



Political Connections and Firm Performance: Evidence from Indonesia

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ABSTRACT

We study the performance of Indonesian firms based on political and non-political connections for the period of 2007 to 2018. Using advanced econometrics approach, we provide a comparative empirical analysis of the linkages between performance, firm-specific characteristics, and macroeconomic variables for politically-connected (PC) and non-politically-connected (NPC) firms. In addition, we also offer an empirical analysis of performance determinants across industries categories and Shariah-compliance status. The results show the performance (measured by ROA and ROE) of PC and NPC are significantly influenced by firm-specific characteristics (leverage, tangibility, firm size, and liquidity). While, only one macroeconomic factor (economic growth) has significant effect to ROA, and two macroeconomic factors (economic growth and inflation) have significant effect to ROE of PC firms. Focusing on politically-connected firms, we find a variation of performance determinants (both firm-specific and macroeconomic factors) across different industries categories. Interesting insight we noted that there is a persistent negative effect of tangibility on performance indicators in agriculture-, chemicals-, consumer goods-, infrastructure-, mining-, and miscellaneous industries. In terms of Shariah-compliant status, tangibility also exerts the negative and significant effect on ROA of both Shariah-compliance and non-Shariah compliance status. Another important insight is that the Shariah non-compliance status allows the politically-connected firms to use more leverage as there is no Shariah restrictions imposed to them. This suggests that high leverage significantly contributes to increase the ROA of Shariah non-compliance firms. Therefore, political linked status is still an imperative factor in influencing the Indonesian firm's performance. This finding lends some support to the argument on the political connection and the performance of firm and offers several policy implications from a practical point of view with regard to the subject matter.

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INTRODUCTION

The value of firms significantly depends on the benefits obtained via political connections. In other words, those firms with good political connections can confer matter with regard to subsidies, tax cuts, regulatory protection, accessible to restricted resources and also investment opportunities (Faccio et al., 2006). Alternatively, other studies found that with the involvement of politician in the firms, it affects the firms' decision-making process and outcomes as well. Political connection at the corporate level are considered as valuable assets and it can be constructed in different ways. Given firms attain favouritism by politicians via donations to political campaign and corporate lobbying effort (Cooper et al., 2010; Cheng & Lai, 2012), government also starts their links with firms by offering them a special access to financing via state-owned banks or by government attachment in corporate boards (Lazzarini et al., 2015; Faccio et al., 2006). In addition, with a greater connection with politician, allow for exchanges of favours benefits by both industrialist and politicians. This exchange of favours benefits can be described from two perspectives: the corporate side where rent-seeking behaviour highlighted that politically – connected firm's benefits in the forms lower down the funding costs and facilitate credit accessibility (Ades and Di Tella, 1997; Boubakri et al., 2012b). On the side of politicians, perhaps they might use lending by government banks to enhance further firm operational level and also attain private benefits (Carvalho, 2014; Lazzarini et al., 2015). The political experience of the member can give special treatment to banks, assist in opening new markets or, in other words, give various benefits which are reflected in the performance of the company (Agrawal and Knoeber, 2001; Goldman et al., 2009; Leuz and Oberholzer-Gee, 2006). In general, the types of firms who are politically linked can be found in the existing literature are (i) member involved in the board of directorial (Roberts, 1990; Goldman et al., 2009), (ii) structured of ownership (Fisman, 2001; Firth et al., 2009), (iii) contributions of election campaigns (Claessens et al., 2008) and finally via (iv) executive means (Fan et al., 2007; Faccio et al., 2006; Boubakri et al., 2008).

Case in hold, views of financial integration literature propose that foreign investment exposure might also play a key role in channelling the outcome of political uncertainty to asset prices. The flow of equity to emerging economies purify these markets are financially integrated with global capital markets (Hillier and Loncan, 2017). Although the process of financial market integration is found to bring benefits, particularly the increase stock prices, the main cause this effect would a good setting of the political environment (Carrieri et al., 2013; Chari and Henry, 2004). Bakaert et al. (2011) argued that recognizing the importance of political setting, the political risk seems to weaken the financial integration, because emerging markets persistently segmented from worldwide markets. Similarly, financial integration increases firms share price, segmentation, its reciprocal, is allied to higher return and decrease in share prices. Political risk accelerates the threat of chances expropriation faced by foreign firms and investors with political vagueness instigating negative effects on foreign investments (Busse and Hefeker, 2007).

Following that, amplified riskiness in the political view leads to substantial foreign capital flight away from politically exposed countries (Lensink et al., 2000; Alesina and Tabellini, 1989). Political risk also cause fluctuation in exchange rates, with the reaction of the foreign exchange market being more dramatic for unfavourable political events. Moreover, firms retaining generous foreign financing can be more exposed to antagonistic changes in the currency and capital drifts (Bailey and Chung, 1995). Investors are more concern about the systematic risks when comes to an investment as it returns of investments are more affected by systematic risks than unsystematic risks. This later will result in the withdrawal of investment fund by local or foreign investors from local country to other safe countries, thus affecting the performance of the local country in terms of economic and financial development.

Thus, it would be still fascinating to carry out an empirical investigation with regard to political influence and firm performance. But, why in this research we choose Indonesia? What are the key motivations for investigating of Indonesian political linked firms and firm performance? Given the positive dimension of political benefits as highlighted above, political connections are highly relevant in an emerging market like Indonesia. Politically linked firms can add value to firms or firm's manager such as in the case of Indonesia, managers are mainly the largest shareholders where 84.6 percent of the management is affiliated with the controlling owner (Claessens et al., 2000). According to Fishman (2001), investors who invested in Indonesia, view that political connection the country president as valuable and it is accounted for one-fourth of a firm's value and increased the firm value by 33% on yearly basis. Secondly, we find that in Indonesia, political connection predominantly plays an important role in the determination of firm value. For example, in the study

investigate by Fisman (2001) hypothesized firm value in Indonesia is heavily influenced by political connection. In Fisman's study, the author used an event of rumours involving former president Suharto by using time framework between 1995 to 1997, the result shows that that the stock returns of firms having a strong association with Suharto were significantly lower than those of less connected firms. Thirdly, looking at the Indonesia context, most of the firm's ownership is based on concentration ownership with an average of 16.6 percent of market capitalization within the hand of single family (Claessens et al., 2000). Given such ownership structure, it will give rise to agency problem such as the risk of expropriation of properties of minority shareholders by their controlling owners. Finally, in Indonesia, the existence of weak corporate governance leads to abusive activities such as politically connected firms engage in abusive related party transaction that taps resources out of the minority stakeholders.

In general, we intend to investigate whether political connection among Indonesian firm's impacts on firm performance or vice versa. To reach the main objective, the following research questions have been constructed and they are:

- i) To investigate the determinants of firm performance, identified as being politically connected compared to non-political connected firms
- ii) To understand how the firm performance differs between different industries in the context of politically connected firms
- iii) To understand how the firm performance differs between different shariah-compliance status in the context of politically connected firms.

We claim three main contributions. Firstly, the contribution towards existing literature. The findings from this study expected to enhance the literature available in the context of the Indonesian stock market. This is because, although there are various studies discussed about political linkages and the performance of Indonesia firms value such as Rusmin et al. (2012), Habib et al. (2017), Harymawan et al. (2017), Ramli et al. (2016), as far as we concern, none of the studies highlights the differences between politically linked and non-politically linked firms performance. To differentiate with other studies, we also incorporated an analysis of how firm performance of politically connected firms might differ across different industrial classification and Shariah compliance status. The second contribution would be in the form of enhancing investment decision making process. The generated results expected to provide an investor proper guidance to investor especially in picking the best stock for the investment purpose. For example, a question like whether the political connections of firms provide higher value to the shareholder or vice versa, investor able to find out the answer for this. Another set of question would be like are stock returns higher for companies that have prominent politicians as their shareholders or board members? The clarity for these type of questions would generally lead to the good investment decision. Lastly, this paper contributes to the literature on factional politics. An increase in the research involving political science, financing and accounting indicates that factional ties can augment politician in seeking for promotion and getting government loans and allows firms to get government protection in various matter including inspiring firms to subdue disclosures of bad news.

The remainder structure of the paper takings as follows. Section 2 provides a theoretical foundation and prior literature with regard to the subject matter. Section 3 demonstrates on sample, variables, and model specification used in this study. The following section explains the main test results and section 5 give exposure on the concluding remark.

LITERATURE REVIEW

Theoretical foundation: Agency Theory

Agency problem starts when a person is assigned to manage another person's financial affairs, an agency relationship will exist by default. The most common agency relationship in finance is the relationship between shareholders (principals) and company executives (agents) (Davies, 2000). From the financial management perspective, there is an existence of risks. However, the principals and agents do not share the same level of risk tolerance. This may lead to failure in investing decisions. When agents act towards the principals' goals or interests, their means of doing so may conflict with the risk tolerance of the principals. In Indonesia, the agency relationship seems to be less significant as many firms are closely owned by a small group of a shareholder who is family – linked and politically closely aligned. This contributes to different agency conflict between

controlling shareholders and minority shareholders. According to Rusmin et al. (2012), the private welfares of majority control of companies by their management are balanced with minority shareholders and later decreases the firm's value. Looking at the Indonesia perspective, ownership of the firm is concentrated, and the agency problem is not between manager-shareholder but a conflict between owners and minority shareholders. Furthermore, according to Gul (2006), argued that many Indonesian firms are politically connected and it started during the administration of President Suharto where there are lot of corruption, nepotism and family intervention in the country matter and businesses. The Suharto government had given full support to the firms by offering them the government contracts and making availability of investment capital to their preferred firm at good interest rates.

Empirical Literature on the Performance of Politically Connected Firms

The political connection can be considered a double-edged sword where it can boost or jeopardize a company's value. For example, in China, Xu et al. (2002) emphasized that when political control is truncated, thus increases the firm value. This occurs due to an increase in a firm's liveness especially in labour deployment and enforcement of effective corporate governance practices. To be noted, some political appointees have contradictory goals, such as maximizing employment or minimizing social costs many others. Research in political connection in developed and emerging economies shows mixed outcomes. According to Correia (2014), argue that politically connected firms are less likely involved in SEC enforcement actions and following that, the finding also indicates that connected firms have fewer penalties if they are penalized by SEC. Similar to Correia's, Blau et al. (2013) claim that when firms having a strong connection with political parties, the firms received more or earlier support in term of financial assistance when they encounter financial distress problem. The recent study by Gray et al. (2016) shows outstanding result where in the context of Australia, those firms appointed their board of director who involved in politic seem to receive a negative reaction from the market player, thus decreasing the firm's value. Using Malaysia as a sample of analysis, Wahab et al. (2015) investigate the influence of political connections with corporate governance and audit fees. The result shows that firms with a strong association with politics tend to have better corporate governance than other firms.

The most recent conducted by Hillier and Loncan (2019) aimed to examines the influence of political uncertainty on stock return by adapting an exogenous shock to political stability in Brazil. The outcome is that political connection and foreign capital exposure are the main factors channelling political risk to asset prices, thus pushes up the cost of equity throughout political uncertainty. Furthermore, Piotroski et al. (2018) who examines stock returns of Chinese politically linked firms and found that stock price co-movement was exaggerated by the embeddedness of the firm-politician tie within the network. The authors' divided the analysis of the return of firms involving common politician and separate politician. The return is positively significant in common politician while insignificant with a separate politician.

In Indonesia, Habib et al. (2017) intend to capture whether firms who are politically connected use related party transactions (RPT) as a tunneling mechanism or vice versa. The finding revealed that firms with political connection use abnormal RP net credits, but not for abnormal RP sales as a mode of tunneling resources. Similarly, a firm using abnormal net credit but not abnormal RP sales to channel capitals tend to engross more in earnings management. Chandra (2015) hypothesizes that there is a significant movement of the stock price with the slow movement for government-linked firms during the presidential election in 2014. In a different dimension, Amizuar et al. (2017) analyzed the possibility Indonesian investors in gaining return from the different market and the results show that Indonesian investor able to gain more if they invest in the developed market than merging market since developed market have more integration and politically stable. Similarly, there are few studies carried out in the context of the Indonesian market but the focus more skewed towards investment rather than political connection such as Rusmin et al. (2012), Habib et al. (2017), Harymawan et al. (2017), and Ramli et al. (2016).

In summary, the existing literature proves that researcher has worked to better understand the issue of politically connected firms and its performance. Unfortunately, in the context of Indonesia, the majority opinion in the literature is on investment decision, herding behaviour and stock market performance and also the results are possibly mixed with most results showing different outcomes due to different dimensions of research focus. Thus, to addresses the current status of residential in Indonesia finance market, we initiate to move the literature forward necessitates utilizing a database that richly characterizes the performance of politically linked firms with the guidance from the simple theoretical foundation and advanced econometrics modelling.

SAMPLE, VARIABLES, AND MODEL SPECIFICATION

Sample Design

This study uses secondary data of firm-level information on Indonesian listed firms. All relevant information on firm-specific characteristics were retrieved from the Thomson Reuters Eikon database. As for the macroeconomic variables, the information was retrieved from the World Bank database. The duration of study spanning from 2007 to 2018 (12 years). A total of 325 listed firms have been selected to be included in this study, after eliminating firms that do not have sufficient data (< 3 years observation) and those that have been delisted from the exchange. The selection is made to ascertain that we thoroughly analyse the performance of Indonesian listed firms with a special focus on political connections. We identified the status of politically linked firms by using the manual checking of annual reports. Most of the reports were downloaded from the website of the Indonesia Stock Exchange (<http://www.idx.co.id/index-En.html>) Basically, firms needed to have minimum one former government employee who serve as board of director in the company. This included those who have retired from government agencies as well. We branded a firm as politically linked if at least one shareholder (having controlling power of 10% of the votes directly or indirectly), Board Member, Commissioners, Members of Parliament, Ministers and Head of local government. We also extended the political relationship to close relationship such as spouse, siblings, sons or daughters, and other immediate family relationships. This is consistent with the approach used by Hermawan (2011). The information on political relationship was obtained from careful checking of annual report and in the case if it is not available, then we use Euromoney Institutional Investor Company (EMIS) as suggested by Gomez and Jomo (1997). In details, we notice that 89% (288 firms) of samples are politically-connected firms, and only 11% (37 firms) are non-politically connected firms. As for the shariah-compliant status, 15% (49 firms) of firms used in this study are having shariah-compliance status, and 85% (276 firms) of them are shariah-non-compliance firms. Next, we also categorize the samples based on industrial categories as being classified by the Indonesian Stock Exchange. Figure 1 below shows the total samples of Indonesian firms based on industries classification.

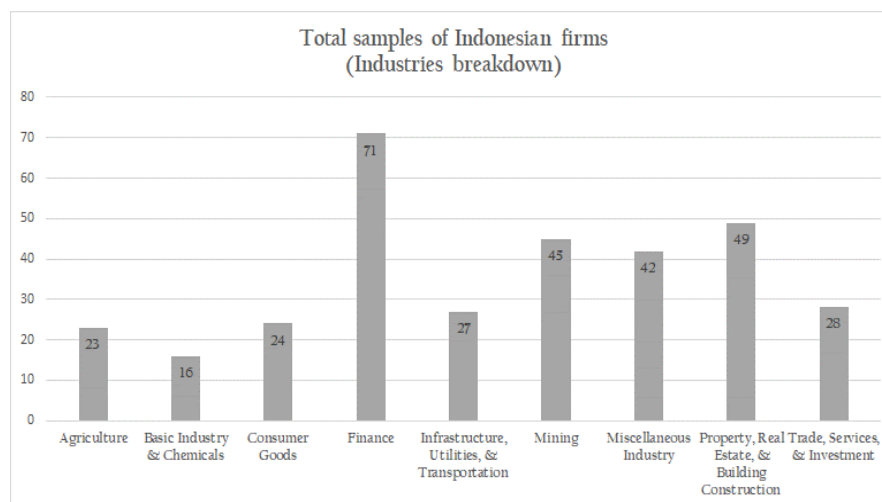


Figure 1 Total samples of Indonesian firms (Industries breakdown)

Variables and Model Specification

The dependent variable used in this study is the firm performance, as measured by return on assets (ROA) and return on equity (ROE). Majority of scholars have used ROA as a proxy for performance (Sufian, 2012; Zhang and Daly, 2014; Brighi and Venturelli, 2014; Terraza, 2015; Petria et al., 2015; Sufian and Zulkhibri, 2015; Saghi-Zedek, 2016), while some of them used both ROA and ROE (Dietrich and Wanzenried, 2011; Zarrouk et al., 2016; Traad et al., 2017). Next, we select the independent variables as suggested in the majority of performance literature and examine the extent to which the determinants can explain the firm performance of Indonesian listed firms (politically connected vs non-politically connected firms). The definitions of variables, measurement, and data sources are exhibited in Table 1 below.

Table 1 Summary of variables, codes, measurements, and data sources

Codes	Variables	Measurements	Sources
<i>Performance (Dependent Variable)</i>			
ROA	Return on assets	Ratio of net income to total assets	Eikon
ROE	Return on equity	Ratio of net income to total equity	Eikon
<i>Firm-Specific Characteristics</i>			
LEV	Leverage	Total debt/ Total assets	Eikon
TAN	Tangibility	Fixed assets/Total assets	Eikon
LnSIZE	Firm Size	Log of total assets	Eikon
CURR	Liquidity	Current assets/Current liabilities	Eikon
<i>Macroeconomic variables</i>			
GDPgr	Economic growth (GDP growth)	Percentage change in annual GDP	World Bank
INF	Inflation (CPI)	Percentage change in consumer price index.	World Bank
INT	Interest rate	Lending interest rate	World Bank

Having discussed the dataset and variables, we are then move on to a formal depiction of regression models that are employed in this study. The general form of the model is:

$$y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \dots + \beta_k X_{kit} + \varepsilon_{it}, \quad i = 1, 2, 3, \dots, N \quad (1)$$

After replacing the X_{1it} and X_{2it} with aforementioned firm-specific variables and macroeconomic variables, the panel regression models become:

$$ROA_{it} = \beta_0 + \beta_1 LEV_{it} + \beta_2 TAN_{it} + \beta_3 LnSIZE_{it} + \beta_4 CURR_{it} + \beta_5 GDPgr_{it} + \beta_6 INF_{it} + \beta_7 INT_{it} + \varepsilon_{it} \quad (2)$$

$$ROE_{it} = \beta_0 + \beta_1 LEV_{it} + \beta_2 TAN_{it} + \beta_3 LnSIZE_{it} + \beta_4 CURR_{it} + \beta_5 GDPgr_{it} + \beta_6 INF_{it} + \beta_7 INT_{it} + \varepsilon_{it} \quad (3)$$

As for the statistical software, we use STATA 13.0 statistical software program to run the analysis of the study. STATA has been recognized by researchers in the field of economics and finance as one of the most reliable statistical software analyses. It has both a command line and graphical interface to examine data patterns and more advanced data analyses, including panel data regressions.

EMPIRICAL RESULTS AND DISCUSSIONS

Descriptive Statistics

Table 2 below shows the descriptive statistics of the dependent and independent variables used in this study. The table reports a number of observations, mean values, standard deviation, minimum, and maximum values of each variable under investigation. Following observations can be observed. First, we notice that there is no difference in average values of ROA between non-political connected (NPC) firms and political connected (PC) firms. The ROA shows a mean of 3.3% for both NPC and PC firms during the period 2007-2018. It is apparent that both NPC and PC firms have the same profitability level. Second, the leverage measure shows a mean of 45% and 39.5% for NPC and PC firms, respectively. This implies that the former (NPC) relies on more debt than the latter ones (PC). Third, the mean values of tangibility indicate that NPC firms have more tangible assets than those PC firms. More than half (52%) of NPC assets are tangible or fixed assets, which is slightly higher to the PC firms (48%). This suggests that NPC firms can offer more assets as collateral for debt financing. Fourth, the average values of firm size indicate that PC firms (19.18) have a greater size than those of NPC firms (18.47). With regard to liquidity, we notice that PC firms have more liquid assets than those of NPC firms. This is indicated by the average values of the current ratio for PC firms (3.47) is higher than NPC firms (2.96).

Moving into macro-economic variables, we notice that Indonesia has an average economic growth of 5.51% between 2007 to 2018. To some extent, the country has higher growth level than the global economy (average 3%), particularly after the global financial crisis 2008-2009., Indonesia also has relatively stable inflation with an average inflation rate of 5.45% during the period 2007 to 2018. It is worth noting that the

inflation rates kept in check below 5% during the Jokowi’s regime. Next, the mean values of interest rate (lending) in Indonesia are 12.5% between 2007 to 2018.

Table 2 Descriptive Statistics
Panel A: Non-Political Connected (NPC) Firms

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	333	0.033	0.150	-0.925	1.440
ROE	311	-0.123	2.897	-50.266	2.000
LEV	304	0.450	2.447	0.000	42.462
TANG	257	0.520	0.435	0.000	2.312
SIZE	356	18.478	2.203	6.877	22.892
CURR	339	2.961	4.592	0.020	42.342
GDPgr	444	5.510	0.588	4.629	6.345
INF	444	5.452	1.846	3.130	10.227
INT	444	12.586	0.992	11.073	14.498

Panel B: Political Connected (PC) Firms

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	2852	0.033	0.396	-6.119	16.179
ROE	2683	-0.138	10.054	-520.198	2.887
LEV	2526	0.395	3.381	0.000	162.862
TANG	2390	0.482	0.643	0.000	18.396
SIZE	3013	19.186	2.067	9.895	25.226
CURR	2331	3.477	15.605	0.001	455.049
GDPgr	3456	5.510	0.587	4.629	6.345
INF	3456	5.452	1.844	3.130	10.227
INT	3456	12.586	0.991	11.073	14.498

Pairwise Correlation Matrix

Pairwise correlation matrix is reported to investigate the dependence between various variables at the same time. Table 3 below presents the pairwise correlation coefficients among the variables in this study. At the glimpse, it is apparent that all variables show the correlation coefficients below 80%. According to Brooks (2014), when the correlation coefficients exceed 80%, it suggests a serious multicollinearity problem. Thus, it can be inferred that all variables are seemingly free from the multicollinearity problem. The highest correlation among variables under investigation is recorded at approximately 61%, typically between leverage and ROA of politically-connected (PC) firms. Next, the high correlation is also recorded between leverage and tangibility of non-politically connected (NPC) firms, with the correlation coefficient of 46%.

Table 3 Mean Values and Pairwise Correlation Matrix(Non-Political Connected vs Political Connected Firms)

Variables	Mean	SD	ROA	ROE	LEV	TANG	SIZE	CURR	GDPgr	INF	INT
ROA	a 0.033	0.150	1								
	b 0.033	0.396									
ROE	a -0.123	2.897	0.3146*	1							
	b -0.138	10.054	0.2521*								
LEV	a 0.450	2.447	-0.4224*	-0.1054	1						
	b 0.395	3.381	0.6142*	-0.3890*							
TANG	a 0.520	0.435	-0.2883*	-0.0729	0.4970*	1					
	b 0.482	0.643	0.0272	-0.1528*	0.0592*						
SIZE	a 18.478	2.203	0.0052	0.0847	-0.3391*	0.1661*	1				
	b 19.186	2.067	-0.0257	0.0352	-0.1113*	-0.1742*					
CURR	a 2.961	4.592	0.1142*	0.0482	-0.0884	-0.4019*	-0.1204*	1			
	b 3.477	15.605	-0.0113	0.0046	-0.0136	-0.0453	-0.1180*				
GDPgr	a 5.510	0.588	0.0112	0.0378	-0.0629	-0.0454	-0.0479	-0.0649	1		
	b 5.510	0.587	0.0279	0.0174	-0.0259	-0.0094	-0.0559*	0.0355			
INF	a 5.452	1.846	-0.0689	0.0616	0.0396	-0.0387	-0.0496	-0.0617	0.3596*	1	
	b 5.452	1.844	0.0089	0.0201	0.0001	-0.0281	-0.0801*	0.0441*	0.3596*		
INT	a 12.586	0.992	0.0391	0.029	0.0163	-0.0735	-0.0802	-0.0816	0.1466*	0.4444*	1
	b 12.586	0.991	0.0211	0.0124	0.0397*	-0.0187	-0.1134*	0.0293	0.1466*	0.4444*	

Notes: The table shows both mean values and pairwise correlation matrix between the variables for the pooled non-political connected (NPC) and politically connected (PC) firms. ^a and ^b denoted for NPC and PC firms respectively. * indicates the coefficient is significant at the 5% significance level.

Results of the Main Model

Before proceeding into the results of the main model, this study runs several post-estimation tests to identify the BLUE (Best Linear Unbiased Estimators). The study presents several statistical tests such as the Chow Test (or F Test), BPLM test, and Hausman test. The Chow test (F test) is applied to identify the appropriateness of using Pooled OLS against FE. The rejection of the test is interpreted as a rejection of the Pooled OLS estimator. The BPLM test is adopted to check the appropriateness of using Pooled OLS against RE. The BPLM examines for unobservable effects, to test the null hypothesis of equal variances across IB. If the BPLM test indicates the rejection of the null, meaning that the use of OLS is deemed as inappropriate. Meanwhile, the Hausman test to make a choice between the RE and FE.

	OLS	FE	RE
Chow test (F test)		0.0000	
BPLM test			0.0000
Hausman test		0.0000	
Heteroscedasticity		0.0000	

Notes: The table shows the results of the estimator selection tests. We run these post-estimation tests following the recommendations from Baltagi (2008) and Wooldridge (2010). The corresponding p-value estimates of each Chow test, BPLM test, and Hausman test are presented respectively.

As reported in Table 4, we observe that the p-value for Chow test (Pooled OLS vs FE) is below 5% significance level (0.0000), thus the FE estimator is chosen. Next, to make the choice between Pooled OLS against RE, we find that the p-value obtained by the BPLM test is below 5% significance level (0.000). Thus, the null of 'no unobserved effect' is rejected and the use of RE is appropriate. Next, the study performs a Hausman test to make choice between FE and RE. We notice that the p-value estimated is below 5% significance level (0.0000), therefore the use of FE estimator is more efficient. Aside from that, we also check the presence of heteroscedasticity through the modified Wald test. The presence of heteroscedasticity leads to incorrect standard errors. The result shows that the test for homoscedasticity is rejected, in other words, the heteroscedasticity exists. To address the heteroscedasticity problem, the 'robust' option will be applied in every regression. As mentioned by White (1980), the heteroscedasticity robust standard errors asymptotically valid with the robust option.

Turning into the crux of analysis, we observe that factors influencing performance (ROA) differ in terms of significance, sign, and the magnitude of the effects between NPC and PC firms. Specifically, the performance of NPC firms is influenced by firm size, current ratio, and economic growth. Whereas, the performance of PC firms is affected by leverage, tangibility, and economic growth. It is worth noting that both NPC and PC firm's performance is affected by three factors. Table 5 below reports the determinants of firm performance for NPC and PC firms.

Table 5 Panel Fixed Effects Regression: ROA as Dependent Variable
(Non-Political Connected vs Political Connected Firms)

Variables	NPC	PC
Leverage	-0.063 [0.08]	0.011*** [0.00]
Tangibility	-0.069 [0.06]	-0.100*** [0.02]
Ln SIZE	0.037** [0.02]	-0.077 [0.09]
Current Ratio	0.009* [0.01]	0.001 [0.00]
GDP growth	0.028* [0.02]	0.014* [0.01]
Inflation, CPI	-0.014 [0.01]	-0.013 [0.01]
Interest rate	0.024 [0.02]	-0.007 [0.01]
Constant	-0.996** [0.36]	1.666* [1.92]
Observations	194	1498
Number of firms	26	208
R-Squared	0.139	0.098
Adjusted R-Squared	0.107	0.094

Notes: Standard errors in brackets [...]. *, **, *** indicates the coefficient is significant at the 10%, 5%, and 1% significance level, respectively.

In the case of NPC firms, we find that two firm-specific variables (firm size and current ratio) and one macroeconomic variable (economic growth) significantly influence the ROA. Firm size (as measured by the natural logarithm of total assets) has a significant and positive impact with ROA. It shows that a 1% increase in total asset causes 3.7% increase in ROA, which indicates that large NPC firms tend to be more profitable than those of small NPC firms. According to Pervan et al. (2015), firms with large size can obtain benefits due to economic of scale, economic of scope, and reputation. Moreover, firms with large size have a greater ability to diversity their products and thus uplift their profitability levels. As firms getting bigger, the marginal cost savings can be obtained, and thus operational efficiency will be increase. Aside from that, a firm with a large size can spread fixed costs over a greater asset base, thus lowering their average costs. Next, we observe that liquidity (as measured by current assets to current liabilities) has a positive and significant effect with ROA. It shows that 1 percentage point increase in the current ratio of NPC firms, leads to increase of 0.9% of ROA. When the firms hold more liquid assets, it tends to uplift their profitability levels. The economic growth exhibits a positive and significant effect with ROA. This suggests that the performance of NPC firms tend to increase when the economy expands. High economic growth stimulates the demand for products and services and encouraging more business activities.

Unlike NPC firms, we find that two firm-specific variables (leverage and tangibility) and one macroeconomic variable (economic growth) significantly affect the ROA of PC firms. The leverage (as measured by total debt to total assets) has a positive and significant effect with ROA of PC firms. A 1% increase in leverage ratio causes 1.1% in ROA of PC firms. Meanwhile, leverage has no significant impact with ROA of NPC firm. In this regard, PC firms might reap benefits in the forms lower down the funding costs and facilitate credit accessibility (Ades and Di Tella, 1997; Boubakri et al., 2012b). They might use lending by government banks to enhance further firm operational level and thus increase their performance. Moreover, firms with high leverage have capabilities of tolerating debt as they are in a good position to meet their debt obligations on time. In contrast, PC firms with high tangible assets tend to have lower ROA. Although PC firms with a high level of tangibility have the incentive to borrow at a lower cost, concurrently, it increases the levels of bankruptcy costs and thus might potentially lowering the performance. Next, we find the same effect in economic growth that causes increase in the performance of PC firms. Similar to NPC firms, the performance of PC firms tends to increase when the economy grows.

Alternative Performance Indicator (ROE)

In this section, we replaced the dependent variable in our regression with ROE. The ROE results are almost similar to the results of ROA, except for the insignificance of leverage of PC firm. We observe that factors affecting the ROE across NPC and PC firms differ in terms of significance, sign, and the magnitude of the effects. Typically, the factors influencing the ROE of NPC firms can be differentiated in terms of the effect of firm size, liquidity and economic growth. For PC firms, tangibility, economic growth, and inflation have significant influence with the ROE. In most cases, the results for the ROE confirm the findings from the ROA estimations. Thus, we focus on highlighting some differences between the two estimation results.

Table 6 Panel Fixed Effects Regression: ROE as Dependent Variable
(Non-Political Connected vs Political Connected Firms)

	NPC	PC
Leverage	-0.272 [0.64]	-0.014 [0.08]
Tangibility	0.667 [0.49]	-0.109** [0.05]
Ln SIZE	0.485** [0.18]	0.019 [0.02]
Current Ratio	0.049*** [0.02]	-0.000 [0.00]
GDP growth	0.254* [0.13]	0.042*** [0.01]
Inflation, CPI	-0.016 [0.02]	-0.011*** [0.00]
Interest rate	0.110 [0.07]	0.020* [0.01]
Constant	-12.462** [4.70]	-0.654* [0.54]
Observations	188	1412
Number of firms	26	200
R-Squared	0.264	0.025
Adjusted R-Squared	0.236	0.020

Notes: Standard errors in brackets [...]. *, **, *** indicates the coefficient is significant at the 10%, 5%, and 1% significance level, respectively.

As for the firm size, the same effect is found in ROE. The results from Table 6 show that 1% increase in total asset causes 48% increase in ROE. This suggests that large NPC firms tend to be more profitable than those of small size NPC firms. Similarly, liquidity and economic growth also exhibit the same effect in ROE of NPC firms. The striking difference is observed in PC firms, whereby inflation has a significant impact on ROE. According to Perry (1992), inflation might have a positive impact on profitability in the anticipated event. When the inflation is anticipated, the profit rates are altered accordingly, which result in a faster increase in revenue compared to costs and thus increase the profitability levels.

The analysis in this section has shown the determinants that influence the performance of both NPC and PC firms. In essence, most of the performance determinants do exhibit different effects among NPC and PC firms. A uniform effect can be found in economic growth that has a significant and positive impact with the performance of both NPC and PC firms. Table 7 below summarize the results of the main model of performance determinants for both NPC and PC firms.

Table 7 The summary of results of performance determinants
(Non-Political Connected vs Political Connected Firms)

Determinants	ROA		ROE	
	NPC	PC	NPC	PC
<i>Firm-Specific</i>				
Leverage	n.s	+	n.s	n.s
Tangibility	n.s	-	n.s	-
Firm Size	+	n.s	+	n.s
Liquidity	+	n.s	+	n.s
<i>Macroeconomic</i>				
Economic growth	+	+	+	+
Inflation	n.s	n.s	n.s	+
Interest rate	n.s	n.s	n.s	n.s

Notes: + shows that the variable is positively related to the performance. - shows that a negative association between particular variable and performance. n.s denotes as not significant

Robustness Results

Robustness: Political Connected Firms cum Different Industries

In this sub-section, we breakdown the sample of PC firms into different industrial categories as being classified by Indonesian Stock Exchange, to examine the importance of heterogeneity of different type of industries with respect to their performance determinants. We separately estimate the equation of the main model of the determinants of firm performance across different industries. The robustness of different shariah compliance status attempts to achieve the research objective under study: *to understand how the performance determinants differ between different industries in the context of political connected firms* Table 8 and Table 9 exhibit the results of the determinants of profitability of PC firms across different industries.

This study discovers some interesting findings when the sample of PC firms is breakdown into different industries. As expected, there exist some differences in the sign and magnitude of coefficients of performance determinants across different industries (see Table 8). Moreover, the results show some differences with the main results. For industry 1 - agriculture, two firm-specific variables (tangibility and firm size) are found to significantly influence the ROA. Meanwhile, two internal firm characteristics (tangibility and liquidity) and one macroeconomic factor (inflation) significantly influence the ROA of PC firms in industry 2-chemicals. Next, three firm-specific characteristics (tangibility, firm size, and liquidity) and one macroeconomic factor (inflation) significantly affect the ROA of PC firms in industry 3-consumer goods.

As for the industry 4-finance, two internal firm characteristics (leverage and liquidity) and one macroeconomic factor (economic growth) significantly influence the ROA. In industry 5-infrastructure, two internal firm characteristics (leverage and tangibility) and one macroeconomic factor (economic growth) also significantly influence the ROA. With regard to industry 6-mining, we notice that three internal firm characteristics (tangibility, firm size, liquidity) significantly influence the ROA. Moving into industry 7-miscellaneous, two internal firm characteristics (leverage and tangibility) and two macroeconomic factors (economic growth and inflation) significantly influence the ROA. In industry 8-property & real estate, one internal firm characteristic (firm size) and two macroeconomic factors (economic growth and interest rate) significantly influences the ROA. Finally, we notice all insignificant variables in industry 9-trade/services.

In the same fashion, we also notice that factors affecting the ROE across different industries differ in terms of significance, sign, and the magnitude of the effects. Only mild difference exists between the estimation results of ROA and ROE. The results for the ROE (see Table 9), to a significant extent, confirm the findings from the ROA estimations.

Table 8 Robustness Results: Political Connected Firms cum Different Industries (ROA as Dependent Variable)

	Industry 1 Agriculture	Industry 2 Chemicals	Industry 3 Cons. Goods	Industry 4 Finance	Industry 5 Infrastructure	Industry 6 Mining	Industry 7 Miscl.	Industry 8 Property	Industry 9 Trade/Service
Leverage	-0.110 [0.08]	0.136 [0.11]	-0.079 [0.12]	-0.175** [0.04]	0.122** [0.04]	-0.018 [0.03]	0.086* [0.05]	0.004 [0.00]	0.044 [0.09]
Tangibility	-0.408*** [0.10]	-0.084** [0.03]	-0.248*** [0.08]	-0.685 [0.24]	-0.089*** [0.02]	-0.065* [0.04]	-0.048*** [0.02]	0.285 [0.53]	-0.015 [0.07]
Ln SIZE	0.124** [0.06]	0.019 [0.02]	-0.046* [0.02]	-0.073 [0.02]	0.015 [0.09]	0.023* [0.01]	-0.016 [0.03]	-0.358*** [0.11]	0.007 [0.02]
Current Ratio	0.001 [0.00]	-0.002** [0.00]	0.000** [0.00]	0.038* [0.01]	0.018 [0.02]	0.013** [0.01]	0.000 [0.01]	-0.002 [0.01]	0.000 [0.00]
GDP growth	0.022 [0.02]	0.020 [0.03]	0.005 [0.01]	-0.029** [0.01]	0.047* [0.03]	-0.005 [0.02]	0.031** [0.01]	-0.034* [0.02]	0.012 [0.01]
Inflation, CPI	0.004 [0.01]	-0.009** [0.00]	-0.009* [0.01]	-0.017 [0.01]	0.002 [0.01]	-0.001 [0.00]	-0.008** [0.00]	-0.051 [0.04]	-0.001 [0.00]
Interest rate	-0.002 [0.02]	0.002 [0.01]	-0.000 [0.01]	-0.013 [0.01]	0.031 [0.03]	0.009 [0.01]	-0.003 [0.01]	-0.057*** [0.01]	0.012 [0.01]
Constant	-2.197* [1.25]	-0.389 [0.59]	1.155** [0.53]	1.877* [0.46]	-0.954 [2.37]	-0.490 [0.45]	0.263 [0.59]	8.087*** [2.23]	-0.302 [0.47]
Observations	147	93	111	21	128	281	234	314	169
Number of firms	19	14	16	3	18	37	37	39	25
R-Squared	0.653	0.176	0.373	0.803	0.445	0.061	0.092	0.277	0.022
Adjusted R-Squared	0.635	0.108	0.330	0.697	0.412	0.037	0.064	0.260	-0.021

Notes: This table shows FE regressions on the determinants of firm performance of PC firms across different industries. The dependent variables is ROA. All variables are winsorized at the 1% and 99% level. The number of observations and number of firms may vary from the model to another depending on the availability of the data for some firm-specific variables and macroeconomic variables. Standard errors are provided in brackets []. *, **, and *** indicates statistical significance at 10%, 5%, and 1% alpha levels, respectively.

Table 9 Robustness Results: Political Connected Firms cum Different Industries (ROE as Dependent Variable)

	Industry 1 Agriculture	Industry 2 Chemicals	Industry 3 Cons.Goods	Industry 4 Finance	Industry 5 Infrastructure	Industry 6 Mining	Industry 7 Miscl.	Industry 8 Property	Industry 9 Trade/Service
Leverage	-0.016 [0.29]	0.362** [0.17]	0.021 [0.29]	0.132 [0.42]	0.259 [0.38]	0.155 [0.13]	-0.217 [0.29]	-0.250* [0.13]	-0.237 [0.15]
Tangibility	-0.413 [0.24]	-0.177*** [0.05]	-0.553*** [0.15]	-5.449* [1.40]	-0.126 [0.08]	-0.050 [0.06]	0.061 [0.28]	-0.090 [0.07]	0.012 [0.16]
Ln SIZE	-0.083* [0.04]	0.040 [0.03]	-0.098* [0.05]	-0.436 [0.25]	-0.019 [0.05]	0.080** [0.03]	-0.145** [0.06]	0.051 [0.03]	0.025 [0.04]
Current Ratio	-0.003 [0.00]	-0.003** [0.00]	0.000* [0.00]	-0.005 [0.10]	-0.001 [0.01]	0.017 [0.02]	-0.033** [0.01]	0.005 [0.01]	-0.000 [0.00]
GDP growth	0.022 [0.03]	0.032 [0.05]	-0.008 [0.02]	-0.147* [0.05]	0.074 [0.05]	0.044 [0.03]	0.076* [0.04]	0.022 [0.01]	0.018 [0.02]
Inflation, CPI	-0.015 [0.02]	-0.019** [0.01]	-0.028* [0.01]	-0.074 [0.06]	-0.001 [0.01]	-0.003 [0.01]	-0.027* [0.02]	0.001 [0.00]	0.001 [0.01]
Interest rate	-0.013 [0.06]	0.011 [0.01]	0.007 [0.01]	-0.087 [0.05]	0.029 [0.05]	0.042 [0.04]	0.009 [0.04]	0.003 [0.01]	0.037* [0.02]
Constant	2.139 [1.52]	-0.878 [0.80]	2.487** [1.06]	10.972 [4.39]	-0.293 [1.60]	-2.383** [1.01]	2.484 [1.61]	-0.996 [0.79]	-0.911 [0.99]
Observations	144	93	111	21	106	242	223	304	168
Number of firms	19	14	16	3	16	33	36	38	25
R-Squared	0.194	0.229	0.393	0.636	0.129	0.054	0.099	0.045	0.044
Adjusted R-Squared	0.152	0.166	0.352	0.441	0.066	0.025	0.070	0.023	0.002

Notes: This table shows FE regressions on the determinants of firm performance of PC firms across different industries. The dependent variables is ROE. All variables are winsorized at the 1% and 99% level. The number of observations and number of firms may vary from the model to another depending on the availability of the data for some firm-specific variables and macroeconomic variables. Standard errors are provided in brackets []. *, **, and *** indicates statistical significance at 10%, 5%, and 1% alpha levels, respectively.

Table 10 The summary of results: Political Connected Firms cum Different Industries

		Industry 1 Agriculture	Industry 2 Chemicals	Industry 3 Cons.Goods	Industry 4 Finance	Industry 5 Infrastructure	Industry 6 Mining	Industry 7 Miscl.	Industry 8 Property	Industry 9 Trade/Service
Leverage	a	n.s	n.s	n.s	-	+	n.s	+	n.s	n.s
	b	n.s	+	n.s	n.s	n.s	n.s	n.s	-	n.s
Tangibility	a	-	-	-	n.s	-	-	-	n.s	n.s
	b	n.s	-	-	-	n.s	n.s	n.s	n.s	n.s
Firm Size	a	+	n.s	-	n.s	n.s	+	n.s	-	n.s
	b	-	n.s	-	n.s	n.s	+	-	n.s	n.s
Liquidity	a	n.s	-	+	n.s	n.s	+	n.s	n.s	n.s
	b	n.s	-	+	n.s	n.s	n.s	n.s	n.s	n.s
GDP growth	a	n.s	n.s	n.s	-	+	n.s	+	-	n.s
	b	n.s	n.s	n.s	-	n.s	n.s	+	n.s	n.s
Inflation, CPI	a	n.s	-	-	n.s	n.s	n.s	-	n.s	n.s
	b	n.s	-	-	n.s	n.s	n.s	-	n.s	n.s
Interest rate	a	n.s	n.s	n.s	n.s	n.s	n.s	n.s	-	n.s

Notes: ^a and ^b denoted for ROA and ROE results, respectively. + shows that the variable is positively related to the performance. - shows that a negative association between particular variable and performance. n.s denotes as not significant.

Robustness: Political Connected Firms cum Shariah Compliance Status

Having discussed the robustness across industries, we then categorize the PC firms based on their shariah-compliance status: shariah non-compliance (SNC) and shariah-compliance (SC) firms. In this regard, we examine whether the performance determinants of PC firms vary between SNC and SC status. The robustness of different shariah compliance status attempts to achieve the research objective under study: *to understand how the performance determinants differ between different shariah-compliance status in the context of politically connected firms*. Table 11 and 4.11 show the results of the determinants of PC firm performance across different shariah compliance status.

Referring to the results in Table 11, we observe a variety of performance determinants across different shariah compliance status. Some changes are found in the coefficient estimates from each shariah compliance status. In the case of PC firms with SNC status, two firm-specific variables (leverage and tangibility) and one external factor (economic growth) are found to significantly influence the ROA. Meanwhile, two firm-internal characteristics (tangibility and liquidity) significantly influence the ROA of PC firms with SC status.

Table 11 Robustness Results: Political Connected Firms cum Shariah-Compliance Status (ROA as Dependent Variable)

	Shariah Non-Compliance	Shariah-Compliance
Leverage	0.011*** [0.00]	0.066 [0.05]
Tangibility	-0.099*** [0.02]	-0.143* [0.07]
Ln SIZE	-0.082 [0.10]	-0.000 [0.03]
Current Ratio	0.000 [0.00]	0.016*** [0.01]
GDP growth	0.020** [0.01]	-0.004 [0.01]
Inflation, CPI	-0.016 [0.01]	-0.003 [0.00]
Interest rate	-0.006 [0.01]	0.000 [0.01]
Constant	1.741 [2.04]	0.125 [0.67]
Observations	1217	281
Number of firms	172	36
R-Squared	0.103	0.115
Adjusted R-Squared	0.098	0.093

Notes: Standard errors in brackets [...]. *, **, *** indicates the coefficient is significant at the 10%, 5%, and 1% significance level, respectively.

We find that leverage has a positive and significant effect with ROA of SNC status firms at 1% significance level, while it is insignificant for SC firms. One of the important benefits of having political connections is access to loans, and therefore, leverage tends to be a critical and substantial variable. Besides, the SNC status allows the PC firms to increase their debt financing without any shariah restrictions. They can freely seek the financing avenues regardless of whether its shariah compliance or not. Next, consistent with the main results, tangibility has a negative and significant effect on ROA of both SNC and SC status. In the same vein, liquidity also shows similar results with baseline regression. We find that liquidity has a positive and significant effect with ROA of SC status firms. When the firms hold more liquid assets, it tends to uplift their profitability levels.

Moving forward, we notice that factors affecting the ROE across different shariah compliance status differ in terms of significance, sign, and the magnitude of the effects. There is a large difference exists between the estimation results of ROA and ROE. In the case of PC firms with SNC status (see Table 12), all firm-specific characteristics are insignificant while all macroeconomic factors (economic growth, inflation, interest) significantly influences the ROE of PC firms with SNC status. Whereas, two firm-internal characteristics (leverage and tangibility) and one macroeconomic factor (inflation) significantly influence the ROE of PC firms with SC status. Table 13 summarize the comparison of robustness results: politically connected firms cum shariah compliance status.

Table 12 Robustness Results: Political Connected Firms cum Shariah-Compliance Status (ROE as Dependent Variable)

	Shariah Non-Compliance	Shariah-Compliance
Leverage	-0.111 [0.09]	0.550*** [0.17]
Tangibility	-0.065 [0.05]	-0.311* [0.16]
Ln SIZE	0.027 [0.02]	-0.044 [0.06]
Current Ratio	-0.000 [0.00]	0.018 [0.01]
GDP growth	0.050*** [0.01]	0.010 [0.03]
Inflation, CPI	-0.011** [0.00]	-0.013* [0.01]
Interest rate	0.024** [0.01]	-0.013 [0.03]
Constant	-0.905* [0.53]	1.187 [1.57]
Observations	1135	277
Number of firms	164	36
R-Squared	0.025	0.209
Adjusted R-Squared	0.019	0.189

Notes: Standard errors in brackets [...]. *, **, *** indicates the coefficient is significant at the 10%, 5%, and 1% significance level, respectively.

Table 13 The summary of results: Political Connected Firms cum Shariah-Compliance Status

		Shariah Non-Compliance	Shariah-Compliance
Leverage	a	+	n.s
	b	n.s	+
Tangibility	a	-	-
	b	n.s	-
Firm Size	a	n.s	n.s
	b	n.s	n.s
Liquidity	a	n.s	+
	b	n.s	n.s
GDP growth	a	+	n.s
	b	+	n.s
Inflation, CPI	a	n.s	n.s
	b	-	-
Interest rate	a	n.s	n.s
	b	+	n.s

Notes: ^a and ^b denoted for ROA and ROE results, respectively. + shows that the variable is positively related to the performance. – shows that a negative association between particular variable and performance. n.s denotes as not significant

CONCLUSION AND POLICY RECOMMENDATIONS

This study has conducted a comprehensive analysis of the performance determinants of Indonesian listed firms for the period 2007 to 2018. It provides a comparative empirical analysis of the linkages between performance, firm-specific characteristics, and macroeconomic variables for politically-connected (PC) and non-politically-connected (NPC) firms. It also comprises an empirical analysis of performance determinants across industries categories and shariah-compliance status. Indonesia has been opted as the country for the study given the highly relevant of political connections in the Indonesian market. As suggested by Fishman (2001), political connection predominantly plays a crucial role in the determination of firm value in Indonesia. We applied FE estimator on our panel regression models with profitability ratios (ROA and ROE) as dependent variables and seven explanatory variables (firm size, leverage, tangibility, liquidity, economic growth, inflation, and interest rate) as determinants of firm performance.

The results of the main models show that performance indicators (ROA and ROE) of NPC and PC firms are influenced by the firm-specific characteristics (leverage, tangibility, firm size, and liquidity). Whereas only one macroeconomic factor (economic growth) has a significant effect on ROA, and two macroeconomic factors (economic growth and inflation) have a significant effect on ROE of PC firms. The determinants firm size and liquidity show uniformity for both performance indicators (ROA and ROE) of NPC firms. The uniform effect is also found on tangibility that negatively affects the ROA and ROE of PC firms. Moreover, economic growth exhibits consistent results for both performance indicators (ROA and ROE) between PC and NPC firms.

Focusing on politically-connected firms, we find a variation of performance determinants (both firm-specific and macroeconomic factors) across different industries categories. The interesting insight here is the persistent negative effect of tangibility on performance indicators in agriculture-, chemicals-, consumer goods-, infrastructure-, mining-, and miscellaneous industry. In the case of shariah-compliant status, tangibility also exerts the negative and significant effect on ROA of both shariah-compliance and non-shariah compliance status. Another important insight is the shariah non-compliance status allows the politically-connected firms to use more leverage as there are no shariah restrictions imposed on them. This suggests that high leverage significantly contributes to increase in the ROA of shariah non-compliance firms. Therefore, political linked status is still an imperative factor in influencing the Indonesian firm's performance. With reference to Asean countries, our findings seem to be contrary to the findings made by Wong and Hooy (2018), where the authors justified that not all politically linked firms bring value to a firms in terms of share price movement. However, the finding by Wong and Hooy (2018) was based on Malaysian market where the number of GLCs firms are limited and markets are slightly transparent as compared to Indonesian market where the politics and business structure are playing an important role.

The results of this study provide policy guidelines to Indonesian regulators, government, investors, management of the firm, and academicians. The study can also assist investors in making investment decisions, i.e. whether to invest in politically-connected firms or in non-politically-connected firms, or whether to invest in Shariah-compliant firms or in non-shariah-compliant firms. The regulators should design proper policies and regulations to improve transparency and firm governance, particularly for politically-connected and shariah non-compliance firms. This is because these firms take benefits of leverage due to lower funding costs, facilitate credit accessibility given by the government, and no shariah restrictions imposed on them. For further research, it is suggested that to extend the sample by comparing the Indonesian experience with other countries in the region, by incorporating other important firm-specific and macroeconomic variables.

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