

# Yes Minister: Do Coalition Partners Court the Prime Minister?

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## **Abstract**

Parliamentary governments are characterized by a delegation of portfolio assignments in the executive branch. Portfolio responsibilities are ideally the aggregation of the interests of the prime minister who appoints them. However, portfolio assignments present an interesting agency problem; namely, the individuals who are given these responsibilities may have to choose between appeasing the prime minister or the party they are aligned with. This agency issue becomes more interesting in the case of coalition governments. In particular, junior coalition partners in the executive may want to perform actions in favor of the prime minister: e.g, as a way to develop a reputation for cooperation. In 2022, the Malaysian federal government passed a constitutional amendment that triggers an election for individual representatives who switch parties. As a result, junior coalition cabinet members have no incentives to implement policies that are favorable to the prime minister because they are no longer able to leverage their reputation from the prime minister against their own party. To test this hypothesis, I will be using procurement data to track the firms being hired by ministries that are led by junior and senior coalition members. Using a difference-in-differences strategy, I found that passing the law decreases the probability of hiring from the prime minister's party constituency by 1.44 percentage points after the law is passed and 2.55 percentage points when the parliament is in session for junior-led ministries in comparison to senior ones.

*Keywords:* public procurement, political bargaining, party-switching, coalition governments, agency problem.

# 1 Introduction

## 1.1 Parliamentary System's Chain of Delegation

The executive branch of the government is responsible for enforcing the law passed in the legislature and for governing the state. Unlike presidential systems, voters do not engage in selecting the composition of the executive in the parliamentary system. Voters generally elect representatives who then select a prime minister. Since the task of governance cannot be undertaken by the prime minister alone, the prime minister delegate governing responsibilities to – more commonly – other members of representatives in their own party by forming a cabinet. Each cabinet portfolio is responsible for certain domains within the government (e.g., health, defense, domestic affairs). This delegation from voters to representatives to prime minister to cabinet is what Strom (2000) calls as a "chain of delegation" in parliamentary democracy.

Therefore, it begs the question: can prime ministers enforce their preferences upon their cabinet? Dewan and Myatt (2012) argues that prime ministers align the cabinet through their ability to appoint and dismiss ministers. By learning about the minister's ability, which was not available at the time of hiring, the prime minister can decide the tenure length of their ministers. The story becomes complicated when we account for coalition governments.

## 1.2 Junior and Senior Coalition Partners

Coalition governments are formed from at least two parties; these parties coordinate to choose a prime minister through a vote of confidence. One of the ways where the prime minister (senior coalition party) can guarantee a coalition with a junior party is through the mechanism of portfolio allocation (Laver and Shepsle 1990). Senior coalition parties can sacrifice some of their policy implementation powers by giving portfolio assignments to junior ones. Portfolio allocation is a credible promise made by the senior partner. The policy implementation of the government will be checked and balanced by the portfolio control of the smaller parties that ensures the government's policy direction will not veer too far from the policy goals of their junior partners.

Although the story of coalition seemed to benefit small parties, there is a cost for joining the coalition. I argue that junior cabinet members are incentivized to align with the prime minister's interests (at times, against their own party interests) as a way to cultivate their own reputation as a consensus-builder or to reveal their competence to the wider electorate; perhaps even a chance at switching into the prime minister's party and becoming a valuable ally of the prime minister. Weak monitoring capacities from their own party further incentivizes their ability to court the prime minister without major consequences to their own position in the party. However, a recent constitutional amendment prevents office-holders from switching parties. Therefore, this amendment removes the incentive for junior members to pander towards the prime minister.

### 1.3 Passage of the "Anti-Hopping Law"

For nearly 60 years, the *Barisan Nasional* (BN) coalition has dominated Malaysia's electoral environment – winning most federal elections from 1957 with two-thirds majority in all except three contests. In 2018, the coalition lost its majority in parliament for the first time to its long-time opposition coalition, the *Pakatan Harapan* (PH). However, the PH coalition would soon collapse in the eve of the COVID-19 pandemic due to several members of parliament (MPs) switching parties and parties changing coalitions. As a result, on July 28, 2022, one of the compromises struck by the MPs of different parties was the passage of a constitutional amendment that prevents MPs from switching parties after being elected into office. This amendment has undoubtedly led to a strengthening of party control on representatives. In particular, representatives are no longer incentivized to appease the prime minister's party as the potential prospect of enjoying the prime minister's party privileges is no longer a realizable outcome.

### 1.4 Incentives for Coalition Partners to Support Prime Ministers

I argue that the anti-hopping law affects junior members in the coalition more than the senior members in the coalition. Senior members are accountable via the ability of the prime minister to appoint and dismiss them, whereas junior members' appointments are protected by their own party.

Since junior members are only accountable to their own party, weak party discipline enables them certain degree of freedom to appropriately decide the level of compliance towards the prime minister. The amendment denies the political insurance that junior executives may have against their own party i.e., junior executives cannot simply bargain to switch parties into the prime minister's party in case their own party's electoral fortune dwindle. Instead, junior executives may turn away from the prime minister for political benefits.

To test this argument, I am conducting a canonical 2x2 difference-in-differences by analyzing the firms that are hired by procurement contracts issued by junior ministries. For robustness purposes, I used a two-way fixed effects on the level of ministry and month-year. I also clustered standard errors on the ministry-level since treatment assignment occurs there. I argue that since the accountability effect is higher for junior members, less firms are being hired from senior party constituency as pandering is now disincentivized.

I found that the average treatment effect on junior ministries is a 1.44 percentage point decrease in probability of senior hiring after the law is passed and a 2.55 percentage point decrease in probability of senior hiring after the law is passed when parliament is in session. Although the overall ATT is not robust to different specifications, the ATT when parliament is in session is robust to many specifications.

The outline of the paper is as follows: I will first outline the theoretical and literature on principal-agent framework in parliamentary democracies, then I will briefly discuss the institutional background of Malaysian politics. I will then discuss the source of the data before expounding on empirical strategy. I will then present the results and discuss the implication of findings.

## 2 Theoretical and Literature Background

### 2.1 Accountability in the Executive Branch of Parliamentary Democracies

Accountability in the executive branch for parliamentary democracies is relatively straightforward. Voters delegate policy-making abilities to their representatives who ideally represent their preferences. The representatives delegate their governing capacities to the prime minister. The prime minister divides the labor of government to some MPs forming a cabinet in which policies are formulated and realized<sup>1</sup> (Strom 2000). Compared to presidential systems where voters have direct accountability influence to the executive, voters exert indirect influence to the executive towards implementing policies they prefer (Persson et. al. 1997). Ideally (at least in terms of democratic norms), the final policy implemented will be the aggregate preference of the first-stage principal: the voters. However, in each step of the delegation, there is a lot of unobserved action or agent characteristics that may drive the final policy away from the democratic ideal. In particular, it is highly likely that the principal that delegates and the agent that is delegated may have conflicting interests.

A useful representation of this conflicting relationship is via a principal-agent framework. Principals delegate responsibilities to agents which are entrusted to fulfill these responsibilities (Besley 2007). The prime minister delegates policy-making responsibilities to the cabinet. Although one could argue that the interests of the prime minister and their cabinet are aligned and the final realized policy is a preference aggregation, agency issues can occur wherever conflict of interests exist. There are two types of agency issues: moral hazard and adverse selection. Moral hazard occurs when there is an asymmetry of information after the delegation of responsibilities (Holmstrom 1979). A cabinet member can choose to put no effort after getting appointed into office if they know their efforts are not perfectly observed<sup>2</sup>. Adverse selection occurs when there is an asymmetry of information before the delegation of responsibilities (Akerlof 1970). The prime minister may not have complete information regarding the MP's competence or preference before

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<sup>1</sup>In Malaysia, the executive have extensive powers in drafting policies and national budgets to be presented in the legislature.

<sup>2</sup>Unobserved effort can be the result of a lack of oversight from incompetent prime ministers.

appointing them into cabinet. Ex-ante uncertainty regarding the character of cabinet members and ex-post visibility regarding cabinet member's actions grants the ability for each individual cabinet members to defy the wishes of the prime minister (Banks and Sundaram 1998).

Therefore, how does the prime minister ensures that the actions of the cabinet aligns with their interests? Dewan and Myatt (2012) argues that the prime minister can credibly threaten their cabinet members through their powers of shuffling the cabinet. The prime minister who face uncertainty prior to hiring will periodically receive information regarding the performance of their cabinet member, which enables them to determine the tenure length of their ministers. The ability for the prime minister to fire and hire ministers gives sufficient incentive for cabinet members to align with the prime minister for maintaining their position as opposed to shirking their responsibilities. Of course, the prime minister could not pose a credible threat if they themselves do not have a high monitoring capacity or if they lack the necessary candidates to replace their incompetent ministers (Dewan and Myatt 2010). To study the behavior of cabinet members (whether they follow or defy the prime minister) who belong to the prime minister's party suffers from the endogeneity constraints – mostly from the fact that these cabinet members are directly accountable to the prime minister, hence their actions will be the result of judging whether the prime minister can credibly threaten their position in government. The story changes when we consider cabinet members who are not from the same party as the prime minister, where they do not have the same level of accountability towards the prime minister.

## 2.2 Junior Members in the Coalition

Although social choice theory generally regards that coalition formation in more than one dimensional policy space as impossible, institutional structures within the legislative allows the formation of a coalition (Baron and Ferejohn 1989)<sup>3</sup>. Coalition governments in parliamentary democracies are formed when a party could not achieve a simple majority to win a vote of confidence in the legislature. At least two political parties are needed for the vote of confidence in choosing the prime minister and their cabinet. The primary mechanism for the agenda-setting party (from now

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<sup>3</sup>In parliamentary democracies, the structure that allows for such coalition is the vote of confidence.

on will be called senior party)<sup>4</sup>, is to allocate portfolio to smaller parties (junior party) as a credible promise in the policy direction of the government (Laver and Shepsle 1990). By yielding policy-making powers to certain portfolios, the policy direction of government will not be too far from the preferences of the smaller party. Smaller parties' interests are somewhat guaranteed so that the entire coalition can survive and govern. The implication of viewing ministerial appointments in this light is the relative autonomy enjoyed by portfolios held by junior coalition members from senior members. Since junior portfolios are within the domains of the junior party, the cabinet member is not held to the same level of accountability as the senior members of the cabinet. Although the prime minister want the policies formulated in the junior portfolios to broadly follow their preferences, they could not employ the hire and fire threat on the junior members without some repercussions on the viability of the coalition. Therefore, junior members are held accountable insofar as their ability to implement their party's preferences.

### 2.3 Competing Principals – Prime Minister or Party?

So far, the story seemed to be favorable towards smaller parties. Despite not capturing the majority of the electorate, they are able to implement a portion of policies within the bounds of their ministerial jurisdiction. However, Laver and Shepsle neglects the individual incentives that the junior members may have once they are in the ministerial position. From a principal-agent framework, junior parties delegate their policy-making abilities to the junior members of the executive. There exists incentives for junior members to act in favor of the prime minister: namely competence revelation and rent-seeking (Tirole and Maskin 2004; Canes-Wrone et. al. 2001).

One source of incentive that junior members have that prevents them from blindly following their party is competence revelation. Although junior executives may care about implementing policies that is aligned with their party as it is the source of their accountability, they may also care about successfully implementing the policies that reveal their competence to the electorate: policies that make them look good. Revealing themselves to be competent can be helpful in

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<sup>4</sup>Usually, the start of government formation begins with the largest party in parliament proposing a coalition with a smaller party.

cultivating a reputation outside of the party for electoral rewards or future career advancements, especially if they anticipate that the party will suffer in the next election (Kluver and Spoon 2020). Although junior members typically receive less spotlight than their senior colleagues (Fortunato and Adams 2015), defying the prime minister's objectives can incur a cost towards the cabinet cohesion and may undermine the credibility of the coalition. Successfully implementing party-based policies may also reveal competence of the politicians, but they may not gain credence among the senior executives. One of the ways where senior executives can undermine the ability of junior ones is by delaying their policy's legislative debate (Cox 1987). Since parliament's debate time is finite, senior-friendly policies may be prioritized first. The inefficiency produced by pursuing party preferences that are opposed to the prime minister's preferred policy may increase voter uncertainty of the junior executive's ability. Plus, building a strong relationship with the prime minister gives them some political insurance in case their own party fails electorally. Since the prime minister knows their competence in office, performing prime minister approved actions may secure them a political career in the future. Despite having relative autonomy from the prime minister, junior executives may want to build a "rebel" image to distinguish themselves from other party members: by pushing for reputation-laden policies, which may go against the party interests (Carey and Shugart 1995).

Another source of incentive is rent-seeking. Even if the prime minister has a high monitoring capacity, they have incentives to allow policy inactivity of the junior executive. At best, junior executives who put visible effort may take credit for their policies which can hurt the prime minister's party electoral reputation. At worst, junior executives propose policies that are in direct opposition to the interest of the prime minister. Therefore, the body responsible for monitoring the actions of junior executives is their own party. Junior executives can simply collect rent without effort if they know their own party do not have a monitoring capacity. The problem can be worse if they themselves are part of the party committee that decides and monitors cabinet members. Not only that, junior executives have a relatively strong bargaining position in their own party. This is because being a minority in the legislative means that the pool of competent politicians is significantly smaller than the senior party. That means even if the junior party is able to catch their executives' lack of effort, the lack of competent candidates mean that they do not have the privilege of picking suitable replacements. Therefore, due to the lack of the hiring and firing threat



from the prime minister, junior executives are more likely to shirk if their own party does not have the capacity to credibly threaten their position at the same level as the prime minister's.

The anti-hopping law changes the equation for office-holders and executive members alike. The law prevents office-holder from switching parties after taking office. If they switch parties, the office-holder is forced to step down and an election will be held. Within the executive, the law disincentivize junior cabinet members to pander towards the prime minister. Absent the law, junior cabinet members can lobby towards joining the prime minister as a valuable ally. Now, the avenue of acquiring such protection is no longer available. The law also incurs a great cost for cabinet members to act against the wishes of their own party. Thus, the additional cost for breaking their responsibility may be enough to convince some executive members from courting the prime minister. I argue that the effect of the law towards policy shift preferred by the prime minister is greater for junior cabinet members than senior ones. Senior executives' accountability is driven both by party and prime minister whereas junior executives are accountable to their own party. Although the law affects both senior and junior executive members, junior members may pursue an alternative source of political insurance. This is because even if the senior executive goes against their own party, they are protected at the prime minister's discretion. Junior members **do not have the same protection** even if they perform favors for the prime minister. Therefore, I expect that the prime minister policy shift effect to be higher among junior cabinet members post-reform i.e. junior cabinet members will start seeking political protection away from the prime minister's party.

## 2.4 The Use of Procurement as Political Capital

Every year, the Malaysian government spends approximately equivalent to 20% of its nominal GDP in procuring goods and services, as well as commissioning public works (Jones 2013). There are a plethora of empirical papers that utilized procurement data to study the divergence between economic and political efficiency (Bandiera et. al 2009; Fazekas and Toth 2016). Favoring certain firms in procurement hiring is a way for politicians to build political capital and accrue personal rents in expense of efficient projects. Procurement practices have been used as ways for politicians

to award campaign donors (Gulzar et. al. 2022; Boas et. al 2014). Qualitative accounts have long note the use of procurement as a tool for the BN government to build patronage networks in Malaysia (Gomez and Jomo 1999; McCrudden and Gross 2006). The story gets complicated when junior executives have to choose to reward their own, the party, or the prime minister's preferred firms. Therefore, I am taking advantage of the change in incentives for actions that favor the prime minister's party and the strategic adaptation of executives that may follow. A **first-order assumption** that I will be making in my analysis is the fact that awarding contracts to firms located in Barisan Nasional constituencies are aligned with the preferences of the prime minister. In some cases, junior executives may prefer to award firms located in the prime minister's party for reputation-building but what happens when this incentive disappear? This paper will add to the already extensive literature on the Malaysian party-based patronage political system by documenting the tension of party-executive relationship empirically through procurement rewards.

## 2.5 Related Literature

Several empirical works have taken advantage of agency issues to study the conflict of interests between principal and agent in policy-making. Pande (2003) used a moral hazard model to show that political reservation influences policy because parties could not commit their preferences on low-caste candidates. Ferraz and Finan (2011) used an adverse selection model where audits serve as a signal to inform voters whether mayors are corrupt. Dal Bo and Rossi (2008) used a moral hazard model by showing that term lengths influence legislative performance. Therefore this dissertation will add to the empirical literature documenting the principal-agent conflict by studying the effects towards procurement practices due to change in bargaining power of cabinet members towards the principals they are accountable for i.e. the change in incentives towards the prime minister and the subsequent effect towards their own party.

There are several theoretical and empirical results that speaks to the effect of party strength on political outcomes (which can be reasonably applied to executive decision-making). This is due to the role played by parties in constraining the options of the politicians who represent them. Most of the literature today takes advantage of electoral laws on the change of party strength. Namely,

open-list proportional representation (where voters could choose the candidates they like from a list of party candidates) to closed-list proportional representation (where voters do not have any choice on the final candidates chosen). Intuitively, party strength in open-list systems is weaker than closed-list systems because of the inclusion of voters in candidate selection (Carey and Shugart 1995). Hangartner et. al. (2019) empirically demonstrated that parties opting for a closed-list systems struggle at finding high-quality representatives, suffers higher electoral loss, and spend less time campaigning. But, these same parties exhibit greater cohesion and control. However, Prato and Buisseret (2022) showed how weakening the power of parties in candidate selection may weaken local representation through pandering i.e., individualizing candidates incentivize representatives to cultivate a rebel image for future electoral success despite being a party loyalist. Both papers attribute the change in local substantive representation in the variation of party strength implied via the variation in electoral laws. Within the context of executive decision-making, strengthening the party disincentivizes prime minister pandering from junior executives.

I will be taking advantage of the anti-hopping law introduced in Malaysia as the source of party strength variation. The passage of the anti-hopping law significantly strengthen the party because it increases the cost for executives who goes against party interests. Since the adoption of this law affects junior members more than senior members, I am exploiting the variation of accountability effect (in terms of junior and senior executive members) the law induces towards executive decisions on firm hiring. As far as the literature on party strength is concerned, this is the first paper to use party-switching laws to test the effect of party strength on procurement practices. The literature on party-switching such as the one by Desposato (2006) and Heller and Mershon (2005) situates party-switching as a strategic decision by an individual representative to improve their bargaining position against party preferences. By increasing the cost of party switching, the party has a stronger negotiating position against their representatives: which includes junior cabinet members they appoint.

## 2.6 Summary of Theory and Literature

To summarize, here are the theoretical and empirical expectations of the consequences of the passage of the anti-hopping law:

Type of Executive	Expected Theoretical Effect	Expected Empirical Effect
Senior	No effect	No effect in senior party hiring*
Junior	Policy shift away from prime minister	Decrease in senior party hiring

Table 2.1: Anticipated Results of Anti-Hopping Law Towards Executive Behavior

Note: \*Senior party hiring refers to the practice of hiring firms for procurement contracts from the senior party constituency.

Overall, being able to empirically show the expectation above implies the relative autonomy of junior coalition parties in implementing their own policy within their ministerial jurisdiction. Also, by showing a differential decrease in senior party hiring for junior executive compared to senior executive implies the incentive for junior executives to follow the prime minister – an empirical display of how coalition cabinets can maintain cohesion. By showing that junior executives are affected more by the amendment than senior executives, we show that there exists the incentive for junior executives for maintaining cordial relations with the prime minister for political cushion against party backlash in case policies implemented run counter against party preferences. Removing the main mechanism of political insurance (party switching) dissuades the junior executive to diversify their political risk via supporting the prime minister.

### 3 Institutional Background

#### 3.1 Public Procurement System

There are three main types of procurement contracts offered by the government: direct purchasing, quotations, and tenders. The classification of these contracts is contingent on the contract price. Direct purchases can generally be conducted by any agency through a procurement officer below a certain amount provided that the items are not included in the list of items that is purchased centrally. However, direct purchases can also be used in case of emergency purchases. For quotations, every head of government body (agency or department) will appoint a quotation committee which is responsible for inviting firms to submit their bid on the contract. The committee can also advertise their quotation for 7 days in their own websites from other registered suppliers. For tenders, the government body must advertise their contract on local newspapers and procurement portals for 21 days if tenders are intended for local firms and 56 days for tenders that includes international firms. Both tender and quotation bids will be judged by a technical and financial committee. The committee will then report their findings to the *Lembaga Perolehan* (LP, a federal body made up of members of the agency; each agencies have their own LP) where they will make the final decision for contracts below RM 50 million<sup>5</sup> in supplies and RM 100 million for works. Contracts exceeding the threshold will be made by the Ministry of Finance (MOF) (Jones 2013).

Procurement Type	Direct Purchase	Quotations	Open Tender
Supplies and Services	< RM20,000	RM20,000 – 500,000	> RM500,000
Works	< RM50,000	RM50,000 – 500,000	> RM500,000

Table 3.1: Contract Value Thresholds for Method of Procurement

Note: This table was acquired via Jones (2013)

Firms that are hired for supplies and services must register with the MOF. Firms that are hired for public works must also be registered with the Construction Industry Development Board (CIDB) and government-certified via *Sijil Perolehan Kerja Kerajaan*.

<sup>5</sup>RM denotes Ringgit Malaysia

### 3.2 One-Party State and Targeted Redistribution

Between 1957 – 2018, Malaysia is characterized as a one-party state; its politics is dominated by the United Malays National Organization (UMNO). Electorally, UMNO governs as a leader of the *Barisan Nasional* (BN) coalition which has won every federal election up until 2018. As a response to the threat of ethnic violence, the first large-scale targeted redistributive program – the New Economic Policy (NEP) – was implemented; it is designed to ”restructure society to eliminate the identification of race with economic function” and ”eradicate poverty” (Jomo 2004). The primary benefactors of NEP transfers are the Bumiputera population (composed of Malay and other indigenous groups). One of the ways that the government engages in targeted redistribution is through its procurement system. Firms that are 51% owned by persons of Bumiputera ethnicity can earn the *Sijil Taraf Bumiputera*: a certificate that enables a firm to access earmarked procurement contracts for the Bumiputera. Many observers have anecdotally account the notorious ”Ali-Baba” business arrangement, where Bumiputera firms secure a procurement contract whilst delegating the work to a non-Bumiputera firm (typically Chinese) (Aun 2021). Since the Bumiputera population composed the majority of the electorate, the governing party is constantly incentivized to win the Bumiputera vote. Due to the relative lack of competition for rents among Bumiputera firms, it is no surprise that the governing party favored this route to accrue political capital. Through an extensive patronage networks via transfers combined with the availability of capital to finance this network due to rapid economic growth of the 1990s, UMNO and the BN coalition maintained a stable support from the electorate winning two-thirds majority in parliament except in 2008 and 2013. That all changed in 2015.

The then UMNO president and Malaysian prime minister Najib Razak was caught channeling RM 2.67 billion to his own personal account by using a sovereign wealth fund as a front for a money laundering operation. The hegemonic reign of UMNO came to an end in 2018 when they suffered a historic loss. Of course, the *Pakatan Harapan* (PH) coalition did not last long as internal divisions soon lead to a government collapse shy of 2 years.

### 3.3 The "Sheraton Move" Crisis

On 23 February 2020, the deputy president of a party in the PH coalition, Azmin Ali decided to defect with several MPs of the coalition from the PH coalition to form a new government in what was dubbed the "Sheraton Move"<sup>6</sup>. As a result of this crisis, three different states needed to perform an early election, two different prime ministers had to take charge without an election, one state of emergency was declared that suspended the parliament<sup>7</sup>. Party-switching was also common where the uncertainty of the government led to shifting alliances and weak party discipline. On top of the political chaos that succeeded the Sheraton Move, the country was also embroiled in the worst public health emergency since the 1918 influenza – the COVID-19 pandemic.

As part of the compromise between the PH coalition and the governing coalition (*Perikatan Nasional*), a federal amendment was passed on July 28, 2022 that prevents a representative from switching parties in order to halt the political infighting. The amendment was implemented on October 5, 2022.

### 3.4 Timeline of Important Events

The analysis will only include the tenure of the Ismail Sabri cabinet to avoid time-varying confounders stemming from different prime ministers and cabinet members. His cabinet includes 13 BN, 11 BERSATU, 4 GPS, 3 PAS, and 2 GRS party members. I have assigned BN party members as senior executive members and the rest of the cabinet as junior executive members. The Ismail Sabri cabinet took office on August 21, 2021 and the anti-hopping law was passed in the lower house on July 28, 2022. The law's implementation is on October 5th, 2022. The full effect of the law will not be observed by Ismail Sabri however because on the 10th of the same month, he dissolved the parliament and called for an early election which puts in place a caretaker government. A new government was formed on December 3rd, after a coalition is formed between long-time rivals PH and BN with Anwar Ibrahim – the leader of PKR (a component party of PH) – commanded a vote of confidence in the lower house.

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<sup>6</sup>It was named after the hotel where the meeting took place

<sup>7</sup>The last time was the 1969 ethnic riots which led to the creation of the NEP

## 4 Data

### 4.1 Procurement Data

The procurement data was constructed primarily via the MOF’s MyProcurement portal. The advertising and decision-reporting for local tenders are mandatory (MOF 2022). The website includes final results of two primary classes of procurement contracts: quotations and tenders by federal agencies. During Ismail Sabri’s tenure, the federal government procured 17960 quotations and 2985 tenders with a total of RM17,550,722,954<sup>8</sup> and 7867 unique firms. Smaller direct purchases is not included in the dataset due to reporting issues as it is not mandatory.

Each contract observation includes the name of the contract (which includes the goods/services/work provided and the beneficiary of the contract e.g., school or hospital), the procuring agency and ministry, the procurement category, date of award, successful firms, and the contract value. Due to the geographic nature of this study, I have also conducted a series of geocoding exercises for firms and projects. Newer contract observations (December 2022 onwards) include the addresses of the successful firms. Then, I used the Construction Industry Development Board (CIDB) firm registration to match the addresses of a batch of firms. Finally, for the rest of the unmatched firms, I used the Google PlaceAPI. After these geocoding exercises, I am able to match 80% of the firms location. After the addresses are obtained, I used OpenStreetMap API and ArcGIS to extract the coordinate location of the firms.

Another source of concern is branch locations. Since firms sometimes have multiple locations, I have decided to assign the contract observation to all the branch locations for firms with multiple locations. This method can be prove to be controversial as it may generate data that may have not been realized so I have also conducted a similar analysis for firms with only one location and removing firms with multiple branch locations<sup>9</sup>. The observation for the full dataset with multiple branch locations is 30,228 and the observation for the reduced dataset is 19,034.

As for the constituency boundaries, I used the map data provided by the Malaysian Depart-

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<sup>8</sup>approximately \$3.8 billion

<sup>9</sup>Both analysis would share the same results.



ment of Statistics (DOSM 2023). I then mapped the coordinates extracted from the firm location and the project location onto a federal constituency. From the mapping, I am able to categorize whether the firm location is within the bounds of the prime minister’s party constituency or not.

## 4.2 Contract Descriptions

To give some perspective on the data used in this paper, I am including some descriptions of the procurement contracts to illustrate the types of goods and services that the federal government procures for its daily operation. I am including the statistics on the ministries that provide the contracts, the type of location that these contracts are given, the type of procurement, and the price statistics of the contracts conditional on contract type (tender or quotation)<sup>10</sup>.

Ministry	Number of Contracts
Health	5863
Education	4470
Defense	2848
Home Affairs	1506
Agriculture	1256

Table 4.1: Top 5 Procuring Ministries

Note: The number of contracts is the combination of quotation and tender contracts

Type of Location	Number of Contracts
Office	5262
Hospitals	4010
State Schools	2653
Public Institutes	1316
Defense Miscellaneous	1037

Table 4.2: Top 5 Location Types

Office includes any government buildings that exclusively perform administrative tasks. For example, district health office is included in the office. Public institutes include government research facilities and training centres such as teacher training or public servant training. Defense miscellaneous denote contracts that includes the purchase of military weaponry without directing towards a specific defense installation such as a military base.

<sup>10</sup>I have also included a firm location map in the appendix.

Contract Type	Procurement Category	Number of Contracts
Quotation	Supply	10769
	Non-Specialist Service	7362
	Specialist Service	0
	Works	1338
Tender	Supply	884
	Non-Specialist Service	2276
	Specialist Service	89
	Works	94

Table 4.3: Contract Type and Procurement Category

Contract Type	Sum	Mean	Median	Q1	Q3
Quotation	2,932,748,703.00	150,637.00	96,900.00	43,820.00	217,014.00
Tender	14,621,689,005.00	4,373,823.00	2,197,651.00	1,100,837.00	3,431,030.00

Table 4.4: Price Statistics of Federal Contracts

Note: The price is in Ringgit Malaysia (RM)

### 4.3 Summary Statistics of Relevant Variables

For the actual variables used in the study, I am including a summary statistics table which includes the variable dummy variable for senior party hiring and junior executive contracts for both the full and reduced datasets. Note that HoppingLawPass is a dummy variable for contract observations occurring after the passage of the anti-hopping law (July 28, 2022) and HoppingLawImp for the implementation of the anti-hopping law (October 5th, 2022).

Variable	Mean	Std. Dev.	Observation
Senior Hiring	0.064	0.246	30228
Junior	0.368	0.482	30228
Junior x HoppingLawPass	0.114	0.318	30228
Junior x HoppingLawImp	0.044	0.206	30228

Table 4.5: Summary Statistics for the Full Dataset

Variable	Mean	Std. Dev.	Observation
Senior Hiring	0.070	0.255	19034
Junior	0.434	0.496	19034
Junior x HoppingLawPass	0.132	0.339	19034
Junior x HoppingLawImp	0.053	0.225	19034

Table 4.6: Summary Statistics for Reduced Dataset

## 5 Empirical Strategy

### 5.1 Naive OLS model

To motivate the use of the difference-in-differences model, I will demonstrate the endogeneity problems that may arise for using an OLS model. The baseline OLS model is as follows where the unit of analysis is the individual procurement contract  $i$  and the type of data is a repeated cross-section:

$$SeniorParty_i = \beta_0 + \beta_1 Junior_i + \beta_2 HoppingLaw_i + \beta_p X_p + \epsilon_i$$

$SeniorParty_i$  is a dummy variable that indicates whether the firm hired is from a senior party constituency.  $Junior_i$  indicates whether the contract procured is from a junior-led ministry.  $HoppingLaw_i$  indicates whether the contract is procured after the passage (implementation) of the anti-hopping law.  $X_p$  is the set of appropriate controls. The two main issues that arise from the model above is selection bias and reverse causality.

For selection bias, the problem arises because of the variation in strategic decisions of executives in awarding firms. If we compare a junior executive and senior executive firm-hiring practices, we may not attain a replicable estimate. This is because each executive has certain predispositions on whether they want to award firms according to the preferences of the prime minister i.e., the estimate direction is dependent on the composition of the junior party rebels in the executive. There are omitted variables that determine the behavior of executive not captured by the model. To illustrate this problem, here is a table of expected estimate direction in reference of the composition of executives supposing we fix the behavior of senior executives<sup>11</sup>:

<sup>11</sup>We are assuming that high loyalty implies that the ministers award firms in their own party's constituency.

Composition of Executives	$\beta_1$ Estimate Direction
Junior members are less loyal than seniors	Positive
Junior members have the same loyalty as seniors	Null
Junior members are more loyal than seniors	Negative

Table 5.1: Illustration of Selection Bias

Because we cannot assign each minister’s party loyalty predisposition without resigning to personal judgment, selection bias makes us unable to comment on making prior expectation of  $\beta_1$  direction.

Another source of issue is reverse causality. The high senior party hiring may lead junior parties to increase their monitoring capacities which lowers senior party hiring for subsequent periods. Therefore, this problem will make the  $\beta_1$  estimate unreliable – we expect to find periods where high senior party hiring lead to periods of low senior party hiring. Sampling choices of the party hiring dates may reveal spurious correlations.

## 5.2 Difference-in-Differences

To potentially cure the endogeneity issues from unobserved variations, we can use a difference-in-differences estimator to estimate the average treatment effect on the treated units (ATT) (Angrist and Pischke 2009). ATT is a biased estimate of the average treatment effect (ATE) because we only derive the effect of treatment on the treated group. Since there is only 2 timing periods: before and after the passage (implementation) of the anti-hopping law, we can employ the canonical 2x2 difference-in-differences model with two-way fixed effects (Card 1990)<sup>12</sup>.

$$SeniorParty_{it} = \beta_0 + \beta_1 Junior_{it} + \beta_2 HoppingLaw_{it} + \beta_3 HoppingLaw_{it} \times Junior_{it} + \alpha_i + \gamma_t + \beta_p X_p + \epsilon_{it}^{13}$$

<sup>12</sup>Since this is the canonical difference-in-differences, we can use the two-way fixed effects (TWFE) to derive causal estimates. For critiques of the TWFE model for staggered settings, see Borusyak et. al (2021); Callaway and Sant’Anna (2021); Sun and Abraham (2021).

<sup>13</sup>I repeat the empirical analysis with the unit of analysis as the ministry to transform the data into a panel. See the appendix.

Our estimate of interest, the ATT, is  $\beta_3$  which is the interaction between the junior executive dummy and the hopping law dummy.  $\alpha_i$  is the ministry fixed-effect as the treatment is assigned on the ministry-level.  $\gamma_t$  is the month-year fixed effect<sup>14</sup>. I have also chose to cluster the standard-error on a ministry-level since the treatment assignment is on the ministry-level (Abadie et. al. 2023) and party-level for robustness purposes<sup>15</sup>. I am also including the controls for the contract price and agency (an institution administered by a ministry). To alleviate concerns where project location affects the types of firms getting hired, I also conducted the analysis by controlling for the project location<sup>16</sup>. The table below illustrates the comparison groups used to measure the ATT:

Type of Executive	Timing	Treatment Status
Senior	Before the Law	Control
Senior	After the Law	Control
Junior	Before the Law	Control
Junior	After the Law	Treatment

Table 5.2: Executive Groups According to Treatment Status

The difference-in-differences essentially compares the difference in outcomes of the junior executive and the difference in outcomes of the senior executive. Since we expect to find that the law affects the executive differently, the difference in outcomes of the junior executive should be *significantly different* than the difference in outcomes of the senior executive. Consequently, we can derive the treatment effect of the anti-hopping law towards the junior executive. In addition, some junior executives may find it profitable enough to show competence through following the prime minister in spite of the law; if the executives are both competent and popular, they could still risk switching parties if they know they can win in a possible by-election. This will make our ATT downward biased so the estimate we should recover should be larger than the true value.

<sup>14</sup>In this case, I am modeling the difference-in-differences where there is a unique unobserved shock in the month and year e.g, January 2022 have a different shock than March 2023. This can capture the unobserved heterogeneity of the complicated political dynamics that occurred during the Sheraton Move crisis

<sup>15</sup>This is assuming ministry decisions are highly correlated with the party they belong to.

<sup>16</sup>The result of this analysis will still be the same and located in the appendix.

### 5.3 Assumptions of the Difference-in-Differences

But how do we ensure that comparing the difference in outcomes between the two groups are valid comparisons? We have to assume that the outcome trends of the junior executive after the law is passed will follow the outcome trends of the senior executive in the counterfactual<sup>17</sup> i.e. parallel trends. In other words, we regard the passage (implementation) of the anti-hopping law as some event that should affect both groups. But due to the different incentive structures of junior and senior executives, the anti-hopping law affects these two groups differently. The ATT derived from the difference-in-differences effectively measures the relative effect of junior executive to the senior executive. We essentially create the counterfactual<sup>18</sup> of the treatment group using the trends of the control group. Measuring the difference in the outcome will enable us to derive the treatment effect of the law's passage (implementation) on senior party hiring for the treated (junior executives) group.

Another important assumption that is required in a difference-in-differences model is the no-anticipation assumption. The no-anticipation assumes that the treatment status of the unit does not depend on the outcome. A good example where this assumption can be broken is in the case where a junior executive is replaced just before the law is passed to a senior executive due to the anticipated effects it may have on senior firm hiring. As a way to prevent small parties becoming too influential, the prime minister used his authority to minimize the senior party hiring effect. No-anticipation formalizes the idea that treatment and control group before the assignment of treatment must be comparable.

### 5.4 Threats to Parallel Trends

The parallel trends assumption can be threatened by time-varying confounders that can affect outcomes in absence of treatment i.e. the trends in outcomes should be on average parallel. As for cabinet members and the characteristics of the prime minister, these two time varying confounders

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<sup>17</sup>The counterfactual for the junior executive is having no law passed.

<sup>18</sup>In an alternate world, the junior executives have similar incentives as the senior executives thus would have similar effect to the law as the senior executives in the real world.

are successfully controlled because I am only looking at the Ismail Sabri cabinet. Throughout his tenure, there are no events of cabinet reshuffling or new ministerial appointments that could affect the dependent variable.

Another source of time varying confounder is the change of incentives between the junior and senior executives over time. Our parallel trends assumption assumes that in the period between August 2021 – July 2022, the incentives for the junior and the senior executives in hiring firms from the prime minister’s constituency stays the same. The incentives may differ but absent the passage of the law, the trends should follow. To illustrate our assumption here:

Executive Type	Incentives to follow the prime minister
Senior	Hiring and firing threat from the prime minister
Junior	Gain prime minister’s approval for future career

Table 5.3: Illustration of Executive Incentives

*Note:* Although this table is a simplistic assumption of the incentives for junior and senior executives, one can understand each ministers having a varying level of these incentives.

The idea here is that parallel trends hold when there are no events in which the incentives for each individual ministers results in a differential effect between the junior and senior executives prior to July 2022. A notable event that can alter the incentive differentially between junior and senior executive is state elections. Between August 2021 – July 2022, state elections were held in Melaka, Sarawak, and Johor. We can discard the Sarawak election as a potential source of incentive change because only GPS participated in the election among the parties in the cabinet. The two elections that matter is Melaka (held in November 20th, 2021) and Johor (held in March 12th, 2022). We need to examine how the incentives may change for senior and junior executives before and after the election was held.

Ismail Sabri is a particularly unique prime minister compared to other prime ministers before him because he is not the leader of the party he represents<sup>19</sup>. His appointment as prime minister was a compromise between UMNO and BERSATU (which was the senior party before) retaining most of the cabinet of the previous government. Yet, despite many critics claimed that Ismail Sabri

<sup>19</sup>Zahid Hamidi is the leader of UMNO.

ran the cabinet similar to the Muhyiddin cabinet<sup>20</sup>, he did shuffle the cabinet; a sign of his own ability to threaten his own party's executive with firing them. For the senior executive, the election would not change the incentives to follow the prime minister because of the hiring and firing threat that the prime minister can employ against them. The state election does nothing to change their position within the federal government nor the cabinet. State elections here do not really impact this incentive as the electoral results are generally attributed to the leader of the party instead of the prime minister.

As for the junior executives, the party essential for our analysis is BERSATU<sup>21</sup>. Most of the effect that we recovered in our analysis was driven primarily by this party. BERSATU and BN were competing against each other in the state polls of Melaka and Johor. BERSATU is a relatively new party with little institutional history as compared to BN or PAS. Plus, some essential members of the BERSATU party are composed of known party-switchers; some are directly responsible in causing the Sheraton Move Crisis. Therefore, we expect that BERSATU ministers are more flexible in their actions compared to other parties. Leading up to the Melaka election, we can expect to find that firms getting hired by BERSATU ministries are not from BN because they are competing against each other; this can pose a problem for parallel trends. However, the Melaka election results showed a dominant performance from BN. Therefore, one of the assumptions necessary to derive a causal estimate of our analysis is the fact that BERSATU members – who upon seeing the performance of BN in the Melaka elections – may be motivated to court the prime minister as it serves an informative signal of the electoral weaknesses of their own party. After the Melaka elections, these ministers' incentive will stay the same up until the July's law passage where this incentive will disappear; this period is when I argue that parallel trends hold between junior and senior executives.

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<sup>20</sup><https://www.nst.com.my/news/politics/2021/08/720151/its-still-pn-administration-says-bersatu>

<sup>21</sup>See the appendix for heterogenous effects by parties



## 6 Results and Analysis

### 6.1 Results

As seen in table 6.1 and 6.2, the results suggests a divergence between the effect of passing the law and the effect of implementing the law<sup>22</sup>. The anti-hopping law itself has limited effect (both passage and implementation) on senior party hiring. But, as shown in the results, passing the law results in the decline of the probability in hiring the senior party by 1.44 percentage points for junior executives<sup>23</sup>. The results disappear when we cluster our standard errors on the ministry-level. Implementing the law results in no significant results although the results seemed to suggest an increase of probability of hiring senior party by 1.15 percentage points for junior executives<sup>24</sup>.

The reason that can be attributed for this divergence is the fact that the cabinet was dissolved 5 days after the law is implemented as the former prime minister Ismail Sabri called for an election. Hence, although the law is implemented, the effect of the implementation is disrupted by the dissolution of the parliament which results in the formation of a caretaker government; this greatly constrains the ability for junior executives to exercise their autonomy. Since the new election may result in a new coalition thus greatly increase the uncertainty of the viability of the current arrangement, senior parties no longer have any incentives to yield policy-making powers to their junior executives. This can also explain why our coefficient estimate is noisy when we cluster the standard errors on the ministry-level because the introduction of the caretaker government may have lead to a higher probability in senior party hiring for junior-led ministries as a result of their dismissal. To test the heterogeneity effect caused by the parliament dissolution, I interacted with a dummy variable that takes the value of 1 if the contract is implemented after the dissolution of the parliament.

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<sup>22</sup>I have also conducted additional analysis by controlling for the state where the project is located. The analysis does not significantly change the result of the original.

<sup>23</sup>The variable of interest is the Junior×HoppingLawPass which is the coefficient  $\beta_3$  in our empirical strategy

<sup>24</sup>The variable of interest is the Junior×HoppingLawImp which is the coefficient  $\beta_3$  in our empirical strategy

	Senior Party Hiring			
	(1)	(2)	(3)	(4)
HoppingLawPass	-0.0012 (0.0178)	-0.0021 (0.0178)	-0.0021 (0.0065)	-0.0021 (0.0091)
Junior $\times$ HoppingLawPass	-0.0144** (0.0064)	-0.0139** (0.0064)	-0.0139* (0.0051)	-0.0139 (0.0091)
Constant	0.0665*** (0.0055)	0.0543*** (0.0068)	0.0543*** (0.0033)	0.0543*** (0.0067)
Observations	30228	30228	30228	30228
Ministry-Month-Year FE	✓	✓	✓	✓
Controls		✓	✓	✓
Party Cluster SE			✓	
Ministry Cluster SE				✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. Controls include contract price and agency. Agency is defined as an institution under a ministry e.g., Immigration Department is under the Home Ministry. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 6.1: Effect of Anti-Hopping Law Passage on Senior Party Hiring for Junior Executives

	Senior Party Hiring			
	(1)	(2)	(3)	(4)
HoppingLawImp	0.0229 (0.0176)	0.0226 (0.0176)	0.0226 (0.0138)	0.0226 (0.0215)
Junior $\times$ HoppingLawImp	0.0105 (0.0090)	0.0115 (0.0090)	0.0115* (0.0037)	0.0115 (0.0159)
Constant	0.0612*** (0.0025)	0.0485*** (0.0048)	0.0485*** (0.0022)	0.0485*** (0.0091)
Observations	30228	30228	30228	30228
Ministry-Month-Year FE	✓	✓	✓	✓
Controls		✓	✓	✓
Party Cluster SE			✓	
Ministry Cluster SE				✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. Controls include contract price and agency. Agency is defined as an institution under a ministry e.g., Immigration Department is under the Home Ministry. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 6.2: Effect of Anti-Hopping Law Passage on Senior Party Hiring for Junior Executives

## 6.2 Caretaker Government

To interpret table 6.3 and 6.4, we must turn to the variable  $\text{Junior} \times \text{HoppingLawPass}(\text{Imp})$  and  $\text{Junior} \times \text{Caretaker Government}$ . Note that the caretaker government indicator is always 1 whenever  $\text{HoppingLawPass}$  and  $\text{HoppingLawImp}$  is 1 as the parliament was dissolved after the law was passed and implemented. The variable  $\text{Junior} \times \text{HoppingLawPass}(\text{Imp})$  measures the effect of passing (implementation) the hopping law on senior party hiring before the dissolution of parliament for junior-led ministries.  $\text{Junior} \times \text{Caretaker Government}$  measures the effect of dissolving the parliament on senior party hiring after the passing (implementing) of the hopping law for junior ministries.

As expected, when the parliament is in session, passing the anti-hopping law led to a 2.55 percentage point reduction in the probability of hiring from senior party constituencies. This result is robust for 5% significance level even when clustering the standard errors on a ministry-level. Dissolving the parliament on the other hand led to a sharp rise of 3.16 percentage point in increased probability in hiring from senior party constituencies. This result is robust for 5% significance level for all specifications except when clustering on the ministry-level (which is robust for 10% significance level). This suggest that the probability of hiring from senior party constituencies drop significantly after the law is passed, but sharply rises after the prime minister dissolves the parliament.

As for the hopping law implementation, the results are not significant because there was only a 5 day window between implementation and parliament dissolution. There is not enough time to observe a systematic shift in executive behavior in strategically adapting the newer constraints of their political actions. Perhaps the effect on senior party hiring after the passage of the law can serve as an approximation of the effect of policy implementation.

	Senior Party Hiring			
	(1)	(2)	(3)	(4)
Junior $\times$ HoppingLawPass	-0.0256*** (0.0075)	-0.0255*** (0.0075)	-0.0255** (0.0047)	-0.0255** (0.0109)
Caretaker Government	-0.0097 (0.0129)	-0.0098 (0.0129)	-0.0098 (0.0133)	-0.0098 (0.0119)
Junior $\times$ Caretaker Government	0.0306*** (0.0110)	0.0316*** (0.0110)	0.0316*** (0.0019)	0.0316* (0.0161)
Constant	0.0657*** (0.0057)	0.0532*** (0.0070)	0.0532*** (0.0034)	0.0532*** (0.0078)
Observations	30228	30228	30228	30228
Ministry-Month-Year FE	✓	✓	✓	✓
Controls		✓	✓	✓
Party Cluster SE			✓	
Ministry Cluster SE				✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. Controls include contract price and agency. Agency is defined as an institution under a ministry e.g., Immigration Department is under the Home Ministry. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 6.3: Effect of Anti-Hopping Law Passage on Senior Party Hiring Interacting with Caretaker Government for Junior Executives

	Senior Party Hiring			
	(1)	(2)	(3)	(4)
Junior $\times$ HoppingLawImp	0.0115 (0.0316)	0.0114 (0.0316)	0.0114 (0.0105)	0.0114 (0.0618)
Caretaker Government	-0.0160 (0.0186)	-0.0161 (0.0186)	-0.0161*** (0.0024)	-0.0161 (0.0280)
Junior $\times$ Caretaker Government	-0.0008 (0.0326)	0.0003 (0.0326)	0.0003 (0.0151)	0.0003 (0.0560)
Constant	0.0613*** (0.0025)	0.0487*** (0.0048)	0.0487*** (0.0022)	0.0487*** (0.0089)
Observations	30228	30228	30228	30228
Ministry-Month-Year FE	✓	✓	✓	✓
Controls		✓	✓	✓
Party Cluster SE			✓	
Ministry Cluster SE				✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. Controls include contract price and agency. Agency is defined as an institution under a ministry e.g., Immigration Department is under the Home Ministry. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 6.4: Effect of Anti-Hopping Law Implementation on Senior Party Hiring Interacting with Caretaker Government for Junior Executives

### 6.3 Robustness Checks

One of the main issues that could arise from the analysis is the fact that firms may have more than one location due to having multiple branches across the country. In my original analysis, I have decided to use all the branch locations of a firm which could potentially bias the estimate; this can be problematic if all the branch locations are located in a senior party constituency although it is highly unlikely. Therefore, for a robustness check, I have restricted the sample of contracts that do not have multiple branches. The estimate I recovered is in fact larger than the original. Passing the law results in 2.06 percentage point decrease in probability in hiring from senior party constituency and 3.62 percentage point decrease when parliament is in session before jumping 4.16 percentage points after the parliament is dissolved. Implementing the law does not result in any significant result similar to the original analysis.

	Senior Party Hiring			
	(1)	(2)	(3)	(4)
HoppingLawPass	0.0104 (0.0228)	0.0099 (0.0228)	0.0099 (0.0114)	0.0099 (0.0125)
Junior $\times$ HoppingLawPass	-0.0210*** (0.0081)	-0.0206** (0.0081)	-0.0206** (0.0045)	-0.0206* (0.0111)
Constant	0.0694*** (0.0070)	0.0603*** (0.0087)	0.0603*** (0.0078)	0.0603*** (0.0059)
Observations	19034	19034	19034	19034
Ministry-Month-Year FE	✓	✓	✓	✓
Controls		✓	✓	✓
Party Cluster SE			✓	
Ministry Cluster SE				✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. Controls include contract price and agency. Agency is defined as an institution under a ministry e.g., Immigration Department is under the Home Ministry. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 6.5: Effect of Anti-Hopping Law Passage on Senior Party Hiring for Junior Executives

	Senior Party Hiring			
	(1)	(2)	(3)	(4)
HoppingLawImp	0.0395* (0.0217)	0.0393* (0.0217)	0.0393* (0.0131)	0.0393 (0.0332)
Junior × HoppingLawImp	0.0088 (0.0113)	0.0097 (0.0113)	0.0097** (0.0024)	0.0097 (0.0205)
Constant	0.0644*** (0.0032)	0.0549*** (0.0062)	0.0549*** (0.0070)	0.0549*** (0.0097)
Observations	19034	19034	19034	19034
Ministry-Month-Year FE	✓	✓	✓	✓
Controls		✓	✓	✓
Party Cluster SE			✓	
Ministry Cluster SE				✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. Controls include contract price and agency. Agency is defined as an institution under a ministry e.g., Immigration Department is under the Home Ministry. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 6.6: Effect of Anti-Hopping Law Passage on Senior Party Hiring for Junior Executives

	Senior Party Hiring			
	(1)	(2)	(3)	(4)
Junior × HoppingLawPass	-0.0363*** (0.0096)	-0.0362*** (0.0096)	-0.0362*** (0.0046)	-0.0362*** (0.0129)
Caretaker Government	-0.0156 (0.0164)	-0.0157 (0.0164)	-0.0157** (0.0046)	-0.0157 (0.0122)
Junior × Caretaker Government	0.0407*** (0.0139)	0.0416*** (0.0139)	0.0416*** (0.0003)	0.0416** (0.0195)
Constant	0.0684*** (0.0072)	0.0588*** (0.0089)	0.0588*** (0.0096)	0.0588*** (0.0078)
Observations	19034	19034	19034	19034
Ministry-Month-Year FE	✓	✓	✓	✓
Controls		✓	✓	✓
Party Cluster SE			✓	
Ministry Cluster SE				✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. Controls include contract price and agency. Agency is defined as an institution under a ministry e.g., Immigration Department is under the Home Ministry. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 6.7: Effect of Anti-Hopping Law Passage on Senior Party Hiring Interacting with Caretaker Government for Junior Executives

	Senior Party Hiring			
	(1)	(2)	(3)	(4)
Junior $\times$ HoppingLawImp	-0.0203 (0.0382)	-0.0203 (0.0382)	-0.0203 (0.0147)	-0.0203 (0.0701)
Caretaker Government	-0.0422* (0.0243)	-0.0422* (0.0243)	-0.0422*** (0.0021)	-0.0422 (0.0426)
Junior $\times$ Caretaker Government	0.0321 (0.0396)	0.0331 (0.0396)	0.0331 (0.0182)	0.0331 (0.0606)
Constant	0.0646*** (0.0032)	0.0551*** (0.0062)	0.0551*** (0.0070)	0.0551*** (0.0096)
Observations	19034	19034	19034	19034
Ministry-Month-Year FE	✓	✓	✓	✓
Controls		✓	✓	✓
Party Cluster SE			✓	
Ministry Cluster SE				✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. Controls include contract price and agency. Agency is defined as an institution under a ministry e.g., Immigration Department is under the Home Ministry. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 6.8: Effect of Anti-Hopping Law Implementation on Senior Party Hiring Interacting with Caretaker Government for Junior Executives



## 6.4 Placebo Checks

To ensure that the findings are robust for parallel trends, I am conducting a placebo test to see if there is any effect of before the law is passed<sup>25</sup>(Di Tella and Schargrotsky 2004). I am only conducting the placebo check for the interaction with the caretaker government as it is the specification with significant findings. The placebo test is conducted by assigning the treatment before the law is passed<sup>26</sup>. I am assigning the treatment in each of the 28th of the month from August 2021 – June 2022. Since the effect is more pronounced in the reduced sample as in section 6.3, I am conducting the placebo check for a more conservative test. I found that all the treatment effect is null for all the dates except June 2022 in the direction of the anticipated effect<sup>27</sup>.

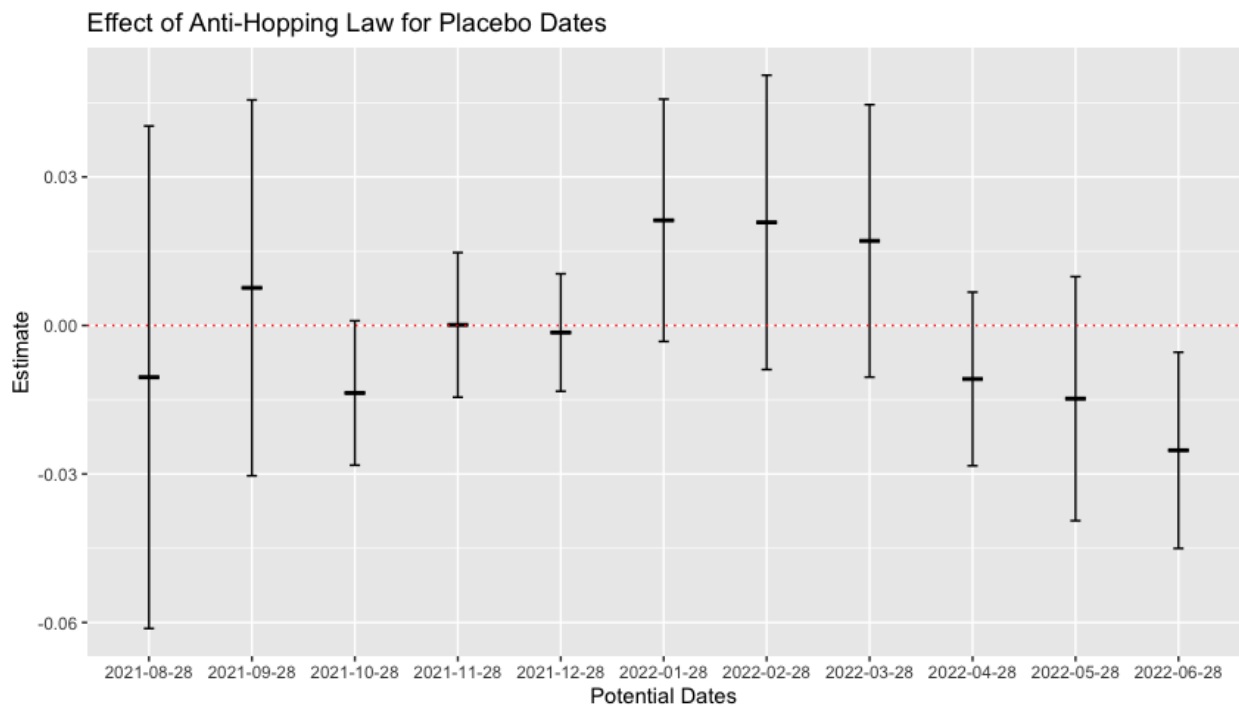


Figure 1: Placebo Check for the Effect of Anti-Hopping Law Interacting with Caretaker Government on Senior Party Hiring for Junior Executives

<sup>25</sup>If the treatment effect was already observed before the law passed, then that means there is an anticipation effect which is problematic for our analysis.

<sup>26</sup>I am only conducting the placebo test for the passage of the law since implementation of the law has null effect.

<sup>27</sup>This could arise from the fact that the executives anticipate that the law will be passed in the next month.

## 6.5 Sensitivity Analysis for Parallel Trends Violations

I have also conducted a sensitivity analysis for further tests of parallel trends violation following Rambachan and Roth (2023). The idea here is that violation of parallel trends in the post-period cannot deviate too much from a linear extrapolation of the pre-trends. Since we create the counterfactual of the treated units from the pre-trend extrapolation, what happens if we slightly alter the pre-trend estimate? We purposely break the parallel trends in the pre-trends to see if our findings can still be valid: to bound the treatment effect and obtain a "uniformly valid confidence sets" (Rambachan and Roth 2023).

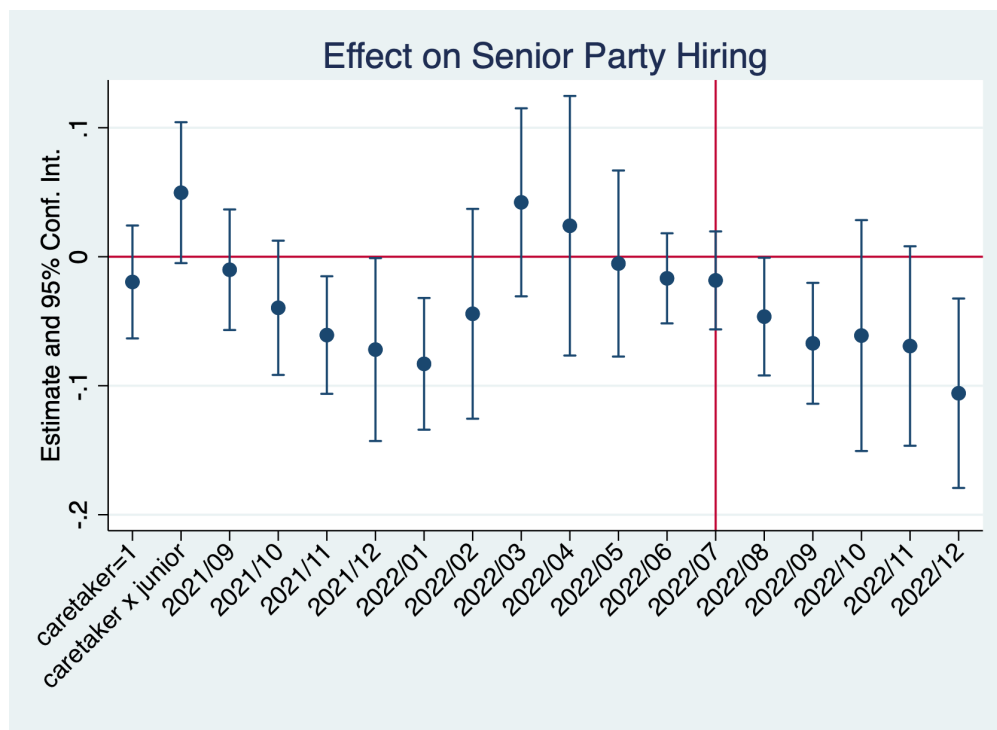


Figure 2: Event Study for the Effect of Anti-Hopping Law on Senior Party Hiring for Junior Executives. Note that the treatment takes effect on 2022/07

Our event study plot suggests that there is a significant effect on the 2021/11 and 2022/01 which can pose a diagnostic problem for our parallel trends validity<sup>28</sup>. However, 5 months prior to the passage of the law seemed to have no significant effects which implies that parallel trends may hold leading up to July 2022. Not only that, the plot seemed to point towards a downward trend

<sup>28</sup>This problem may arise from the electoral incentives provided by the Melaka and Johor state elections as mentioned in section 5.4.

absent the dissolution of the parliament.

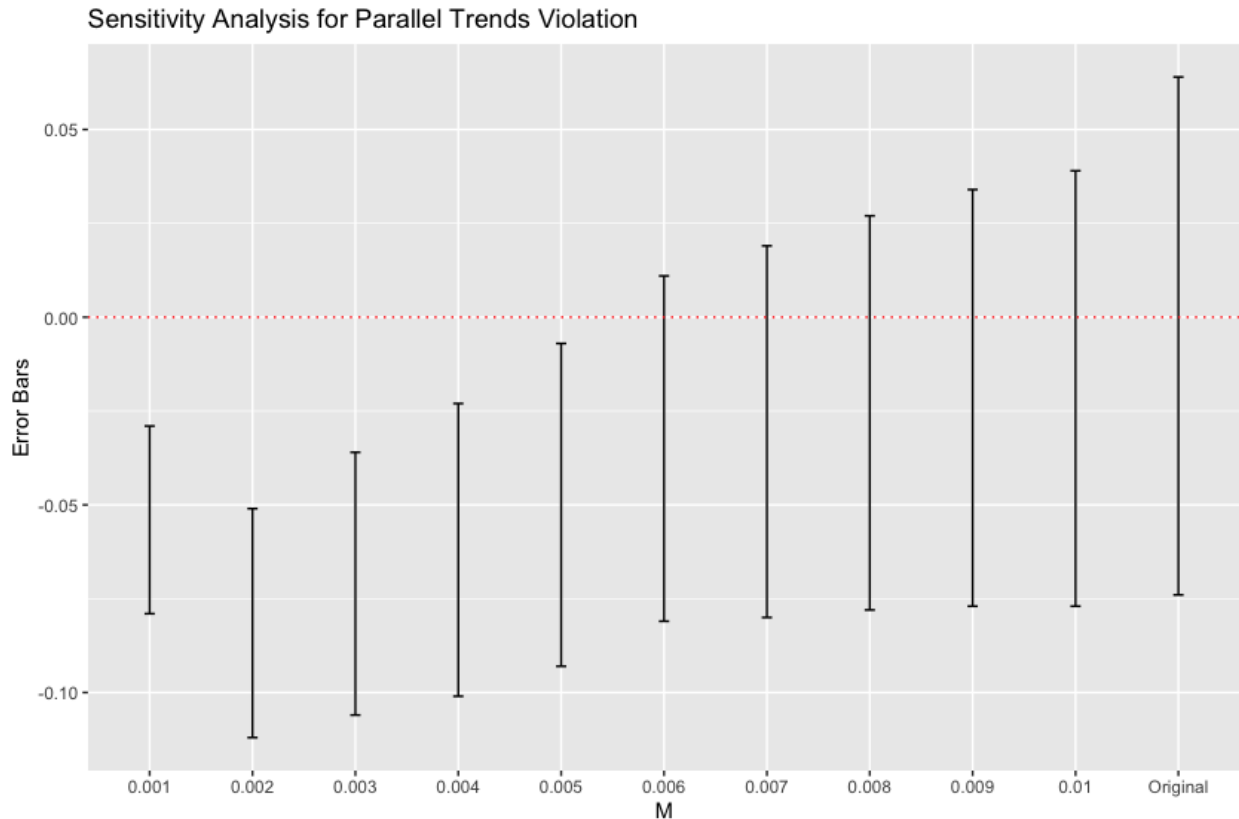


Figure 3: Sensitivity Analysis for Different Values of  $M$

To interpret the above figure,  $M$  represents the limit of the change of the slope of the trend between consecutive periods. Our breakdown value here is 0.005 as it is the first value to cross 0. What this means for our finding is that we can allow our linear extrapolation of the pre-trends for consecutive periods to be off by 0.005 percentage points. This can pose a limitation for the robustness of our causal interpretation because our findings are incredibly sensitive if parallel trends are not met. That means if the counterfactual for our treated units<sup>29</sup> deviate by more than 0.005 percentage points, our findings are no longer valid. Therefore, we must rely on the substantive argument to justify the validity of our parallel trends assumption as it is vital for the feasibility of our causal interpretation.

<sup>29</sup>Recall that we use the linear extrapolation of control units to create them.

## 7 Discussion and Issues

### 7.1 Party-Wide Practice or Individual Action?

The main issue with our analysis is that we could not distinguish whether the actions to reduce hiring firms from BN constituencies after the passage of the anti-hopping law for junior executives are driven by individual action or party behavior. Do parties issue a directive to cabinet members to follow the prime minister in one period and defy him in others? One could argue that since the law was passed as part of the compromise between Ismail Sabri and the PH coalition, the junior executives lose confidence in Ismail Sabri and begins to diverge from his party's preferences as a signal of their disapproval. Our empirical assessment thus far cannot disentangle between the two mechanisms: whether individual party members no longer see incentives to perform favors or entire parties losing confidence in the prime minister. However, an additional analysis in table 7.1 reveal that the anti-hopping law did not affect any other party hiring but the BN coalition from the junior parties except for PAS after the parliament was dissolved.

	Other Party Hiring		
	BERSATU	PAS	GPS
HoppingLawPass	0.0394 (0.0239)	-0.0075 (0.0163)	-0.0130 (0.0245)
Junior × HoppingLawPass	0.0116 (0.0117)	0.0051 (0.0071)	-0.0078 (0.0119)
Caretaker Government	0.0025 (0.0110)	-0.0019 (0.0120)	-0.0063 (0.0086)
Junior × Caretaker Government	0.0107 (0.0113)	0.0498*** (0.0152)	-0.0092 (0.0079)
Observations	30228	30228	30228
Ministry-Month-Year FE	✓	✓	✓
Controls	✓	✓	✓
Ministry Cluster SE	✓	✓	✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. Controls include contract price and agency. Agency is defined as an institution under a ministry e.g., Immigration Department is under the Home Ministry. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 7.1: Effect of Anti-Hopping Law Passage on Other Party Hiring for Junior Executives

If we assume that parties in the junior coalition seek to maximize the probability that the firm within their constituency is hired, then we expect to find that the decrease in BN firms to correspond with an increase in their own party's firms. Of course, this assumption is not a complete description of party's preferences. Parties could have easily ordered their cabinet members to hire firms from electoral districts where their influence can be greatest in anticipation of an election. I perform an additional analysis by using marginal districts and Bumiputera voters as an outcome variable<sup>30</sup>. Here, I want to test if the junior ministries shifted their strategies in accordance to their party ideology<sup>31</sup> or pivotal seats important for the party's electoral success.

	Bumiputera Population and Pivotal Seats Firm Hiring	
	Bumi	Pivotal
HoppingLawPass	0.0044 (0.0107)	-0.0055 (0.0181)
Junior × HoppingLawPass	-0.0042 (0.0058)	0.0089 (0.0104)
Caretaker Government	-0.0154 (0.0150)	0.0182 (0.0163)
Junior × Caretaker Government	0.0578*** (0.0158)	-0.0475*** (0.0157)
Observations	30228	30228
Ministry-Month-Year FE	✓	✓
Controls	✓	✓
Ministry Cluster SE	✓	✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. Controls include contract price and agency. Agency is defined as an institution under a ministry e.g., Immigration Department is under the Home Ministry. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 7.2: Effect of Anti-Hopping Law Passage on Firm Hiring in Majority Bumiputera and Pivotal Constituencies

Passing the anti-hopping law did not lead to a significant and systematic shift in hiring firms from majority Bumiputera and pivotal constituencies until the dissolution of parliament. Dissolving the parliament corresponds to a 5.78 percentage point increase in the Bumiputera share

<sup>30</sup>The variable of marginal district is the margin of victory – in percentages – in the 2018 election as the 2022 election results were not realized at that point in time. Bumiputera voters is the percentage of registered Bumiputera population in 2018 for a federal constituency.

<sup>31</sup>BN, BERSATU, PAS, and GPS voters are mostly composed of the Bumiputera members

of population of the constituencies that the firms are located in. It also corresponds to a 4.75 percentage point decrease in the winning margin of the constituencies that the firms are located in. Interestingly, the strategy post-dissolution seemed to reflect the UMNO-style patronage building mentioned earlier in section 2.4 which may have been a sign that the junior executives no longer have any policymaking autonomy<sup>32</sup>. However, since the junior parties share the same voter base – the Bumiputera population – one could also argue that the change for junior executives after parliament dissolution reflects a significant party action<sup>33</sup> to win voters heading into an election. Yet, we do not seem to find an effect prior to the caretaker government: a type of government that greatly constrains the policy-making ability of the junior executive. Why would junior executives wait until their powers are limited to finally perform actions that benefit their own party electorally? I argue that the agency in hiring decisions may have shifted from the junior executive towards the senior after parliament was dissolved.

Thus, our "individual action" story relies on a first-order assumption that junior executives cannot commit to implementing party platforms fully (Besley and Coate 1997; Osborne and Slivinski 1996). Although this assumption cannot be tested empirically, I argue that it is appropriate given Malaysia's political environment. BERSATU, the largest junior party in the coalition, are made up of known party-switchers and former UMNO members. Unless we can accept that BERSATU as a party could expend resources to enforce their preferences on their executives – who themselves have bargaining power against their own party – the empirical observation we made is evidence of individual's strategic adaptation to spread their political influence away from the prime minister.

## 7.2 Do Junior Executives Prefer Senior Firms for Electoral Benefits?

Another issue that may arise is the lack of data in showing the extent of policies implemented that are preferred by the junior executive in terms of electoral benefits. As mentioned before in section 2.4, the assumption we need to accept is the idea that policies preferred by the

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<sup>32</sup><https://www.thestar.com.my/news/nation/2022/10/10/cabinet-ministers-will-continue-to-serve-in-caretaker-govt-says-zuki>

<sup>33</sup>See Krehbiel (1993).

senior executive is simply hiring firms from their constituency. This assumption is justified by the qualitative accounts regarding patronage-building practiced by the UMNO-BN government for the past 60 years. Yet, the preferred policy of the junior executive are not explicitly assessed. This is mostly due to the lack of experience these members have been in the ruling coalition hence the lack of firm-hiring pattern recognition that we can establish for UMNO-BN. Among the parties in the junior executive, only GPS – composed of dominant regional parties in Sarawak which were always part of the ruling coalition – have been in government for more than 5 years.

But if we observe the types of constituencies that BERSATU and PAS typically dominate in elections, we see that their main voting base comprised of the same type of voting base that BN seeks to attract – majority-Malay and conservative i.e., the same constituencies that were aligned with BN. Perhaps here is an indication that the electoral preferences of the junior executive may have been similar to the senior one<sup>34</sup>. This may explain why junior executives hire from BN constituencies in the first place which goes against our courting story. Junior executives hire from BN constituencies because they want to gain the Malay conservative votes. However, if junior executives seek to maintain a strong support from the Malay conservative electorate, why would they reduce senior hiring after the law is passed considering that these constituencies are made up of the voters they seek to attract? And if junior executives want to attract Malay voters, why would they choose to hire from BN constituencies prior to the law instead of the constituencies they hire after?<sup>35</sup> We see a decrease in senior hiring, yet we see a null effect for Bumiputera constituencies. This suggests that the junior executive continually provides similar hiring rates for majority-Bumiputera constituencies but pivoting away from BN constituencies into others. We can infer that although junior and senior executive may share similar electoral preferences in terms of voter profile – Malay and conservative – the junior executive only prefers to award BN constituencies only if they have the political insurance to switch parties.

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<sup>34</sup>In fact, the founding members of BERSATU were former UMNO members who were removed during the Najib Razak era.

<sup>35</sup>Constituencies that may have been aligned with their own party.

## 8 Conclusion

### 8.1 Incentives to Follow the Prime Minister

I aim to show that there is an incentive for junior coalition members to work with the prime minister despite being in different parties. I argue that the junior incentives were generated from the weaknesses of their own party and competence revelation. The allocation of portfolio assignments represent a credible promise from the senior executive and the final policy realization displays the relative weight that each party has in the coalition (Laver and Shepsle 1996). Yet, the ability of junior parties in driving policy-making in the coalition hinges on their capacity to provide incentives for their executives in relation to the senior party.

Although this paper did not explicitly show the extent to which party preferred policies were implemented, the flexibility in which these junior ministers behave across time speaks to the importance in providing some reward (or punishment) to bind politicians to party or cabinet platforms. Some empirical papers such as Kluver and Spoon (2020), Thomson et. al. (2017), Strom, Müller, and Bergman (2008) showed the negative impact junior coalition members face in joining a larger party in terms of delivering substantive representation in the cabinet. This paper presents one of the ways where junior platform efficiency may be disrupted; a situation where the larger, more institutionalized party offer a better career opportunity for junior executives than their own party. Hence, the junior executives may expend some effort to court the prime minister – which may reduce their capacity to impose their assigned party platforms fully but increase the policy efficiency of cabinet government through cabinet cohesion. Thus, coalitions here may hold despite the anticipated losses of junior parties because of the individual benefits that junior executives may accrue from their position.

### 8.2 Policy Implications of the Anti-Hopping Law To Coalition Formation

With the passage of the anti-hopping law, junior executives have no incentives to follow the prime minister. Therefore, one of the effect we can expect to find is the decrease in cabinet cohesion



if parties have conflicting preferences which may reduce overall cabinet efficiency. Executives no longer have to account for the benefits they may gain from following the prime minister which can mean that we may see an efficiency increase in implementing junior party platforms but could be affected if the junior executive engage in rent-seeking and corruption. Senior parties may need to compromise more of their policy-making powers to junior ones to compensate for the potential electoral losses in the future and overall cabinet inefficiency. Due to the weaker bargaining position of the individual executive against their own party, the potential reward for a position in the cabinet may decrease which can raise a selection problem. This can reduce the overall quality of the representatives chosen to lead a cabinet as previously the reward was tied to the effort being put in at courting the prime minister. Before, the politician can choose to expend their effort at increasing cabinet cohesion for future career advancement, now they can only implement their own party's policies or put no effort.

The anti-hopping law may increase the bargaining position of the junior party in the coalition which leads to more power-sharing and increase the likelihood of delivering party platform policies. However, it can also decrease cabinet cohesion, induces worse executive selection, and reduces the policy-making capacity of the senior party to bring major reforms if opposed by a junior coalition member. Future research on party strength and its impact on policy-making may want to exploit the anti-hopping law for a source of quasi-exogenous variation of party strength.

## 9 Appendix

### 9.1 Geographic Distribution of Firms

#### Geographic Distribution of Firms Without Klang Valley

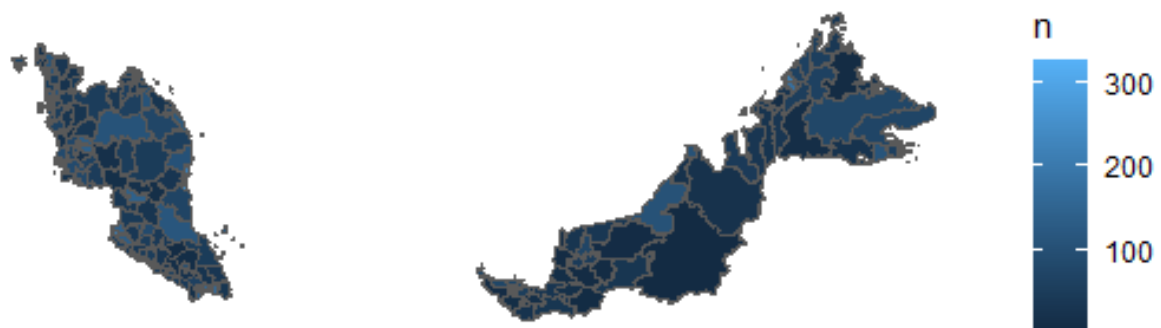


Figure 4: Geographic Distribution of Firms Hired Between 2020 – 2023 Without Klang Valley

### 9.2 Empirical Analysis With Location Controls

### 9.3 Empirical Analysis With Party Fixed Effects

### 9.4 Party Heterogenous Effects

### 9.5 Empirical Analysis With Panel Data

	Senior Party Hiring			
	(1)	(2)	(3)	(4)
Junior $\times$ HoppingLawPass	-0.0298** (0.0141)	-0.0362* (0.0191)		
Junior $\times$ Caretaker Government		0.0225 (0.0303)		0.0170 (0.0468)
Junior $\times$ HoppingLawImp			-0.0082 (0.0249)	-0.0238 (0.0601)
Observations	21001	21001	21001	21001
Ministry-Month-Year FE	✓	✓	✓	✓
Controls	✓	✓	✓	✓
Ministry Cluster SE	✓	✓	✓	✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. Controls include state, contract price and agency. Agency is defined as an institution under a ministry e.g., Immigration Department is under the Home Ministry. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 9.1: Effect of Anti-Hopping Law Passage and Implementation on Senior Party Hiring for Junior Executives with State Controls

	Senior Party Hiring			
	(1)	(2)	(3)	(4)
Junior $\times$ HoppingLawPass	-0.0130* (0.0048)	-0.0232*** (0.0039)		
Junior $\times$ Caretaker Government		0.0276*** (0.0030)		0.0017 (0.0159)
Junior $\times$ HoppingLawImp			0.0091 (0.0044)	0.0078 (0.0106)
Observations	30228	30228	30228	30228
Party-Month-Year FE	✓	✓	✓	✓
Controls	✓	✓	✓	✓
Party Cluster SE	✓	✓	✓	✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. Controls include contract price and agency. Agency is defined as an institution under a ministry e.g., Immigration Department is under the Home Ministry. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 9.2: Effect of Anti-Hopping Law Passage and Implementation on Senior Party Hiring for Junior Executives with Party-Month-Year Fixed Effects

	Senior Party Hiring		
	(1)	(2)	(3)
BERSATU $\times$ HoppingLawPass	-0.0295*** (0.0104)		
GPS $\times$ HoppingLawPass		0.0115 (0.0161)	
PAS $\times$ HoppingLawPass			0.0079 (0.0144)
Observations	30228	30228	30228
Ministry-Month-Year FE	✓	✓	✓
Controls	✓	✓	✓
Ministry Cluster SE	✓	✓	✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. Controls include contract price and agency. Agency is defined as an institution under a ministry e.g., Immigration Department is under the Home Ministry. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 9.3: Heterogenous Effect of Anti-Hopping Law Passage on Senior Party Hiring for Junior Parties

	Senior Party Hiring			
	(1)	(2)	(3)	(4)
Junior $\times$ HoppingLawPass	-0.0113 (0.0117)	-0.0113 (0.0103)	-0.0113 (0.0050)	-0.0113 (0.0089)
Constant	0.0550*** (0.0038)	0.0644*** (0.0025)	0.0644*** (0.0005)	0.0644*** (0.0009)
Observations	414	413	413	413
Ministry-Month-Year FE		✓	✓	✓
Party Cluster SE			✓	
Ministry Cluster SE				✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. The regressions above are weighted by the number of contracts issued by a ministry during Ismail Sabri's tenure. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 9.4: Effect of Anti-Hopping Law Passage on Senior Party Hiring for Junior Executives Using Ministry Panel Data

## Geographic Distribution of Firms In Klang Valley

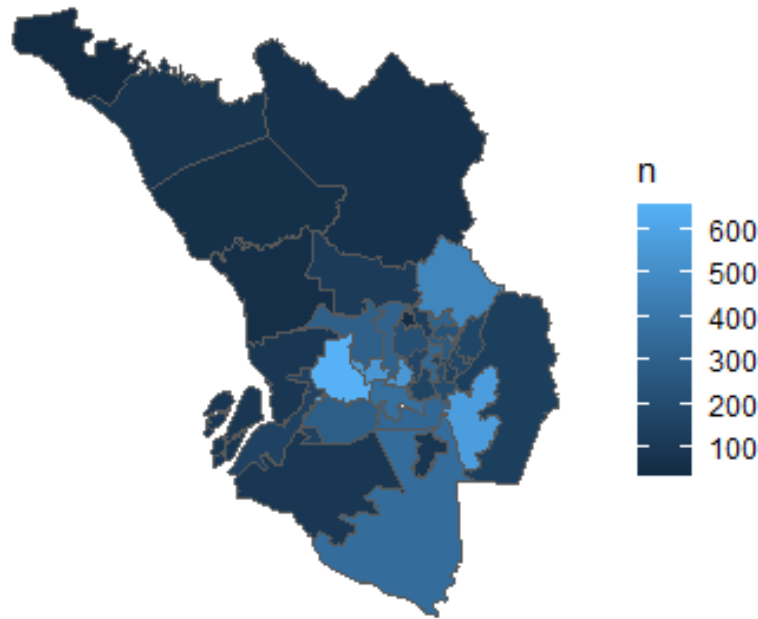


Figure 5: Geographic Distribution of Firms Hired Between 2020 – 2023 in Klang Valley

	Senior Party Hiring			
	(1)	(2)	(3)	(4)
Junior × HoppingLawPass	−0.0205 (0.0166)	−0.0203 (0.0145)	−0.0203** (0.0059)	−0.0203* (0.0115)
Junior × Caretaker Government	0.0159 (0.0201)	0.0154 (0.0176)	0.0154*** (0.0019)	0.0154 (0.0129)
Constant	0.0550*** (0.0038)	0.0644*** (0.0025)	0.0644*** (0.0005)	0.0644*** (0.0009)
Observations	414	413	413	413
Ministry-Month-Year FE		✓	✓	✓
Party Cluster SE			✓	
Ministry Cluster SE				✓

*Note:* \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ . Standard errors are in parenthesis. The regressions above are weighted by the number of contracts issued by a ministry during Ismail Sabri’s tenure. Also the passage of the law is on July 28th, 2022 and the implementation of the law is October 5th, 2022.

Table 9.5: Effect of Anti-Hopping Law Passage on Senior Party Hiring for Junior Executives Interacting with Caretaker Government Using Ministry Panel Data

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