BUKTI KORESPONDING ARTIKEL

ARTIKEL JURNAL INTERNASIONAL BERPUTASI

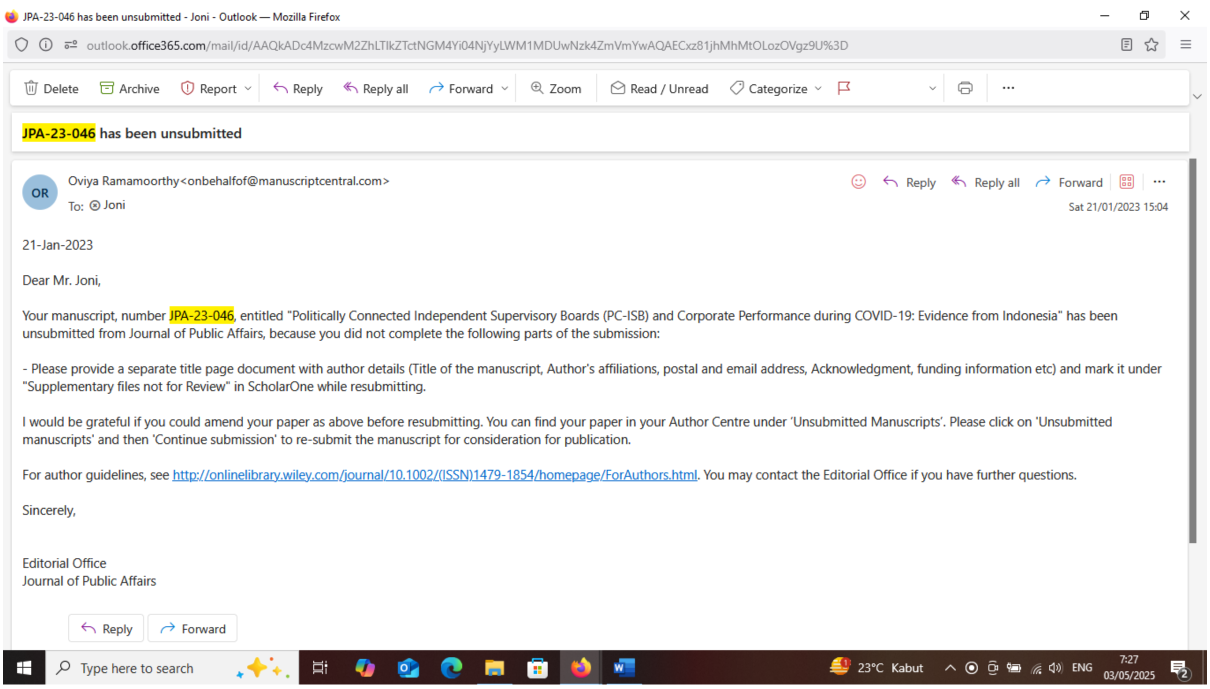
Judul: Politically connected independent supervisory boards and corporate performance during COVID-19: Evidence from Indonesia

Jurnal: Journal of Public Affairs, 2024, Vol. 24, No. 2, e2921

Penulis: Laurensia Vina Dharmawan, Joni Joni, Surya Setyawan

No.	Perihal	Tanggal
1.	Bukti konfirmasi submit artikel dan artikel yang disubmit	21 Jan. 2023
2.	Bukti konfirmasi submit revisi pertama, respon kepada reviewer, dan artikel yang diresubmit	27 July 2023
3.	Bukti konfirmasi submit revisi kedua, respon kepada reviewer, dan artikel yang diresubmit	07 Nov. 2023
4.	Bukti konfirmasi submit revisi ketiga, respon kepada reviewer, dan artikel yang diresubmit	12 Mar. 2024
5.	Bukti konfirmasi artikel accepted	04 Apr. 2024

1. Bukti konfirmasi submit artikel dan artikel yang disubmit (21 Jan. 2023)


JPA-23-046 has been unsubmitted

Oviya Ramamoorthy<onbehalfof@manuscriptcentral.com>
To: Joni
Sat 21/01/2023 15:04

21-Jan-2023

Dear Mr. Joni,

Your manuscript, number JPA-23-046, entitled "Politically Connected Independent Supervisory Boards (PC-ISB) and Corporate Performance during COVID-19: Evidence from Indonesia" has been unsubmitted from Journal of Public Affairs, because you did not complete the following parts of the submission:

- Please provide a separate title page document with author details (Title of the manuscript, Author's affiliations, postal and email address, Acknowledgment, funding information etc) and mark it under "Supplementary files not for Review" in ScholarOne while resubmitting.

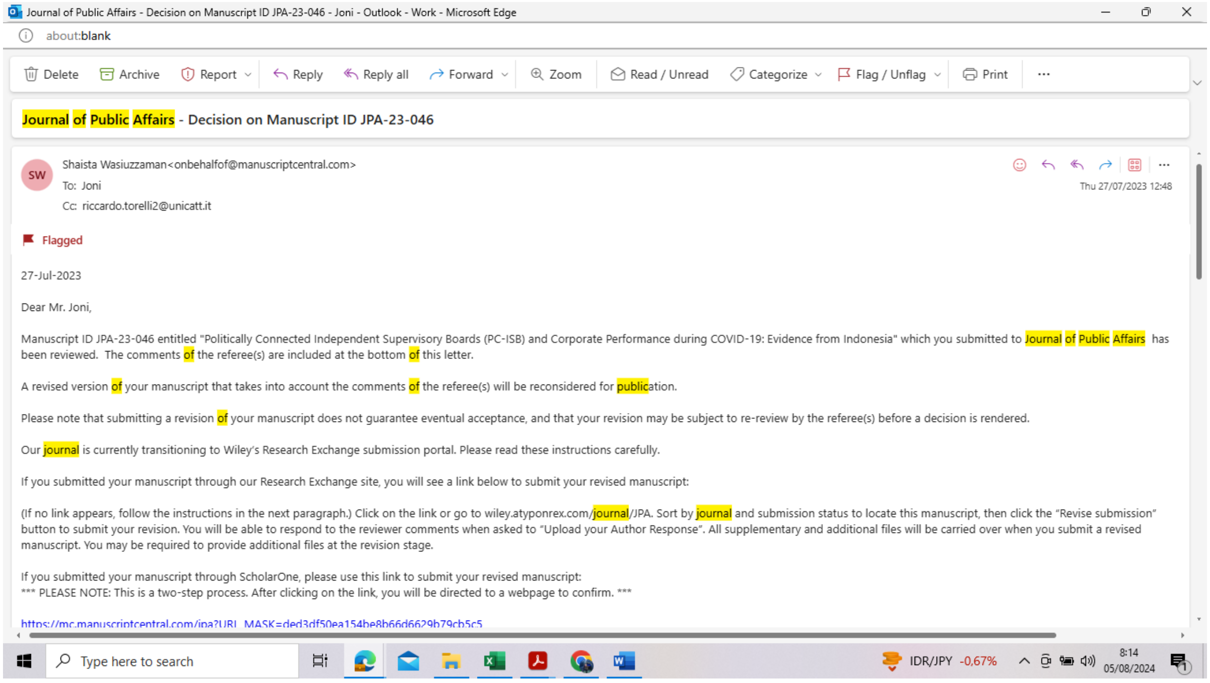
I would be grateful if you could amend your paper as above before resubmitting. You can find your paper in your Author Centre under 'Unsubmitted Manuscripts'. Please click on 'Unsubmitted manuscripts' and then 'Continue submission' to re-submit the manuscript for consideration for publication.

For author guidelines, see http://onlinelibrary.wiley.com/journal/10.1002/(ISSN)1479-1854/homepage/ForAuthors.html. You may contact the Editorial Office if you have further questions.

Sincerely,

Editorial Office
Journal of Public Affairs

2. Bukti konfirmasi submit revisi pertama, respon kepada reviewer, dan artikel yang diresubmit (27 July 2023)



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Journal of Public Affairs - Decision on Manuscript ID JPA-23-046

Shaista Wasiuzzaman<onbehalfof@manuscriptcentral.com>
To: Joni
Cc: riccardo.torelli2@unicatt.it

Thu 27/07/2023 12:48

Flagged

27-Jul-2023

Dear Mr. Joni,

Manuscript ID JPA-23-046 entitled "Politically Connected Independent Supervisory Boards (PC-ISB) and Corporate Performance during COVID-19: Evidence from Indonesia" which you submitted to Journal of Public Affairs has been reviewed. The comments of the referee(s) are included at the bottom of this letter.

A revised version of your manuscript that takes into account the comments of the referee(s) will be reconsidered for publication.

Please note that submitting a revision of your manuscript does not guarantee eventual acceptance, and that your revision may be subject to re-review by the referee(s) before a decision is rendered.

Our journal is currently transitioning to Wiley's Research Exchange submission portal. Please read these instructions carefully.

If you submitted your manuscript through our Research Exchange site, you will see a link below to submit your revised manuscript:

(If no link appears, follow the instructions in the next paragraph.) Click on the link or go to wiley.atyponrex.com/journal/JPA. Sort by journal and submission status to locate this manuscript, then click the "Revise submission" button to submit your revision. You will be able to respond to the reviewer comments when asked to "Upload your Author Response". All supplementary and additional files will be carried over when you submit a revised manuscript. You may be required to provide additional files at the revision stage.

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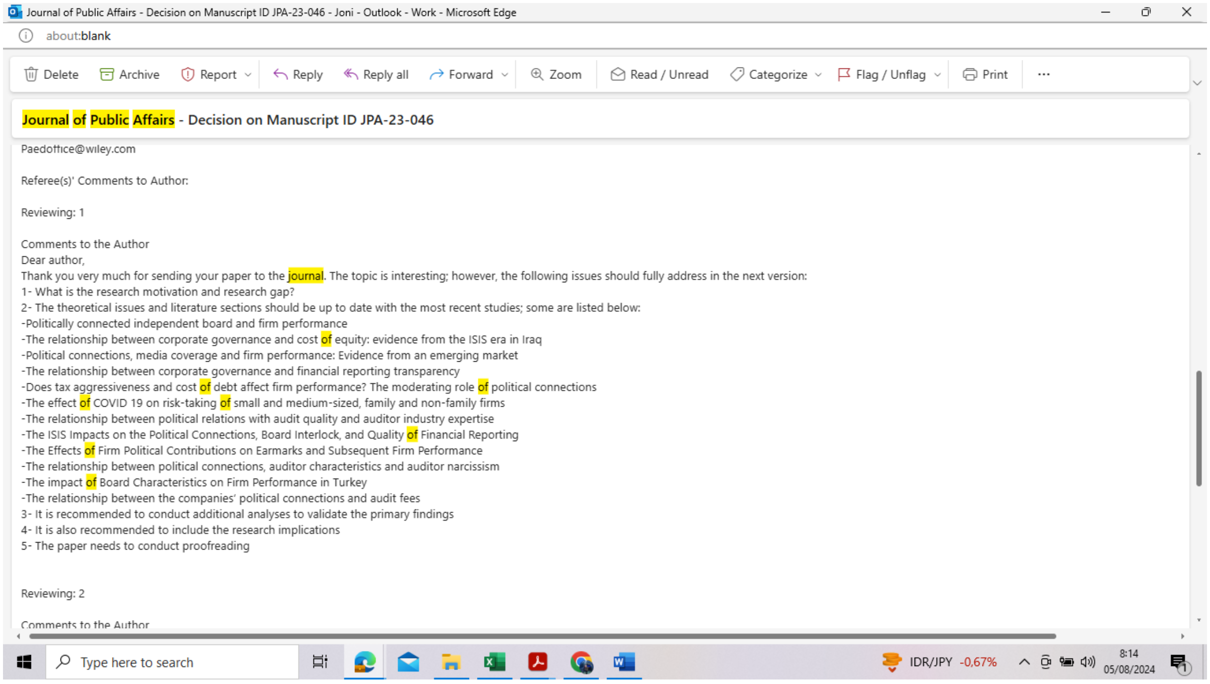

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Paedoffice@wiley.com

Referee(s)' Comments to Author:

Reviewing: 1

Comments to the Author
Dear author,
Thank you very much for sending your paper to the journal. The topic is interesting; however, the following issues should fully address in the next version:
1- What is the research motivation and research gap?
2- The theoretical issues and literature sections should be up to date with the most recent studies; some are listed below:
-Politically connected independent board and firm performance
-The relationship between corporate governance and cost of equity: evidence from the ISIS era in Iraq
-Political connections, media coverage and firm performance: Evidence from an emerging market
-The relationship between corporate governance and financial reporting transparency
-Does tax aggressiveness and cost of debt affect firm performance? The moderating role of political connections
-The effect of COVID 19 on risk-taking of small and medium-sized, family and non-family firms
-The relationship between political relations with audit quality and auditor industry expertise
-The ISIS Impacts on the Political Connections, Board Interlock, and Quality of Financial Reporting
-The Effects of Firm Political Contributions on Earmarks and Subsequent Firm Performance
-The relationship between political connections, auditor characteristics and auditor narcissism
-The impact of Board Characteristics on Firm Performance in Turkey
-The relationship between the companies' political connections and audit fees
3- It is recommended to conduct additional analyses to validate the primary findings
4- It is also recommended to include the research implications
5- The paper needs to conduct proofreading

Reviewing: 2

Comments to the Author

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Reviewing: 2

Comments to the Author
he idea of testing Politically connected independent supervisory boards' impact on corporate performance is interesting. However, several issues with the manuscript need to be addressed.

The introduction needs serious improvement as the authors need to stress the political environment of Indonesia, how it is related to PC ISBs, and how they can influence performance. The gap and contributions should explain the real economic benefit.

The literature review needs to be revised thoroughly. A detailed overview of PC and ISB needs to add to give a complete picture. It's better to have some tables in the literature section.

The methodology is acceptable, but the authors need to improve the write-up quality of the section. The section seems like written for a Master's thesis. Please revise this section.
The econometric equation should be revised as the authors use i.t a panel.

Please change the style of Table 2 and make it more presentable.
The correlation table needs to be revised as ROA and ROE are two different variables with two different logical backings; thus, their correlation pattern is different.
Authors have used Pool OLS; they should also check the fixed effect and report diagnostic testing.

The GMM table needs revision, and the author should report AR2 and Hansen test values.

Overall profound changes are needed and the author should explain the economic benefit of analysis.
Grammar can be improved, but it's a secondary issue. Authors can take help from proofreading services.

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Referee(s)' Comments to Author:

Reviewing: 1

Comments to the Author
Dear author,
Thank you for sending your revised paper; the paper is accepted in the current format. Congratulations

Reviewing: 2

Comments to the Author
This paper examines the determinants of return on equity with special focus on the role of political linkages. Balance sheet data are used. The methods consist of the GMM first difference estimator and the pooled OLS. The latter is not appropriate. One has to take into account the nature of panel data. Firm effects have to be taken into account. Dynamic panel data models are suitable, but three years of data is not enough. Do you have firms without political connections? If so, use difference-in-difference analysis. Please see my comments
Comments
1)
The conceptual background is too broad and only loosely connected with the empirical model.
2)
" H1: Companies with politically connected independent supervisory boards enjoy good business performance."
The hypothesis is difficult to understand.
Either you are connected or not.

H2: Pandemic conditions have a negative association with company performance.
This hypothesis is trivial and this depends on the sector.
3)
Several claims need a reference. Section consists of many paragraphs without reference
4)
3.2. Models and Variables
Firm effects must be modelled.
5)

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3.2. Models and Variables
Firm effects must be modelled.
5)
" The coefficient estimates of 0.040 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*0.303 = 0.0021"
The interpretation is wrong. The dependent variable is a ratio.
6)
I Do not see the interaction term.

4.3. The interaction between PC-ISB and COVID-19 Pandemic
7)
" To address the endogeneity issue in this study, we used the Generalized Method of Moments (GMM) (Arellano & Bond, 1991). GMM has been employed in previous studies to solve heteroscedasticity problems (Baum et al., 2003; Joni et al., 2020b; Selin et al.,"
The first difference GMM estimator is outdated. Use the system GMM estimator and extend the panel data to five years. Is the political connection variable Time-varying? Consider a difference in differences analysis, perhaps combined with a propensity score matching analysis.

Minor comments
A)
Writing must be improved .
No need to cite 15 references in one paragraph.
Previous studies have found that political connections shape firm performance in both developed countries (Carney et al., 2020; Díaz-Díaz et al., 2022; Goldman et al., 2009; Nam et al., 2018; Nnadi et al., 2021; Okazaki & Sawada, 2017; Wong, 2010) and developing countries (Salehi et al., 2023; Boateng et al., 2019; Fisman, 2001; Fu et al., 2017; Ghosh & Ansari, 2018; Guney et al., 2020; S. Hu & Zhang, 2021; Joni et al., 2020a; Joni et al., 2020b;
B)
Table 2. Descriptive Statistics
Remove standard errors for dummy variables. Pearson correlations are not suitable for dummy variables.
C)
It is pooled OLS and not pool OLS.

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Journal of Public Affairs - Manuscript number JPA-23-046.R1

OR Oviya Ramamoorthy<onbehalfof@manuscriptcentral.com>
To: Joni

Reply | Reply all | Forward
Mon 18/09/2023 16:10

18-Sep-2023

Dear Mr. Joni,

Your manuscript entitled "Politically Connected Independent Supervisory Boards (PC-ISB) and Corporate Performance during COVID-19: Evidence from Indonesia" has been successfully submitted online and is presently being given full consideration for publication in Journal of Public Affairs.

Your manuscript number is JPA-23-046.R1. Please mention this number in all future correspondence regarding this submission.

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Thank you for submitting your manuscript to Journal of Public Affairs.

Sincerely,

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Responses to Reviewer's comments

Many thanks for your insightful and suggestions to improve the quality of the paper submitted to Journal of Public Affair. In this revised version we have made all necessary corrections and undertake additional as suggested and hope this time the revised paper will positive recommendation from you. Our responses are placed side-by-side to your comments.

Reviewer 1:

Thank you very much for sending your paper to the journal. The topic is interesting; however, the following issues should fully address in the next version:

Comments and Suggestions

No.	Major Comments and Suggestions	Responses
1.	What is the research motivation and research gap?	Thank you for the suggestion. We have re-write our introduction section and provide a clear research motivation and research gap. For instance (several paragraphs are presented): "This study is different from previous research (e.g., Joni et al., 2020a; Joni et al., 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 independent commissioners (PC-ISB) with a two-tier board system, but it is still very limited (Bohdanowicz, 2015; Gad, 2015; Joni et al., 2021b; Velte, 2010; Wang, 2013). According to Joni et al. (2021), an independent board of commissioners can reduce the business risks faced by Indonesian companies. Adams and Ferreira (2007) describe the supervisory role of the independent board of commissioners as very useful in increasing market value. Widyaniandhita and Solihin (2020) more recently stated that the large bulk of independent board of commissioners' supervision increases in effectiveness so that the problem of earnings management 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 coronavirus 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 et al., 2021) strongly suggests that independent board size and financial expertise help companies listed on the IDX reduce operating and market risks (Indonesian Stock Exchange). 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. 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."
2.	The theoretical issues and literature sections should be up to date with the most recent studies; some are listed below: -Politically connected independent board and firm performance -The relationship between corporate governance and cost of equity: evidence from the ISIS era in Iraq -Political connections, media coverage and firm performance: Evidence from an emerging market -The relationship between corporate governance and financial reporting transparency -Does tax aggressiveness and cost of debt affect firm performance? The moderating role of political connections -The effect of COVID 19 on risk-taking of small and medium-sized, family and non-family firms -The relationship between political relations with audit quality and auditor industry expertise -The ISIS Impacts on the Political Connections, Board Interlock, and Quality of Financial Reporting -The Effects of Firm Political Contributions on Earmarks and Subsequent Firm Performance -The relationship between political connections, auditor characteristics and auditor narcissism -The impact of Board	Thank you for the suggestion. We have added all suggested papers in our literature review section. Some examples of the references are presented. Abdullah, Hashmi, M. A., Mateen, A., Badshah, Y. A., & Iqbal, M. S. (2022). Does tax aggressiveness and cost of debt affect firm performance? The moderating role of political connections. *Cogent Economics & Finance*, *10*(1), 2132645 Hassan, M. K., Lahyani, F. E., & Elgharbawy, A. (2022). Political connections, media coverage and firm performance: evidence from an emerging market. *Meditari Accountancy Research*. Guney, Y., Karpuz, A., & Komba, G. (2020). The effects of board structure on corporate performance: Evidence from East African frontier markets. *Research in International Business and Finance*, *53*(May 2019), 101222. https://doi.org/10.1016/j.ribaf.2020.101222 Huq, T. I., Hassan, M. K., & Houston, R. (2022). The effects of firm political contributions on earmarks and subsequent firm performance. *Research in International Business and Finance*, *62*, 101706 Junus, O., Nasih, M., Anshori, M., & Harymawan, I. (2022). Politically connected independent board and firm performance. *Cogent Economics & Finance*, *10*(1), 2069638 Khaksar, J., Salehi, M., & Dashtbayaz, M. L. (2022a). The relationship between political relations with audit quality and auditor industry expertise. *Journal of Public Affairs*, *22*, e2780 Khaksar, J., Salehi, M., & Lari DashtBayaz, M. (2022b). The relationship between political connections, auditor characteristics and auditor narcissism. *Journal of Facilities Management*, *20*(4),

	Characteristics on Firm Performance in Turkey -The relationship between the companies' political connections and audit fees	521-537 Salehi, M. (2020). The relationship between the companies' political connections and audit fees. *Journal of Financial Crime*, *27*(4), 1123-1141 Salehi, M., Ammar Ajel, R., & Zimon, G. (2022). The relationship between corporate governance and financial reporting transparency. *Journal of Financial Reporting and Accounting* Salehi, M., Maalah, A. Z., & Nazaridavaji, H. (2021). The ISIS Impacts on the Political Connections, Board Interlock, and Quality of Financial Reporting. *Contemporary Review of the Middle East*, *8*(4), 460-476 Salehi, M., Moradi, M., & Faysal, S. (2023). The relationship between corporate governance and cost of equity: Evidence from the ISIS era in Iraq. *International Journal of Emerging Markets* Shafeeq Nimr Al-Maliki, H., Salehi, M., & Kardan, B. (2023). The effect of COVID 19 on risk-taking of small and medium-sized, family and non-family firms. *Journal of Facilities Management*, *21*(2), 298-309. Shahzad, F., Saeed, A., Asim, G. A., Qureshi, F., Rehman, I. U., & Qureshi, S. (2021). Political connections and firm performance: Further evidence using a generalised quantile regression approach. *IIMB Management Review*, *33*(3), 205–213.https://doi.org/10.1016/j.iimb.2021.08.005
3.	It is recommended to conduct additional analyses to validate the primary findings	Additional analyses have been addressed. We conducted two additional analyses, including re-estimate all models using an alternative performance measure and address endogeneity issue using GMM.
4.	It is also recommended to include the research implications	Thank you, research implication has been addressed in the conclusion section. For instance (paragraph is presented): 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. "
5.	The paper needs to conduct proofreading	Thank you, the final version of our paper has been proofread.

Reviewer 2:

The idea of testing Politically connected independent supervisory boards' impact on corporate performance is interesting. However, several issues with the manuscript need to be addressed.

Comments and Suggestions

No.	Major Comments and Suggestions	Responses
1.	The introduction needs serious improvement as the authors need to stress the political environment of Indonesia, how it is related to PC ISBs, and how they can influence performance. The gap and contributions should explain the real economic benefit.	Thank you for the feedback. The introduction section has been re-written to accommodate how the institutional background helps to understand the relation between PC-ISB and firm performance, then the explanation of the gap and contributions is clearly written. For instance (several paragraphs are presented): 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, assisted exports, less bureaucracy in doing business, lower cost of having long-term debt financing, increased company value, and more market advantages (Bussolo et al., 2022; Goldman et al., 2009, 2011; Hu et al., 2020; Hung et al., 2017; Joni et al., 2020a; Joni et al., 2020b; Li et al., 2022; Nam et al., 2018; Nnadi et al., 2021; Wang et al., 2019; 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 (Fisman, 2001; 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., 2020a; 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 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 independent board of commissioners (PC-ISB), as these people can strategically obtain more external resources and improve the corporation's monitoring function. In the Indonesian governance context, PC-ISB 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. Previous studies have found that political connections shape firm performance in both developed countries (Carney et al., 2020; Díaz-Díaz et al., 2022; Goldman et al., 2009; Nam et al., 2018; Nnadi et al., 2021; Okazaki & Sawada, 2017; Wong, 2010) and developing countries (Salehi et al., 2023; Boateng et al., 2019; Fisman, 2001; Fu et al., 2017; Ghosh & Ansari, 2018; Guney et al., 2020; S. Hu & Zhang, 2021; Joni et al., 2020a; Joni et al., 2020b; Shahzad et al., 2021; Wong & Hooy, 2018; Zhang & Truong, 2019). Fu et al. (2017) state that companies with political connections have the opportunity to get full loans at favorable repayment rates. According to Joni et al. (2020a), politically connected firms have lower debt and equity financing. Nam et al. (2018) in their research findings discovered that political connections can improve exports. Politically connected businesses benefit from convenience and facilities when conducting transactions. According to resource-based theory (RBT), 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 (Gottschalk, 2011). It is expected that a politically connected independent supervisory board 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. This study is different from previous research (e.g., Joni et al., 2020a; Joni et al., 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 independent commissioners (PC-ISB) with a two-tier board system, but it is still very limited (Bohdanowicz, 2015; Gad, 2015; Joni et al., 2021b; Velte, 2010; Wang, 2013). According to Joni et al. (2021), an independent board of commissioners can reduce the business risks faced by Indonesian companies. Adams

		and Ferreira (2007) describe the supervisory role of the independent board of commissioners as very useful in increasing market value. Widyaniandhita and Solihin (2020) more recently stated that the large bulk of independent board of commissioners' supervision increases in effectiveness so that the problem of earnings management 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 coronavirus 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 et al., 2021) strongly suggests that independent board size and financial expertise help companies listed on the IDX reduce operating and market risks (Indonesian Stock Exchange). 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. 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."
2.	The literature review needs to be revised thoroughly. A detailed overview of PC and ISB needs to add to give a complete picture. It's better to have some tables in the literature section.	Thank you for the suggestion. We have added all suggested papers in our literature review section. Table regarding the literature is not provided due to space constraint. Some examples of the references have been added in the literature review section as follow: Abdullah, Hashmi, M. A., Mateen, A., Badshah, Y. A., & Iqbal, M. S. (2022). Does tax aggressiveness and cost of debt affect firm

		performance? The moderating role of political connections. *Cogent Economics & Finance*, *10*(1), 2132645 Hassan, M. K., Lahyani, F. E., & Elgharbawy, A. (2022). Political connections, media coverage and firm performance: evidence from an emerging market. *Meditari Accountancy Research*. Guney, Y., Karpuz, A., & Komba, G. (2020). The effects of board structure on corporate performance: Evidence from East African frontier markets. *Research in International Business and Finance*, *53*(May 2019), 101222. https://doi.org/10.1016/j.ribaf.2020.101222 Huq, T. I., Hassan, M. K., & Houston, R. (2022). The effects of firm political contributions on earmarks and subsequent firm performance. *Research in International Business and Finance*, *62*, 101706 Junus, O., Nasih, M., Anshori, M., & Harymawan, I. (2022). Politically connected independent board and firm performance. *Cogent Economics & Finance*, *10*(1), 2069638 Khaksar, J., Salehi, M., & Dashtbayaz, M. L. (2022a). The relationship between political relations with audit quality and auditor industry expertise. *Journal of Public Affairs*, *22*, e2780 Khaksar, J., Salehi, M., & Lari DashtBayaz, M. (2022b). The relationship between political connections, auditor characteristics and auditor narcissism. *Journal of Facilities Management*, *20*(4), 521-537 Salehi, M. (2020). The relationship between the companies' political connections and audit fees. *Journal of Financial Crime*, *27*(4), 1123-1141 Salehi, M., Ammar Ajel, R., & Zimon, G. (2022). The relationship between corporate governance and financial reporting transparency. *Journal of Financial Reporting and Accounting* Salehi, M., Maalah, A. Z., & Nazaridavaji, H. (2021). The ISIS Impacts on the Political Connections, Board Interlock, and Quality of Financial Reporting. *Contemporary Review of the Middle East*, *8*(4), 460-476 Salehi, M., Moradi, M., & Faysal, S. (2023). The relationship between corporate governance and cost of equity: Evidence from the ISIS era in Iraq. *International Journal of Emerging Markets* Shafeeq Nimr Al-Maliki, H., Salehi, M., & Kardan, B. (2023). The effect of COVID 19 on risk-taking of small and medium-sized, family and non-family firms. *Journal of Facilities Management*, *21*(2), 298-309. Shahzad, F., Saeed, A., Asim, G. A., Qureshi, F., Rehman, I. U., & Qureshi, S. (2021). Political connections and firm performance: Further evidence using a generalised quantile regression approach. *IIMB Management Review*, *33*(3), 205–

		213.https://doi.org/10.1016/j.iimb.2021.08.005
3.	The methodology is acceptable, but the authors need to improve the write-up quality of the section. The section seems like written for a Master's thesis. Please revise this section. The econometric equation should be revised as the authors use i.t a panel	Thank you for the feedback. We have re-written the methodology section and provided a concise format.
4.	Please change the style of Table 2 and make it more presentable. The correlation table needs to be revised as ROA and ROE are two different variables with two different logical backings; thus, their correlation pattern is different. Authors have used Pool OLS; they should also check the fixed effect and report diagnostic testing.	Thank you for the recommendation. Tabel 2 has been separated into two tables (Tabel 2 and Tabel 3) which represent correlation tables for ROA and ROE.
5.	The GMM table needs revision, and the author should report AR2 and Hansen test values.	Thank you for the feedback. AR2 and Hansen test values have been added in the table.
6.	Overall profound changes are needed and the author should explain the economic benefit of analysis. Grammar can be improved, but it's a secondary issue. Authors can take help from proofreading services.	We have added the economic significance of our analysis in the empirical results section. For instance: "Table 5 summarizes the findings of the regression analysis, which looked at the relationship between the Politically Connected Independent Supervisory Board (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 0.040 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*0.303 = 0.0021). 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*0.423=0.0279). Adj R-squared 31.37% indicates that 31.37%. PC-ISB and CVD have an effect on ROA and the relationship (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*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 1032 basis points (0.224*0.423=0.1032). Adj R-squared 46.22% indicates that 46.22% PC-ISB and CVD wield an effect on ROE. Overall, the tests' results support H1 and H2. 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 et al. (2021), Selin et al. (2022), and Fu et al. (2017). "

		Additionally, the final version of our paper has been proofread.

Politically Connected Independent Supervisory Boards (PC-ISB) and Corporate Performance during COVID-19: Evidence from Indonesia

Abstract

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 1,515 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 Generalized Method of Moments (GMM). 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 GMM strategy to address the issue of endogeneity.

Keywords: Politically Connected Independent Supervisory Boards, Corporate Performance, COVID-19, Emerging Economy, Indonesia

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, assisted exports, less bureaucracy in doing business, lower cost of having long-term debt financing, increased company value, and more market advantages (Bussolo et al., 2022; Goldman et al., 2009, 2011; Hu et al., 2020; Hung et al., 2017; Joni et al., 2020a; Joni et al., 2020b; Li et al., 2022; Nam et al., 2018; Nnadi et al., 2021; Wang et al., 2019; 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 (Fisman, 2001; 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., 2020a; 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 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 independent board of commissioners (PC-ISB), as these people can strategically obtain more external resources and improve the corporation’s monitoring function. In the Indonesian governance context, PC-ISB 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.

Previous studies have found that political connections shape firm performance in both developed countries (Carney et al., 2020; Díaz-Díaz et al., 2022; Goldman et al., 2009; Nam et al., 2018; Nnadi et al., 2021; Okazaki & Sawada, 2017; Wong, 2010) and developing countries (Salehi et al., 2023; Boateng et al., 2019; Fisman, 2001; Fu et al., 2017; Ghosh & Ansari, 2018; Guney et al., 2020; S. Hu & Zhang, 2021; Joni et al., 2020a; Joni et al., 2020b; Shahzad et al., 2021; Wong & Hooy, 2018; Zhang & Truong, 2019). Fu et al. (2017) state that companies with political connections have the opportunity to get full loans at favorable repayment rates. According to Joni et al. (2020a), politically connected firms have lower debt and equity financing. Nam et al. (2018) in their research findings discovered that political connections can improve exports.

Politically connected businesses benefit from convenience and facilities when conducting transactions. According to resource-based theory (RBT), 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 (Gottschalk, 2011). It is expected that a politically connected independent supervisory board 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.

This study is different from previous research (e.g., Joni et al., 2020a; Joni et al., 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 independent commissioners (PC-ISB) with a two-tier board system, but it is still very limited (Bohdanowicz, 2015; Gad, 2015; Joni et al., 2021b; Velte, 2010; Wang, 2013). According to Joni et al. (2021), an independent board of commissioners can reduce the business risks faced by Indonesian companies. Adams and Ferreira (2007) describe the supervisory role of the independent board of commissioners as very useful in increasing market value. Widyaniandhita and Solihin (2020) more recently stated that the large bulk of independent board of commissioners' supervision increases in effectiveness so that the problem of earnings management 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 coronavirus 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 et al., 2021) strongly suggests that independent board size and financial expertise help companies listed on the IDX reduce operating and market risks (Indonesian Stock Exchange). 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. 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 permited 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.

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.

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. This system divides the company's two separate boards, the Supervisory Board (Board of Commissioners) and the Management Board (Board of Directors). 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 board of directors; 3) monitoring management implementation; and 4) monitoring the process of openness and effectiveness of communication within the company. Meanwhile, the Board of Directors 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 (Forum for Corporate Governance in Indonesia, 2002).

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 board of directors. 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 board of directors, 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.

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 (Ding et al., 2015; Gama et al., 2019; Young et al., 2008) and Resourced-Based View theory (Barney, 1991; 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 (Gama et al., 2019). 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 (Bonazzi & Islam, 2007). 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 (Bendickson et al., 2016), an agency relationship is a contract in which one or more parties (principals) assign tasks to other parties (agents) to carry out services. tasks tasksand delegate authority in decision making.

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 (Panda & Leepsa, 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 board of directors (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 (Andrei Shleifer & Vishny, 1997; Gilson & Gordon, 2003; 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 (Dharwadkar et al., 2000) 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 (Panda & Leepsa, 2017; Young et al., 2008). 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 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 (Ding et al., 2015).

Further, Resource-Based View theory (RBV) 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 Grant (1991), 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 resource-based view 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, 1991). 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 Politically connected independent supervisory boards and firm performance

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 et al., 2021). The more politically connected a firm is through board members, the better it will perform. Agency theory, on the other hand, sees political connections within companies as causing high costs for agency problems (Osazuwa et al., 2016; Salehi et al., 2021; Salehi et al., 2022; Huq 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 boards due to an increase in blockholder rent appropriation, the functioning of politically connected companies suffers. According to agency theory, political connections for businesses can have a negative rather than a positive impact (Dal Magro & Klann, 2021).

Politically connected boards wield much influence on corporate performance. There is a substantial empirical literature that examines the benefits and links between independent commissioners and corporate performance. However, the results of the literature provide a counter-argument. Junus et al. (2022) find a negative association between politically connected independent board of commissioners and firm performance due to the lack of expertise. 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. However, 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.

However, several studies provide opposing 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; Khaksar et al., 2022b; Goldman et al., 2011; Wu et al., 2018; Salehi, 2020). 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 (SMEs). 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). Not only within the company, but banks with political ties to the government benefit from low credit and default risks and high asset returns (Hung et al., 2017). The government has better access to lending to politically connected companies thanks to banks with their own political connections. Based on non-financial 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 (Schout & Mijs, 2015). 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 (Cheng, 2018). 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 board of directors (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 Goldman et al. (2011) revealed that the value of the company increased, resulting in positive abnormal stock returns after a general election. 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:

H1: Companies with politically connected independent supervisory boards enjoy good business performance.

2.4.2 Politically connected independent supervisory boards, 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 (Shafeeq Nimr 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.

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:

H2: Pandemic conditions have a negative association with company performance.

H3: Pandemic conditions moderate the relationship between companies with political connections and how well a company performs.

3. Research Methodology

3.1. Data and Sample

The data in this study is divided into two categories: financial and non-financial. 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 model used in this study investigates the effect of politically connected firms through independent supervisory boards on firm performance in hypotheses 1 and 2:

$$ROA = \alpha_1 + \beta_2 \text{ PC-ISB} + \beta_3 \text{ CVD} + \beta_4 \text{ BSIZE} + \beta_5 \text{ DER} + \beta_6 \text{ IND} + \beta_7 \text{ YEAR} + €_{i,t} \text{ – Model 1}$$

$$ROE = \alpha_1 + \beta_2 \text{ PC-ISB} + \beta_3 \text{ CVD} + \beta_4 \text{ BSIZE} + \beta_5 \text{ DER} + \beta_6 \text{ IND} + \beta_7 \text{ YEAR} + €_{I,t} \text{ – Model 2}$$

The influence of political connections on company performance is tested using moderate regression analysis, which is moderated by the COVID-19 pandemic conditions in hypothesis 3. The following is the regression model used in this study:

$$ROA = \alpha_1 + \beta_2 \text{ PC-ISB} + \beta_3 \text{ CVD} + \beta_4 \text{ INT1} + \beta_5 \text{ BSIZE} + \beta_6 \text{ DER} + \beta_7 \text{ IND} + \beta_8 \text{ YEAR} + €_{i,t} \text{ – Model 3}$$

$$ROE = \alpha_1 + \beta_2 \text{PC-ISB} + \beta_3 \text{ CVD} + \beta_4 \text{ INT2} + \beta_5 \text{ BSIZE} + \beta_6 \text{ DER} + \beta_7 \text{ IND} + \beta 2_8 \text{ YEAR} + €_{i,t} \text{ – Model 4}$$

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 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).

Table 1. Definitions of Variables

Dependent Variables	
ROA	Profit after tax divided by total asset (Junus et al., 2022; Joni et al., 2020b)
ROE	Profit after tax divided by total equity (Junus et al., 2022; Joni et al., 2020b)
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)
ENG	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 H1 and a moderated regression analysis model to test H2 and H3. 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 re-estimated the model using an alternative measure of firm performance, Earnings Per Share (EPS), which represents market performance. Second, we address endogeneity problems using the Generalized Method of Moments (GMM) since it is a widely employed econometric tool. 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.

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. This value is consistent and remains within a reasonable range when compared to other studies, such as Nnadi et al. (2021) and Wang et al. (2019). 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. This value is consistent with previous research on political affiliation in Indonesia, and remains within a reasonable range (Joni et al., 2020b; Joni et al., 2021; Selin et al., 2022). The Pearson correlation test is shown in Table 3 and Table 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 Variance Inflation Factor (VIF), which is shown in table 5. The findings explain that the overall value of VIF < 5, indicating that it is free of multicollinearity.

Table 2. Descriptive Statistics

Variable	**N**	**Mean**	**St. Dev**	**Min**	**Max**	**Variable**	**N**	**Mean**	**St. Dev.**	**Min**	**Max**
ROA	1515	.023	.054	-.087	.144	ROE	1515	.023	.157	-.432	.269
PC-ISB	1515	.162	.303	0.000	1.000	PC-ISB	1515	.162	.303	0.000	1.000
CVD	1515	.233	.423	0.000	1.000	CVD	1515	.233	.423	0.000	1.000
BSIZE	1515	8.484	3.023	4.000	15.000	BSIZE	1515	8.484	3.023	4.000	15.000
DER	1515	.532	.735	0.000	2.66	DER	1515	.532	.735	0.000	2.660

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. 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)	(5)
(1) ROA	1.000				
(2) PC-ISB	0.058*	1.000			
(3) CVD	-0.513	-0.023**	1.000		
(4) BSIZE	0.116	0.218	-0.171	1.000	
(5) DER	-0.058*	0.035**	0.183	0.074*	1.000

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

Table 4. Pearson Correlation Test - ROE

	(1)	(2)	(3)	(4)	(5)
(1) ROE	1.000				
(2) PC-ISB	0.083*	1.000			
(3) CVD	-0.651	-0.023**	1.000		
(4) BSIZE	0.188	0.218	-0.171	1.000	
(5) DER	-0.281	0.035**	0.183	0.074*	1.000

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

4.2. Politically Connected Independent Supervisory Board and Firm Performance

Table 5 summarizes the findings of the regression analysis, which looked at the relationship between the Politically Connected Independent Supervisory Board (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 0.040 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*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*0.423=0.0279). Adj R-squared 31.37% indicates that 31.37%. PC-ISB and CVD have an effect on ROA and the relationship (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*0.303 = 0.0087). The negative CVD variable is significant at the 1% level (coefficient = -0.224, t = -30.88), and

[1] A standard deviation of 0.303.

this suggests that one standard deviation increase of PC-ISB will cause a reduction in ROE of 1032 basis points (0.224*0.423=0.1032). Adj R-squared 46.22% indicates that 46.22% PC-ISB and CVD wield an effect on ROE. Overall, the tests' results support H1 and H2. 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 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.

Table 5. PC-ISB and Firm Performance: Pool OLS (Ordinary Least Squares)

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). * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 1.

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-squared value is 31.36%, which is nearly identical to the adjusted R-squared value in

Table 5, 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). Adj R-squared value 46.19% < 46.22% These findings indicate there is a disagreement with hypothesis 3. 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).

Table 6. PC-ISB, Covid-19 Pandemic, and Firm Performance: 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)
INT1/INT2	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. * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 1.

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. Earnings per share (EPS) is used to estimate market performance and has been widely used in previous studies such as Joni et al. (2020b) and Omran et al. (2008). 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 Adj R-squared 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 performance declines, which is represented by lower earnings per share. 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.

Table 7. Alternative Test (EPS)

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. * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 1.

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 Generalized Method of Moments (GMM) (Arellano & Bond, 1991). GMM has been employed in previous studies to solve heteroscedasticity problems (Baum et al., 2003; Joni et al., 2020b; Selin et al., 2022). Overall, the GMM results were consistent with the main test results.

Table 8. GMM

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

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

6. Conclusion

This study investigates whether there is: firstly, a relationship between political connections and performance during the COVID-19 pandemic; and secondly, 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 Resource-Based View theory.

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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3. Bukti konfirmasi submit revisi kedua, respon kepada reviewer, dan artikel yang diresubmit (07 Nov. 2023)

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To: Joni
Cc: riccardo.torelli2@unicatt.it; laurensiavina56@gmail.com; Joni; surya setyawan

Tue 07/11/2023 21:00

You replied on Fri 01/03/2024 15:34

07-Nov-2023

Dear Mr. Joni,

Manuscript ID JPA-23-046.R2 entitled "Politically Connected Independent Supervisory Boards (PC-ISB) and Corporate Performance during COVID-19: Evidence from Indonesia" which you submitted to Journal of Public Affairs has been reviewed. The comments of the referee(s) are included at the bottom of this letter.

A revised version of your manuscript that takes into account the comments of the referee(s) will be reconsidered for publication.

Please note that you will need to satisfactorily address the concerns of the reviewers. Currently, Reviewer 2 is not happy with your response to their comments in the previous version. Should this continue to be the case, the paper may be rejected in the next round. So I would advice you to carefully consider each comment by the Reviewer and respond accordingly.

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Referee(s)' Comments to Author:

Reviewing: 1

Comments to the Author
Dear author,
Thank you for sending your revised paper; the paper is accepted in the current format.

Reviewing: 2

Comments to the Author
Thank you for the opportunity to read the revised version of the paper. Unfortunately, the revisions do not meet my expectations. This is explained below.
Comments
1)
The paper is very difficult to read. The different estimation approaches are poorly justified. Please write down the specifications for the dynamic panel data model as well.
2)
The first difference GMM estimator is outdated.
The performance of this estimator is poor when the dependent and independent variables are highly persistent.
3)
More details on the difference in differences estimator is needed. Which variant have you used? Please read:
Roth, J., Sant'Anna, P. H., Bilinski, A., & Poe, J. (2023). What's trending in difference-in-differences? A synthesis of the recent econometrics literature. Journal of Econometrics.
4)
Please better interpret the magnitude of the relationships. The descriptive statistics must be improved. Show changes for different years.
5)
What is the contribution of the paper compared to these two articles:
Joni, J., Ahmed, K., & Hamilton, J. (2020). Politically connected boards, family and business group affiliations, and cost of capital: Evidence from Indonesia. The British Accounting Review, 52(3), 100878

Joni, J., Ahmed, K., & Hamilton, J. (2020). Politically connected boards, family business groups, and firm performance: evidence from Indonesia. Journal of Accounting & Organizational Change, 16(1), 93-121.

Minor comments

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Joni, J., Ahmed, K., & Hamilton, J. (2020). Politically connected boards, family business groups, and firm performance: evidence from Indonesia. Journal of Accounting & Organizational Change, 16(1), 93-121.

Minor comments
A)
Table 2. Descriptive Statistics
It is confusing that the same variables appear twice (rows 2 to four)
B)
All tables should be better labelled and pooled OLS estimates should be moved to the appendix
Table 5. PC-ISB and Firm Performance: Pooled OLS (Ordinary Least Squares)

Table 6. PC-ISB, Covid-19 Pandemic, and Firm Performance: Moderated Regression

Table 7. Alternative Test (EPS)
Tables should be self-explanatory

Table 8. GMM
Full description of the estimator
C)
. To address the endogeneity issue in this study, we used the Generalized Method of Moments (GMM) (Arellano & Bond, 1991).
Use the system GMM estimator.
D)
There are more than 80 references. This is a standard empirical article and not a literature review. I suggest to reduce to 40-50 articles.

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OR Oviya Ramamoorthy<onbehalfof@manuscriptcentral.com>
To: Joni
Cc: laurensiavina56@gmail.com; Joni; surya setyawan

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Mon 30/10/2023 12:18

30-Oct-2023

Dear Mr. Joni,

Your manuscript entitled "Politically Connected Independent Supervisory Boards (PC-ISB) and Corporate Performance during COVID-19: Evidence from Indonesia" has been successfully submitted online and is presently being given full consideration for publication in Journal of Public Affairs.

Your manuscript number is JPA-23-046.R2. Please mention this number in all future correspondence regarding this submission.

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Sincerely,

Journal of Public Affairs Editorial Office

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Responses to Reviewer's comments

Many thanks for your insight and suggestions to improve the quality of the paper submitted to Journal of Public Affair. In this revised version we have made all necessary corrections and undertake additional as suggested and hope this time the revised paper will have a positive recommendation from you. Our responses are placed side-by-side to your comments.

Reviewer 1:

Dear author,
Thank you for sending your revised paper; the paper is accepted in the current format. Congratulations.

Reviewer 2:

This paper examines the determinants of return on equity with special focus on the role of political linkages. Balance sheet data are used. The methods consist of the GMM first difference estimator and the pooled OLS. The latter is not appropriate. One has to take into account the nature of panel data. Firm effects have to be taken into account. Dynamic panel data models are suitable, but three years of data is not enough. Do you have firms without political connections? If so, use difference-in-difference analysis. Please see my comments

Comments and Suggestions

No.	Major Comments and Suggestions	Responses
1.	The conceptual background is too broad and only loosely connected with the empirical model.	Thank you for the suggestion. We have specified our conceptual background in the context of Indonesian dual board system and provide arguments on the association between PC-ISB and firm performance based on agency theory and resource-based view approach. Here is the example in the introduction section: "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 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 independent board of commissioners (PC-ISB), as these people can strategically obtain more external resources and improve the corporation's monitoring function (Joni et al., 2020a). In the Indonesian governance context, PC-ISB 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 (Joni et al., 2021). A qualified and independent board of commissioner with government's connection can protect the interest of shareholders and reduce agency conflict through their effective monitoring or control processes (Ding et al., 2015; Joni et al., 2021). 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, 1991). 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 (Díaz-Díaz et al., 2022; Goldman et al., 2009; Nnadi et al., 2021; Okazaki & Sawada, 2017; Wong, 2010) and developing countries (Salehi et al., 2023; Boateng et al., 2019; Ghosh & Ansari, 2018; Guney et al., 2020; S. Hu & Zhang, 2021; Joni et al., 2020b; Shahzad et al., 2021; Zhang & Truong, 2019). Fu et al. (2017) state that companies with political connections have the opportunity to get full loans at favorable repayment rates. According to Joni et al. (2020a), politically connected firms have lower debt and equity financing. Nam et al. (2018) in their research findings discovered that political connections could improve exports."
2.	" H1: Companies with politically connected independent supervisory boards enjoy good business performance." The hypothesis is difficult to understand. Either you are connected or not. H2: Pandemic conditions have a negative association with company performance. This hypothesis is trivial and this depends on the sector.	Thank you for the suggestion. We have revised our hypotheses to provide a better understanding. The hypotheses are presented as follow: H1: Politically connected firms through independent supervisory boards experience better business performance than non-politically connected firms. H2: The Covid 19 Pandemic is negatively associated with company performance. H3: Politically connected firms through independent supervisory boards are associated with firm performance during the Covid 19 Pandemic. For hypotheses 2 and 3 are important since prior research found that during covid 19 pandemic, firms suffer extreme volatility. "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 (Shafeeq Nimr Al-Maliki et al., 2023)"
3.	Several claims need a reference. Section consists of many paragraphs without reference	Thank you for the feedback. We have added reference in several paragraph. Here is the example of several paragraph in institutional background section: "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)."
4.	3.2. Models and Variables Firm effects must be modelled.	Thank you for the comment. Firm and industry effects have been included in the models.
5.	" The coefficient estimates of 0.040 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*0.303 = 0.0021" The interpretation is wrong. The dependent variable is a ratio.	Thank you for the feedback. We have revised the interpretation as follow: The coefficient estimates of 0.040 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 0.21 percentage points (0.007*0.303 = 0.0021")
6.	I do not see the interaction term. 4.3. The interaction between PC-ISB and COVID-19 Pandemic	The interaction term is "INT". Tabel 6 shows the interaction model. "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). Adj R-squared value 46.19% < 46.22% These findings indicate there is a disagreement with hypothesis 3."
7.	" To address the endogeneity issue in this study, we used the Generalized Method of Moments (GMM)	Thank you for the suggestion. We have added a different-in-difference regression analysis for more robustness test in our paper.

	(Arellano & Bond, 1991). GMM has been employed in previous studies to solve heteroscedasticity problems (Baum et al., 2003; Joni et al., 2020b; Selin et al.,” The first difference GMM estimator is outdated. Use the system GMM estimator and extend the panel data to five years. Is the political connection variable Time-varying? Consider a difference in differences analysis, perhaps combined with a propensity score matching analysis.	Here is the explanation: “Next, we utilized a different-in-difference (DID) regression analysis. Following Joni et al., (2020a), we employed dummy variable (POST-PCISB) to generate pre and post political connection through independent board of commissioners based on the percentage of politically connected independent supervisory boards score. POST-PCISB assigns 1 when political connection value is greater than 0 and value of 0 otherwise. After re-estimate our model using DID regression analysis, the results remain similar with our main analysis.[1] Overall, the difference in firm performance (ROA and ROE) for firms with politically connected independent supervisory boards is significantly higher in pre and post political connection period.”
8.	Minor comments: A) Writing must be improved. No need to cite 15 references in one paragraph. Previous studies have found that political connections shape firm performance in both developed countries (Carney et al., 2020; Díaz-Díaz et al., 2022; Goldman et al., 2009; Nam et al., 2018; Nnadi et al., 2021; Okazaki & Sawada, 2017; Wong, 2010) and developing countries (Salehi et al., 2023; Boateng et al., 2019; Fisman, 2001; Fu et al., 2017; Ghosh & Ansari, 2018; Guney et al., 2020; S. Hu & Zhang, 2021; Joni et al., 2020a; Joni et al., 2020b; B) Table 2. Descriptive Statistics Remove standard errors for dummy variables. Pearson correlations are not suitable for dummy variables. C) It is pooled OLS and not pool OLS.	Thank you for the suggestions. A. We have improved the writing and reduced the number of citations in the sentence. B. The standard errors for dummy variables are removed in descriptive statistics and correlation tables. C. The term “Pool OLS” has been changed into “pooled OLS in the revised paper.”

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

Politically Connected Independent Supervisory Boards (PC-ISB) and Corporate Performance during COVID-19: Evidence from Indonesia

Abstract

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 1,515 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 Generalized Method of Moments (GMM) and the difference-in-difference regression analysis (DID). 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 GMM and the DID to address the issue of endogeneity.

Keywords: Politically Connected Independent Supervisory Boards, Corporate Performance, COVID-19, Emerging Economy, Indonesia

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, assisted exports, less bureaucracy in doing business, lower cost of having long-term debt financing, increased company value, and more market advantages (Bussolo et al., 2022; Goldman et al., 2009, 2011; Hu et al., 2020; Hung et al., 2017; Joni et al., 2020a; Joni et al., 2020b; Li et al., 2022; Nam et al., 2018; Nnadi et al., 2021; Wang et al., 2019; 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 (Fisman, 2001; 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., 2020a; 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 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 independent board of commissioners (PC-ISB), as these people can strategically obtain more external resources and improve the corporation's monitoring function (Joni et al., 2020a).

In the Indonesian governance context, PC-ISB 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 (Joni et al., 2021). A qualified and independent board of commissioner with government's connection can protect the interest of shareholders and reduce agency conflict through their effective monitoring or control processes (Ding et al., 2015; Joni et al., 2021). 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, 1991). 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 (Díaz-Díaz et al., 2022; Goldman et al., 2009; Nnadi et al., 2021; Okazaki & Sawada, 2017; Wong, 2010) and developing countries (Salehi et al., 2023; Boateng et al., 2019; Ghosh & Ansari, 2018; Guney et al., 2020; S. Hu & Zhang, 2021; Joni et al., 2020b; Shahzad et al., 2021; Zhang & Truong, 2019). Fu et al. (2017) state that companies with political connections have the opportunity to get full loans at favorable repayment rates. According to Joni et al. (2020a), politically connected firms have lower debt and equity financing. Nam et al. (2018) in their research findings discovered that political connections could improve exports.

Politically connected businesses benefit from convenience and facilities when conducting transactions. According to resource-based theory (RBT), 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 (Gottschalk, 2011). It is expected that a politically connected independent supervisory board 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.

This study is different from previous research (e.g., Joni et al., 2020a; Joni et al., 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 independent commissioners (PC-ISB) with a two-tier board system, but it is still very limited (Bohdanowicz, 2015; Gad, 2015; Joni et al., 2021b; Velte, 2010; Wang, 2013). According to Joni et al. (2021), an independent board of commissioners can reduce the business risks faced by Indonesian companies. Adams and Ferreira (2007) describe the supervisory role of the independent board of commissioners as very useful in increasing market value. Widyaniandhita and Solihin (2020) more recently stated that the large bulk of independent board of commissioners' supervision increases in effectiveness so that the problem of earnings management 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 coronavirus 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 et al., 2021) strongly suggests that independent board size and financial expertise help companies listed on the IDX reduce operating and market risks (Indonesian Stock Exchange). 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. 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. This system divides the company's two separate boards, the Supervisory Board (Board of Commissioners) and the Management Board (Board of Directors). 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 board of directors; 3) monitoring management implementation; and 4) monitoring the process of openness and effectiveness of communication within the company. Meanwhile, the Board of Directors 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 (Forum for Corporate Governance in Indonesia, 2002).

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 board of directors. 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 board of directors, 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., 2020a).

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 (Ding et al., 2015; Gama et al., 2019; Young et al., 2008) and Resourced-Based View theory (Barney, 1991; 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 (Gama et al., 2019). 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 (Bonazzi & Islam, 2007). 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 (Bendickson et al., 2016), an agency relationship is a contract in which one or more parties (principals) assign tasks to other parties (agents) to carry out services. tasks tasksand delegate authority in decision making.

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 (Panda & Leepsa, 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 board of directors (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 (Andrei Shleifer & Vishny, 1997; Gilson & Gordon, 2003; 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 (Dharwadkar et al., 2000) 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 (Panda & Leepsa, 2017; Young et al., 2008). 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 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 (Ding et al., 2015).

Further, Resource-Based View theory (RBV) 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 Grant (1991), 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 resource-based view 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, 1991). 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 Politically connected independent supervisory boards and firm performance

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 et al., 2021). The more politically connected a firm is through board members, the better it will perform. Agency theory, on the other hand, sees political connections within companies as causing high costs for agency problems (Osazuwa et al., 2016; Salehi et al., 2021; Salehi et al., 2022; Huq 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 boards due to an increase in blockholder rent appropriation, the functioning of politically connected companies suffers. According to agency theory, political connections for businesses can have a negative rather than a positive impact (Dal Magro & Klann, 2021).

Politically connected boards wield much influence on corporate performance. There is a substantial empirical literature that examines the benefits and links between independent commissioners and corporate performance. However, the results of the literature provide a counter-argument. Junus et al. (2022) find a negative association between politically connected independent board of commissioners and firm performance due to the lack of expertise. 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. However, 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.

However, several studies provide opposing 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; Khaksar et al., 2022b; Goldman et al., 2011; Wu et al., 2018; Salehi, 2020). 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 (SMEs). 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). Not only within the company, but banks with political ties to the government benefit from low credit and default risks and high asset returns (Hung et al., 2017). The government has better access to lending to politically connected companies thanks to banks with their own political connections. Based on non-financial 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 (Schout & Mijs, 2015). 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 (Cheng, 2018). 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 board of directors (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 Goldman et al. (2011) revealed that the value of the company increased, resulting in positive abnormal stock returns after a general election. 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:

H1: Politically connected firms through independent supervisory boards experience better business performance than non-politically connected firms.

2.4.2 Politically connected independent supervisory boards, 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 (Shafeeq Nimr 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:

H2: The Covid 19 Pandemic is negatively associated with company performance.

H3: 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 is divided into two categories: financial and non-financial. 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 model used in this study investigates the effect of politically connected firms through independent supervisory boards on firm performance in hypotheses 1 and 2:

$$ROA = \alpha_1 + \beta_2\,PC\text{-}ISB + \beta_3\,CVD + \beta_4\,BSIZE + \beta_5\,DER + \beta_6\,IND + \beta_7\,YEAR + €_{i,t} \text{ – Model 1}$$

$$ROE = \alpha_1 + \beta_2\,PC\text{-}ISB + \beta_3\,CVD + \beta_4\,BSIZE + \beta_5\,DER + \beta_6\,IND + \beta_7\,YEAR + €_{I,t} \text{ – Model 2}$$

The influence of political connections on company performance is tested using moderate regression analysis, which is moderated by the COVID-19 pandemic conditions in hypothesis 3. The following is the regression model used in this study:

$$ROA = \alpha_1 + \beta_2\,PC\text{-}ISB + \beta_3\,CVD + \beta_4\,INT1 + \beta_5\,BSIZE + \beta_6\,DER + \beta_7\,IND + \beta_8\,YEAR + €_{i,t} \text{ – Model 3}$$

$$ROE = \alpha_1 + \beta_2 PC\text{-}ISB + \beta_3\,CVD + \beta_4\,INT2 + \beta_5\,BSIZE + \beta_6\,DER + \beta_7\,IND + \beta 2_8\,YEAR + €_{i,t} \text{ – Model 4}$$

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 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).

Table 1. Definitions of Variables

Dependent Variables	
ROA	Profit after tax divided by total asset (Junus et al., 2022; Joni et al., 2020b)
ROE	Profit after tax divided by total equity (Junus et al., 2022; Joni et al., 2020b)
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)
ENG	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 H1 and a moderated regression analysis model to test H2 and H3. 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 re-estimated the model using an alternative measure of firm performance, Earnings Per Share (EPS), which represents market performance. Second, we address endogeneity problems using the Generalized Method of Moments (GMM) since it is a widely employed econometric tool (Arellano & Bond, 1991). 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 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. This value is consistent and remains within a reasonable range when compared to other studies, such as Nnadi et al. (2021) and Wang et al. (2019). 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. This value is consistent with previous research on political affiliation in Indonesia, and remains within a reasonable range (Joni et al., 2020b; Joni et al., 2021; Selin et al., 2022). The Pearson correlation test is shown in Table 3 and Table 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 Variance Inflation Factor (VIF), which is shown in table 5. The findings explain that the overall value of VIF < 5, indicating that it is free of multicollinearity.

Table 2. Descriptive Statistics

Variable	**N**	**Mean**	**St. Dev**	**Min**	**Max**	**Variable**	**N**	**Mean**	**St. Dev.**	**Min**	**Max**
ROA	1515	.023	.054	-.087	.144	ROE	1515	.023	.157	-.432	.269
PC-ISB	1515	.162	.303	0.000	1.000	PC-ISB	1515	.162	.303	0.000	1.000
BSIZE	1515	8.484	3.023	4.000	15.000	BSIZE	1515	8.484	3.023	4.000	15.000
DER	1515	.532	.735	0.000	2.66	DER	1515	.532	.735	0.000	2.660

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. * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 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. * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 1.

4.2. Politically Connected Independent Supervisory Board and Firm Performance

Table 5 summarizes the findings of the regression analysis, which looked at the relationship between the Politically Connected Independent Supervisory Board (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 0.040 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 0.21 percentage point (0.007*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 2.79 percentage point (0.066*0.423=0.0279). Adj R-squared 31.37% indicates that 31.37%. PC-ISB and CVD have an effect on ROA and the relationship (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 0.87 percentage point (0.029*0.303 = 0.0087). The negative CVD variable is significant at the 1% level

[1] A standard deviation of 0.303.

(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*0.423=0.1032). Adj R-squared 46.22% indicates that 46.22% PC-ISB and CVD wield an effect on ROE. Overall, the tests' results support H1 and H2. 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 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.

Table 5. PC-ISB and Firm Performance: Pooled OLS (Ordinary Least Squares)

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). * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 1.

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-squared value is 31.36%, which is nearly identical to the adjusted R-squared 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). Adj R-squared value 46.19% < 46.22% These findings indicate there is a disagreement with hypothesis 3. 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).

Table 6. PC-ISB, Covid-19 Pandemic, and Firm Performance: 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. * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 1.

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. Earnings per share (EPS) is used to estimate market performance and has been widely used in previous studies such as Joni et al. (2020b) and Omran et al. (2008). 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 Adj R-squared 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 performance declines, which is represented by lower earnings per share. 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.

Table 7. Alternative Test (EPS)

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. * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 1.

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 Generalized Method of Moments (GMM) (Arellano & Bond, 1991). GMM has been employed in previous studies to solve heteroscedasticity problems (Baum et al., 2003; Joni et al., 2020b; Selin et al., 2022). Overall, the GMM results were consistent with the main test results. Next, we utilized a different-in-difference (DID) regression analysis. Following Joni et al., (2020a), we employed dummy variable (POST-PCISB) to generate pre and post political connection through independent board of commissioners based on the percentage of politically connected independent supervisory boards score. POST-PCISB assigns 1 when political connection value is greater than 0 and value of 0 otherwise. After re-estimate our model using DID regression analysis, the results remain similar with our main analysis.[2] Overall, the difference in firm performance (ROA and ROE) for firms with politically connected independent supervisory boards is significantly higher in pre and post political connection period.

Table 8. GMM

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

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

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

6. Conclusion

This study investigates whether there is: firstly, a relationship between political connections and performance during the COVID-19 pandemic; and secondly, 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 Resource-Based View theory.

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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4. Bukti konfirmasi submit revisi ketiga, respon kepada reviewer, dan artikel yang diresubmit (12 Mar. 2024)

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SW Shaista Wasiuzzaman<onbehalfof@manuscriptcentral.com>

To: Joni

Cc: riccardo.torelli2@unicatt.it; laurensiavina56@gmail.com; Joni; surya setyawan

Tue 12/03/2024 10:02

11-Mar-2024

Dear Mr. Joni,

Manuscript ID JPA-23-046.R3 entitled "Politically Connected Independent Supervisory Boards (PC-ISB) and Corporate Performance during COVID-19: Evidence from Indonesia" which you submitted to Journal of Public Affairs, has been reviewed. The comments of the referee(s) are included at the bottom of this letter.

The referee(s) have recommended publication, but also suggest some minor revisions to your manuscript. Therefore, I invite you to respond to the referee(s)' comments and revise your manuscript.

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Journal of Public Affairs

Referee(s)' Comments to Author:

Reviewing: 1

Comments to the Author
Dear author,
Thank you for sending your paper to the journal; the paper can be accepted as it is. Congratulations

Reviewing: 2

Comments to the Author
This paper investigates the link between a Politically connected independent board of commissioners and company performance. Firm-level data are used, and different estimation techniques are applied to the data. I am new in this round. Please see my comments
1)
Please better highlight the theoretical and empirical contribution of your work. Numerous studies have investigated the relationship between Politically connected independent boards of commissioners and company performance. The introduction should outline: 1. What is already known about the topic? 2. What is not known about the subject, and hence, what does the study intend to examine? This means outline on what is the research gap you seek to fill. 3. What are the specific research questions the study focuses on?
2)
Please provide a synthesis of the literature. The research question has already been investigated.
References
Joni, J., Ahmed, K., & Hamilton, J. (2020). Politically connected boards, family business groups, and firm performance: evidence from Indonesia. Journal of Accounting & Organizational Change, 16(1), 93-121

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3)
The regression equation should be derived from theory. Financial performance depends on many factors.
4)
"H2: The COVID-19 Pandemic is negatively with company performance. "
Please look at this hypothesis. There is a word missing. There is a lack of focus. I suggest deleting this hypothesis. This hypothesis is too apparent. Of course, there was a decline in company performance during the pandemic

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Nugrahanti, Y. W., Sutrisno, T., Rahman, A. F., & Mardiati, E. (2020). Do firm characteristics, political connections and corporate governance mechanism affect financial distress?(Evidence from Indonesia). International Journal of Trade and Global Markets, 13(2), 220-250

3)

The regression equation should be derived from theory. Financial performance depends on many factors.

4)

"H2: The COVID-19 Pandemic is negatively with company performance. "

Please look at this hypothesis. There is a word missing. There is a lack of focus. I suggest deleting this hypothesis. This hypothesis is too apparent. Of course, there was a decline in company performance during the pandemic with stronger effects on some sector sectors (hospitality, transportation, etc):

5)

You are using panel data for three years (" This study used 1,515 observations of companies listed on the Indonesian Stock Exchange (IDX) for the years 2018-2021")

This time period is too short to use the system GMM estimator. Please extend the time period to four or five years. The system GMM estimator is fragile. Report the number of instruments used. Have you used the one-step or two-step estimator and robust standard errors? Have you used Windmeijer correction for small samples?

I also suggest dropping the pooled OLS results as not accounting for firm effects leads to a bias.

6)

"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. "

The key variable is a proportion. Are you sure that the difference in differences estimator is appropriate? I cannot find the results of the DID approach. You have to report the DID results, as the results are mentioned in several parts of the paper. More information on the control group is needed.

7)

The magnitude of the relationships should be better interpreted. The estimates seem to be very small.

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OR

Oviya Ramamoorthy<onbehalfof@manuscriptcentral.com>

To: Joni

Cc: laurensiavina56@gmail.com; Joni; surya setyawan

Tue 05/03/2024 11:12

04-Mar-2024

Dear Mr. Joni,

Your manuscript entitled "Politically Connected Independent Supervisory Boards (PC-ISB) and Corporate Performance during COVID-19: Evidence from Indonesia" has been successfully submitted online and is presently being given full consideration for publication in Journal of Public Affairs.

Your manuscript number is JPA-23-046.R3. Please mention this number in all future correspondence regarding this submission.

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Sincerely,

Journal of Public Affairs Editorial Office

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Responses to Reviewer's comments

Many thanks for your insight and suggestions to improve the quality of the paper submitted to Journal of Public Affair. In this revised version we have made all necessary corrections and undertake additional as suggested and hope this time the revised paper will have a positive recommendation from you. Our responses are placed side-by-side to your comments.

Reviewer 2:

Comments and Suggestions

No.	**Major Comments and Suggestions**	**Responses**
1.	The paper is very difficult to read. The different estimation approaches are poorly justified. Please write down the specifications for the dynamic panel data model as well.	Thank you for the suggestion. We have rewritten our paper based on the suggestions.
2.	The first difference GMM estimator is outdated. The performance of this estimator is poor when the dependent and independent variables are highly persistent.	Thank you for the suggestion. We have replaced our difference GMM with the system GMM as suggested. Here is the explanation: "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 Generalized Method of Moments (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). Overall, the System GMM results were consistent with the main test results (see Table 8)."
3.	More details on the difference in differences estimator is needed. Which variant have you used? Please read: Roth, J., Sant'Anna, P. H., Bilinski, A., & Poe, J. (2023). What's trending in difference-in-differences? A synthesis of the recent econometrics literature. Journal of Econometrics.	Thank you for the feedback. We have added more details explanation on DID analysis. "Next, we utilized a common variant of different-in-difference (DID) dummy regression analysis as it is a robust method to estimate causal effect in non-experimental 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 post political 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. After re-estimate our model using DID regression analysis, the results remain similar with our main analysis. Overall, the difference in firm performance (ROA and ROE) for pre and post political 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 post political connection period for firms with no political connections.”
4.	Please better interpret the magnitude of the relationships. The descriptive statistics must be improved. Show changes for different years.	Thank you for the comment. We have added more explanation to improve the interpretation of the descriptive statistics, including changes of political connection level from 2018-2021. “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 to 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 2018-2021. This value is consistent with previous research on political affiliation in Indonesia, and remains within a reasonable range (Joni et al., 2021b; Selin et al., 2022).”
5.	What is the contribution of the paper compared to these two articles: Joni, J., Ahmed, K., & Hamilton, J. (2020). Politically connected boards, family and business group affiliations, and cost of capital: Evidence from Indonesia. The British Accounting Review, 52(3), 100878 Joni, J., Ahmed, K., & Hamilton, J. (2020).	Thank you for the feedback. We have revised the paper by showing how our studies are different compared to prior studies, such as Joni et al. (2020). “Previous research has been conducted on the influence of politically connected commissioners with a two-tier board system (Joni et al., 2020a; Joni et al., 2020b), but it is still very limited studies on the role of politically connected independent board of commissioners. According to Joni et al. (2021b), an politically connected board of commissioners can reduce the business risks faced by Indonesian companies. Adams and Ferreira (2007) describe the supervisory role of the independent board of commissioners as very useful in increasing market value. Widyaniandhita and Solihin (2020) more recently stated that the large bulk of independent board of commissioners’

	Politically connected boards, family business groups, and firm performance: evidence from Indonesia. Journal of Accounting & Organizational Change, 16(1), 93-121.	supervision increases in effectiveness so that the problem of earnings management 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 et al., 2021b) strongly suggests that independent board size and financial expertise help companies listed on the IDX reduce operating and market risks (Indonesian Stock Exchange). 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. 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."
6.	Minor comments A) Table 2. Descriptive Statistics It is confusing that the same variables appear twice (rows 2 to four)	Thank you for the suggestions, we have made a follow up based on the recommendations. A. Descriptive Statistics have been changed as follow: Table 2. Descriptive Statistics

<table>
<tr>
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B) All tables should be better labelled and pooled OLS estimates should be moved to the appendix
Table 5. PC-ISB and Firm Performance: Pooled OLS (Ordinary Least Squares)

Table 6. PC-ISB, Covid-19 Pandemic, and Firm Performance: Moderated Regression

Table 7. Alternative Test (EPS)
Tables should be self-explanatory

Table 8. GMM
Full description of the estimator

C) To address the endogeneity issue in this study, we used the Generalized Method of Moments (GMM) (Arellano & Bond, 1991).
Use the system GMM estimator.

D)There are more than 80 references. This is a standard empirical article and not a literature review. I suggest to reduce to 40-50 articles.
</td>
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<table>
<tr><th>Variable</th><th>N</th><th>Mean</th><th>St. Dev</th><th>Min</th><th>Max</th></tr>
<tr><td>ROA</td><td>1515</td><td>.023</td><td>.054</td><td>-.087</td><td>.144</td></tr>
<tr><td>ROE</td><td>1515</td><td>.023</td><td>.157</td><td>-.432</td><td>.269</td></tr>
<tr><td>PC-ISB</td><td>1515</td><td>.162</td><td>.303</td><td>0.000</td><td>1.000</td></tr>
<tr><td>BSIZE</td><td>1515</td><td>8.484</td><td>3.023</td><td>4.000</td><td>15.000</td></tr>
<tr><td>DER</td><td>1515</td><td>.532</td><td>.735</td><td>0.000</td><td>2.66</td></tr>
</table>

B. We have moved all tables (Table 1 to 8) to appendices section and change the labels.

C. Thank you for your suggestions, we have used the system GMM estimator to address the endogeneity issue in our study.

Here is the explanation:

“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 Generalized Method of Moments (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). Overall, the System GMM results were consistent with the main test results (see Table 8).”

D. Thank you for the suggestions, we have reduced the reference to 50 articles.
</td>
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Journal of PUBLIC AFFAIRS
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Politically Connected Independent Supervisory Boards (PC-ISB) and Corporate Performance during COVID-19: Evidence from Indonesia

Journal:	*Journal of Public Affairs*
Manuscript ID	JPA-23-046.R3
Wiley - Manuscript type:	Research Article (Direct Via EEO)
Keywords:	Politically Connected Independent Supervisory Boards, Corporate Performance, COVID-19, Emerging Economy, Indonesia

Politically Connected Independent Supervisory Boards (PC-ISB) and Corporate Performance during COVID-19: Evidence from Indonesia

Abstract

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 1,515 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 regression analysis (DID). 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: Politically Connected Independent Supervisory Boards, Corporate Performance, COVID-19, Emerging Economy, Indonesia

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 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 independent board of commissioners (PC-ISB), 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 (Joni et al., 2021b). A qualified and independent board of commissioner with government's connection can protect the interest of shareholders and reduce agency conflict through their effective monitoring or control processes (Joni et al., 2021b). 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 (Salehi et al., 2023; Boateng et al., 2019; Hu & Zhang, 2021; Joni et al., 2020b; Shahzad et al., 2021; Zhang & Truong, 2019). Fu et al. (2017) state that companies with political connections have the opportunity to get 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.

Politically connected businesses benefit from convenience and facilities when conducting transactions. According to resource-based theory (RBT), 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 politically connected independent supervisory board 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.

This study is different from previous research (e.g., Joni et al., 2020a; Joni et al., 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; Joni et al., 2020b), but it is still very limited studies on the role of politically connected independent board of commissioners. 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), an 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 et al., 2021b) strongly suggests that independent board size and financial expertise help companies listed on the IDX reduce operating and market risks (Indonesian Stock Exchange). 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. 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). 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 board of directors; 3) monitoring management implementation; and 4) monitoring the process of openness and effectiveness of communication within the company. Meanwhile, the Board of Directors 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 task.

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 board of directors. 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 board of directors, 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 (Zogning, 2017; Young et al., 2008) and Resourced-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 board of directors (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 (Zogning, 2017; Young et al., 2008). 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 et al., 2021a; Joni et al., 2021b). 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 et al., 2021b).

Further, Resource-Based View theory (RBV) 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 &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 resource-based view 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 Politically connected independent supervisory boards and firm performance

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 et al., 2021a; Joni et al., 2021b). The more politically connected a firm is through board members, the better it will perform. Agency theory, on the other hand, sees political connections within companies as causing high costs for agency problems (Salehi et al., 2021; Salehi et al., 2022; Huq 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 boards 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.

Politically connected boards wield much influence on corporate performance. There is a substantial empirical literature that examines the benefits and links between independent commissioners and corporate performance. However, the results of the literature provide a counterargument. Junus et al. (2022) find a negative association between politically connected independent board of commissioners and firm performance due to the lack of expertise. 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. However, 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.

However, several studies provide opposing 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; Khaksar et al., 2022b; Wu et al., 2018; Salehi, 2020). 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 (SMEs). 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 non-financial 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; Hu et al., 2020; Joni et al., 2021b; Cheng, 2018). 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 board of directors (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:

H1: Politically connected firms through independent supervisory boards experience better business performance than non-politically connected firms.

2.4.2 Politically connected independent supervisory boards, 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:

H2: The Covid 19 Pandemic is negatively associated with company performance.

H3: 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 is divided into two categories: financial and non-financial. 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 model used in this study investigates the effect of politically connected firms through independent supervisory boards on firm performance in hypotheses 1 and 2:

$ROA = \alpha_1 + \beta_2\, PC\text{-}ISB + \beta_3\, CVD + \beta_4\, BSIZE + \beta_5\, DER + \beta_6\, IND + \beta_7\, YEAR + €_{i,t}$ – Model 1

$ROE = \alpha_1 + \beta_2\, PC\text{-}ISB + \beta_3\, CVD + \beta_4\, BSIZE + \beta_5\, DER + \beta_6\, IND + \beta_7\, YEAR + €_{I,t}$ – Model 2

The influence of political connections on company performance is tested using moderate regression analysis, which is moderated by the COVID-19 pandemic conditions in hypothesis 3. The following is the regression model used in this study:

$ROA = \alpha_1 + \beta_2\, PC\text{-}ISB + \beta_3\, CVD + \beta_4\, INT1 + \beta_5\, BSIZE + \beta_6\, DER + \beta_7\, IND + \beta_8\, YEAR + €_{i,t}$ – Model 3

$ROE = \alpha_1 + \beta_2 PC\text{-}ISB + \beta_3\, CVD + \beta_4\, INT2 + \beta_5\, BSIZE + \beta_6\, DER + \beta_7\, IND + \beta 2_8\, YEAR + €_{i,t}$ – Model 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 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).

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 H1 and a moderated regression analysis model to test H2 and H3. 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 re-estimated 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 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 to 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 2018-2021. This value is consistent with previous research on political affiliation in Indonesia, and remains within a reasonable range (Joni et al., 2021b; Selin et al., 2022). The Pearson correlation test is shown in Table 3 and Table 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 Variance Inflation Factor (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. Politically Connected Independent Supervisory Board and Firm Performance

Table 5 summarizes the findings of the regression analysis, which looked at the relationship between the Politically Connected Independent Supervisory Board (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 0.040 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 0.21 percentage point (0.007*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 2.79 percentage points (0.066*0.423=0.0279). Adj R-squared 31.37% indicates that 31.37%. PC-ISB and CVD have an effect on ROA and the relationship (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 0.87 percentage point (0.029*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*0.423=0.1032). Adj R-squared 46.22% indicates that 46.22% PC-ISB and CVD wield an effect on ROE. Overall, the tests' results support H1 and H2. 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 et al. (2021), Selin et al. (2022), and Fu et al. (2017).

[1] A standard deviation of 0.303.

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-squared value is 31.36%, which is nearly identical to the adjusted R-squared 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). Adj R-squared value 46.19% < 46.22% These findings indicate there is a disagreement with hypothesis 3. 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. Earnings per share (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 Adj R-squared 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 performance declines, which is represented by lower earnings per share. 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 Generalized Method of Moments (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). Overall, the System GMM results were consistent with the main test results (see Table 8). Next, we utilized a common variant of different-in-difference (DID) dummy regression analysis as it is a robust

method to estimate causal effect in non-experimental 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 post political 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. After re-estimate our model using DID regression analysis, the results remain similar with our main analysis.[2] Overall, the difference in firm performance (ROA and ROE) for pre and post political 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 post political connection period for firms with no political connections.

6. Conclusion

This study investigates whether there is: firstly, a relationship between political connections and performance during the COVID-19 pandemic; and secondly, 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 Resource-Based View theory.

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

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

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.

Appendices

Table 1. Definitions of Variables

Dependent Variables	
ROA	Profit after tax divided by total asset (Junus et al., 2022; Joni et al., 2020b)
ROE	Profit after tax divided by total equity (Junus et al., 2022; Joni et al., 2020b)
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)
ENG	Industry variables classified according to the GICS (Global Industry Classification Standard)
YEAR	Company indicator year in 2018; 2019; 2020; 2021

Table 2. Descriptive Statistics

Variable	N	Mean	St. Dev	Min	Max
ROA	1515	.023	.054	-.087	.144
ROE	1515	.023	.157	-.432	.269
PC-ISB	1515	.162	.303	0.000	1.000
BSIZE	1515	8.484	3.023	4.000	15.000
DER	1515	.532	.735	0.000	2.66

Note: The table summarizes the descriptive analysis of the main variables. In the 2018-2021 period, 1,.515 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. * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 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. * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 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). * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 1.

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. * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 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. * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 1.

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

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. * represents a significance level of 10%, ** represents a significance level of 5%, and *** represents a significance level of 1%. The definition of each variable is explained in Table 1.

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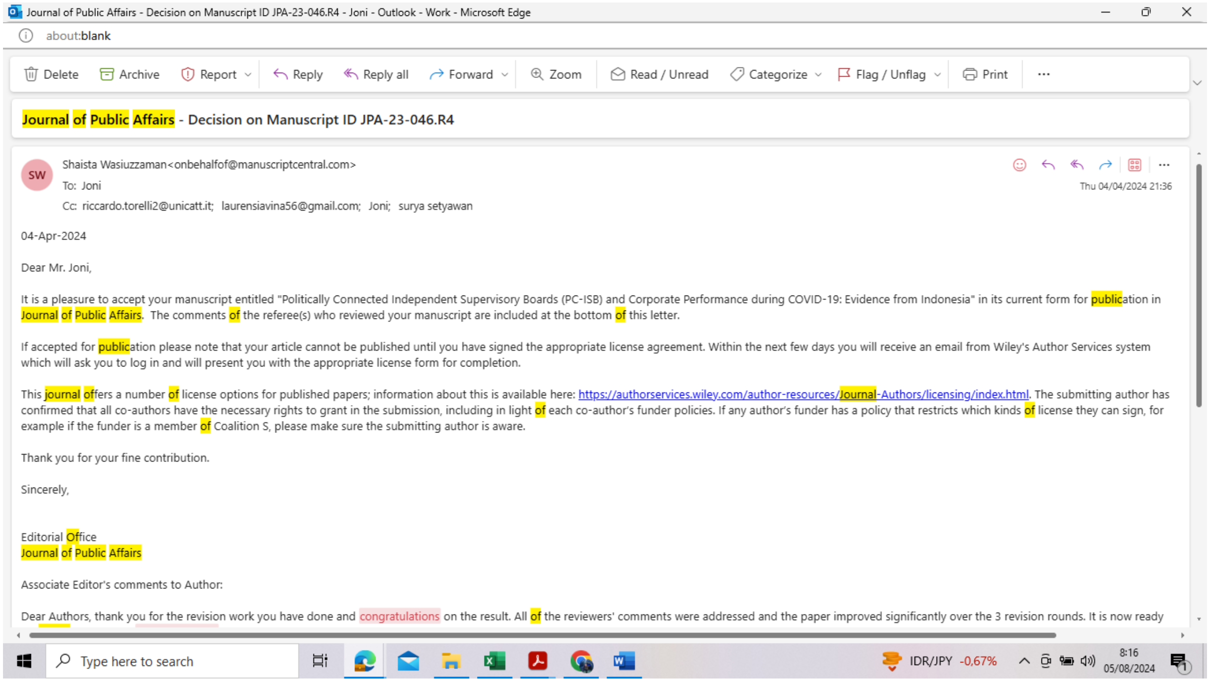
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