Political regimes and the cost of debt: Evidence from Indonesia

by Joni Joni, Boedi Hartadi Kuslina

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Joni Joni*
Department of Accounting, Maranatha Christian University, Indonesia
Boedi Hartadi Kuslina
Department of Management, Maranatha Christian University, Indonesia

* Corresponding author.
E-mail addresses: joni@eco.maranatha.edu

Abstract

Objective - The purpose of this study is to examines the relationship political regimes and the cost of debt for companies listed on the Indonesia Stock Exchange during the leadership periods of Susilo Bambang Yudhoyono and Joko Widodo from 2010 to 2022.

Design/methodology/approach - This study focuses on the political engagement through the board of commissioners and their impact on the cost of debt for companies in two different presidential leaderships in the context of emerging economy, Indonesia. After eliminating unavailable data, the final sample is 3,894 firm-year observations. In this study, we conduct moderated regression analysis to estimate the main models. Also, we include an additional endogenous test using the generalized method of moments.

Findings - The results indicate during the transition of presidential leadership, there is a notable decrease in the cost of debt for these companies, attributed to their access to external resources, specifically, faster information regarding policy changes under the new leadership. This study also found that companies with politically affiliated boards of commissioners are linked to the cost of debt during leadership transitions. These findings remain robust even after conducting additional tests using the generalized method of moments to address endogeneity issues.s

Implications - The findings of this study contribute to the literature on the effects of leadership regime changes in Indonesia on the cost of debt for companies, while also expanding the literature on the role of politically connected boards of commissioners in relation to the cost of debt during regime transitions and the dual board system. Furthermore, this research provides new insights for policy makers to broaden the practices of the dual-board system in Indonesia across different regimes.

Originality/value - We fill the knowledge gap in the literature on the effect of firms with political connection through board of commissioners on cost of debt in two political regimes.

Keywords: politically connected board of commissioner, political regimes, cost of debt, emerging economy.

Classification: Research article

1. Introduction

This study empirically investigates the effect of politically connected board of commissioners on cost of debt in two different regimes in Indonesia from 2010-2022. The topic of political connection is important and has gained much attention in accounting and finance fields in the past few decades (e.g., Khelil, 2023). To access financial and non-financial resources from government or other capital holders easily, companies around the world establish informal and formal connections with government (Chkir et al., 2020; Joni et al., 2020a). Politically connected firms are solidly defined by Faccio (2006) as a firm with the government's connections through at least one of the top management members, who was a former president, minister, parliament member, and other former state officers. From the perspective of Resource Dependency Theory (RDT) proposed by Pfeffer and Salancik (1978), political connections can be an instrument for organizations to obtain benefits, including external capital form government and other financial institutions.

Research on the association between political connections and the cost of capital has attracted scholars and practitioners internationally (Bliss & Gul, 2012; Boubakri et al., 2012; Chkir et al., 2020; Joni et al., 2020a). The investigation of the behaviour of politically connected firms from the perspective of creditors or lenders is considered for several reasons. First, most companies worldwide use more debt financing than equity for their financing strategies. The debt market is larger than the equity market globally, especially in emerging markets such as Indonesia. (Goss & Roberts, 2011). Second, in corporate finance literature, many companies tend to use debt financing for monitoring. When firms use more debt in their capital structure, it helps them have better monitoring from third parties or debt providers. Third, another main reason companies prefer debt financing is the tax reduction (e.g., Ko & Yoon, 2011). Previous studies have examined the link between political connections and the cost of capital in several contexts, including country-specific (e.g., Tee, 2018) and cross-country studies (e.g., Boubakri et al., 2012), single (e.g., Bliss & Gul, 2012) and dual board mechanisms (e.g., Joni et al., 2020a). However, most of these studies did not consider the role of different regimes, which might affect the way companies relate to the ruling government and the effectiveness of their political regimes. To the best of our knowledge, no or limited studies currently exist that examine how politically connected firms are associated with the cost of finance in different political regimes. We redress this knowledge void of the role of political regimes in the association between politically connected supervisory boards and the cost of debt, which has not been addressed in prior studies.

This association was investigated in two different political regimes in Indonesia (Susilo Bambang Yudhoyono/SBY [2010-2013] and Joko Widodo/JKW [2014-2022] as president). These two regimes differ and are interesting in several ways. First, they come from different parties and have different social backgrounds. While SBY was the founder of the Demokrat Party and was from a military background, JKW is a member of the Indonesian Democratic Party-Perjuangan (PDI-P) and comes from a civil background. In comparison, SBY, as president, represents a more powerful political background than JKW. Second, the JKW regime promotes more transparent and accountable governance than the SBY regime. It is reasonable that the presence of politically associated persons may potentially benefit their company in a more transparent government and, of course, can cost their connected firms in a more corrupt environment. Thus, the political landscape in Indonesia, with two different political regimes, provides a more important and interesting setting for examining this association.

As mentioned in previous arguments, we extend a growing body of literature on the association between political connections and the cost of debt in multiple ways (Arifin et al., 2020; Bliss & Gul, 2012; Chkir et al., 2020; Houston et al., 2014; Joni et al., 2020a; Tee, 2018; Ullah & Kamal, 2022). First, it investigates how different government regimes affect the relationship between political connections and the cost of debt. Arifin et al. (2020), Chkir et al. (2020), and Ullah and Kamal (2022) tested the role of regimes in providing value to politically connected firms. Second, we examine this association in the context of emerging markets, where political connections are an important factor in adding value to business in general. Our study adds to the existing literature by using Indonesia as our sample (such as Arifin et al. (2020); Joni et al. (2020a)) which provides two different regimes (SBY and JOKOWI regimes) in the investigation. Joni et al. (2020a) contribute to the literature by examining the effect of political connections and the cost of capital using the Indonesian dual-board system. Additionally, Arifin et al. (2020) explore two business-government relationships (transactional and relational political connections) and their impact on the cost of debt in Indonesia. In our study, we focus on two regimes representing two different powers and levels of transparency. Third, we investigate this association by using credit ratings and interest payments to represent the cost of debt financing. Most studies use only interest payments to represent the cost of debt financing, which does not represent the credibility of their credit ratings. (Arifin et al., 2020; Bliss & Gul, 2012; Chkir et al., 2020; Houston et al., 2014; Joni et al., 2020a; Ullah & Kamal, 2022). Our study provides more reliable measures of the cost of debt financing by using credit ratings and interest payments.

The remainder of the article is structured as follows: Section 2 describes the theoretical framework and hypotheses development (including the institutional background of the study), followed by the research design in Section 3. Section 4 reports our empirical evidence, and Section 5 presents additional tests. In the final section, we provide concluding remarks.

2. Hypotheses Development

2.1 Political Regimes and cost of debt capital

In the view of democratic authoritarian-ism literature, there are two polarities of political power or regime: authoritarianism and democracy. Heryanto and MandaI (2013) argue that political regimes in many countries fall into gray areas between the two poles. Brancati (2014) provides a convincing article suggesting that authoritarian regimes tend to adopt nominally democratic views. It is a reasonable political action to protect their position within the regime and obtain more social acceptance within society. To avoid the problematic issue regarding the two extreme views of political regimes, the authors posit the notion of the authoritarian and the democratic regimes as a terrain between 'low level of democracy' and 'moderate level of democracy,' namely soft democracy [SF-DEMO] and semi-democracy [SM-DEMO]. (Heryanto & MandaI, 2013).

Following the authoritarian literature, we examine the impact of two different political regimes in Indonesia on the cost of debt capital. Until 2024, Indonesia was governed by several different regimes.[1] The demand for a more democratic system aligns with the demand for a changing regime. We consider the second period of SBY [2010-2013], the first period of JKW [2014-2017], and the second period of JKW [2018-2022] as presidents to represent two different regimes. We categorized our full sample into soft authoritarianism (second period of SBY) and semi-democracy (first period of JKW) to estimate the similarity or differences in effects in both regimes. We consider the SBY regime as SF-DEMO and the JKW regime as SM-DEMO because he is from a military background and the founder of the Demokrat Party. His social background promotes more on the idea of authoritarianism and political power compared to the JKW regime, which comes from a civil social background.

There is burgeoning literature on the association between political regimes and financial outcomes, including the cost of debt capital. For example, Leuz and Oberholzer-Gee (2006) report that Indonesian listed companies that have connections with the Suharto regime (considered a dictatorial regime) faced poor performance in the long term. They found it difficult to re-establish connections with the government under different regimes, especially in the Wahid regime). Chkir et al. (2020) investigate the effect of political connections on the cost of debt in two U.S. political parties (the Democratic Party and the Republican Party). Politically connected firms are more indebted than their counterparts are. There was no difference in the cost of debt between the two groups of companies. Ullah and Kamal (2022) examine the role of different regimes in the relationship between political connections and firm performance in Pakistan in the period to 2001-2014. The results of this study are mixed for non-listed companies. While political connections are negatively and significantly associated with market performance in the democratic regime, the results based on the dictator regime show that politically connected firms improve their market performance. Then, there is no association between political connections and operating

[1] Soekarno, Nonpartisan [1945-1967]; Army/Armed Forcesof the Republic of Indonesia (ABRI) [1967-1973]; Soeharto, Golongan Karya (Golkar) Party [1973-1998]; Bacharuddin Jusuf Habibie, Golongan Karya (Golkar) Party [1998]; Abdurrahman Wahid, National Awakening Party (PKB) [1999-2001], Megawati Soekarnoputri, Indonesian Democratic Party of Struggle (PDIP) [2001-2004]; Susilo Bambang Yudhoyono, Democratic Party [first period: 2004-2009; second period: 2009-2014]; Joko Widodo (PDIP) [first period: 2014-2019; second period: 2019-2024]. Only Soeharto Era is considered as authoritarian regime, other regimes are between authoritarian and democratic-isms.

performance in either regime. Arifin et al. (2020) divided political connections into transactional and relational strategies to examine whether politically connected firms experience a lower cost of debt in Indonesia. They find that political connections with a transactional strategy are associated with a lower cost of debt capital compared to connected firms with a relational strategy. Politically connected firms with relational strategy work well only when the political regime is in power. Based on mixed and inconclusive results of previous literature, we propose the following hypotheses for empirical testing:

H_1: Democratic political regime is associated with the cost of debt capital, ceteris paribus.

2.2 Political connection in two different regimes and cost of debt capital

Several theories explain the relationship between corporate political connections and the cost of debt. Agency Theory (ATH) describes two competing arguments that show the costs and benefits of political connections. On the one hand, political connections can compromise corporate governance standards and increase agency costs due to rent-seeking practices (Bliss & Gul, 2012; Fisman, 2001). This is consistent with the research conducted by Belghitar et al. (2019), who found that companies with politicians on their boards generally have higher leverage levels, utilize more long-term debt, and exhibit lower quality financial reporting than companies without political connections. This effect may be amplified by the influence of politicians or the ruling parties associated with these connections. However, the presence of political people improves the monitoring process. As a result, politically connected firms obtain more benefits than non-politically connected firms do, as reflected in the lower cost of debt. Additionally, Resource Dependency Theory (RTH) provides a convincing explanation that organizations obtain benefits through political connections. When organizations face uncertainty and other external constraints, they can be minimized by having connections with political people who have the power to adjust related policies. (Hillman et al., 2009; Pfeffer & Salancik, 1978)..

As noted earlier, most studies on political connections and the cost of debt have been conducted in developing and developed countries. However, few studies have focused on the roles of different regimes in this relationship. With regard to debt financing in developed countries, Houston et al. (2014) find that companies with politically connected boards have lower bank loan costs in the U.S. Moreover, empirical evidence in emerging economies shows that board members with political ties are valuable and powerful in persuading capital with favorable terms and conditions. (Al-Hadi et al., 2017; Dinç, 2005; Houston et al., 2014). Khwaja and Mian (2005) use Pakistan-listed companies as their sample and find that politically connected firms receive substantial preferential treatment to credit from government banks, including favorable terms and larger amounts of debt. Bliss et al. (2018) also find that politically connected firms in Hong Kong experience lower interest rates than non-politically connected ones. Tee (2018) demonstrated a negative correlation between political connections and the cost of debt in Malaysia, indicating that such connections facilitate easier access to debt financing for publicly listed companies in the country. Leuz and Oberholzer-Gee (2006) report that politically connected firms in Indonesia can easily access debt financing. Joni et al. (2020a) extend the literature by providing empirical evidence that politically connected supervisory boards with a strategic role in the Indonesian two-tier board system can reduce the costs of finance.

Based on the above arguments and empirical evidence, we propose the following hypotheses:

H_2: Democratic political regime is negatively associated with the cost of debt in politically connected firms, ceteris paribus.

3. Research Design

3.1 Sample selection

The population of our study is all publicly listed companies on the Indonesian Stock Exchange (IDX) during the period 2010-2022 which coincides with the second term of Susilo Bambang Yudhoyono/SBY [2010-2013] and the term Joko Widodo/JKW [2014-2022] as president. We consider these two regimes for several reasons. First, the timeframe of the study represents more economic and political stability than previous regimes. Second, it represents two different regimes that originate from two different parties and political backgrounds. JKW is from the Indonesian Democratic Party of Struggle (PDIP) and SBY is from the Democratic Party (Demokrat). In contrast to SBY, the founder of the Demokrat Party and a military officer, JKW, is described as a less powerful regime because he comes from a civil social background. However, JKW is considered a more transparent and accountable regime than SBY. In our sample selection, we also exclude the financial sector, as it is under different regulations and the nature of the business. (Pittman & Fortin, 2004)

3.2 Variable Definitions

3.2.1 *Dependent variables*

The dependent variable in this study is the cost of debt (COD), which represents a company's marginal cost of proposing public debt in the current economic environment by including information such as industry, currency, and credit rating. According to Bliss and Gul (2012) and Francis et al. (2005), the cost of debt can be calculated using the ratio of interest expenses in year t+1 to the average total liabilities in years t and t+1. In addition, we also proxy the cost of debt using credit rating, which represents agency rating on a company's credit worthiness and affects the company's access to obtaining bank loans. (Jiang, 2008). We obtained financial information using the Thomson and DataStream databases.

3.2.2 *Experimental variables*

The term political connection has been well explored and defined in the literature, yet it is still difficult to identify and measure. In line with Faccio (2006), political connection (POL) is defined as a company with at least one supervisory board member who serves as a former or current government officer, including ministers, local or central bureaucrats, military members, parliament members, and so on. To measure political regime (REG), we use an indicator variable set to 1 if a company has a political connection during the JKW regime, and 0 if a company is affiliated with the government controlled under the SBY regime. All information regarding political connections and political regimes is hand-collected by deeply exploring the board's profile section of annual corporate annual reports and their websites.

3.2.3 *Control variables*

Following the literature (Arifin et al., 2020; Bliss & Gul, 2012; Chkir et al., 2020; Houston et al., 2014; Joni et al., 2020a; Ullah & Kamal, 2022), we employ the following determinants of the cost of debt financing as additional explanatory variables: board size ($SIZE_{TOT}$), firm size (LNTA), leverage (LVR), interest coverage (INCO), industry (IND), and year (YEAR) effects. Information was collected from the Thomson database, DataStream database, and corporate annual reports.

3.3 Regression model

To examine how different regimes affect the cost of debt capital in Indonesia, we applied two following model and used regression analysis to estimate each model. The models are presented as below:

$$\mathbf{COD_{it}} = \alpha_1 \mathbf{REG_{SB\,it}} + \alpha_2 \mathbf{SIZE_{TOT_{it}}} + \alpha_3 \mathbf{LNTA_{it}} + \alpha_4 \mathbf{LVR_{it}} + \alpha_5 \mathbf{INCO_{it}} + \alpha_6 \mathbf{FAGE_{it}} + \alpha_7 \mathbf{IND_{it}} + \alpha_8 \mathbf{YEAR_{it}} + \varepsilon_{it} \quad (1)$$

$$\mathbf{COD_{it}} = \alpha_1 \mathbf{REG_{it}} + \alpha_2 \mathbf{POL} + \alpha_3 \mathbf{REG^{*}POL} + \alpha_4 \mathbf{SIZE_{TOT_{it}}} + \alpha_5 \mathbf{LNTA_{it}} + \alpha_6 \mathbf{LVR_{it}} + \alpha_7 \mathbf{INCO_{it}} + \alpha_8 \mathbf{FAGE_{it}} + \alpha_9 \mathbf{IND_{it}} + \alpha_{10} \mathbf{YEAR_{it}} + \varepsilon_{it} \quad (2)$$

Next, we run the model in the political connection sample to explore whether democratic political regime is negatively affecting cost of debt capital in politically connected firms. Political company is defined as firms with the board of commissioner members serve as former or current ministers, members of the military, members of parliament, and other bureaucrats appointed by the local or central government.

We also apply a generalized method of moment (GMM) model to address the endogeneity problem. Firms with lower costs of debt capital may tend to create more connections with the government to maintain the benefits of having lower interest rates and more debt capital.

Table 1. Variable Definitions

Variables	Definition
Dependent Variables	
COD	the ratio of interest expense in year t+1 to average total liabilities in year t and t+1 (Joni et al., 2020a, 2020b)
Independent Variables	
REG	indicator variable set to 1 if a company has political connection during JKW regime and 0 if a company is affiliated with government controlled under SBY regime.
POL	the percentage of former or current military, minister, government officers appointed as supervisory board members (Faccio, 2006; Joni et al., 2021)
Control Variables - firm characteristics	
$SIZE_{TOT}$	The number of board members in the company at the end of the fiscal year
LNTA	the natural log of sales of the company at the end of the year for firm i in year t
LVR	Leverage measured by divided long-term debt and total assets (Yu et al., 2021)
INCO	the ratio of operating income to interest expense of firm i in year t (Francis et al., 2005)
Control Variables - fixed effects	
IND	A vector of industry indicator variables using the two-digit GICS (Global Industry Classification Standard)
YEAR	A vector of year indicator variables: 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022

4. Result and Discussion

4.1 Descriptive Statistics

Table 2 presents the results of the descriptive statistical tests on 3894 observations of companies listed on the Indonesia Stock Exchange (IDX) in 2010-2022. Table 2 shows that the average CODit is 0.099, with a minimum value of 0.000, a maximum value of 0.400, and a standard deviation of 0.095. This value is consistent and within a reasonable range from previous studies such as (Joni et al., 2020b, 2020a; Yu et al., 2021). Furthermore, the average value of the political regimes (REG) is 0.778, with a minimum value of 0, a maximum of 1, and a standard deviation of 0.416. This value is also consistent and within a reasonable range from previous studies such as (Joni et al., 2020a, 2021; Arifin et al., 2020).

Table 2. Descriptive Statistics

Variables	N	Mean	Min	Max	Std. Deviation
COD_{it}	3894	0.099	0.000	0.400	0.095
REG	3894	0.778	0.000	1.000	0.416
POL	3894	0.125	0.000	1.000	0.224
$SIZE_{TOT}$	3894	7.662	0.000	30.000	3.657
LNTA	3894	19.253	8.277	28.717	7.299
LVR	3894	0.128	0.000	0.453	0.143
INCO	3894	177.39	-53992.9	149092	3643.61

Notes: This table presents a summary of the descriptive analysis of the main variables. The sample includes 3894 companies in the observation years 2010-2022. Variable definitions are presented in Tabel 1.

Table 3 presents the results of the Pearson correlation test for the correlations between the variables. The highest correlation was between the company size (LNTA) and regime (REG) variables, which was 0.732. After conducting the correlation test, we conducted a multicollinearity test using the Variance Inflation Factor (VIF) method, as shown in Table 4. The results show that the overall observation data are free from multicollinearity problems, with VIF values < 10.

Table 3. Pearson Correlation

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) COD_{it}	1.000						
(2) POL	0.010	1.000					
(3) REG	-0.317***	0.055***	1.000				
(4) $SIZE_{TOT}$	0.023	0.169***	-0.053***	1.000			
(5) LNTA	-0.202***	0.077***	0.732***	-0.076***	1.000		
(6) LVR	0.106***	0.127***	0.001	0.063***	0.040**	1.000	
(7) INCO	-0.041**	-0.013	-0.024*	0.034**	-0.015	-0.037**	1.000

Note: The table below presents the Pearson correlation matrix for 3,894 company observations across all the variables. Asterisks indicate the significance levels: * denotes significance at the 10% level, ** denotes significance at the 5% level, and *** denotes a significance level of 1%. The definitions of the variables are listed in Table 1.

4.2 Political Regimes and cost of debt capital

Table 4 presents the results of the Ordinary Least Squares (OLS) regression analysis examining the relationship between political regimes (REG) and the cost of debt (COD) in Model 1. The findings indicate that REG has a significant negative effect on CODit at the 5% significance level, with a coefficient of -0.003 and t-value of 2.05. The adjusted R-squared value of 0.069 (6.9%) suggests that 6.9% of the variability in CODit can be explained by political regimes, while the remaining variability is influenced by other factors. This supports Hypothesis 1 (H1), which posits that democratic political regimes can reduce a firm's cost of debt.

These results are consistent with previous research conducted by Ullah and Kamal (2022) suggesting that changes in leadership in different regimes can help companies reduce the level of the company's cost of debt. The economic and political policies set will change along with the change of leaders because they adjust to the programs and targets planned by the new leaders. This can provide benefits for the company, especially if the company supports politics, because it is one of the driving factors for the government in formulating policies (Tian et al., 2019). These results are also in line with research conducted by Arifin et al. (2020), who found that it is better to establish a relational or permanent political connection relationship because it has a certain period of time compared to transactional relationships because it can better assist companies in reducing debt costs.

Table 4. OLS Regression Estimation

	Regression Estimations	
Variables	**Model 1**	**Model 2**
REG	-0.003**(-2.05)	-0.072*** (-6.45)
POL	-	0.118*** (7.44)
REG*POL	-	-0.097*** (-7.41)
$SIZE_{TOT}$	-0.001***(-3.56)	-0.001** (-2.05)
LNTA	0.002***(6.94)	0.001** (2.37)
LVR	-0.020***(-4.31)	0.037*** (3.13)
INCO	-0.000***(-9.19)	0.000 (0.63)
IND	*Included*	*Included*
YEAR	*Included*	*Included*
Average VIF	3.38	2.59
R^2	0.0752	0.165
Adjusted R^2	0.0692	0.160
F	12.57	29.43
Prob > F	0.0000***	0.000***
N	3894	3894

Note: This table presents regression estimation results. The calculations also include control variable indicators ($SIZE_{TOT}$, LNTA, LVR, INCO, IND, and YEAR). In this study, *, **, and *** represent significance levels of 10%, 5%, and 1%, respectively. The definitions of the variables are presented in Table 1.

4.3 Politically connected firms in two different political regimes and cost of debt capital

Table 4, Model 2 reports the results of the Moderated Regression Analysis (MRA), which examines the interaction between political connection (POL) and political regime (REG) on cost of debt capital. The results indicate that the interaction variable between politically connected firms on the board of commissioners (POL) and REG has a statistically significant effect at the 1% level, with a coefficient of -0.097 and t-value of -7.4. The adjusted R-squared value is 0.160 or 16%. This finding supports hypothesis 3 (H3).

The results demonstrate that politically connected boards of commissioners can assist companies in lowering their debt costs during periods of regime change, particularly during the transition from Susilo Bambang Yudhoyono to Joko Widodo. This leadership transition brought about significant policy changes, notably the enactment of the Omnibus Law or Job Creation Law under Jokowi's administration. Consequently, boards with political connections can provide valuable resources in the form of timely information and access to resources, thus helping companies mitigate their debt costs.

These findings align with resource dependency theory, which posits that external resources, when effectively utilized, can yield advantages for firms. Additionally, this research is supported by studies conducted by Ji and Ni (2018), Kim (2017), and Liu et al. (2021), who found that companies with political connections can better navigate political and economic uncertainties through various resources and privileges. Arifin et al. (2020) further explain that political connections can be categorized into transactional and relational strategies regarding corporate debt costs. Their research indicates that transactional political connections are associated with lower debt costs than relational strategies, which are only effective when a political regime is in power. Indonesia exemplifies a country where political connections are often built through relational strategies, allowing information from the government to disseminate rapidly to firms even after individuals cease to hold active positions. In conclusion, this leadership transition is more advantageous for companies due to policy changes that facilitate quicker access to information, enabling them to formulate strategies to maintain their going concern status.

5. Additional Analysis

We also conducted an endogeneity test, which is an important test in the topic of governance and finance (Khatib, 2024). An endogeneity test was conducted using a generalized method of moment analysis (Arellano & Bond, 1991). Endogeneity is an essential issue in this research because companies with a large cost of debt tend to seek protection through political regimes and build good relations with the government. Overall, the GMM analysis results are consistent with the main regression test results in Table 4.

Table 5 GMM Model Estimation

Regression Estimation		
Variables	Model 1	Model 2
REG	-0.003**(-2.28)-	-0.072*** (-5.95)
POL		0.117*** (5.33)
REG*POL		-0.097*** (-6.14)
$SIZE_{TOT}$	-0.001***(-3.36)	0.001* (-1.87)
LNTA	0.002***(7.39)	0.002*** (2.81)

LVR	-0.020***(-4.28)	0.037*** (2.88)
INCO	-0.0003***(-8.16)	0.000 (0.55)
b0	0.081***(19.55)	0.120*** (10.84)

Note: This table presents regression estimation results. The calculations also include control variable indicators ($SIZE_{TOT}$, LNTA, LVR, INCO, IND, and YEAR). In this study, *, **, and *** represent significance levels of 10%, 5%, and 1%, respectively. The definitions of the variables are presented in Table 1.

6. Conclusion

This study examines whether a company with a politically connected board of commissioners can influence the level of its cost of debt across different regimes, particularly within the context of Indonesia's dual board governance system. The key finding indicates that regime changes in Indonesia, characterized by shifts in leadership and political parties, can facilitate a reduction in companies' cost of debt. This is attributed to alterations in economic and political policies that ultimately benefit firms. Additionally, the finding highlights that the presence of a politically connected board of commissioners during leadership transitions can provide significant advantages, specifically by helping lower the company's cost of debt. This result supports resource dependency theory, which posits that a politically connected board can offer valuable resources that enhance the company's performance. In summary, while political connections can pose challenges for companies by increasing their cost of debt, they can also provide critical support during periods of regime change, enabling firms to manage complex economic landscapes more effectively.

This investigation has significant implications in multiple areas. First, it provides novel insights into how leadership regime changes in Indonesia affect a company's cost of debt. Specifically, our findings suggest that such regime changes have a positive effect on businesses due to the introduction of new policies that confer substantial benefits. This knowledge serves as essential guidance for foreign investors considering investments in Indonesia, offering a comprehensive understanding of the dynamic regulatory environment. Secondly, we expand the existing literature on the role of politically connected boards of commissioners in influencing cost-of-debt dynamics during times of regime shifts. Our research demonstrates that companies with politically connected boards gain considerable advantages from these affiliations. By leveraging rapid access to information and strategic resources, these entities can effectively mitigate their debt burdens. Thus, our study underscores the pivotal role played by these interconnected networks in shaping fiscal outcomes. Third, we extend the current scholarship on dual-board systems operating within Indonesian frameworks across varying regimes. Moreover, our analysis provides practical implications that are essential for both policymakers and business leaders to navigate complex governance structures.

Despite significantly contributing to our understanding of corporate finance dynamics in Indonesia, this study acknowledges certain limitations inherent in its design. Primarily, our dataset relies exclusively on annual reports detailing political connections-a limitation necessitating more nuanced methodologies. Additionally, we confined our examination to only two period under President Susilo Bambang Yudhoyono's and President Joko Widodo tenures. To gain a deeper insight into regime-specific impacts, subsequent investigations should incorporate comparative analyses spanning multiple administrations, including extended periods under the presidency of

Megawati, Abdurrahman Wahid, and Habibie. Furthermore, relying primarily on secondary sources via review initiatives restricts depth; hence, incorporating primary fieldwork could enrich empirical evidence collection processes. Ultimately, enhancing comprehensiveness requires integrating diverse datasets encompassing broader contextual factors affecting Indonesia's corporate landscape, such as macroeconomic trends and sector-specific influences that collectively shape debt management strategies among local enterprises. By addressing these gaps systematically through enhanced methodologies coupled with expanded scopes of inquiry, we aim to create richer narratives surrounding corporate resilience amidst evolving socio-political climates characteristic oftentimes seen globally yet uniquely pronounced herein Indonesia's unique blend of historical cultural-economic complexities intertwined seamlessly, forming a backdrop against which entrepreneurial endeavours unfold on a daily basis alike elsewhere the world over.

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