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Political connections and firm performance: evidence from the mobile industry in Indonesia

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Abstract: This study investigates whether political connections in the mobile industry are associated with performance. The mobile industry is a restricted business in Indonesia, where the rules for business entry and business operations are abundant, such as operational licences, tariffs, and implementation policies. The study expects that mobile firms with political connections perform better than those without political connections. The results indicate the different impacts of political connections on firm performance, measured by ROA and Tobin's Q. The study also finds different results in political connections and performances on a family-owned mobile company and a non-family-owned mobile company, including SOE. Moreover, the study investigates different forms of political connections including companies, government or military, politicians, and parliament. The study suggests that the multiple political connection types have different effects on firm performances.

Keywords: political connections; mobile industry; military connection; government authority connection; parliament connection; performance.

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1 Introduction

Mobile telecommunication service has been growing rapidly across the world, including Indonesia. Moreover, a stagnating rate of diffusion suggests that the market may have reached maturity (Bahri-Ammari and Bilgihan, 2019). Nielsen (2012) states that Indonesia has 21% internet penetration, 91% mobile phone penetration and 38% smartphone penetration in 2011. Recently, Kakihara and Kim (2015) report that Indonesia has 43% smartphone market penetration. This is fantastic because Indonesia has the largest population in Southeast Asia with more than 250 million populations in

2014. This potential market makes the mobile industry as a strategic business in Indonesia.

Indonesia is one of the top five emerging markets from 2012 to 2017, focusing on the chemical industry, manufacturing industry, and the financial services industry. The country is located on one of the world's major trade routes and the world's top three exporters of coal, natural gas, crude palm oil and natural rubber (Wacaster, 2017). Furthermore, Indonesian population is the fourth largest country in the world, with almost 263 million inhabitants in July 2018. Indonesia is an attractive destination for investments, either from resources or consumers. Thus, Indonesia provides a particularly suitable setting for examining the role of political connection in firm performance in emerging countries.

After the deregulation of the telecommunications industry in September 2000, the Government of Indonesia set up the regulation to encourage the competition and accelerate the development of telecommunications facilities and infrastructure by licensing the telecommunications network providers, telecommunications service providers and specialised telecommunications provider. The changes create opportunities for new players to participate in the telecommunications industry. Therefore, government plays a critical role as the policymaker and supervisory to improve the performance of the telecommunications sector in the globalisation era. The difficulties for entering the industry cause many companies to be affiliated with the government or related party, either directly or indirectly to The Minister of Communications and Information Technology. The affiliation in the form of connection between company member of parliament, a minister or the head of state, or closely related to a top official, which known as political connection (Faccio, 2006).

Previous research states that political connections have major impacts on various activities (Boubakri et al., 2012; Faccio et al., 2006). The results show that political connections have positive impacts on the productivity, tax, leverage, cost of equity, market share, and market capital. Some research in the developing country proves that political connections are positively related with the firm performance (Li et al., 2008; Li and Xia, 2013; Muttakin et al., 2015). Fisman (2001), the first political connection research in Indonesia, investigates that companies close to the Suharto family have significantly negative impacts with rumours of Suharto's health. Leuz and Oberholzergee (2006) prove that companies with political connections with Suharto are less likely to publish traded securities abroad. They suggest that the performance declines significantly after the change of the president as the company without connection the new president. Recently, Nys et al. (2015) investigate that the political connection for banking in Indonesia before and after the adoption of formal deposit insurance. They find that the bank with political connections has more supply of funds than those without political connections. And then, Faccio (2006) explains 22.08% of 154 companies in Indonesia with political connections. However, after Suharto era, only few research studies of political connections from Indonesia.

This study interests in examining the political connection and firm performances of mobile industry in Indonesia by collecting data of Indonesia listed companies 2005 to 2014. This paper uses the proxies of political connections such as major shareholder with political connections and board members with military connections, government connections, SOE connections or parliament connections. Major shareholder connections are those with at least 10% ownership and very close to the government authority

(Faccio, 2006). Military connections, government connections, or parliament connections are the board members who currently or formerly work as the army, top officials or officials in the government or the member of parliament or the party (Fan et al., 2007). This research adds SOE connections, which represent the board members currently or formerly working as the top officials or officials in state-owned enterprises.

This paper contributes to the corporate governance literature by identifying and examining the effect of political connections on the firm performance. First, this study shows the relationship between multiple political connections and the performance because previous research only covers discuss one or two types of political connections. The research expects that different types of political connection have distinct effects on firm performance in Indonesia. Specifically, Indonesia is the country that military power plays a critical role in government issues. President Suharto was a military leader and politician holding the office for 31 years, who deeply influence Indonesia politics. Only few researches further discuss political connections separately including major shareholder, SOE, military, government authority and parliament connections. Second, this study also examines the political connection of independent/non-independent board members. Third, the research adds three types of board connection changes to investigate the effects on firm performance. The changes include 'connect to connect', 'disconnect to connect', and 'connect to disconnect'. To understand the effects of the connection change can assist investors to make suitable decision. Last, this study focuses on s political connections of family business in mobile industry. Family business accounts for more than 70% in most of Asia countries, including Indonesia. Thus, to examine the difference between family and non-family business is very useful in making investment decision.

The remainder of this paper is organised into the following sections. In the second section, the research describes the related literature and develops the hypothesis. The third section discusses sample and methodology. The fourth section presents the empirical analysis results. The fifth section presents the conclusion.

2 Literature and hypothesis

2.1 Mobile industry in Indonesia

Telecommunication service in Indonesia was provided by the state-owned enterprises in 1961. The development and modernisation of telecommunications infrastructure plays an important role during the economic growth. Thus, government needs to set up policies in the telecommunications service, particularly through the minister of communication and information technology (MCIT). Before 2000, Indonesian Government has a monopoly of telecommunication services. After 2000, the political reformation encourages the competition and accelerates the development of telecommunications facilities and infrastructure. Thus, the change provides an opportunity for other companies to invest in this field. 90% of Indonesia mobile phone consumers are above age 15 (Nielsen, 2012). This trend shows that the telecommunication service should further improve the quality of the networks due to the increase of the internet users and sophisticated technological devices. This development expands the telecommunication industry which not only provides network but also business supports such as handset fabrication, mobile reseller, internet development, and infrastructure construction.

2.2 Political connections in Indonesia

Fan et al. (2007) define the firm as being politically-connected when the CEO is a current or former officer of the central government, local government, or the military. Cooper et al. (2010) use contribution campaign to determine whether the corporation with political connection with government has relationship with the stock return. Several studies indicate that the political connection has lots of influences on various activities and outcomes in the cross-country companies. Faccio et al. (2006), Claessens et al. (2008), Leuz and Oberholzergee (2006) and Liu and Tian (2010) verify that political connections influence the business finance activity such as the process of going public (Francis et al., 2009), auditor choice (Guedhami et al., 2014; Gul, 2006), management turnover (Cheng and Leung, 2016), corporate social responsibility (Lin et al., 2015) and firm performance (Goldman et al., 2008; Jackowicz et al., 2014; Li and Xia, 2013; Li et al., 2008; Liu et al., 2012). Recently, most research on political connections using samples from China (Berkman et al., 2010; Fan et al., 2007; Francis et al., 2009; Liu et al., 2012; Liu et al., 2016; Su and Fung, 2013; Wu et al., 2012a; Zhang et al., 2014), only a few studies from Hong Kong (Wong, 2010), Malaysia (Adhikari et al., 2006; Bliss and Gul, 2012), Thailand (Polsiri and Jiraporn, 2012), Vietnam (Markussen and Tarp, 2014) and Indonesia (Fisman, 2001; Leuz and Oberholzergee, 2006). And then, several study of cross-country political connections (Boubakri et al., 2008; Boubakri et al., 2012; Faccio, 2006). Faccio (2006), using 47 countries and she found that political connections are common in country that are perceived as highly corrupt countries that impose restriction on foreign investment by citizens, and in more transparent systems.

Political connection plays the critical role in the Suharto's era in Indonesia. Fisman (2001) determines firm political connection by Suharto dependency index in 1995 from the Castle group consulting. Leuz and Oberholzergee (2006) use the closeness with Suharto to measure the political connection. They show that firms with strong political connections are less likely to have publicly traded securities and the connections influence the long-run performance. Faccio (2006) finds that 22.08% of firms in Indonesia has political connections with the Suharto's. After the political reform in 1998, Indonesia entered from centralisation in Suharto's era to decentralisation in the new government and the political system was more open than before.

2.3 Political connection and firm performance

Political connections may result in preferential access to public resources such as subsidised credit, government contracts or favourable legislation. Thus, political connections can provide large benefits for private firms, especially in economies with high levels of corruption (Faccio, 2006; Fisman, 2001). Several studies show that the impact of political connections on firm performance. Li et al. (2008) prove that the party membership has a positive impact on private company performance. Li and Xia (2013) discover that political connections have positive impacts on the return on assets and Tobin's Q only for private companies and local SOEs. Conversely, Jackowicz et al. (2014) state that political connections of non-financial firms have negative impacts on firm performance, particularly for those companies with multiple connections. Ling et al. (2016) indicate negative relationship between political connection and firm performance.

Different political systems and regimes have different influences on the business activities and outcomes. Differences between politically connected and unconnected

firms are more pronounced when political links are stronger and depending on the level of corruption and the degree of economic development in individual country (Faccio, 2010). Leuz and Oberholzergee (2006) indicate that firms have difficulty in re-establishing political connections with the new government executive when their origin acquaintances lose the power. The change of president and regime in Indonesia enable to generate different types of political connections, different policy and different impacts of business activity and the output (Jackowicz et al., 2014). The different type of political connections may cause different impacts on firm performance. The connections with people from leader in government such as ministries and head of state, will give opportunity to obtain some information of the new government project, new policy or regulation. The information asymmetry will provide benefits for the company. Thus, the hypothesis is constructed as follows:

H1 Mobile firm with political-connection (major shareholder, SOE, military, government authority and parliament) exhibit higher levels of performance than firm without political connection.

2.4 Family firms in mobile industry in Indonesia

Family firm is defined as ownership and management the firm controlled by a family (Bennedsen et al., 2015). Global Business Guide Indonesia (2016) suggests that more than 95% companies in Indonesia are family business. This study explains that 52% family firms' directors in Indonesia are the member of the family and 87% of stockholders of the family business currently are the top management, and only 13% of stockholders are not the top management. Family businesses in Indonesia are much more open to the outsiders in corporate management. Global Business Guide Indonesia (2016) proves that 80% of the board members are not family members. In fact, this percentage is greater. Averagely, only 65% of board members are not family members in the whole world. The advance of technology changes the whole world business operations for the next five years. In fact, 90% of family business believes that they need to adapt to this digital development, especially for those family business been run by the younger generations. Thus, some family business in Indonesia has started to invest in mobile industry such Lippo Group, Sinar Mas Group, Emtek, Salim Group, etc.

2.5 Family business, political connection and firm performance

Political connections have both positive and negative impacts on firm performance. Ownership is likely reinforced or mitigated this result. Wu et al. (2012a) suggest that the effect of political connections is subject to company ownership, which is company with local state enterprise with connected manager have lower value. It is indicated that company ownership influence firm performance. Boubakri et al. (2008), also provided evidence that political connections firm has positive relationships to government ownership, and negative relation to foreign ownership. And then, Polsiri and Jiraporn (2012) showed that ownership concentration and political connections are common, and ownership structure and political connections plays an important role in the company.

Family firms may benefit from extensive kinship networks stretching across politics and business. In fact, Morck and Yeung (2004) argue that powerful family business always has strong influence and may endogenously lead to extensive cooperation

between business and government. Muttakin et al. (2015) argue that family firms under the weak regulatory environment can benefit more from political connections in the emerging market. Li et al. (2008) find that the political connections of private firm have a positive effect on performance in form of obtaining loans from banks or other state institutions. Chen et al. (2011), indicate that family firms are more likely to establish political connections in regions where the government has more discretion in allocating economic resources. In addition, Wang et al. (2016) find that family firms with political connection are more likely to enter weakly correlative industries and increase their chances of entering government-regulated industries. And then, Xu et al. (2015) prove that politically connected founders are more likely to appoint a second generation as family firm management such as chairman, CEO or director. They also found that second generation involvement enhances firm performance. Finally, the political connection generally is more valuable to family firms than non-family firms. The hypothesis is as follows:

H2 Mobile family firm with politically-connected (major shareholder, SOE, military, government authority and parliament) exhibit higher levels of performance than mobile family firm with none politically-connected.

3 Sample and methodology

3.1 Sample

This study collects the sample listed on the Indonesia stock exchange from 2005 to 2014, which covers two president elections after the decentralisation political system. The financial statements and ratios are from the Indonesia capital market directory database. Political connections data are hand collected from board profile in the annual reports. The profile of the board of commissioners and the board of directors from the 'profile of commissioners and directors section' from each company's annual reports. Other resources are from the party website and news website. The commissioners of companies are current or former officers of the central government, local government, parliament or the military. Indonesia applies two-tier board structure. The board of commissioners is the supervisory board, and the board of director is the operational board. The board in this study only mentions the board of commissioners.

This study uses three types of mobile businesses listed in the Indonesia capital market such as Telecommunication industry, handset manufacture and trade industry and internet industry. The study provides the firm distribution in Table 1. Panel A shows that 15 of 23 mobile companies have political connections. Panel B presents that 18 companies are family business and two are state-owned business. The results suggest that most of mobile businesses in Indonesia dominantly are with political connection and family businesses.

Table 2 provides statistics description. Panel A represents the sample distribution by firm-year. On average, 62.87% of the observations are politically connected which suggests that political activity of mobile firms in Indonesia is relatively widespread. Panel B shows the highest percentage of mobile firms with political connection, 92.73%, are in telecommunication industry. And then, 61.04% of mobile firms with political connections are in internet industry.

Table 1 Firm distribution

Panel A: Firm's connected distribution by mobile business sector			
Mobile business sector	*With political connection firm*	*Without political connection firm*	*All firms*
Telecom industry	6	0	6
Handset manufacture and trade	1	5	6
Internet industry	8	3	11
Total	15	8	23

Panel B: Firm's ownership distributions by mobile business sector				
Mobile business sector	*Family firm*	*SOE firm*	*Non-family firm and non-SOE*	*All firm*
Telecom industry	3	2	1	6
Handset manufacture and trade	6	0	0	6
Internet industry	9	0	2	11
Total	18	2	3	23

Table 2 Sample distribution

Panel A: Sample distribution by firm-year				
Fiscal year	*Connected firm's-years*	*None connected firm's-years*	*All firm's-years*	*Percentage of connected firm's-years*
2005	7	3	10	70.00
2006	8	3	11	72.73
2007	9	4	13	69.23
2008	10	4	14	71.43
2009	11	5	16	68.75
2010	11	6	17	64.71
2011	11	9	20	55.00
2012	11	10	21	52.38
2013	13	9	22	59.09
2014	14	9	23	60.87
Total	105	62	167	62.87

Panel B: Sample firm's distribution by mobile business sector in firm_year				
Mobile business sector	*Connected firm's-years*	*Non-connected firm's-years*	*All firm's-years*	*Percentage of connected firm's-years*
Telecom industry	51	4	55	92.73
Handset manufacture and trade	7	28	35	20.00
Internet industry	47	30	77	61.04
Total	105	62	167	62.87

Table 3 Political connections of major shareholder and boards

Mobile business sector	*Major shareholder*	*SOE*	*Military connection*		*Executive connection*		*Parliament connection*	
		Independent board	*Independent board*	*Non-independent board*	*Independent board*	*Non-independent board*	*Independent board*	*Non-independent board*
Telecom industry	19	5	16	3	29	12	9	10
Handset manufacture and trade	0	0	0	0	7	0	0	0
Internet industry	45	6	2	0	37	7	4	18
Total	64	11	18	3	73	19	13	28

Table 3 provides political connections of major shareholders and boards in firm-year. The second column shows the major shareholder with political connections. The third column shows the independent board in SOE firm with political connections. The fourth to ninth column represent the independent board and non-independent board with various political connections including military, government authority and parliament connections. The results suggest that independent board with government authority connection of mobile firms in Indonesia. Thus, it is interesting to explore in detail the effect of various political connections on the firm performance.

3.2 Empirical model

This research uses original least squares (OLS) regression to examine the relationship between political connections and firm performance:

$$\begin{aligned} &Performance_{(i,t)} \\ &= \alpha_0 + \beta_1 shareholder_{(i,t)} + \beta 2 SOE\_indepbd\_idp_{(i,t)} \\ &+ \beta_3 military\_indepbd\_idp_{(i,t)} + \beta_4 executive\_indepb\_idp_{(i,t)} \\ &+ \beta_6 parliament\_indepbd\_idp_{(i,t)} + \beta_7 military\_nonindepbd\_idp_{(i,t)} \\ &+ \beta_8 executive\_nonindepb\_idp_{(i,t)} + \beta_9 parliament\_nonindepbd\_idp_{(i,t)} \\ &+ \beta_{10} connect\_connect_{(i,t)} + \beta_{12} disconnect\_connect_{(i,t)} \\ &+ \beta_{13} connect\_disconnect_{(i,t)} \beta_{10} size_{(i,t)} + \beta_{14} leverage_{(i,t)} \\ &+ \beta_{15} capint_{(i,t)} + \beta_{16} growth_{(i,t)} + \beta_{17} top\_share_{(i,t)} \\ &+ industry\ and\ year\ dummies + \varepsilon_{(i,t)} \end{aligned} \tag{1}$$

$$\begin{aligned} &Performance_{(i,t)} \\ &= \alpha_0 + \beta_1 shareholder_{(i,t)} + \beta_2 SOE\_indepbd\_idp_{(i,t)} \\ &+ \beta_3 military\_indepbd\_idp_{(i,t)} + \beta_4 executive\_indepb\_idp_{(i,t)} \\ &+ \beta_6 parliament\_indepbd\_idp_{(i,t)} + \beta_7 military\_nonindepbd\_idp_{(i,t)} \\ &+ \beta_8 executive\_nonindepb\_idp_{(i,t)} + \beta_9 parliament\_nonindepbd\_idp_{(i,t)} \\ &+ \beta_{10} connect\_connect_{(i,t)} + \beta_{12} disconnect\_connect_{(i,t)} \\ &+ \beta_{13} connect\_disconnect_{(i,t)} \beta_{10} size_{(i,t)} + \beta_{14} leverage_{(i,t)} \\ &+ \beta_{15} capint_{(i,t)} + \beta_{16} growth_{(i,t)} + \beta_{17} top\_share_{(i,t)} \\ &+ industry\ and\ year\ dummies + \varepsilon_{(i,t)} \end{aligned} \tag{2}$$

The firm performance is measured by ROA and Tobin's Q. Accounting-based measures, ROA, are historical in nature and hence a forward-looking financial market measure, Tobin's Q, is also used in the study. Core et al. (2006) prove that operating performance measured by ROA is a preferred measure for examining the relation between performance and corporate governance because it is not affected by extraordinary items, leverage and other discretionary items. Tobin's Q as a measure of company performance is consistent with the efficient market hypothesis argument (Fama 1970) where the market valuation of a company measures the use of existing assets and future growth potential. These two measurements are the appropriate approaches for measuring corporate performance.

The independent variables include the percentage of independent board with political connections, and the percentages of board members with political connection, and the binary variable of major shareholder with political connections. Firm size (size), capital structure (leverage), capital intensity (capint), growth opportunity (growth), proportion of major shareholder (top_share), and industry dummies and year dummies are control variables. The interpretations of the control variables are presented in following variable measurement

3.3 Variable measurement

3.3.1 Independent and dependent variables

This paper uses three measurements for political connections including one binary variable, whether major shareholders have political connections (Jackowicz et al., 2014; Ding et al., 2014), and two continuous variables, percentages of independent board with political connections and percentages of board members with political connection (Boubakri et al., 2008; Chen et al., 2011; Wang et al., 2016). Political connections are current or former officers of the central government, local government, the military or the parliament (Cheng, 2013; Fan et al., 2007).

The study analyses the following four types of political connections including SOE connections, military connections, government authority connections, and parliament connections for both the independent and non-independent boards. The independent board with SOE connection is measured by the percentage of the independent board who is also the SOE staff (SOE_indep_bd). The independent board with military connection is percentage of the independent board who served in the army or as the police (military_indep_bd). The independent board with government authority connections are proportion independent boards from government authority (executive_indep_bd). The independent board with parliament connections is proportion parliament connection (parliament_indep_bd). This paper does not discuss SOE connection of non-independent board due to the lack of sample. The research examines the military, government authority and parliament connections of the non-independent board. The non-independent board with military connections is the proportions of the non-independent board as the army or police (military_nonindep_bd). The non-independent board with government authority connections are the proportion of independent boards from government authority (executive_indep_bd). The non-independent board of parliament connection is the proportion of non-independent board as parliament (parliament_nonindep_bd).

This research adds three binary variables of the connection change, i.e. connection to connection (connect_connect), disconnection to connection (disconnect_connect), and connection to disconnection (connect_disconnect) (1 is the expected condition and 0 otherwise). The design is to investigate the impacts of different types of the connection change on company performance. The study uses ROA (return on assets) and Tobin's Q to measure firm performance (Su and Fung, 2013; Wong, 2010; Wu et al., 2012b; Zhang et al., 2014). Return on asset (ROA) is used as the measurement of accounting performance and Tobin's Q represents the measurement of market performance. ROA, calculated as net profit divided by total assets, is the company's ability to generate profits from total assets. Tobin's Q is defined as the market value of total assets deflated by the book value of total assets and is calculated as the ratio of the market value of equity plus

the book value of total debts to the book value of total assets (Lang and Stulz, 1994; Lewellen and Badrinath, 1997).

3.3.2 Control variables

The previous studies (Muttakin et al., 2015; Wu et al., 2012b) employ the following control variables: firm size (size), capital structure (leverage), capital intensity (Capint), and firm growth (growth). This study adds the proportion of major shareholder (top_share) as a control variable (Zhang et al., 2014). The study also includes industry dummy variable and year dummy variable in the models to control the industry and year effect.

Size (firm size) is calculated as the natural logarithm of market of capital at the beginning year. Capital intensity is indicated by the ratio of fixed assets to total assets at the beginning year. Growth is the growth opportunity measured by sales growth rate. Leverage is calculated as the ratio of total debts to total assets at the beginning year. Leverage might have a positive or negative relation with the performance. Size, capital intensity and growth generally have the positive impacts with the performance. And then, the major shareholders have the positive impacts on company performance.

4 Empirical analysis

4.1 Descriptive analysis

The research presents descriptive statistics results in Table 4. The average ROA and Tobin's Q are 0.059 and 1.448, respectively. The percentage of mobile business with political connection in Indonesia is 62.9% which cause this paper interests to further investigate. The highest political connections of the independent board is the government authority connection, 23.4%, and 10.2% of the independent board is with government authority connections (executive_indep_bd). Major shareholders of 38.3% business average has political connection 33.5% of the connection change is the connection to connection, 11.4% of the connection change is the disconnection to connection (disconnect_connect), and 12% of the connection change is the connection to disconnection (connect_disconnect).

Table 4 Descriptive statistics

Variable	*N*	*Mean*	*Std. dev*	*Min.*	*Max.*
Performance					
ROA	136	0.059	0.128	–0.325	0.381
Tobins Q	138	1.448	2.106	–0.850	16.490
Political connections					
PC	167	0.629	0.485	0	1
Shareholder	167	0.383	0.488	0	1
SOE_indep_idp	167	0.024	0.096	0	0.5
military_indep_idp	167	0.036	0.109	0	0.5
executive_indep_idp	167	0.234	0.327	0	1

Table 4 Descriptive statistics (continued)

Variable	*N*	*Mean*	*Std. dev*	*Min.*	*Max.*
Political connections					
parliament_indpep_idp	167	0.031	0.113	0	0.5
military_nonindep_nidp	167	0.003	0.022	0	0.167
executive_nonindep_nidp	167	0.056	0.178	0	1
parliament_nonindep_nidp	167	0.056	0.133	0	0.5
SOE_indep_bd	167	0.009	0.038	0	0.25
military_indep_bd	167	0.015	0.049	0	0.25
executive_indep_bd	167	0.102	0.134	0	0.5
parliament_indep_bd	167	0.017	0.060	0	0.333
military_nonindep_bd	167	0.002	0.013	0	0.1
executive_nonindep_bd	167	0.030	0.090	0	0.333
parliament_nonindep_bd	167	0.030	0.071	0	0.25
Change the type of connection					
connect_connect	167	0.335	0.474	0	1
connect_disconnect	167	0.114	0.318	0	1
disconnect_connect	167	0.120	0.326	0	1
Control variables					
Size	159	28.176	2.320	24.291	33.011
Leverage	138	0.243	0.217	0.005	0.979
Capint	139	0.496	0.433	0.003	2.142
Growth	138	0.135	0.288	–0.837	0.950
Top_share	165	0.645	0.119	0.396	0.900
Ownership sample					
Famifirm	167	0.766	0.424	0	1

Note: All continuous variables are winsorised 1% at each end of the distribution.
Non-family firm included SOE firm.

Variable definitions

- ROA – earning divided by total assets in year t – 1
- Tobin's Q – Tobin's q value (measured as the market value, net current liability, and long term debt divided by total asset in year t – 1)
- PC – 1 if the firm has political connection, 0 otherwise
- shareholder – 1 if the firm is shareholder connection, 0 otherwise
- SOE_indep_idp – proportion board formerly or currently from SOE official as an independent board of total independent board
- military_indep_idp – proportion board formerly or currently from army or police (central or local government) as independent board of total independent board
- government_indep_idp – proportion government formerly or currently from minister, deputy, director, or head of division (central or local government) as an independent board of total independent board

- parliament_indep_idp – proportion board formerly or currently from parliament (central or local government) as independent board of total independent board
- military_nonindep_idp – proportion board formerly or currently from army or police (central or local government) as non-independent board of total non-independent board
- government_nonindep_idp – proportion board formerly or currently from minister, deputy, director, or head of division (central or local government) as non-independent board of total non-independent board
- parliament_nonindep_idp – proportion parliament formerly or currently from parliament (central or local government) as non-independent board of total non-independent board
- SOE_indep_bd – proportion board formerly or currently from SOE official as an independent board of total board
- military_indep_bd – proportion board formerly or currently from the army or police (central or local government) as an independent board of total board
- government_indep_bd – proportion government formerly or currently from minister, deputy, director, or head of division (central or local government) as an independent board of total board
- parliament_indep_bd – proportion board formerly or currently from parliament (central or local government) as an independent board of total board.
- military_nonindep_bd – proportion board formerly or currently from the army or police (central or local government) as non-independent board of total board
- government_nonindep_bd – proportion board formerly or currently from minister, deputy, director, or head of division (central or local government) as non-independent board of total board
- parliament_nonindep_bd – proportion parliament formerly or currently from parliament (central or local government) as non-independent board of total board
- connect_connect – 1 if the firm has changed the board from connection to connection, 0 otherwise
- disconnect_connect – 1 if the firm has changed the board from disconnection to connect, 0 otherwise
- connect_disconnect – 1 if the firm has changed the board from connection to disconnection, 0 otherwise
- size – market value, log transformed
- capint – Property and equipment divided by total assets in year t – 1
- leverage – long-term debt divided by total assets in year t – 1
- growth – total sales divided by total sales in year t – 1, log transformed
- top_share –proportion the top shareholder in the company
- famifirm – 1 if the firm id family firm, 0 otherwise.

We also report the correlation analysis in Table 5. The correlation indicates that the relations among many variables are not high, which indicates that multicollinearity is not a problem, especially between independent variable.

In Table 6, we present test of difference mean for family firm and non-family firm. Generally, ROA and Tobins Q for family firm and non-family firm there is no significant difference. For independent variable, there are four variable have significant mean difference, i.e. military_indep_idp, executive_nonindep_nidp, executive_nonindep_bd, and disconnect_connect. In addition, we have several independent variables in family firm and there is not variable in non-family firm and contrary, such as shareholder, parliament_indep_idp, parliament_indep_bd only in family firm, and military_nonindep_nidp military_nonindep_bd in non-family firm. This suggests that political connection between company ownership is different. Size, leverage and capint variable in non-family firm higher than in family firm, because in family firm is individual company and non-family firm is included SOE company, foreign company or owned by institutional, whereas dominant shareholder of the family firm is from personal. It can be proved that the average of top_share for family firm higher than non-family firm significantly.

4.2 Political connections and firm performance

In this section, this paper presents the evidence on the impact political connection on the firm performances, with two measures ROA and Tobin's Q as performance measures. Table 7 presents the regression results of the effects of political connection on firm performance. The regression results prove that the political connection has no significant effect on return on asset but has a significant negative impact on Tobins' Q, except in the non-family firms. However, the relation between the political connection and the performance is too general and several research inconsistent.

Table 8 analyses the impact of various political connections (major shareholder with political connections, board members with SOE, military, government authority, and parliament connections) on ROA and Tobin's Q. Only government authority connections positively affect the return on assets. Independent boards with parliament connections have positive impacts on Tobin's Q. Connect to connect and disconnect to connect also have a positive impact on Tobin's Q. Contrarily, independent boards with parliament connections and disconnect to connect significantly and negatively affect the ROA. The independent boards with military connections or government authority connections have significantly negative impacts on Tobin's Q.

Similarly, the independent board with military and government authority connections has positive impacts on ROA of family firms. And then, the independent board with parliament connection has positive effects on Tobin's Q. Generally, not all results support our hypothesis. Some political connections support our hypothesis by return on assets and some political connection supports our hypothesis by Tobin's Q. The results suggest that different types of political connections have different impacts on company performance (Su and Fung, 2013; Wu et al., 2012b).

Table 5 Correlation analysis

Pearson correlation coefficients																		
Prob > |r| under H0: rho = 0																		
	ROA	*Tobins Q*	*Shareholder*	*SOE_indep_idp*	*military_indep_idp*	*executive_indep_idp*	*parliament_indep_idp*	*military_nonindep_idp*	*executive_nonindep_idp*	*parliament_nonindep_idp*	*C_C*	*C_DC*	*DC_C*	*size*	*leverage*	*capint*	*growth*	*top_share*
ROA	1.000	0.353	–0.241	–0.028	–0.173	0.405	–0.333	–0.095	0.289	0.064	0.222	–0.228	–0.103	0.357	–0.329	–0.221	0.232	–0.073
		<.0001	0.004	0.745	0.041	<.0001	<.0001	0.268	0.001	0.452	0.009	0.007	0.228	<.0001	<.0001	0.009	0.006	0.394
TobinsQ	0.353	1.000	–0.172	0.001	–0.033	0.220	–0.022	–0.023	–0.028	–0.070	0.134	–0.015	0.016	0.178	0.009	0.326	0.325	–0.081
	<.0001		0.042	0.990	0.697	0.009	0.792	0.789	0.744	0.413	0.115	0.863	0.854	0.035	0.920	<.0001	<.0001	0.342
Shareholder	–0.241	–0.172	1.000	0.013	0.036	0.032	0.354	–0.107	0.027	0.304	0.301	0.067	–0.291	–0.148	0.233	–0.047	0.088	0.068
	0.004	0.042		0.867	0.646	0.682	<.0001	0.170	0.727	<.0001	<.0001	0.392	0.000	0.060	0.005	0.576	0.297	0.386
SOE_indep_idp	–0.028	0.001	0.013	1.000	0.151	0.087	–0.071	0.318	–0.080	–0.108	0.039	0.040	0.243	0.212	0.129	–0.006	–0.184	–0.108
	0.745	0.990	0.867		0.051	0.262	0.361	<.0001	0.305	0.166	0.613	0.610	0.002	0.007	0.126	0.945	0.029	0.164
military_indep_idp	–0.173	–0.033	0.036	0.151	1.000	–0.139	0.409	0.267	–0.017	–0.058	–0.144	0.316	0.345	0.251	0.333	0.167	0.034	–0.062
	0.041	0.697	0.646	0.051		0.073	<.0001	0.001	0.832	0.456	0.063	<.0001	<.0001	0.001	<.0001	0.047	0.690	0.429
executive_indep_idp	0.405	0.220	0.032	0.087	–0.139	1.000	–0.151	0.007	0.456	0.502	0.638	–0.142	–0.109	0.437	–0.084	0.065	0.056	–0.119
	<.0001	0.009	0.682	0.262	0.073		0.052	0.932	<.0001	<.0001	<.0001	0.068	0.160	<.0001	0.322	0.443	0.507	0.126
parliament_indep_idp	–0.333	–0.022	0.354	–0.071	0.409	–0.151	1.000	–0.038	–0.057	–0.078	–0.153	0.571	–0.103	0.038	0.409	0.167	0.043	–0.005
	<.0001	0.792	<.0001	0.361	<.0001	0.052		0.629	0.462	0.319	0.049	<.0001	0.186	0.627	<.0001	0.047	0.614	0.947
military_nonindep_idp	–0.095	–0.023	–0.107	0.318	0.267	0.007	–0.038	1.000	–0.042	–0.057	–0.096	–0.048	0.367	0.157	0.099	0.070	–0.030	0.062
	0.268	0.789	0.170	<.0001	0.001	0.932	0.629		0.587	0.463	0.217	0.534	<.0001	0.046	0.242	0.405	0.725	0.427
executive_nonindep_idp	0.289	–0.028	0.027	–0.080	–0.017	0.456	–0.057	–0.042	1.000	0.243	0.417	–0.112	–0.081	0.269	–0.104	0.002	–0.041	–0.047
	0.001	0.744	0.727	0.305	0.832	<.0001	0.462	0.587		0.002	<.0001	0.149	0.299	0.001	0.218	0.981	0.627	0.545
parliament_nonindep_idp	0.064	–0.070	0.304	–0.108	–0.058	0.502	–0.078	–0.057	0.243	1.000	0.189	–0.151	–0.156	0.163	0.068	0.066	–0.006	–0.147
	0.452	0.413	<.0001	0.166	0.456	<.0001	0.319	0.463	0.002		0.015	0.051	0.044	0.038	0.424	0.433	0.948	0.058

Table 5 Correlation analysis (continued)

	Pearson correlation coefficients																
	Prob > |r| under H0: rho = 0																
	ROA	*Tobins Q*	*Shareholder*	*SOE_indep_idp*	*military_indep_idp*	*executive_indep_idp*	*parliament_indep_idp*	*military_nonindep_idp*	*executive_nonindep_idp*	*parliament_nonindep_idp*	*C_C*	*C_DC*	*DC_C*	*size*	*leverage*	*capint*	*growth*	*top_share*
C_C	0.222	0.134	0.301	0.039	–0.144	0.638	–0.153	–0.096	0.417	0.189	1.000	–0.254	–0.262	0.268	0.006	0.033	0.122	0.029
	0.009	0.115	<.0001	0.613	0.063	<.0001	0.049	0.217	<.0001	0.015		0.001	0.001	0.001	0.947	0.698	0.147	0.713
C_DC	–0.228	–0.015	0.067	0.040	0.316	–0.142	0.571	–0.048	–0.112	–0.151	–0.254	1.000	–0.132	0.236	0.544	0.300	0.084	0.010
	0.007	0.863	0.392	0.610	<.0001	0.068	<.0001	0.534	0.149	0.051	0.001		0.089	0.002	<.0001	0.000	0.321	0.898
DC_C	–0.103	0.016	–0.291	0.243	0.345	–0.109	–0.103	0.367	–0.081	–0.156	–0.262	–0.132	1.000	0.027	0.044	0.132	–0.184	0.137
	0.228	0.854	0.000	0.002	<.0001	0.160	0.186	<.0001	0.299	0.044	0.001	0.089		0.736	0.603	0.119	0.028	0.077
size	0.357	0.178	–0.148	0.212	0.251	0.437	0.038	0.157	0.269	0.163	0.268	0.236	0.027	1.000	0.292	0.294	0.111	–0.191
	<.0001	0.035	0.060	0.007	0.001	<.0001	0.627	0.046	0.001	0.038	0.001	0.002	0.736		0.000	0.000	0.190	0.015
leverage	–0.329	0.009	0.233	0.129	0.333	–0.084	0.409	0.099	–0.104	0.068	0.006	0.544	0.044	0.292	1.000	0.481	0.176	0.015
	<.0001	0.920	0.005	0.126	<.0001	0.322	<.0001	0.242	0.218	0.424	0.947	<.0001	0.603	0.000		<.0001	0.036	0.855
capint	–0.221	0.326	–0.047	–0.006	0.167	0.065	0.167	0.070	0.002	0.066	0.033	0.300	0.132	0.294	0.481	1.000	0.160	–0.044
	0.009	<.0001	0.576	0.945	0.047	0.443	0.047	0.405	0.981	0.433	0.698	0.000	0.119	0.000	<.0001		0.057	0.601
growth	0.232	0.325	0.088	–0.184	0.034	0.056	0.043	–0.030	–0.041	–0.006	0.122	0.084	–0.184	0.111	0.176	0.160	1.000	0.162
	0.006	<.0001	0.297	0.029	0.690	0.507	0.614	0.725	0.627	0.948	0.147	0.321	0.028	0.190	0.036	0.057		0.055
top_share	–0.073	–0.081	0.068	–0.108	–0.062	–0.119	–0.005	0.062	–0.047	–0.147	0.029	0.010	0.137	–0.191	0.015	–0.044	0.162	1.000
	0.394	0.342	0.386	0.164	0.429	0.126	0.947	0.427	0.545	0.058	0.713	0.898	0.077	0.015	0.855	0.601	0.055	

Table 6 Univariate test of differences of family firm versus non-family firm

Variable	*Family firm*	*Non-family firm*	*P-value of test difference*
Performance			
ROA	0.055	0.070	0.550
TobinsQ	1.311	1.836	0.278
Political connections			
Political connection	0.641	0.590	0.568
Shareholder	0.500	0.000	-
SOE_indep_idp	0.026	0.019	0.631
military_indep_idp	0.026	0.071	0.024
executive_indep_idp	0.208	0.318	0.122
parliament_indpep_idp	0.041	0.000	-
military_nonindep_nidp	0.000	0.013	-
executive_nonindep_nidp	0.031	0.137	0.007
parliament_nonindep_nidp	0.054	0.064	0.669
SOE_indep_bd	0.010	0.008	0.679
military_indep_bd	0.012	0.026	0.132
executive_indep_bd	0.098	0.113	0.549
parliament_indep_bd	0.022	0.000	-
military_nonindep_bd	0.000	0.008	-
executive_nonindep_bd	0.012	0.089	0.002
parliament_nonindep_bd	0.027	0.042	0.239
Change the type of connection			
connect_connect	0.359	0.256	0.236
connect_disconnect	0.094	0.179	0.142
disconnect_connect	0.078	0.256	0.021
Control variables			
Size	27.740	29.564	0.002
Leverage	0.203	0.357	0.000
Capint	0.418	0.726	0.000
Growth	0.145	0.106	0.343
Top_share	0.656	0.612	0.046

Note: *, **, *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively.

Table 7 OLS regression

Variable	*All sample*		*Family firm*		*Non-family firm*	
	ROA	*Tobin's Q*	*ROA*	*Tobin's Q*	*ROA*	*Tobin's Q*
Political connection	0.010	–1.074***	0.019	–1.516***	–0.007	0.096
	(0.45)	(–2.91)	(0.7)	(–2.99)	(–0.13)	(0.09)
Size	0.049***	0.230**	0.053***	0.592***	0.030***	0.247*
	(7.58)	(2.15)	(5.06)	(3.08)	(4.4)	(1.71)
Leverage	–0.233***	–0.344	–0.235***	0.116	–0.113	4.691
	(–4.52)	(–0.4)	(–3.75)	(0.1)	(–0.79)	(1.53)
Capint	–0.006	–0.279	0.011	–0.322		
	(–0.21)	(–0.56)	(0.35)	(–0.57)		
Growth	0.030	0.870	0.042	0.446	0.029	6.671**
	(0.86)	(1.5)	(1.1)	(0.63)	(0.22)	(2.43)
Top_share	0.066	0.024	0.058	1.460	–0.611**	–11.496**
	(0.82)	(0.02)	(0.58)	(0.79)	(–2.42)	(–2.12)
Constant	–1.258***	–5.525*	–1.349***	–15.996***	–0.357*	–1.162
	(–6.21)	(–1.65)	(–4.24)	(–2.73)	(–1.68)	(–0.25)
Industry and years	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R square	0.4624	0.1759	0.4590	0.2591	0.6710	0.6085
N	126	127	90	90	35	35

Note: *, **, *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively.

Table 8 OLS regression

Ordinal least squares using percentages independent board connected board of total board						
Variable	*Full sample*		*Family firm*		*Non-family firm*	
	Estimate	*t value*	*Estimate*	*t value*	*Estimate*	*t value*
ROA as dependent variable						
Shareholder_connection	–0.016	–0.60	0.042	1.04		
SOE_indep_bd	–0.014	–0.25	–0.340	–0.87	–0.589	–1.02
military_indep_bd	0.174	0.77	0.513*	1.82	–0.757*	–1.88
executive_indep_bd	0.351***	2.74	0.728***	3.69	0.284	1.58
parliament_indep_bd	–0.323	–1.60	–0.410	–1.41		
military_nonindep_bd	–0.641	–0.79				
executive_nonindep_bd	0.251**	2.13	0.129	0.62		
parliament_nonindep_bd	–0.651***	–2.64	–1.279***	–3.41		
connect_connect	–0.032	–0.75	–0.171**	–2.39		
connect_disconnect	–0.026	–0.51	–0.202*	–1.85		
disconnect_connect	–0.071*	–1.78	0.002	0.03		
Size	0.048***	6.05	0.052***	4.07	0.020	2.8

Note: *, **, *** indicate significance at the 0.10, 0.05, and 0.01 levels, respectively.

Table 8 OLS regression (continued)

Ordinal least squares using percentages independent board connected board of total board						
Variable	*Full sample*		*Family firm*		*Non-family firm*	
	Estimate	*t value*	*Estimate*	*t value*	*Estimate*	*t value*
ROA as dependent variable						
Leverage	–0.104	–1.64	–0.007	–0.07	–0.153	–1.32
Capint	0.027	0.86	0.042	1.12		
Growth	0.027	0.80	0.000	0.00	–0.109	–0.96
Top_share	0.075	0.90	0.054	0.52	–0.021	–0.08
Constant	–1.302***	–5.46	–1.338***	–3.57	–0.396**	–2.51
Industry and years	Y		Y		Y	
Adj. R square	0.5579		0.4847		0.7921	
N	126		92		35	
Tobin's Q as dependent variable						
Shareholder_connection	–2.252***	–5.05	–1.775***	–3.02		
SOE_indep_bd	1.134	1.22	4.720	0.84	0.505	0.03
military_indep_bd	–6.006*	–1.75	2.056	0.52	6.679	0.59
executive_indep_bd	–2.810	–1.33	4.326	1.49	–1.111	–0.22
parliament_indep_bd	11.533***	3.41	8.786**	2.07		
military_nonindep_bd	–25.799*	–1.9				
executive_nonindep_bd	–7.212***	–3.00	–0.684	–0.16		
parliament_nonindep_bd	4.685	1.06	–1.470	–0.27		
connect_connect	2.120***	3.09	–0.809	–0.77		
connect_disconnect	–0.157	–0.19	–3.723**	–2.32		
disconnect_connect	1.216*	1.84	2.953***	3.12		
Size	0.254*	1.94	0.527**	2.87	0.290	1.47
Leverage	–0.727	–0.69	1.199	0.80	4.854	1.49
Capint	–0.642	–1.23	–0.812	–1.51		
Growth	1.141**	2.03	0.479	0.82	7.700**	2.41
Top_share	–0.215	–0.16	0.163	0.11	–14.817**	–2.11
Constant	–5.965	–1.52	–12.728**	–2.35	–0.708	–0.16
Industry and years	Y		Y		Y	
Adj. R square	0.3224		0.5003		0.5808	
N	127		93		35	

Note: *, **, *** Indicate significance at the 0.10, 0.05, and 0.01 levels, respectively.

5 Conclusions

Previous research of political connections in the developing countries shows that political connections have either positive or negative impacts on the company performance. In this

paper, the study explores the impact of political connections of mobile firms on the performance measured by the return on asset and Tobin's Q in Indonesia. Collecting samples from Indonesia listed company database 2005 to 2014, the research finds that boards with government authority connection have the better performance (ROA) than the firms without them. In addition, the study investigates the effect of political connections on the market performance. The results show that the non-independent board with parliament connections have better performance (Tobin's Q) than other political connections. This suggests that the political connection benefit the companies. The boards with executive connection have more possibilities in obtaining new information from the government authority, such as new telecommunication policy, which can bring new opportunities for companies to invest in the related issues. Further, boards with government authority connections may have related experience or adequate competency. Thus companies will obtain many benefits from this connection to increase the performance. The independent board with parliament connection increase firm performance. The parliament connection is generally in the form of professionals who has the affiliations to members of the party. Thus investors believe that the board with parliament connections will create higher value.

This study also finds that the political connections have negative impacts on firm performance. Major shareholder with political connection, independent and non-independent board with military connection and non-independent board with government authority connections have negative impacts on Tobin's Q. Non-independent board with parliament connection has negative impacts on ROA. The negative effects of major shareholder political connection, military and government authority connection on Tobin's Q may cause the investor to have negative perception of the company who have a military connection, government authority connection /or major shareholder connection. Companies may invite board members with military connections or board member retired from the government as the back up without considering their experience or education, which may decrease the investor trusts. And, then non-independent board with parliament connection has the negative impacts because non-independent board parliament connections were difficult in being involved in government operations, especially mobile business policy, or the board doesn't have the competence and experience to run this business, thus parliament connection decreasing performance. The change of connection also suggests that the changes form connect to connect, or disconnect to connect will increase the Tobin's Q and conversely, disconnect to connect decreasing ROA.

Furthermore, the study investigates the effect of political connection on firm performance in family firms. This paper obtains consistent result with all companies, only to add one proxy political connections, i.e. firm with an independent board of military connections, have higher performance than family firm without military connections. The family company might obtain more benefits from military connection, especially link to the executive and mobile company owned by the state.

The implication of the results is that the companies have to consider the professionalism of board if they decide to utilise the political connection of the independent or non-independent board such as the experience and education relation with the mobile industry. For future research, the researchers have to further explore position political connections in Indonesia such as position in government authority or military by ranking. In additions, the researchers also can investigate relation political connections to

another activity or outcome, such as business strategy, cost strategic, taxes, earning quality, financing, structure, compensation, and dividend policy in Indonesia on various industries.

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