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The Influence of Political Connected Councils on Banking Performance

Omega Oryza Saputra[1)], Supatmi Supatmi[2)]

[1,2)] Universitas Kristen Satya Wacana

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Corresponding author:
Omega Oryza Saputra
E-mail:
oryzaomega@gmail.com

ABSTRACT

This study aims to determine the effect of politically connected boards on banking performance as measured in accounting performance and the banking market. This study is using quantitative method with the sample of 41 banking companies listed on the IDX during 2017-2019. The dependent variable in this study is banking performance which is reflected by banking accounting performance (ROA) and banking market performance (Tobin's Q). Meanwhile, the independent variables in this study are the number of politically connected boards, both boards of directors and commissioners. The control variables are company size, leverage, and managerial ownership. The hypothesis was tested by panel data regression. The test results found that politically connected boards have no influence on banking accounting performance, while politically connected boards have a negative effect on banking market performance.

INTRODUCTION

The current development of banking in Indonesia continues to increase, which can be seen from the percentage of people using banking products and services (Bank Indonesia, 2018b). The increase in the percentage of use of banking companies must be balanced with good banking performance. The application of the principles of good corporate governance with consideration of the objectives of achieving banking performance is one way to improve the quality and efficiency of banking in Indonesia. Setiawaty (2016) revealed that effective governance mechanisms in internal monitoring and external monitoring positively affect banking performance. The condition of Indonesia's financial system is dominated by banking performance with a proportion of up to 70 percent of total financial system assets (Bank Indonesia, 2018a). This means that banking's role is very important for the financial system and financial stability in Indonesia.

The banking environment plays an important role in the success of banking performance. The company ownership structure is one factor in decision-making that affects company performance (Apriada and Suardikha, 2016). Several banks in Indonesia are in a political environment with political connections in it. The political connection in banking is important to study because of banks' dominance in the Indonesian financial system. Boateng et al. (2019) state that holders or officeholders in a banking environment with political connections indirectly provide facilities and convenience for banks to minimize uncertainty in the external environment.

Based on the point of view of resource dependency theory, the board is connected politically to become a corporate political strategy that can drive company performance (Hillman, 2005). However, Sun et al. (2016) state that a politically connected board will increase majority shareholders' expropriation

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against minorities and cause the company's performance to decline. This is following the agency theory's point of view that politically connected companies have a high level of risk associated with the failure of the company's business (Habib et al., 2017). CEOs of politically connected companies will distort efficiency and credit decisions to serve more extensive political interests, especially in emerging market environments with concentrated ownership and weak governance (Boateng et al., 2019).

Sutopo et al. (2017) found that politically connected banks in Indonesia positively affect banking performance as measured by return on assets and return on equity. Furthermore, politically connected banks also obtain funding at lower costs because political connections provide greater ease of funding access. On the other hand, Wulandari and Raharja (2013) revealed that political connections have a negative effect on company performance as measured by return on assets. Ease of access to loans increases the level of debt, which causes the company to be burdened. High loan rates will cause financial distress that affects company performance. Boateng et al. (2019) show that the political connections in banking in China have led to higher credit risk faced by banks. Inline Ling et al. (2016) found that the level of political connection in public companies in China has a negative effect on company performance. Easy access to long-term funding owned by politically connected companies causes excessive investment and worsens company performance. Meanwhile, Supatmi et al. (2019) prove that the level of political connection in banking in Indonesia does not directly impact banking performance but strengthens the effect of related party transactions on banking performance. It can be concluded that previous research on political connections in banking has not had a definite impact or is still inconsistent.

This study intends to re-examine the impact of political connections on company performance because previous studies' results are still inconsistent. Political connection in this study will be measured by the number of politically connected boards, both the board of commissioners and the board of directors, according to the two-tier system model adopted by companies in Indonesia. As a party directly related to the supervision and management of the company's business, a politically connected board's role will be closely related to company performance. This study uses a sample of banks listed on the Indonesia Stock Exchange for the 2017-2019 period. Banking performance is closely related to the government's policies (Houston et al., 2014), and there is a dependence on banks with political connections, making banks more vulnerable to being affected by political problems and government policies (Sutopo et al., 2017). Therefore, this study aims to find empirical evidence of politically connected boards' influence on banking performance.

This research on the influence of politically connected boards on banking performance can add to the empirical results for applying agency theory to banking as a highly regulated industry in Indonesia. Banking is an industrial sector included in a highly regulated industry due to policies and regulations strictly regulated by the Government through Bank Indonesia. Politically connected banks will get privileges with ease of facilities and increased resources. In practical terms, the research results can be taken into consideration for banks in regulating the composition of the board and for consideration for investors in making investment decisions related to the performance of politically connected banks. This research can also be a consideration for policy regulators, especially Bank Indonesia and the Financial Services Authority, in regulating banking governance, significantly the composition of the board of directors and commissioners, which have not accommodated the political aspects.

RESEARCH METHODS

Population and Sample

The population in this study uses 44 banking companies in Indonesia which are listed on the Indonesia Stock Exchange for the period 2017-2019. The research sample was selected using purposive sampling. This sampling uses the following criteria:

1. Publish 2017-2019 annual reports sequentially.
2. Financial reporting period ended December 31st.
3. Have information about the stock market price at the end of the year.
4. Have information about the profile of the board of commissioners and board of directors.
5. Did not conduct a company merger in the 2017-2019 period.

This study uses a quantitative approach in the form of numbers. The data collection method uses secondary data consisting of annual reports of banking companies, the company's stock market price, and profile information on board and company management with political connections. Research data for annual reports and

company share prices were obtained through www.idx.co.id while verifying board political connections through related websites, among others:

1. Cabinet ministers can be accessed via https://id.wikipedia.org/wiki
2. Members of the DPR RI can be accessed https://id.wikipedia.org/wiki
3. Members of the DPR RI can be accessed www.dpr.go.id/anggota
4. Other related official websites.

Operational Definition of Variables

Dependent Variable

According to the Helfert statement, 1996 cited by Nuswandari (2009) defines company performance as a complete picture of the company during a specific period in managing company resources. The use of company performance in the banking industry as the dependent variable is measured using an accounting and market basis. This study measures the performance of accounting-based companies with the ROA ratio and uses Tobin's Q to measure market-based companies' performance.

The ROA ratio shows the ability of a banking company to generate net income from managing its assets. The more excellent the ROA ratio, the better the company's performance. Tobin's Q is the company's potential growth by dividing the market value of outstanding shares and the book value of debt by the book value of the company's assets. Tobin's Q ratio is considered adequate when it has a value of more than one. Measurement of company performance based on accounting uses the most ROA ratio, and market basis uses the most Tobin's Q ratio (Al-Matari et al., 2014).

Independent Variable

This study uses a politically connected board as an independent variable as measured by the number of boards in the company, both boards of commissioners and directors, that have political connections. The board within the company is said to have political connections in this study, referring to Supatmi (2020), which refers to Faccio et al. (2006), Wu et al. (2012), and Habib et al. (2017), namely boards in companies that are or have served as leaders of the state, members of parliament, members of the military, officials in ministries or other government agencies, heads of regional governments, or are near related to politicians or parties; or have a friendship with them. This close relationship extends to close relatives, namely spouses, sons or daughters, parents, and other close relatives. This study also uses previous studies' results, which show that a person or company has political connections.

Control Variable

This study uses three control variables that consistently affect firm performance that is company size, leverage, and managerial ownership.

1. Company size
   Company size is a scale calculated by looking at the company's condition based on total assets owned, revenue, and total capital. Research by Habib et al. (2017) found that the greater the company's size, the greater the risk of the company that will arise, which will have an impact on decreasing company performance. Company size is measured based on the natural logarithm of the company's stock market capitalization at the end of the year.
2. Leverage
   Leverage can be defined as the ability to use assets owned by a company to meet its liabilities. Research by Habib et al. (2017) found that a high level of leverage has a negative effect on company performance. Leverage measurement is calculated based on total liabilities divided by total assets owned.
3. Managerial ownership
   Managerial ownership is a managerial stock ownership ratio compared to the number of shares outstanding in the market. Kristanto (2019) found that managerial ownership has a negative effect on firm performance on a market basis. Managerial ownership is measured by looking at the share ownership of the commissioners and directors' board compared to the total shares outstanding in the market.

Analysis Technique

This study uses panel data regression analysis techniques to test the hypothesis and processed using Eviews 10. After the data were obtained, analysis steps are as follows:

1. Descriptive statistics describe the distribution of research data using the average value, maximum value, minimum value, and standard deviation data.
2. The classical assumption test consists of the following:
   a. Data normality test, data normality testing, is carried out on the residual value of the data with Jarque-Bera. The data is usually distributed if the p-value is > 0.05.

b. A heteroscedasticity test is carried out using the Park test. The data is said to have no problem with heteroscedasticity if the parameter coefficient in each independent variable is p > 0.05.
c. Autocorrelation test, this test uses the Durbin-Watson (DW) test. The data is said to have no autocorrelation problems. The linear regression model is free from the correlation between the error of one observation and another observation error if the d value that describes the DW coefficient is between 1.54 and 2.46 or du<d< 4-.
d. Multicollinearity test, this study uses the results of the correlation matrix between the independent variables and the data. It is said that multicollinearity does not occur if there is no correlation matrix between the independent variables > 0.80.

3. Panel data regression estimation test which consists of the following:
   a. Chow Test, a test conducted to compare CE and FE's best model by seeing if the p-value > 0.05 then the model was chosen is CE, whereas if the p-value < 0.05, the model chosen is FE.
   b. Hausman Test, a test conducted to compare the best model between FE and RE by seeing if the p-value > 0.05 then the model was chosen is RE, whereas if the p-value < 0.05, the model chosen is FE.
   c. Breusch and Pagan Langrage Multiplier (LM) Test, a test carried out to decide which model to use by seeing if the p-value > 0.05 then the selected model is CE, whereas if the p-value < 0.05, the model was chosen is RE.
   d. Hypothesis testing uses a panel data regression model with the following regression equation:

$$\mathrm{KP} = \alpha_0 + \alpha_1 \mathrm{DKP} + \alpha_2 \mathrm{DDP} + \alpha_3 \mathrm{Ukuran} + \alpha_4 \mathrm{Lev} + \alpha_5 \mathrm{KM} + \mathrm{e}$$

Description:
KP : Company performance (ROA and Tobin's Q)
α_0 : Constanta
αi : Regression coefficient
DKP : The board of commissioners is politically connected
DDP : The board of directors is politically connected
Ukuran : Company size
Lev : Leverage
KM : Managerial ownership
e : *Error*

Acceptance of the hypothesis (H1 and H2), namely that the board connected with politics has a negative effect on banking performance using a 5% significance level with the statistical hypothesis as follows:

$\mathrm{Ho}: \alpha_1 \text{ dan } \alpha_2 \geq 0$
$\mathrm{Ha}: \alpha_1 \text{ dan } \alpha_2 < 0$

This study also conducted an additional test by measuring the politically connected boards, not the number, but the proportion of politically connected boards determined by the number of politically connected boards divided by the company's total boards. This additional test was carried out to show the different effects of this measurement method, considering that there are many ways to measure companies' political connections.

RESEARCH RESULTS AND DISCUSSION

Determination of Research Samples

This study uses all banking companies listed on the IDX during 2017-2019 as a research population of 44 banking companies. The annual report used in the research was taken from the website www.idx.co.id. During the study period, three companies did not meet the study sample criteria, including two banking companies listed on the IDX that had just listed shares in the middle of the research period and one banking company that conducted a merger in the middle of the research period. This study found 41 banking companies that met the study sample criteria or had a total number of observations of 123 company years. In the second hypothesis in this study, outliers were found so that the number of observations for the second hypothesis after the outliers was 110 company years.

Descriptive statistics

The distribution of research data includes the maximum value, minimum value, average value, and standard deviation of the 123 observations of this study are as follows

Table 1
Descriptive statistics

Research Variable	Maximum Value	Minimum Value	Average Value	Standard Deviation
ROA	0,038	-0,112	0,005	0,020
TOBIN	3,310	0,350	1,111	0,329
DKP	10,000	0,000	1,617	2,197
DDP	3,000	0,000	0,260	0,555
SIZE	34,350	26,030	29,603	1,870
LEV	1,000	0,280	0,821	0,107
KM	0,217	0,000	0,003	0,020

Information:
ROA: *Return on assets*; TOBIN: Tobins'Q Value; DKP: The board of commissioners is connected; DDP: The board of directors is politically connected; SIZE: Company size; LEV: *Leverage*; KM: Political managerial ownership

The descriptive statistical table shows that the performance of banks listed on the IDX during the study period had fair accounting and market-based company performance. The performance of accounting-based companies shown in the ROA ratio has a positive average value of 0.5 percent, which means the company's ability to generate net income of 0.5 percent by using its assets. The standard deviation value shows a value of 0.02, which means the average deviation of company performance data observations against the average value obtained. The higher the standard deviation value indicates a high data distribution, which means that its ability to produce a net profit on its assets is more varied. Bank IBK Indonesia (AGRS) has the highest accounting-based company performance of 3.8 percent for the 2019 period. Meanwhile, Bank Panin Dubai Syariah (PNBS) has the lowest accounting-based company performance of -11.2 percent for the 2017 period.

Market-based companies' performance shows a positive value with an average value of more than one, namely 1.11. This shows that the investor's assessment of the company's shares is higher than the value of the shares listed. The standard deviation value shows a value of 0.32, which means that various market pressures result in high variations in market-based companies' performance during the study period. Bank Jago (ARTO) had the highest market-based company performance of 3.31 during the 2019 period. In contrast, the lowest market-based company performance value of 0.35 was owned by BRI Syariah Bank (BRIS) during the 2019 period.

The board connected to politics, both commissioners and board of directors have an average value of 1.61 and 0.26. This shows that the average number of politically connected boards of commissioners in Indonesian banks during the study period is more than the number of politically connected boards of directors. The standard deviation value of 2.19 and 0.55 means that the variation value of the political-connected board level, the average observational deviation is not too far from the average value. Bank BRI (BBRI) has a board of commissioners with the highest political connections of 10 commissioners during the 2018-2019 period. Meanwhile, the highest number of politically connected boards of directors is owned by the East Java Regional Development Bank (BJTM) of 3 boards of directors during the 2017-2018 period.

The size of the research sample company is measured using the natural logarithm of market capitalization resulting in an average value of 29.6 with a standard deviation of 1.87. This shows no significant difference between the size of banking companies in Indonesia from the perspective of investors during the study period. Bank Central Asia (BBCA) has the largest market capitalization value of 34.35 during the 2019 period, while the lowest capitalization value of 26.03 was owned by Bank Jago (ARTO) during the 2017 period. The average level of leverage of banking companies during the study period amounted to 82 percent with a standard deviation value of 10.7 percent, which means that most of the banking companies' assets are funded by third-party loans or can be interpreted as having a high risk of debt. The highest leverage level of 100 percent was owned by Panin Dubai Syariah Bank (PNBS) during the 2019 period. In contrast, BRI Syariah Bank (BRIS) had the lowest leverage level of 28 percent during the 2019 period. Also, managerial ownership had an average value of 0, 3 percent with a standard deviation of 2 percent. This shows that both commissioners and directors in banking companies' board ownership during the study period has a reasonably low level compared to the total shares outstanding in the market. Bank Yudha Bakti (BBYB) has the highest board shareholding rate of 21.7 percent during the 2019 period.

Classic Assumption Testing

Based on the results of the classical assumption test, it was found that the research data passed the heteroscedasticity and multicollinearity tests, but did not pass the normality and autocorrelation tests. The following is a summary of the results from testing the four classical assumptions for the regression equation:

Table 2
Classical Assumption Test Results

Regression Equations	Normality Test (prob. Jarque-Bera)	Heteroscedasticity Test (Parameter coefficient for each independent variable)	Autocorrelation Test (Durbin Watson stat/d)	Multicollinearity Test (Correlation value between variables> 0.8)
ROA	1810,829	All insignificant	Autocorrelation (Hesitating)	There is no correlation
TOBIN	120,272	All insignificant	Autocorrelation (Positive)	There is no correlation

The summary of the four classical assumptions' test results found that the research data passed the heteroscedasticity and multicollinearity tests but did not pass the normality and autocorrelation tests. Heteroscedasticity testing using the Park test shows a p-value > 0.05, which means there is no problem because each independent variable's parameter coefficient is not significant. Then, multicollinearity testing using the correlation matrix results between the independent variables shows a value > 0.80 so that the model can be told that there is no multicollinearity.

The Central Limit Theorem (CLT) explains that if the study sample is large enough or more than 30, then the sampling distribution can be said to be close to the normal distribution (Nurudin et al., 2014). This study uses a research sample of 41 banking companies from 44 banking companies listed on the IDX during 2017-2019, or 93.18 percent of the study population. Referring to the Central Limit Theorem (CLT), it can be said that the number of samples used in the study is large enough so that the data is said to be normally distributed. Afterward, Gujarati (2003) states that the Generalized Least Square (GLS) method in the Random Effect Model can suppress the autocorrelation problem that usually appears in OLS formulas. Thus, the panel data regression model estimation using the Random Effect Model method with GLS properties can ignore the occurrence of autocorrelation (Mulyasari, 2016). This statement shows that the autocorrelation problem in the research data can be resolved. Thus, the hypothesis testing of this research can still be continued even though it only passes the heteroscedasticity and multicollinearity assumption tests. However, it does not pass the normality and autocorrelation tests.

Testing of Regression Model Estimation Techniques

Testing the research model in panel data needs to be done to determine the appropriate regression model estimation technique before testing the hypothesis. The following is a summary of the results of testing the panel data regression model estimation technique following with the hypothesis:

Table 3
Results of Testing the Panel Data Regression Model Estimation Technique

Regression Equation	Chow test (Cross section Chi-square)	Hausman Test (Cross-section random)	Langrange Test (Breusch- Pagan, Both)	Conclusions on the model
ROA	76,394	10,117	5,583	Random Effect Model
TOBIN	333,482	36,214	54,271	Random Effect Model

The results of testing the panel data regression model estimation technique using the F Test (Chow Test), Hausman Test, and Langrage Multiplier (LM) Test show that the appropriate research panel data regression model estimation technique is the Random Effect Model for both hypotheses. The Hausman test results on the first hypothesis show a value of p > 0.05. The Langrange Test results on the second hypothesis show a value of p < 0.05 so that the appropriate panel data regression model estimate is the Random Effect Model. Also, the Random Effect Model is a panel data regression model technique that is recommended when panel data has a smaller amount of time (T) than the number of individuals (N) in the study (Gujarati and Porter, 2009).

Hypothesis Testing

Hypothesis testing in this study uses panel data regression model estimation techniques with the Random Effect Model on both hypotheses. The following is a summary of the results of panel data regression testing on the regression equation for both hypotheses:

Table 4
Hypothesis Testing Results

Variable	Accounting-based company performance (ROA)		Market-based company performance (TOBIN)	
	Regression coefficient	Prob.	Regression coefficient	Prob.
Constanta	-0,152	0,000	-2,070	0,000
DKP	5,380	0,481	-0,025	0,022
DDP	0,003	0,164	-0,062	0,014
SIZE	0,005	0,000	0,090	0,000
LEV	0,001	0,473	0,640	0,001
KM	0,034	0,326	2,744	0,148
R^2	0,204		0,336	
Adjusted R^2	0,170		0,304	
F-Statistic	6,029	0,000	10,526	0,000

Information:
ROA: *Return on assets*; TOBIN: Tobins'Q Value; DKP: The board of commissioners is connected; DDP: The board of directors is politically connected; SIZE: Company size; LEV: *Leverage*; KM: Political managerial ownership

Testing the accuracy of the sample regression function in interpreting its actual value can be measured from the coefficient of determination and F's statistical value with its significance value. Based on table 4 above, the first hypothesis is found with an adjusted R2 value of 0.17. This shows that 17 percent of accounting-based banking performance (ROA) is influenced by the independent variables used, namely the politically connected board, the board of commissioners

and the board of directors, company size, leverage, and managerial ownership. Other factors outside the research model influence the remaining 83 percent value. The results of the F test obtained an F value of 6,029 with a probability of 0,000. The second hypothesis found an adjusted R2 value of 30.4 percent. These results indicate that 30.4 percent of market-based banking performance (TOBIN) is influenced by politically connected boards, both the board of commissioners and the board of directors, company size, leverage, and managerial ownership as independent variables. Other factors outside the research model influence the remaining 69.6 percent value. Furthermore, the F test results show the F statistical value of 10.526 with a probability of 0.000. Thus it can be concluded that statistically, the regression function for testing the hypothesis in this study meets the goodness of fit model so that this research model is suitable to be used to predict company performance.

Based on the results of the t-test on the first hypothesis show a probability value > 0.05 so that the independent variable does not influence the dependent variable. This means that the first hypothesis related to the political connection board, both the board of commissioners and the board of directors, on the performance of accountant-based banking (ROA) is not supported. Then, the t-test results on the second hypothesis show a probability value < 0.05, so it means that the politically connected board, both the board of commissioners and the board of directors, negatively influences the performance of market-based banking (TOBIN). These results indicate that the second hypothesis is supported. Furthermore, the results of the t-test for the control variable show that only company size has a significant effect on the dependent variable. Conversely, leverage and managerial ownership show a probability value > 0.05, which means that these two control variables do not affect company performance, both accounting and market-based.

DISCUSSION

The board is connected to political and banking accounting performance

Hypothesis 1 states that politically connected boards have a negative effect on accounting-based banking performance (ROA). The first hypothesis is extended into two minor hypotheses related to politically connected boards, namely the board of commissioners (H1a) and the board of directors (H1b). Based on the results of the t-test in table 4, neither the board of commissioners nor the board of directors connected with politics influences the performance of accounting-based banking (ROA). Thus, hypotheses 1a and 1b are not supported. This study's results do not support the agency theory, which states that the existence of political connections on the board of commissioners and directors can worsen the performance of accounting-based banking. There is a possibility that the strict BI and OJK regulations related to governance and the rules that apply to banking in Indonesia cause politically connected boards not to influence bank accounting performance (Setiawaty, 2016). Therefore, the actions and decision-making made by a politically connected council are no different from a council that is not politically connected. Furthermore, this study found that the number of politically connected boards is relatively small compared to all boards in banking. The role of politically connected boards is minor and has no impact on accounting-based companies' performance.

The results of this study do not support the research results of Ling et al. (2016), Belghitar et al. (2018), Domadenik et al. (2016), which states that boards with political connections can negatively affect the performance of accounting-based banking companies (ROA).

The board is connected to political and banking market performance

Hypothesis 2 states that politically connected boards have a negative effect on the performance of market-based banking (TOBIN). This hypothesis is translated into two minor hypotheses related to the separation of politically connected boards, namely the board of commissioners (H1a) and the board of directors (H1b). Based on table 4, the variables of the board of commissioners and the board of directors that are politically connected are found to have a negative effect on the performance of market-based banking (TOBIN). The higher the number of politically connected boards, the worsening the performance of market-based banking.

The results of this study support agency theory, which states that boards with political connections have a negative effect on market-based banking performance. Purwoto (2011) stated that companies with political closeness are less open in providing information to outsiders. Information disclosure is important in the stock market for investors to make investment decisions. Politically connected boards often act according to self-interest (L. Wulandari, 2018) and allow banks to

experience more significant failure in crisis times (Johnson and Mitton, 2003), thus exacerbating market responsiveness. The findings of this study prove that investors' views of politically connected banks tend to be riskier than banks without political connections, causing the value of politically connected banks to decline in investors' eyes.

The results of this second hypothesis are in line with the research of Habib et al. (2017) and Kristanto (2019), which states that politically connected boards have a negative effect on the performance of market-based banking (TOBIN).

This study also adds additional testing using politically connected councils as measured by the proportion of politically connected councils, namely the number of politically connected councils divided by the existing councils. This additional test is carried out in order to show the different effects of this measurement method. The test results are listed in table 5 below.

Table 5
Additional Test Results

Variable	Accounting-based company performance (ROA)		Market-based company performance (TOBIN)	
	Regression coefficient	Prob.	Regression coefficient	Prob.
Constanta	-0,170	0,162	-1,277	0,042
PRO_DKP	-0,013	0,268	-0,102	0,200
PRO_DDP	-0,112	0,005	0,152	0,292
SIZE	-0,006	0,116	0,133	0,000
LEV	0,024	0,316	-1,853	0,000
KM	0,064	0,246	0,079	0,455
R^2	0,631		0,358	
Adjusted R^2	0,400		0,330	
F-Statistic	2,732	0,000	13,031	0,000

Information:
ROA: Return on assets; TOBIN: Tobins'Q Value; DKP: The board of commissioners is connected; DDP: The board of directors is connected politically; SIZE: Company size; LEV: Leverage; KM: Political managerial ownership

Based on table 5 above, it is found that only the proportion of the board of directors is politically connected, which is proven to have a negative effect on the performance of accounting-based companies (ROA). This means that the more the proportion of the board of directors who are politically connected in the company, the lower its ability to generate profits using its assets. The proportion of politically connected boards here is not proven to affect the company's market performance. This finding differs from the findings in Table 4, which indicate that the measurement of politically connected dreams influenced the test results. The reaction of investors, which is reflected in the stock market price, is more responsive to information on the number of company boards that are politically connected than the proportion.

CONCLUSIONS AND SUGGESTIONS

Based on the results of the testing and analysis that has been done, it can be deduced that the council politically connected, both the board of commissioners and board of directors, negatively affect the performance of market-based banking (Tobin) but does not affect the bank's performance-based accounting (ROA). The board of commissioners and the board of directors connected with politics are seen as ineffective. They will worsen the market economy, so investors think companies with political connections are riskier and reduce the company's market performance. On the other hand, strict banking regulations have a strong influence on banking corporate governance so that politically connected boards do not influence accounting-based banking performance.

This study provides theoretical implications that strengthen the application of agency theory that politically connected boards tend to contain conflicts of interest, thus worsening market views and worsening market-based banking performance. However, the board is politically connected with strict regulations, which do not affect accounting-based banking performance. This study's findings support the agency theory that politically connected boards in banking in Indonesia tend to contain conflicts of interest and put companies more at risk. These findings can also be used as consideration for banks in reviewing the composition of the board of commissioners and boards of directors connected politically and become a consideration for investors in assessing carefully and prioritizing the principle of prudence in investing in politically connected banks. This study also provides policy implications for policymakers to reaffirm the relationship between the board of directors and commissioners by considering the political aspects.

This study's limitation is that the measurement of politically connected councils in this study only considers the number of politically connected boards, not considering the level of political connection of the related councils. The board's level of political connection in question is such as the position/position and the length of time in office from the politically connected council. Based on the existing limitations, further research can

consider the level of board political connection in banking companies. The political connection-level can consider the position/position and the board's period or length with those political connections in the office. The higher the position/position and the longer the term of office, the higher the council's level of political connections.

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