The Influence of Corporate Governance on Company Financial Difficulties with Political Connections as Moderation

Teddy Jurnali1, Wulan Angreni Putri2

1 Faculty of Economics and Management, Batam International University, Batam, Indonesia

Abstract

This study aims to analyze the influence of corporate governance on corporate financial distress with political connections as a moderation. The research population used is data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) from the 2017-2021 period. Sampling using purposive sampling. Data analysis was performed using panel data regression and using Eviews software. Research shows that board size has a negative effect on financial distress, while family ownership has no significant effect. This research shows that political connections can strengthen the relationship between board size and family ownership of financial distress in companies.

Keywords:
board size, family ownership, political connections, financial difficulties.

INTRODUCTION

Large companies or small companies really need predictions of financial difficulties in order to review company management in making decisions that are closely related to the condition of each company (Ayu et al., 2017; Edi & Tania, 2018). Companies are strongly advised to make predictions early on to avoid undesirable things happening to the company. Predictions are made to determine the level of a company's financial difficulties and this information is obtained from corporate governance regarding the company's financial performance(Kamaluddin et al., 2019).

Companies that have functional governance in the company are classified as quite good, because governance has an important role in increasing the efficiency of company development as well as the sustainability of operational activities and investor confidence. Financial structures and assets that are inappropriate and not managed well by the company can cause financial difficulties in the company's governance. If corporate governance is not running well and management is unable to manage the company, the company could face
financial difficulties (Sayari & Mugan, 2017; Yopie & Erika, 2021). Companies that continue to experience this can lead the company to bankruptcy.

Companies play a central role in terms of corporate governance, therefore the position of corporate governance is very important (Chandra & Chintya, 2021; Chandra & Junita, 2021). Much of the public debate about board governance centers on the smaller size of the board. Although a larger board size in a company will initially make the company look more optimal, there comes a time when a larger board of directors experiences less coordination and communication (Santoso & Nugrahanti, 2022). The size of the board of directors is the most important thing in the corporate governance system and its role has evolved over the years. Examining board size is important for financial distress because it has a different impact on corporate governance, and has important implications for business decisions. The large size of the board of directors allows the company to experience increasingly financial difficulties (Rouf & Hossan, 2021).

Financial difficulties are bad conditions that occur in a company before the company goes bankrupt (Nasiroh & Priyadi, 2018; Christian, 2022). A number of companies experiencing financial problems will try to review the problem points that occur in the company and will think of various ways to overcome them so that the company runs well. Various methods are used, such as taking loans and business combinations or vice versa, the company closing the business they have been running. Therefore, strong analysis is needed in predicting the financial condition of the company to prevent this from happening and this analysis is a very important method in building a company (Lin et al., 2019).

Financial difficulties occur due to the influence of several factors such as the lack of knowledge and experience of directors of the company in managing assets and liabilities in preparing reports. Other factors come from the tax system, inflation, laws and depreciation of foreign currency, the number of board of directors, company size and company debt (Kurniawati & Aligarh, 2021). Several factors dedicating company size have an influence in determining whether or not a company is vulnerable to the risk of bankruptcy. Company size reflects how long a company has been in business, as well as reviewing the experience the company has in dealing with problems in future companies. Company size can be done in ways such as assessing total assets, total sales, total profits and others (Brier & Lia Dwi Jayanti, 2020).

The benchmark used for company size is the total value of assets owned by the company. If the total assets have a very large amount, it can show a positive signal for creditors. It is predicted that the company can easily pay off its obligations in the future, so that the company can avoid the risk of financial difficulties (Hakim et al., 2015). Companies that have family ownership are believed to have performed quite well compared to companies that are not based on family ownership. Because family ownership has quite high professionalism in carrying out and developing the management of the company itself. When they receive pressure from outside parties, they will be ready to make amends to higher-ups or minority shareholders in the company, such as overcoming most forms of traditional weaknesses and also taking advantage of their strengths to achieve success themselves (Mathova et al., 2017).

Political Connections also needs to receive support and attention for any regulatory efforts to review financial difficulties. Because these regulations lead to the development of corporate accountability which is closely related to structuring corporate governance
Empirical studies emphasize that politically connected companies can facilitate access and produce more efficient relationships than companies that are not politically connected. Companies that have political ties tend to disclose their activities in better ways than companies that do not have these ties (Muliawati & Hariyati, 2021). There are many factors that influence public opinion on important issues that affect shareholders as well. Political connections play an important role in influencing public opinion on issues that affect shareholders. To build relationships with the government, a company can use various tactics (Du et al., 2019).

If company officials, top company management, or large company owners are politicians, you can be sure they can communicate directly with the government. To minimize this conflict, some countries restrict politicians from taking key positions in companies. Therefore, there is a negative relationship between politically connected firms and operational efficiency. Most studies reveal that by increasing profit efficiency, coworkers can achieve their goals. As the main goal of the company is to maximize profits. Company efficiency is one of the most effective studies for companies to become more efficient. This article aims to analyze the influence of corporate governance on company financial difficulties with political connections as moderation.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

The Effect of Board Size on Financial Distress

Based on test results in research that has been conducted, the board size variable has a probability value of 0.0241, concluding that board size has a significant negative influence on financial difficulties. From the results of the analysis, it can be concluded that the first hypothesis (H1) is proven. This research is in line with research by Sumani (2019) which interprets that the size of the board of directors has a significant negative influence on financial difficulties. His research revealed that the higher the number of board of directors, the smaller the possibility of financial difficulties in the company. This research is also in line with the research results of Khurshid et al. (2019) explain that the size of the board of directors has a negative influence on financial difficulties. Based on research interpreted by Salloum and Azoury (2019) and Candradewi & Rahyuda (2021), a larger board of directors size will increase the company's ability to manage and manage it.

Apart from that, the size of the board of directors has an important role in reducing agency, because the size of the board of directors has an important influence on reducing financial difficulties (Candradewi & Rahyuda, 2021; Bredart 2014). A large board size can help a company reduce financial difficulties. Companies that have a large board size will have good capacity to make decisions and produce good strategies. Based on research interpreted by Salloum and Azoury (2019) and Candradewi & Rahyuda (2021), the larger the size of the board, the more competencies possessed by the board of directors such as level of education and experience will increase and help in making the right decisions and strategies. (Bredert, 2014; Nasir & Ali, 2018).

H1: Board size has a significant negative effect on financial distress.
The Effect of Family Ownership on Financial Difficulties

Based on test results in research that has been conducted, the family ownership variable has a probability value of 0.0407, concluding that family ownership has a significant positive influence on financial difficulties. It can be concluded that the second hypothesis (H2) is proven. When family ownership has a majority stake in the company and participates in corporate governance, it will increase the occurrence of financial difficulties that impact the company (Ha et al., 2020).

If the greater the percentage of family ownership in the company, it has a large enough contribution to cause financial difficulties for the company, due to the failure to perform corporate governance properly and correctly. Anderson & Reeb. (2003). The difference between this research and the current research is that the current research uses other variables that are associated with financial difficulties, namely good corporate governance, where this variable has not been used in the research. Some companies based on family businesses choose to fund their companies in order to grow, choosing to use funding by borrowing money from banks rather than offering their family ownership shares to new investors. Therefore, according to Mathova et al. (2017) the more family ownership in large companies, the more likely it is that financial difficulties will occur.

H2: Family ownership has a significant positive effect on financial difficulties

The effect of political connections as a moderating influence on board size on financial difficulties.

Based on test results in research that has been conducted, the variable political connections as a moderator between family ownership on financial difficulties has a probability value of 0.0012, indicating that political connections as a moderator between family ownership have a significant positive influence on financial difficulties. It can be concluded that the fourth hypothesis (H4) is proven. The increasing number of family ownership can increase the financial difficulties being faced by the company. The existence of a family company will of course have a significant impact on the financial difficulties faced by the company, thus affecting the political connections that are built. This research is in line with the research results of Kamaluddin et al. (2019) concluded that there was a political connection between family ownership and financial difficulties. To improve the company's position and bargaining influence over the government, political relationships are developed within the organization (Ananto et al., 2021). The political connections a company has can be used by the company to become more involved in the financial difficulties the company is facing. With political connections, family ownership increases and causes financial difficulties to increase. Research result of Kamaluddin et al. (2020) concluded that there was a political connection between family ownership and financial difficulties.

H3: Political connections moderate the relationship of board size to financial distress.

The influence of political connections as a moderating influence on family ownership of financial difficulties

Based on test results in research that has been conducted, the variable political connections as a moderator between family ownership on financial difficulties has a probability value of 0.0012, indicating that political connections as a moderator between family ownership have a significant positive influence on financial difficulties. It can be
concluded that the fourth hypothesis (H4) is proven. The increasing number of family ownership can increase the financial difficulties being faced by the company. The existence of a family company will of course have a significant impact on the financial difficulties faced by the company, thus affecting the political connections that are built. This research is in line with the research results Kamaluddin et al. (2019) concluded that there was a political connection between family ownership and financial difficulties. To improve the company's position and bargaining influence over the government, political relationships are developed within the organization (Ananto et al., 2021). The political connections a company has can be used by the company to become more involved in the financial difficulties the company is facing. With political connections, family ownership increases and causes financial difficulties to increase. Research result Kamaluddin et al. (2020) concluded that there was a political connection between family ownership and financial difficulties.

H4: Political connections moderate the relationship between family ownership and financial difficulties

RESEARCH METHODS

Data collection technique

The data collection technique used in this research used a purposive sampling technique. Sugiyono (2017) defines purposive sampling as a sampling technique with certain considerations, where the reason for selecting samples is because not all samples meet the criteria set by the author. The author uses secondary data obtained from annual report data, sustainability reports and company financial reports and this data will be processed to prove the hypothesis proposed in the research. According to Sugiyono (2017), secondary data sources are data sources obtained indirectly that can be obtained through other people or through official documents that have been provided.

Population and Sample Operational Definition of Variables

The thesis report entitled "The Influence of Corporate Governance on Financial Difficulties of Companies with Political Connections as Moderation" uses a sample of the entire population of annual reports for the 2017-2021 period in companies listed on the Indonesia Stock Exchange (BEI), excluding companies operating in the financial sector. Data from financial reports used in this research is secondary data. The research sample that was formed was selected with various considerations regarding certain criteria or methods. In accordance with this method, there are 371 companies that have been studied over a period of five years with results.

Operational Definition of Variables

The variables in this research consist of independent variables which are board size, family ownership and the dependent variable is financial difficulties. The moderating variable is political connections, which moderate the relationship between board of directors size and family ownership. As well as control variables consisting of company size, company debt, and company value.
ANALYSIS AND DISCUSSION

The thesis report entitled "The Influence of Corporate Governance on Financial Difficulties of Companies with Political Connections as Moderation" uses a sample of the entire population of annual reports for the 2017-2021 period in companies listed on the Indonesia Stock Exchange (BEI), excluding companies operating in the financial sector. Data from financial reports used in this research is secondary data. The research sample that was formed was selected with various considerations regarding certain criteria or methods. In accordance with this method, there are 371 companies that have been studied over a period of five years with results.

Table 3 The list of companies was used as the research sample

<table>
<thead>
<tr>
<th>Information</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company is registered on the IDX</td>
<td>811 Company</td>
</tr>
<tr>
<td>Financial companies registered on the IDX</td>
<td>96 Company</td>
</tr>
<tr>
<td>Number of Companies with incomplete financial reports &amp; annual reports</td>
<td>344 Company</td>
</tr>
<tr>
<td>Number of companies used as research samples</td>
<td>371 Company</td>
</tr>
<tr>
<td>The amount of data used as the research sample</td>
<td>1855 Data</td>
</tr>
<tr>
<td>Number of outlier data</td>
<td>(363) Data</td>
</tr>
<tr>
<td>The amount of data used as a research sample</td>
<td>1492 Data</td>
</tr>
</tbody>
</table>

Source: Research data processed, 2022.

Based on the sample research criteria above in accordance with the completeness of reports on companies from all industrial fields except finance which have been listed on the Indonesia Stock Exchange for a five year period starting from 2017-2021, the number of samples that meet the criteria is 371.

Based on the picture above, the results of descriptive statistical tests using 371 companies consisting of five years, the total research data on companies is 1855. With 363 outlier data, the data used is 1,492 data.

Table 3 Descriptive Statistical Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Average</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial distress</td>
<td>1492</td>
<td>-0.81</td>
<td>6.10</td>
<td>2.2307</td>
<td>1.36833</td>
</tr>
<tr>
<td>Board Size</td>
<td>1492</td>
<td>4.00</td>
<td>28.00</td>
<td>8.8794</td>
<td>2.98490</td>
</tr>
<tr>
<td>Family Ownership</td>
<td>1492</td>
<td>0.00</td>
<td>0.99</td>
<td>0.5842</td>
<td>0.21120</td>
</tr>
<tr>
<td>Company Size</td>
<td>1492</td>
<td>19.11</td>
<td>36.64</td>
<td>28.4188</td>
<td>2.37904</td>
</tr>
<tr>
<td>Corporate debt</td>
<td>1492</td>
<td>-0.87</td>
<td>90.99</td>
<td>0.6607</td>
<td>2.73483</td>
</tr>
<tr>
<td>The value of the</td>
<td>1492</td>
<td>-0.61</td>
<td>7066.67</td>
<td>77.7187</td>
<td>423.0117</td>
</tr>
</tbody>
</table>

895

Teddy Jurnali, Wulan Angreni Putri

ISSN: 2776-5644
Based on the picture above, the results of descriptive statistical tests using 371 companies consisting of five years, the total research data on companies is 1492. The dependent variable financial difficulties (fd) has a minimum value of -0.81, a maximum value of 6.10, average -an average of 2.2307 and a standard deviation of 136.83% has a fairly high value. So it can be concluded that the data is increasingly varied.

The independent variable board size has a minimum value of 4, a maximum of 28 and produces an average of 8.88 and a standard deviation of 298.49% has a high value, so it can be concluded that the data varies because it is above 33%.

The family ownership variable has a minimum value of 0, a maximum value of 0.99 and produces an average of 0.5842 and a standard deviation of 21.12% has a low value, so it can be concluded that the data does not vary because it is below 33%.

The control variable company size has a minimum value of 19.11, a maximum value of 36.64 and produces an average of 28.4188 and a standard deviation of 237.90% has a high value, so it can be concluded that the data varies because it is above 33%.

The company debt control variable has a minimum value of -0.87, a maximum value of 90.99 and produces an average of 0.6607 and a standard deviation of 273.48% has a high value, so it can be concluded that the data is increasingly varied.

The control variable company value has a minimum value of -0.61, a maximum value of 7066.67 and produces an average of 77.7187 and a standard deviation of 42301.17% has a high value, so it can be concluded that the data varies because it is above 33%.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Connections</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 = There is no political connection</td>
<td>1034</td>
<td>69.3%</td>
</tr>
<tr>
<td>1 = There is a political connection</td>
<td>458</td>
<td>38.9%</td>
</tr>
</tbody>
</table>

Source: Research data processed, 2022.

The political connection dummy variable in table 4.3 shows that 38.9% of manufacturing companies registered on the IDX are politically connected, while companies that are not politically connected reach 69.3%. has a low value, it can be concluded that the data does not vary because it is below 33%. The results show that the percentage of manufacturing companies registered on the IDX that have a network of political connections is said to be quite large.

In accordance with the criteria, this shows a prob value > 0.05, concluding that the best model selected between the Fixed Effect Model (FEM) and the Random Effect Model (REM) is the Fixed Effect Model. Based on the results of the Hausman test and Chow test
carried out above, the model that will be used next is the Random Effect Model (REM). The model 1 test results show that the value in the adjusted R-squared is 0.487, meaning that the independent variable explains 48.7% of the dependent variable, while the remaining 51.3% is explained by variables not included in the model.

Table 4.9: Coefficient of Determination Models 1, 2 and 3

<table>
<thead>
<tr>
<th>Variable</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial distress</td>
<td>0.487</td>
</tr>
</tbody>
</table>

The model 1 test results show that the value in the adjusted R-squared is 0.487, meaning that the independent variable explains 48.7% of the dependent variable, while the remaining 51.3% is explained by variables not included in the model. The model 3 test results show that the value of the adjusted R-squared is 0.515, meaning that the independent variable explains 51.5% of the dependent variable, while the remaining 48.5% is explained by variables not included in the model.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial distress</td>
<td>0.518</td>
</tr>
</tbody>
</table>

The results of the model 2 test show that the value of the adjusted R-squared is 0.518, meaning that the independent variable explains 51.8% of the dependent variable, while the remaining 48.2% is explained by variables not included in the model.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial distress</td>
<td>0.515</td>
</tr>
</tbody>
</table>

The model 3 test results show that the value of the adjusted R-squared is 0.515, meaning that the independent variable explains 51.5% of the dependent variable, while the remaining 48.5% is explained by variables not included in the model.

CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS

This research aims to examine the influence of corporate governance on company financial difficulties with political connections as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2021 period. This research
proves that the size of the board of directors has a significant negative influence on financial difficulties. Family ownership has a significant positive influence on financial difficulties. Political connections as a moderator between board size provide a significant negative influence on financial difficulties. Political connections as a moderator between family ownership have a significant positive influence on financial difficulties.

This research not only serves as a reference source for further research results, but researchers hope that it can be used well as input and reference for companies to further consider and also pay attention to factors in corporate governance, namely board size, family ownership and political connections in connection with improving application of corporate governance to the company's financial difficulties, so that in the future the company can implement it well and sustainably.

The limitation of conducting this research is the technique of collecting information regarding the influence of corporate governance on a company's financial difficulties with connections as moderation. Researchers found several companies, both small companies and large companies, that had not included some of the information regarding their reports from the companies themselves, so the researchers had problems carrying out measurements. Then, to overcome this, a search for information regarding political connections was carried out. Several companies also included only a small amount of information regarding the biodata of their board members.

Recommendations that will be given for research that will be related to this topic are:
1. Expanding research by increasing the number or expanding the sample from the company sector listed on the IDX.
2. Future research can use other measurements to measure the variable influence of corporate governance on a company's financial difficulties with connections as a moderator so that the results obtained are different and have variations in conducting research.

**BIBLIOGRAPHY**


Teddy Jurnali, Wulan Angreni Putri

ISSN: 2776-5644


