



ADVANCED INTERNATIONAL JOURNAL
OF BUSINESS, ENTREPRENEURSHIP
AND SMES
(AIJBES)

www.gaexcellence.com/aijbbs



THE INFLUENCE OF POLITICAL CONNECTION AND FINANCIAL DETERMINANTS ON THE PERFORMANCE OF MALAYSIAN REITS

Nur Alliya Qistina Muhammad Fahmi¹, Iylia Dayana Mohamed Izwan^{2*}, Ahmad Haruna Abu Bakar³

¹Department of Accounting and Finance, Faculty of Business Management and Professional Studies, Management and Science University, Malaysia

 allymfhm@gmail.com

 <https://orcid.org/0000-0002-8564-1549>

²Department of Accounting and Finance, Faculty of Business Management and Professional Studies, Management and Science University, Malaysia

 iylia_dayana@msu.edu.my

 <https://orcid.org/0000-0003-2018-3257>

³Department of Accounting and Finance, Faculty of Business Management and Professional Studies, Management and Science University, Malaysia

 ahmad_haruna@msu.edu.my

 <https://orcid.org/0000-0002-8564-1549>

*Corresponding Author

Article Info:

Article history:

Received date: 15.07.2026

Revised date: 27.07.2026

Accepted date: 18.08.2026

Published date: 17.09.2027

To cite this document:

Fahmi, N. A. Q. M., Izawan, I. D. M., Bakar, A. H. A. (2026). The Influence of Political Connection and Financial Determinants on The Performance of Malaysian Reits. *Advanced International Journal of Business Entrepreneurship and SMEs*, 8 (29), 1251-1265.

Abstract:

This study analyses the influence of political connection, firm size, leverage, and liquidity on the performance of Malaysian Real Estate Investment Trusts (M-REITs) following the implementation of the Malaysian Code on Corporate Governance 2021 (MCCG 2021). This analysis is driven by a fragmented body of literature that examines governance and financial factors in isolation. This study is grounded in Agency Theory and Pecking Order Theory. A quantitative panel design utilizing secondary data from 18 M-REITs listed on Bursa Malaysia for the period 2022–2024 yields 54 firm-year observations. Firm performance is assessed using Tobin's Q, whereas the independent factors comprise political connection (a binary variable), firm size (the logarithm of total assets), leverage (the debt-to-asset ratio), and liquidity (the current ratio). Diagnostic assessments reveal heteroskedasticity and first-order autocorrelation, which are mitigated by Prais-Winsten regression utilizing Panel-Corrected Standard Errors (PCSE). The findings reveal four key outcomes. Political connection has a positive and significant effect on Tobin's Q, supporting H1 and indicating that politically connected REITs benefit from preferential access to government-linked resources. Firm size exhibits a positive and significant effect, partially supporting H2, contrary to the hypothesized negative relationship, suggesting that larger REITs achieve higher

market valuations through diversification and governance credibility. Leverage shows a negative and significant impact, partially supporting H3, opposite to the predicted positive effect, implying that rising interest rates and financial distress risks lead investors to penalize high debt levels. Liquidity is negative but statistically insignificant, leading to rejection of H4. The study contributes to M-REIT managers and policymakers by demonstrating the performance benefits of political ties and scale while cautioning against excessive leverage. Limitations include the short three-year window and static measurement of political connection, offering directions for future research.

DOI: 10.35631/AJBES.829071 **Keyword:**

Agency Theory, MCGG 2021, M-REITs, Pecking Order Theory, Political Connection, Tobin's Q



© The authors (2026). This is an Open Access article distributed under the terms of the Creative Commons Attribution (CC BY NC) (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits non-commercial re-use, distribution, and reproduction in any medium, provided the original work is properly cited. For commercial re-use, please contact ijmoe@gaexcellence.com.

Introduction

Real Estate Investment Trusts have become an important investment vehicle in global real estate markets because they allow firms to generate income through the ownership, operation, and financing of income generating real estate assets. They also provide investors with access to dividend income, portfolio diversification, potential tax advantages, and exposure to large scale real estate assets without requiring direct property ownership. From a broader economic perspective, REITs contribute to capital market development, employment creation, urban expansion, and housing solutions. In Malaysia, Malaysian REITs are regulated by the Securities Commission Malaysia, which establishes the legal requirements for the issuance, offering, subscription, purchase, and formation of REIT units (Corporate Department, 2018). Despite the growing relevance of Malaysian REITs, their internal performance determinants remain insufficiently examined, particularly because REITs are often overlooked as instruments for sustainable or socially responsible investment compared with open ended funds that explicitly promote sustainability objectives (Erol et al., 2021).

This study is warranted by the increasing importance of Malaysian REITs in the national capital market and the need to understand how governance related and financial determinants shape their performance within the MCGG 2021 institutional environment. Malaysian evidence also indicates that financial attributes and corporate governance mechanisms are important in explaining firm-level financial behaviour among listed companies, supporting the need to examine governance and financial determinants jointly (Salleh et al., 2025). Recent governance literature further emphasizes that board financial literacy, disclosure quality, and risk management practices are important mechanisms for strengthening transparency, accountability, and financial reporting quality among listed firms (Izwan et al., 2024). Corporate governance is particularly important in Asian REIT markets because externally

managed REIT structures may create agency risks, including managerial power abuse, control issues, and potential value extraction at the expense of unitholders (Ng, Chang, & Low, 2021). In addition, financial determinants such as leverage and interest rates have been found to have a negative relationship with REIT performance, indicating that capital structure and financing conditions are critical to REIT value creation. Evidence from Malaysian listed firms indicates that leverage can adversely affect profitability, whereas liquidity and operating cash flows can strengthen financial performance and post-crisis recovery (Aziz & Noor, 2026). These findings reinforce the importance of leverage and liquidity as determinants of financial resilience, although their effects may vary across industries and organisational structures. In Malaysia, the Malaysian Code on Corporate Governance was first introduced in 2000 and most recently revised in April 2021, providing the governance benchmark for listed entities on Bursa Malaysia, including REITs (Securities Commission Malaysia, 2021). The MCCG 2021 is not merely a compliance framework because it directly shapes the institutional setting in which internal performance determinants operate.

Political ties, which represent a key variable in this study, are increasingly scrutinized under the Code's independence and nomination requirements, particularly Practices 5.5 to 5.8, which emphasize objective candidate selection rather than reliance on major shareholder recommendations. Firm size also carries governance implications because REITs classified as Large Companies are subject to additional requirements, including triennial independent board assessments under Practice 6.1 and majority independent board composition under Practice 5.2. Similarly, leverage decisions are linked to the Code's risk management framework under Practices 10.1 to 10.3, which requires boards to establish clear risk tolerance levels and disclose the adequacy of internal control systems. Although liquidity management is not explicitly mandated, it is indirectly influenced by audit committee oversight of financial reporting and internal audit functions under Practices 9.1 to 9.5 and 11.1 to 11.2. Accordingly, any empirical analysis of Malaysian REIT performance that overlooks the MCCG 2021 governance framework risks omitting a central institutional factor that shapes the relationship between governance, financial policy, and firm performance. Although REITs have become increasingly significant in global and regional real estate investment markets, existing studies on REIT performance have largely focused on established markets such as the United States and Europe, while developing and Asian REIT markets remain comparatively underexplored (David, et al., 2021; Nguyen, et al., 2025).

Evidence also suggests that corporate governance mechanisms affect REIT performance differently across Asian markets, with Hong Kong REITs being more significantly influenced by governance mechanisms than Malaysian REITs (David et al., 2021). This indicates that findings from one market may not be directly transferable to the Malaysian context. Furthermore, although Malaysia was the first country in Asia to introduce a Listed Property Trust, the Malaysian REIT industry has continued to develop at a relatively slow pace and remains a small regional market. Amin et al. (2023), argue that this slow development is mainly attributable to demanding regulatory approval processes, limited underlying asset availability, and low currency exchange value, which discourage foreign institutional investors.

Market challenges are further intensified by concerns over transparency in the distribution of income receivables within the domestic tax environment (Amin, et al. 2023). Existing literature on the determinants of Malaysian REIT performance also remains fragmented and characterized by inconsistent findings, making it difficult to establish a comprehensive and reliable performance model. Similarly, studies on corporate governance mechanisms in

Malaysia have produced inconclusive results, particularly regarding how governance interacts with firm specific financial determinants. Against this background, the present study addresses an important gap by examining whether the revised MCCG 2021 governance framework influences the relationship between political ties, firm size, leverage, liquidity, and Malaysian REIT performance. Existing research has generally examined corporate governance and financial determinants separately, thereby limiting the understanding of how these factors jointly affect REIT performance in a regulated, externally managed, and asset intensive sector. This study aligns with Sustainable Development Goal 16, which emphasises effective, accountable, and transparent institutions. By examining the influence of political connections and financial determinants on Malaysian REIT performance, the study provides evidence on how governance arrangements and financial policies affect managerial independence, investor confidence, and unitholder value. Accordingly, this study aims to analyze the concurrent impact of corporate governance and financial determinants, specifically political connection, firm size, leverage, and liquidity, on the performance of Malaysian REITs. This study contributes to the literature by developing a more integrated framework for assessing Malaysian REIT performance in the Malaysian market. It provides practical insights for Malaysian REIT managers in optimizing governance structures and financial strategies, offers evidence for policymakers and regulatory bodies seeking to strengthen REIT governance and market competitiveness, and extends academic understanding of REIT performance determinants within a developing Asian market context.

Literature Review

Firm performance is a central construct in corporate finance and strategic management because it reflects an organization's ability to generate value, sustain competitiveness, and achieve strategic objectives. Tang (2022) defined firm performance as a description of the company's condition and ability in the past and current period to be evaluated, showing that performance serves as both an assessment of past outcomes and an indicator of future organizational effectiveness (Tang, 2022). Prior studies commonly measure firm performance using accounting based and market-based indicators. Accounting measures such as ROA, EPS, ROE, and asset turnover capture profitability, managerial efficiency, and operational effectiveness (Abdullah, et al., 2021; Zheng, et al., 2021). In REITs, asset turnover is particularly relevant because it reflects how efficiently property assets are converted into income (Jain, et al., 2023; Ayaba, et al., 2023; Stotler, 2019). However, accounting based measures are often criticized for being backward looking and vulnerable to earnings management (Yusoff, & Alhaji, 2012). Therefore, market-based measures such as Tobin's Q are important because they capture investor expectations, market valuation, intangible assets, and growth prospects. David et al. (2021) used ROA, ROE, and Tobin's Q to evaluate M-REITs and H-REITs, showing that these indicators capture different dimensions of firm performance (David et al., 2021). Recent governance literature also suggests that financial reporting quality and disclosure practices strengthen the reliability of performance evaluation among listed firms (Izwan et al., 2024).

Political connection may influence firm performance through both strategic benefits and agency risks. Political ties can provide firms with access to regulatory support, financing opportunities, government linked projects, and valuable market information, but they may also create rent seeking behavior and weak monitoring (Pang & Wang, 2021). In Malaysia, Khan (2024) found that the benefits of political connection may be reduced when political influence increases agency costs, while Sinnadurai, et al., (2021) highlighted the possibility of a grabbing hand effect when political connections lead to corporate resource expropriation. However,

stronger corporate governance may reduce these risks. Tan and Wong (2024) argued that governance mechanisms improve investment efficiency among politically connected firms by reducing over investment and protecting shareholder value. This is consistent with recent evidence that board financial literacy, disclosure quality, and board diversity can strengthen governance quality and reduce earnings management practices (Izwan et al., 2023). Therefore, in the M-REIT context, political connection may enhance firm performance when governance mechanisms are effective enough to control agency costs.

Firm size is also an important determinant of M-REIT performance because it reflects asset scale, diversification, market presence, and access to financing. Larger REITs may benefit from economies of scale, lower borrowing costs, and stronger portfolio diversification, but excessive size may also create inefficiency and slower decision making. Malaysian evidence remains mixed. Yusof and Nawawi (2012) reported that risk adjusted return is negatively related to net asset value, while Chuweni et al. (2021) found that efficient REITs tend to be smaller in size (Yusof, et al., 2012; Chuweni, et al., 2021). Peck and Choong (2022) found no significant relationship between portfolio size and Jensen alpha, suggesting that the effect of size depends on market conditions and performance measures (Peck-Ling, et al., 2022). In contrast, Adnan et al. (2021) argued that strategic portfolio growth and economies of size remain important for improving M-REIT competitiveness (Adnan, et al., 2021). Thus, firm size remains a relevant but empirically ambiguous determinant of M-REIT performance (Sulaiman et al., 2023; Imran et al., 2024).

Leverage is a key financial determinant because REITs often rely on debt financing to support property acquisition, portfolio expansion, and asset enhancement. Although leverage can improve performance when borrowed funds generate returns above financing costs, excessive debt may increase interest burden, financial distress risk, and investor uncertainty. In Malaysia, Sulaiman et al. (2023) found no significant relationship between debt to assets and M-REIT annual returns, while Zainudin, et al. (2017), reported that both short term and long-term debt are negatively associated with financial performance. Zainoddin et al. (2025) also found that long term debt has a positive but insignificant relationship with ROA. These mixed findings differ from broader evidence showing that leverage can significantly affect REIT performance (Imran et al. 2024; Tekin 2021). Further noted that local institutional conditions, regulatory limits, and macroeconomic factors should be considered when evaluating leverage effects in Malaysian REITs (Cheong, et al., 2024). Hence, leverage may either support or reduce M-REIT performance depending on the financing environment and risk level.

Liquidity reflects a firm's ability to meet short term obligations and maintain financial flexibility. In REITs, liquidity is important because listed REIT units are tradable on the stock exchange, making them more liquid than direct real estate investments (Amin et al., 2023; Imran et al., 2024). At the firm level, liquidity is commonly measured using the current ratio and indicates the ability to manage short term commitments. Evidence from emerging Southeast Asian firms further suggests that optimised working-capital and liquidity management can reduce operating expenses and improve operating margins, thereby strengthening operational efficiency (Bashir et al., 2024). Kumar and Misra (2015) described liquidity as the lifeblood of stock markets, emphasizing its role in valuation, capital structure, and dividend decisions (Kumar et al., 2015). Governance also influences liquidity through transparency, disclosure quality, and risk monitoring, as effective corporate governance mechanisms can reduce information asymmetry, strengthen liquidity risk disclosure practices, and support financial decision making (Masawa, 2019; Sari & Sholikhah, 2019; Moridu et al.,

2023). Recent risk management literature also emphasizes that risk disclosure and internal control improve accountability and decision making (Setyawan et al., 2025). Although liquidity is relevant to M-REIT performance, evidence remains limited, and prior studies suggest that investors may focus more on long term asset income and dividend stability than short term solvency (Nor, & Syazlinda, 2017; Jalil & Ali, 2015).

Overall, the literature shows that M-REIT performance is influenced by both governance related and financial determinants. Political connection may enhance performance when supported by strong governance, firm size may create either scale advantages or inefficiency, leverage may support growth but increase financial risk, and liquidity may improve solvency but may not always drive market valuation. These mixed findings justify an integrated examination of political connection, firm size, leverage, and liquidity in explaining M-REIT performance within Malaysia's post MCG 2021 governance environment.

Methodology

Research Design

This research investigates the impact of corporate governance and financial determinants on the performance of M-REITs within a longitudinal panel research framework. The study consists of an empirical quantitative analysis in an explanatory framework to provide evidence for the established hypotheses. Utilizing a panel data structure allows for the observation of relationships between governance and financial variables across 18 firms over three years (2022–2024), totaling 54 observations. This multi-period observation enhances statistical robustness, controls for unobserved firm-specific heterogeneity, and provides a clear analysis of how internal determinants influence market valuation post-MCG 2021 implementation. The selected period of 2022–2024 is considered appropriate as it captures the immediate post dash implementation effects of MCG 2021, while the use of three years of balanced panel data is sufficient to identify short term variations and emerging trends in M-REIT performance. To examine the determinants of firm performance among M-REITs, this study utilizes a quantitative research design and panel regression analysis to investigate the internal determinants of M-REITs performance. The econometric model is presented below:

$$TOBINQ_{it} = \beta_0 + \beta_1 POLCON_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 LIQ_{it} + \epsilon_{it}$$

Where TOBINQ represents firm performance measured by the market value of equity plus total debt over total assets; POLCON denotes political connection measured as a dummy variable; SIZE represents firm size measured by the natural logarithm of total assets; LEV denotes leverage measured by the debt-to-asset ratio; LIQ represents liquidity measured by the current ratio; β_0 is the intercept; β_1 to β_4 are the coefficients of the independent variables; and ϵ_{it} is the error term.

Population and Sample

This study adopts a census-based sampling approach to ensure a comprehensive analysis of the M-REIT industry. The original population comprised all 20 M-REITs listed on Bursa Malaysia in 2024. Two REITs were excluded because they were listed after 2022 and did not have annual reports for the full 2022–2024 period. The final balanced panel, therefore, consists of 18 REITs with 54 firm-year observations. This three-year window is critical as it captures the corporate

performance and governance dynamics immediately following the implementation of the Malaysian Code on Corporate Governance (MCCG 2021). By utilizing a census of the total population, the study avoids sampling bias and provides a robust foundation for identifying the interaction between governance and financial determinants in the Malaysian context.

Discussion of Findings

Descriptive Analysis

The descriptive statistics were generated using STATA, and the results are presented Table 1. This analysis summarizes the central tendency, dispersion, and distribution of each variable used in the study.

Table 1 Descriptive Analysis

Variables	N	Mean	Minimum	Maximum	Skewness	Kurtosis
TOBINQ	54	0.9119	0.4401	2.4600	2.2639	9.4385
POLCON	54	0.2778	0	1	0.9923	1.9846
SIZE	54	21.7661	20.2831	23.6801	1.8683	6.1703
LEV	54	0.3770	0.1290	0.4860	-0.9659	3.2404
LIQ	54	0.8402	0.0235	3.1936	1.3497	4.1904

Notes: TOBINQ is measured by the market value of equity plus total debt over total assets; POLCON is measured using the dummy variable; SIZE is measured by the Natural Logarithm of Total Assets; LEV is measured using the Debt to Asset Ratio; LIQ is measured using the Current Ratio.

The descriptive statistics indicate variation in market valuation, liquidity management, and financial structure among the sampled M-REITs. The dependent variable, Tobin's Q (TOBINQ), records a mean value of 0.9119, with values ranging from 0.4401 to 2.4600. The mean value below 1.0 suggests that, on average, the sampled M-REITs are valued slightly below their asset replacement value, while the maximum value indicates that some firms receive stronger market valuation. The skewness value of 2.2639 and kurtosis value of 9.4385 suggest that TOBINQ is positively skewed and relatively peaked, although the values remain within acceptable limits for financial data.

For the explanatory variables, political connection (POLCON) has a mean value of 0.2778, indicating that 27.78% of the firm-year observations are politically connected. Firm size (SIZE) records a mean value of 21.7661, with values ranging from 20.2831 to 23.6801, suggesting moderate variation in firm scale among the sampled M-REITs. Leverage (LEV) reports a mean value of 0.3770, indicating that debt accounts for approximately 37.70% of total assets on average. Its minimum and maximum values of 0.1290 and 0.4860 show that the sampled firms maintain moderate debt levels. Liquidity (LIQ) records a mean value of 0.8402, with a wide range from 0.0235 to 3.1936, indicating differences in short-term financial flexibility across firms. Overall, the descriptive statistics provide an initial understanding of the data distribution and support further empirical analysis.

*Pearson Correlation***Table 2 Pearson Correlation Matrix**

Variables	TOBINQ	POLCON	SIZE	LEV	LIQ
TOBINQ	1.0000				
POLCON	0.3796**	1.0000			
SIZE	0.4995***	0.3404**	1.0000		
LEV	-0.4696***	-0.2343	-0.4430***	1.0000	
LIQ	-0.0164	0.1711	-0.1172	-0.2655	1.0000

Notes: *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

TOBINQ is measured by the market value of equity plus total debt over total assets; POLCON is measured using the dummy variable; SIZE is measured by the Natural Logarithm of Total Assets; LEV is measured using the Debt to Asset Ratio; LIQ is measured using the Current Ratio.

The Pearson correlation matrix presented in Table 2 provides preliminary insights into the relationships between the variables. Firm performance (TOBINQ) is positively correlated with both political connections (POLCON, $r = 0.3796$) and firm size (SIZE, $r = 0.4995$), while demonstrating a negative correlation with leverage (LEV, $r = -0.4696$) and liquidity (LIQ, $r = -0.0164$). These preliminary insights suggest that larger and politically connected REITs enjoy higher market valuations, whereas elevated debt levels negatively affect performance. In addition, the correlation matrix serves as an initial diagnostic for multicollinearity among independent variables. The highest correlations are observed between firm size and leverage ($r = -0.4430$), which remains well below the commonly accepted threshold of 0.80. This suggests the absence of severe multicollinearity, a conclusion further supported by the Variance Inflation Factor (VIF) results reported in the regression analysis.

Regression – Panel Corrected Standard Errors

Diagnostic assessments confirmed the presence of heteroskedasticity and first order autocorrelation in the panel data. The Breusch Pagan test indicated non constant error variance, while the Wooldridge test showed serial correlation across the panel observations. Since ignoring these issues may produce biased standard errors and unreliable statistical inference, Prais Winsten regression with Panel Corrected Standard Errors was employed. In addition, the Fixed Effects model was not selected because it would omit the time invariant political connection variable, which is central to this study. Therefore, the Prais Winsten PCSE estimator was considered appropriate because it corrects for heteroskedasticity and autocorrelation while retaining political connection in the model (Beck & Katz, 1995). The model exhibits moderate explanatory power, with an R squared value of 0.3753 and a statistically significant Wald chi square statistic, indicating that the independent variables jointly explain variations in M REIT performance.

Table 3 Panel Corrected Standard Errors

Variables	TOBINQ
POLCON	0.1981*** (0.0204)
SIZE	0.1084*** (0.0188)

LEV	-1.5244***
	(0.3589)
LIQ	-0.0523
	(0.0478)
Constant	-0.8849*
	(0.5345)

Note: ***, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

TOBINQ is measured by the market value of equity plus total debt over total assets; POLCON is measured using the dummy variable; SIZE is measured by the Natural Logarithm of Total Assets; LEV is measured using the Debt to Asset Ratio; LIQ is measured using the Current Ratio.

The regression results using PCSE are presented in Table 3. Prior to estimation, diagnostic tests confirmed the presence of heteroskedasticity and autocorrelation, justifying the use of the Prais Winsten PCSE approach, which produces consistent and efficient estimates under such conditions. The results indicate that that political connections and firm characteristics significantly influence M-REIT financial performance (Tobin's Q). Before estimation, diagnostic tests identified the presence of both heteroskedasticity via a significant Breusch-Pagan test ($\chi^2 = 34.86$, $p = 0.0000$) and first-order autocorrelation via the Wooldridge test ($F = 5.027$, $p = 0.038$); consequently, a Prais Winsten regression with Panel-Corrected Standard Errors (PCSE) was employed to rectify these issues while preserving the time-invariant political ties variable. Multicollinearity is absent, as the mean VIF of 1.33 is comfortably below the threshold of 10. The regression results demonstrate that Political Connection (POLCON) has a positive and highly significant impact at the 1% level ($\beta = 0.1981$, $p < 0.001$), suggesting that politically connected REITs tend to achieve higher market valuations. Similarly, Firm Size (SIZE) is positively and significantly associated with performance at the 1% level ($\beta = 0.1084$, $p < 0.001$). In contrast, leverage (LEV) shows a negative and statistically significant effect ($\beta = -1.5244$, $p < 0.01$), implying that higher debt levels are perceived unfavourably by the market and may increase financial risk. Liquidity (LIQ), however, is found to have a negative but statistically insignificant effect ($\beta = -0.0523$, $p = 0.274$), suggesting that short-term liquidity does not play a decisive role in determining M-REIT performance.

The findings are broadly consistent with prior literature while also revealing several notable that require further interpretation the positive and significant relationship between political connection and firm performance aligns with Tan and Wong (2024) who argue the governance mechanisms in Malaysia can mitigate agency problems and enhance value in politically connected firms. This interpretation is also consistent with recent governance literature, which suggests that board financial literacy, disclosure quality, and board diversity can strengthen financial reporting quality, reduce earnings management, and improve corporate monitoring (Izwan et al., 2024; Izwan et al., 2023). Similarly, the positive and significant effect of firm size contrasts with earlier Malaysian studies. Yusof and Nawawi (2012) reported a negative relationship between net asset value and risk-adjusted returns, while Chuweni et al. (2021) found that smaller M-REITs tended to demonstrate greater technical and scale efficiency. In contrast, the present findings indicate that larger M-REITs achieved higher market valuations during the 2022–2024 post-MCCG 2021 period. This difference may reflect structural changes in the Malaysian REIT sector following MCCG 2021, including stronger board independence, improved disclosure practices, enhanced risk-management oversight, and greater governance credibility. Larger M-REITs may also possess stronger portfolio diversification, greater access to financing, and more resources to comply with governance requirements. Nevertheless, as

MCCG 2021 was not directly tested as a moderating variable, these developments should be interpreted as plausible institutional explanations rather than conclusive causal effects.

Similarly, the positive effect of firm size contradicts earlier Malaysian studies such as Yusuf et al. (2012) and Chuweni et al. (2021), which documented negative or insignificant relationships suggesting that the post MCCG 2021 governance environment may have strengthened the credibility and efficiency of larger REITs. Conversely, the negative impact of leverage supports the findings of Imran et al. (2024) and Zainudin et al. (2017), indicating that excessive debt increases financial risk and reduces market valuation, particularly under rising interest rate conditions. This result may also be explained by Malaysia's tightening interest-rate environment during the study period. Bank Negara Malaysia increased the Overnight Policy Rate to 2.50% in September 2022 and subsequently to 3.00% in May 2023, where it remained during 2024 (Bank Negara Malaysia, 2022; 2023; 2024). The higher interest-rate environment may have increased financing and refinancing costs for highly leveraged M-REITs, reduced distributable income, and heightened investors' concerns regarding debt-servicing capacity. This finding is aligned with risk management literature, which emphasizes that risk monitoring, risk disclosure, and internal control practices are important for supporting accountability and improving financial decision making (Setyawan et al., 2025). The insignificant effect of liquidity is also consistent with Jalil and Ali (2015), implying that short-term liquidity measures are less relevant to REIT investors who prioritize long-term asset performance and dividend stability. From a theoretical perspective, these results support Agency Theory by demonstrating the importance of governance mechanisms, while Pecking Order Theory is partially supported as firms appear to be penalized over-reliance on external debt financing.

The deviations from earlier Malaysian findings may be attributed to structural changes following the implementation of MCCG 2021, each enhances both independence transparency and risk monitoring practices. These governance improvements may have reduced inefficiencies previously associated with larger firms and politically connected entities, thereby improving investor confidence and market valuation. This suggests that governance reforms play a moderating role in shaping how financial determinants influence and dash M-REIT performance.

The multiple regression analysis reveals that internal governance and financial determinants significantly shape M-REIT performance, as measured by Tobin's Q. Political connection (POLCON) exerts a positive and highly significant influence ($\beta = 0.1981$, $p < 0.01$), supporting Hypothesis 1 and demonstrating that the market views political ties as strategic assets that facilitate preferential access to property pipelines and regulatory easing. Similarly, firm size (SIZE) has a positive and significant effect ($\beta = 0.1084$, $p < 0.01$); although this direction contradicts the initial negative prediction, it underscores that larger REITs enjoy superior market valuations due to better portfolio diversification, lower borrowing costs, and heightened governance legitimacy. Conversely, leverage (LEV) exhibits a negative and highly significant relationship ($\beta = -1.5244$, $p < 0.01$), contradicting the expected positive trend but suggesting that the market penalizes heavily leveraged structures under high interest rates and mandatory 90% payout rules. Finally, liquidity (LIQ) shows a negative but statistically insignificant impact ($\beta = -0.0523$, $p = 0.274$), leading to the rejection of Hypothesis 4 and indicating that short-term current ratios are less relevant to REIT investors compared to long-term asset yields and dividend metrics.

Conclusion

This study provides a comprehensive empirical evaluation of how corporate governance and financial determinants shape the performance of Malaysian Real Estate Investment Trusts during the post MCCG 2021 period. By analyzing a census of 18 established REITs using Prais Winsten regression with Panel Corrected Standard Errors, the study explains how internal governance and financial mechanisms influence market valuation, as measured by Tobin's Q. The findings reveal that political connection and firm size have a positive influence on M REIT performance, while leverage has a negative effect and liquidity shows no statistically significant impact.

The study concludes that political connection serves as an important driver of market performance in the Malaysian context. From the perspective of Agency Theory, politically connected REITs appear to benefit from reduced information asymmetry, preferential access to government linked property opportunities, regulatory facilitation, and infrastructure related information. Rather than being viewed as a source of excessive agency costs, political ties are perceived by the market as value enhancing resources that support investor confidence and align with unitholder interests.

With respect to financial determinants, the findings show that larger REITs achieved higher market valuations during the 2022 to 2024 period, thereby challenging the hypothesis of diseconomies of scale. This positive size effect may reflect stronger portfolio diversification, better access to capital markets, lower borrowing costs, and greater governance credibility under the MCCG 2021 framework. In contrast, leverage has a negative and significant relationship with performance, suggesting that investors penalize higher debt levels. This adverse effect may be explained by rising interest rates during the study period, heightened financial distress risk, and the mandatory high payout requirement that limits retained earnings as a buffer against financing costs. Liquidity, measured by the current ratio, is statistically insignificant, indicating that short term solvency is not a primary value driver for M REITs, whose assets are largely long term and income producing.

Collectively, these findings indicate that investors place greater emphasis on governance related advantages, scale, and prudent capital structure than on excess liquidity. This study contributes to the M REIT literature by providing an integrated framework that examines corporate governance and financial determinants simultaneously. It also offers practical implications for M REIT managers in optimizing governance structures and financing decisions, for policymakers in strengthening governance and regulatory frameworks, and for future researchers to extend the analysis over longer time horizons using richer firm specific variables.

Although the census approach includes all eligible M-REITs, the final sample comprises only 54 firm-year observations from 18 firms over three years. This relatively small sample reflects the limited size of the Malaysian listed REIT market and may restrict the statistical power and generalisability of the findings. Future studies should extend the observation period or conduct cross-country comparisons to obtain a larger sample.

-
- Acknowledgements:** The authors would like to express their sincere gratitude to Management and Science University for providing the necessary resources and support throughout the course of this research. Special appreciation is extended to colleagues and peers who contributed valuable insights and constructive feedback, which greatly enhanced the quality of this paper.
- Funding Statement:** This research received financial support from Management and Science University. The funding body had no role in the design of the study, data collection, analysis, interpretation of results, or the decision to publish this manuscript.
- Conflict of Interest Statement:** The authors declare that there is no conflict of interest regarding the publication of this paper. All authors have contributed to this work and approved the final version of the manuscript for submission to the Advanced Journal of Business, Entrepreneurship and SME's (AIJBES).
- Ethics Statement:** This study did not involve any human participants, animals, or sensitive data requiring ethical approval. The authors confirm that the research was conducted in accordance with accepted academic integrity and ethical publishing standards.
- Author Contribution Statement:** All authors contributed significantly to the development of this manuscript. Nur Alliya Qistina Muhammad Fahmi was responsible for the conceptualization, methodology, and overall supervision of the study. Iylia Dayana Mohamed Izwan handled data collection, analysis, and interpretation of results. Ahmad Haruna Abu Bakar contributed to the literature review, drafting, and critical revision of the manuscript. All authors read and approved the final version of the manuscript prior to submission.
-

References

- Abdullah, N., Abdul Rani, N., Ramlie, C., Tie, F. C., Anak Tiken, S., & Palanisamy, S. (2021). Impact of corporate governance on the financial performance in Malaysia. *UNIMAS Review of Accounting and Finance*, 5(1), 34–51.
- Adnan, Y. M., Lamin, N., Razali, M. N., Jalil, R. A., & Esha, Z. (2021). Real Estate Investment Trusts' (REITs) Asset Management Strategies Within Global REIT Portfolios. *Real Estate Management and Valuation*, 29(1), 72–86. <https://doi.org/10.2478/remav-2021-0007>
- Al-Masawa, A. M. H. Board of Director Attributes, Audit Committee Characteristics And Institutional Ownership on Malaysian IPOS Liquidity.
- Amin, N. D., Aman, N. H. M., & Hassan, R. (2023). Analysing the Regulatory Framework of I-REITS in Malaysia, Singapore, And Indonesia. *International Journal of Islamic Economics and Finance Research*, (1), 116-131.
- Ayaba, M. M., Amo-Bediako, E., & Takawira, O. (2023). Evaluating the Financial Performance of Listed REIT Firms in South Africa: A 7-step DuPont Model Technique. *International Journal of Applied Economics Finance and Accounting*, 17(2), 267–278. <https://doi.org/10.33094/ijaefa.v17i2.1146>
- Aziz, N. I. M., & Noor, N. R. A. M. (2026). Performance and firm recovery post-COVID-19 outbreak of the construction sector: The impact of cash flow activities, leverage and liquidity. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 16(2), 56–66. doi:10.6007/IJARAFMS/v16-i2/27261
- Bank Negara Malaysia. (2022). Monetary policy statement, 8 September 2022.
- Bank Negara Malaysia. (2023). Monetary policy statement, 3 May 2023.
- Bank Negara Malaysia. (2024). Monetary policy statement, 5 September 2024.
- Bashir, R., Ahmad, M., & Sherif, S. R. (2024). Determining the nexus between Dynamic Working Capital Management and Operational Efficiency in Emerging Southeast Asia. *Journal of Finance & Banking Review (JFBR)*, 9(2).
- Beck, N., & Katz, J. N. (1995). What To Do (and Not To Do) With Time-Series Cross-Section Data. *American Political Science Review*, 89(3), 634-647.
- Cheong, C. W. H., & Chan, L. (2024). Market Context Matters: The Impact of Corporate Diversification on REIT Performance in Malaysia and Singapore. *Journal of Property Investment & Finance*, 42(3), 269–291. <https://doi.org/10.1108/jpif-03-2023-0028>
- Chuweni, N. N., Ali, S. N. M., Fauzi, N. S., & Shukor, N. B. M. (2021). Technical, Scale and Managerial Efficiencies in Malaysian REITS: A Non-Parametric Approach. *Planning Malaysia*, 19. <https://doi.org/10.21837/pm.v19i17.996>
- Corporate Department. (2018). Introduction to REITs in Malaysia. In *Legal Herald*. https://lh-ag.com/wp-content/uploads/2022/11/1_Introduction-to-REITs-in-Malaysia.pdf
- David, C. Y. N., Chang, Y. W., & Low, S. C. (2021). Corporate Governance Mechanisms with Firm Performance: A Study on Malaysia's and Hong Kong's Real Estate Investment Trust (REITs) Public Listed Companies. *Journal of Governance Risk Management Compliance and Sustainability*, 1(1), 62–75. <https://doi.org/10.31098/jgrcs.v1i1.511>
- E-Jurnal Akuntansi*, 32(9), 2239-2250
- Erol, I., Unal, U., & Coskun, Y. (2023). ESG Investing and The Financial Performance: A Panel Data Analysis of Developed REIT Markets. *Environmental Science and Pollution Research*, 30(36), 85154-85169.
- Imran, M. K., Saeed, A., Nosheen, S., & Rasheed, S. (2024). Determining Performance of REIT (REIT): The Case of G-7 Economies. *Bulletin of Business and Economics (BBE)*, 13(1). <https://doi.org/10.61506/01.00207>

- Izwan, I. D. M., Azman, N. B., Zakaria, N. B., & Ghapar, F. A. (2024). Confluence of Board Members' Financial Literacy, Corporate Environmental Disclosure, and Financial Reporting Quality. *Journal of Law and Sustainable Development*, 12(1), e2220-e2220. <https://doi.org/10.55908/sdgs.v12i1.2220>
- Izwan, I. D. M., Muhammad, M. A. D., Zakaria, N. B., Mohamad, M., & Ahmad, M. A. (2023). Board Gender Diversity Effect to Various Earnings Management Estimation Models. *Asia-Pacific Management Accounting Journal*, 18(3).
- Jain, M., Malik, T., & Malik, S. (2023). Deciphering Financial Health and Risk: Hierarchical Relationships and Interdependencies among Key Factors. *Acta Universitatis Sapientiae Economics and Business*, 11(1), 162–185. <https://doi.org/10.2478/auseb-2023-0008>
- Jalil, R. A., & Ali, H. M. (2015). Performance Determinants of Malaysian Real Estate Investment Trusts. *Jurnal Teknologi (Sciences & Engineering)*, 73(5).
- Khan, A. U. (2024). Political Connection and Firm's Financial Performance: The Role of Corporate Governance. *Corporate Governance: The International Journal of Business in Society*, 25(6), 1443–1460.
- Kumar, G., & Misra, A. K. (2015). Closer View at the Stock Market Liquidity: A Literature Review. *Asian Journal of Finance & Accounting*, 7(2), 35-57.
- Moridu, I. (2023). Financial Literacy in The MSME Sector. *Journal of Management*, 2(2), 258-266.
- Nguyen, Q. K., Nguyen, T. V. H., & Tran, D. L. (2025). The relationship between financial flexibility strategy and firm performance and the role of corporate governance: evidence from Southeast Asia. *Macroeconomics and Finance in Emerging Market Economies*, 1-21. <https://doi.org/10.1080/17520843.2025.2532935>
- Nor, M., & Syazlinda, N. (2017). *Firm Risk And Performance The Role Of Corporate Governance* (No.78409). University Library of Munich, Germany.
- Pang, C., & Wang, Y. (2020). Political connections, legal environments and firm performance around the world. *International Journal of Finance & Economics*, 1–17. <https://doi.org/10.1002/ijfe.2021>
- Peck-Ling, T., & Choong, S.-E. (2022). Determinants of Malaysian Real Estate Investment Trusts (M-REITs) Risk-Adjusted Performance during the Period of Property Oversupply. *Journal of Contemporary Issues and Thought*, 12(1), 10–23. <https://doi.org/10.37134/jcit.vol12.1.2.2022>
- Salleh, A. A. A. M., Kassim, A. A. M., & Abubakar, A. H. (2025). Financial Attributes, Corporate Governance and Tax Avoidance Among Malaysian Listed Companies: The Moderating Effect of Managerial Ownership. *Edelweiss Applied Science and Technology*, 9(7), 1797-1815.
- Sari, S. P., & Sholikhah, H. (2019). Liquidity Risk Disclosure: A Review Of Corporate Governance. *Riset Akuntansi dan Keuangan Indonesia*, 4(2), 147-155.
- Setyawan, H., Zakaria, N. B., Ason, Y. J., Musa, K., & Mohamed Izwan, I. D. (2025). Mapping the risk management landscape: a bibliometric and practitioner-validated thematic analysis. *Asia-Pacific Management Accounting Journal (APMAJ)*, 20(2), 373-401.
- Sinnadurai, P., Subramaniam, R. K., & Devi, S. (2021). The Influence of Government Shareholding on Dividend Policy in Malaysia. *International Journal of Financial Studies*, 9(3), 49. <https://doi.org/10.3390/ijfs9030049>
- Stotler, J. (2019). US REIT Firms and US C-Corporations in The Hospitality Industry: A Return Analysis. *Global Journal of Accounting & Finance (GJAF)*, 3(1). <https://doi.org/10.47177/gjaf.03.01.2019.098>

- Sulaiman, N. A., Hing, L. K., Shahimi, S., & Sulaiman, S. (2023). The Impact of Financial Determinants on Malaysian REITS' Performance. *Journal of Business Management and Accounting*, 13(1), 1–30. <https://doi.org/10.32890/jbma2023.13.1.1>
- Tan, K. W., & Wong, M. F. (2024). Political Connections, Corporate Governance And Investment Efficiency: Evidence from Malaysian Firms. *Malaysian Management Journal*, 28, 275–319. <https://doi.org/10.32890/mmj2024.28.10>
- Tang, S. (2022). Liquidity, Leverage dan Firm Performance dengan Firm Size Sebagai Variabel Moderasi.
- Tekin, B. (2021). The Factors Affecting the Market Value/Book Value and Profitability of REITs in Turkey. *International Real Estate Review*, 24(3), 469–499. <https://doi.org/10.53383/100328>
- Yusof, A. Y., & bin Mohd Nawawi, A. H. (2012, September). Does Malaysian REITs Outperform the Equity Market?. In *2012 International Conference on Statistics in Science, Business and Engineering (ICSSBE)* (pp. 1-5). IEEE.
- Yusoff, W. F. W., & Alhaji, I. A. (2012). Corporate Governance and Firm Performance of Listed Companies in Malaysia. *Trends and Development in management studies*, 1(1), 43-65
- Zainudin, Z., Ibrahim, I., Said, R.M. and Hussain, H.I. 2017a. Debt and Financial Performance of REITS in Malaysia: A Moderating Effect of Financial Flexibility. *Jurnal Pengurusan (UKM Journal of Management)*, 50, 3-12.
- Zheng, F., Zhao, Z., Sun, Y., & Khan, Y. A. (2021). Financial Performance of China's Listed Firms in Presence of Coronavirus: Evidence From *Corporate Culture and Corporate Social Responsibility*. *Current Psychology*, 42(11), 8897–8918. <https://doi.org/10.1007/s12144-021-02200-w>