

Political connected board of directors, sharia compliance and stock price synchronicity in Indonesia

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Abstract

Purpose – This study aims to examine how Sharia compliance influences the relationship between political connected Board of Directors and stock price synchronicity.

Design/methodology/approach – The sample was selected using purposive sampling technique and the hypothesis was tested using multiple regression analysis. The sample consisted of 1,083 observations from companies listed on the Indonesia Stock Exchange in 2021–2022. Additional tests, such as endogeneity testing using the Generalized Method of Moments and Two-Stage Least Square, were also conducted.

Findings – The findings indicate that Sharia compliance strengthens the negative influence of political connections in the board of directors on stock price synchronicity. This study can serve as a reference and consideration for investment decisions, suggesting that political connections and Sharia compliance are important factors for investing in Indonesian companies.

Originality/value – This study examines how Sharia compliance influences the association between political connections and stock price synchronicity in Indonesia where Sharia-based economy is largely developed.

Keywords Sharia compliance, Political connections, Stock price synchronicity, Sharia-based economy

Paper type Research paper

1. Introduction

This study aims to examine how Sharia compliance influences the relationship between political connections and stock price synchronicity in companies listed in Indonesia in 2021–2022. Political connections have become a global phenomenon, particularly in developing countries, significantly impacting their economic development and capital markets (Li *et al.*, 2022). Generally, companies establish political connections by appointing former or current government officials as members of the company's board of directors or board of commissioners. According to Faccio (2006), politically connected companies deliberately build relationships with the government through retired or active members of parliament, ministers, heads of state, or individuals closely associated with high-ranking government officials. Political connections are crucial for companies in obtaining bank loans, government aid, cash holding and other assistance (Xie and Li, 2023; Tawfik *et al.*, 2024). Through political connections, companies receive government support, reduce business risks, and gain regulatory support, thereby improving financial performance (Li *et al.*, 2019).

Another benefit of political connections is hindering the effective dissemination of specific company information, resulting in more synchronized stock prices (Li *et al.*, 2019). Stock price synchronicity refers to stock prices moving in the same direction over time (Abedifar *et al.*, 2021). The concept of stock price synchronicity indicates that stock prices are driven by two factors: market factors and firm-specific factors. Firm-specific



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factors, including company's connections with government cause stock price movements due to information about the company (Kyiu *et al.*, 2023). According to Resource-Based View Theory, political connection can be a unique resource to achieve competitive advantage and sustainability. They have capabilities to benefit companies through their expertise and connections, such as improving firm performance, wider access to funds, etc. While several empirical studies indicate that political connection increase stock price synchronicity (e.g., Li *et al.*, 2022; Purwoto *et al.*, 2022), Xie and Li (2023) find that political connection can improve market informativeness as reflected in lower stock price synchronicity. They investigated political connections, institutional environment, and stock price informativeness in private companies listed in China from 2015 to 2020. Their findings indicate that political connections in the category of industrial and commercial associations significantly decrease stock price synchronicity. Recently, Nguyen *et al.* (2025) provide convincing evidence that political affiliations increase stock price informativeness.

Our research incorporates the factor of Sharia compliance in examining the relationship between political connections and stock price synchronicity. Islamic ethics or Sharia is not only applied in daily life but also in the economic realm, where Sharia principles exist (Al Masud and Uluyol, 2024). Sharia principles improve the financial indicators of companies (debt levels, cash, and receivables), leading to a significant increase in the number of investors by changing the perception of Muslims toward the stock market (Farooq and Ahmed, 2022; Wahyono, 2022; Wahyono, 2021). This study differs from previous research in several ways. First, we investigated the effect of Sharia compliance on the association between political affiliation and stock price synchronicity in the context of Indonesia where Muslim population is majority. According to the Royal Islamic Strategic Studies Centre (2023), Indonesia has the largest Muslim population in the world. They recorded that 86.7% of Indonesia's population of 277.53 million, or approximately 240.62 million people, are Muslim. Indonesia is striving to develop a Sharia-based economy. The implementation of a Sharia-based economy free from usury is believed to strengthen Indonesia's economy (Menne *et al.*, 2023). Second, this study uses a governance setting that applies a two-tier board system. Indonesia is a country that employs a two-tier board system, regulated by Law No. 4 of 2007 of the Republic of Indonesia. This system separates management functions, which are the responsibility of the Board of Directors (BOD), and supervisory functions, which are the responsibility of the Board of Commissioners (BOC). In Indonesia, political connections are built by appointing important government figures, both active and retired, to the BOD and BOC (Joni, 2020). This creates an interesting setting to observe the effectiveness of BODs with political connections in fulfilling their operational responsibilities.

This study contributes to the literature in several aspects. First, the researchers examine the impact of political connections on stock price synchronicity in companies listed in Indonesia during the 2021–2022 period. These findings will enrich research in this field, particularly in Indonesia. Second, the researchers use all companies listed on the Indonesia Stock Exchange and daily stock price data, providing a broad and comprehensive scope for this study. Third, the researchers include Sharia compliance in their testing, offering a more varied perspective in the study. The findings from the tests have implications that could provide useful information for the development of the stock market in Indonesia. For investors, this study can serve as a reference and consideration in making investment decisions. Moreover, this study has important implications for regulators. It is expected to serve as a reference for developing governance and capital market regulations.

The remainder of this study is structured as follows: section 2 presents the institutional background, section 3 provides a literature review and hypothesis development, section 4 outlines the research design, section 5 presents the research findings, and section 6 concludes.

2. Institutional background - Sharia economy in Indonesia

According to the Ministry of National Development Planning, the Sharia economy is an economic system based on Islamic or Sharia principles, encompassing all existing economic sectors such as finance and the real sector. Farah *et al.* (2025) states that the foundation of the Sharia economy is based on three fundamental concepts: faith in Allah, leadership, and justice. The characteristics of the Sharia economy, which are its advantages, include: first, it is based on Islamic teachings. Second, it integrates the moderate and balanced elements of individual (capitalist) views, which see individual ownership rights as absolute and inviolable, and socialist views, which declare the absence of individual rights and transform them into collective ownership under the state. Third, it emphasizes sufficiency and fairness, focusing on human needs rather than wealth accumulation. Fourth, it operates on the principles of growth and blessings, conducting business based on legal growth and investment.

Companies listed on the Indonesia Stock Exchange (IDX) can be included as Sharia-compliant stocks if they meet the criteria set out in Bapepam and Financial Institution Regulation No. II.K.1 on Criteria and Issuance of Sharia Securities List. First, the company must not engage in business activities that are contrary to Sharia principles, such as gambling, trading that is prohibited by Sharia (false offerings/demands), buying and selling risks involving uncertainty or gambling like conventional insurance, engaging in transactions involving bribery, and producing, distributing, trading, and/or providing haram goods or services as determined by DSN-MUI. Second, the company must meet financial ratios such as the total interest-based debt compared to total equity not exceeding 82%, and total interest income and other non-halal income compared to total business income and other income not exceeding 10%.

The history of the Sharia economy in Indonesia began with the issuance of the Banking Deregulation Policy Package of 1988 (Pakto 88), which provided significant opportunities for the banking business to support economic development. In 1990, the Indonesian Ulama Council (MUI) formed a working group to establish an Islamic bank in Indonesia. This resulted in the establishment of Indonesia's first Sharia bank, PT Bank Muamalat Indonesia (BMI), on November 1, 1991. In 1998, Law No. 10 of 1998 was enacted, introducing a dual banking system comprising conventional banking and Sharia banking. This led to the growth of the Sharia economy in the banking sector, marked by the establishment of other Sharia banks such as Bank Syariah Mandiri, BTN, Bank Mega, BRI, Bukopin, and others. The regulation of the Sharia economy was eventually handed over to the Financial Services Authority (OJK) and continued to develop in other sectors, such as the Sharia capital market.

In 2019, Indonesia was deemed less than optimal in addressing the Sharia economy, despite being the country with the largest Muslim population, ranking only tenth in producing halal products internationally (Menne *et al.*, 2023). Following the Sharia economy master plan from the Ministry of National Development Planning, Indonesia ranked third in 2023, behind Malaysia and Saudi Arabia in the Global Islamic Economy Indicator Score. According to the Halal Value Chain, Indonesia's economic growth sourced from the Sharia economy in 2023 reached 3.93%, supporting nearly 23% of the national economy. The Sharia economy in Indonesia continues to grow with government

policies such as Law No. 3 of 2006 regarding actions or business activities based on Sharia principles, Law No. 21 of 2008 on Sharia Banking, Law No. 33 of 2014 on Halal Product Assurance, and Law No. 11 of 2020 on Job Creation. These laws will drive the growth of the Sharia economy in Indonesia (Menne *et al.*, 2022). Indonesia's seriousness about the Sharia economy is also reflected in the IDX filtering stocks that comply with Sharia by providing Sharia stock indices (Al Masud and Uluyol, 2024). Sharia indices in Indonesia, such as the Indonesia Sharia Stock Index (ISSI), Jakarta Islamic Index (JII), Jakarta Islamic Index 70 (JII70), IDX-MES BUMN 17, and IDX Sharia Growth. Thus, the Sharia economy in companies or small and medium enterprises can drive regional and national economic growth (Menne *et al.*, 2023).

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3. Literature review and hypothesis development

3.1 The effect of political connections on stock price synchronicity

The relationship between political connections and stock price synchronicity can be explained by several related theories, including Power Theory (PWRT) and Resource-Based View Theory (RBVT). From the perspective of PWTR, politically connected boards can have a greater impact and control over the company or the public because they have broader authority and relationships (Dahl, 1957). Power with strong impact and control can facilitate the political boards in leading a company, while broader relationships can enable the company to obtain valuable information. From this theoretical perspective, it is understandable for companies to appoint board members with political connections. Additionally, the relationship between political connections and stock price synchronicity can be explained through RBVT. In view of RBVT, a company's success can be determined by its unique resources (Barney, 1991). One of these resources is the political people in the company. These resources must have good capabilities and expertise for the company to achieve competitive advantage and sustainability. Wernerfelt (1984) also posits that the RBVT is the relationship between resources, capabilities, competitive advantage, and profitability over time. Therefore, companies appoint people with political connections, such as former officials, officers, and former ministers, to fill positions on the board of directors to be more competitive compared to nonpolitically connected firms (Faccio, 2006). According to RBVT, the political board is a critical resource for the company's long-term competitive advantage. The board of directors will create and implement strategies to help the company achieve competitive advantage. A board of directors with political connections is expected to have better capabilities to manage company operations, prepare annual reports, and represent the company, thereby enhancing competitiveness and profitability. Based on RBVT, a board of directors with political connections can provide higher quality and more transparent information, resulting in lower synchronicity.

Political affiliations play an important role in forming company investment behavior. Several previous studies have indicated that political connection is beneficial for the company as reflected in lower stock price synchronicity or better stock price informativeness. Xie and Li (2023) researched companies in China from 2015 to 2020 and found that political connections through business associations can reduce stock price synchronicity, making company information more transparent and of higher quality to the public. Nguyen *et al.* (2025) explore the relation between political affiliation and stock price informativeness using unique sample from Vietnam. They find that firms with political affiliation improve stock price informativeness, particularly in provinces with weak legal institutions.

Based on theories and prior empirical research, the hypothesis is formulated as follows:

H1. Political connections through the company's board of directors are negatively correlated with stock price synchronicity, ceteris paribus.

3.2 *The impact of sharia compliance on the association between political connections and stock price synchronicity*

Menne *et al.* (2022) revealed that economic growth can be driven by the Sharia economy, requiring the strengthening of human resource capacity to increase productivity through the utilization of the Sharia financial system. Farooq and Pashayev (2020) stated that there is an influence of Sharia compliance and the corporate environment on stock prices. Companies with an informative environment will have better stock prices (e.g., Tee, 2017). Investors can use information about Sharia compliance to infer stock price efficiency. Tawfik and Elmaasrawy (2024) revealed that the corporate environment, such as Sharia compliance, can affect financial performance and stock prices because Sharia compliance can influence financial decision-making, such as funding, dividend payments, debt, cash, and others. Other studies like Gan and Hu (2023) and Bui *et al.* (2020) also stated that the corporate environment, such as managerial structure and ownership structure, can affect stock prices. Can (2021) stated that Sharia compliance indirectly improves the corporate environment because companies will be more compliant with laws, regulations, governance, and business activities. Sharia compliance can create higher expectations for ethical behavior among stakeholders in the company. With Sharia compliance, the quality of the company's financial reports can increase. Farooq and Ahmed (2022) revealed that Sharia compliance in companies affects stock price synchronicity, making the information conveyed higher in quality. Companies with a good informational environment improve accuracy and will affect stock price synchronicity. This aligns with the impact of political connections, which reduce stock price synchronicity, resulting in higher or better-quality stock price informativeness. Therefore, the researchers formulated the following hypothesis:

H2. Sharia compliance strengthens the negative impact of political connections on stock price synchronicity.

4. Research design

4.1 *Sample selection*

The population of this study comprises all companies listed on the Indonesia Stock Exchange (IDX). The sampling technique used is purposive sampling. The sample criteria in this study are companies listed in 2021–2022 with available financial reports and data, and without any suspension during 2021–2022. The selection of the 2021–2022 timeframe is deliberate, aligning with the critical recovery phase following the COVID-19 pandemic. This period is of particular interest due to the documented phenomenon of privileged access to resources, notably state-bank financing, afforded to politically connected firms during crises. As evidenced by Vukovic (2021), such firms often receive disproportionately larger bailout packages compared to their non-connected counterparts, a trend observed during the 2008 Global Financial Crisis. Furthermore, this temporal focus allows for the examination of the performance of Sharia-compliant firms during a period of economic volatility. Existing literature, exemplified by Farah *et al.* (2025), suggests that these firms exhibit greater

resilience and outperform conventional firms during financial crises, thus warranting specific attention within this context.

Based on the above sample criteria, the final sample size for testing is 1,083 companies. Sharia compliance is measured by the inclusion of companies in the Indonesia Sharia Stock Index (ISSI). The ISSI consists of companies that comply with Sharia principles and meet the requirements set by the Indonesian Financial Services Authority as Sharia-compliant companies (Gati *et al.*, 2024). After applying the sample criteria, there are 598 Sharia-compliant companies and 485 non-compliant companies.

Data collection was conducted in two ways. First, financial data were obtained from Datastream. Second, political connection data were obtained manually through annual reports or company websites.

4.2 Variable measurement 2

4.2.1 Dependent variable. Stock price synchronicity is one of the most widely used measures of price informativeness (Li *et al.*, 2022). Stock returns were taken from daily stock price data for 2021–2022. Stock price synchronicity (SHS) is important to measure with the adjusted R^2 of the following regression equation:

$$R_{i,t} = \alpha + \beta \times R_{mt} + \varepsilon$$

Due to the high kurtosis and skewness of R^2 values, the following logarithmic transformation of the R^2 variable, representing stock price synchronicity, was performed, choosing SHS to represent stock price synchronicity (Xie and Li, 2023):

$$SHS = \text{Log} \frac{R^2}{1 - R^2}$$

4.2.2 Independent variable. This study takes political connections as the independent variable. Data on the political connections of company directors were obtained from the IDX. The political connection data collected include the number of directors, the number of directors with political connections, and the percentage of directors with political connections. A director is considered to have a political connection if they have a special relationship with the government, such as being a retired or active member of parliament, a minister, a head of state, or an individual closely associated with high-ranking government officials (Faccio, 2006). 33

4.2.3 Control variables. As in previous studies, the researchers used several control variables. These included firm size measured by total assets (Li *et al.*, 2022; Chen and Liu, 2023), board size measured by the number of directors and commissioners (Joni, 2020), leverage measured by the debt-to-equity ratio (Li *et al.*, 2022; Li *et al.*, 2019), firm age measured by how long the company has been listed on the IDX (Kyu *et al.*, 2023), firm profitability measured by return on assets ratio (Li *et al.*, 2022; Doan and Lin, 2022), industry (Xie and Li, 2023; Kyu *et al.*, 2023), and year (Xie and Li, 2023). Data for control variables were obtained from DataStream. Detailed definitions of each variable in the models are listed in Table 1.

4.3 Regression model 17

The regression model used in this study investigates the influence of political connections in the board of directors on stock price synchronicity in *H1*. The regression model used in this study is as follows:

Table 1. Variable definitions

| Variable type | Variable | Symbol | Definition |
|------------------------------|---|--------|---|
| Dependent variable | Stock price synchronicity | SHS | An indicator of stock price informativeness measured by $SHS = \text{Log}(R^2/(1 - R^2))$ (Xie and Li, 2023) |
| Independent variable | Political connection dummy variable | DBOD | Indicates the presence of political connections among company directors (Joni, 2020) |
| Control variables | Firm size | FSIZE | Measured by total assets (Bui <i>et al.</i> , 2020) |
| | Board size | BSIZE | Measured by the number of company directors (Abbas <i>et al.</i> , 2023) |
| | Leverage | DEBT | Measured by the debt-to-equity ratio (Li <i>et al.</i> , 2019) |
| | Firm age | FAGE | Calculated as 2022 minus the year the company went public (Li <i>et al.</i> , 2020) |
| | Return on assets | ASET | Total asset return (Goodell <i>et al.</i> , 2022) |
| Additional testing variables | Industry | IND | Classified according to the GICS (global industry classification standard) |
| | Year | THN | Company indicator year for 2021 and 2022 |
| | Political connections of the board of directors | PBOD | Percentage of political connections among company directors (Joni, 2020) |
| | Price book value | BOOK | Calculated by dividing the company's last closing stock price by its book value per share (Gavrilakis and Floros, 2023) |

Source(s): Authors' own work

$$SHS = \alpha_1 + \beta_2 DBOD + \beta_3 FSIZE + \beta_4 BSIZE + \beta_5 DEBT + \beta_6 FAGE + \beta_7 ASET + \beta_8 THN + \beta_9 IND + \epsilon_{i,t}$$

Models 2 and 3 test the influence of political connections in the board of directors on stock price synchronicity using sub-sampling. Models 2 and 3 address the second hypothesis. The first sub-sample tests the influence of political connections in the board of directors on stock price synchronicity in Sharia-compliant companies. The second sub-sample tests the influence of political connections in the board of directors on stock price synchronicity in non-Sharia-compliant companies.

4.4 Statistical analysis

The researchers used STATA to perform descriptive analysis, correlation tests, and data tests with multiple regression models to test *H1* and *H2*. First, for *H1*, they tested the negative relationship between political connections in the board of directors (DBOD) and stock price synchronicity (SHS). Second, for *H2*, they tested whether Sharia compliance weakens or strengthens the negative influence of political connections (DBOD) on stock price synchronicity (SHS).

To analyze the data, the researchers conducted descriptive statistical tests to determine the mean, median, standard deviation, maximum value, and minimum value. Next, they performed a correlation test to identify the relationship between political connections in the board of directors (DBOD) and stock price synchronicity (SHS) using the research model (1). Third, the researchers tested the influence of political connections in the board of

directors (DBOD) on stock price synchronicity (SHS) in Sharia-compliant companies using research model (2) and in non-Sharia-compliant companies using research model (3).

4.5 Additional testing

The researchers conducted three additional tests. First, they performed an endogeneity test to examine whether stock price synchronicity (SHS) affects political connections (DBOD) using the Generalized Method of Moments (GMM) and two-stage least squares method. Second, they added a control variable, BOOK (Model 4). Third, they used the percentage of political connections in the board of directors (PBOD) as a substitute for DBOD (Model 5). The regression models for the additional tests are as follows:

$$\text{SHS} = \alpha_1 + \beta_2 \text{DBOD} + \beta_3 \text{FSIZE} + \beta_4 \text{BSIZE} + \beta_5 \text{DEBT} + \beta_6 \text{FAGE} \\ + \beta_7 \text{ASET} + \beta_8 \text{BOOK} + \beta_9 \text{THN} + \beta_{10} \text{IND} + \epsilon_{i,t}$$

$$\text{SHS} = \alpha_1 + \beta_2 \text{PBOD} + \beta_3 \text{FSIZE} + \beta_4 \text{BSIZE} + \beta_5 \text{DEBT} + \beta_6 \text{FAGE} \\ + \beta_7 \text{ASET} + \beta_8 \text{BOOK} + \beta_9 \text{THN} + \beta_{10} \text{IND} + \epsilon_{i,t}$$

Fourth, we check the robustness of our model by excluding the financial sector from our sample since they are under different regulations.

5. Empirical results

5.1 Descriptive statistics

Table 2 shows the descriptive statistics based on 1,083 samples from companies listed on the Indonesia Stock Exchange for the years 2021–2022. The researchers tested the data, which was Winsorized by 2%. Table 2 indicates that the average SHS is -2.796, with a standard deviation of 0.615, a minimum value of -4, and a maximum value of -1.736. The SHS values are relatively consistent and within a reasonable range compared to previous studies (Abedifar *et al.*, 2021). Among the main variables, DBOD has a mean value of 0.078, a standard deviation of 0.268, a minimum value of 0, and a maximum value of 1. The DBOD values are consistent with previous studies (Joni, 2020). The proportion of board members with political connections in the observations is 26.8%. Additionally, Table 3 shows the

Table 2. Descriptive statistics summary

| Variable | N | Mean | SD | Min. | Max. |
|----------|-------|-------|-------|-------|-------|
| SHS | 1,083 | -2.79 | 0.61 | -4.00 | -1.73 |
| DBOD | 1,083 | 0.07 | 0.26 | 0.00 | 1.00 |
| PBOD | 1,083 | 0.01 | 0.67 | 0.00 | 0.33 |
| FSIZE | 1,083 | 21.82 | 1.90 | 18.11 | 26.08 |
| BSIZE | 1,083 | 8.24 | 3.44 | 4.00 | 19.00 |
| DEBT | 1,083 | 0.29 | 0.27 | 0.00 | 1.16 |
| FAGE | 1,083 | 15.57 | 11.08 | 0.50 | 44.00 |
| BOOK | 1,083 | 2.18 | 3.12 | -0.73 | 17.02 |
| ASET | 1,083 | 0.04 | 0.09 | -0.24 | 0.30 |

Note(s): This table summarizes the descriptive analysis of the main variables. The sample of the main variables is taken from the period 2021–2022. Definitions of each variable are provided in Table 1

Source(s): Authors' own work

Table 3. Pearson correlation test – SHS

| Variable | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
|----------|----------|---------|---------|---------|----------|--------|--------|
| SHS | 1.0000 | | | | | | |
| DBOD | -0.0702* | 1.0000 | | | | | |
| FSIZE | 0.0996* | 0.1150* | 1.0000 | | | | |
| BSIZE | 0.0616* | 0.1274* | 0.6990* | 1.0000 | | | |
| DEBT | 0.0527 | 0.0685* | 0.1811* | 0.0982* | 1.0000 | | |
| FAGE | -0.0159 | 0.0791* | 0.2843* | 0.2747* | -0.0188 | 1.0000 | |
| ASET | -0.0549 | 0.0650* | 0.2226* | 0.1659* | -0.1844* | 0.0435 | 1.0000 |

Note(s): This table presents the Pearson Correlation matrix for 1,083 companies. *represents a significance level of 10, **represents a significance level of 5, and ***represents a significance level of 1%. Definitions of each variable are explained in Table 1

Source(s): Authors' own work

Pearson Correlation test among key variables. The strongest correlation is between SHS and FAGE, with a value of 0.610. Table 4 shows the Variance Inflation Factor (VIF) for SHS analysis, which is 1.4. These results indicate no multicollinearity, as the average VIF value is less than 5.

5.2 Political connections on the board of directors and stock price synchronicity

Table 4 shows the findings from the regression analysis between SHS and DBOD. Model 1 indicates that the relationship between DBOD and SHS is negative with a significance level of 5% (coefficient = -0.004, $t = -2.92$). Thus, these regression results support *H1*, which states that political connections through the company's board of directors are negatively correlated with stock price synchronicity. This means that the more a company has political

Table 4. OLS regression

| Variable | Regression estimation | | |
|--------------------|-----------------------|-----------------|-----------------|
| | Model 1 | Model 2 | Model 3 |
| DBOD | 0.004 (-2.92)** | 0.006 (-2.74)** | 0.314 (-1.01) |
| FSIZE | 0.003 (2.99)** | 0.093 (1.68) | 0.027 (2.22)* |
| BSIZE | 0.942 (0.07) | 0.797 (-0.26) | 0.735 (0.34) |
| DEBT | 0.665 (0.43) | 0.002 (3.17)** | 0.094 (-1.68) |
| FAGE | 0.081 (-1.75) | 0.464 (-0.73) | 0.104 (-1.63) |
| ASET | 0.011 (-2.54) | 0.783 (-0.27) | 0.003 (-3.02)** |
| IND | Included | Included | Included |
| THN | Included | Included | Included |
| Average VIF | 1.33 | 1.34 | 1.4 |
| F | 5.040 | 4.040 | 2.640 |
| Prob > F | 0.000 | 0.000 | 0.002 |
| R ² | 0.054 | 0.077 | 0.063 |
| Adj R ² | 0.043 | 0.058 | 0.039 |
| N | 1083 | 598 | 485 |

Note(s): This table presents the regression results. This study uses a significance level of 5%. *represents a significance level of 10, **represents a significance level of 5, and ***represents a significance level of 1%. Definitions of each variable are explained in Table 1

Source(s): Authors' own work

Table 5. Regression for additional testing

| Variable | Regression estimation | | |
|--------------------|-----------------------|-----------------|------------------|
| | Model 4 | Model 5 | Model 6 |
| DBOD | 0.003 (-2.93)** | | |
| PBOD | | 0.028 (-2.20)** | 0.213 (-2.96)*** |
| FSIZE | 0.002 (3.07)** | 0.002 (3.04)** | 0.051 (3.24)*** |
| BSIZE | 0.968 (0.04) | 0.909 (-0.11) | 0.000 (0.10) |
| DEBT | 0.709 (0.37) | 0.726 (0.35) | 0.027 (0.37) |
| FAGE | 0.099 (-1.65) | 0.094 (-1.68) | 0.002 (-1.45) |
| ASET | 0.010 (-2.58)* | 0.009 (-2.62)* | 0.558 (-2.38)** |
| BOOK | 0.457 (0.74) | 0.493 (0.69) | 0.000 (0.78) |
| IND | Included | Included | Included |
| THN | Included | Included | Included |
| Average VIF | 1.32 | 1.32 | 1.28 |
| F | 4.690 | 4.390 | 4.390 |
| Prob > F | 0.000 | 0.000 | 0.000 |
| R ² | 0.054 | 0.051 | 0.051 |
| Adj R ² | 0.043 | 0.039 | 0.040 |
| N | 1083 | 1083 | 978 |

Note(s): This table presents the regression results. This study uses a significance level of 5%. *represents a significance level of 10, **represents a significance level of 5, and ***represents a significance level of 1%. Definitions of each variable are explained in [Table 1](#)

Source(s): Authors' own work

connections through its board of directors, the lower the stock price synchronicity, resulting in higher-quality information being conveyed to the public. Control variables that have an influence on SHS include FSIZE with a coefficient of 0.003 and a positive relationship with a *t*-value of 2.99, and ASET with a coefficient of -0.011 and a negative relationship with a *t*-value of -2.54. This means that as FSIZE increases, SHS also increases, and the information conveyed becomes less quality. On the other hand, ASET has a negative relationship, meaning that as ASET increases, SHS decreases, and the information conveyed becomes higher quality.

These findings reinforce previous research results that state political connections can reduce stock price synchronicity, making company information more transparent and higher quality to the public ([Xie and Li, 2023](#)). This is consistent with RBV theory and power theory, which imply that by appointing politically connected board members, these directors should have better capabilities and control to manage the company's operations, prepare annual reports, and represent the company, thereby enhancing competitiveness and profitability.

5.3 Political connections on the board of directors, sharia compliance and stock price synchronicity

The researchers used sub-samples to examine the influence of political connections on stock price synchronicity in Sharia-compliant companies. Model 2 shows the relationship between DBOD and SHS in Sharia-compliant companies, while Model 3 shows the relationship between DBOD and SHS in non-Sharia-compliant companies.

Model 2 indicates that the relationship between DBOD and SHS is negative with a significance level of 5% (coefficient = -0.006, *t* = -2.74). Therefore, these regression results support *H2*, which states that Sharia compliance strengthens the negative influence of

political connections on stock price synchronicity. This means that the more a company has political connections through its board of directors and complies with Sharia, the lower the stock price synchronicity, resulting in higher-quality information being conveyed to the public. Control variables that have an influence on SHS include DEBT with a coefficient of 0.002 and a positive relationship with a t -value of 3.17. This means that as DEBT increases, SHS also increases, and the information conveyed becomes less quality.

On the other hand, Model 3 shows no influence between DBOD and SHS in non-Sharia-compliant companies (coefficient = 0.314, $t = -1.01$). These results further support *H2*. This sub-sample comparison illustrates the relationship between Sharia-compliant and non-Sharia-compliant companies and SHS. These findings are consistent with the research by Farooq and Ahmed (2022).

These findings emphasize that Sharia compliance can influence financial decision-making, such as funding, dividend payments, debt, cash, and other aspects, and improve the corporate environment by ensuring companies are more compliant with laws, regulations, governance, and business activities. Companies with a good environment will convey high-quality information, resulting in lower stock price synchronicity (Farooq and Ahmed, 2022).

5.4 Additional testing

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Model 4, 5, and 6 are additional tests and the results are presented in Table 5. Model 4 adds one additional control variable, BOOK, in testing the relationship between DBOD and SHS. Model 4 shows that the relationship between DBOD and SHS is negative with a significance level of 5% (coefficient = -0.003 , $t = -2.93$). Therefore, these regression results support *H1*, which states that political connections through the company's board of directors are negatively correlated with stock price synchronicity. This means that the more a company has political connections through its board of directors, the lower the stock price synchronicity, resulting in higher-quality information being conveyed to the public. Control variables that have an influence on SHS include FSIZE with a coefficient of 0.002 and a positive relationship with a t -value of 3.07, and ASET with a coefficient of -0.010 and a negative relationship with a t -values of -2.58 . The BOOK variable, however, has no influence (coefficient = 0.457, $t = 0.74$). The results of Model 4 are consistent with Model 1.

Model 5 replaces the DBOD variable with PBOD and still adds the BOOK control variable as in Model 4. Model 5 shows that the relationship between PBOD and SHS is negative with a significance level of 5% (coefficient = -0.028 , $t = -2.20$). However, the influence of political connections on SHS is better represented by DBOD compared to PBOD, as indicated by the lower DBOD coefficient. Control variables that have an influence on SHS include FSIZE with a coefficient of 0.002 and a positive relationship with a t -value of 3.04, and ASET with a coefficient of -0.009 and a negative relationship with a t -value of -2.62 . These results are still consistent with Model 1 and support *H1*. Model 6 excludes the financial industry from our sample. The result remains consistent (coefficient = -0.213 , $t = -2.96$).

5.5 Endogeneity test

This study investigates the relationship between political connections and stock price synchronicity, but there is another possibility: companies with good stock price synchronicity might attempt to build political connections. To address the endogeneity issue in this study, the researchers used the Generalized Method of Moments (GMM) and Two-Stage Least Squares (2SLS). GMM has been used in previous studies to resolve heteroscedasticity issues (Joni, 2020; Dharmawan *et al.*, 2024). Overall, the GMM results are consistent with the main test results. The GMM results in Table 6 align with the regression

Table 6. Generalized method of moments

| Variable | Regression estimation | | |
|----------|-----------------------|-----------------|------------------|
| | Model 1 | Model 2 | Model 3 |
| DBOD | 0.004 (-2.86)** | 0.023 (-2.27)** | 0.236 (-1.18) |
| FSIZE | 0.003 (2.97)** | 0.083 (1.73) | 0.032 (2.15) |
| BSIZE | 0.941 (0.07) | 0.784 (-0.26) | 0.731 (0.34) |
| DEBT | 0.665 (0.45) | 0.001 (3.33)** | 0.081 (-1.75) |
| FAGE | 0.072 (-1.80) | 0.455 (-0.75) | 0.083 (-1.73) |
| ASET | 0.007 (-2.70)* | 0.779 (-0.28) | 0.000 (-3.56)*** |
| IND | Included | Included | Included |
| THN | Included | Included | Included |
| N | 1083 | 598 | 485 |

Note(s): This table presents the regression results using the GMM method. This study uses a significance level of 5%. *represents a significance level of 10, **represents a significance level of 5, and ***represents a significance level of 1%. Definitions of each variable are explained in Table 1

Source(s): Authors' own work

results in Table 4. The 2SLS results in Table 7 also align with the regression results in Table 4.

6.9 Conclusion

In this study, the researchers examined the influence of political connections in the board of directors on stock price synchronicity in companies listed on the Indonesia Stock Exchange for the period 2021–2022. Additionally, the researchers expanded the study by including the variable of Sharia compliance. They aimed to test the influence of Sharia compliance on the relationship between political connections and stock price synchronicity. Indonesia was chosen as the research object because politically connected companies have been common since the New Order era (1965–1998). Furthermore, Indonesia follows a two-tier board system, making the presence of individuals with political connections crucial for both operational and supervisory roles within companies.

The researchers' findings indicate that political connections in the board of directors affect stock price synchronicity. The influence is negative, meaning that as companies have more political connections, their stock price synchronicity decreases. When a company has low stock price synchronicity, the informativeness of its stock prices is of higher quality. These findings suggest that companies with politically connected boards of directors have better operational performance in conveying information to the public.

Another finding of the study is regarding Sharia compliance in companies. Sharia compliance strengthens the negative influence of political connections on stock price synchronicity. This means that as companies have more political connections through their board of directors and comply with Sharia, the stock price synchronicity decreases, resulting in higher quality information being conveyed to the public. Companies with Sharia compliance have a better corporate environment. A good corporate environment can influence financial performance and stock prices because Sharia compliance can affect financial decision-making such as funding, dividend payments, debt, cash, and others. Indirectly, Sharia compliance also improves the corporate environment as companies become more compliant with laws, regulations, governance, and business activities. Sharia compliance can create higher expectations for ethical behavior among stakeholders in the company. With Sharia compliance, the quality of the company's financial reports can increase.

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Table 7. Two-stage least square

| Variable | Regression estimation | | |
|----------|-----------------------|----------------|---------------|
| | Model 1 | Model 2 | Model 3 |
| DBOD | 0.081 (-1.75)* | 0.215 (-1.24)* | 0.312 (-1.01) |
| FSIZE | 0.001 (3.38)** | 0.002 (3.08)** | 0.165 (1.39) |
| BSIZE | 0.743 (-0.33) | 0.214 (-1.24) | 0.460 (0.74) |
| DEBT | 0.603 (-0.052) | 0.519 (0.64) | 0.307 (-1.02) |
| FAGE | 0.160 (-1.41) | 0.022 (-2.29) | 0.838 (0.20) |
| ASET | 0.143 (-1.46) | 0.294 (-1.05) | 0.338 (-0.96) |
| IND | Included | Included | Included |
| THN | Included | Included | Included |
| N | 474 | 296 | 178 |

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Note(s): This table presents the regression results using the 2SLS method. This study uses a significance level of 5%. *represents a significance level of 10, **represents a significance level of 5, and ***represents a significance level of 1%. Definitions of each variable are explained in Table 1

Source(s): Authors' own work

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The findings from the tests have implications that could provide useful information for the development of the stock market in Indonesia. For literature, it adds to the body of knowledge by providing empirical evidence on political connections, Sharia compliance, and stock price synchronicity in the context of companies listed on the Indonesia Stock Exchange. For investors, this research can serve as a reference and consideration in making investment decisions, suggesting that political connections and Sharia compliance can be important factors for investing in companies in Indonesia. Our study highlights the importance of politically connected board of directors and Sharia compliance in a business environment. For regulators, this study is expected to serve as a reference in developing governance and related capital market regulations. The improvement of corporate governance regulation should prioritize strengthening the implementation of two-tier board system in Indonesia.

The results of this study are not without limitations. First, the sample used in this study was taken during the leadership of President Joko Widodo (the seventh president). This study only covered the period 2021–2022 without considering the impact of political connections in other regimes. Second, the researchers collected data on political connections in the board of directors based on publicly available data, namely through annual reports. The researchers could not delve deeper into individual connections as this is personal and confidential. Third, we use index conducted by the inclusion of companies in the Indonesia Sharia Stock Index (ISSI) to measure sharia compliance. Considering these limitations, the researchers suggest that future research could cover more regimes or periods, use stricter criteria of Sharia (such as a company with 30% of its funds deposited with interest is considered Sharia-compliant) and develop the study by adding family business relationships or group business connections.

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