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The Influence of Political Connections, Social Responsibility, Corporate Governance, And State Ownership on Firm Value

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Abstract

This study aims to examine the effect of political connections, CSR, corporate governance, and state ownership on firm value. This research was conducted on state-owned companies listed on the Indonesia Stock Exchange. This study uses control variables in the form of company size and age. The analysis technique used is multiple linear regression. The results showed that political connections have a negative effect on firm value, CSR and state ownership have a positive effect on firm value, while corporate governance has no effect on firm value.

Keywords: *Corporate Social Responsibility, State Ownership, Firm Value.*

1. INTRODUCTION

State-Owned Enterprises (SOEs) as implementers in various business sectors with most of the capital owned by the state certainly have their own challenges to be able to contribute to the national economy. In addition, SOEs also have the responsibility to be able to provide satisfaction for their stakeholders. Not only limited to satisfaction in the form of profits, but also satisfaction in non-financial forms such as how the level of social responsibility by the company or how good governance is carried out by the company. Good governance and social responsibility will certainly increase its value in the eyes of the public. Supports such as political connections owned by the company's ranks and also a higher level of share ownership by the state are often also utilised as additional company previllage to be able to attract more attention from stakeholders. This previllage has the potential to worsen the company's image when it is not used properly (misused).

Meanwhile, the real condition according to SOE Minister Erick Thohir on 14 December 2019, that out of 142 SOEs, only a small number are considered to have profits and have a contribution to state revenue (Sandi & Gusvita, 2019). Of the total SOE profits of Rp 189 trillion, only 15 SOEs contributed up to 73%. Some SOEs that are still strong with good growth are banking sectors such as BNI, Bank Mandiri, BTN and BRI, telecommunications, and cement. Meanwhile, in the long term, these sectors may not be reliable, for example in the banking sector which is currently being eroded by e-payments and others. Some cases in SOEs include Krakatau Steel with corruption cases in the

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procurement of goods and equipment needs of IDR 24 billion and IDR 2.4 billion (Wicaksono, 2019), financial problems where the company has been losing money for more than 5 years, high debt of around IDR 35-40 trillion, and mass layoffs carried out by Krakatau Steel under the pretext of restructuring and efficiency. The case at PT Garuda Indonesia, where the 2018 financial statements prepared by PT Garuda Indonesia are considered not in accordance with PSAK (Hartomo, 2019), smuggling of Harley Davidson motorbikes and Brompton bicycles (Itan & Chelencia, 2022). Some other cases include system errors and customer balance changes at Bank Mandiri, oil spills in Karawang Waters, and mass blackouts covering half of Java Island which resulted in many losses for various parties (Wicaksono, 2019). These conditions show that there are still many SOEs that have not paid proper attention to governance and responsibility. Therefore, it is important to conduct this research as an effort to accelerate the realisation of Good Corporate Governance of BUMN companies in Indonesia.

2. LITERATURE REVIEW

Agency theory explains the existence of a contract between one or more people who have an interest with another person who is given responsibility for implementing these interests (commonly called a contract between the principal and the agent) (Arif, 2020). Agency theory (Jensen, M. C., & Meckling, 1976) explains the separation of positions between owners (principals, shareholders) and managers (agents) with information asymmetry problems that arise between the two. Agency theory is based on three human traits, namely: that humans are generally self-interested, that humans have limited rationality regarding future perceptions (bounded-rationality), and that humans do not like risk (risk-averse) (Eisenhardt, 1989), which in turn encourages the possibility of conflict.

To minimise this conflict, principals can supervise and provide incentives to agents (Jensen, M. C., & Meckling, 1976). The Indonesian state, in the context of private companies in Indonesia, has a political relationship with the main and/or independent commissioner who has extensive political ties with the commissioner. Due to the scarcity of resources, including limited access to funding in the market. In particular, in countries where the protection of security rights is weak, and the level of commercialisation is strong (Faccio, 2006). The monitoring mechanism for agents can be done in several ways, namely natural mechanisms such as company ownership in the form of capital structure, institutional mechanisms such as corporate governance (Lara et al., 2017). Meanwhile, efforts to reduce agency conflicts can also be done through corporate governance supervision by majority shareholders (Shleifer & Vishny, 1997).

Stakeholder theory emphasises that companies are not entities that only operate for their own interests, but must also provide benefits to their stakeholders (Ghozali & Chariri, 2007). It is important for companies to seek support from each of the company's stakeholders for the business activities carried out, this support can be obtained by the company through the delivery of both financial and non-financial information on all activities carried out by the company that are expected by stakeholders, especially in relation to corporate social responsibility (CSR) and good corporate governance. This theory simply encourages companies to be able to create a business climate that can answer the demands of its stakeholders as well as possible. By addressing the company's responsibilities to all stakeholders, it dynamically increases their support for the company's sustainability.

According to (Héry & Levert, 2017), company value is a certain condition that has been achieved by the company as an illustration of public trust in the company. For companies going public, the movement of company value greatly influences potential investors to make investment-related decisions. The high and low value of the company can describe the welfare of stakeholders (Sucuahi & Cambarihan, 2016). The main goal of the company is to increase the value of the company through increasing the prosperity of the owner or shareholders (Permanasari & Kawedar, 2010). Company value is very important for the company, with the increase in company value, it will increase the share price which reflects the prosperity of shareholders. For a manager, company value is a description of his performance that has been achieved.

In this study, the method used to measure the value of the company is Tobin's Q. This ratio was developed by James Tobin in 1967 and is considered to provide the best information, because this ratio can explain various phenomena that occur in company activities such as cross-sectional differences in investment decision making. (Meyer et al., 2017) mentioned that companies with high Q values usually have a very strong corporate brand image, but companies with low Q values are generally in highly competitive industries or industries that are starting to shrink.

3. HYPOTHESIS DEVELOPMENT

Political Connected

Previous research explains that companies that make political connections are companies that have a special relationship with the government (Pranoto & Widagdo, 2016). The special relationship between the company and the government can be seen from the company owner who is a prominent political figure, for example as a member of the House of Representatives in both central and regional governments or as a member of a political party. Political connections (Ang et al., 2013) can be likened to a double-edged sword, which can increase or endanger firm value. In the PRC (Guo et al., 2014) shows that when political control is limited, firm performance increases. This occurs when there is increased firm flexibility in labour deployment and more effective enforcement of corporate governance mechanisms, but it is recognised that some political officials have conflicting objectives, for example maximising employment or minimising social costs.

(Chaney et al., 2011) found that politically connected firms have lower quality accounting information because they are less incentivised to respond to market pressures. Companies with political connections have a lower level of performance compared to companies that are not politically connected, assuming that the bailout funds spent by companies to finance political connections are, in general, an inefficient/very wasteful use of capital (Faccio, 2006).

H_1: Political Connected has a negative effect on firm value

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is the commitment of business organisations to conduct ethical actions and contribute to the economic development of certain communities or society at large and improve the lives of employees and their families. CSR aims to make companies not only focus on the Single-Bottom-Line in the form of financial performance, but rather focus on the Tripple-Bottom-Line (TBL) concept which includes financial, social life, and environmental aspects (Kalbuana et al., 2019). This social responsibility can be said to be a social investment that will ensure the sustainability of the company's current business and is one of the company's long-term strategies to provide added value to the surrounding community.

H_2: CSR has a positive effect on firm value

Good Corporate Governance

(Turnbull, 2019) explains that corporate governance is a system of governance that is organised by considering all factors that influence institutional processes, including factors related to the regulator's function. The Forum for Corporate Governance in Indonesia defines corporate governance as a set of rules that determine the relationship between shareholders, management, creditors, government, employees and other internal and external stakeholders with respect to their rights and obligations, or in other words a system that directs and controls the company. The purpose of corporate governance is to create value for stakeholders (Syakhroza, 2002). Furthermore, several studies have found that good governance has a positive effect on firm value, corporate governance variables have a significant effect on firm value (Brown & Caylor, 2006; Durnev & Kim, 2005; Gompers et al., 2003; Klapper et al., 2015).

H_3: Good Corporate Governance has a positive effect on firm value

State Ownership

Government-owned enterprises (SOEs) in Indonesia are partly owned 100% by the Government of the Republic of Indonesia, but some others are collaborated with the public with a certain percentage of ownership through public share sales. (Lin et al., 2020; Ng & Gujar, 2009) explain that a high level of state ownership (in China) with higher performance leads to a high level of Cash Flow Rights, where such companies benefit from government support, either through stronger monitoring, business connections, or politics.

H_4: State ownership has a positive effect on firm value

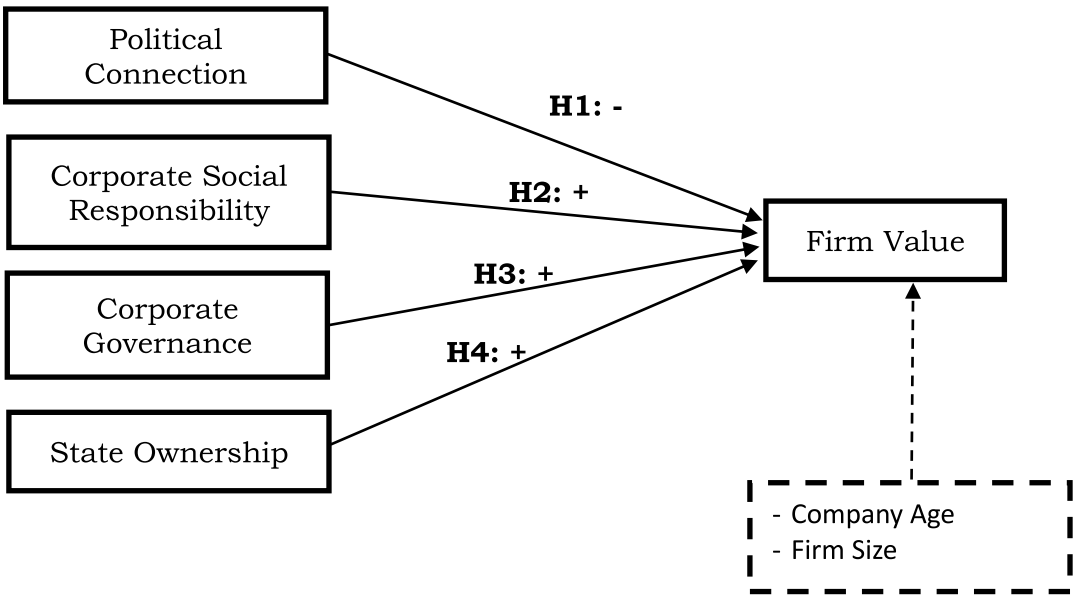

Figure 1. Research Model

4. METHODLOGY

The population in this study are state-owned companies listed on the IDX for the 2016-2020 period. The sample of this study was obtained using purposive sampling method, with the following criteria: (i) all BUMN companies listed on the IDX in 2016-2020, and (ii) have complete information on the research variables. This study involves three types of variables, namely: dependent variables, independent variables, and control variables. The dependent variable used in this study is firm value, while the independent variables in this study are political connections, CSR, corporate governance, and state ownership. The control variables in this study are age and company size.

Table 1 Variable Definition and Operationalisation

Dependent Variable	Measurement
Firm Value	Tobin s Q = ((outstanding share x share price) + book value of debt) divided of Book value Asset
Independent Variable	
Political Connected	The ratio of the number of personnel on the board of commissioners with political connections to the total number of personnel on the board of commissioners of the SOE.
CSR	Implementation score of corporate social responsibility
Corporate Governance	CGPI score published by the Indonesian CG Forum (FCGI)
State Ownership	Percentage of government ownership of SOEs (La Porta et al., 2000).
Control Variable	
Firm Age	Natural logarithm of the number of days since the company was founded until the date of the financial report issuance period on the Indonesia Stock Exchange
Firm Size	Logaritma natural total aset

Based on the hypothesis formulated in this study, the data analysis method used is multiple regression analysis method. The following is the research regression equation:

Nilai Q =α+β1PC+β2CSRScore+β3GCG+β4SO+β5AGE+ β6SIZE+e

Note:

Nilai Q : Tobin’s Q

α : Constanta

β : Regression coefficient

PC : Political Connected

CSRScore : CSR Score

GCG : GCG Score

SO : state ownership

AGE : Firm Age

SIZE : Firm Size

E : error

5. EMPIRICAL RESULT AND DISCUSSION

Based on the predetermined sampling criteria, namely BUMN companies listed on the IDX from 2016 to 2020, 100 data were obtained as samples from 20 companies. The list of companies that are the subject of this research sample is as follows:

Tabel 2. Result of Hypothesis Test

Variabel	Koefisien	t Stat	p-value
Intercept	10,026	3,588	0,001
PC	-0,915	-2,164	0,033**
CSRScore	1,411	1,747	0,084*
GCG	0,011	0,339	0,735
SO	0,737	2,220	0,029**
AGE	-0,002	-0,564	0,574
SIZE	-0,322	-4,846	0,000***
Observation	100		
R-square	0,288		
Adj R-square	0,243		
Standard Error	0,782		
F-statistic	6,283		
Prob (F-stat)	0,000		

Based on the test in table 3 above, the results show that simultaneously the F value is 6,283 with a probability of 0.000 ($p<0.05$), meaning that the company value can be predicted by PC, CSR, GCG, and SO. While partially with a significance level of 10%, the test results show that PC (political connections) has a negative effect on firm value so that hypothesis 1 is accepted, the company's CSR score has a positive effect on firm value so that hypothesis 2 is accepted, the corporate governance (GCG) score does not have a significant effect on firm value so that hypothesis 3 is rejected, state ownership (SO) has a positive effect on firm value so that hypothesis 4 is accepted, company age as a control variable has no significant effect on firm value, while company size has a significant negative effect on firm value.

The results showed that political connection, corporate social responsibility score, state ownership, and size affect firm value. Political connections (Ang et al., 2013) can be likened to a double-edged sword, which can increase or harm firm value. In the PRC (Guo et al., 2014) shows that when political control is limited, firm performance increases. This occurs when there is increased firm flexibility in labour deployment and more effective enforcement of corporate governance mechanisms, but it is recognised that some political officials have conflicting objectives, for example maximising employment or minimising social costs.

Furthermore, corporate social responsibility has an influence on firm value. This is in accordance with the philosophical principle of corporate social responsibility to the community around the company's operations. The achievement of the company in implementing social responsibility has a good impact on the future development of the company. The literature describes many other different ways in which the adoption of CSR can affect a company's financial performance, for example, CSR can positively affect a company's resources and capabilities. It can positively impact reputation, which can lower operating costs in terms of reducing waste and risk, or it can positively impact employee engagement and productivity (Pätäri et al., 2014). In addition, in line with research conducted by (Abdurrahman & Ermawati, 2018) examining profit after tax as a financial performance variable, (Uadiale & Fagbemi, 2012) used return on assets and return on equity as measures of financial performance, (Ofori et al., 2014) studied the relationship between corporate social responsibility and financial performance among Ghanaian companies.

Uadiale & Fagbemi (2012) revealed that there is a strong and positive and significant relationship between corporate social responsibility with return on assets (ROA) and return on equity (ROE). Iqbal et al., (2014) found a positive relationship between corporate social responsibility and corporate financial performance. However, financial performance was measured in the study using net profit margin and EPS.

Government ownership of the company has a good impact on firm value. this is in line with the results of this study which show that state ownership has a large impact on firm value. Chen et al., (2017) explain the U-shaped relationship between profitability and market performance with government ownership. In other words, company performance will be better if the portion of government ownership is very large or very small. Based on the grabbing hand theory, SOEs will benefit from government ownership through special treatment such as eased regulations, bailouts, facilitated access to resources, favourable loan and trade terms, which will improve firm performance. Conversely, government ownership can be detrimental to SOEs due to involvement in corruption, enrichment, expropriation, and rent-seeking behaviours that lead to a decline in SOE firm performance.

Finally, the firm size control variable has a negative effect on firm value. The direction of the negative effect shows that the greater the company value, the smaller the company value, this is different from the theoretical concept where the greater the size of the company, the greater the company value. in accordance with the opinion of Pranesti et al., (2022) which states that the higher the company value, the greater the prosperity that will be received by the company owner. However, the results of this study show different things, company size has a negative effect on firm value, meaning that the bigger the company the lower the company value.

The results showed that the age of the company had no effect on firm value, so this variable cannot be a control variable in the context of research on state-owned companies in Indonesia. This phenomenon is interesting because the older the age of BUMN companies in Indonesia cannot be an indicator that the company will be more established in providing information to all stakeholders. This means that the older BUMN companies in Indonesia are not the main thing in encouraging companies to increase company value. because conceptually the more mature the company's age, it is possible that the company will be more mature in providing information to all stakeholders as an effort to increase company value. this is in line with the opinion of Noveliana et al., (2022) which states that the longer the company stands, the more likely it is to provide more and more extensive information about the company than a newly formed company.

6. CONCLUSSION

Based on the results of the research that has been done, it can be concluded that the political connection variable has a negative effect on firm value, the CSR variable and state ownership have a positive effect on firm value, while corporate governance has no effect on firm value. In addition, the company age control variable has no effect on firm value and company size has a negative effect on firm value. This study cannot be separated from limitations, such as the use of the dependent variable of BUMN company value in Indonesia, which is a subjective public assessment of company management. Suggestions for further research are to be able to obtain a significant effect on company performance, this indicates an agency problem due to the application of the Corporate Governance mechanism which must be more accurately interpreted by investors. So that the results of this study provide a warning to companies to pay attention to the implementation of Corporate Governance to be even better so that company risk can be avoided.

7. AUTHOR CONTRIBUTIONS

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