



2nd Global Conference on Business and Social Science-2015, GCBSS-2015, 17-18 September  
2015, Bali, Indonesia

## Short-run political events and stock market reactions: Evidence from companies connected to Malaysian bi-power business-political elite

Wan Sallha Yusoff <sup>a\*</sup>, Mohd Fairuz Md. Salleh<sup>b</sup>, Azlina Ahmad<sup>c</sup>, Fazli Idris<sup>d</sup>

<sup>a</sup>*School of Business Innovation and Technopreneurship, Universiti Malaysia Perlis, 01000 Kangar, Perlis, Malaysia*

<sup>b,c,d</sup>*School of Accounting, Faculty of Economics and Management, Universiti Kebangsaan Malaysia, 43600 UKM, Bangi Selangor, Malaysia*

---

### Abstract

Based on the Efficient Market Hypothesis, this paper investigates market reactions to short-run political events in the companies connected to bi-power business-political elite of the state of Sarawak in Malaysia. We find that the under-reaction market behaviour of investors existed in politically connected firms upon the announcement of extraordinary political events. By contrast, evidence of overreaction behaviour was detected upon the holding of the Balingan general election. This study suggests that in short run political events, investors are unable to predict abnormal returns in politically connected companies upon the announcement of surprising political news. This signals an inefficient market.

© 2015 The Authors. Published by Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of the Organizing Committee of the 2nd GCBSS-2015

*Keywords:* stock market reaction; political connection; short-run political event

---

### 1. Introduction

The value of political connections is well documented in economics and finance literature (Johnson & Mitton, 2003; Faccio, 2006; Gomez, 2009; Mitchell & Joseph, 2010; Yusoff, Salleh, Ahmad, & Idris, 2015). However, such value is inadequately explained. Numerous studies highlight the close opportunist relationship between politicians and business elites (Gomez, 2009; Bliss & Gul, 2012; Fraser et al., 2006). By becoming business tycoons, prior studies

---

\* Corresponding author. Tel.: +06-016 441 4867; fax: +06-04-979 7708.  
*E-mail address:* [wansallha@unimap.edu.my](mailto:wansallha@unimap.edu.my)

suggest that politicians can obtain state favours without any intermediaries (Bunkanwanicha & Wiwattanakantang, 2009). Examples of national leaders of countries who are also business tycoons include Thaksin Shinawatra (Thailand), Tung Chee Hwa (Hong Kong), Ferenc Gyurcsany (Hungary), Silvio Berlusconi (Italy), and Paul Martin (Canada). Despite the pervasiveness of bi-power business–political elites, little is known about the influence of their power on the market, especially when dealing with short-run political events. Our empirical study fills this gap in the literature and provides strong evidence of an important fundamental link between finance and politics by examining market behaviour in response to short-run political events.

Given the fact that the close link between business and politics in Malaysia has long been recognised in finance and economics literature (Johnson & Mitton, 2003; Fraser et al., 2006; Gomez, 2009), a recent event in Malaysia provides an ideal setting for investigating this phenomenon. Within the businesses in East Malaysia, the influence of a politically exposed person namely the Sarawak Chief Minister, Abdul Taib Mahmud and his family remains questionable (Jomo, 2004; Faeh, 2011; Woon, 2012). Taib is particularly known as the most powerful and wealthiest timber tycoon in Sarawak (Bruno Manser Fund (BMF), 2012). Although the name of Taib is rarely listed as a director or a shareholder, his family members are known to act as nominees for the chief minister. Taib was also the longest serving Chief Minister in Sarawak (33 years in power) and has held various ministerial positions in the Federal Government since the 1970s.

Based on the business and political powers of Taib, any good or bad news about him is expected to immediately affect stock market reaction. Bilson et al. (2002) argued that political risks may be able to explain several variations in emerging market returns. Moreover, following the classical study of Fama (1970) on efficient-market hypothesis (EMH), share prices at any time “fully reflect” all of the available information of the firm. Thus, any bad or good news that affects the bottom line of a firm will be immediately capitalised into its share price without bias. In this regard, the announcement of Taib regarding his resignation and retirement as the Chief Minister of Sarawak on February 28, 2014 may reflect a surprising shock to the stock market.

For the purpose of this study, we use a short-run event to analyse the relationship between Taib’s announcement of his resignation and retirement and the stock market reaction by studying a sample of firms politically connected to Taib. Our findings provide investors with useful insights into the reaction of stock price volatility in politically connected firms to unexpected political events in Malaysia.

The remainder of this paper is organised as follows: The next section presents a review of the literature and the hypotheses. The following sections provide an elaboration of the methodology and a discussion of the results respectively. The final section concludes the paper.

## **2. Taib Mahmud: Timber tycoon in Malaysia**

Sarawak is located on the island of Borneo in East Malaysia, and it is the largest of the 13 states of Malaysia. It is multiracial and rich in lush tropical rainforest. Sarawak is relatively distinct from Peninsular Malaysia because none of the 27 ethnic groups of the former forms a majority. However, Sarawak has been dominated by a single party [Barisan Nasional (BN) coalition] since the first district council elections in 1963 (Woon, 2012). The primary form of political patronage in Sarawak is the distribution of timber extraction contracts. These contracts were widely expanded when Taib Mahmud became the Chief Minister of Sarawak in 1981 (Faeh, 2011). He was the fourth Chief Minister and the president of Parti Pusaka Bumiputra Bersatu (PBB), which is part of the BN coalition.

As the chief minister, state finance minister, and planning and resources minister, he awarded himself, his family and the elite PBB members with vast timber concessions, palm oil concessions, state contracts, and directorships in various prominent companies in Sarawak (Bruno Manser Fund, 2012). The findings of a study conducted by the Bruno Manser Fund in 2011 on the businesses connected to Taib in Malaysia and overseas, revealed that Taib and his family are connected to more than 400 companies in 25 countries and offshore districts involving among others, timber logging, log exporting, construction, plantation and power supply.

With regards to politics, the rise of East Malaysia BN parties in the 2013 general election likewise strengthened the political position of Taib where the majority seats of Sarawak BN in the Parliament increased the Federal Government’s dependency on Taib (Chin, 2014). However, a year after the general election, speculation on the retirement of Taib intensified once again, and the media descended on the PBB headquarters (The Sun Daily, 2014, The Borneo Insider, 2014; The Star, 2014). Eventually, after 33 years of service, Taib finally announced his retirement as the Chief Minister of Sarawak on February 28, 2014. By considering the bi-power of Taib in business and politics,

Download English Version:

<https://daneshyari.com/en/article/1108202>

Download Persian Version:

<https://daneshyari.com/article/1108202>

[Daneshyari.com](https://daneshyari.com)