

# Why State Power Pivotal to Economic Growth? A Review of Firms' Performance in Dynamic Economies

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**Abstract:** Market regulations, governmental capital, and politically connected managerial teams are incrementally functioned, together with private-owned capital flows perennially. This paper reviews how macro-environment determinants, state-owned capital, as well as managers with connections affecting corporate performance in dynamic economies, such as China, Malaysia, and Nigeria. The findings clearly indicate that firms with politically connected manager and state-owned capital outperform in China, with higher IPO approvals, governing roles as informal structure, and tax benefits. The research has also shown that stability lays a foundation for businesses to strive.

**Keywords:** Macro-Environment, State-owned Capital, Managers with Connections, Corporate Performance.

## 1. Introduction

Politics and governmental interventions are practically beneficial for corporations, and therefore for economic growth. One channel is through economic reform, which brings one national economy to globalization (Sachs et al., 1995). As a result of globalization, more reasonable taxations, better trade policies, and potential markets emerged, with more job opportunities and a larger variety of consumer goods created. One good example is that the economic reform in China has been a triumph. Due to the implementation of 'Reform and Opening-Up', there is a significant rise in the productivity of Chinese state-owned firms between 1980-1989 (Li, 1997). Identically, another research conducted by Jefferson et al. (1992) elucidates consistent findings, empirically proving that Total Factor Productivity (TFP) increases to 2.4% in state-owned sectors, owing to the political and governmental behaviors subsequently. Furthermore, empowering managerial members and implementing incentives, both of which are adjustable regulations in corporate governance, are enormously influential in boosting economic efficiency (Chen et al., 1992). In brief, the pattern of how administration regulates and that of political interference, such as 'Reform and Opening-Up' in China, proceeds economic growth and thus leading to a country's modernization.

Apart from adopting measures directly from authorities, participation in capital investment and the impact on the managerial level have drawn academia's attention. Discussions on whether government-linked companies (GLCs) elevate enterprises' valuation (Lau & Tong, 2008), or be potentially damaging to corporate governance (Hisyam et al., 2011) and to the sector of private investment (Menon, 2017), are somewhat surprising, with seemingly controversial coexistence. However, unlike GLCs, Liu et al. (2013) contend that political capital, such as connections of senior corporate management, leaves firms' initial public offerings (IPOs) almost unobstructed, which undoubtedly fosters a novel prospect to examine the routine that how state power impact on the development of firms.

While it is irritating, to a certain degree, to witness the

contradiction on the blurred relationship among scopes, indicators of corporate performance, actual effects, and other variables, nevertheless, to probe into approaches, contexts, specialty, and applicability of the claims, is to anticipate gaining massive insights throughout the discovery.

It appears to be crucial, to fully seize the essence of harnessing state power for business prosperity. Previous studies of regulatory, political capital, and state-associated managerial leaders have not dealt with which force attributes to firms' performance the most, and whether one outweighs others. Additionally, the mechanism of to what extent that governmental forces shape corporate values, innovations, and decision-making, is hidden behind the perplexity of phenomenal information, data, and the whole business world. Consequently, to enrich the knowledge of how state power strengthens corporate practices, and to reveal the mystery of whether an optimal resolution for perpetual growth exists, this investigation starts with critically discussing extensive principal findings in the succeeding chapters.

## 2. A Discussion on Government-Linked Companies in Malaysia

### 2.1. Definition

The definition of government-linked companies is frequently argued as firms' shares held by government, especially under Asian contexts. One insightful academic work defines Malaysian GLC as a corporation's equities controlled by equal-or-greater than one fifth in authorities' hand, with governmental involvements in appointing managerial members and enactment of strategic plans (Khoo, 2018).

### 2.2. Valuation, Goals, and the Crowding-Out Effect

#### (1) Value Creation: Inconsistency Occurred

Government-linked companies react critically in the maintenance of developing economies. In the case of Malaysian GLCs, numerous studies justify the necessity of industrialization utilizing GLCs (Khoo, 2018). Researchers illuminating enterprises' value (Tobin's Q) and governmental

owing are positively correlated (Lau & Tong, 2008). Prior to this legible illustration, the results remain consistency with the Singaporean case (Ramírez & Tan, 2004; Ang & Ding, 2006), substantiating that governed ownership conveys the superiority in raising firms' valuation. However, identically, utilizing Tobin's Q as the indicator representing market performance or corporate performance, objections suggest that results might be diametrically opposed (Hisyam et al., 2011). The conclusion of alleviating value creation and potential failures in other features such as risk and profitability, makes this modelling using a sample of 210 listed Malaysian corporations seems to be plausible.

#### (2) The Priorities of Goals

Furthermore, originally inspired by the principal-agent theories, concerns brought by Lau & Tong (2008) have led to a proliferation of studies that governmental control divides, such as contributing to collectivism and reorder priorities. Although it is perfectly understandable and feasible, for decision-makers to prioritize goals in addition to wealth maximization for stakeholders, there are possibilities that such behaviors might be detrimental to the enterprise. Previous studies confirm given incentives motivate private-owned firms to foster innovation and cost economization (Sun & Tong, 2002). With concentrations and competitiveness, maximization of non-state shareholders' value has become achievable onefold.

#### (3) The Crowding-Out Effect

Moreover, Menon (2017) argues that negativity exists in private investment where GLCs expand significantly (three fifth or over), suggesting that the 'crowding-out effect' has been excluded investment from private sectors. In other words, when investment owned by the state surpasses, the deterrence on private sectors overwhelmingly expands, causing suppression of invested initiatives, and even panic for divestment. In addition, further descriptions written by this scholar suggests that Government-Linked Companies Transformation Program (GLCTP) imposes severe threats upon governmental divestment, which contradicts the purpose of the program, even with the declaration of success in 2015.

#### (4) Value Creation: Resolving the Crowding-Out

Nevertheless, while Menon (2017) agrees with the inefficiency of GLCs, the author disputes with the limited experimental sample of Hisyam et al. (2011), candidly pointing out decisive findings are mixed, and therefore no relationship between government ownership and valuation should be definitively concluded; listing regulated benefits, subsidies, and exemptions that GLCs obtained; describing that an increase in private investment can be found by adopting other strategies, such as enlarge the effectiveness of demands, domestically and externally. Regarding GLCTP, latest evidence persuasively proves that the program negatively impacted GLCs, of market value and financial aspects, using Tobin's Q, Return on Asset (ROA), and Return on Equity (ROE) as indicators respectively (Khoo, 2018), meaning GLCs' expansion curbed.

To sum up, even with worries in relation to the division of goals, lack of competitiveness, and leading to private divestment persisted, GLCs are still the most preferable to achieve a country's industrialization. A majority of studies praise their social attributions and marketplace supplement roles, especially in emerging markets like the Malaysian economy, however, the drawbacks, like intrusion into other

sectors, gradually weaken the optimality to make the full utilization of GLCs. Fortunately, it is evident that implementations of improvements exist according to the previous argumentations.

## 2.3. Implications

Government-linked companies as an indispensable player in businesses, should be treated with tactics. In the case of the Malaysian economy, GLCs have been fulfilling commercial objectives, proceeding industrial progresses, addressing market failures, and providing fundamental services for the country; yet criticism of their operations varies, mostly on the division of goals, deficiency of incentives, and crowding out private investment. This seems to be unfair, to intentionally neglect the various aspects of value that GLCs potentially create: the incarnation of collective contributors socially, environmentally, or institutionally; besides, exploiting regulated benefits enhances GLCs' comparative advantages, which is in conformity with optimal utilization of firms' resources. Thus, eliminating imperfections of the mechanism of how GLCs interact with other entities anticipates exploring the possibilities of resolution. For instance, the future vision of equity-based incentives motivates GLCs to innovate aggressively; full invocation of advantages conferred by regulations; expanding demands to aim growth in private investment. The endeavor of tackling flaws anticipates being detailed assessed in the evaluation chapter.

## 3. The Characteristics and Impact of Political Capital

### 3.1. Overview

Numerous papers have been investigating the escalated effects of a variety of political capital, particularly in China. Topics covering the roles of politics-associated CEOs, the impact that political shares brought, taxation, and troubling concerns. Arguments are divided in terms of whether certain corporate merits should be attributed to politically connected executives or not. Unique advantages, IPO approvals, and tax benefits are the crucial reasonings for those who are in favor of political control, while the oppositions raise the worrying of preventing rent-seeking, lack of flexibility or professionalism, and other poisonous shortcomings to the maximization of value creation.

Additionally, there are other determinants, including political ownership, decisions regarding IPOs, and other implicated politics-related support. Accordingly, the various aspects of discussions differ, and the precision of research scope required, the term 'Political Capital' comes to its interpretation.

From a broader perspective, this paper defines 'Political Capital' as managers, sponsors, investors, and social capital with political connections.

### 3.2. IPO Activities

#### (1) Controversy: Positive or Negative?

For starters, there is a contradictory of evidence on whether executives with political connections create value for IPOs or not. With political alignment index (PAI), Çolak et al. (2021) demonstrates that its conceivable positivity to the underpricing of US's IPOs. This American sample ignites the sparks of integrating policy engagement and under-evaluation in IPOs, inspiring academia to revise from a more

comprehensive view. Similarly, Fan et al. (2014) speculate that the anticipated results of their regressions are in conformity with the US's case, inferring that Chinese managers without connections beat their rivals, in other words, politically associated executives defeat, due to the lack of professional expertise. Their indicators, instead of using Tobin's Q, are stock return, accounting-base methods, and Return on Sales (ROS) as corporate performance. Moreover, doubts on the progression of IPOs moves forward dramatically, in accordance with an investigation conceded by Piotroski, et al. (2014). More specifically, they have noted that IPOs are growing substantially, because of the incentives given to politicians. Indeed, rising concerns on the possibilities that rent-seeking behaviors exist, with questions on the quality of financing and long-term return. On the contrary, suggestive evidence on political connections is plentiful. Favorable relationships with government officers are corporate assets for Chinese companies (Sheng et al., 2011), which identifies that their facilitation in technological advancement as well as support from authorities, especially when macroenvironment fails to fulfill institutional demands. Although there have been questions concerning political indeterminacy bringing misleading action, in other words, the overuse of political ties conjectures the compulsion of firms' behaviors, and thus leading to a capricious market, with caution, political power stimulates firms to outperform. Fascinatingly, this relationship affirms the routine of how political ties positively affect firms' technological advancement: by applying tax subsidies along with approving firms' plans. Tax benefits are expected to be analyzed subsequently, whereas other contextual thoughts of political connections delineate bright landscape.

(2) Existence: Significant or Insignificant?

Does the result shows in one way or the other? On the contrary, academics dispute that the situation differs, certain conditions may not be applied universally, and inconsistent results that are different from any of the prior ones found. After a due consideration of statistical insignificance among variables (ROA, ROE, and political connections), Hasnana et al. (2019) report that no linear correlation found in their empirical evidence, with a remarkable sample of over six hundred Malaysian enterprises.

Nevertheless, unlike the convoluted Malaysian circumstances, the Chinese context had previously found evidence of association. Recent studies persuade politically connected firms have comparative advantages in terms of winning government contracts (Nee et al., 2010), along with others acknowledge the positive relationship between political connections and IPOs' progression (Liu et al., 2013; Piotroski, et al., 2014). With regards to IPOs' approval, the evidence applauds politically associated CEOs make capital market accessible to firms, especially in emerging capital market like China. Although worrying regarding the quality of financing has been doubted (Piotroski, et al., 2014), start-up companies tend to build up connections ahead, as these managers indeed foster the process of value creation. Even further, it deciphers other means of political control, namely financing and sponsoring, has short-term influential benign to firms, proving an endorsement of state's value.

### 3.3. Ownership

Arguments over firms' ownership divided with respect to political ownership, such as bridging social capital. A meta-analysis of literature creatively asserts that not only political

ownerships, but a combination of ownership among all state power slightly harms financial performance (Aguilera et al., 2021). While it confirms the goals of state power diverge to society as the prior research stated (Lau & Tong, 2008), it is admitted that authorities' inclination counts, when it comes to policy-making and corresponding implementations, such as right-leaning makes less restrictive policies than that of left-leaning. However, criticisms accusing politics' negativity on firms' flexibility disagree that politics should interfere, explicitly demanding more foreign involvement in investing (Xu et al., 2005). The modelling was conducted in 1997, by that time, China merely initializes corporatization, which largely differs from the current state of development in terms of corporate governance, incentives, and mechanisms of operations. Nevertheless, A much recent empirical study experimented by Cao et al. (2014) analyzes that Chinese start-up companies perform outstandingly in ROA when politics-related social capital involved. If both non-politics outside investors and politics-related capital introduced, the results probably discover that politics-related bridging capital reacts remarkably in accounting (ROA) and market performance (stock abnormal return), while external sponsors merely perform a moderate change in accounting, during corporate post-IPO period. Politics-related capital, in other word, political ownership interacts as such a vital role with the Chinese capital market, considered as an unofficial channel to optimize the governance structure. The esoteric practices have witnessed the development of China's state power in firms. How it performs, what are the effects, why it happens seems to be well-presented in the exploration of political capital.

### 3.4. Tax Benefits

There are, indeed, tax implications brought by political capital (including connections). One avenue is through managers with political connections, over a 8-year period, privatized corporations with such aid tend to outperform, while reversed outcomes are reported in state-owned entities (Wu et al., 2012). This is because, tax rates of those private companies with connections are much lower, compared to their counterparts without political support. Naturally, private owners improve firms' performance by exploiting tax advantages, which is the opposition to the State-Owned Enterprises (SOEs). Interpretations of the phenomenon emerged, on whether those SOEs' managers already implement strategic plans in an advantageous position, or on actions to meet the government's requirements should be reordered according to the classifications of priorities. One convincing view hypothesized by Wu et al. (2012) affirms that social aims are the foremost priority, namely boosting growth of GDP and rising employment rate.

Furthermore, by applying tax subsidies along with approving firms' plans, Sheng et al. (2011) argue that this brings technological advancements, along with relative or absolute tax-deduction makes great contribution to how a firm outperforms.

### 3.5. Summary

To conclude, this chapter aims to justify the various sources of political capital, as well as analyzing entities that interact with political capital, with a joint effort of supportive merits and demerits.

Firstly, political connections are regarded as corporate assets catalyzing the progression of IPO approval,

technological innovation, and striving for other forms of state support. Their importance is enhanced in supplementing functions where absent formal governance fails to fulfill the demands. What is surprising is that the inconsistency of regional differences, the doubts about the quality of financing, and the instability of long-term return have been drawn, all of which, raised by the fears of political misjudgments. Overall, with concerns to be carefully dealt with, in particular, Chinese entrepreneurial enterprises are found to be pro-active in establishing political connections, as empirical demonstrations of explicit benefits are plentiful.

Secondly, political ownership interacts pivotally with the Chinese capital market, seen as an informal channel to optimize the governance structure. Right-leaning is found to make less restrictive policies than left-leaning; similar to the Malaysian GLCs, the goals of state power diverge to society; politics-related capital reacts remarkably in post-IPO accounting and market performance, while external sponsors merely perform a modest change in the aspect of accounting. Although there has been research accusing the damage that politics might cause to the flexibility of companies, and global investment should be introduced, the out-of-date presentation considers no profound changes on a time-series basis, and thus it is strongly incompatible with the current stage of development in China.

Finally, taxation brings benefits to privatized corporations with political capital. With such preferential treatment, private firms outperform, while contrast outcomes are found in state-owned firms. Some suggest that it is the real tax rate, others allege that tax subsidies promote private industries with such connections to grow. Concerning state-owned enterprises, identical to the Malaysian GLCs, reordering priorities makes these state enterprises draft long-run plans, such as hiring excessive staff to resolve unemployment, instead of merely focusing on maximization of shareholders' value.

## **4. Macroevironment: Stability**

### **4.1. Overview**

In addition to developing countries such as China and Malaysia, no absence to special considerations in other dynamic entities. Nigeria, a country that harnesses abundant resources, has tremendous potentials in terms of economic growth. It is exploring a tortuous path of development in an attempt to step out of the predicament that plagues its dream of becoming stronger. However, the country is facing a wide variety of challenges. Several indicators of poverty show that Nigeria is in the throes of development, with frequent political activity making the future more uncertain, and nationwide strikes destabilizing the local society. Which decisive factors makes a company in Nigeria have better performance? What are the reasons? Does the regularity of economic development apply such circumstance? These questions lead us to continue to seek more insights.

### **4.2. Predicament in Nigeria**

Mark et al. (2015) suggest that macro factors are infrastructures, such as one country's political environment. Their convincible evidence applies political harmoniousness and criminal activities as variables, as well as profitability as the indicator to measure whether firms underperform or the other in Nigeria. Unfortunately, with an empirical experiment using a sample of 27 firms, international enterprises

underperform, due to the overwhelming policy issuances and official plans repeatedly. In accordance with their reasonable deductions, more specifically, this is because instabilities impose such severe threats to businesses, such as regional conflicts caused by political discord, terrorism, and other deterrent effects, which intimidates decision-makers of global investment. As a result, it is suggested that political stability mitigates risk, boosts confidence, and grows businesses.

Witnessing the scene of the Nigerian example enlightens the world to reflect from a broader view, that any micro-attempts would be futile if the macroenvironment allows no soil to grow. For instance, high positions in firms propose strategic plans on a long-term basis. If the legitimacy of the foreign investment is unrecognized, or even worse, its original status was claimed outlawed, they are projected to retract funds or all the endeavor in local operations will be wasted.

### **4.3. Summary**

In general, although discussions on GLCs and political capital are well-presented to elucidate the necessity of micro-meso considerations, the macro determinants, however, are the foundations of expressing market reactions. The Nigerian environment teaches the world if the most fundamental subsistence materials cannot be guaranteed, no businesses would be sustained in such harsh conditions. Multinational corporations underperform because of political discord, terrorism, and armed conflicts, which deters global investors from entering.

## **5. The Evaluation of Modes, Influences, and Mechanisms**

### **5.1. Description**

This section establishes the framework for assessing the patterns, impact, and reflections of GLCs, political capital (including political connections, state ownership, and other politics-related forces), and political environment in emerging markets, such as China, Malaysia, and Nigeria.

It starts with describing the current situation of how these state powers affect key operations of firms in different regions; then it justifies the absolute and relative impact on both its places of implementation and global context; closely followed by a section to examine in what roles the modes are performed, whether their utilities are adjustable; eventually, it proposes in what relationship that they could incorporate and co-exist to achieve better performance in dynamic economics.

### **5.2. General Analysis of Modes and Impact**

#### **(1) Current Situation of GLCs**

The development of GLCs in Malaysia has shown a twist, but somewhat deserving routine to national flourishes. It is full of criticisms and difficulties, to a substantial extent, but still contributing to the country. Listing regulated benefits, subsidies, and exemptions that government-linked companies hold, enlarges the expansion of business fields, which is indispensable by the early stage of industrialization in Malaysia; however, the sharply expanded and its derived issues are at cost of shareholders and private investors. For example, it is evident that the goals of firms are anticipated to be diverged into social achievements, such as hiring additional employees that firms may not be required, serving the whole society instead of maximizing shareholders' value.

Although research on firms' value creation (narrowly defined) blurred and was claimed not to be concluded as explicit results, besides, the crowding-out effect squeezes out investment from private sectors, deteriorating the diversification in the Malaysian market, and might even be causing panic for divestment. All of these are the consequences that the country must bear if the GLCs superfluously beyond their fields. By contrast, it is noticeable that feasible actions are ongoing. One regulation is Government-Linked Companies Transformation Program (GLCTP), which negatively impacts GLCs, of market value and financial aspects respectively, meaning GLCs' expansion can be curbed. Furthermore, the division of goals and the burden of crowding out non-state investment can be easily softened, such as expanding demands. Governmental control attracts excessive staff to the preparation of entering new industries and segments; an increase in private investment can be found by adopting strategies other than state-owned divestment, such as exporting and expanding reproduction.

#### (2) Current Situation of Political Capital

The various contents of political capital, namely managers with political connections and state ownership, should be merited as one successful instance to enliven the Chinese market. Politics-associated CEOs are regarded as corporate assets catalyzing the process of IPO approval, technological innovation, tax benefits, and striving for other forms of state support. Acting as one part of the informal governance structure, it adjusts where regulatory failures, particularly when demands cannot be fulfilled. While there are, the regional differences, the doubts of the quality of financing, and the fluctuation of long-term return have been drawn, owing to the risk of political misjudgments. Nevertheless, Chinese start-ups are proactive in establishing political connections.

Political ownership acts as another part of the informal governance structure, concurred with the findings of Malaysian GLCs that the goals of state power diverged; politics-related capital reacts outstandingly than private capital in China.

#### (3) Current Situation of Macro Factors

In Nigeria, international companies underperform due to the lack of political harmoniousness, frequent criminal activities, and terrorism, which deters foreign investors from entering.

#### (4) Evaluation of Impact & Modes Performance

It is obvious that the three modes have impacted firms' performance and economies profoundly. The macro environment undoubtedly makes the most significant level of damage to the prosperity of the Nigerian economy. It is the macro factors that lay foundations for businesses, and micro-meso measures somewhat appear to be inefficient in comparison to the macroscopic adjustments. With respect to GLCs and political capital, while their mechanisms are similar, the influences are varied. Both the Malaysian GLCs and the Chinese politics-related firms (including managers with political connections and political ownership) were seen as the contributors to collectivism: they are obliged to take social responsibility. For that, their endeavor that comes with hard work is undeniable. However, their judgements are opposed. Full of criticisms on GLCs of crowding out private investments, even elevating firms' valuation was suggested not to be definitely concluded; whereas the political capital certainly accelerates the progress of IPO approval, even with other benefits like as an catalyst of innovation. Besides, from

the view of governance, the political bridging social capital and political connections are highlighted as informal governance to adjust structural deviations.

Moreover, based on the results-oriented perspective, start-ups in China tend to embrace political capital, while the sectors that GLCs intrude have private divestment.

Overall, it is the comprehensive development among macro-meso-micro determinants that moves enterprises and economies forward. Macro-environment as the basis, with reasonable proportion of state ownership, connections, and appropriate interventions, to achieve a more effective governance as a whole.

### 5.3. Reflection

To respond the weaknesses brought by the three modes, there are implications or actions in progress.

For political capital in China, more rigorous supervision should be enforced on corporate operations. Lack of professionalism, ossified management, and irresponsible promoting behaviors should be assessed carefully, to prevent from potential misconduct and escalated risk. In addition, improving informal governance enhances its existing merits.

For GLCs in Malaysia, exploiting regulated benefits forms up their comparative advantages, which is in conformity with the optimal utilization of firms' resources. Gradually guiding these companies to conduct businesses orderly, establishing confidence along with problem-resolving mechanisms, will equip them for a more favorable development path.

Regarding demands, in accordance with the theories of Aggregate Demand and Aggregate Supply model (AD-AS), enlarging demands both domestically and internationally, tends to resolve the problem of crowding-out private investment, on a short-term basis. Enlarging effective demands, for example, by public sector and state-owned enterprises purchasing more public goods, initiating large investment plans, and signing exporting contracts with foreign manufacturers. This seems to be challenging, but if administrative support is obtained, it was meant to be tackled systematically.

## 6. Conclusion

To conclude, this investigation aims to explore the interactions, impact, and relationship between state power and firms' performance. After a systematic review of macro-environment of stability, state-owned capital, as well as managers with connections affecting corporate performance in dynamic economies, such as China, Malaysia, and Nigeria, this study argues that political capital in China sets a merited example of harnessing state power to facilitate firms' performance, while the expansion of GLCs in Malaysia performs in disequilibrium. The second major finding was that macroenvironment acts as the infrastructure of business markets. Without such existence of stability, micro-meso adjustments are invalidated. It has also shown that while each mode has imperfections, attempts seeking to resolve flaws were never ceased, with joint efforts of governmental programs, governance, and regulations.

This thesis has provided an in-depth insight into clarifying basic concepts, analyzing pros and cons of modes, comparing differences and similarities, and evaluating the actual impact along with reflections. Considerably more work should be done to examine improvements of modes.

## 7. Recommendation

### 7.1. Enlarging Aggregate Demand: Drivers to Grow

The macro-level plans should be drafted by governments to facilitate economic growth. The expansion of aggregate demand effectively confronts the reverse aggregate demand shock and stabilizes the economic activities. The aggregate demand consists of consumption demand, investment demand, government demand, and export demand, of which consumption demand, investment demand and government demand are the internal driving factors, and net exports are the external factor. It is the major contributor that almost guarantees short-term growing.

### 7.2. Implementing Reforms: The Optimization of Economic Structure

Successful reforms, such as 'Reform and Opening-Up', raise productivity as a long-term driver. Reforming on economic structures shifts pattern to grow, and to gain a rejuvenated economy.

On the one hand, the optimization of capital structure is influential in maintaining the healthy development of the economy; On the other hand, it is necessary to guide capital to invest in industries with high growth potentials and give full play to the applicability of capital to enhance the industrial economy.

For example, the 'supply-side structural reform' has been very successful in China. While policies stimulating effective demand can boost economic growth in the short term, in the long run, aggregate supply is affected by very limited factors such as factors of production or production efficiency. Thus, the necessity of reforming emerged, and structural adjustments are most urgently.

Policymakers are required to fully understand the basic situation of the market and ensure that the implementation of policies is effectively enforced, preventing the possibilities of overcorrecting the market.

### 7.3. Strengthening Meticulous Supervision: To Mitigate Market Misconduct

Improvements in effectiveness and pertinence of market supervision, intensifying supervision on market misconduct. Numerous examples illustrate the seriousness of enhancing supervision: suspicion of insider trading, market manipulation, and other violations of regulations; Second, the anomalies of trading price or trading volume of securities; abnormal trading behaviors affecting market prices or trading volume. Strengthening supervision lessens such disgraceful behaviors, and thus fosters a business environment.

There are noticeable matters along with the enhancement of supervision: Firstly, it is necessary to remain stability, because a stable market operates as the infrastructure of business activities. The importance of the stability of the financial system is well illustrated by the example of Nigeria, as no enterprises would sustain if their legitimate status were proscribed, or its original status was claimed outlawed.

The second is to recognize and maintain the subtle balance. Any political judgment needs to be assessed through scientific decision-making processes, as the slightest act of government can have dramatic amplification effects.

Cracking down on rent-seeking behavior should not excessively utilize regulated power, thereby it deters investors,

constraining investment & financing intentions, and thus making the market inactive; Nor can it be deregulated, which potentially leads to a sharp decline in the quality of financing, hurts the interests of investors.

### 7.4. Establishing a Holistic System: For Evaluating Multi-faceted Value

Previous studies on evaluating value creation (Tobin's Q, stock return) have not yet dealt with the creation of social value. Constructing a more comprehensive system that allows other aspects, such as social contributions, biodiversity, and industrial harmonization, to be reviewed as firms' performance, as well as economic coordination. The system should be holistic, with extra attention to the selection of evaluation methods and clarifying the conceptual models for the construction of the evaluation index system.

Eventually, the system anticipates elevating the standards of firms' assessments, the quality of financing, the effectiveness of markets, and thus fostering a healthier, sustainable, and balanced economic prospect.

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