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Full Length Research Paper

Political influence on economic decision-making in government-owned companies: From the perspectives of key players

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This study assessed the perspectives of key players on political influence in government-owned companies. The purpose was to provide in-depth or detailed understanding of political influence in such companies and how political influence affects company economic decision-making. Data was collected via face-to-face interviews based on open ended questions. A total sample of twenty-four top management personnel of listed and non-listed government-owned companies participated in the interviews. The findings provided considerable insights into the actual relationship between governments, politicians/ board of directors and managers in government-owned companies. The findings revealed a difference between the level of political influence in federal government-owned companies and the state government-owned companies. State government owners appeared to have greater direct involvement in their companies compared to federally-owned companies which are more likely to have an arms' length relationship with the shareholding government. The findings also showed the effects of political influence on decisions connected to corporate governance, accounting and reporting.

Key words: Political influence, government-owned companies, politics in business.

INTRODUCTION

Government-owned companies have been claimed to be highly exposed to political influence. The political influences have caused inefficient and poorly managed companies (Daily Times, 2005; Salazar, 2004). In Malaysia, government-owned companies play a significant role in national economic growth such as the role of attracting foreign direct investments (Mohd, 2007). Thus, issues surrounding political influence in government-owned companies are critical and should be addressed accordingly for the companies to remain significant.

Although, to a certain extend companies have benefited from having political influence, such influence have also brought forth negative consequences such as poor performance, poor disclosure, unfavourable accounting earnings and weak corporate-governance structure. Prior studies have found a negative association between political influence and financial reporting quality (Riahi-Belkaoui, 2004; Bushman et al., 2004; Bushman and Piotroski, 2006; Eng et al., 2005; Fan and Wong, 2002; Leuz and Oberholzer-Gee 2006) as well as corporate governance (Agrawal and Knoeber, 2001; Chen, 2004; Fan et al., 2007; Wang et al., 2008). In contrast, a number of studies have given support to political influence in that companies with political influence enjoy the benefits from such influence (Ang and Ding, 2006; Calomiris et al., 2010; Eng and Mak, 2003; Gul, 2006; Johnson and Mitton, 2003; Lau and Tong, 2008; Ramirez and Tan, 2004).

Despite a body of quantitative prior studies relating to the consequences of political influence, to date, our knowledge of the actual or 'real' scenario of political influence in government-owned companies is still relatively scarce. There is very little information available

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on how political influence affects companies economic decisions particularly decisions related to accounting, reporting and corporate governance, in “relationship-based economies” such as Malaysia (Fraser et al., 2006), where political connections play an important role in corporate relationships.

Thus, this study was undertaken to provide a useful link to the ‘real world’ that was ignored in most quantitative prior studies. The paper reports the findings from a qualitative approach through face-to-face interviews with twenty-four key corporate players namely: chairmen/ ex-chairmen, general managers/ ex-general managers, managing directors/ ex-managing directors and chief executive officers/ ex-executive officers [CEOs]/ ex-CEOs of government-owned companies. The purpose of the interviews was to gain in-depth or detailed understanding of political influence in government-owned companies. In particular, the interviews were undertaken to gather the views of key corporate players on political influence in their respective companies and how such influence affects their economic decisions. Within this, decisions relating to corporate governance, accounting and reporting were addressed.

The findings of the study extended the existing quantitative studies of political influence on business by providing insights of the actual scenario. The actual scenario of political influence particularly in government-owned companies is important for in-depth and detailed understanding of the political influence in those companies. Additionally, the study findings may be used as guidance by regulators and policy makers, which should help them to decide on government or politician involvement in a company, particularly a government-owned company.

POLITICS AND BUSINESS IN MALAYSIA

The close link between business and politics in Malaysia is well documented (Faccio, 2006; Fraser et al., 2006; Gomez, 2002). In Malaysia, politically connected companies are not necessarily owned by the state but are identified as “favoured” companies by the ruling government (Gul, 2006), and the Malaysian government plays the role of political patron. It exerts a significant influence over the corporate sector through listing restrictions, direct equity ownership of listed companies, control of the banking sector, and through government-sponsored institutional investors (Jomo and Gomez, 2000). In addition, Malaysia’s resource wealth generated has been captured by the business cronies of those in power, who in turn have contributed to growth by re-investing in the protected domestic economy, mainly in import-substitute industries, commerce, services, property, privatised utilities and infrastructure (Jomo et al., 1999). As for privatised state-run enterprises, the government has awarded privatisation contracts under concessionary terms and offered special privileges such as soft credit, state-backed guarantees for loans, and in some cases secure monopoly status. This has led to the establishment of conglomerates that include totally unrelated businesses (Salazar, 2004). Bowie (1991) reports that in many cases, despite giving up ownership stakes of 50 percent or more, the state has continued to have control over privatised companies, often by the sale of equity to quasi-state entities such as Petronas or the Central Bank. In other instances, the government maintained control through the relatively widespread use of special rights or golden shares (Adams and William, 1992).

The formation of government corporations has also created a competitive threat to some Malaysian Chinese business groups. The threats have led to a complete overhaul of their operations, an increased involvement of the dominant Chinese political party [the Malaysian Chinese Association (MCA)] and an establishment of a public limited company - the Multi Purpose Holding Berhad, the MCA-owned business entity, with the express purpose of getting involved in various sectors (Bhaskaran and Sukumaran, 2007).

Besides the direct involvement of government and politicians in business, informal ties between companies and politicians may represent another type of political patronage in a “relationship-based” capitalist system such as that of Malaysia (Fraser et al., 2006). It could logically be suggested that the informal ties may result in political connections that include personal dimensions, along with economic and social dimensions, and that the three overlapping components reinforce one another.

In summary, the evolution and development of “close” relationships between government and business have become the hallmark of the Malaysian economy. It is widely acknowledged that the government has played a significant role in the Malaysian economy (Amsden, 1989; Deyo, 1987; Ragayah, 2008; White, 2004). The government created a holding company whose main purpose is to identify, invest in and manage projects in heavy industries such as basic metals, automobiles, petrochemicals, machinery and equipment (Jomo and Wah, 1999). Investment incentives were also introduced in an attempt to increase foreign direct investment and to stimulate private enterprise. Moreover, in Malaysia, as in many East Asian countries, the government sometimes plays a quasi-directive role to encourage firms to pursue a strategy that is seen to be of national interest (Mamman, 2004).

From the outset, it is important to recognise that the Malaysian political economy is distinguishable by a number of ethnic, political and economic relationships that make it very different from the general Anglo-American experience. As in the rest of East Asia, economic policy-making in Malaysia has had a critically important and overtly political dimension (Norhashim and Aziz, 2005). Malaysia’s politics are also based on patron-client relations between the government and business.

Although, their strong solidarity contributes to economic development, it may result in a negative aspect of capitalism emerging, the so-called “crony capitalism” (Lee, 2004).

The review and analysis of the socio-economic and political environment in Malaysia suggest that colonial heritage, the economic policies of the British colonial government, and the economic position of different ethnic groups before and after independence and the national policies in the post independence era, have all influenced the growth and development of political and business relationships in Malaysia.

THEORETICAL FRAMEWORK AND INSIGHTS FROM PRIOR STUDIES

The theoretical orientation for this study was based on agency theory. Agency theory explains the conflict that may occur between parties in a contract (Jensen and Meckling, 1976). In a company, the parties involved are owners (the principals) and managers (the agents). Based on the theory, conflicts between managers and owners occur when they have dissimilar and contrary interests such that the acts of the managers do not meet the interests of the owners. Jensen and Meckling (1976) point out that, agents as insiders have the incentive and to make decisions that maximise their own interests which may not neccessarily satisfy the interests of principals.

For companies where the government holds an ownership (government-owned companies) more severe agency problems may occur (Shleifer and Vishny, 1994). In such companies, the principal-agent relationship is broken down into two other agency relationships as the government acts simultaneously as principal and agent. In relation to the managers of a government-owned company, the government is a principal, thus it must assign goals (Rodriguez et al., 2007). The government is also the agent in its relationship with the public, the ultimate owners of the resources invested in by the government-owned company (Ernst, 2004). As the agent, government considers the interests of the public as voters in the decision-making process. As the principal, government may control or monitor managers and managerial decisions so that the decisions are in line with its political interests.

In this regard, the government may use its political power to interfere with companies’ operational decisions (Chen, 2004). For example, the government, either directly or through its representatives on the board, can put pressures on managers to stabilise employment or provide other benefits to supporters for political interests (La Porta et al., 2002; Shleifer, 1998; Shleifer and Vishny, 1994), induce them to drift beyond profit-maximising goals (Brumby et al., 1997; Kornai, 2001; Roe, 2003) and interfere in board and management appointments (Wong, 2004).

The presence of politicians as government representatives on the board of directors can create double agency problems involving self-interested behaviour by both managers and politicians (Wong, 2004). There can be negotiations or bargaining processes between politicians and managers in order to maximise their own self-interest. Shleifer and Vishny (1994) provide a model of bargaining between politicians and managers. The model suggests that when a company is controlled by managers, politicians involved in the company (such as those who are board members) use subsidies as bribes to influence companies’ managers to pursue their political objectives. On the other hand, when politicians have control rights in a company, managers use bribes to convince politicians not to urge companies to follow their political objectives that go beyond the managers’ interests. In either way, the involvement of politicians in a company can affect the company’s economic decisions.

Overall, the interference from government and politicians in companies may give the impression that managerial autonomy in the companies has not been fulfilled. This, according to Chen (2004), creates a lack of incentives for managers to monitor the companies’ success and as a result the management may pursue its own interests at the expense of companies’ interests (Andrews and Dowling, 1998). Thus, the conflict of interest between the principal and agent doubles in these companies. There may be conflict of interests between the government, the politicians and the managers. Managers are the agents of both the government and other stakeholders. Politicians as the government’s representatives are the agents of the government. The interests of the managers may differ from those of the government, politicians and other stakeholders. Additionally, the politicians may have their own political interests.

Prior studies have confirmed that government-owned companies are exposed to political influence (Shleifer, 1998; Shleifer and Vishny, 1994; Shirley and Walsh, 2000; Wong, 2004). However, the consequences of political influence found in prior studies are mixed. A number of studies have found negative consequences from political influence suggesting that such influence is highly likely to destroy the value of the companies resulting in unfavourable accounting earnings (Riahi-Belkaoui, 2004; Bushman et al., 2004; Bushman and Patrioski, 2006; Fan and Wong, 2002; Eng et al., 2005), poor disclosure (Leuz and Oberholzer-Gee, 2006; Naser and Nuseibeh, 2003), low productivity, less efficiency and low profitability (Boubakri et al., 2007; Boycko et al., 1996; Dewenter and Malatesta, 2001; Faccio et al., 2006; Wong, 2004). Politics have also been evidenced to negatively influence corporate governance especially in terms of board composition and/or the management appointment (Agrawal and Knoeber, 2001; Fan et al., 2007; Wang et al., 2008).

Nevertheless government-owned companies have been found to benefit from their political alliances (Ang and Ding, 2006; Calomiris et al., 2010; Lau and Tong, 2008; Remirez and Tan, 2004; Eng and Mak, 2003). Calomiris et al. (2010) and Lau and Tong (2008) find that political influence improves firm value in that it offsets the cost of inefficiency. Ang and Ding (2006) report that political influence through government ownership is associated with better corporate governance. The positive relationship between political influence, in terms of government ownership, and financial reporting quality is found in Eng and Mak's (2003) study.

Despite the prevailing view of political influence in government companies and the mixed findings from previous studies, our knowledge on the actual scenario of political influence in government companies on the companies' economic decisions is still scarce. Therefore, by applying a qualitative approach, this study focused on the research questions of (1) what are the key players' views on political influence in their respective companies and (2) how does the government or politician/s on company board of directors influence the key players' economic decision-making, particularly decisions related to corporate governance, accounting earnings and reporting.

RESEARCH METHODS

The study undertook a qualitative approach using face-to-face interviews as a mode of data collection. The interviews were based on open-ended questions. The qualitative approach was chosen for its ability to probe the participants for underlying explanations and provide an in-depth look at the phenomena in order to develop an understanding of issues related political influence.

The interviews took an average of 50 min. All interviews were duly tape-recorded and after all the interviews were completed, they were transcribed.

A summary of the interviews with each participant organised by theme was then drafted. Minor changes, mainly involving altering the word order and, less frequently, substituting words for more appropriate ones, were made to the quotes to improve clarity but the meaning or emphasis of what had been said during the interviews was retained. Summaries of the individual participant interviews were then sent to the relevant participants for verification and to seek further information where necessary.

The study employed a convenience sample type. A total of twenty-four top management personnel (including chairmen, general managers/ ex-general managers, managing directors/ ex-managing directors and chief executive officers/ ex-executive officers [CEOs]/ ex-CEOs) of listed and non-listed companies agreed to participate in the interviews. For ethical reasons the interviewees were given assurance that their identity will be kept anonymous.

They were informed that their opinions were the main focus and that there were no right or wrong answers to the questions, thus, any comments or insights would be helpful. Throughout the interview sessions, the interviewees seemed happy to discuss in detail any issues that particularly concerned them.

RESULTS AND DISCUSSION

Generally, the interviews looked into the issues of political influence on corporate governance, accounting and reporting in the federal and state government-owned companies.

Background information of the interviewees and the companies

A summary of interviewees' backgrounds including age, education, current and previous positions, and years of employment in the companies is shown in Table 1. From Table 1, it can be seen that the majority of the interviewees are 45 years old and over, thus, it can be inferred that they are relatively experienced individuals. Nearly all have a degree at the bachelor's level or higher, with only a few of them are diploma holders. Based on information about their previous positions, their professional experience implies personal values, knowledge and skill-base not completely shaped by their educational background. About one-third of the interviewees have been in their position for five years or more and the majority of them have worked for the same company for more than five years. Both the ex-CEO and ex-managing director (ex-MD) have been in their positions for at least three years and had previous experience as general managers. Positions held by the interviewees prior to joining their respective companies, along with the other background information just discussed, indicate that the interviewees have a significant amount of knowledge of and experience with the issues examined in this study.

The companies the interviewees were working for or had worked for are listed or non-listed firms. The majority of the companies have politician/s on their board of directors and less than half of the companies have a golden share held by the government. All companies have government ownership ranging from 20 to 100%.

For companies where the state government is the major shareholder, a cross-reference with the Registrar of Business data showed that the chairman of these companies is the chief minister of the state government; their CEO, managing director or general manager is appointed by the state or the chief minister and they usually report directly to the chief minister.

However, for companies where the federal government is the major shareholder, the board members are not usually politicians. An examination of top management backgrounds (such as CEOs', managing directors' and chairmen) showed that they are usually professionals with international or multinational experience. They are chosen through a headhunting process, even though this type of process has been criticised as fulfilling certain political agendas. An examination of the Registrar of Business also revealed the positions of the top management of these types of companies cannot be related directly to the prime minister's or finance minister's positions. In other words, there are other criteria used to evaluate the CEOs, managing directors or

Table 1. Background Information on the Interviewees.

Information	Category	Frequency (n = 24)	Percentage (%)
Age	35 to 40	2	8.3
	41 to 45	6	25
	46 to 50	6	25
	More than 50	10	41.7
Education	Professional education (ACCA)	3	12.5
	Master's degree	5	20.8
	Bachelor's degree	11	45.9
	Diploma	5	20.8
Current position	Chairman	1	4.1
	CEO/Ex-CEO	10	41.7
	General manager	3	12.5
	Managing director (MD)/Ex-MD	10	41.7
No. of years in current position	1 to 2		
	3 to 4		
	5 to 6		
Previous position (prior to joining the firm)	Vice chairman	1	4.1
	Director	2	8.3
	CEO/CFO	5	20.8
	General manager	7	29.3
	Manager	6	25
	Accountants/Engineer	3	12.5

general managers of the companies regardless of their connection to the prime minister or finance minister.

Level of political influence

It was found from the interviews that there are different levels of political influence. The interview findings showed that companies for whom the state government is the biggest shareholder, usually via an investment arm of state government - a State Economic Development Corporation (SEDC), those which are non-listed, and those which have politician/politicians on their board, have the most political influence. Generally, these firms survive because of government projects specially allocated to them. There are also political influences involved for listed companies and those that have the federal government as the largest shareholder (via the government's institutions) but the level of influence is different. Mostly, political influence from the government occurs at policy level; the government does not intervene to the same extent at an operational level. Other types of firms are those where the federal government holds a special share of the company (a golden share). Usually this type of company is involved in a monopoly or what is defined as strategic investments and its products or services are for the whole nation. In such companies the government has the final say about all economic decisions such as client charges. The management of the company has freedom in its operations but this is somewhat diminished if a politician sits on the board of directors.

Political influence on economic decision-making

The findings also showed that political influence affects the decision connected to corporate governance as well as both accounting and reporting decisions, particularly the decisions relating to earnings, what to disclose and how much to disclose in the annual reports.

Political influence on corporate governance

The interviews were carried out to investigate whether politics are involved in corporate governance. Almost half of the interviewees of companies where the state government was the largest shareholder and politicians were part of the board of directors admitted they have "a very close connection" with the government. They have to report their activities or their performance directly to the chief minister in regular meetings. One interviewee said:

My chairman is the chief minister. I will contact him at least once a week. I report things that the chairman should know. As a CEO of a SEDC subsidiary, I have a close relationship with him (CEO T).

An ex-CEO of a state-owned company stated:

I had been the CEO since the previous government of the state. I can say that politics are very much involved at all levels. Politics are involved in determining how the company is supposed to be. That influence comes from the representative of the state government on the board. The state executive members want to get involved in businesses where the state has control. They become the chairman of the company. Once they become the chairman, what I can see is that they want to "drive" the company, for example on how things should be done. As a result, the CEO is in a situation that is difficult to operate (ex-CEO B).

The existence of political influence on boards of directors is confirmed by another ex-MD who said:
When there is a dominant figure on the board then problems arise. Like in my company where one of the directors is a politician, decisions made were always referred to him. The board didn't understand (when it came to a good business proposal that had to be put aside). For example, they will ask you, why do you want to close the company? When I said, it is not doing well, they were not happy because we never closed a company before (ex-MD U).

Almost all interviewees whose companies have politician/s on their board agreed that the dominant figure which is the politician does influence their decision-making as CEO.

The previous findings clearly show that the presence of a politician or government representative on a company's board of directors contributes to the elements of weak governance which in turn makes the manager's economic decision-making difficult. This is consistent with the findings of prior studies (Agrawal and Knoeber, 2001; Fan et al., 2007; Wang et al., 2008).

When the respondent was asked further whether he felt the CEO post is a political post or if he agreed his post is a political appointment, he replied:

I do not deny it but I had to prove my track record before being appointed to this post. The state government chooses those who they think they can work with and those who can deliver. The bottom line here is you have to deliver. We have to be realistic. If you didn't deliver it is very difficult for the party who appointed you to defend you. They have to face their opposition in the Dewan Undangan Negeri [the State Assembly], they have other supporters too. Moreover they are answerable to "rakyat" [the people] (CEO X).

This view is shared by an ex-CEO:

The CEO or managing director post of a government company is a political post. You rise and sink with those who choose you. Regardless of what, you have to show a good record of your achievements. But sometimes, even with your good achievements, it is not guaranteed that you will be automatically appointed again to be in your seat. Like my case, I feel that the company had performed very well under my management. I always met earnings targets but when the new chief minister was elected, he chose his own man and supporter to be the CEO (ex CEO B).

In order to confirm that the CEO and managing director's posts were related to political appointment, the dates of appointment of CEOs and managing directors of state-owned companies and those of new chief ministers of two states in Malaysia as stated in the Malaysian Registrar of Business were checked. The results were quite unexpected: of thirty randomly selected state-owned companies, twenty-seven CEOs and managing directors were appointed soon after the date of appointment of a new chief minister. This means when the new chief minister is in power, the previous CEO was replaced with a newly appointed individual. This finding indicates the top management has an agency relationship with the government or politician (such as the chief minister of the ruling party).

Political influence on accounting earnings

Interviewees were asked to give their views on political influence on earnings targets or predictions. Earnings targets or predictions were used to indicate earnings quality. Predictability of earnings was one of the measures used in prior studies (Lipe, 1990). In this regard, the interviewees were asked whether they had experiences of missing an earnings target. Failure to meet an earnings target indicates that the company is facing problems (Graham et al., 2005). This question was asked because the factors that contribute to such problems play a vital role in this study, especially when the company is exposed to political influence.

The interview results revealed that companies for whom the state government is the largest shareholder, those which are non-listed and those which have politician/s on the board are likely to have missed or nearly missed their earnings targets. It was also found that management had a tendency to reduce expenses in an effort to report positive earnings levels and changes, and to meet targets. This is likely a practice of earnings management which could lower earnings quality.

Four causes of difficulties in meeting earnings targets were identified: unbudgeted expenditures imposed for political reasons, planned public service obligations which cannot be met profitably, broken commitment by government owners, and imprudent investment undertaken at the firms' own initiative.

As one of the respondents of a state-owned firm said:

There was a subsidiary which was not creating a profit. We decided to close it but the state government, through its representative in our company, said no because people need jobs. So we have to retain it (ex-MD U).

Another senior executive stated:

We have put in our budget to build and sell medium and high-cost houses and the state government agreed at the early stage but later requested we build more low-cost houses. Definitely this has affected our earnings target (CEO M).

Similarly, an ex-CEO of a state-owned company said:

We are in the oil and gas and service industry. We are experts in our area but the politicians wanted us to venture into business where we do not have expertise. They asked us to venture into housing. The worst thing is they wanted us to build low-cost houses. That is not our line and the project was not profitable. We did not meet our target (ex CEO B).

The previous statements indicate the weaknesses in companies' economic decision-making caused by political influence in order to facilitate the achievement of non-business interest. The political influence has caused companies to over ride economic obligations in favour of social obligations and political advantage, resulting in earnings targets being missed.

Companies which have the federal government as their largest shareholder are also expected to meet public obligations as ordered by the government, but the difference is their obligations are planned well in advance. In other words, these companies have anticipated the amount of money in their budgets. Even though some of the interviewees from this type of companies admitted that some projects are awarded to them by the government, there are also projects that they initiate themselves through open tenders. Moreover, they also invest to expand their businesses abroad. As a result, the interviewees said their companies are stable, profitable and rarely miss earnings targets. In short, the survival of these companies does not completely depend on the government's allocation of projects.

However, there are situations where the earnings targets in the federal government-owned companies cannot be met. As mentioned by one CEO, some people might argue that government projects give companies secure profits, but in reality there are a lot of uncertainties involved. The government might pull back the offers based on the current economic and political situation. As a result, the expected earnings targets may not be met. In one instance the government withdrew its previous offer to allow a company to carry out the government's "mega projects".

As one CEO said:

Our target was usually missed because we did not get what had been promised to us by the government. For example, we had been promised a 500 million ringgit project early this year, but a few months later, the government came back to us and said that they could not give the project to us (CEO S).

This shows that the failure or near failure to meet earnings targets was caused by an unfavourable decision made by the government, the political influence. Although the proxy for earnings quality is different from that of prior studies, this findings support the negative relationship between political influence and earnings quality found in prior studies (Riahi-Belkaoui, 2004; Eng et al., 2005; Bushman and Patrioski, 2006).

Political influence on reporting

In relation to reporting, the interviewees were asked if their companies supplement their financial reports with voluntary disclosure. They were also asked why such a disclosure was made and who they thought the most important users of their annual reports were.

The interviews provided the following finer and more detailed information beyond what could be found from the previous quantitative studies: distinction between state and federal ownership, motives behind the association between politician/s on the board and disclosure practices and absence of motive to disclose when companies are not listed.

All interviewees of all listed firms said their firms supplemented their financial reports with voluntary disclosure whereas mostly, the interviewees of non-listed firms stated that their firms did not. According to the interviewees of non-listed companies, there are four main reasons for not supplementing their financial reports with voluntary disclosure. These are:

1) It is not necessary
2) It is not mandatory
3) Company's information is exposed to competitors
4) Companies are led by an official decision of the board of directors for non-disclosure

On the other hand, the interviewees of the listed companies provided five main reasons for voluntary disclosure of additional information. The reasons are:

1) Transparency
2) Value added to a company
3) Reduction of information asymmetry
4) Reduction of litigation costs
5) Improvement of capital raising capability

One of the CEOs of a listed company who mentioned transparency as a reason for voluntary disclosure added that:

Companies are always transparent to the public to some degree, regardless of whether they want to be or not. Many are choosing to be more transparent in order to better serve their shareholders and members of the public. Companies that do not pay attention to the needs of shareholders run the risk of attack; those who do are much better able to develop sustainable business models (CEO P).

The responses from the interviewees generally appear to have been driven by economic and political motivations. In particular, the interviewees whose firms had state government ownership as the largest shareholder did not look at other stakeholders' needs as a reason for publicly revealing extra information.

Another CEO stressed that:

It is impossible for us to take into account the needs of all our stakeholders – there are too many of them. If we did this, we would not be able to fulfil our main obligations. We need to establish the relevant levels of disclosure and decide what should be included when meeting reporting requirements. Our main goal is to maximise shareholder value and all our activities should work towards that end (CEO L).

The previous findings are consistent with the findings obtained from prior studies that politically influenced companies disclose less. Management of state-owned companies, especially those with politician/s on their board of directors, felt somewhat protected from external threats (such as pressure groups), which could impair economic interest as a result of their connections with the government. Therefore, they did not make voluntary disclosures.

Only two CEOs stated "industry trends" as a reason for voluntary disclosure. Another CEO said:

If competitors are publicly reporting on certain issues, we may look at what they are reporting and consider doing the same (CEO J).

When probed further as to whether state-owned company disclosure of information is an ethical necessity, as these types of companies belong to the people and other stakeholders and the government is only a custodian, one GM replied:

To me, opinions related to ethics are strongly subjective – what matters to you will not matter in the same way to me and most people have different sets of ethical standards. Add to that different cultures, different races and different environments, and nobody can make a judgment on what is appropriate or not for someone else. It is not within our jurisdiction to criticise other people's moral values (GM O).

To the question of who were the most important users of their annual reports, the interviewees of non-listed companies said the state government, the chief minister and shareholders. This is not surprising since most of the non-listed companies have politician/s on their board or the chief minister as the chairman of their board. As mentioned by one of the MDs of the non-listed companies:

Actually the chief Minister of the State Government is the chairman of the SEDC [State Economic Development Corporation], our parent company. Regarding the disclosure of information that is beyond what is required by law, I think transparency is very important. We have nothing to hide except that we do not disclose our directors' salaries because we thought that is not mandatory and there is no reason for us to disclose such information and we don't do anything wrong (MD K).

Similarly another MD said:

We do not disclose extra information. Why must we? We are not a listed company. Our biggest shareholder is the state government. They have their representative on our board. We only produce the information that we have to produce (MD Q).

Another interviewee had different reasons for not disclosing extra information. He believed his experience of providing extra information had exposed him and the company to even greater demands and increased scepticism. Apparent quests for legitimacy effectively backfired due to this disclosure being used in many instances as a stick with which to beat the company. He said:

We have to consider carefully all the information that we plan to disclose. Any extra information can be twisted and used by groups that plan to oppose us. Even information disclosed with positive intent can be used against us. Since we are a state-owned company, we need to be much more sensitive to these issues (CEO S).

Reporting any extra information was also claimed as sometimes “obliged” managers to repeat the same thing in the future.

As one interviewee said:

When we make extra disclosures, people come to expect it and take it for granted. We cannot go back easily to the previous level of disclosure as people feel a right to the extra information. Backtracking in such a way can open the company up to strong criticism (CEO L).

The perception that the state government is the most important user of a company’s annual reports and that disclosing additional information is unnecessary has also been supported by another interviewee, who said:

“We are non-listed and just a subsidiary to our parent company. They are our boss. We pass what is required by law only. No one is interested in reading any extra information” (CEO K).

When the interviewees of the non-listed companies were asked about whether they made their annual reports available to the public, most of them revealed that they did not. Some of them denied the public rights to the report due to the fact that the state government was their shareholder and they only reported to the government. One of the interviewees said:

“We are a subsidiary to SEDC. It is not our duty to decide on whether to pass the information on to the public or not. It is up to our parent company” (CEO R).

Evidence from the interviews revealed that politics does influence reporting decisions, especially in companies which have politicians on their board and a state government as their major shareholder. These types of companies have to gain consent from the government for what to include due to political implications. The politicians on the boards of directors, as the representatives of the government, influenced the board to decide what and how much to disclose. While most interviewees were supportive of voluntary disclosure, the interviewees of companies with politicians on their board and a state government as their major shareholder often failed to act on this belief due to these political factors. One executive of this type of firm said:

About financial disclosure, maybe the audit committee would like it to be transparent but when it comes to the board decisions, they choose not to disclose because of the political implications of some of the information. This is something unique about a state-owned company. We, as executives, don’t mind if we have to give extra info and to explain further but this depends on how the board perceives what the implication will be (MD D).

The previous findings strongly support the negative association between the presence of politician/s on the board and disclosure as reported in prior quantitative studies (Leuz and Oberholzer-Gee, 2006).

Not only politicians who are members of the board influence disclosure decisions; other parties, such as the executive members of the state may also have some influence. When he was asked about whether there are any parties that influence the decisions of financial reporting, one GM said:

Quite a lot! The board members, executive members of the state, politicians and our customers. They all influence my decisions. We are a state-owned company and our chairman is the chief minister (GM N).

The state government and politicians’ intervention in the reporting decision of the companies which have politicians on their board and a state government as their major shareholder clearly indicate the severe agency conflicts or problems between the principal (the state government) and the agent (managers), as discussed in theoretical framework of agency theory. The government, through politicians as their representative on the board, controls managerial decision (such as the decision of what to disclose or not disclose in the annual reports), so that the decision is in line with its political agendas.

The findings from the interviews revealed extra information and provided useful insights into the relationship between political influence and the extent of disclosure, extending the findings of the quantitative studies. Political influences on disclosure decisions are found to be not as severe if the companies are listed and the federal government (via its agencies) is the major shareholder. In fact, these companies are more likely to pay more attention to disclosure guidelines, other companies’ reports and various reporting schemes’ criteria (such as those of National Annual Corporate Report Awards - NACRA). Such means are useful for providing an overview of what to report and how. These companies often release extra information to the market, through newsletters or bulletins, meetings with investors or potential investors, meetings with analysts, conference calls and media previews. The interviewees from these companies believed that voluntary disclosures help market participants and other stakeholders form conclusions about the company (especially with regards to current or future performance), and as a result, the company can benefit from improved terms of exchange.

However, if the companies are listed and have politician/s on their boards, the interviewees of these companies said they also often reveal extra information to the market but that their board scrutinises and elects the type and amount of information to be formally revealed. Information which is believed to have implications for the politicians or the government is not allowed to be revealed. This indicates that although the companies are listed (which are regulated), political influence is worse if there are politicians on the board.

Conclusion

Overall, the findings have affirmed the purpose of the study that is to provide in-depth or detailed understanding of political influence in government owned companies that is the actual relationships between governments, politician/s on board of directors and managers and new details on the complexity of the relationships. The findings may be used as guidance by regulators and policy makers in Malaysia and possibly in other emerging economies for deciding on the level of involvement of government and politicians in business, especially in government-owned companies in order to ensure that these companies continue to play a significant role in the national economic growth.

The study is not without its limitations. Qualitative evidence collected through face-to-face interviews was opened to biases such as false memory recall and social desirability bias. The interviewees may have been unwilling to admit to unacceptable behaviour but throughout the interview sessions they appeared to be sincere and were not hesitant. The sample of the interviews might also be considered as opportunistic sample which could lead to bias in the interpretation of the findings.

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