

## **WOMEN ON BOARDS, POLITICAL CONNECTION AND FIRM VALUE (CASE STUDY ON COMPANIES IN INDONESIA STOCK EXCHANGE)**

**Sutrisno**

Universitas Islam Indonesia

e-mail: sutrisno@uii.ac.id

**Hana Nafia Fella**

Universitas Islam Indonesia

### **ABSTRACT**

*The presence of women and their contribution on company boards has become a concern. Many countries have issued policies that require the presence of woman on boards. Political connection is a familiar phenomenon in the business world. According to resource dependency theory, political connection is a way for firms to reduce the uncertainty of the external environment. This study aims to examine the effect of women on the board of commissioners (BOC), women on the board of directors (BOD), and political connection on firm value. The samples used were 109 firms listed in Indonesia Stock Exchange in the sectors of Infrastructure, Utilities, and Transportation; Miscellaneous Industry; Consumer Goods Industry; Property, Real Estate, and Building Construction. This study used multiple linear regression analysis method which shows the result that women on BOC has a significant negative effect on firm value while women on BOD has a significant positive effect, and political connection has no significant positive effect on firm value.*

*Keywords: women on boards; political connection; firm value; leverage*

### **ABSTRAK**

Kehadiran wanita dan kontribusi mereka dalam dewan komisaris dan direksi perusahaan telah menjadi perhatian. Banyak negara telah memiliki kebijakan yang meminta kehadiran wanita dalam dewan perusahaan. Koneksi politik merupakan fenomena yang sering dijumpai dalam dunia bisnis. Menurut *resource dependency theory*, koneksi politik merupakan cara perusahaan untuk mengurangi risiko ketidakpastian lingkungan eksternal. Penelitian ini bertujuan untuk melihat pengaruh wanita dalam dewan komisaris dan dewan direksi, dan koneksi politik terhadap nilai perusahaan. Sampel yang digunakan adalah 109 perusahaan yang terdaftar dalam Bursa Efek Indonesia yang termasuk dalam sektor Infrastruktur, Utilitas dan Transportasi; Aneka Industri; Industri Barang Konsumsi; Properti, Real Estate dan Konstruksi Bangunan. Penelitian ini menggunakan metode regresi linier berganda yang menunjukkan hasil bahwa kehadiran wanita dalam dewan komisaris memiliki pengaruh negatif signifikan terhadap nilai perusahaan, kehadiran wanita dalam dewan direksi

berpengaruh positif signifikan, dan koneksi politik tidak memiliki pengaruh positif signifikan terhadap nilai perusahaan.

Kata kunci: wanita dalam dewan; koneksi politik; nilai perusahaan; *leverage*

## 1. BACKGROUND

Firm value is investors' perception of companies that are often associated with stock prices. High stock prices make them also high. Investors will increase their confidence to invest in companies that have high value. A company's stock price is connected with the company's financial performance (Freihat, Farhan, and Shanikat, 2019). This shows that shareholder returns are influenced by how well the company is managed.

The condition of the country in which the company operates is also a determinant of company performance. Politics is the dominant factor that influences the country's economic activities such as the implementation of policies relating to industry and fiscal (Coulomb and Sangnier, 2014). One of the basic principles of investors when making investment decisions is to conduct an analysis for stock price movements or stock returns on the capital market caused by economic, political, and social conditions.

The practice of corporate governance is believed to increase the value of the company (Syamsudin, Setiany, and Sajidah, 2017). Corporate governance is related to the presence of the board in the company. Each individual who forms a board has a major influence on the decision making process. A board is said to be balanced if its members come from various background (diversification) that helps work more effectively (Abdullah, 2014). One of the problems regarding board diversification is the proportion of sex (gender diversity) on the board of directors and the board of commissioners (Syamsudin et al, 2017).

The presence of women on corporate boards will bring changes where women tend to have a listening, motivating, and able to encourage better teamwork. The higher proportion of women will result in better decision making because they have a different understanding than men (Syamsudin et al, 2017). According to Simpson et al (2010) if women are able to contribute a unique source of additional talent, the company might be able to increase value for shareholders and benefit other constituencies.

Data obtained by the International Finance Corporation (2019) shows that Thailand is the country with the most gender diversity in the ASEAN region with 20.4% representation of women on company board seats, followed by Vietnam 15.4% and Indonesia 14.9% in 2017. Some countries such as France, Germany, Italy, the Netherlands, Spain, Switzerland and the United Kingdom have enacted regulations which require a minimum proportion of women to be appointed on the board of the company (Ding and Charoenwong, 2013).

Companies with political connections (PCON) are a global phenomenon that is common in both developed and developing countries. PCON is a company that is politically connected through the board of directors, acquaintances or friends of company owners, and the families of high officials (Wong and Hooy, 2018). This relationship is also intertwined because the majority share of a company is owned by the government such as a state-owned company. PCON will generate greater profits in developing countries which have the characteristics of weak institutional arrangements, large interventions by the government, low transparency,

ineffective corporate governance structures, nepotism, corruption, and high informal relations (Faccio, 2010). The existence of political power within a company can provide easy access to information to directors who influence the policies to be taken by the company so that it is possible to anticipate economic changes and reduce uncertainty (Maaloul, Chakroun, and Yahyaoui, 2018). On the other hand, the presence of the business world makes it easy for politicians to obtain financial support especially during the election period.

Resource dependency theory (RDT) explains that one way companies reduce uncertainty in the external environment is by building political connections that will provide a stronger resource base (Wong and Hooy, 2018). Maaloul et al (2018) say that business depends on the government caused by government control of most of the limited resources. This is what drives companies to look for strategies to benefit from these resources in achieving competitive advantage. One strategy is to elect directors with political experience.

Previous research related to the influence of women on board and political connections showed different results. Syamsudin et al (2017) and Triana and Asri (2017) found female directors to have a significant positive effect on company performance and value. On the other hand, the presence of women on the board of directors has a significant negative impact on ROA and market performance as measured by Tobin's Q proxy (Darmadai, 2011; Abdullah and Ismail, 2013). Political connections can have a positive impact as a "helping hand" and conversely can have a negative impact as a "grabbing hands" (Chen, Li, Luo, and Zhang, 2017). Politically connected companies tend to have better performance, enjoy tax benefits, and have higher corporate value (Wu, Wu, Zhou, and Wu, 2012; Maaloul and Yahyaoui 2018). Political connections do not always have a positive impact on all companies in every country. Khaney, Faccio, and Parsley (2011) found PCON to report poorer quality accounting information compared to unconnected companies. In addition, shareholders generally react negatively to the appointment of directors with political and government relations (Gray, Harymawan, and Nowland, 2016).

The above description shows that the corporation in carrying out its business activities is inseparable from the important role of the company board. The representation of women in the company board has become an interesting issue considering that there is still a gender bias that views that men are more concerned than women in a number of countries (International Finance Corporation, 2019). Indonesia is one of the countries with high political influence in the business context and has many dominant companies with political connections (Putantri, Nainggolan, and Warinangin, 2018). Previous research has mostly focused on the influence of board size, independent board, nature duality held by the board; and the educational background of the board. This research gives a new contribution by paying attention to gender diversity in the board as well as political connections that are owned by the board that can bring influence to the value of the company.

## **2. THEORITICAL REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Corporate Governance**

Corporate governance is the principle by which the board is expected to oversee and direct corporate activities effectively (Anand, 2007). The principles of corporate governance will ensure that the interests of the represented shareholders and the corporation meet all legal

and ethical requirements. The General Guidelines for Good Corporate Governance Indonesia explains that corporate governance involves a series of relationships between management, the board of commissioners (BOC), the board of directors (BOD), and shareholders of the company. Board of directors must provide financial and operational reports to shareholders on a regular and transparent basis. Board of commissioners performs supervisory functions over the BOD. Thus, BOD is responsible to the BOC and all shareholders through a general meeting of shareholders. The parties who benefit from good corporate governance (GCG) include: shareholders, board members, and executive members (Anand, 2007).

### **Company Board**

The board of directors and the board of commissioners play an important role in corporate governance. Law No. 40 of 2007 on Limited Liability Companies, Indonesia adopted a two-tier board system in which the role of executive director was carried out by a board of directors (BOD) while the function of non-executive directors was held by a board of commissioners (BOC). BOC is chosen by shareholders in a general meeting of shareholders (GMS).

General Guidelines for Good Corporate Governance Indonesia states that the board of commissioners is a corporate organ responsible for overseeing and advising the board of directors and ensuring that the company implements good corporate governance practices. BOC is prohibited from participating in operational decision making. According to Hidayat and Utama (2016), the board of commissioners has two main functions. First, the supervisory function can be linked to agency theory. Second, the function of resource providers that can be linked to resource dependency theory.

Law No. 40 of 2007 states that the board of directors as a corporate organ with full authority to manage the company in the interests of the company in accordance with the aims and objectives of the company. The board of directors is led by a president director. According to the Guidelines for Good Corporate Governance Indonesia . First, the management element in which BOD must regulate the use of company resources effectively and efficiently. Secondly, risk management. In this element, the board of directors must establish and implement a risk management policy that covers all aspects of the company's activities. Third, internal control. build and maintain a healthy internal control system to protect company assets, monitor organizational performance, and compliance with laws and regulations. Fourth, communication. The Body of Communication must ensure the smooth communication between the company and its stakeholders by empowering the functions of the Corporate Secretary. Fifth, social responsibility. Directors must be responsible for fulfilling corporate social responsibility.

### **Resource Dependency Theory (RDT)**

Resource dependence theory characterizes corporations as open systems that depend on possibilities in the external environment (Pfeffer and Salancik, 1978). Based on this theory, organizational success is judged on power. Companies with more resources have power over other companies with fewer resources. According to Pfeffer and Salancik (1978) there are three ideas surrounding RDT covering the first social context is the interaction between the company and its main actors who come from internal or external, for example the

environment, consumers, suppliers, government, competitors, and company boards. Second, the company's strategy towards actors to gain influence in controlling resources. Third, increase power by cooperating with relevant parties.

Pfeffer and Salancik (1978) mention there are four benefits of using a board of directors as a liaison with stakeholders in the context of resource dependency. First, provide information that is beneficial to the organization. Second, provide a channel for communication. Third, obtain commitment to support important elements of the environment. Fourth, have value in legitimating the organization.

Companies experience dependency because they need resources outside the corporation (Hilman, Withers, and Collins, 2009). External dependence can be caused by several factors including market competition due to globalization, limited credit supply, lack of raw materials and energy due to geopolitical changes in demand for production factors.

### **Political Connection**

A company is identified as being politically connected if the leader (CEO and board member) engages in the political arena, engages in government activities, has friendships with politicians, or is known for their political past (Chaney, Faccio, and Parsley, 2011). PCON is defined as State-owned companies and boards of directors are politically bound (Wu et al, 2012). According to Faccio (2010), a company can be said to be politically connected if at least one majority shareholder of the company (someone who has a minimum control of 10% of the total shares with voting rights) or one of the directors who are members of parliament, personally has a close relationship with accomplished politicians or political party.

Political connections as a "helping hand" increase by providing facilities to obtain scarce resources and providing alternative protection for companies operating in weak institutional environments (Faccio, 2010). However, politicians may have their own political agendas or goals that may conflict with maximizing the value of the company. Thus, political connections actually act as "grabbing hands" that force corporations to assume excessive social responsibility so that the impact on decreasing firm value.

### **Women on Boards**

The existence of women diversifies the composition of the board through the gender dimension. Board diversity, in the context of corporate governance, is defined as the composition of the board with a combination of the quality, characteristics, and expertise possessed by the board members (Abdullah, Ismail, and Nachum, 2016). In addition, gender is wrong one characteristic of the diversity of the board.

Gender is a concept that views differences between women and men based on nonbiological perspectives such as cultural, social, behavioral, and nature aspects. Women have a high degree of caution, are risk averse, and are more thorough than men (Kusumastuti, Supatmi, and Literature, 2007). These characteristics and attitudes make women not in a hurry when making a decision.

Gender diversity on corporate boards has gained considerable interest in public debate, academic research, and corporate strategy. Gender diversity is increasingly felt as a driver of value in corporate strategy for several reasons. First, investors began to consider the diversity

of the board. Secondly, there was encouragement from stakeholders. Third, the enactment of regulations in several countries that obliged companies to include women in the board. For example, the Norwegian government requires corporations to appoint at least 40% of women to fill corporate board positions. Fourth, the issue of gender diversity has been discussed in corporate governance best practices. For example, the Sarbanes-Oxley Act of 2002 (in the United States).

## **HYPOTHESIS DEVELOPMENT**

### **Women on Boards and Firm Value**

Resource dependence theory views that women bring valuable resources to the board. Based on Terjesen, Barbosa, and Morais (2016), female directors have different knowledge, skills and experience from male directors. Increasing the presence of women on the board can increase the company's talent resources to foster operational excellence and bring new insights and perspectives in decision making (International Finance Corporation, 2019). Women can bring different leadership traits, bring more varied and comprehensive competencies. In general, women's perspectives are more flexible and more open to different ways of thinking.

Greater diversity through the presence of women in the composition of the board will lead to improved corporate governance and top management control. Women bring diversity along with benefits related to better corporate governance thereby increasing shareholder value in the long term (Ding and Charoenwong, 2013). Thus, the hypothesis is obtained:

*H<sub>1</sub>: Women on Board of Commissioners have a Positive effect on Firm Value.*

*H<sub>2</sub>: Women on Board of Directors has a positive effect on Firm Value.*

### **Political Connection and Firm Value**

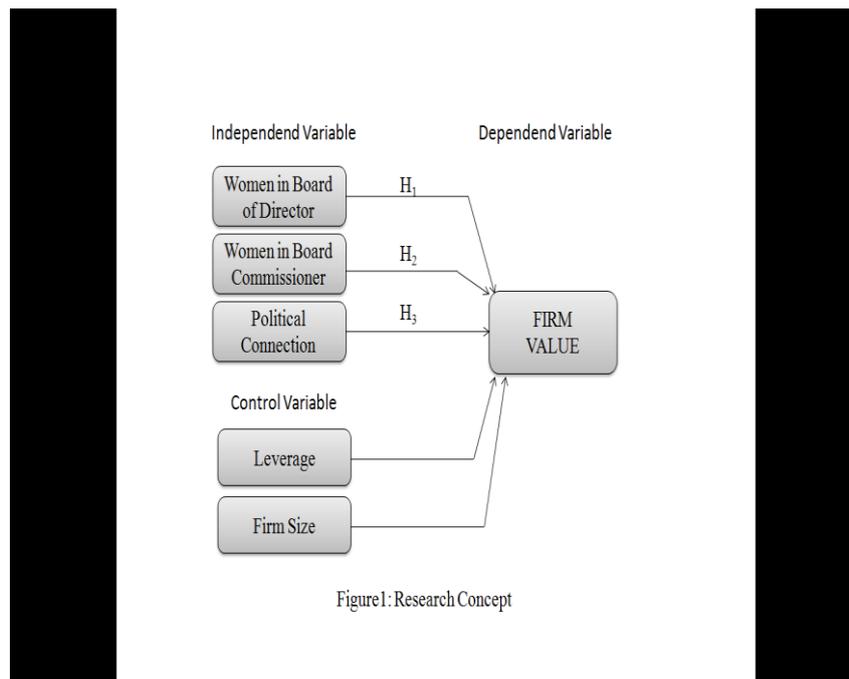
Resource dependence (RDT) emphasizes that organizations that have more power will have an influence on other organizations. RDT with an emphasis on uncertainty, power and influence, shows that establishing political relations with government is a useful strategy for obtaining resources.

The corporate board has a role as a provider of access to the resources needed by the corporation. RDT sees the board as a corporate asset that contributes to the creation of sustainable value. Corporations that are able to attract strong community members to the corporate board will be able to obtain important resources from the environment. Political connections can improve company performance and value (Maaloul and Yahyoui, 2018). Political connections can facilitate obtaining resources through loans, contracts, government grants which have a positive impact on company performance and value.

*H<sub>3</sub>: Political Connection has a positive effect on Firm Value.*

## **RESEARCH CONCEPT FRAMEWORK**

Based on the background, problem formulation, theoretical study and hypothesis development, the following research concept framework can be made:



### 3. RESEARCH METHODS

#### Population and Research Sample

The population used in this study are all companies listed on the Indonesia Stock Exchange (IDX) with the time period used, namely in 2018. Sampling is done by purposive sampling method with certain criteria. The criteria are that the company in the sector of Infrastructure, Utilities, and Transportation; Miscellaneous Industry; Consumer Goods Industry; Property, Real Estate, and Building Construction, and has an annual report for the 2018 period that provides complete information regarding total assets, total equity, total debt, share price, number of shares outstanding, and company board profile.

in the sector of Infrastructure, Utilities, and Transportation; Miscellaneous Industry; Consumer Goods Industry; Property, Real Estate, and Building Construction

#### Research Variables

In this study there is one dependent variable namely firm value, three independent variables consisting of women on the board of directors, women on commissioners, and political connections, and there are two control variables consisting of leverage and firm size. The definition and measurement of the variables are as follows:

Table 1: Variables Definition

Variable	Definition
Women on BOC	Women on board of commissioners are measured using a composition that compares the total number of female boards of commissioners with the total members of the board of commissioners (Syamsudin et al, 2017).
Women on BOD	Women on board of directors are measured using a composition that compares the total number of female boards of directors with the total members of the board of directors (Syamsudin et al, 2017).
	A company is said to be bound by politics if: (1) the president commissioner,

Political Connection	member of the board of commissioners, independent commissioners or (2) president directors, board members, and independent directors have political connections both domestically and abroad. This relationship is in the form of: (1) directly involved in political parties; (2) former members of political parties; and (3) currently serving or having served in parliament, ministries, the police, and the military (Chaney et al, 2011; Faccio, 2010; and Wong and Hooy, 2018).
Firm Value	Firm Value is measured using the market to book value ratio. An MBV ratio of more than 1 indicates that investors are willing to pay for shares greater than the book value of the shares. Conversely, a ratio value that indicates a number smaller than 1 can be interpreted that the company as a whole has not succeeded in creating value for shareholders (Ross, Westerfield, and Jordan, 2008).
Leverage	The leverage ratio shows the company's funds that are filled with debt. This variable is calculated comparing total debt with total equity.
Firm Size	Firm size can be measured by revenue, total assets, and total capital. In this study, the proxy used is the natural logarithm of total assets.

Table 2: Variable Measurement

Variabel	Notasi	Ukuran
Women on BOC	WOMC	Number of Female Commissioners / Number of Board of Commissioners
Women on BOD	WOMD	Number of Female Directors / Number of Board of Directors
Political Connection	PCN	Each connected company will be given a value of 1 and 0 if it is not connected.
Firm Value	FV	(Price per share x Number of shares outstanding / Total Equity
Leverage	LEV	Total debt/Total Equity
Firm Size	SIZE	Size = ln Total Assets

#### 4. RESEARCH RESULTS AND DISCUSSION

##### Descriptive Statistics

The following is presented an overview of research data covering the minimum value, maximum value, average value of each research variable

Table 3: Statistics Descriptive

Variabel	Mean	Median	Maksimum	Minimum	Std. Dev
FV	0,9311	0,8376	2,6046	-0,1192	0,5858
WOMC	0,1283	0,0000	0,6666	0,0000	0,1908
WOMD	0,1171	0,0000	0,5000	0,0000	0,1510
PCN	0,5688	1,0000	1,0000	0,0000	0,4975
LEV	0,8859	0,7785	2,9671	-1,2563	0,7439
SIZE	28,870	28,870	33,470	25,2700	1,5002
<i>Observation</i>	109	109	109	109	109

Source: Data processed by Eviews 9.0 (2020)

The dependent variable, the Firm Value measured by the market to book value (MBV) proxy has an average value of 0.93 and a standard deviation of 0.59. The median value of 0.84. The maximum value is 2.60 while the minimum value is -0.12.

WOMC has a mean value of 0.13 and a standard deviation of 0.19. This means that only 13% of the company's board of commissioners are women. The median value is 0.00. The maximum value is 0.67, which means there are companies with women's representation in BOC at most 67%. The minimum value is 0.00 which means there are still companies that do not have women on the board of commissioners.

The mean value of WOMD is 0.12 which means that 12% of the company's board of directors is filled by women. Standard deviation value, which is 0.15. The median value is 0.00. A maximum value of 0.50 means that there is a company with a proportion of women on the board of directors of at most 50%. The minimum value of this variable is 0.00 which means there are still companies that do not have women on the board of directors.

PCN is a dummy variable. The mean PCN, which is 0.57 means that 57% of the 109 sample companies have political connections. Standard deviation of 0.50. The median value is 1. The maximum and minimum values, which are 1 and 0.

The LEV control variable (leverage) shows an average value of 0.89, a median value of 0.78, and a standard deviation of 0.74. The maximum value is 2.9 and the minimum value is -1.26. Another control variable, namely firm size (SIZE) with the natural logarithm proxy of total assets. The average value of 28.87092 which shows that the average size of the company used in this study is large. The median value of SIZE is 28.87000, the standard deviation is 1.500221, the maximum value is 33.47000, and the minimum value is 25.27000.

### Hypothesis Test Results

Hypothesis testing uses multiple regression with a significance level of 5%, meaning that if the results of the hypothesis indicate a significance value of less than 0.05, then the hypothesis is proven significantly.

Table 4: Hypothesis test result

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
C	1,375199	1,100656	1,249436	0,2143
WOMC	-0,703337	0,288366	-2,439039	0,0164
WOMD	0,926207	0,349007	2,653839	0,0092
PCN	0,101855	0,119613	0,851535	0,3964
LEV	0,291928	0,077754	3,754486	0,0003
SIZE	-0,026980	0,039461	-0,683716	0,4957

Source: Data processed by Eviews 9.0 (2020)

## DISCUSSION

### Women on BOC and Firm Value

WOMC has a P-value of 0.0164. Although the P-value is smaller than the 0.05 significance level, the coefficient is negative (-0.703), which means there is an inverse relationship between WOMD and firm value. Thus, H0 is accepted and H2 is rejected. Female commissioners have a significant negative effect on firm value.

The General Guidelines for Good Corporate Governance in Indonesia state that the board of commissioners is a corporate organ responsible for overseeing and advising the

board of directors as well as ensuring that the company implements good corporate governance practices. Syamsudin et al (2017) found that female commissioners had a significant positive impact on Firm Value because it would be more effective in conducting surveillance. However, the results of this study are contradictory. Women have a high degree of caution, are risk averse, and are more thorough than men (Kusumastuti et al, 2007). The attitude and nature of these women make women commissioners more stringent supervise the board directors. Overly strict supervision has both positive and negative effects on corporate performance. Ajazan and Suarez (2003) state that excessive monitoring can reduce shareholder value. Women commissioners can suppress and limit the motion of the board of directors in carrying out their business operations. In addition, the less competitive nature of women compared to men will influence the BOC tends to direct the BOD to the standard performance results.

Sixty-eight percent of corporations in Indonesia are family-ownership (Harymawan, Nasih, Madyan, and Suzahyati, 2019). In Indonesia, the granting of positions to women to sit on the board of commissioners is not seen based on their competency but because of family relations (Kusumastuti et al, 2007). Based on 109 samples used in this study, there were five companies where 66.67% of the seats in the board of commissioners were held by women or two of the three BOC members were women. Three of the five corporations, there is always one female commissioner who has a family affiliation relationship with the controlling shareholder and founder. For example, the female commissioner president PT Bhuwanatala Indah Permai Tbk (BIP) has a female board of commissioners related to family affiliation with the controlling shareholder. PT Ciputra Development Tbk (CTRA) which was founded by Ir. Ciputra has eight boards of commissioners, four of which are women. All female commissioners are founding families, namely the founder's wife, children and son-in-law. On the other hand, women commissioners in state-owned companies tend to be little found. Among the eight commissioners of PT Wijaya Karya Tbk, only two are women. The appointment of a female board of commissioners who only prioritizes family relations without considering competency, knowledge, expertise, and experience can raise investor doubts regarding the board's ability to carry out its duties and roles. Companies with WOMC have a mean firm value of only 0.74 (table 6). An MBV ratio below 1 can be interpreted that the average corporation with WOMC has not succeeded in creating value for shareholders.

### **Women on BOD and Firm Value**

WOMD has a positive coefficient which means there is a direct relationship with the firm value. The P-value of WOMD is 0.0092, which means it is smaller than the significance level of 0.05. Therefore, H<sub>0</sub> research was rejected and H<sub>1</sub> was accepted. Thus, the representation of women on the board of directors will have a significant positive impact on the value of the company.

International Finance Corporation (2019) cites the importance of women on the board of directors. First, female directors are able to understand the consumer market better. Second, the increasing number of women on the board of directors will attract investors. Third, improve the reputation of the corporation. Resource dependence theory views that women bring valuable resources in the form of knowledge, skills and experience to the board.

Eagly and Johannesen-Schmidt (2001) emphasize that the presence of women directors enhances five leadership traits including development, expectations & rewards, role models, inspiration, and participative decision making. The leadership style and nature of women will help the board of directors carry out their duties in operating the company. The high proportion of female members in BOD will result in better decision making (Syamsudin et al, 2017). Compared to men, women have a more caring, sensitive, and intuitive nature. By utilizing this trait, female directors are more sensitive and understand consumer tastes better so they can capture market opportunities. This is the same as said by Liu, Zuobao, and Feixue (2014) that for communication channels, the perspective of women leaders is very good for connecting companies with consumers, workers, and society in general. In addition, the new perspective views brought by women directors into BOD will add creativity and innovation to corporate progress.

The presence of female directors can make the public judge that corporations have implemented gender equality by providing equal opportunities between men and women to fill the bench in the ranks of BOD. As such, it helps improve the reputation of the corporation. The representation of women on the board of directors has become a consideration and concern for business people and investors. The Philippines and Singapore have incorporated gender diversity into corporate governance pedagogy (International Finance Corporation, 2019). Based on the results of the descriptive statistical analysis in table 6, corporations with women in BOD show a mean value of 1.09. This indicates that investors are willing to pay shares greater than the book value of shares. The existence of women directors is believed to be able to create value for shareholders.

The results of this study support previous research by Syamsudin et al (2017) and Triana and Asri (2017) which state that women on the board of directors have a positive impact on Firm Value. Gender diversity in BOD can be a competitive advantage and a source of corporate value.

### **Political Connection and Firm Value**

PCN shows a positive coefficient of 0.1018 which means there is a direct relationship with firm value. P-value of 0.3964 which is greater than the significance level of 0.05. Therefore, H<sub>0</sub> is accepted and H<sub>3</sub> is rejected, which means that political connections do not have a significant positive effect on firm value.

Resource dependency theory (RDT) explains that one way companies reduce the uncertainty of the external environment is by building political connections that will provide a stronger resource base (Wong and Hooy, 2018). Organizations through political mechanisms seek to create for themselves a better environment for their interests (Pfeffer and Salancik, 1978). This effort is done through the board of the company. Investors consider the phenomenon as a positive signal to invest because they want to benefit from the profits generated through political connections (Maaloul and Yahyaoui, 2018). In this study, the PCN variable has a positive value coefficient which means that investors are optimistic that political connections will provide positive benefits to the company's financial performance. One of the biggest benefits felt by companies is getting a government project. For example, PT Wijaya Karya Tbk (WIKA) won the first package auction for the construction of the Manikin Dam in East Nusa Tenggara with an offer of Rp1.02 trillion. Package II was won by

PT Pembangunan Perumahan Tbk (PTPP) with an offer price of Rp905.25 billion (Maulana, 2019). In addition, WIKA also won a Sadawarna package I development contract (Maulana, 2019). The news received appreciation from WIKA's investors by strengthening the share price by 4.08% at the close of trading on November 19, 2018 (Budiman, 2018).

Research by Maaloul and Yahyaoui (2018) who found political connections had a significant positive effect on firm value. Instead, this study did not show that PCN had a significant effect on firm value. Not all investors assume that political connections will always provide significant benefits for the corporation. For example, PT Bakrie Telecom Tbk (BTEL) and PT Asia Pacific Fibers Tbk (POLY) have negative equity values that have an impact on the leverage ratio and the MBV becomes negative. These conditions indicate that the company experienced continuous business losses and resulted in the erosion of equity values. In addition, negative equity indicates the company is unable to distribute returns in the form of dividends to shareholders. Thus, investors will tend to avoid companies with negative equity values despite having political connections.

PCN will provide a number of positive benefits for the company. However, companies certainly have to pay a significant amount of money to obtain these benefits. Thus, the size of the positive influence resulting from political connections must be compared with the costs that have been incurred. PCN could have been a "grabbing hand" if the corporate board as well as politicians have other political interests that want to be fulfilled by utilizing the company (Faccio, 2010). This practice is contrary to good corporate governance which gives rise to conflict of interest where the board of the company should act in the interests of shareholders. This can be used as an investor signal to not invest on a company with a board that is also a politician.

## 5. CONCLUSIONS AND RECOMMENDATIONS

This research was conducted with the aim to determine the effect of women on BOC, women on BOD, and political connections on Firm Value. The test results found that women on BOC had a significant negative effect on firm value. In Indonesia, the appointment of women to fill BOC positions is done on the basis of family relations without regard to the competence and oversight that are conducted by the female commissioners on the board of directors can decrease the value of the company. Women on BOD has a significant positive effect on Firm Value. The nature, attitudes, perspectives, and leadership styles that are owned by women directors will be a source of competitive advantage to increase corporate value. Political connections do not have a significant positive effect on firm value. Not all political connections will provide significant benefits for the corporation.

Suggestions for further research are expected to use more sectors and year periods. Data analysis methods can be added in addition to using descriptive statistical analysis, multiple linear regression, and hypothesis testing. The channel of political connections in this study is not distinguished between the board of commissioners and the board of directors. For further research is expected to be able to separate and add categories of political connections.

**REFERENCES**

- Abdullah, S.N. (2014). The Causes of Gender Diversity in Malaysian Large Firms. *Journal Management Governance*.
- Abdullah, S.N., dan Ismail, K.N.K. (2013). Gender, Ethnic, dan Age Diversity of The Boards of Large Malaysian Firms and Performance. *Jurnal Pengurusan*, vol. 38, pp. 27-40.
- Abdullah, S.N., Ismail, K.N.I.K., dan Nachum, L. (2016). Does Having Women on Board Create Value? The Impact of Societal Perceptions and Corporate Governance in Emerging Markets. *Strategic Management Journal*, vol. 37, pp. 466-476.
- Almazan, A., dan Suarez, J. (2003). Entrenchment and Severance Pay in Optimal Governance Structures. *Journal of Finance*, vol. 58, pp. 519-547.
- Anand, S. (2007). *Essentials of Corporate Governance*. New Jersey: John Wiley & Sons.
- Budiman, A. (2018). Menangi Proyek Bendungan Sadawarna, Bagaimana Prospek Saham WIKA? Dilihat pada 5 Mei 2020, dari Bareksa.com: <https://www.bareksa.com/id/text/2018/11/21/menangi-proyek-bendungan-sadawarna-bagaimana-prospek-saham-wika/20908/news>
- Chaney, P.K., Faccio, M., dan Parsley, D. (2011). The Quality of Accounting Information in Politically Connected Firms. *Journal of Accounting and Economics*.
- Chen, C., Ariff, M., Hassan, T., dan Mohamad, S. (2013). Does a Firm's Political to Government have Economic Value?" *Journal of the Asia Pacific Economy*, vol. 18, no. 3, pp. 477-501.
- Chen, C.R., Li Y., Luo, D., dan Zhang, T. (2017). Helping Hands or Grabbing Hands? An Analysis of Political Connections and Firm Value. *Journal of Banking and Finance*, vol. 80, pp. 71-89.
- Coulumb, R., dan Sangnier, M. (2014). The Impact of Political Majorities on Firm Value: Do Electoral Promises or Friendship Connections Matter? *Journal of Public Economics*.
- Darmadi, S. (2011). Board Diversity and Firm Performance: The Indonesian Evidence. *Corporate Ownership and Control Journal*.
- Ding, D.K., dan Charoenwong, C. (2013). Stock Market Reaction when Listed Companies in Singapore Appoint Female Directors. *International Journal of Management*, vol. 30, no.1, pp. 285-300.

- Eagly, A.H., dan Johannesen-Schmidt, M. C. (2001). The Leadership Styles of Women and Men. *Journal of Social Issues*, vol 57, no. 4, pp. 781-797.
- Faccio, M. (2010). Differences between Politically Connected and Nonconnected Firms: A Cross-country Analysis. *Financial Management*, vol 39, no.3, pp. 905-928.
- Freihat, A.F., Farhan, A., Shanikat, M. (2019). Do Board of Directors Characteristics Influence Firm Performance? Evidence from the Emerging Market. *Journal of Management Information and Decision Sciences*, vol. 22.
- Gray, S., Harymawan, I., dan Nowland, J. (2016). Political and Government Connections on Corporate Board in Australia: Good for Business? *Australian Journal of Management*.
- Harymawan, I., dan Nowland, J. (2016). Political Connection and Earnings Quality: How do Connected Firms Respond to Changes in Political Stability and Government Effectiveness? *International Journal of Accounting and Information Management*, vol. 24, no. 4, pp. 339-356.
- Harymawan, I., Agustia, D., dan Agung, A.K. (2017). Characteristics of Politically Connected Firms in Indonesia. *Journal Problems and Perspectives in Management*, vol. 15, no. 4, pp. 17-23.
- Hidayat, A.A., dan Utama, S. (2016). Board Characteristics and Firm Performance: Evidence from Indonesia. *International Research Journal of Business Studies*, vol.8, no.3, pp. 137-154.
- Hilman, A.J., Withers, M.C., dan Collins, B.J. (2009). Resource Dependence Theory: A Review. *Journal of Management*, vol. 35, no. 6, pp. 1404-1427.
- International Finance Corporation. (2019). Board Gender Diversity in ASEAN. Dilihat pada 17 Januari 2020, dari IFC.org: [https://www.ifc.org/wps/wcm/connect/21f19cfe-9cce-4089-bfc1-e4c38767394e/Board\\_Gender\\_Diversity\\_in\\_ASEAN.pdf?MOD=AJPERES](https://www.ifc.org/wps/wcm/connect/21f19cfe-9cce-4089-bfc1-e4c38767394e/Board_Gender_Diversity_in_ASEAN.pdf?MOD=AJPERES)
- Komite Nasional Kebijakan Governance. (2006). *Pedoman Umum Good Corporate Governance Indonesia*. Dilihat pada 21 Januari 2020, dari [http://www.ecgi.org/codes/documents/indonesia\\_cg\\_2006\\_id](http://www.ecgi.org/codes/documents/indonesia_cg_2006_id).
- Kusumastuti, S., Supatmi., dan Sastra, P. (2006). Pengaruh Board Diversity terhadap Nilai Perusahaan dalam Perspektif Corporate Governance. *Jurnal Ekonomi Akuntansi-Universitas Kristen Petra*.
- Liu, Y., Zuobao, W., dan Feixue, X. (2014). Do Women Directors Improve Performance in China? *Journal of Corporate Governance*, vol. 28, pp. 169-184.

- Maaloul, A., Chakroun, R., dan Yahyaoui, S. (2018). The Effect of Political Connections on Companies Performance and Value. *Journal of Accounting in Emerging Economies*, vol. 8, no. 2, pp. 185-204.
- Maulana, R. (2019). WIKA Menang Lelang Bendungan Manikin Paket I, PTPP Paket II. Dilihat pada 5 Mei 2020, dari Bisnis.com: <https://ekonomi.bisnis.com/read/20190103/45/874735/wika-menang-lelang-bendungan-manikin-paket-i-ptpp-paket-ii>
- Maulana, R. (2019). WIKA Incar Kontrak Pembangunan 2 Bendungan. Dilihat pada 5 Mei 2020, dari Bisnis.com: <https://ekonomi.bisnis.com/read/20190110/45/877175/wika-incar-kontrak-pembangunan-2-bendungan>
- Pfeffer, J., dan Salancik, G.R. (1978). *The External Control of Organizations: A Resource Dependence Perspective*. Harper & Row, New York.
- Putantri, A.A., Nainggolan, Y.A., dan Peranginangin, Y. (2018). Are Foreign Investors Attracted to Politically Connected Firms? *International Journal of Business and Society*, vol. 19, no. 1, pp. 87-102.
- Republik Indonesia. (2007). *Undang-Undang Republik Indonesia Nomor 40 Tahun 2007 tentang Perseroan Terbatas*. Jakarta: Sekretariat Negara.
- Ross, S.A., Westerfield, R.W., dan Jordan, B.D. (2008). *Corporate Finance Fundamentals Edition 8*. New York: McGraw-Hill.
- Syamsudin, S., Setiany, E., dan Sajidah, S. (2017). Gender Diversity and Firm Value: A Study on Board of Public Manufacturing Firms in Indonesia. *Journal Problems and Perspectives in Management*, vol. 15, no. 3, pp. 276-284.
- Terjesen, S., Barbosa, C.E., dan Morais, F.P. (2016). Does The Presence of Independent and Female Directors Impact Firm Performance? A Multi-Country Study of Board Diversity. *Journal Management Governance*, vol. 3, pp. 447-483.
- Triana., dan Asri, M. (2017). The Impact of Female Directors on Firm Performance: Evidence from Indonesia. *Journal of Indonesian Economy and Business*, vol. 32, no. 1, pp. 19-32.
- Wong, W., dan Hooy, C. (2018). Do Types of Political Connection Affect Firm Performance Differently? *Pacific-Basin Finance Journal*, vol.51, pp. 297-31.
- Wu, W., Wu, C., Zhou, C., dan Wu, J. (2012). Political Connection, Tax Benefits, and Firm Performance: Evidence from China. *Journal of Accounting and Public Policy*, vol. 31, no. 3, pp. 277-300.