effects from the government. Such connected firms enjoy greater benefits due to the ties, and are thus perceived as less risky by investors. These initial results suggest that different types of connections lead to different ranges of investors' perceived risk.

As for other variables, SIZE, BTM and VOLATILE result in significantly different means among connection types at 1% level. Table 4 reports Pearson's correlation coefficients for all variables used in the regressions. Spearman correlations (unreported for brevity) are consistent with the Pearson correlations. Table 4 shows the correlation matrix with an initial relationship between variables, and the coefficient value is useful in signalling for multicollinearity problems. The results show that PRISK and CONNECT are negatively correlated, suggesting that political connection reduces COE. Similarly, the connection types also exhibit a consistent negative relationship with PRISK at 1% significant level. Although OWNSHIP exhibits a lower COE than DIRSHIP, further analysis must be conducted to validate the arguments. Furthermore, the highest coefficient from the correlation is at 0.565 (exclusion of DIRSHIP and OWNSHIP related to CONNECT)[3] and is lower than the threshold 0.8, suggesting that multicollinearity is not a serious concern in our regressions (e.g., Hair et al. 2009).

RESULTS

To test the research model, this study used multiple regression analysis wherein several assumptions have been tested to ensure that the data fulfil the normality and homoscedasticity assumptions. Table 5 reports random

TABLE 4. Correlation coefficients

	COE	CONNECT	DIRSHIP	OWNSHIP	SIZE	LEV	AGE	BIG4	BTM	DISPERSE	VOL
CONNECT	-0.149***	1									
DIRSHIP	-0.178***	0.913***	1								
OWNSHIP	-0.197***	0.500***	0.394***	1							
SIZE	-0.565***	0.170***	0.212***	0.294***	1						
LEV	0.015	0.229***	0.251***	0.214***	0.149***	1					
AGE	-0.215***	-0.007	0.045	-0.062	0.278***	0.091	1				
BIG4	-0.115**	0.086	0.095*	0.117**	0.254***	0.064	0.213***	1			
BTM	0.423***	0.043	0.069	-0.087	-0.371***	0.104*	0.017	-0.095*	1		
DISPERSE	0.367***	0.215***	0.178***	0.119**	-0.222***	0.224***	-0.026	-0.093	0.414***	1	
VOLATILE	0.519***	-0.051	-0.067	-0.254***	-0.525***	-0.030	-0.217***	-0.097*	0.209***	0.347***	1
INDPDIR	0.025	0.220***	0.203***	0.196***	0.042	-0.002	-0.079	0.087	0.024	0.076	0.005

***, **, * indicates a significant level at 1%, 5% and 10% level. Appendix A provides definitions and data sources for all variables.

effects of OLS estimation using the White covariance method to remedy for autocorrelation problems in the regression of PRISK as proxied by implied COE estimates. We find that CONNECT is negative and significantly related to PRISK at 1% level. This result suggests that the COE is lower for PCON firms. Specifically, the estimated coefficient of CONNECT suggests that PCON firms enjoy 1.79 basis points lower in COE compared with non-PCON firms. This finding is consistent with the results found by Boubakri et al. (2012) and Pham (2019). Hence, the lower COE suggests a reduced systematic risk in agency costs due to lower perceived risk on connected firms because they obtain considerable support from the political ties.

Similarly, the strength of CONNECT might be driven by connection types. Model 2 shows that the negative association of connected firms suggests that compared with OWNSHIP, DIRSHIP exerts a more significant impact on PRISK as the coefficient value is significant at 1% level. This result supports our expectation that firms connected through DIRSHIP are perceived less risky due to the position of power brought by political directors to provide guaranteed returns from firm's investment opportunities, and thus mitigate the impact of agency cost through lower systematic risks. However, PCON firms through both connection types are found to have negative but insignificant effect to reduce the investors' perceived risk. This insignificant effect suggests that the politicians and government obligation towards the society may be less likely favourable to help investors generate higher returns from investment. Nevertheless, further analysis is necessary to obtain better inferences. For brevity, the results are not reported in this paper, but are available from the authors upon request.

The COE value for DIRSHIP is lower by 1.4 than 0.2 by OWNSHIP firms, and reflects a potential of connected firms to provide high returns to shareholders. However, this result is inconsistent with that of Boubakri et al. (2012), who reported that values for firms connected through OWNSHIP are more significant at 1% level than DIRSHIP at non-significant level, with no further discussion provided. Moreover, the uniqueness of Malaysian political setting to promote personal or individual basis relationship, as suggested by Gomez and Jomo (1997)[4], further support our arguments. In addition, through DIRSHIP, the high influence of political connection is more direct such as through involvement in board meetings, whereas OWNSHIP may show the extent of politician voting power that represent the government during annual general meetings; this influence is not as strong as involvement in board meetings. However, in this study, we note that OWNSHIP may also correlate positively with DIRSHIP.

To further support our arguments on lower PRISK in DIRSHIP firms, Gomez ad Jomo (1997) posited that firms with personal relationships with Mahathir, Daim Zainuddin and Anwar Ibrahim benefited the most and gained in value after the imposition of the capital control effect from the 1997–98 financial crisis. Having personal and early friendships with rising politicians is also suggested to be an effective means to stay sustainable in the long term.

As OWNSHIP is one of the indicator of connections, we believe that the findings support that directors with personal connections with political figures enjoy greater benefits from the connections. One case wherein the firm gained benefits through personal connections with political individuals was the Malaysian government's East Coast Rail Link (ECRL) project under the Transportation Department. The local contractors, especially the steel and cement companies, benefited as the main players in supplying building materials to the projects. Gabungan AQRS, the key beneficiary of the ECRL project, together with other potential winners, such as IJM Corp Bhd, Malaysian Resources Corp, WCT Holdings Berhad, and Ann Joo Resources, are among the PCON firms though directorship to obtain this government project priced at RM816 bil (US$ 20 bil).[5]

This case reflects an important role of political directors to provide access to large government projects and supports the helping-hand argument suggested by Agrawal and Knoeber (2001) and Gomez and Jomo (1997).

TABLE 5. Regression estimations results

Coefficient (t-Statistic)	Model 1	Model 2
CONNECT	-0.018***	
	(-2.974)	
DIRSHIP		-0.014***
		(-2.617)
OWNSHIP		-0.002
		(-0.204)
INDPDIR	0.010	0.010
	(1.529)	(1.206)
BIG4	0.009	0.009
	(0.362)	(0.336)
SIZE	-0.021***	-0.021***
	(-4.103)	(-3.524)
LEV	0.046*	0.048*
	(1.734)	(1.696)
BTM	0.022***	0.022***
	(3.591)	(3.652)
AGE	-0.012***	-0.012***
	(-4.320)	(-3.689)
DISPERSE	0.026*	0.026
	(1.671)	(1.555)
VOLATILE	0.176***	0.172***
	(2.965)	(3.219)
Constant	0.156***	0.150***
	(3.352)	(3.194)
Industry effect	Yes	Yes
Year effect	Yes	Yes
Adjusted R^2	0.309	0.304
F-statistic	8.333	7.786
(p-value)	0.000	0.000

***, **, * indicates a significant level at 1%, 5% and 10% level. Appendix A provides definitions and data sources for all variables.

Hence, the hypotheses that PCON firms reduce PRISK is supported. The significant range of COE in accordance with the connection types enhance our contributions in political literature to mitigate the investors' perceived risk.

As for other variables, firm SIZE and AGE are negatively associated with PRISK (coeff. = 0.0209, -0.0120, t-stat = –4.1029, –4.3195, respectively) at 1% significant level. These findings are consistent with those of Botosan (1997), Boubakri et al. (2008), Dhaliwal et al. (2011), Diamond and Verrechia (1991), Embong et al. (2012), Gebhardt et al. (2001) and Setiany et al. (2017) who argued that large and mature firms have sufficient resources to reduce the systematic risk associated in the portfolio and thus reduce COE financing. This finding corroborates the contention that larger and mature firms are perceived less risky than non-connected firms. The adjusted R^2 of the regression analyses throughout the models ranges from 30.38% and 30.94%, which are comparable with those of Boubakri et al. (2012) in an international setting.

ROBUSTNESS CHECKS

Several sensitivity tests are also conducted to assess the robustness of our primary findings using Model 1 as our base model. Unobserved determinants of PRISK that may likewise explain political connections could potentially render the dummy variable of CONNECT to be endogenous and cause biased and inconsistent OLS estimates. In this section, we address the issue of endogeneity using instrumental variable estimation that is commonly used

TABLE 6. Robustness Results

DV	CONNECT	PRISK			
Coefficient (t-Statistic)	Model 3 1st Stage	Model 4 2SLS	Model 5 Lag CONNECT	Model 6 F_BIAS	Model 7 GMM
CONNECT		-0.022*** (-3.531)		-0.017*** (-5.630)	-0.024*** (-3.370)
DIVDN_YIELD	-0.155** (-2.492)				
CONNECT(-1)			-0.021*** (-4.483)		
INDPDIR	2.941*** (3.158)	0.022 (1.072)	0.016** (2.447)	0.006 (0.505)	0.014* (1.817)
BIG4	0.476 (1.129)	0.008 (0.759)	0.015 (0.415)	-0.021*** (-7.838)	0.010 (0.406)
SIZE	0.646*** (3.079)	-0.018*** (-3.806)	-0.023*** (-3.167)	0.044 (1.588)	-0.018*** (-3.381)
LEV	0.267 (0.327)	0.034* (1.777)	0.045 (1.359)	0.007 (0.278)	0.044 (1.628)
BTM	0.178 (1.092)	0.019*** (4.934)	0.016** (2.528)	0.025*** (4.666)	0.023*** (3.693)
AGE	-0.078 (-0.510)	-0.011*** (-3.206)	-0.008 (-1.611)	-0.013*** (-5.514)	-0.012*** (-4.886)
DISPERSE	1.448*** (3.050)	0.033*** (3.649)	0.037*** (2.924)		0.028* (1.750)
VOLATILE	-0.325 (-0.191)	0.199*** (5.539)	0.215*** (3.077)	0.177*** (3.285)	0.179*** (3.210)
F_BIAS				0.018*** (12.682)	
Constant	-5.501*** (-2.926)	0.141*** (3.420)	0.170** (2.594)	0.114*** (3.019)	0.120** (2.255)
Industry effect	Yes	Yes	Yes	Yes	Yes
Year effect	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.287	0.455	0.333	0.328	0.306
F-statistic	-	15.591	7.452	8.974	-
(p-value)	-	0.000	0.000	0.000	-
N	312	312	234	312.000	312

The sample comprises 312 firm–year observations from firms listed in main market of Bursa (except financial firms) over the period of 2014 - 2017. Appendix A provides definitions and data sources for all variables. The significant level of ***, **, * is denoted at 1%, 5% and 10% level respectively.

in political influence literature (e.g., Boubakri et al. 2012; Chaney et al. 2011; Hail & Leuz 2006). In this case, the Two Stage Least Square (2SLS) and Generalised Method of Moments (GMM) are conducted to correct for the endogeneity problem.

Models 3 and 4 address the endogeneity of CONNECT. Model 3 report the first-stage results that predict CONNECT by using dividend yield (DIVDN_YIELD) as an instrument (Benjamin et al. 2016) along with CONTROLS. Model 4 report the second-stage regression of COE on the fitted value of CONNECT. Models 5, 6 and 7 replace CONNECT with the lag of CONNECT(−1), replacing DISPERSE with forecast bias (F_BIAS) and using GMM as an alternative regression with PRISK.

Model 3 of Table 6 show that in the first stage, the DIVDN_YIELD is a good predictor of political connections. This result is in line with that of Benjamin et al. (2016). Model 4 of the same table shows that in the second-stage regression, the instrumented value of CONNECT is negative (coeff. = –0.022, t-test = –3.53) and statistically significant at 1% level. Addressing the endogeneity issue also increases the magnitude of CONNECT from –1.79 to –2.22. Hence, this result reinforces the earlier evidence on the impact of CONNECT on PRISK.

Model 7 in Table 6 show the GMM estimation to validate the consistency (Guerra et al., 2015) of our earlier findings using the OLS regression estimator. DIVDN_YIELD is used as an instrumental variable in the estimations. The results remain unchanged, and CONNECT negatively impacts PRISK.

In our main regressions, we use DISPERSE as a proxy for the degree of analyst forecast dispersion (inaccuracy of forecasted earnings). Another proxy for the inaccuracy of analysts' forecasts that is often seen in literature (Boubakri et al., 2012; Hail and Leuz, 2006) is forecast bias (F_BIAS), which is estimated as the spread between one-year-ahead actual earnings and forecasted earnings. We report the results using F_BIAS in Model 6 of Table 6. The main finding on the association between CONNECT and the implied COE remains unaffected. Next, we use lag of CONNECT by a year as the independent variable. Model 5 in Table 6 shows that the primary results are qualitatively similar to the main results reported in Table 5. Collectively, these additional tests reported in Table 6 reinforce our earlier evidence in which the value of COE is lower for PCON firms.

CONCLUSIONS

The effects of political influence in business decisions prevail around the world (Boubakri et al., 2012; Faccio, 2006). Such effects are more dominant in countries practicing the relationship-based economic system (Rajan & Zingales, 1998). The effects of systematic exchange of favours between firms and political directors through political connections have led to the paradoxical hypothesis between the helping-hand and grabbing-hand effects, which may impact investors' perceived risk. This paper determines whether a relationship exists between political connection and investors' perceived risk and whether the connection types have any effect on perceived risk. We measure the investors' perceived risk as potential losses from investment decisions and proxied by a firm's COE that also reflects the investors required rate of return.

Our arguments are basically driven by the dominant effects of the helping-hand from the political connection. However, we further suggest that the position of power brought by political directors to provide guaranteed returns from firm's investment opportunities mitigate the impact of agency cost through lower systematic risk. Thus, the COE value decreases as such risk is embedded in the firm's financing costs.

Using only non-financial listed firms in the main market of Bursa Malaysia between 2014 to 2017, we found that PCON firms are perceived less risky than non-PCON firms, as the value of COE of the former are documented to be lower than that of the latter. Furthermore, our study provides findings that contrast from previous ones, because the types of connection are a concern among firms in the emerging market. We found that PCON firms through directorship provide lower COE because investors perceive them to be less risky than PCON firms through ownership. These new findings contribute to political literature by suggesting that the position of power brought by political figures differ than that of firms' owned by the government.

This conclusion is robust to a battery of checks, including addressing the endogeneity issue, using an alternative model in the analysis and alternative control variables to validate the consistency of PCON firms to cause an impact on investors' perceived risk. Finally, we further suggest that size and growth of PCON firms may potentially moderate the impact on investors' perceived risk. This finding is supported by Boubakri et al. (2012) when they suggest that the benefits enjoyed by PCON firms are conditional according to a firm's characteristics.

This study presents several limitations. The firms used as a sample are selected on the basis of data availabilty. Therefore, the problem of self-selection cannot be avoided. Furthermore, the findings may not be generalised as the sample only comprises firms listed under the Main Board of Bursa Malaysia, which are reported to have significantly different characters in terms of size, leverage, growth and dispersion of earnings compared with firms in the ACE market. Hence, such claims may provide a platform for future research to further examine the differences of PCON firm characteristics that impact investors' perceived risk. In addition, this study only focuses on periods before the Malaysian general election in 2018 that first changed the political party controlling the government. After the transition, the perception on projects granted to parties connected to the government or politicians changed. The new government has been practicing a more transparent approach towards awarding projects and combating corruption, which has become one of the main agendas.

Thus, how PCON firms are now perceived by the market remains unclear, and hence influence the COE. The direction and speed of change in perception about PCON firms is still subject to further research.

NOTES

1 Government via GLCs as defined under Minister of Finance(Incorporated).

2 Fung et al. (2015) provided a list of PCON firms that was later used by Gul et al. (2016) in their study. However, the sample was collected before year 2007 and can be considered obsolete.

3 The classification of DIRSHIP and OWNSHIP are derived from the group of CONNECT, thus high correlation between them is not unexpected.

4 Gomez and Jomo (1997) did not consider firms connected through ownership by GLCs as an indicator of connectedness. Hence, we believe the connections arise from personal relationship with firm directors.

5 https://www.thestar.com.my/business/business-news/2016/05/07/winds-of-change-at-gabungan-aqrs/ dated 07 May, 2016.

REFERENCES

Abdul Wahab, E.A., Mat Zain, M., James, K. & Haron, H. 2009. Institutional Investors, Political Connection and Audit Quality in Malaysia. *Accounting Research Journal* 22(2):167–195.

Acemoglu, D., Johnson, S., Kermani, A., Kwak, J. & Mitton, T. 2016. The Value of Connections in Turbulent Times: Evidence from The United States. *Journal of Financial Economics* 121(2): 368-391.

Agrawal, A. & Knoeber, C.R. 2001. Do Some Outside Directors Play a Political Role? *Journal of Law & Economics* 44(1): 179-198.

Al-Hadi, A., Habib, A., Al-Yahyaee, K. & Eulaiwi, B. 2017. Joint Audit, Political Connections and Cost of Debt Capital. *International Journal of Auditing* 21(3): 249-270.

Benjamin, S., Mat Zain, M. & Abdul Wahab, E. A. 2016. Political Connections, Institutional Investors and Dividend Payouts in Malaysia. *Pacific Accounting Review* 28(2): 153-179.

Boubakri, N. & Cosset, J.C. 2012. The Political Determinants of the Cost of Equity: Evidence from Newly Privatized Firms. *Journal of Accounting Research*: 1-42.

Bliss, M.A. & Gul, F.A. 2012a. Political Connection and Cost of Debt: Some Malaysian Evidence. *Journal of Banking and Finance* 36(5): 1520-1527.

Bliss, M.A. & Gul, F.A. 2012b. Political Connection and Leverage: Some Malaysian Evidence. *Journal of Banking and Finance* 36(8): 2344-2350.

Boateng, A., Liu, Y. & Brahma, S. 2019. Politically Connected Boards, Ownership Structure and Credit Risk: Evidence from Chinese Commercial Banks. *Research in International Business and Finance* 47:162-173.

Botosan, C. 1997. Disclosure Level and The Cost of Equity Capital. *The Accounting Review* 72(3): 323-349.

Boubakri, N., Cosset, J.C., Guedhami, O. & Saffar, W. 2011. The Political Economy of Residual State Ownership in Privatized Firms: Evidence from Emerging Markets. *Journal of Corporate Finance* 17(2): 244-258.

Boubakri, N., Cosset, J.C. & Saffar, W. 2012. The Impact of Political Connections on Firms' Operating Performance and Financing Decisions. *Journal of Financial Research* 35(3): 397-423.

Boubakri, N., Omrane, G., Mishra, D. & Saffar, W. 2012. Political Connections and the Cost of Equity Capital. *Journal of Corporate Finance* 18: 541-559.

Chaney, P. K., Faccio, M., & Parsley, D. 2011. The Quality of Accounting Information in Politically Connected Firms. *Journal of Accounting and Economics* 51(1): 58–76.

Chen, K.C.W., Chen, Z. & Wei, K.C.J. 2003. Disclosure, Corporate Governance, and the Cost of Equity Capital: Evidence from Asia's Emerging Markets. https://ssrn.com/abstract=422000 (accessed on June 2003)

Chen, K.C.W., Chen, Z. & Wei, K.C.J. 2009. Legal Protection of Investors, Corporate Governance, and the Cost of Equity Capital. *Journal of Corporate Finance* 15(3): 273-289.

Chen, K., Chen, Z. & Wei, K.C.J. 2011. Agency Costs of Free Cash Flow and the Effect of Shareholder Rights on the Implied Cost of Equity Capital. *Journal of Financial and Quantitative Analysis* 46(1): 171-207.

Chong, L.L., Ong, H.B. & Tan, S.H. 2018. Corporate risk-taking and performance in Malaysia: The Effect of Board Composition, Political Connections and Sustainability Practices. *Corporate Governance (Bingley)* 18(4): 635-654.

Claessens, S., Djankov, S., Fan, J.P.H. & Lang, L.H.P. 2002. Disentangling the Incentive and Entrenchment Effects of Large Shareholdings. *The Journal of Finance* 57(6): 2741- 2771.

Cooper, M. J., Gulen, H. & Ovtchinnikov, A.V. 2010. Corporate Political Contributions and Stock Returns. *Journal of Finance* 65(2): 687-724

Dhaliwal, D., Heitzman, S. & Li, O.Z. 2006. Taxes, Leverage, And The Cost of Equity Capital. *Journal of Accounting Research* 44(4): 691-723.

Dhaliwal, D.S., Li, O.Z., Tsang, A. & Yang, Y.G. 2011a. Voluntary Nonfinancial Disclosure and the Cost of Equity Capital: The Initiation of Corporate Social Responsibility Reporting. *Accounting Review* 86(1): 59-100.

Diamond, D. & Verrechia, R. 1991. Disclosure, Liquidity, and the Cost of Capital. *The Journal of Finance* 46(4): 1325-1359.

Easley, D. & O'Hara, M. 2004. Information and the Cost of Capital. *The Journal of Finance* 9(4): 1553-1583.

Easton, P.D., Christie, A., Bouwens, J., Chen, K., Choi, T.H., Durtschi, Taylor, G. 2004. PE Ratios, PEG Ratios, and Estimating the Implied Expected Rate of Return on Equity Capital. *The Accounting Review* 79(1): 73-95.

Elton, E.J. 1999. Presidential Address: Expected Return, Realized Return, and Asset Pricing Tests. *The Journal of Finance* 54(4): 1199-1220.

Embong, Z., Mohd-Saleh, N. & Sabri Hassan, M. 2012. Firm Size, Disclosure and Cost of Equity Capital. *Asian Review of Accounting* 20(2): 119-139.

Faccio, M. 2006. Politically connected firms. *American Economic Review* 96(1): 369-386.

Faccio, M. & Mura, R. 2016. The Society for Financial Studies Large Shareholder Diversification and Corporate Risk. *The Society for Financial Studies* 24(11): 3601-3641.

Fama, E.F. & French, K.R. 1997. Industry costs of equity. *Journal of Financial Economics* 43(2): 153-193.

Fan, J.P.H., Wong, T.J., Zhang, T., Faccio, M., Johnson, S., Lopez-De-Silanes & Zhao, M. 2007. Politically Connected CEOs, Corporate Governance, and Post-IPO Performance of China's Newly Partially Privatized Firms. *Journal of Financial Economics* 84: 330-357.

Ferris, S.P., Javakhadze, D. & Rajkovic, T. 2017. The International Effect of Managerial Social Capital on the Cost of Equity. *Journal of Banking & Finance* 74: 69-84.

Fisman, R. 2001. Estimating the Value of Political Connections. *The American Economic Review* 91(4): 1095-1102.

Gebhardt, W.R., Lee, C.M.C. & Swaminathan, B. 2001. Toward an Implied Cost of Capital. *Journal of Accounting Research* 39(1): 135-176.

Gode, D. & Mohanram, P. 2003. Inferring the Cost of Capital using the Ohlson–Juettner Model. *Review of Accounting Studies* 8: 399-431.

Goldman, E., Rocholl, J., & So, J. 2009. Do politically connected boards affect firm value. *Review of Financial Studies* 22(6): 2331–2360.

Gomez, E.T. & Jomo, K.S. 1997. *Malaysia's Political Economy: Political, Patronage and Profits*. Cambridge University: Cambridge.

Guerra Pérez, S., Bona Sánchez, C. & Santana Martín, D.J. 2015. Politically connected firms in Spain. *BRQ Business Research Quarterly* 18(4): 230-245.

Gul, F.A. 2006. Auditors' Response to Political Connections and Cronyism in Malaysia. *Journal of Accounting Research* 44(5): 931-963.

Hail, L. & Leuz, C. 2006. International Differences in the Cost of Equity Capital: Do Legal Institutions and Securities Regulation Matter? *Journal of Accounting Research* 44(3): 485-531.

Hair, J.F., Black, W.C., Babin, B.J., Anderson, R.E. & Tatham R.L. 2011. *Multivariate Data Analysis*. Sixth Edition, Pearson.

Hamid, A. A. 2011. Network Governance in Government-Linked Companies (GLCs) and Non-Government-Linked Companies (NGLCs) in Malaysia. *Journal of Financial Reporting and Accounting* 9(1): 54-73.

Hillier, D. & Loncan, T. 2019. Political Uncertainty and Stock Returns: Evidence from the Brazilian Political Crisis. *Pacific Basin Finance Journal* 54: 1-12.

Houston, J.F., Jiang, L., Lin, C. & Ma, Y. 2014. Political connections and the cost of bank loans. *Journal of Accounting Research* 52(1): 193-243.

Jaffar, R. & Abdul-Shukor, Z. 2016. The Role of Monitoring Mechanisms towards Company's Performance Evidence from Politically Connected. *Journal of Accounting in Emerging Economies* 6(4): 408-428.

Javakhadze, D., Ferris, S.P. & French, D.W. 2016. Social Capital, Investments, and External Financing. *Journal of Corporate Finance* 37: 1-53.

Johnson, S. & Mitton, T. 2003. Cronyism and Capital Controls: Evidence from Malaysia. *Journal of Financial Economics* 67: 351-382.

Keefe, M. 2019. A Theory of Political Connections and Financial Outcomes. *International Review of Economics and Finance* 61: 108-127.

Khwaja, A.I. & Mian, A. 2005. Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market. *The Quarterly Journal of Economics* 120(4): 1371-1411.

Lambert, R., Leuz, C. & Verrechia, R. 2007. Accounting Information, Disclosure and the Cost of Capital. *Journal of Accounting Research* 45(2): 385-420.

Lang, M.H. & Lundholm, R.J. 1996. Corporate Disclosure Policy and Analyst Behaviour. *Accounting Review* 71(4): 467-492.

Ohlson, J.A. & Juettner-Nauroth, B.E. 2005. Expected EPS and EPS Growth as Determinants of Value. *Review of Accounting Studies* 10(2/3): 349-65.

Pástor, Ľ., Sinha, M. & Swaminathan, B. 2008. Estimating the Intertemporal Risk-Return Trade Off using the Implied Cost of Capital. *Journal of Finance* 63(6): 2859-2897.

Pham, A.V. 2019. Political risk and cost of equity: The Mediating Role of Political Connections. *Journal of Corporate Finance* 56: 64-87.

Rajan, R.G. & Zingales, L. 1998. Which Capitalism? Lessons from the East Asian Crisis. *Journal of Applied Corporate Finance* 11(3): 40-48.

Sapienza, P. 2004. The Effects of Government Ownership on Bank Lending. *Journal of Financial Economics* 72(2): 357-384.

Setiany, E., Suhardjanto, D., Lukviarman, N. & Hartoko, S. 2017. Board Independence, Voluntary Disclosure and the Cost of Equity Capital. *Review of Integrative Business & Economics Research* 6(4): 389-399.

Sindhu, K.P. & Kumar, S.R. 2014. Influence of Risk Perception of Investors on Investment Decisions: An Empirical Analysis. *Journal of Finance and Bank Management* 2(2): 15-25.

Tee, C.M. 2017. Political Connections, Institutional Investors and Stock Price Synchronicity: Evidence from Malaysian Firms. *Managerial Finance* 43(11): 1236-1253.

Tee, C.M. 2018. Political Connections and the Cost of Debt: Re-Examining the Evidence from Malaysia. *Journal of Multinational Financial Management* 46: 51-62.

Upadhyay, A. & Sriram, R. 2011. Board Size, Corporate Information Environment and Cost of Capital. *Journal of Business Finance and Accounting* 38(9-10): 1238-1261.

Wong, W.Y. & Hooy, C.W. 2018. Do Types of Political Connection affect Firm Performance Differently? *Pacific Basin Finance Journal* 51.

Mas Nordiana Rusli
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 Bangi Selangor
MALAYSIA
E-mail: cikmasrusli@gmail.com

Norman Mohd Saleh
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 Bangi Selangor
MALAYSIA
E-mail: norman@ukm.edu.my

Hafizuddin-Syah, B.A.M
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 Bangi Selangor
MALAYSIA
E-mail: m_hafiz@ukm.edu.my

Mohamat Sabri Hassan*
Faculty of Economics and Management
Universiti Kebangsaan Malaysia
43600 Bangi Selangor
MALAYSIA
E-mail: msabri@ukm.edu.my

*Corresponding author

APPENDIX.

A Regression Variable Definitions and Data Sources

Variable	Definition	Source
Panel A: Dependent variable		
COE	Rate computed following Embong et al. (2012) based on Gode and Mohanram (2003) study using the Ohlson and Juettner-Nauroth (2005) (OJ) model	Author's calculation
Panel C: Binary variables		
Independent variables		
Connected	A dummy variable that is equal to one if the firm is politically connected	Boubakri et al. (2012); Faccio (2000); Chaney et al. (2011), Mohamed et al. (2017)
Directorship	A dummy variable that is equal to one if the firm is politically connected through directorship	Boubakri et al. (2012); Faccio (2006)
Ownership	A dummy variable that is equal to one if the firm is politically connected through ownership	Boubakri et al. (2012); Faccio (2006)