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Political affiliation types and corporate social responsibility (CSR) commitment: evidence from Indonesia

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Abstract

Purpose – This study aims to examine the association between political affiliation types and corporate social responsibility (CSR) commitment for listed companies in Indonesia stock exchange (emerging economy) from 2015 to 2017.

Design/methodology/approach – The final sample of this research is 1,121 firm-year observations across industries, except the financial sector, because they are under different regulations. To estimate the association, ordinary least square regression is used. Also, the authors check our results using an alternative measure of political affiliations, additional control variables and the generalized method of moment model for endogeneity problems.

Findings – The result indicates that corporate political affiliations, particularly through military and industry-specialized people, have a significantly positive effect on CSR commitment. After testing for endogeneity problems, the findings remain similar.

Research limitations/implications – This study implies to the literature by providing empirical findings on how different types of political connections, particularly affiliation through board members with the specifically industry-specialized person and military, influence CSR commitments. Also, the authors show an exchange relationship between government and affiliated firms as the primary external motivation for performing CSR in Indonesia. When investors, creditors and policymakers comprehend the political incentives behind CSR performance, it can enable them to create better business valuations and effective CSR strategies in developing countries. However, this study is subject to several limitations. First, the authors do not examine the effect of a different regime with different types of power. Second, the qualitative aspect of the association between political affiliation and CSR is not explored yet.

Originality/value – The authors investigate the impact of several types of political affiliations on the nonfinancial outcome (CSR) in the context of an emerging country where business practices are heavily influenced by political connections and the military's dominance.

Keywords Political affiliation types, CSR commitment, Emerging economy, Endogeneity

Paper type Research paper

1. Introduction

The main purpose of this study is to examine the relationship between political affiliation types and corporate social responsibility (CSR) commitment for Indonesian listed firms from 2015 to 2017. The topic of political affiliation is widely explored in multiple countries with different political landscapes (Bliss and Gul, 2012; Houston *et al.*, 2014; Joni *et al.*, 2019; Joni

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et al., 2020). However, limited studies focus on the heterogeneity of political affiliation. Existing studies indicate that many listed companies establish connections to political power in many different types of political affiliation (direct or indirect connections). Wong and Hooy (2018), for instance, test the effect of political affiliation types on financial outcomes in the context of Malaysia. They find that firms with government and board of director affiliations have a positive financial performance, whereas such a relationship does not exist when firms have political connections through businessmen and family members. In addition to financial outcomes, Joni *et al.* (2019) show that political affiliation through military and industry-specialized people is associated with a lower cost of capital in Indonesia. Recently, Phan *et al.* (2020) examined the effect of three types of political affiliation, including government, family and business connections, on corporate investment in Malaysia. The result indicates that firms with government affiliations have higher corporate investment than firms with political affiliations through family and business.

A positive result on the association between political affiliation types and financial outcomes is consistent with the resource dependency argument. This explains that political affiliation is a valuable vehicle to minimize external risks and improve corporate value (Hillman and Dalziel, 2003). Politically affiliated firms enjoy external resources and other benefits from the government due to their private connections. However, in return, firms with political affiliations have obligations to accommodate the government's policies, including CSR. This argument is in line with social exchange theory (SET), suggesting that the relationship between business and government is reciprocal. Accordingly, politically affiliated firms might improve their CSR commitment due to reciprocal commitment. Practically, the government provides favorable regulations or other benefits for politically affiliated firms with conditions. Politically affiliated firms, in exchange, are required to invest more in CSR to support the government's policy and maintain a harmonious relationship with the government. Additionally, politically affiliated firms can use CSR to improve their reputation and stakeholders' trust (Crane, 2019). CSR has become an effective tool to meet the overall demand of stakeholders, including shareholders, employees, suppliers, distributors and communities (McWilliams and Siegel, 2001). It is a form of investment to maximize profits while simultaneously it supports the demands of stakeholders. Another reason for politically affiliated firms to focus on CSR disclosure is capital market pressure. CSR is considered as a corporate strategy to influence dominant groups (investors) and survive in the capital market (Amran and Haniffa, 2011). A politically affiliated firm with more CSR commitments is perceived better by investors. Empirically, only a few studies investigate the relationship between political affiliation types and CSR commitments in developing countries. Wang *et al.* (2018) provide evidence on the association between various types of political affiliation and CSR disclosures using Chinese listed companies. They differentiate between government ownership and political affiliation through board members in their analysis. The result indicates that companies with political affiliations are more likely to publish CSR reports. Also, they find that firms with central government affiliation are likely to disclose more CSR than political connections through local government.

Motivated by limited works on the impact of political affiliation types on CSR commitments in an emerging market, our paper addresses this issue under the specific institutional background of Indonesia. It is interesting to study the association in the context of Indonesia for several reasons. First, Indonesia is an emerging market that has not prioritized CSR, and law enforcement is low. Also, the Indonesia Company Law (1995) has adopted a dual board system consisting of the executive and supervisory company board. In the two-tier board system, the executive is responsible for the corporation's daily operations and the supervisory board conducts both monitoring and supervision functions. They are responsible for supervising management's policies and implementation and advising the executives. In the context of a dual board system, most supervisory board members have connections with the government. Second, the association between politics and business is very significant in this country. Because the former president Soeharto, the success of a business is determined by their connections with the government. Therefore, the level of political influence in Indonesia is high. Joni *et al.* (2019) report that more than 30% of Indonesian listed firms have connections with the government. Third, the domination of the army in the Indonesian political landscape is another unique setting (Joni *et al.*, 2019).

Using 1,121 observations from publicly listed firms on the Indonesian stock exchange (IDX) for 2015–2017, our results indicate that firms with political affiliation exhibit better ethical behavior as reflected in higher CSR commitments than their counterparts. Also, we find that political affiliations through military and industry-specialized people affect CSR commitments positively. The results are consistent with a previous study suggesting that companies with political affiliation are more likely to issue CSR reports than nonpolitically connected firms due to reciprocal commitment between politically affiliated firms and the government (Wang *et al.*, 2018; Xu and Liu, 2020). We also conduct further tests to check for endogeneity problems and alternative measures, and results remain similar.

Our study is different from and contributes to ongoing research related to political affiliation and CSR in several ways. First, this paper attempts to group political affiliation in Indonesia into two different types, including (1) the connections through the army (2) the connections through a political leader in a related industry. This allows us to have better views on how different types of political affiliation affect CSR commitment. The existing literature on Indonesia (Al-Hadi *et al.*, 2017; Joni *et al.*, 2019) does not examine the impact of political affiliation types on nonfinancial outcomes. Second, we expand previous literature by providing empirical evidence on the motivation of CSR strategy in an emerging market. The motivation of an organization performing CSR is complicated. Generally, prior works focus on internal motivation, such as profit, reputation, religion and moral orientations (Tang *et al.*, 2018; Oh *et al.*, 2018; Crane, 2019). Our paper fills the gap by adding external pressures (stakeholder's driven and political power) as the main motivation for conducting CSR. This argument is based on resource dependency theory (RDT) and SET, indicating that firms performing CSR is not purely voluntarily.

We structure the remainder of the paper as follows. Section 2 explains the institutional background, followed by hypothesis development in Section 3. Section 4 reports our research design, and the result of our analysis is presented in Section 5. In Section 6, we provide the paper's conclusion.

2. Institutional background

2.1 Business and political affiliation in Indonesia

The relationship between business and politics in Indonesia is influenced by two important factors (Joni *et al.*, 2019). The first factor is political power. The political power is changing from centralized power to decentralized power. During the Soeharto regime, the political power was concentrated and controlled by Soeharto's family. At that time, the powerful party was Golongan Karya (Golkar) which supported President Soeharto. Because of the fall of the Soeharto regime, the political power in Indonesia has been decentralized, which means that the political power is dispersed to several political parties. Second, the role of the military is very important and strategic in Indonesia's political arena. In the past (since president Soekarno), the military could involve in politics while in active service. When Indonesia's political arena was controlled by Soeharto and was dominated by the military, large business companies had direct relations with the president and military. During the 1990s, Soeharto's children and his close relatives aggressively established many large businesses. Consequently, most strategic industries such as trade, manufacturing, plantations, banking and transportation were dominated by the Suharto family and large business groups that had strong connections with Soeharto. Also, many business owners have connections with the military to obtain external resources and increase their corporate value.

After the fall of Soeharto, called the reform period, the political landscape has changed from centralization to decentralization and active military officers could not involve in politics. However, the transactional relationship between business and politics in Indonesia remains similar. Many companies keep maintaining their connections with the government and military to obtain easy access to bureaucrats, external resources and other favorable business policies (Joni *et al.*, 2019). While the political landscape is decentralization, firms also develop their connections with the government through ministers or other industry-specialized people. The pattern of the connection is shifting from direct to indirect political affiliations.

2.2 Corporate social responsibility in Indonesia

In the past few decades, CSR has been an important issue in the academic literature and business practices (Muttakin *et al.*, 2018; Wang *et al.*, 2018; Xu and Liu, 2020; Bianchi *et al.*, 2019; Qian and Chen, 2021). According to ISO 26000, CSR is defined as the organization's responsibility for the consequences of its decisions and activities in society and the environment, through their ethical behaviors which contribute to sustainable development, including public health and welfare; address the expectations of the stakeholders; in line with local regulations and international norms of behavior; and integrate organization's mission and practices (Moratis, 2016). The regulations of CSR in Indonesia have been discussed and implemented, but the impact of the policies is still nominal (Haufler, 2006). Although domestic and foreign companies contribute to community development, environmental activities, and other related activities through CSR programs (Ballard, 2002), the impacts of the CSR activities have been questioned.

Because of the fall of Suharto's new order authoritarian government in the late 1990s, which is called the reform era, the CSR movement is starting in the early stage of development. In the reform era, the government has opened up opportunities for local non-governmental organization activists to recommend and promote domestic and foreign companies regarding their contributions to the environment and social problems such as deforestation, pollution and other destructions of local communities; to suggest strict regulations for the environment and social activities, and to influence government's concern and policy-making process (Rosser *et al.*, 2005). Further, Adi Sasono, the Minister of Cooperatives during Habibie's presidency (1998–1999), suggested that large companies could distribute their wealth by supporting small-medium enterprises through their CSR activities. In response to this statement, many domestic and foreign firms in Indonesia escalated the implementation of CSR to support the government's policy. In 1999, this led to the formation of Indonesia business links (IBL), which promoted better company behavior and worked through the development of CSR in Indonesia. IBL was formed by three senior entrepreneurs, including Noke Kiroyan (Rio Tinto), Haru Prasetyo (Accenture) and John Arnold (Ernst and Young), and financially supported by the Department for International Development and Ford Foundation to promote CSR in Indonesia through conferences, workshops, company service providers and media commentary (Robison and Rosser, 2003).

At the same time, activists have become increasingly concerned about CSR issues by producing many related publications, especially on corporate accountability.

Many parties have promoted even CSR; the concept of CSR is still unfamiliar and unclear in Indonesia. To address this issue, the national parliament proposed a draft of the law as a reference to CSR, and it became Law No. 40 of 2007. It regulates public firms to disclose CSR voluntarily in the annual report (Rosser and Edwin, 2010). Next, the Financial Services Authority (OJK) released a regulation (Kep-431/BL/2012) that requires all publicly listed firms to disclose their CSR activities. When firms report financial and nonfinancial information, it is expected that stakeholders, including investors and creditors, obtain sufficient data to make business decisions, such as firm performance and sustainability (Rusmanto and Williams, 2015). Under external pressure from the public and government, Indonesian listed companies have improved their CSR commitments. However, the implementation of CSR remains weak and challenging for companies due to additional costs incurred, such as charity, donation, social employment and environmental recovery.

3. Hypotheses development

The argument on the association between political affiliation types and CSR is motivated by several related theories, including resource dependency and social exchange theories. RDT states that an organization is an open system and its behaviors depend on external factors (Pfeffer and Salancik, 1978). Firms use political affiliations as a vehicle to reduce their dependence on government bureaucracy to conduct their business. Politically affiliated firms can outperform their counterparts in doing business because they obtain preferential treatments from the government. This leads companies to invest in political relations (Lin *et al.*, 2015). For instance, empirical studies find that firms with political affiliations can have more access to bank loans than nonpolitically affiliated firms (Khwaja and Mian, 2005). They also have more tax benefits (Wu *et al.*, 2012) and better firm value (Faccio and Parsley, 2006). Huang and Zhao (2016) argue that political affiliation is an alternative mechanism for imperfections in the economy and legal system to protect a company from government damage. RDT provides a clear argument that political affiliations have been an effective way to address external uncertainty in an emerging economy.

As complementary to RDT, SET explains that the relation between business and government is a reciprocal contract. When firms have connections with the government, they also have an obligation to address the government's concerns and needs. Because CSR policy in Indonesia is one of the government's main priorities, politically affiliated firms are more likely to perform CSR activities due to the fairness principle of social exchange. In Indonesia, previous studies find that politically affiliated firms obtain external resources easily and other benefits through their connections (Joni *et al.*, 2019). In return, they are expected to support relevant CSR activities to maintain the reciprocal contract. Su and He (2010), for instance, find that companies establish their political affiliations through charity initiatives. Accordingly, they have access to many investment opportunities, enjoy more loans, etc.

The results of empirical studies in the emerging economy context on the association between political affiliation and CSR are inconclusive. Chen *et al.* (2017) argue that the relationship between political affiliations and CSR is a two-edge sword relationship. On the one hand, Muttakin *et al.* (2018) examine the association between corporate political affiliations and the level of voluntary CSR disclosure, which determines the involvement of the state-owned enterprises and the private sector companies. Using listed companies on the Bangladesh Dhaka Stock Exchange from 2005 to 2013, they find that voluntary CSR disclosure is inversely related to politically affiliated firms. Firms with political affiliations can reduce the likelihood of companies initiating voluntary CSR (Muttakin *et al.*, 2018). The results are consistent with a neo-pluralist view of legitimacy theory. On the other hand, most studies show a positive effect of political affiliation on CSR commitment. Qian and Chen (2021) show the improvement of CSR disclosure when firms have greater political intervention during the anticorruption campaign in China from 2012 to 2015. Using Portugal's sample from 2009 to 2012, Bianchi *et al.* (2019) find that politically affiliated firms increase their CSR disclosures. Wang *et al.* (2018) examine the effect of political engagement on CSR practices in China from 2008 to 2014. Specifically, they investigate how government ownership and political affiliations influence the possibility of companies issuing CSR reports. The result of their empirical research shows that companies with political affiliations are more likely to publish CSR reports than companies without political affiliations. The connections with the government can shape corporate CSR practices directly through majority ownership and indirectly through politically affiliated executives so that government ownership and political affiliation can be effective instruments for the diffusion of CSR practices (Wang *et al.*, 2018). Based on RDT, SET and previous empirical studies, we propose hypothesis as follow:

H1. The politically affiliated firm is associated with CSR commitment.

In addition to the effect of political affiliation and CSR, Wang *et al.* (2018) examine the important role of various types and levels of political affiliations on corporate decisions to disclose CSR practices. To measure these various levels of political engagement, Wang *et al.* (2018) distinguish between central and local corporate levels. Using Chinese listed companies, the results indicate that various levels of political affiliation play an important role in the company's decision to disclose CSR reports. When firms have political affiliations at the central level, they have a greater effect on the likelihood of companies disclosing CSR reports than the local connections. Phan *et al.* (2020) investigate whether several types of political affiliations affect corporate investment. They use three types of political affiliations: connections through ownership structure (direct government link versus connection through family or business relationship), controlling shareholders and duration of political affiliation (young versus old political connected firms). Using 631 Malaysian listed firms from 2002 to 2016, the document that corporate investment by government-affiliated firms is higher than firms with family and business relationships. Also, firms with political affiliation through controlling ownership significantly affect corporate investment. Moreover, their study shows that corporate investment is associated with the duration of political affiliation. It documents that firms with longer political affiliations experience a stronger effect than younger politically affiliated firms.

Several political factors determine the type of political affiliation in Indonesia. The first factor is the changing of political power. The political landscape in Indonesia is shifting from centralized power to decentralized power. In the past, firms tend to have direct connections with the president and his family members. Nowadays, firms build indirect connections with the government's top officers. Even though the political power is decentralized, the transactional connections between business and government remain similar due to exchange benefits. Affiliated firms obtain many benefits from governments, such as easier access to bureaucracy and lower taxes payment. In return, they have obligations to support the government's regulations. The second factor is military power. Because President Soekarno, the military has played an important role in the political arena. According to both political factors, political affiliation through military and industry-specialized people (active or former government officers) are considered as people with high social status or high profile people in the Indonesian political landscape (Joni *et al.*, 2019). Therefore, the following hypothesis is proposed:

H2. Firms with political affiliation through military and industry-specialized people are associated with CSR commitment.

4. Research design

4.1 Sample selection

Our study examines the main models using all publicly listed companies in the IDX for the period of 2015–2017. We manually collect CSR, political affiliation types, and other board characteristics information from the annual report. Next, financial data is extracted from datastream. After collecting the required data and eliminating companies with incomplete information from the sample, the final sample is reduced to 1,121 firm-year observations for our main analysis (Panel A of Table 1). The total sample is divided across industries using the global industry classification standard (GICS) code. Table 1, Panel B reports the distribution of firms with political affiliations by year: 32.54%, 36.58% and 36.09% politically affiliated firms in 2015, 2016 and 2017, respectively. Panel C of Table 1 presents the distribution of firms with political affiliation characteristics (PAR) by year. The total percentage of firms with PAR in three years is 25.42%.

4.2 Measurement of the variables

4.2.1 Dependent variables. The dependent variable of our empirical study is the CSR commitment measured by five dimensions: community, environment, employee information, product and service information and value-added information. Specifically, we use the CSR score index (CSR_COM), consisting of 20 items was constructed from five dimensions (Muttakin and Khan, 2014). CSR_COM is appropriate for developing countries since Muttakin and Khan (2014) have conducted a reliable test in the context of Bangladesh.

4.2.2 Independent variables. We apply political affiliation as our independent variable. To measure political affiliation, we consider a dummy variable (PA_DUM), which is assigned 1 if the company has political affiliations and 0 if it does not. A company is defined as a politically connected firm if at least one of the directors, supervisors or senior officials (CEO, president, vice president, chairperson or secretary) is or was (1) a member of a

	2015	*2016*	*2017*	*Total*
Panel A: The sample selection				
Number of observations	582	582	582	1,746
Number of observations with missing data	204	202	219	625
Number of observations in the sample	378	380	363	1,121
Panel B: Distribution of firms with political affiliations by year				
Firms with political affiliation	123	139	131	393
Number of firms	378	380	363	1,121
Percentage of firms with political affiliation	32.54	36.58	36.09	35.06
Panel C: Distribution of firms with political affiliation characteristics by year				
Firms with political affiliation characteristics	87	100	98	285
Number of firms	378	380	363	1,121
Percentage of firms with political affiliation characteristics	23.02	26.32	27.00	25.42

Table 1. Description of the sample

Variable	Definition
CSR_COM_{it}	Five dimensions to identify CSR commitment in the emerging economy for firm *i* in year *t*: community, environment, employee information, product and service information and value-added information, consist of 20 related components (Muttakin and Khan, 2014; Khan *et al.*, 2013)
$PA_{DUM\,it}$	Indicator variable of political affiliation for firm *i* in year *t*, 1 if the company has at least one politically affiliated board member, and 0 otherwise (Wang *et al.*, 2018)
$PAR_{DUM\,it}$	Indicator variable of political affiliation for firm *i* in year *t*, 1 if the company has at least one politically affiliated board member through a military or industry-specialized person and 0 otherwise (Joni *et al.*, 2019)
Control variables – corporate governance mechanisms	
$BOARD_{SIZE\,it}$	The number of board members for the company *i* in year *t* (Bradbury *et al.*, 2006)
$SB_{TENURE\,it}$	The years of tenure on the SB for the company *i* in year *t* (Nguyen and Nielsen, 2010)
$SB_{AGE\,it}$	The average age of SB members for the company *i* in year *t* (Ran *et al.*, 2015)
$SB_{FIN\,it}$	The proportion of SB members with a financial and accounting background for the company *i* in year *t* (Xie *et al.*, 2003)
Control variables – firm characteristics	
$FSIZE_{it}$	The natural log of total assets of the company at the end of the year for the company *i* in year *t* (Wang *et al.*, 2018)
DER_{it}	The natural log of the ratio of total long-term debt divided by the total assets at the end of the year for the company *i* in year *t* (Wang *et al.*, 2018)
ROA_{it}	The net income is divided by the total assets at the end of the year for the company *i* in year *t* (Wang *et al.*, 2018)
Control variables – fixed effects	
$INDUSTRY_{it}$	A vector of industry indicator variables classified using two-digit GICS
$YEAR_{it}$	A vector of year indicator variables: 2015; 2016; 2017

Table 2. Definition of variables

ministry or state institution and/or (2) a member of parliament, namely, the People's Consultative Assembly (MPR), the People's Representative Council (DPR) or the Regional Representative Council (DPD) and (3) members of political parties (Wang *et al.*, 2018). Next, PAR are measured deeply using political affiliation through a former member of the military and industry-specialized person.

4.2.3 Control variables. Consistent with previous studies (Zhao, 2012; Rao and Tilt, 2016; Xu and Zeng, 2016), we use several related control variables, including board size (BOARD_SIZE), board tenure (SB_TENURE), the average age of supervisory board members (SB_AGE), supervisory board with financial background (SB_FIN), firm size (FSIZE), leverage (DER) and return on assets (ROA).

4.3 Research model

We estimate these following models to examine the relation of corporate political engagement and CSR strategy in *H1* and *H2*:

$$
\begin{aligned}
CSR\_COM = {} & \beta_{0+}\beta_1 PA\_DUM + \beta_2 BOARD\_SIZE + \beta_3 SB\_TENURE \\
& + \beta_4 SB\_AGE + \beta_5 SB\_FIN + \beta_6 FSIZE + \beta_7 DER + \beta_8 ROA + e
\end{aligned}
$$

$$\text{CSR\_COM} = \beta_{0+}\beta_1\text{PAR\_DUM} + \beta_2\text{BOARD\_SIZE} + \beta_3\text{SB\_TENURE} + \beta_4\text{SB\_AGE} + \beta_5\text{SB\_ FIN} + \beta_6\text{FSIZE} + \beta_7\text{DER} + \beta_8\text{ROA} + \text{e}$$

5. Empirical findings

5.1 Descriptive statistics

In Table 3, we report descriptive statistics of the key variables in the full sample of 1,121 firm-year observations. Among the main variables, political affiliations (PA_DUM) have an average value of 0.35 with a maximum value of 1 and a minimum value of 0. In addition, the mean of political affiliation through military and industry-specialized person is 25.4%. Our empirical study's value of political affiliation is generally consistent with prior literature using the Indonesia setting, such as Joni *et al.* (2019) and Joni *et al.* (2020). Another key variable is CSR commitment. The mean of CSR_COM is 0,679, with a minimum score of 0.000 and a maximum score of 0.900. Consistent with prior studies (Harjoto and Laksmana, 2018; Mulia and Joni, 2019), the index score of CSR_COM in the sample is considered reasonable.

5.2 The effects of political affiliations on corporate social responsibility commitment

Table 4 reports the ordinary least square (OLS) estimate in Model 1 for investigating the association between political affiliation and CSR commitment. Model 1 shows that the relationship between political affiliation and CSR is significantly positive at the 1% level (coefficient = 0.059, t = 5.35). The result supports *H1*, suggesting that firms with a higher level of political affiliations tend to show better commitment to implementing CSR. According to RDT, firms use political affiliations as a vehicle to reduce external uncertainty in an emerging market, Indonesia. For instance, political affiliation helps a company deal with complex bureaucracy problems in conducting business or gain external resources from the government. Consequently, politically affiliated firms have an obligation to support the government's policies, including CSR. In addition, SET explains a reciprocal contract between corporations and government. Political affiliation gives companies opportunities to outperform other companies in business due to special treatment from the government. Empirical studies show that firms obtain several benefits through their affiliations with the

Variable	*N*	Mean	St. Dev	Min	Max
CSR_COM	1,121	0.679	0.177	0	0.9
PA_DUM	1,121	0.350	0.477	0	1
PAR_DUM	1,121	0.254	0.435	0	1
BOARD_SIZE	1,121	6.870	2.839	2	18
SB_AGE	1,121	56.591	9.470	22	90.5
SB_TENURE	1,121	5.682	6.200	0	49
SB_FIN	1,121	0.524	0.374	0	1
SIZE	1,121	27.368	3.810	17	35
DER	1,121	73.806	86.510	0	387.34
ROA	1,121	0.055	0.092	–0.285	0.444

Notes: The table reports the descriptive statistics of the key variables. The sample includes 1,121 firm-year observations for the period 2015–2017, based on a calendar year. The definition of variables is presented in Table 2

Table 3. Descriptive statistic of key variables

Variables	Estimated coefficients Model 1	Model 2
PA_DUM	0.059*** (5.35)	
PAR_DUM		0.059*** (4.94)
BOARD_SIZE	0.011*** (5.77)	0.012*** (5.93)
SB_TENURE	−0.004*** (−4.33)	−0.004*** (−4.41)
SB_AGE	0.0002 (0.26)	0.0003 (0.59)
SB_FIN	−0.022 (−1.53)	−0.023 (−1.62)
FSIZE	0,003 (1.88)	0.003 (1.69)
DER	0.0001* (2.38)	0.0001* (2.33)
ROA	0,203*** (3,64)	0.209*** (3.73)
Constant	0.508*** (10.15)	0.510*** (10.16)
Years and industry	Included	Included
Observation	1,121	1,121
F	11.81	11.50
Prob > F	0.0000	0.0000
Adj R-*squared*	0.1265	0.1232

Notes: The table shows that OLS coefficient estimates and dummy variables are included in the regression to control a year and industry differences. However, the results are not provided due to space constraints. Model 1 investigates the relationship between political affiliation and CSR commitment. Model 2 examines the association between political affiliation through specific characteristics and CSR commitment. The definition of variables is presented in Table 2. *Indicates significance at the 10% level. **Indicates significance at the 5% level. ***Indicates significance at 1% level

Table 4. Political affiliations and corporate social responsibility commitment

government, such as lower tax rate (Wu *et al.*, 2012), lower cost of capital (Boubakri *et al.*, 2012; Bliss and Gul, 2012; Joni *et al.*, 2020) and better firm value (Joni *et al.*, 2019). In return, politically affiliated firms in Indonesia have an obligation to address the government's concerns. It is most likely that politically affiliated firms in Indonesia perform CSR because of the fairness concept of social exchange with the government. By conducting and disclosing CSR activities, politically connected firms help the government to maintain stability and community developments. At the same time, they can improve their performance. Therefore, politically affiliated firms become more active in performing CSR activities as a result of a reciprocal contract with the government.

5.3 The effects of political affiliations type on corporate social responsibility commitment

Based on the results of the study reported in Table 4, OLS estimates show that political affiliations have a positive and significant effect on CSR commitment. In Model 2, the relationship between PAR and CSR is significantly positive at the 0.1% level (coefficient = 0.059, t = 4.49), meaning that firms with government connections through military and industry-specialized Persons disclose better CSR activities than their counterparts. *H2* is supported. We use two main characteristics of political affiliations, including military and industry-specialized person, to deeply examine the effect of politically affiliated firms on CSR commitments. Although previous studies measure political affiliations by differentiating the level of affiliation with central and local government (Wang *et al.*, 2018), political power in Indonesia has been mostly dominated by the military because the leadership of President Soekarno. During his period, military officers actively occupied political positions. This gives them opportunities to get involved in the business. When firms have affiliations with the military, they can obtain easier access to government resources and bureaucracy. In addition to military affiliations, another common type of government affiliation is an industry-specialized person. For instance, a pharmaceutical company has a connection with the government by appointing a former health minister as a supervisory board due to his/her status and experience in the industry. An industry-specialized person is considered a high-profile person that holds high social status in Indonesia (Joni *et al.*, 2019).

5.4 Further test

5.4.1 An alternative measure of political affiliation. In addition to political affiliation proxy, we re-estimate our models using the percentage of board members with political affiliations as an alternative measure of politically affiliated firms. Based on the results shown in Table 5, Model 1 shows that the relationship between political affiliations and CSR_COM is positive at the 1% level (coefficient = 0.172, t = 5.05). Further, Model 2 reports a positive association between politically affiliated firms and CSR commitment at the 1% level (coefficient = 0.067, t = 4.82). The results are consistent with our main analysis in Table 4.

5.4.2 Alternative measure with additional control variable. Also, we re-examine our main models by adding government-owned companies (GOV) as a control variable in the regression models. Table 6 reports that the relationship between political affiliation and CSR commitment is positive at the 1% level (coefficient = 0.059, t = 5.18) in both Models 1 and 2. The results are consistent with our main results shown in Table 4.

5.4.3 Endogeneity test. It is possible that firms with better corporate governance, such as CSR, tend to have affiliations with the government. To address this issue, we apply the generalized method of moment (GMM) method (Baum *et al.*, 2003). Further, the GMM method is used in the case of heteroscedasticity. After controlling for endogeneity and heteroscedasticity bias, Table 7 shows that the main results remain similar.

Variables	Estimated coefficients Model 1	Model 2
PA_TOT	0.172*** (5.05)	
PAR_TOT		0.067*** (4.82)
BOARD_SIZE	0.013*** (6.61)	0.012*** (6.30)
SB_TENURE	−0.004*** (−4.12)	−0.004*** (−4.59)
SB_AGE	0.0003 (0.43)	0.0003 (0.50)
SB_FIN	−0.018 (−1.27)	−0.023 (−1.60)
FSIZE	0.002 (1.47)	0.003 (1.72)
DER	0.0001* (2.39)	0.0001* (2.39)
ROA	0.208*** (3.72)	0.205*** (3.65)
Constant	0.513*** (10.23)	0.510*** (10.16)
Years and industry	*Yes*	*Yes*
Observation	1,121	1,121
F	11.58	11.41
Prob > F	0.0000	0.0000
R-*squared*	0.1358	0.1341
Adj R-*squared*	0.1241	0.1223

Notes: The table presents OLS coefficient estimates, and dummy variables are included in the regression to control for a year and industry differences. However, the results are not provided due to space constraints. Model 1 investigates the relationship between political affiliation and CSR commitment. Model 2 examines the association between political affiliation through specific characteristics and CSR commitment. The definition of variables is presented in Table 2. *Indicates significance at the 10% level. **Indicates significance at the 5% level. ***Indicates significance at 1% level

Table 5. Political affiliations and corporate social responsibility

Table 6: Political affiliations and corporate social responsibility commitment (with GOV)

Variables	Estimated coefficients Model 1	Model 2
PA_DUM	0.059*** (5.18)	
PAR_DUM		0.059*** (4.76)
BOARD_SIZE	0.011*** (5.68)	0.012*** (5.68)
SB_TENURE	−0.004*** (−4.31)	−0.004*** (−4.40)
SB_AGE	0.0002 (0.26)	0.0003 (0.59)
SB_FINANCIAL	−0.022 (−1.53)	−0.023 (−1.62)
GOV	0.002 (0.08)	−0.001 (−0.04)
FSIZE	0.003 (1.86)	0.003 (1.69)
DER	0.0001* (2.36)	0.0001* (2.32)
ROA	0.204*** (3.64)	0.209*** (3.73)
Constant	0.509*** (10.13)	0.510*** (10.13)
years and industry	*Yes*	*Yes*
Observation	1,121	1,121
F	11.07	10.77
Prob > *F*	0.0000	0.0000
R-*squared*	0.1382	0.1350
Adj R-*squared*	0.1257	0.1225

Notes: The table shows that OLS coefficient estimates and dummy variables are included in the regression to control a year and industry differences. However, the results are not provided due to space constraints. Model 1 investigates the relationship between political affiliation and CSR commitment. Model 2 examines the association between political affiliation through specific characteristics and CSR commitment. The definition of variables is presented in Table 2. *Indicates significance at the 10% level. **Indicates significance at the 5% level. ***Indicates significance at 1% level

Table 7. Generalized method of moment (GMM) test

Variables	Estimated coefficients Model 1	Model 2
PA_DUM	0.056*** (5.49)	
PAR_DUM		0.055*** (5.48)
BOARD_SIZE	0.012*** (7.34)	0.013*** (7.90)
SB_TENURE	−0.004*** (−3.56)	−0.004*** (−3.60)
SB_AGE	0.0001 (0.21)	0.0003 (0.50)
SB_FINANCIAL	−0.020 (−1.32)	−0.022 (−1.42)
FSIZE	0.004** (2.92)	0.004** (2.74)
DER	0.0001* (2.39)	0.0001* (2.35)
ROA	0.190*** (3.74)	0.195*** (3.82)
b0	−5.947 (−0.48)	−5.764 (−0.48)

Notes: The table presents GMM coefficient estimates, and dummy variables are included in the models to control for year and industry differences. However, the results are not provided due to space constraints. Model 1 investigates the relation between political affiliation and CSR commitment. Model 2 examines the association between political affiliation through specific characteristics and CSR commitment. The definition of variables is presented in Table 2. *Indicates significance at the 10% level. **Indicates significance at the 5% level. ***Indicates significance at 1% level

6. Conclusion

Our paper examined whether political affiliation is one of the important factors that affect corporate ethical behavior and CSR commitment. Also, we investigated specifically how political affiliations through military and industry-specialized persons affect a firm's likelihood to perform

CSR commitment. The results show that firms with political affiliations, on average, have better CSR commitment than their counterpart. Further, we reveal that politically affiliated firms through military and industry-specialized persons are positively associated with CSR. In emerging economies, such as Indonesia, firms mostly use political affiliation as a vehicle to conduct business. From a theoretical perspective, in line with RDT, Indonesian listed firms use their affiliations with the government to reduce business uncertainties, such as bureaucracy problems or increase many opportunities to obtain external funding from the government. In return, politically affiliated firms have an obligation to address government policy, which is reflected in better corporate ethical behavior, including CSR. This is also consistent with SET, suggesting that the relation between corporate and government is reciprocal. When political firms experience special treatment from the government, their support toward government policies or concerns is required.

We have several implications for academics, practitioners (investors and creditors, policymakers), and other parties related to CSR practices in emerging economies. First, we contribute to ongoing literature by examining the impact of political affiliation types on CSR commitment in the context of Indonesia, where the level of political connection is high, and the role of the army is very significant. This study allows us to comprehend how different types of political affiliation affect CSR commitment, particularly the connections through the army and through political leaders in a related industry. From the research perspective, our findings imply that different institutional settings capture various types of political connections that could influence the different levels of CSR initiatives. Therefore, future research should consider types of political affiliation in various institutional contexts to show a complete picture of how political affiliations influence CSR commitments. Second, we complement earlier studies on the motivation behind CSR commitment. Our paper shows that the motivation of performing CSR is driven not only by internal motivations such as moral concern, yet the key motivation comes from the government as an external pressure. Understanding the political incentive of CSR commitment is valuable for investors, creditors and policymakers. It can enable them to value business properly and to propose effective CSR strategies in the context of emerging economies. Third, we find that political connection is an important driver of implementing CSR. And firms with different types of political connections result in different CSR initiatives. These findings have policy implications that suggest different CSR policies for different types of politically connected firms and nonpolitically connected firms. Additionally, the government could apply different forms of incentive (financial or nonfinancial) to create more benefits for firms with more CSR initiatives.

However, the findings of our study should be interpreted by considering some limitations. We limit our study by including only the Jokowi regime in the sample. It is possible that different regimes may show different political landscapes and power. Also, our paper uses a quantitative type of research to obtain a general conclusion regarding how political affiliation types affect the CSR commitment of Indonesian listed companies. We understand that our empirical finding might have certain limitations to comprehensively explain the main issues. Given these limitations, future research needs to examine the effect of political affiliation types on CSR commitment by considering several different regimes with mixed methods (quantitative and qualitative methods) to better understand how political affiliated types affect CSR commitment differently.

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