Politically connected independent supervisory boards and corporate performance during COVID-19: Evidence from Indonesia

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RESEARCH ARTICLE

Politically connected independent supervisory boards and corporate performance during COVID-19: Evidence from Indonesia

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This study aims to examine the relationship between the political connections of companies' independent supervisory boards (PC-ISB) to these firms' performance during the COVID-19 pandemic in Indonesia. This study used 1515 observations of companies listed on the Indonesian Stock Exchange (IDX) for the years 2018–2021. The test was carried out using moderated regression analysis. Additional tests were also conducted, such as market performance tests and endogeneity tests using the System Generalized Method of Moments (the System GMM) and the difference-in-difference (DID) regression analysis. Results confirm that PC-ISB has a significant positive effect on company performance. Then, during the COVID-19 pandemic, the company's performance got worse. However, we did not find that pandemic conditions moderated the relationship between PC-ISB and company performance. Our results remained consistent after testing using the System GMM and the DID to address the issue of endogeneity.

KEYWORDS
corporate performance, COVID-19, emerging economy, Indonesia, politically connected independent supervisory boards

1 | INTRODUCTION

This study investigates the relationship between political connections and company performance in Indonesia during the COVID-19 pandemic. Political connections in business are common in many parts of the world, particularly in developing countries such as Indonesia. The owners of companies benefit from political connections in a variety of ways, including lower taxation, obtaining bank loans more easily, less bureaucracy in doing business, lower cost of having long-term debt financing, increased company value, and more market advantages (Bussolo et al., 2022; Hu et al., 2020; Joni et al., 2020a; Joni et al., 2020b; Li et al., 2022; Wong & Hooy, 2018). Companies in developing countries seek protection of their business interests through political connections, especially when high fluctuations and uncertain economic conditions occur (Habib et al., 2017).

Indonesia is a developing country where companies and the government must work together to obtain certain benefits (e.g., Habib et al., 2017). Relationships between members of the board (especially through board of commissioners) and politicians, senior government officials, ministers, and active and retired military personnel are common (Joni et al., 2020b). This began during the Soekarno era, when senior military figures dominated not only the armed forces but also the economy, so that officers were also appointed to political positions. This provided an opportunity for entrepreneurs to form relationships with officers in order to collaborate and profit in business, a practice that continued during the Soeharto era (Fisman, 2001). Because of the existence of a centralized political system, many businesses established relationships with the president and his immediate family to gain various advantages from this political access. However, the character of government changed from a centralized to a decentralized political system following the demise of Soeharto in the late 1990s (Joni et al., 2020a). Political involvement in business still exists and it has spread from the central government to the local government.

In addition to strong political ties, Indonesian governance differs from that of several developed and developing countries in terms of the implementation of the dual board system (two-level board system). According to Law No. 40 of 2007, companies in Indonesia use a two-tier board system, with a board of directors (BOD) in charge of daily operations and a board of commissioners in charge of supervision and monitoring. The involvement of politicians, senior officials, ministers, and government military in the company's board of commissioners demonstrates the political ties that exist between the company and the government (Joni et al., 2020a; Joni et al., 2020b). A company typically establishes a relationship with the government by appointing a politically connected board of commissioners, as these people can strategically obtain more external resources and improve the corporation's monitoring function.

In the Indonesian governance context, board of commissioner plays a central role in external monitoring and improves a company's economic outcomes particularly in uncertain trading conditions such as the recent COVID-19 pandemic. A qualified and independent board of commissioner with government's connection or latter called as politically connected independent supervisory boards (PC-ISB) can protect the interest of shareholders and reduce agency conflict through their effective monitoring or control processes. Further, PC-ICB is identified as an effective source, including value, skills, knowledge, internal, or external connections for company to obtain a sustainable competitive advantage (Barney & Clark, 2007). It is clear that the presence of PC-ISB in Indonesian governance system reduces asymmetry information and gains strategic resources. As a result, PC-ISB can convert their valuable resources into competitive performance.

Previous studies have found that political connections shape firm performance in both developed countries (e.g., Bussolo et al., 2022) and developing countries (Boateng et al., 2019; Hu & Zhang, 2021; Joni et al., 2020b; Salehi et al., 2023; Shahzad et al., 2021; Zhang & Truong, 2019). Fu et al. (2017) state that companies with political connections have the opportunity to obtain full loans at favorable repayment rates. According to Joni et al. (2020a), politically connected firms have lower debt and equity financing. Joni et al. (2020b) in their research findings discovered that political connections could improve firm performance. However, they have not addressed the specific role of independent supervisory board members who have political connections with governments.

Politically connected businesses benefit from convenience and facilities when conducting transactions. According to resource-based theory, having current or former government or military officers as independent board of commissioner members can affect significantly a firm's ability to obtain benefits from the government. These are specific resources that cannot be imitated easily by competitors. Consequently, the presence of PC-ISB helps a company to create value in the competitive setting by providing external resources via their connections. It is expected that a PC-ISB can greatly help firm performance. Furthermore, firms with more PC-ISB members experience fewer agency conflicts due to more independent monitoring being carried out. The more independent supervisory boards that are politically connected, the better the company's performance due to better monitoring function in the perspective of corporate governance development.

This study is different from previous research (e.g., Joni et al., 2020a, 2020b; Kubinec et al., 2021) and is motivated by several important considerations. First, we focus on the impact of a politically connected independent board of commissioners (PC-ISB) on the performance of Indonesian companies that have a two-tier board system. Previous research has been conducted on the influence of politically connected commissioners with a two-tier board system (Joni et al., 2020a, 2020b), but it is still very limited studies on the role of politically connected independent board of commissioners. Our study, particularly, addresses the basic research question on how effective an independent supervisory board with political connections since they are expected to be immune to any conflict of interests while conducting monitoring function. Mishra (2023) provides convincing arguments on the crucial role of independent supervisory boards with valuable connections in the development of corporate government system, including their ability to improve integrity and accountability practices of the company, to direct company's future outlooks in terms of opportunities and threats, to increase direct control over managements, to lead company to have better business opportunities through their political connections, and to strengthen strategic decision-making of the company through their expertise. Additionally, Adams and Ferreira (2007) describe the supervisory role of the independent board of commissioners as very useful in increasing market value. According to Joni et al. (2021b), a politically connected board of commissioners can reduce the business risks faced by Indonesian companies. They stated that the large bulk of independent board of commissioners' supervision increases in effectiveness so that the problem of performance diminishes.

Second, this study was wanting to build on the limited information regarding the strategic influence of politically connected independent commissioners in the context of a two-tier board system during the COVID-19 crisis. Many studies examined the relationship between political connections and company performance, but research that considers external factors such as the COVID-19 pandemic is still limited. The COVID-19 pandemic triggered the world's worst economic crisis since the Great Depression of the 1930s. Companies experienced a huge decline in many ways, including falling sales, falling investment, plunging stock prices, and severely weakened corporate liquidity, all of which generated serious economic fluctuations and uncertainty caused by COVID-19 (Khan, 2022; Mazur et al., 2021; Miyakawa et al., 2021; Phan & Narayan, 2020; Qin et al., 2020; Topcu & Gulal, 2020). During the COVID-19 pandemic, literature continued to be published on the relationship between political connections and company performance. According to Kubinec et al. (2021), companies with political connections use these relationships to obtain a series of preferential treatments and advantages, specifically to avoid regulations and costs associated with COVID-19-related government policies. However, there is no discussion of its impact on companies' performance in the literature.

This study provides contributions to the topic in several ways. First, it expands the literature on PC-ISB in Indonesia's two-tier board system. Previous research (e.g.,Joni, Natalia et al., 2021; Joni, Widjaja et al., 2021) strongly suggests that independent board size and financial expertise help companies listed on the IDX (Indonesian Stock Exchange) reduce operating and market risks. This study offers an intriguing opportunity to discuss the impact of PC-ISB on improving companies' performance in Indonesia and especially those with a two-tier board system. Therefore, our study strongly contributes to the development of corporate governance literature and practices in emerging economies. Second, this study adds new information about the effectiveness of PC-ISB for businesses during the COVID-19 crisis. Previous literature, for example, Kubinec et al. (2021) stated that politically connected companies during the COVID-19 pandemic were better able to survive during the crisis. Third, this research contributes in a practical sense in building the effectiveness of Indonesian corporate governance as it applies to the two-tier board system. It is hoped that the role of an independent supervisory board can improve companies' performance, even when COVID-19 pandemic crisis was existed in Indonesia.

The remainder of this study is structured as follows. Section 2 describes the institutional context, theoretical framework, and hypotheses. Section 3 explains the research methods. The empirical findings are presented in Section 4. Section 5 reports on additional tests and Section 6 provides a conclusion with a summary of the major themes covered here.

2 | INSTITUTIONAL BACKGROUND, THEORETICAL FRAMEWORK, AND HYPOTHESES

2.1 | Institutional background: Politics and business in Indonesia

The relationship between business and politics in Indonesia began with the country's independence from the Netherlands, and in fact throughout the presidency of Soekarno, who became the country's first president in 1945. Political elites and the military dominated government during this period when the government permitted military officers to fill and dominate political positions. Following this, in the Soeharto era from 1965 onward, many companies were still directly connected to the office of the president, the president's immediate family, and especially the president's children as businesses wanted to reap various benefits from their relationship with that family. The fall of Soeharto in May 1998 resulted in changing the centralized power structure into one that was more decentralized, resulting in significant changes in Indonesia's political arrangements. Political ties that were previously with the presidential family were now different for many state and military officials. This situation with the decentralization pattern remained during the tenures of Bacharuddin Jusuf Habibie, Abdurrahman Wahid, Megawati Soekarno Putri, Susilo Bambang Yudhoyono, and Jokowi (Hamilton-Hart, 2007).

The close links that have remained in place between business and politics in Indonesia since independence up to the present day give many benefits and opportunities for companies in terms of exploiting relationships through politicians. They have the freedom to lobby for or to remove various regulations and policies, which will benefit their company. As a result, the performance of companies through political connections with state officials is better than those enterprises, which do not have political connections (Joni et al., 2020a).

2.2 | Institutional background: The Indonesian board system

Following the Dutch legal system, Indonesia implements a two-tier system (dual board system) regarding company board structure. This system is based on the European continental legal system. According to Indonesian Company Law (1995), this system divides the company's two separate boards, the Supervisory Board (Board of Commissioners) and the Management Board (Board of Directors [BOD]). The Board of Commissioners is in charge of: (1) directing strategies, investments, policies, budgets, risk control, and monitoring the use of company capital; (2) evaluating the salary determination system for officers and members of the BOD; (3) monitoring management implementation; and (4) monitoring the process of openness and effectiveness of communication within the company. Meanwhile, the BOD is responsible for the following tasks: (1) carrying out operational activities; (2) issuing an annual report; (3) developing a business plan; and (4) carrying out administrative tasks.

In an Indonesian company, the board of commissioners (or supervisory board) is very important. The commissioners' primary responsibility is to oversee the company's management, ensuring strategies are correctly implemented and accountability is adhered to. Article 1 of the Company Law (1995) states that the board of commissioners is responsible for providing management with guidance, direction, and supervision, as well as advising the directors. The board of commissioners has the authority to appoint and remove directors from the BOD. For a set period of time, the board of commissioners is appointed and dismissed by the General Meeting of Shareholders (GMS).

The presence of the board of commissioners is required to assist companies in becoming more effective and efficient in dealing with complex problems, to provide analysis and other perspectives to the BOD, and to increase the objectivity of the board of commissioners/supervisors' assessments. Moreover, the role of the board of commissioners becomes more significant given that they derive from government or military backgrounds. Typically, Indonesian listed companies establish political connections with government ministers or bureaucrats by appointing a current or former government officer or military official as an independent board of commissioners' member (Joni et al., 2021b).

2.3 | Theoretical framework

Political relationships in corporate governance greatly influence organizational performance, and this has been the subject of theories, which seek to explain the effect of political connections, including: agency theory (Young et al., 2008; Zogning, 2017) and resource-based view theory (Barney & Clark, 2007). The influence of political connections on businesses is frequently explained using agency theory. Type 1 agency in agency theory explains why there is a conflict of interest between the agent and the principal (PA), specifically between managers and shareholders and between owners and managers (Zogning, 2017). Because of a change in the business environment, companies that were previously owned by only one person, namely the owner–manager, have now become companies whose ownership is spread with shareholders owned by various groups. This transition resulted in a separation of ownership and management, with ownership in the hands of the shareholders while management was in the hands of the company's executive team. According to Jensen and Meckling's theory, an agency relationship is a contract in which one or more parties (principals) assign tasks to other parties (agents) to carry out services. The principals delegate authority in decision making to the agents.

Agency theory is the main theory that has guided explanations of companies' operations to date. The theory is based on a combination of economic theory, decision theory, sociology, and organizational theory (Zogning, 2017). The main principle of this theory is that there is a working relationship in the form of a cooperation contract between the party giving the authority (principal), namely investors, and the party receiving the authority (agency), specifically the manager. This disparity in interests can cause or contribute to information asymmetry (a discrepancy in information) between shareholders and the organization. According to agency theory, managers serve as agents for shareholders or the BOD (Zogning, 2017). This is referred to as type 1 agency conflict (principle–agent).

The conflict in type 1 agency, however, does not really happen in a developing country like Indonesia. Agency conflict occurs when there is a conflict of interest between the principal and principal (PP) and this is called type 2 agency (Young et al., 2008). Type 2 agency conflict (principle–principle) is essentially a conflict between majority and minority shareholders due to concentrated ownership in emerging markets (Young et al., 2008). The corporate governance system in developing countries is modeled after what Western economies have put in place, but inefficiency and a lack of strict rules and enforcement mean that formal institutions and laws fail to function as intended. A relatively weak governance environment result in the existence of informal institutional ties, such as relational connections, business groups, government links, and families wielding influence, which now dominate and play a significant role in shaping corporate governance. In developing countries, highly concentrated corporate ownership, combined with a lack of effective governance mechanisms, results in a very strong concentration of power in the controllers/founders of companies. Consequently, the main focus in developing countries is the conflict between majority and minority shareholders (principle–principle).

PP conflicts can be seen in this case when the majority shareholders have the ability to make decisions in the company due to their high voting rights, and minority shareholders only follow them. Furthermore, this conflict frequently results in the reduction of the value of minority shareholders, resulting in profits obtained at their expense (Young et al., 2008; Zogning, 2017). In this study, where the type 2 agency context is used, an independent board of commissioners qualifies as an important aspect of the monitoring and control process to protect the interests of minority shareholders.

There are opposing views about the effect of political connections on company performance. Companies that are politically connected have high levels of corruption and uninformative stock prices (Li et al., 2022; Pan & Tian, 2020), whereas Carney et al. (2020) show that East Asian companies that are politically connected during times of crisis have higher stock returns. The presence of an independent board of commissioners that serves in a supervisory capacity provides important safeguards for minority shareholders. In developing countries, a high quality independent board of commissioners can supervise and monitor in order to improve performance and reduce company risk (Joni, Natalia et al., 2021; Joni, Widjaja et al., 2021). According to agency theory type 2, the existence of a dynamic relationship of corporate governance factors is important because it helps to reduce conflicts of interest that arise as a result of political relationships. Firms appoint politically independent supervisory boards in Indonesia to minimize agency conflicts (either type 1 or 2) and improve a company's business performance (Joni, Widjaja et al., 2021).

Further, resource-based view (RBV) theory can explain the relationship between politically independent supervisory board (PC-ISB) and firm performance. The RBV is a managerial framework for determining strategic resources that companies can use to gain a competitive advantage. The RBV seeks to analyze and interpret organizational resources in order to understand how businesses achieve long-term competitive advantage. RBV focuses on the concept of difficult-to-copy corporate attributes as a source of superior performance and competitive advantage (Barney & Clark, 2007). According to Barney and Clark (2007), the company's resources and capabilities are important factors to consider when developing a strategy. Understanding the relationship between resources (resources), capabilities (capabilities), competitive advantage (competitive advantage), and profitability is critical in the RBV approach as far as strategy formulation is concerned. A sustainable competitive advantage can be obtained by understanding these relationships. In general, the RBV identifies a source of advantage in long-term corporate competition: resources that have value, are scarce, cannot be imitated, and have no substitutes. These resources include assets, procedures or processes, company characteristics, information, and knowledge, among others.

Based on RBV theory, PC-ISB is a valuable resource that can determine a company's strength in the industry/market and can be converted into strategic resources, which function to gain a sustainable competitive advantage. PC-ISB is under the company's control and are used to implement strategy in order to increase company efficiency and effectiveness (Barney & Clark, 2007). To determine whether a company's overall performance is generally healthy or unhealthy, the attractiveness of the company's resources and capabilities need to be taken into account. When firms have more PC-ISB as a valuable resource, they perform better, and a competitive advantage can be obtained.

2.4 | Hypotheses

2.4.1 | PC-ISBs and firm performance

Agency theory, on the one hand, sees political connections within companies as causing high costs for agency problems (Huq et al., 2022; Salehi et al., 2021; Salehi et al., 2022). According to agency theory, companies with political connections are risk-takers because they make excessively risky investments, frequently use their influence to obtain state-provided soft loan facilities and are more likely to fail (Najaf & Najaf, 2021). Companies use this soft loan to get through a current crisis because companies with political connections are more likely to fail (Shahzad et al., 2021). When there are more and more politically connected due to an increase in blockholder rent appropriation, the functioning of politically connected companies suffers. As a result, political connections for businesses can have a negative rather than a positive impact. Junus et al. (2022), for instance, find a negative association between politically connected independent board of commissioners and firm performance due to the lack of expertise. Nugrahanti et al. (2020) show that politically connected firms are likely to increase the possibility of financial distress. Then, the presence of an independent board of commissioners has no relation to financial distress in the context of Indonesia. According to Boateng et al. (2019) and Hu et al. (2020), with an independent board of commissioners, a politically connected company has the means to distort assets, increasing the high probability of default, and causing fluctuations in company performance. According to Habib et al. (2017) and Tee et al. (2021), the company's relationship with political parties or individuals increases the likelihood of a larger fall in stock prices, as well as the selection of less reputable auditors to go through financial records. Based on Zhang and Truong's (2019) research, the issuance of document 18 in China, which called for the resignation of independent directors with political connections, elicited a positive response from shareholders, indicating that they liked the rule because of their political relationship with the board.

On the other hand, the results of the literature provide a counter-argument. Companies that are politically connected find it easier to conduct transactions, and boards that are politically connected will have the means to reduce any external risks (particularly from the government), increase their profits or be resilient in uncertain economic times (Joni, Natalia et al., 2021; Joni, Widjaja et al., 2021). The more a firm is politically connected through board members, the better it will perform. If the company can increase the efficiency of corporate financing when large transactions are done with government support, the political relationship between the company's board and government is considered good for shareholders. An independent board of commissioners with political connections can improve the monitoring functions and minimize agency conflicts. In line with RBV theory, PC-ISBs bring valuable resources to wield much influence on corporate performance.

There is a substantial empirical literature that examines the benefits and links between political connections and corporate financial outcomes. Several studies provide supporting viewpoints, and many empirical studies have revealed there are various benefits that help company performance as a result of government political connections (Bussolo et al., 2022; Khaksar et al., 2022a, 2022b; Salehi, 2020; Wu et al., 2018). One of them is easy access to financing. Fu et al. (2017) examined 296 manufacturing companies in Indonesia and discovered that with personal political connections, companies were able to increase and receive large loans and this was particularly the case for small and medium-sized enterprises. Wong and Hooy's (2018) empirical research on Malaysian companies from 2002 to 2016 discovered a positive relationship between companies, namely, board members and the government, which helped to improve performance and stability, but this relationship is not seen in the relationship between employers and family members. Companies with political clout have better access to information and can limit any news that could harm stock prices (Li et al., 2022). The government has better access to lending to politically connected companies thanks to banks with their own political connections. Based on nonfinancial listed firm in the UAE (United Arab Emirates) stock market, Hassan et al. (2022) show that political connection enhances business performance. Abdullah et al. (2022) state that tax-aggressive firms in Pakistan have politically connected board members and this fact improves their performance.

In Indonesia, companies deploy a two-level board system, with the role of the board of commissioners being important and strategic because, in addition to being responsible for business plans and development, they also oversee and direct various units or departments within the company. In this case, the commissioner will also be in charge of the company's management. This is due to the fact that the directors require supervision to be carried out in order to run business operations. The independent board of commissioners has a positive impact on the company's affairs in terms of acquiring resources. According to Wu et al. (2018), politically connected directors play an important role in facilitating the acquisition of government-controlled resources as well as in determining executives' salaries. According to research on the impact of the sudden death of a politically connected independent director in China, with the sudden loss of political connections between the board of commissioners and companies, companies lose some economic benefits such as government subsidies, access to bank loans, tax preferences, and falling stock prices (Bussolo et al., 2022; Cheng, 2018; Hu et al., 2020; Joni, Widjaja et al., 2021). In their research, Joni et al. (2020a) discovered that a politically connected board of commissioners (BOC) enjoys less debt and more capital financing, and is able to reduce market risk, whereas a politically connected BOD has no relationship with debt financing and capital. Joni et al. (2020b) also show that a politically connected supervisory board improves firm performance. Research conducted in Indonesian companies by Joni et al. (2020b) revealed that the value of the company increased, resulting in positive performance after the reformed era. According to Najaf and Najaf (2021), the apparent efficiency created by political connections consolidates relationships and this is good for company performance.

Based on the above discussion, we propose the following hypothesis:

> **Hypothesis 1.** Politically connected firms through independent supervisory boards experience better business performance than nonpolitically connected firms.

2.4.2 | PC-ISBs, COVID-19 pandemic, and firm performance

Political connections have been widely discussed in empirical research as influencing companies' performance improvement. Companies should make use of this situation when dealing with the economic uncertainty caused by a crisis (Mazur et al., 2021; Shen et al., 2020; Topcu & Gulal, 2020). For example, the recent COVID-19 pandemic and its impact on company performance includes various serious issues such as reduced total income, high levels of economic uncertainty, negative returns, risk, and falling stock prices (Al-Maliki et al., 2023). Consequently, the company must find the best strategy for maintaining the company's market share and stock price stability. During times of crisis, companies that are politically connected should be able to take advantage of a series of policies derived from this relationship and reduce this extreme volatility.

According to Xu et al.'s (2020) research on the benefits of political connections and company performance during times of, for example financial crisis, such connections can only in a weak way generate resources for companies and the negative impact is high. Carney et al. (2020) examined data from 1290 East Asian companies during the 2008–2009 economic crisis, concluding that politically connected companies benefited the most during it, owing to weak institutional oversight of operations caused by an unstable economy. These benefits are primarily in the area of credit availability. Chen et al. (2018) found that banking companies, in which country or region was in crisis (2004–2009), used the strength of their political connections to influence loan decisions.

Based on the discussion, we propose the following hypotheses:

Hypothesis 2. Politically connected firms through independent supervisory boards are associated with firm performance during the COVID-19 pandemic.

3 | RESEARCH METHODOLOGY

3.1 | Data and sample

The data in this study are divided into two categories: financial and nonfinancial. The former was obtained by extracting information from DataStream and Worldscope Database, whereas the latter, including corporate governance data, political connections, was collected manually from companies' annual reports and websites, and Google searches. The first data set was gathered by reviewing profile information in the company's annual report, which was obtained by downloading it from www.idx.co.id. If this information was not available, an information search was conducted through the company's website using the Google search engine.

The sample was obtained by collecting data on Indonesian public companies listed on the Indonesian Stock Exchange (IDX) from 2018 to 2021. These years were chosen because the COVID-19 pandemic commenced in early 2020, which had a negative impact on economic conditions from that time on (Phan & Narayan, 2020; Qin et al., 2020; Shen et al., 2020). This study set out to determine the influence of the COVID-19 pandemic on the associations between companies with political ties and ultimately, company performance.

3.2 | Models and variables

The regression models used in this study are broadly based on agency theory (Young et al., 2008; Zogning, 2017) and resourced-based view theory (Barney & Clark, 2007). First, this study investigates the effect of politically connected firms through independent supervisory boards on firm performance in Hypothesis 1:

$$\mathrm{ROA} = \alpha_1 + \beta_2\,\mathrm{PC-ISB} + \beta_3\,\mathrm{CVD} + \beta_4\,\mathrm{BSIZE} + \beta_5\,\mathrm{DER} + \beta_6\,\mathrm{IND} + \beta_7\,\mathrm{YEAR} + \epsilon_{i,t} \quad (1)$$

$$\mathrm{ROE} = \alpha_1 + \beta_2\,\mathrm{PC-ISB} + \beta_3\,\mathrm{CVD} + \beta_4\,\mathrm{BSIZE} + \beta_5\,\mathrm{DER} + \beta_6\,\mathrm{IND} + \beta_7\,\mathrm{YEAR} + \epsilon_{i,t} \quad (2)$$

Next, this study uses moderate regression analysis to examine the effect of the COVID-19 pandemic condition on the association between political connections and company performance in Hypothesis 2. The following is the regression model used in this study:

$$\mathrm{ROA} = \alpha_1 + \beta_2\,\mathrm{PC-ISB} + \beta_3\,\mathrm{CVD} + \beta_4\,\mathrm{INT1} + \beta_5\,\mathrm{BSIZE} + \beta_6\,\mathrm{DER} + \beta_7\,\mathrm{IND} + \beta_8\,\mathrm{YEAR} + \epsilon_{i,t} \quad (3)$$

$$\mathrm{ROE} = \alpha_1 + \beta_2\,\mathrm{PC-ISB} + \beta_3\,\mathrm{CVD} + \beta_4\,\mathrm{INT2} + \beta_5\,\mathrm{BSIZE} + \beta_6\,\mathrm{DER} + \beta_7\,\mathrm{IND} + \beta_8\,\mathrm{YEAR} + \epsilon_{i,t} \quad (4)$$

In the models, return on asset (ROA) and return on equity (ROE) measure company performance as the dependent variable, while politically connected independent board of commissioners (PC-ISB) is the experimental variable. In this context, politically connected independent board of commissioners members are those who have served or are currently serving as ministers, members of the military, members of parliament, or bureaucrats appointed by a regional or central government (Faccio, 2006). The measurement of the moderating variable, namely the COVID-19 pandemic, denoted by CVD, is a dummy variable. A value of 1 is assigned to the year extreme pandemic conditions, which occurred in 2020 and 2021, and a value of 0 is assigned to the years 2018–2019.

Following previous research (e.g., Joni, Natalia et al., 2021; Joni, Widjaja et al., 2021; Shahzad et al., 2021), this study controls for several important variables that can guide the relationship between corporate politics and performance. The control variables chosen were board size (BSIZE), debt to equity ratio (DER), year effect (YEAR), and industry effect (IND). We provide the definition of all variables in Table 1.

TABLE 1 Definitions of variables.

Dependent variables	
ROA	Profit after tax divided by total asset (Joni et al., 2020b; Junus et al., 2022)
ROE	Profit after tax divided by total equity (Joni et al., 2020b; Junus et al., 2022)
Experimental variables	
PC-ISB	Politically connected independent board of commissioners for company *i* in year *t* (Faccio, 2006)
CVD	Period of COVID-19 pandemic conditions (Phan & Narayan, 2020; Qin et al., 2020; Shen et al., 2020)
Moderated variables	
INT1	Interaction between CVD and ROA
INT2	Interaction between CVD and ROE
Control variables	
BSIZE	Board size in company *i* in year *t* (Joni et al., 2020a; Joni et al., 2020b)
DER	Debt to equity ratio (Joni et al., 2020a; Joni et al., 2020b)
IND	Industry variables classified according to the GICS (Global Industry Classification Standard)
YEAR	Company indicator year in 2018; 2019; 2020; 2021

3.3 | Statistical analysis

This study employed a statistical measurement tool, STATA, to determine descriptive statistics, correlation tests, and data tests with multiple regression analysis to test Hypothesis 1 and a moderated regression analysis model to test Hypothesis 2. The empirical model used to test the first hypothesis served to find out if there was a positive relationship between companies that were politically connected and how well they performed. The second step was to see if there was a link between pandemic conditions (CVD) and company performance. The third looked into whether pandemic conditions moderated the relationship between companies with political ties and their performance.

The following steps were taken to conduct this data analysis. First, we provided descriptive statistical analysis. The number of samples, minimum value, maximum value, mean value, and standard deviation were all determined using descriptive statistical analysis. Descriptive statistics transform existing data into clearer and easier-to-understand information. Second, correlation test is applied to establish the relationship between two or more key variables. This study investigates the relationship between variables with reference to the research model. Third, we perform multiple regression analysis to test the effect of political connections (PC-ISB) and CVD on firms' performance. Next, we test the multicollinearity issue using the variance inflation factor (VIF) in four models.

An additional analysis is conducted to check for robustness test in our study. First, we reestimated the model using an alternative measure of firm performance, earnings per share (EPS), which represents market performance. Second, we address endogeneity problems using the System Generalized Method of Moments (the System GMM) since it is a widely employed econometric tool (Arellano & Bover, 1995; Roodman, 2009). It can observe whether there is a possibility that political connection is endogenously determined, suggesting that firms which perform better tend to establish or already have established connections with the government. In addition to endogeneity issue, we also employ a difference-in-difference (DID) regression analysis.

4 | EMPIRICAL RESULTS

4.1 | Descriptive statistics

Table 2 presents descriptive statistics based on 1515 observations from companies listed on the Indonesian Stock Exchange (IDX) during the 2018–2021 period. Table 2 shows that the average ROA is 0.023, with a minimum of −0.087, a maximum of 0.144, and a standard deviation of 0.054. ROE has an average value of 0.023, a minimum value of −0.432, a maximum value of 0.269, and a standard deviation of 0.157. The level of ROA and ROE are relatively average. This value is consistent and remains within a reasonable range when compared with other studies, such as Joni et al. (2020b). Furthermore, the average value of independent commissioners with political connections (PC-ISB) is 0.162, with a minimum of 0 and a maximum of 1, and a standard deviation of 0.303. The level of politically connected independent board of commissioners is around 15%–16% each year from 2018 to 2021. This value is consistent with previous research on political affiliation in Indonesia and remains within a reasonable range (Joni, Widjaja et al., 2021; Selin et al., 2022). The Pearson correlation test is shown in Tables 3 and 4 in pairs to test the correlations among the key variables. The strongest correlation ($r = -0.651$) exists between ROE and CVD. As well, we test the multicollinearity problem with the VIF, which is shown in Table 5. The findings explain that the overall value of VIF < 5, indicating that it is free of multicollinearity.

4.2 | PC-ISB and firm performance

Table 5 summarizes the findings of the regression analysis, which looked at the relationship between the PC-ISB and company performance (ROA and ROE). Model 1 demonstrates that the relationship (PC-ISB) with positive ROA is significant at the 5% level (coefficient = 0.007, $t = 2.05$). The coefficient estimates of 0.007 imply that, for the politically connected independent supervisory board, a one standard deviation increase in PC-ISB leads to an increase in firm performance by 21 basis points ($0.007 \times 0.303 = 0.0021$).[1] The negative CVD variable is significant at the 1% level (coefficient = −0.066, $t = -23.63$). It is also economically significant that it will reduce firm performance by 279 basis points ($0.066 \times 0.423 = 0.0279$). Adjusted R^2 31.37% indicates that 31.37%. PC-ISB and CVD have an effect on ROA and the relationship

[1] A standard deviation of 0.303.

TABLE 2 Descriptive statistics.

Variable	N	Mean	Standard deviation	Minimum	Maximum
ROA	1515	0.023	0.054	−0.087	0.144
ROE	1515	0.023	0.157	−0.432	0.269
PC-ISB	1515	0.162	0.303	0.000	1.000
BSIZE	1515	8.484	3.023	4.000	15.000
DER	1515	0.532	0.735	0.000	2.66

Note: The table summarizes the descriptive analysis of the main variables. In the 2018–2021 period, 1515 companies are included in the sample. Definition of variables: ROA is a company performance indicator ratio that describes a company's ability to generate profits from the assets it has used. PC-SBI is the percentage of independent commissioners who have served or are currently serving as ministers, members of the military, members of parliament, or bureaucrats appointed by a regional or central government. CVD is described by a dummy variable. We use 0 for the year before the COVID-19 pandemic (2018–2019) and 1 for the year the COVID-19 pandemic began (2020) and for extreme pandemic conditions in 2021. However, dummy variable is not presented in Table 2. The number of directors in the company is represented by BSIZE. DER stands for debt-to-equity ratio.

TABLE 3 Pearson correlation test—ROA.

	(1)	(2)	(3)	(4)
(1) ROA	1.000			
(2) PC-ISB	0.058*	1.000		
(3) BSIZE	0.116	0.218	1.000	
(4) DER	−0.058*	0.035**	0.074*	1.000

Note: The table presents the paired Pearson correlation matrices for 1515 company observations for all variables. The definition of each variable is explained in Table 1.
*Significance level of 10%;
**Significance level of 5%;
***Significance level of 1%.

TABLE 4 Pearson correlation test—ROE.

	(1)	(2)	(3)	(4)
(1) ROE	1.000			
(2) PC-ISB	0.083*	1.000		
(3) BSIZE	0.188	0.218	1.000	
(4) DER	−0.281	0.035**	0.074*	1.000

Note: The table presents the paired Pearson correlation matrices for 1515 company observations for all variables. The definition of each variable is explained in Table 1.
*Significance level of 10%;
**Significance level of 5%;
***Significance level of 1%.

TABLE 5 PC-ISB and firm performance (ROA and ROE): Pooled OLS (ordinary least squares) regression.

Regression estimation		
	ROA	ROE
Variable	Model 1	Model 2
PC-ISB	0.007** (2.05)	0.029*** (2.96)
CVD	−0.066*** (−23.63)	−0.224*** (−30.88)
BSIZE	0.000 (1.20)	0.005*** (4.42)
DER	−0.001 (−0.76)	−0.039*** (−9.43)
IND	Included	Included
YEAR	Included	Included
Average VIF	1.06	1.06
R^2	0.3533	0.4696
Adj. R^2	0.3137	0.4622
F	116.34	217.87
Prob > *F*	0.0000***	0.0000***
N	1515	1515

Note: The table presents the results of the regression estimates. The calculation table also includes control variable indicators (BSIZE, DER, IND, YEAR). The definition of each variable is explained in Table 1.
*Significance level of 10%;
**Significance level of 5%;
***Significance level of 1%.

(PC-ISB) with a significant positive ROE at the 1% level (coefficient = 0.029, $t = 2.96$). It is economically meaningful in that one standard deviation increase of PC-ISB will increase firm performance by about 87 basis points ($0.029 \times 0.303 = 0.0087$). The negative CVD variable is significant at the 1% level (coefficient = −0.224, $t = -30.88$), and this suggests that one standard deviation increase of PC-ISB will cause a reduction in ROE of 10.32 percentage point ($0.224 \times 0.423 = 0.1032$). Adjusted R^2 46.22% indicates that 46.22% PC-ISB and CVD wield an effect on ROE. Overall, the tests' results support Hypothesis 1. These findings are consistent with other research looking at the effect of PC-ISB on company performance and research based on company observations in Indonesia, such as Joni et al. (2020b), Joni, Natalia et al., 2021; Joni, Widjaja et al., 2021, Selin et al. (2022), and Fu et al. (2017).

The findings also confirm that the presence of political connections means that a strong network is present, which has a positive impact on increasing company performance. Previous researchers discovered that an external shock factor, namely the COVID-19 pandemic, resulted in a decline in overall company performance (Shen et al., 2020). The COVID-19 pandemic, which caused a worldwide crisis, had the opposite effect on the company's performance. This is consistent with agency theory, implying that the company's PC-ISB can improve its internal control processes and this proves the claims made by RBV theory. Demonstrated here is that the presence of political connections in a company offers a competitive advantage. For example, having political connections with the government can make dealing with the complexities of bureaucracy easier, as well as make it easier for companies to obtain external resources from the government.

4.3 | The interaction between PC-ISB and COVID-19 pandemic

Table 6 summarizes the results of the moderated regression analysis (MRA), which covers the interaction results of the dependent variables ROA and ROE with CVD serving as the moderating variable. Model 3 reveals that the interaction variable between PC-ISB and COVID-19 has no statistically significant effect (coefficient = 0.015, $t = 0.91$). The adjusted R^2 value is 31.36%, which is nearly identical to the adjusted R^2 value in Table 6, indicating that the CVD variable does not strengthen or weaken the relationship between PC-ISB and company performance. Model 4 also demonstrates that the relationship between the INT variable and the dependent variable ROE has no significant effect (coefficient = −0.003, $t = -0.07$). Adjusted R^2 value 46.19% < 46.22%. These findings indicate there is a disagreement with Hypothesis 2. COVID-19 is an external risk factor over which the company has no control. Companies with political ties, according to Kubinec et al. (2021), are exempt from complying with official government restrictions. However, this preferential treatment had no effect on the company's performance. The COVID-19 pandemic has had a negative impact on company performance (Qin et al., 2020; Shen et al., 2020).

5 | ADDITIONAL ANALYSIS

5.1 | Alternative performance measures

Table 7 documents the results of the PC-ISB, CVD, and interaction with EPS as a market performance variable. EPS is used to estimate market performance and has been widely used in previous studies such as Joni et al. (2020b). Model 5 shows that the relationship between PC-ISB and EPS is significantly positive at the 5% level (coefficient = 19.07, $t = 2.11$). This agrees with the results of previous tests, such as in Joni et al. (2020b) and the negative CVD variable is significant at the 1% confidence level (coefficient = −69.09, $t = -10.57$) with an adjusted R^2 of 16.92%. Model 6 also shows that the INT variable has no effect on market performance (EPS) (coefficient = 1.28, $t = 0.03$). It can be concluded that the overall results support and strengthen the main test outcomes. The COVID-19 pandemic has negatively affected market performance. When the extreme conditions of a pandemic occur, a company's market

TABLE 6 PC-ISB, COVID-19 pandemic, and firm performance (ROA and ROE): moderated regression.

Regression estimation		
	ROA	ROE
Variable	Model 3	Model 4
PC-ISB	0.008** (2.08)	0.029*** (2.96)
CVD	−0.067*** (−21.56)	−0.224*** (−27.61)
INT	0.015 (0.91)	−0.003 (−0.07)
BSIZE	0.000 (1.19)	0.005*** (4.42)
DER	0.001*** (−0.77)	−0.039*** (−9.43)
IND	Included	Included
YEAR	Included	Included
Average VIF	1.13	1.13
R^2	0.3537	102.25
Adj. R^2	0.3136	0.4619
F	63.18	186.62
Prob > F	0.000***	0.000***
N	1515	1515

Note: The table presents the results of the regression estimation involving interactions with the moderating variable. In the calculation table, the control variable indicators (BSIZE, DER, IND, YEAR) are also included. The definition of each variable is explained in Table 1.
*Significance level of 10%;
**Significance level of 5%;
***Significance level of 1%.

TABLE 7 PC-ISB, COVID-19 pandemic, and firm performance (EPS): Pooled OLS and moderated regressions.

Regression estimation		
Variable	Model 5: EPS	Model 6: INT
PC-ISB	19.07** (2.11)	19.07** (2.11)
CVD	−69.09*** (−10.57)	−69.21*** (−9.48)
INT	-	1.28 (0.03)
BSIZE	9.74*** (10.54)	9.73*** (10.54)
DER	−11.60*** (−3.05)	−11.61*** (−3.05)
IND	Included	Included
YEAR	Included	Included
Average VIF	1.06	1.13
R^2	0.175	0.175
Adj. R^2	0.1692	0.1725
F	52.38	44.87
Prob > F	0.000***	0.000***
N	1515	1515

Note: The table presents the results of the regression estimation involving interactions with the moderating variable. In the calculation table, the control variable indicators (BSIZE, DER, IND, YEAR) are also included. The definition of each variable is explained in Table 1.
*Significance level of 10%;
**Significance level of 5%;
***Significance level of 1%.

performance declines, which is represented by lower EPS. Overall, it can be concluded that with political connections, companies do benefit from certain advantages. Better market performance reflects this. Strong network relationships, particularly in Indonesia, make political connections the most important thing for corporate networks to obtain and profit from, unless a crisis such as the COVID-19 pandemic occurs. The pandemic became one of the world's most catalysts for economic uncertainty and near-collapse in some parts of the world, as private sector companies were forced to tighten their belts and not knowing when the crisis would actually end. Meanwhile, companies with political clout still had the means to retain their workers or hire more for their operations. This resulted in an increase in the company's EPS.

5.2 | Endogeneity

Endogeneity is a significant issue in corporate governance research. This study looks at the relationship between political connections and performance, but there is another possibility; it allows companies that perform well to try and build political connections and alliances. To address the endogeneity issue in this study, we used the System GMM to determine the dynamic panel model and rely on lagged variables (Arellano & Bover, 1995). The System GMM has been employed in previous studies to solve heteroscedasticity problems (Roodman, 2009). This research applies a two-step System-GMM estimator to investigate the associations.

Overall, the System GMM results were consistent with the main test results (see Table 8). Next, we utilized a common variant of DID dummy regression analysis as it is a robust method to estimate causal effect in nonexperimental settings (Roth et al., 2023). Practically, a firm with political connections through independent supervisory board (or treatment firm) is matched with control firm that does not have politically connected independent supervisory board during the sample period. Following Joni et al. (2020a) and Jia et al. (2019), we employed dummy variable (POST-PCISB) to generate pre and postpolitical connection through independent board of commissioners based on the percentage of politically connected independent supervisory boards score (SCORE-PCISB). POST-PCISB assigns 1 when a firm is politically connected via independent board of commissioner and 0 otherwise. Then, we add and estimate an interaction term between POST-PCISB and SCORE-PCISB (POST*SCORE-PCISB) in the regression model to capture the DID analysis. The control sample is constructed by choosing nonpolitically connected firms from the same industry as the politically connected firms through independent board of commissioners. After reestimate our model using DID regression analysis, the results remain similar with our main analysis.[2] Overall, the difference in firm performance (Model 1: ROA and Model 2: ROE) for pre and postpolitical connection period for firms with politically connected independent supervisory boards is significantly difference at the 5% level (higher) to the difference in firm performance for pre and postpolitical connection period for firms with no political connections. The coefficients on POST*SCORE-PCISB for Model 1 (coefficient = 0.028, $t = 2.21$) and Model 2 (coefficient = 0.027, $t = 2.33$) are significantly positive.

TABLE 8 PC-ISB, COVID-19 pandemic, and firm performance (ROA and ROE): the system GMM estimator.

Variable	Regression estimation: Model 1: ROA	Model 2: ROE
PC-ISB	0.008** (2.13)	0.029*** (3.10)
CVD	−0.067*** (−22.10)	−0.224*** (−23.70)
INT	0.015 (1.00)	−0.003 (−0.06)
BSIZE	0.005 (1.22)	0.005*** (4.49)
DER-	−0.001 (−0.82)	−0.039*** (−7.62)
b0	−23.13*** (−13.52)	−8.68 (−1.50)
AR (2) test stat.	0.86 (0.328)	1.07 (0.124)
Hansen J-Test	14.23 (0.263)	18.37 (0.387)
No. of observations in GMM	1515	1515
No. of instruments	8	8

Note: The table presents the estimation results of the system GMM Test involving interactions with moderating variables. In the calculation table, the control variable indicators (BSIZE, DER, IND, YEAR) are also included. The definition of each variable is explained in Table 1. Following Roodman (2009), Stata xtabond2 command.
*Significance level of 10%;
**Significance level of 5%;
***Significance level of 1%.

6 | CONCLUSION

This study investigates whether there is: first, a relationship between political connections and performance during the COVID-19 pandemic; and second, if the COVID-19 pandemic moderates political relationships with performance in Indonesia's dual board governance system. The findings show that the political connections of the independent board of commissioners can dictate or predict a company's performance during the pandemic. The economic crisis caused by COVID-19 seriously damaged many companies' overall performance. Furthermore, the COVID-19 pandemic conditions have no effect on the relationship between the independent board of commissioners and company performance. Independent commissioners with political clout improve their monitoring function and use their networks and social status or reputation to boost company performance. Independent boards of commissioners with political ties can help to reduce the emergence of type II agency conflicts (conflicts between minority and majority shareholders). Political–business relationships are very much the norm in developing countries such as Indonesia. A company's strong political network enables it to overcome uncertainty because it has easy access to government officials who will also profit from the way the company does business. This is consistent with the RBV theory.

[2]The results are not tabulated due to space constraint.

Our findings strongly suggest that there are important ramifications not only for academicians but also for practitioners (including firms' management, investors, etc.) and policymakers. There will be many direct investment opportunities in emerging capital markets, such as Indonesia. It can be beneficial if practitioners consider the presence of a politically connected independent supervisory board as an important marker of their investment decision and a way to attain competitive advantage in an industry or sector. For government policymakers, the development of good corporate governance systems in emerging markets can address the functioning of independent boards, which need to improve their monitoring and supervising responsibilities.

The limitations of this study are as follows: first, it only examines the term of Joko Widodo's presidency and no previous Indonesian presidential leadership. Second, based on available data, this study solely concentrated on political connections. There is no detailed information regarding cross-generational political associations within a company. Third, this study does not investigate whether companies actually have a relationship with the ruling regime. Given these limitations, more research in developing countries is needed to be done on political connections in a dual board system with more details about political connections, such as considering the nature of connections with the regime in power and how strong that connection is.

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DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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