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FAMILY FIRMS, POLITICAL CONNECTIONS, AND MANAGERIAL SHORT-TERMISM

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Abstract. This study investigates the relationship between firms with family ownership and managerial short-termism and how political connections affect this relationship. The final sample of this study is 959 firms year observations of non-financial firms listed on Indonesia Stock Exchange (IDX) between year 2014 to 2016. We find that firms with lower family ownership are more likely to be engaged in short-termism. With the increase of family ownership, family firms better preserve its future well-being and, therefore, are freed from managerial short-termism. Interestingly, we find that political connections moderating the family firms to become short-termism regardless the level of family ownership. These findings imply that the level of family ownership affect the firms's decision on research and development and political connections are able to make family firms to be more short-termism.

Keywords: family firms; managerial short-termism; political connection

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JEL Classifications: M41, P48

1. Introduction

Since the past decades, researchers and practitioners have given more attention in studying managerial short-termism or managerial myopia. Prior research defined managerial short-termism as minimizing long-term investments, for example Research & Development, to reach or pass the short-term performance targets (Porter 1992). People believe that R&D investment is a key to firm's competitive advantage (Ettlie, 1998). However, it has considerably high risk, complexity, and probability to fail (Baysinger et al., 1991). The outcomes are uncertain and can only be felt in long term period (Lee & O'Neill, 2003). Therefore, firms which invest less in R&D and neglect its importance for company's future well-being, but instead prefer current higher profit are called to be engaged in managerial short-termism. This study fills a gap by investigating the various relations of family firms and R&D based on types of family firms. Moreover, this study includes the role of political connection in alleviating this relationship.

Family firms promote innovation in technology as well as economic growth (Zahra, 2005). Agency theorists predict that family firms with family members as shareholders or management can alleviate agency problems (Berrone et al., 2007). Family ownership creates family ties, loyalty, commitment, trust, and stability (Miller & Le Breton-Miller, 2005) which reduce the intention of individual to be opportunistic (Tsai et al., 2006; Fama & Jensen, 1985). Family firms involve confidence that generate willingness in taking risks such as R&D investment (Zahra, 2003). There is much less turnover of managers in family firms (Miller & Le Breton-Miller, 2006), which make the managers use resources efficiently and for the interest of the firm (Miller & Le Breton-Miller, 2005).

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Furthermore, desire for perpetuating business for future generations can encourage family firms' top management to prepare company's future well-being (Lim et al., 2010). Thus, in our prediction, family firms are less likely engaged in managerial short-termism because they are basically long-term oriented.

Political connection may bring some benefits to companies (resources, property rights protection, information, and product legitimacy), but it all has cost. The overall result can be loss instead of benefit. Particularly, firm's intention to innovate is reduced since managers prefer political connection to improve firm performance, decide based on more personal interest, and are burdened by political targets instead of market. Since loss-averse government emphasizes in short term performance because of limited period of ruling, firms having political connection tend to invest their resources in short-term and less risky projects. Thus, we predict that political connection negatively affects the relation of family firms and managerial short-termism.

We test our prediction using non-financial firms listed on Indonesia Stock Exchange (IDX) year 2014–2016. We hand-collected information on family firms and political connection from ICMD (Indonesia Capital Market Directory). We follow prior studies that considered R&D expense as proxy for managerial short-termism (Cheng, 2004; Dechow and Sloan, 1991). We divide family firms into several types as follows: (1) firms with 5% - 9% family ownership, (2) firms with 10% - 19% family ownership, and (3) firms with ≥20% family ownership. Interestingl, our result shows that family firms are less likely to be engaged in managerial short-termism than non-family firms. However, this results only for firms with lower family owwnership. Consistent with our prediction, we find that family firms have more long-term orientation as the family ownership increases. Furthermore, we find that although individually political connection can support R&D expense, but it can bend the relation of family firms from formerly long-term oriented into engaged in managerial short-termism.

Family firms and political connections are greatly found in developing countries characterized by high corruption level (Faccio, 2006; Muttakin et al., 2015; Wati et al., 2019). Indonesia is one of top 100 most corruptive countries in the world (Transparency International, 2017). Currently in Indonesia, close relation between the state and businesses can help in obtaining debt financing to support company's technological advancement. Moreover, government of Indonesia through ministry of research, technology, and higher education actively supports research and development by allocating research fund. 27 out of 116 firms in Indonesia have political connections (Faccio, 2010). 68% of all firms in Indonesia are family firms (Claessens et al., 2000). In summary, Indonesian companies are suitable object of research on family firms, political connection, and R&D investment.

Our study gives several contributions. First, this study contributes to the literature on family firms. Our evidence suggests that differences in types of family firms generate different directions of relations with managerial short-termism. Thus, this study expands prior researches on managerial short-termism, for example Le Breton-Miller et al. (2011), who found the relation of certain amount of family ownership on R&D. Second, this study contributes to the emerging literature on political connection by giving another perspective of relation between political connection and R&D not from point of view of innovation, but on managerial short-termism. Third, we contribute to literature of managerial short-termism by adding the element of family firms and political connection. Prior research observed the relation of managerial contractual protection, incentive horizon on managerial short-termism (Chen et al., 2015; Jouber, 2013). Further parts of this study are structured as follows: Part 2 presents the relevant literature and the research hypotheses; Part 3 describes the sample, data, and research design; Part 4 discusses the empirical results and findings; Part 5 concludes and provides direction for further research.

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2. Literature Review and Hypotheses Development

Investment in R&D can facilitate firms to improve market and technological capabilities (Grant, 2002), that eventually increase profit, market share, and sales (Ettlie, 1998). R&D investment is a key to firm's competitive advantage (Ettlie, 1998). However, it has considerably very high risk, complexity, and probability to fail (Baysinger et al., 1991). The outcomes are uncertain and can only be felt in long term period (Lee & O'Neill, 2003). Therefore, firms which invest more in R&D and willing to allocate current resource for uncertain future benefits are having long orientation for the company. While firms which invest less in R&D and prefer current higher profit or benefit are called to be engaged in managerial short-termism.

2.1 Family Firms and Managerial Short-Termism

Research demonstrates that involving family in the business is popular both in developing and developed countries (La Porta et al., 1999). Family members are usually assigned a high position such as senior managers, CEO, or shareholder (Villalonga & Amit, 2006). Sometimes family firms have motives other than profit such as preserving family wealth, continuing the family dynasty in the firm, maintaining social status, or just fulfilling needs of belonging (Astrachan et al., 2003). There are various relations between family firms and R&D, for example Chrisman and Patel (2012) investigate family firms and R&D relations based on the gap between targets and actual performance. This study investigates the relation of family firms and R&D varies depending on types of family firms and ownership percentage. Ownership amount can direct how the firms behave whether risk averse or less risk averse that eventually influence firm's decision on resource allocation including investment in R&D (Fernandez & Nieto, 2006).

Some researches show that family firms and R&D are negatively related. Family firms are more risk averse, tend to avoid changes and maintain current condition as it is therefore their decisions are more conservative (Naldi et al., 2007). Particularly, family firms will minimize sunk costs including R&D investments that contain risk and return only in long term period (Lee & O'Neill, 2003; Kor, 2006). If R&D result is failing, it can damage reputation of the firm as well as family involved in it (Dyer & Whetten, 2006). R&D will cause less cash flow in the beginning, and the result will be felt in long term period whether benefits or loss. Hence, family management can also be skeptic and risk averse in deciding R&D investment.

In contrast, according to agency theory if family firms management include family member, it causes owners' interests to be synchronized with firm value. Agency cost form hiring outside directors can be alleviated (Berrone et al., 2007). Family ownership creates family ties, loyalty, commitment, trust, and stability (Miller & Le Breton-Miller, 2005) which reduce opportunistic behaviors (Tsai et al., 2006; Fama & Jensen, 1985). Thus, management of family firms gives attention to company's future well-being (Miller & Le Breton-Miller, 2005; Braun & Sharma, 2007). R&D activities contain risk that requires understanding, support, and trust among elements of firm's internal stakeholder (Kor, 2006). Intensive mutual sharing and interaction among family members can help gaining a clear understanding of the firm's mission and vision (Zahra, 2003) as well as confidence in handling problems (Kor, 2006) that eventually leads to willingness to take risks (Zahra, 2003) particularly in R&D investments. There is much less turnover of managers in family firms (Miller & Le Breton-Miller, 2006), which make the managers use resources efficiently (Miller & Le Breton-Miller, 2005). With this committed in reaching firm's and family's goal, risk in R&D can be reduced.

Furthermore, desire for perpetuating business for future generations can encourage family firms to prepare its future well-being by allocating resources for R&D activities and use it efficiently (Lim et al., 2010). Managers in nonfamily firms are feared of cost generated from risky R&D investment such as safety of their position then in turn prefer to invest in short-term and less risky projects (Craig & Dibrell, 2006). Despites variation of relations

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between family firms and R&D, we believe that family firms are basically long-term oriented. Based on discussion above, we propose following hypothesis:

H1: *Family firms are less likely engaged in managerial short-termism compared to non-family firms.*

2.2 Political Connection and Managerial Short-Termism

Only few researches focus on the influence of political connection on inputs of innovation (such as R&D investment) (Song et al., 2015). According to Bank Indonesia Regulation Number 12/3/PBI/2010, Politically Exposed Persons (PEP) are people who are granted public authority such as the State Administrator as defined in the laws and regulations governing the administration of the state, and/or person who is registered as a member of a political party that has influence on the policy and operation of the political party, either who are Indonesian nationals or foreign nationals. Included in above categories are: (1) head of state or head of government, (2) deputy head of state or head of government, (3) officials of the ministerial level, (4) senior executives of state enterprises, (5) director of State Owned Enterprises (SOEs), (6) executive and chair of political parties, (7) senior military and/or police officers, (8) senior officials within the supreme court and attorney general's office, (9) officials appointed by presidential decree, (10) family members (spouse, parent, sibling, child, son-in-law, grandchild) of the above categories, and (11) anyone who does not belong to the above but due to his high position in the community, his significant influence, the celebrity status and/or the combination of his position may put the financial services provider in a highly risky position.

Since Indonesian market is not perfectly run at the moment, government is involved and have power over essential resources needed for R&D, and investors are not completely protected in a more uncertain and fluctuating market. Through political connection, firms can get more up to date and reliable information regarding government policies and the direction of the economy. Furthermore, political connection can give easier access to government resources or privileges such as policy-related loans, government subsidies, and tax cuts. Thus, political connection is essential for business development (Boubakri et al., 2008).

Moreover, political connections help firms to get more financing and prevent them from having financial distress with the help of external parties (Faccio et al., 2006). So, when firm is in need of resources to maintain their development activities, firm having political connection can get financial support from the government. When law is not strictly imposed, political connection facilitate firms with more valid information to attract attention from investors. Development of financial institution has a role in technological innovation (Hsu et al., 2014). Since capital market in Indonesia is still ineffective in giving resources to firms compared to those in developed countries, close relation between the state and businesses can help in obtaining debt financing to support company's technological advancement.

Moreover, political connection can give formal property rights protection for R&D outputs, so firma re prevented from infringement (Yawen et al., 2012). Compared to operating activities, R&D contains high uncertainty and probability of failures (Holmstrom, 1989). Politically connected executives can obtain more job position protection, that although their performance may seem poor because resources are allocated to R&D, executives are less worried compared to those having no political connection and that they can put more focus on long-term condition instead of just short-term. Summing up the arguments, politically connected firms have more superiorities and privileges compared to non-politically connected ones in the form of more attraction to financing, job position and property rights, and support from the government such as tax cuts, subsidies, and many others. This eventually can encourage R&D investment. Based on discussion above, we propose following hypothesis:

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***H2**: Politically connected firms are less likely engaged in managerial short-termism compared to non-politically connected firms.*

2.3 Family Firms' Degree of Managerial Short-Termism Post-Exposure to Political Connection

Family managers can sometimes be tempted to minimize R&D investment in order to emphasize family control because innovation can create power to those mastering the innovation. Successful R&D is sometimes related with something new such as new routines and arrangements. It can threaten family managers or shareholders who are not familiar with such complex technology, so they tend to limit the development of firm's R&D only to those they can understand (Morck & Yeung, 2004) or even find an alternative way in expanding the business such as through political connection and lobbying (Morck & Yeung, 2003). According to Miller & Le Breton-Miller (2005), family firms tend to invest their time and money in sustaining relations to parties that can provide resources or benefits such as suppliers, customers, loan/capital providers, or politicians.

Political connections can reduce pressure and motivation of firms to innovate (Lin et al., 2014). There is a belief that government, especially in developing countries, is not good and interested in R&D (Lin et al., 2011). For example, in very competitive market, firms must maintain their quality and position in the market and have to conduct R&D to survive. Political connections help firms even when they have low level of R&D by facilitating government support such as funding, grants, or beneficial regulation. In monopolized industries or industries dominated by small numbers of players (for example in Indonesia context includes electricity, water, mining, petroleum industry), political connection can give access to massive purchase orders from the government. Furthermore, this can increase market shares of the firm, even when the product is not the best in quality. Moreover, the government can relax market competition by imposing restriction for new players and protect local existing players. In the other hand, political connection may require rent-seeking cost to obtain or maintain. This cost can reduce allocation for R&D investment (Chen et al., 2015). This suggests that politically connected firms tend to have lower R&D investment. According to Ayyagari et al. (2010), politically connected firms spend much money as bribes, especially for SMEs in developing countries.

Wu (2011) and Song et al. (2015) also believe that political connection is negatively related with R&D. Political connection may bring some benefits to companies (resources, property rights protection, information, and product legitimacy), but it all has cost. The costs can give more loss instead of benefit. Particularly, this can reduce firm's intention to innovate because managers prefer political connection to improve firm performance, decide based on personal interest, and are burdened by political targets instead of market.

Since loss-averse government emphasizes in short term performance because of limited period of ruling, firms having political connection tend to invest their resources in short-term and less risky projects. Thus, we predict that political connection negatively affect the relation of family firms and managerial short-termism. Based on discussion above, we propose *following hypothesis:*

***H3**: Political connection influences the relation of family firms and managerial short-termism.*

3. Research Design

3.1 Samples and Data Source

Population of this study is all companies listed on Indonesia Stock Exchange (IDX) year 2014-2016. This study relies on secondary data obtained from ORBIS, ICMD (Indonesia Capital Market Directory), and Annual Reports on IDX. Data obtained from ORBIS include dependent variable which is R&D expense and several control

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variables. Data obtained from ICMD include family firms, and control variables unavailable on ORBIS. Data obtained from Annual Reports in IDX includes political connection.

Table 1. Sample selection process

Description		Observations
Indonesian listed firms 2014-2016		1,674
Deducted:	Firms from financial industry (SIC6)	(417)
	Missing data	(298)
Final observations (firms years)		959

Initial samples consist of 1,674 observations listed on IDX year 2014-2016. Then, we drop all 417 observations that belongs to financial industry. Next, we drop all firms with missiong data. Our final samples consist of 959 firms-years observations of 375 companies listed on Indonesia Stock Exchange (IDX) year 2014-2016. Table 1 presents the process of sample selection.

3.2 Variable Measurement

3.2.1 Political Connections

Political connections in this study is an independent variable measured by the likelihood of commissioners and directors of companies who are currently or formerly members of parliament (DPR), ministers, heads of state or having close ties with top politicians or political parties (Faccio et al., 2006) or fulfill one of the criteria of PEP (Politically Exposed Person) in explanation of article 11 Bank Indonesia Regulation Number 12/3/PBI/2010 (Bank Indonesia, 2010). Data on the political connection is obtained from the section of directors' and commissioners' profile disclosed in the annual report. This binary variable is rated 1 for the politically connected firms and 0 for the non-politically connected firms.

3.2.2 Family Firms

Family firm in this study is an independent variable in the form of binary. A company is called a family firm when family members own a share in the company or more than one members of the same family (marked by the same surname) are assigned for the position of commissioner or director (Zhou et al., 2017). Thus, we apply several types of family firms as follows: (1) family ownership 5% - 9% (FF5), (2) family ownership 10% - 19% (FF10), and (3) family ownership ≥ 20% (FF20) (Le Breton-Miller et al., 2011; Miller et al., 2011; Zhou et al., 2017). According to Lee and O'Neill (2003), there are different relationships between various ownership structures and R&D investment.

3.2.3 Managerial Short-termism

To prove our prediction about relation of political connection, family firms, and managerial short-termism, we follow previous studies that use R&D expense as the proxy for managerial short-termism (Cheng, 2004; Dechow and Sloan, 1991). We use two proxies for managerial short-termism. First is R&D expense per total assets multiplied by -1 (SHORT1) and second is R&D expense per total sales multiplied by -1 (SHORT2). R&D intensity is usually proxied by the ratio of R&D expense to sales in the several literatures such as, Hitt et al. (1991) and Lee & O'Neill (2003), other streams of literature on finance and accounting, also measure R&D intensity based on per total assets such as Franzen et al. (2007). Investment in R&D is highly related to sales (Schumpeter, 1964), using R&D expense per total sales can facilitate easier comparison among firms (Grabowski, 1968). Meanwhile, since sales fluctuate often, proxy of R&D expense per total assets reflects more steady

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measurement than R&D expense per sales. Based on those advantages and disadvantages, we include both as our proxy.

3.2.4 Control Variables

Control variables used in this study are number of directors and commissioners (LNBSIZE), ratio of number of independent directors to total number of directors and commissioners (PIBOARD), logarithm of total assets (FSIZE), fixed assets per total assets (CAPINT), prior year of liabilities per prior year of total assets (lag_LEV), Earnings Before Interest and Taxes or EBIT per total assets (ROA), prior of Earnings Before Interest and Taxes or EBIT per prior of total assets (lag_ROA) number of years since company establishment (FAGE), prior year market capitalization per book value of equity (MTB), and one-digit SIC code obtained from ORBIS (SIC).

We expect that board size (LNBSIZE) is negatively correlated with managerial short-termism. This is consistent with the argument from agency theorists that smaller boards can give better monitoring that can hinder opportunistic behavior of managerial short-termism (Ojok & Okema, 2016). We also expect that board independence (PIBOARD) is positively correlated with managerial short-termism because of agency problem that occurs because external board does not have personal belonging to the firm. Firm size, cash flow, return on assets, prior year return on assets, and prior year market to book ratio are negatively correlated with managerial short-termism, because the bigger the firm or its profitability, the more resources to support R&D (Barker & Mueller, 2002). Then, firm age (FAGE) is expected to be negatively correlated with managerial short-termism because the older the company, the more it wants to maintain its sustainability (Ortega-Argilés et al., 2005).

3.3 Empirical Model

This study uses unbalanced panel data and examine the hypotheses using Ordinary Least Square (OLS) with cluster approach (Petersen, 2009). According to Petersen (2009), since number of firms is much more compared to number of years, it is better to cluster based on year first to consider the time effect, then by firms. Authors also impose year and industry fixed effect to control the differences in economic condition and industry characteristic. The regression analysis is used to test relation of family firms and political connection to managerial short-termism including its significance. Regression models developed in this study are as follows:

Model 1

$$SHORT = \beta_0 + \beta_1 FF_{i,t} + \beta_2 PCON_{i,t} + \beta_3 LNBSIZE_{i,t} + \beta_4 PIBOARD_{i,t} + \beta_5 FSIZE_{i,t} + \beta_6 CAPINT_{i,t} + \beta_7 LEV_{i,t-1} + \beta_8 ROA_{i,t} + \beta_9 ROA_{i,t-1} + \beta_{10} FAGE_{i,t} + \beta_{11} MTB_{i,t} + \beta_{12} INDUSTRY\ FIXED\ EFFECT_{i,t} + \beta_{13} YEAR\ FIXED\ EFFECT_{i,t} + \varepsilon$$

All variables are winsorized at 1% and 99% level to limit the influence of outliers and mitigate abnormal data distribution to acceptable level. To investigate whether political connection weaken or strengthen the effect of family firms on managerial short-termism, the following moderated regression equation is utilized.

Model 2

$$SHORT = \beta_0 + \beta_1 FF{*}PCON_{i,t} + \beta_2 FF_{i,t} + \beta_3 PCON_{i,t} + \beta_4 LNBSIZE_{i,t} + \beta_5 PIBOARD_{i,t} + \beta_6 FSIZE_{i,t} + \beta_7 CAPINT_{i,t} + \beta_8 LEV_{i,t-1} + \beta_9 ROA_{i,t} + \beta_{10} ROA_{i,t-1} + \beta_{11} FAGE_{i,t} + \beta_{12} MTB_{i,t} + \beta_{13} INDUSTRY\ FIXED\ EFFECT_{i,t} + \beta_{14} YEAR\ FIXED\ EFFECT_{i,t} + \varepsilon$$

In these regression equation, we use two proxy of short-termism, SHORT1 and SHORT2. We also use three proxies to capture family firms: FF5, FF10, and FF20.

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4. Results and Discussion

4.1 Descriptive Statistics and Univariate Analysis

Table 2 presents the distribution of the sample. Panel A display the sample distribution by industry. From this table, we can see that Manufacturing and Services is the major and minor industry, respectively, in our sample. Panel B present the distribution by year. Panel C present the sample distribution based on family ownership. As we can see, firms with the family ownership between 5 to 9% are 75 firms; 10 to 19% are 52 firms; and more than and equal to 20% are 51 firms. Lastly, Panel D present the sample distribution by political connections. Similar to prior political connections research in Indonesia (Harymawan & Nowland (2016); Harymawan et al., (2017); Harymawan et al, (2019)), number of politically connected firms show a significant portion of the total firms.

Table 2. Sample distribution

Panel A: Sample distribution by industry			
Industry			Observations
Agriculture, forestry, and fisheries (SIC 0)			39
Mining and construction (SIC 1)			146
Manufacturing (1) (SIC 2)			254
Manufacturing (2) (SIC 3)			179
Transportation, communications, electric, gas and sanitary services (SIC 4)			153
Wholesale and Retail Trade (SIC 5)			94
Services (1) (SIC 7)			76
Services (2) (SIC 8)			18
Total			959
Panel B: Sample Distribution by Year			
Year			Observation
2014			298
2015			310
2016			351
Total			959
Panel C: Sample Distribution by family firms			
Level of ownership	Family firms	Non-family firms	Total
FF5 (5-9%)	75	884	959
FF10 (10-19%)	52	907	959
FF20 (>=20%)	51	908	959
Panel D: Sample Distribution by political connections			
	PCON	Non-PCON	Total
Observations	329	630	959

Table 3 shows the descriptive statistics of all variables used in the regression. The minimum value of the first proxy of short-termisim (SHORT1) is -0.009. It is indicate that the maximum R&D expense of the firm in our sample is 0.9% from their total assets.With regards to the second proxy of short-termism (SHORT2), the maximum R&D expense is 1.4% from the total sales of the firm.

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Table 3. Descriptive Statistics

Variable	Mean	Median	Minimum	Maximum
SHORT1	-0.000	0.000	-0.009	0.000
SHORT2	-0.000	0.000	-0.014	0.000
FF5	0.078	0.000	0.000	1.000
FF10	0.054	0.000	0.000	1.000
FF20	0.053	0.000	0.000	1.000
PCON	0.343	0.000	0.000	1.000
BOARDSIZE	11.268	11.000	4.000	36.000
PIBOARD	0.200	0.200	0.000	0.364
TASSET	7,986,000,000	2,336,000,000	17,009,196	87,630,000,000
CAPINT	0.382	0.346	0.001	0.910
lag_LEV	0.538	0.498	0.037	3.413
ROA	0.036	0.031	-0.441	0.479
lag_ROA	0.047	0.038	-0.368	0.483
FAGE	31.560	30.000	4.000	115.000
MTB	0.002	0.001	-0.003	0.030

4.2 Main Analysis

4.2.1 Family Firms, Political Connections, and Managerial Short-termism

Family firms have an important role in encouraging technological innovation, so as economic growth (Zahra, 2005; Astrachan et al., 2003). However, what type of family firms and its influence on R&D investment was not well examined. There are wider variations regarding the behaviors of family firms. Managers of non-family firms do not have obligation to synchronize firm's goal and family's goal (Devers et al., 2008). Therefore there are more varieties of family firms' behaviors regarding their investment in R&D and their degree of managerial short-termism.

We divide family firms into three proxy classifications as follows: (1) family ownership 5% - 9% (FF5), (2) family ownership 10% - 19% (FF10), and (3) family ownership $\geq$ 20% (FF20) (Zhou et al., 2017; Le Breton-Miller et al., 2011). Table 5 shows that FF5 is positive and significantly related with managerial short-termism and significant at 5% (t-statistic = 2.17). FF10 is also positively related with managerial short-termism but insignificant. FF20 starts to show different direction of relation that is negatively related with managerial short-termism and slightly significant at 10% (t-statistic = -1.66).

It turns out that different family firm classifications generate different level of relations with managerial short-termism. The higher the family ownership, the less likely family firms are engaged in managerial short-termism. Logically, this happens because the more effort and risk the family put into the family firms in the form of more shares, the more the family want the company to sustain in the future. This result agrees with prior result stating that family firms have long term orientation regarding all investments of firm (Le Breton Miller & Miller, 2006; Munari et al., 2010). Loyalty, altruism, family ties, commitment, and stability that are more appealing in family firms can prevent managers in doing opportunistic behavior (Tsai et al., 2006; Fama & Jensen, 1985) and support long-term well-being of both the business and the shareholders (Zahra, 2003). Thus, managers of family firms prefer long-term than short-term investment decisions (Miller & Le Breton-Miller, 2005; Braun & Sharma, 2007). Research and development contains risk that requires understanding, support, and trust among elements of firm's internal stakeholder (Kor, 2006). Intensive mutual sharing and interaction among family members can help

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gaining a clear understanding of the firm's mission and vision (Zahra, 2003) as well as confidence in handling problems (Kor, 2006) that eventually leads to confidence, trust, and willingness to take risks (Zahra, 2003) particularly in R&D investments.

Table 5. OLS Regression Result Model 1 Family Firms, Political Connection, and Managerial Short-termism

Variable	SHORT1			SHORT2		
	FF5	FF10	FF20	FF5	FF10	FF20
FF	0.000**	-0.000	-0.000*	0.000**	0.000	-0.000
	(2.17)	(-0.04)	(-1.66)	(2.29)	(0.04)	(-1.39)
PCON	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***
	(-3.20)	(-3.15)	(-3.11)	(-3.11)	(-3.07)	(-3.04)
LNBSIZE	0.000	-0.000	0.000	0.000	0.000	0.000
	(0.00)	(-0.09)	(0.08)	(0.45)	(0.35)	(0.50)
PIBOARD	0.002***	0.002***	0.002***	0.001	0.001	0.001
	(2.64)	(2.67)	(2.68)	(1.54)	(1.57)	(1.57)
FSIZE	0.000	0.000	0.000	-0.000	-0.000	-0.000
	(0.64)	(0.49)	(0.15)	(-0.02)	(-0.16)	(-0.47)
CAPINT	0.000**	0.000**	0.000***	0.000**	0.000**	0.000**
	(2.51)	(2.53)	(2.81)	(1.96)	(1.98)	(2.20)
lag_LEV	0.000	0.000	0.000	0.000	0.000	0.000
	(1.00)	(0.92)	(0.75)	(0.69)	(0.61)	(0.49)
ROA	-0.001**	-0.001**	-0.001**	-0.001	-0.001	-0.001
	(-2.23)	(-2.23)	(-2.15)	(-1.61)	(-1.61)	(-1.56)
lag_ROA	-0.001**	-0.001**	-0.001**	-0.001**	-0.001**	-0.001**
	(-2.21)	(-2.19)	(-2.31)	(-1.99)	(-1.97)	(-2.06)
FAGE	-0.000**	-0.000**	-0.000**	-0.000**	-0.000**	-0.000**
	(-2.15)	(-2.16)	(-2.30)	(-1.96)	(-1.99)	(-2.07)
MTB	-0.039**	-0.039**	-0.040**	-0.058**	-0.059**	-0.059**
	(-2.09)	(-2.14)	(-2.17)	(-1.99)	(-2.03)	(-2.05)
CONSTANT	-0.001	-0.001	-0.001	-0.000	-0.000	-0.000
	(-1.32)	(-1.18)	(-0.91)	(-0.45)	(-0.28)	(-0.05)
Industry FE	Included	Included	Included	Included	Included	Included
Year FE	Included	Included	Included	Included	Included	Included
r2	0.148	0.147	0.152	0.121	0.119	0.122
N	959	959	959	959	959	959

Note: This table shows the results of OLS regression of family firms, politically connected firms, and managerial short-termism of 959 observations on 375 companies listed on IDX year 2014-2016 with * t < 1.65, ** t < 1.96, *** t < 2.58, significant at 10%, 5%, and 1% respectively.

But sometimes family member cannot fully control the decision making particularly in R&D investment. Share ownership can be a tool in controlling decisions of firms (Carney, 2005). How ownership is concentrated and used can be driver to either oppose or support management's decision (Salancik and Pfeffer, 1980). Lower ownership means lower control that is why family member cannot hinder management opportunistic behavior of short-termism. Therefore, FF5 and FF10 are still short-term oriented because managerial opportunistic behavior cannot be hinder with only small family control or small family ownership 5% - 19%. Hence, **Hypothesis 1** stating that family firms are less likely engaged in managerial short-termism compared to non-family firms is partially accepted.

Table 5 also shows the regression result of political connection and managerial short-termism. Political connection is negatively related to managerial short-termism (t-statistic = 3.20) and is significant at 1%. This means that politically connected firms tend to have more R&D investment and therefore less likely engaged in managerial short-termism compared to non-politically connected firms. This result agrees with earlier studies conducted by Cumming et al. (2016) and Lin et al. (2011). Having political connection can give certain privileges

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for companies such as easier access to financing both from private parties or government. Government of Indonesia through ministry of research, technology, and higher education actively supports research and development by allocating research fund as much as 0,09% of GDP in 2014, increased to 0,2% of GDP in 2016, and the latest is 0,25% in 2017.

In developing countries, political connection can give cushion if the firms make risky, large-scale projects on innovation (Kim, 2017). This kind of relationship can affect firms' essential decisions specifically R&D investments. Political affect and corruption have substantial existence in Asian countries (Pagano and Volpin, 2005). Corruption and political uncertainty can affect corporate innovation (Ayyagari et al., 2010; Bhattacharya et al., 2016). Having political connection can help companies in getting loan from the government since political connection and lobbying is profound in countries highly exposed to corruptive activities and Indonesia is one of top 100 most corruptive countries in the world (Transparency International, 2017). This also happens in China in which politically connected firms get easier access to innovation fund from local government. Firms having access to financing resources are more likely to invest in innovation activity (Cumming et al., 2016). Therefore, more financing obtained by politically connected firms be resource of R&D investment that makes the company less likely engaged in short-termism.

Prior studies also show that the efficiency of R&D is decreased when the firm is politically connected. This causes politically connected firms tend to have higher R&D, because for the firm to be as competitive as the others or to achieve the same level of innovation, the more R&D is required (Hou et al., 2017). Similarly, Song et al. (2015) argued that political connection can reduce efficiency of innovation since firms have to consider or may be prioritize government interest to maintain the political connection (Song et al., 2015: 298). Hence, **Hypothesis 2** stating that politically connected firms are less likely engaged in managerial short-termism compared to non-politically connected firms is accepted.

4.2.2 Politically Exposed Family Firms and Managerial Short-termism

We also make interaction of different family firm classifications and political connection. Table 6 presents the results of the interaction variables. The results demonstrate that after being exposed to politics, all classifications of family firms are positively related with managerial short-termism and most are significant at 10%, 5%, or 1%. Family firms with ownership 5% - 9% (FF5) which was initially positively related with managerial short-termism significant at 10%, now become much less significantly related. Although political connection has ability to reduce managerial short-termism in FF5, but managerial short-termism still happens therefore the effect of family firms dominates the effect of political connection. Family firms with ownership 10% - 19% (FF10) which was initially insignificantly related with managerial short-termism, now turn tobe positive and significantly related to short-termism when we interact with political connections. Family firms with ownership at least 20% (FF20) which was initially long-term oriented significant at 10%, now after being politically exposed becomes much more likely engaged in managerial short-termism significant at 1%.

This suggest that family firms are more likely engaged in managerial short-termism when exposed to political connection, no matter how much the family ownership or involvement in the management. Surprisingly, although family firms generally preserve long-term orientation, politically exposed family firms are very likely engaged in short-termism. It is interesting how political connection can bring this effect. Family managers can sometimes be tempted to minimize R&D investment in order to emphasize family control because innovation can create power to those mastering the innovation. Successful R&D is sometimes related with something new such as new routines and arrangements. It can threaten family managers or shareholders who are not familiar with such complex technology, so they tend to limit the development of firm's R&D only to those they can understand (Morck & Yeung, 2004) or even find an alternative way in expanding the business which is through political

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connection and lobbying (Morck & Yeung, 2003). Thus is why politically exposed family firms are more likely engaged in managerial short-termism. Hence, **Hypothesis 3** stating that political connection influences the relation of family firms and managerial short-termism is accepted.

Table 6. OLS Regression Result Model 2 Politically Exposed Family Firms to Managerial Short-termism

Variable	SHORT1			SHORT2		
	FF5	FF10	FF20	FF5	FF10	FF20
FF*PCON	0.003*	0.003**	0.003**	0.001*	0.002**	0.002**
	(1.83)	(2.06)	(2.02)	(1.86)	(2.44)	(2.39)
FF	-0.000	0.000	-0.001	0.000	0.000	-0.000
	(-0.51)	(0.57)	(-1.49)	(0.59)	(0.76)	(-1.23)
PCON	-0.002**	-0.002**	-0.002**	-0.001***	-0.001***	-0.001***
	(-2.27)	(-2.30)	(-2.29)	(-2.61)	(-2.69)	(-2.68)
LNBSIZE	0.001	0.001	0.001	0.001	0.001	0.001
	(1.23)	(1.21)	(1.26)	(1.30)	(1.25)	(1.32)
PIBOARD	0.021**	0.021**	0.021**	0.009**	0.009**	0.009**
	(1.96)	(1.97)	(1.97)	(2.03)	(2.05)	(2.05)
FSIZE	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(-0.72)	(-0.65)	(-0.85)	(-0.27)	(-0.22)	(-0.45)
CAPINT	-0.002	-0.002	-0.002	-0.000	-0.000	-0.000
	(-1.20)	(-1.20)	(-1.17)	(-0.09)	(-0.08)	(-0.04)
lag_LEV	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(-0.77)	(-0.76)	(-0.78)	(-0.29)	(-0.31)	(-0.33)
ROA	-0.011*	-0.011*	-0.011*	-0.005**	-0.005**	-0.005**
	(-1.92)	(-1.92)	(-1.91)	(-1.98)	(-1.99)	(-1.98)
lag_ROA	-0.011*	-0.011*	-0.011*	-0.005**	-0.005**	-0.005**
	(-1.88)	(-1.87)	(-1.88)	(-2.06)	(-2.04)	(-2.05)
FAGE	-0.000**	-0.000**	-0.000**	-0.000**	-0.000**	-0.000**
	(-2.03)	(-2.04)	(-2.04)	(-2.18)	(-2.20)	(-2.21)
MTB	-0.003	-0.003	-0.003	-0.001	-0.001	-0.001
	(-0.51)	(-0.51)	(-0.49)	(-0.44)	(-0.44)	(-0.42)
CONSTANT	0.001	0.001	0.001	-0.001	-0.001	-0.001
	(0.30)	(0.21)	(0.44)	(-0.53)	(-0.57)	(-0.37)
Industry FE	Included	Included	Included	Included	Included	Included
Year FE	Included	Included	Included	Included	Included	Included
r2	0.129	0.129	0.129	0.126	0.126	0.126
N	959	959	959	959	959	959

Note: This table shows the results of OLS regression of politically exposed family firms and managerial short-termism of 959 observations on 375 companies listed on IDX year 2014-2016 with * t < 1.65, ** t < 1.96, *** t < 2.58, significant at 10%, 5%, and 1% respectively.

Conclusions

Managerial short-termism is an emerging issue in family firms. In this paper, we operationalize R&D as a measure of an opportunistic behavior called managerial short-termism. R&D is optional for companies. Its results can only be felt in long-term period, whether it is beneficial or detrimental. These possibilities generate many behavioral interpretations on how firms decide regarding R&D investment. Family firms are more complex because they pursue both business goals and family goals in short and long term period. This study investigates thoroughly various behaviors of family firms on R&D investment based on family ownership and involvement. We find that the higher the family ownership, the more the company invests in R&D, therefore less short-termism. In contrast, family involvement in management shows a more loss-averse behavior by reducing uncertain risky R&D investment. This can also mean that family management can better monitor the innovation activities, therefore increase efficiency in R&D thus less R&D expense needed to achieve competitive performance.

Furthermore, after being exposed to political connection, family firms are more likely engaged in managerial short-termism. This study has implications that separately, family firms and political connection has positive effect on R&D and hinder opportunistic behavior of managerial short-termism. But combined together, politically exposed family firms tend to be engaged in managerial short-termism. This result is useful for management of family firms to carefully decide on R&D investment and for investors to understand the behavior of family firms. This study has policy implication for the government to regulate special relations between politics and businesses because it is feared that there will be conflict of interest and bias on each other's goal. We hope that these results will encourage future research on these issues.

Our study has several limitations that provide chances for future research. First, family firms are less likely discloses their R&D investment. This would lead to an underestimation of their R&D intensity, so future research should find a way to obtain information on family firms' R&D activities. Second, we measure political connections based on formal title, job position, or experience. Future research can analyze broader definition of political connection. Third, our study follows majority of studies in using family firm variables merely based on the ownership and involvement (e.g., Anderson et al., 2009; Miller et al., 2007, 2011; Villalonga & Amit, 2006). Future research may want to fully understand features of family firms including the family vision, intention for transgenerational leader, family founder, and many others. Fourth, family firms' characteristics and behavior can vary depending on time periods and countries (Peng, 2003). In further research, the influence of family firms and political connection on managerial short-termism in different cultural, institutional, and periodical contexts can be explored to ascertain the results across different settings.

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