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## **DOES CORPORATE GOVERNANCE AFFECT CORPORATE FINANCIAL PERFORMANCE? THE MODERATING ROLE OF BOARD CONNECTION POLITIC**

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### **Abstract**

This study aims to determine the effect of corporate governance on company performance with political connections as moderation. Corporate governance assessment variables include the women's board and board size. The company's performance variable is measured by Return on Assets (ROA).

The population of this study are companies listed on the Indonesia Stock Exchange for the 2017-2021 period with a total sample of 395 data. Research data were obtained from financial and annual reports published on the official website of each company. Panel regression is used as a data analysis method in this study.

The results of the study show that there is a significant positive effect on the board size variable on company performance. In contrast to the female board variable which has no significant effect on company performance.

### **Keywords:**

Political connections, board size, women's board, financial performance, and leverage.

### **Introduction**

Aprilliani and Totok, (2018) Company performance is a measure of the success of a company. The company's performance is assessed based on the information contained in the financial statements. This information is used by company management to make decisions and policies. The company's performance reflects the achievements of the company's management (Tang and Fiorentina 2021) . Chen et al., (2018) Company performance can be influenced by the composition of the members of the board of commissioners and directors. One of them is influenced by gender composition. The composition of female board members has an influence on the company (Karina 2021). The existence of a women's board in the company can increase innovation (Cristiano and Yopie 2021). To produce better company performance, it is necessary

to determine the size of the company's board. Chong et al., (2018) Companies with large board sizes tend to bear low risks.

Quoted from the Big Indonesian Dictionary (KBBI), Politics is defined as a constitutional or state view related to the system of government and the basis of government. In a company management there are also political connections that can have a positive influence in a company. Political connections have become commonplace in Indonesia. In general, companies will provide positions to people who have close ties with the government into the ranks of the company's organization. It is known that political connections in Indonesia are growing rapidly and reaching various industrial sectors after the reform period. Generally, companies that have political connections receive special benefits from the political connections that have been built. This political connection is used by companies to gain convenience in government affairs and gain economic influence. In addition, politically connected companies have been shown to have significantly higher earnings management than non-politically connected companies (Kim and Zhang, 2016; Pranoto and Widagdo, 2016). The existence of political connections in a company is intended to advance company performance, and companies can receive political capital and get profits and higher returns on capital.

The results of this study are expected to provide information and input to companies and stakeholders regarding women's councils, board size and moderation of political connections to company profitability. This study is expected to be able to provide information needed by investors, especially in the decision-making process in investing in companies, and this study is expected to provide advice to regulators to make regulations regarding the minimum quota for women serving in companies.

## **Literature Review (Font Tahoma 13 Bold)**

Fahmi (2012; 2) conducted an analysis of financial performance to measure company performance. The analysis is carried out in the use of proper and adequate financial implementation rules. To find out the company's financial performance, financial statement analysis is needed, by comparing the performance of other companies in the same sector and evaluating the performance of financial position in a period. By measuring financial performance, the prospects for growth and development of the company's finances can be identified (Anita and Amalia 2021). If the company has met the performance targets that have been set, the company can be declared successful.

Sutrisno (2009; 53) explains that companies that represent the soundness of the company in a period describe good financial performance. From the various definitions that have been described, it is concluded that financial performance evaluates the company's achievements in a period that describes the company's financial condition. Financial performance can also measure the company's success in achieving the goal of generating profits.

Joni et al., (2020) conducted research on the effect of the political connections of the boards of commissioners and directors on company performance measured using the Tobin's Q ratio. This research was conducted in 2019 with the object of research being 1099 companies listed on the Indonesia Stock Exchange (IDX) for the period 2010-2013. This study resulted in findings that the political connections of the board of commissioners and directors have a positive influence on company performance.

Pangestu et al., (2019) tested research on the effect of the presence of female commissioners on profitability as measured by ROA. The research object is 364 Indonesian

non-financial companies for the 2013-2016 period. The results of this study the presence of women has a positive influence on the company's financial performance.

Aprilliani and Totok, (2018) tested the effect of board size and women's boards on company performance as measured using the ROA ratio. This research was conducted in 2018. The object of the study were companies listed on the Indonesia Stock Exchange (IDX) for the 2013-2015 period and the sample of this study was 278 companies. From the results of the study it was found that board size had a positive effect and women did not have an influence on company performance.

Chong et al., (2018) tested the effect of political connections, women's boards and board size on company performance as measured using the ROA ratio. The object of research is the 290 companies listed on the Malaysia Stock Exchange in the 2010-2014 period. The results found in this study are political connections and women's councils have a positive influence on company performance. Board size with a large number has a negative influence on company performance.

Moreno-Gómez et al., (2018) conducted a study on the effect of the gender distribution of the board of commissioners and board size on company financial performance as measured using ROA and ROE with the leverage control variable. The research was tested with research objects of 54 Colombian public companies for the period 2008-2015. The results of research testing conducted in 2018 are the positive influence of gender distribution on the board of commissioners, board size has no effect and leverage has a negative effect on company performance.

Terjesen et al., (2016) conducted research on the effect of gender, age, educational level, and nationality of the board of commissioners on company financial performance as measured using the Tobin's Q ratio and ROA. This research was conducted in 2016 with the object of research being 3876 public companies in 47 countries in the 2010 period. This research resulted in findings that companies with female boards of commissioners have better financial performance.

After the formulation of the research theory and description of the research model, the results of the hypothesis formulation are as follows.

H1: Women's Council Has a Significant Positive Influence on Financial Performance

H2: Board Size Has a Positive Significant Influence on Financial Performance

H3: Political connections moderate the relationship of women's councils to financial performance

H4: Political connections moderate the relationship between board size and financial performance

## Research Methods

In analyzing a data there are many methods, but in this study using panel data regression method. Panel data is combined data from cross section and time series. This analysis was carried out aiming to determine the relationship of each variable with the other variables tested in this study. The SPSS 25 and Eviews 10 software programs are used as intermediary media in conducting data analysis.

The initial stage in conducting data analysis is by conducting tests with the SPSS program to test descriptive statistics and find data that is considered as outlier data. Then carry out the Hausman test, Chow test, and Lagrange multiplier test, then continue testing by selecting the

best model between the F test method, t test, and the Goodness of Fit Model test. This stage is carried out using the Eviews 10 software program. The population of this study is non-financial companies and are listing in the 2017-2021 period. Purposive sampling technique was used in determining the research sample. The definition of purposive sampling according to (Sugiyono 2019) is a sample determination technique with criteria predetermined by the author. The criteria for determining the research sample are described as follows: non-financial companies in Indonesia which regularly disclose annual reports from 2017-2021. Companies that use the USD exchange rate convert to Rupiah using the Bank Indonesia middle rate at the end of the period.

Research data is obtained from annual reports and sustainability reports published by each company. The report in question can be downloaded from the company's website or [www.idx.co.id](http://www.idx.co.id).

## Results and Discussion

The research model uses financial performance with ROA as an independent variable. The independent variables used in the research model are the women's board and board size. The research model also uses the Leverage variable as a control variable. The research model uses political connections as a moderating variable.

**Table 1. Descriptive Statistical Test Results**

	N	Min	Max	Mean	Standard Deviation
Female Board	410	0.0000	0.7143	0.1638	0.1408
Board Size	410	0.0000	31.0000	9.1800	4.4310
Return On Asset	410	(4.2140)	0.4208	(0.0092 )	0.2372
Leverage	410	0.0000	87.9081	0.8900	4.3081
Politic Connection		0.0000	0.5455	0.0603	0.9780
Valid (Amount of Data)	N 410				

*Source : Output SPSS (2023)*

Referring to table 1, the number of n is known as 410 data which shows the amount of data observed. Descriptive analysis on the female board or women's board shows a value of 0.0000 as the minimum value. This minimum value is found in several companies that do not have women's boards on the board of commissioners or directors. Based on the results of this analysis, it shows that the maximum value of the female board is 0.7143 or 71% at PT Bank Maspion Indonesia Tbk for the 2018 period. The average value of the female board is 0.1638 or 16% and the standard deviation is 0.1408 or 14%. Descriptive analysis of female boards or

women's boards shows that the higher the percentage of women's boards, the more women are on the boards of commissioners and directors.

The average value of the board size or board size shows the number 9.1800. This indicates that there are boards of commissioners and directors in each company. It can be concluded that the higher the board size or board size, the more boards of commissioners and directors in the company.

The average value of Return of Assets or ROA shows a value of 0.2372 or 24%. This shows a high ROA value. ROA is used to determine the ability of assets to generate profits. Based on Bank Indonesia Regulation No. 131/1/PBI/2011 the ideal value of ROA is more than 1.5%. Thus it can be concluded that the profitability of financial companies in Indonesia in the five year period 2017-2021 is quite good. The higher the ROA value, the more optimal the company's performance in generating profits.

The average leverage value is 0.8900. This figure shows the company's ability to meet debt obligations with its assets. High leverage values can make it difficult for companies to make profits.

The results of the outlier test on the research sample showed that there were 20 data outliers. The outlier test uses the Studentized Deleted Residual (SDR) method. Data is categorized as outlier data and needs to be eliminated if the SDR value is less than -1.96 or greater than 1.96. After eliminating outlier data, 359 observation data were obtained.

**Table 2. Chow Test**

Effect Test	Prob.	Conclusion
Cross-section Chi-square	0.0000	Fixed Effect Model

*Source : Output Eviews (2023)*

Based on the results of the chow test in table 2, it is known to have a probability value of 0.000 or <0.05. Referring to the results of the chow test above, the best model uses the Fixed Effect Model. In conclusion, it is continued with the Hausman test.

The Chow test gives the best model estimation results, which is the fixed effect. Further tests are needed, called the Hausman test. The Hausman test is a statistical test to select the most suitable model between the fixed effect and random effect models. The following table presents the Hausman test.

**Table 3. Hausman Test**

Effect Test	Prob.	Conclusion
Cross-section random	0.0000	Fixed Effect Model

*Source : Output Eviews (2023)*

Based on table 3, it is known that the output of the Hausman test shows a probability value of 0.0000 or <0.05. This means that the best model approach and estimation for panel data regression is the fixed effect model.

The F test is used to analyze whether the independent variables in the research model have a significant effect simultaneously. The following are the results of the F test of the research model.

**Table 4. F Test**

Variable	Prob(F-statistic)	Conclusion
ROA	0.0000	Model can be used

*Source : Output Eviews (2023)*

Referring to the test results in table 4.5, it is known that the probability of the F-statistic is 0.0000 or <0.05. It can be concluded that all variables, both independent and control, in the research model have a significant simultaneous effect on the dependent variable. Based on the results of the analysis, the research model can be used in panel data regression analysis.

The best regression model chosen is the fixed effect, which is determined based on the output table from the Chow test and Hausman test. The following is the result of the t test (hypothesis test) using the fixed effect model.

**Table 5. t Test (First Model)**

Dependent Variable: Return on Asset (ROA)				
Variable	Coefficient	Prob.	Result	Conclusion
C	0.027511	0.0000		
Female Board	0.003056	0.8360	?	Rejected
Board Size	0.001552	0.0009	+	Accepted
Leverage	-0.048340	0.0000	n.a	n.a

Note: ? : Insignificant effect  
 + : Significant Positive  
 - : Significant Negative  
 n.a : Non Available (Not a Hypothesis)

*Source : Output Eviews (2023)*

The empirical results of the panel data regression show that the female board variable has a coefficient value of 0.003056 and a probability of 0.8360. The coefficient value is positive and the significance level is > 0.05 which indicates that independent women's councils have a positive influence, but not significantly to the probability so that the hypothesis is rejected. Referring to the results of the descriptive test, the average female board or independent female

board is 16%, which is known to have a very low proportion of female boards. The empirical results show an insignificant effect which indicates that with a low number of female boards they are not able to influence decision making so that the company's financial performance is not optimal. As such, women's boards have not functioned effectively as part of company boards.

Maghfiroh and Utomo, (2018) showed the results of the study that there was no significant effect. The relatively low level of women's councils in Indonesia is due to several perspectives. One of them, men are considered more capable in leading a group. Most of the companies that have a female board composition are family companies. This can happen because of blood relations, so it is difficult to know whether the participation of the women's board is able to influence the company's financial performance. Aluy et al., (2017) have different research results, every company with a female board composition tends to direct the company to be better. Women are able to make good decisions. The role of women is very important because they are able and have a great influence in solving a problem and are able to manage profits well. According to Owen and Temesvary (2018) it was concluded that an increase in the number of female boards has an impact on improving performance as long as the company has good management quality.

The empirical results of the panel data regression indicate that the board size variable has a coefficient value of 0.001552 with a probability of 0.0009. A positive coefficient value and a significance level of >0.05 indicates that there is a significant and positive relationship between board size and financial performance so that the hypothesis is accepted. Referring to the results of the descriptive test, the average size of company boards is 9.1800 which indicates there are a total of nine people on the size of the company board. The empirical results show that there is a significant positive effect indicating that the capability of each board is able to increase the company's profitability so that the company can operate continuously.

The results of this study are the same as the results of research conducted by Sukandar and Rahardja (2014) where the larger the number of board sizes allows for an increase in the company's financial performance. Rompis et al., (2018) gave the same research results that large board size has a positive effect on financial performance. This is contrary to the results of research conducted by Mangatas et al., (2018) which confirms board size has a significant negative effect on financial performance. The larger the size of the board can cause a decrease in financial performance. This tends to occur because of the personal interests of the board of directors.

**Table 5. t Test (First Model)**

Dependent Variable: Return on Asset (ROA)					
Variable	Coeffisient	Prob.	Result	Conclusion	
C	0.028331	0.0000			
MDRSPOLITICALCONNECTI ON_1	-0.150013	0.3662	?	Rejected	
MDRSPOLITICALCONNECTI ON_2	0.002297	0.3632	?	Rejected	

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Note: ?	: Insignificant effect
+	: Significant Positive
-	: Significant Negative
n.a	: Non Available (Not a Hypothesis)

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*Source : Output Eviews (2023)*

Based on the empirical test results in table 4.7, the MDRSPOLITICAL CONNECTION\_1 variable or the moderation of the first political connection has a coefficient value of -0.150013 with a probability of 0.3662. The probability value that explains has no effect on the relationship between women's boards and financial performance, so H3 is not proven. This is the same as the results of research conducted by Innayah and Pratama, (2022) that political connections have no effect because the number of women councilors with political backgrounds is relatively low, so that the opinions or opinions of women councilors in decision making are not listened to. Therefore, it is necessary to increase the number of women's councils with a political background of at least 3 or more women's boards so that it has an impact on the company's performance growth (Arayssi and Jizi, 2019).

The empirical results of the panel data regression indicate that the variable MDRSPOLITICALCONNECTION\_2 or the moderation of the second political connection has a coefficient value of 0.002297 with a probability of 0.3632. Referring to table 4.7, the second political connection moderating variable has a probability value of >0.05. This indicates that political connections have no effect on the relationship between board size and financial performance, so H4 is not proven. This is in contrast to the results of research by Joni et al., (2020) that the increasing number of boards with political backgrounds have relationships with individuals or government structures that can have an impact on decision making in improving company performance. Therefore, the existence of a board size where the majority have a background of political connections is able to have an impact on financial performance by making it easier for companies to obtain capital loans, increasing investment opportunities, increasing sales, and minimizing company expenses.

The empirical results of the panel data regression show a coefficient value of -0.048340 and a probability of 0.000. The negative coefficient value indicates that there is a negative effect. It has the same negative effect as the results of research conducted by Ibhagui et al., (2018) because a high leverage ratio of a company can have an impact on weakening a company's financial performance and also increase the risk of default on company debt to banks which has an impact on company bankruptcy. Therefore, companies must be able to control borrowing and repay debts before maturity.

## Conclusions

Based on the test results and analysis of research data, the authors draw the following conclusions. The female board variable has no significant relationship to financial performance. The low number of female boards is not able to influence decision making so that the company's financial performance is not optimal. This means that the existence of women's boards in the company does not play an optimal role in increasing company profits. The results of this study are not in line with H1. Board size variable has a significant positive effect on financial performance. The empirical results show that there is a significant positive effect indicating that

the capability of each board is able to increase the company's profitability so that the company can operate continuously. The results of this study are in line with H2. Political connections have no significant effect on female board relationships and company profitability. The results of this study are not in line with H3. Political connection has no significant effect on the relationship between board size and company profitability. The results of this study are not in line with H4.

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