

LAPORAN AKHIR TAHUN PENELITIAN DASAR UNGGULAN
PERGURUAN TINGGI (PDUPT)



STOCK PRICE CRASH RISK AND POLITICAL CONNECTION
TAHUN KE – 1 DARI RENCANA 2 TAHUN

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RINGKASAN

Tujuan dari penelitian ini adalah untuk mengkaji risiko penurunan harga saham secara signifikan pada perusahaan-perusahaan yang terkoneksi politik di Indonesia. Penelitian ini menggunakan observasi pada seluruh perusahaan terdaftar di Bursa Efek Indonesia (BEI). Proyek penelitian ini dilakukan oleh Iman Harymawan, S.E., MBA., Ph.D., Prof. Dr. Moh. Nasih, SE., MT., Ak., CMA., CA dan Rumayya, S.E., M.Reg.Dev, Ph.D.

Kegiatan penelitian dasar unggulan perguruan tinggi dengan judul “Stock Price Crash Risk and Political Connection” sampai saat ini telah berjalan 100%. Penelitian ini telah menyelesaikan tahap penulisan dan telah di submit dan sedang pada tahap review di jurnal Asia Pasific Journal of Accounting and Economics.

Melalui kegiatan penelitian ini diharapkan keterbatasan literatur dibidang ekonomi dan bisnis dapat teratasi dengan terbitnya jurnal-jurnal internasional terindeks Scopus terkait isu tersebut. Peneliti berusaha mencari penerbit jurnal yang dalam satu tahunnya menerbitkan lebih dari dua kali. Hal tersebut menunjukkan bahwa penerbit tersebut memiliki sumber daya yang cukup memadai sehingga memungkinkan proses review berjalan lebih cepat. Untuk mempercepat proses pengumpulan data, peneliti memutuskan untuk menambah *junior research assistant* yang bertugas melakukan pengumpulan data secara manual serta berlangganan database.



PRAKATA

Puji syukur kami panjatkan kepada Tuhan Yang Maha Esa atas kasih dan rahmat-Nya sehingga kami dapat menyelesaikan laporan kemajuan kegiatan penelitian dasar unggulan perguruan tinggi dengan judul “Stock Price Crash Risk and Political Connection”. Tujuan dari penelitian ini diharapkan dapat terpublikasi dalam jurnal internasional, menjadi acuan dalam pembuatan kebijakan dan berkontribusi dalam meningkatkan peringkat Universitas Airlangga menuju QS WUR 500 terbaik dunia.

Proyek penelitian ini dilakukan oleh Iman Harymawan, S.E., MBA., Ph.D., Prof. Dr. Moh. Nasih, SE., MT., Ak., CMA., CA dan Rumayya, S.E., M.Reg.Dev, Ph.D. Saat ini peneliti berfokus pada penelitian-penelitian yang berhubungan dengan isu tata kelola perusahaan, dampak akuntansi hubungan politik dan militer dalam bisnis, dan kualitas pelaporan keuangan

Peneliti sadar bahwa penelitian ini jauh dari sempurna, oleh karena itu peneliti mengharapkan kritik dan saran yang dapat membuat penelitian ini menjadi lebih baik, sehingga penelitian ini dapat memberi manfaat bagi semua dan laporan penelitian ini dapat diterima dengan baik.

Surabaya, 13 November 2018

Peneliti

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BAB I. PENDAHULUAN

Previous studies found that the firms with political connections have preferential treatment to finance, enjoy lower cost of debt and equity, and have more procurement contracts (Claessens, Feijen, and Laeven, 2008; Boubakri, Guedhami, Mishra, Saffar, 2012; Houston, Jiang, Lin, and Ma, 2014; Goldman, Rocholl, and So, 2013). Other studies also shows connected firms pay higher audit fee to auditor and charged a higher cost of debt by the debtholder as a cost of political connections (Bliss and Gul, 2012; Gul, 2006).

This study extends the prior findings in the political connections literature by investigating the effect of political connections on firms' stock price crash risk. Recent studies provide evidences that establishing political connections (i.e. hiring politician as a director) can decrease the firms stock price crash risk (Luo, Gong, Lin, and Fang, 2016; Hu and Wang, 2018). In contrast, Lee and Wang (2017) and Tee (2018) shows that connected firms tend to have a higher stock price crash risk. Using the unexpected event of the stepped down of former Indonesian President, Soeharto, this study are able to investigates the probability of stock price crash risk of connected firms in the pre and post period of Soeharto resignation. This unique event provides a better setting to provide the answer whether connected firms will have higher or lower probability of the stock price crash risk.

Investigating the relationship between political connections and stock price crash risk in the pre and post Soeharto era provide us better research setting due to several reasons. First, Fisman (2001) argue that during the Soeharto era, the political connection in Indonesia is centralized. This situation provides us a better proxy to value the political connections. Measuring the value of political connections in country with decentralized political decision making is more complex due to variety of connections types. Second, the unexpected stepped down of Soeharto is an exogenous event which allow us to have a more clear estimates to value the relationship between political connections and stock price crash risk.

In this study, first we employ some univariate tests to describe our data and test the hypotheses. The correlation matrix shows that firms connected to Soeharto are significantly have higher probability of stock price crash risk. Then we compare the mean between a group of connected versus non-connected firms. The results also shows that firms with Soeharto connections have significantly higher mean of stock price crash risk to firms with no connections.

In the multivariate analyses, we use ordinary least square (OLS) regression to test the hypotheses. We find that firms with political connections have a negative and significant

association to the stock price crash risk. To deal with endogeneity issue, this study employs difference-in-difference model using the unexpected stepped down of Soeharto as a natural experiment. We find that in the pre period of the Soeharto stepped down, connected firms are more likely to have a lower stock price crash risk. Interestingly, after Soeharto stepped down, we find a positive and significant association between political connections and stock price crash risk.

This study extends the literature of political connections by providing evidence on how political connections affect the stock price crash risk. Specifically, this study compares the results when the connections are in and out of power. The remaining of this article will discuss about the institutional setting of political connections in Indonesia, the hypotheses, data and method, results and discussion, and conclude the findings of the study.



BAB 2. TINJAUAN PUSTAKA

2.1 Literature review

2.1.1 The business – politics connectedness in new order era

Since late 1970s, Indonesia experienced economic transformation from state-owned enterprise and small-traditional business dominated economy towards modern private enterprise. Unfortunately, rather than signaling the development of entrepreneurship and healthy business sectors, the transformation marked the beginning of an era where political connections in businesses is increasingly widespread, with Suharto's cronies at its center. The success of these politically connected firms is heavily depended on their ability to get and maintain relationships to Suharto's regime in order to secure special privilege from the state.

Some of these privileges, as noted by McLeod (2000), are: giving import protection for their business, granting license to import, awarding contracts from government and state-owned enterprises without bidding, providing cheap loans from state and central banks, granting rights to extract natural-resource, offering tax relief and even the right to collect taxes.

At first, the majority of these politically well-connected firms are dominated by the Sino-Indonesian (the Chinese descent) business elites that already close to Suharto since 1950s. The Suharto's administration granted them special right to monopolize the import and distribution of sugar and rice, forestry products, and the automobile sector. Over time, two other elite groups emerged, the well-connected pribumi enterprises and the business owned by Soeharto's children. These three groups formed a core group of cronies in the Suharto's regime (Schwarz, 1994).

Hill (2000) shows the size of Suharto's cronies as follow: all of the twenty largest conglomerates in 1993, with total turnover valued around 21 percent of GDP, were connected to Suharto. Three of those twenty conglomerates were owned by Suharto's children. Another perspective provided by Claessens et al. (1999) show that in 1996 Suharto's cronies controlled 417 listed and non-listed companies in Indonesia stock market. Together, these companies contribute 16.6 percent of total stock market capitalization.

2.1.2 After the fall of Soeharto

In 1998, Indonesia was severely hit by a financial crisis. The crisis started off in Thailand and South Korea which then spread throughout Asia. During the crisis, Rupiah depreciated by 30 percent, exports declined, inflation rate escalated to almost 100 percent,

poverty rate doubled to over 27 percent, and economic growth contracted to almost 14 percent (Hofman et al, 2004). The financial crisis then evolved into a political crisis which leads to resignation of Suharto after 32-years of power. Pangestu and Habir (2002) argue that the favorable treatment to politically connected firms create moral hazard had caused the crisis, as those firms became reckless in their business practice by violating legal lending limits and generated non-performing loans.

Sato (2004) finds that the performance of Suharto connected firms varies after the crisis. The firms that survived in the crisis are those established in the 1970s and ranked in the top thirty or top twenty richest in 1980s and 1996. In contrast, the firms that suffered severely in the crisis are those younger firms that established in the 1980s and ranked in the top thirty in 1996 or those below twentieth in the 1980s but top ten in 1996. Carney and Hamilton-Hart (2015) also find that significant number of large firms in 1996 shrank tremendously and fell below the top two hundred, including Suharto's children firms. The well-established old cronies of Suharto seem to successfully reconsolidate their business and actively reconnect with the current political actors and government officials in post-Suharto administration, which were possibly motivated in securing the benefit they gained in Suharto government (Winter, 2013).

2.1.3 Stock Price Crash Risk

Conceptually, stock price crash risk is premised on the tendency of managers to withhold bad news, which leads to bad news being stockpiled within the firms. At a certain point, it becomes too costly or impossible for managers to withhold the bad news any longer. When such point arrives, all the hidden bad news will reveal to the market at once, resulting in a significant drop, that is, a stock price crash (Kim, Li, and Zhang, 2011). Extant studies have investigated various determinants of stock price crash. For instance, Kim, Li, and Zhang (2011) find that corporate tax avoidance facilitates managers to hoard bad news which leads to a stock price crash risk. He and Ren (2017) provide evidence that financial constraints are positively associated with future stock price crash risk, via both bad-news-hoarding and default risk channels. Chen, Kim, and Yao (2016) find that firms with higher degree of earnings smoothing are more prone to stock price crashes. Chauhan, Kumar, and Pathak (2017) show that stock liquidity, which identified by threat of intervention and price informativeness, decreases stock price crash-risk as it works as a governance mechanism to discipline managers for withholding bad news. In addition, prior research shows that firms'

corporate social responsibility significantly mitigates stock price crash risk (Lee, 2016). Our research extends this stream of literature by examining the relationship between crash risk and political connections using the sudden step-down of Suharto (former President of Indonesia) to address the self-selection bias issue.

2.2 Hypothesis development

Prior literature suggests that politically connected firms can derive significant benefits in terms of financing, whereas non-politically connected firms are more likely to suffer from financing constraints (Luo and Zhen, 2008). Hence, in order to get the financing requirements, managers are encouraged to whitewash financial statements and hide negative information. These actions may result in an increase on information asymmetry and the accumulation of bad news may eventually lead to a stock price crash. Hu and Wang (2018) find that with the ease of financing constraints, politically connected firms can reduce bad news hoarding activities to avoid government regulation and maintain access to government subsidies. Through such a path, the degree of information asymmetry can be reduced, thus decreasing the likelihood of stock price crash risk. Therefore, we predict that politically connected firms have a lower stock price crash risk.

Hypothesis 1: Firms with political connections have a lower risk of stock price crash

Fisman (2001) finds that politically connected firms in Indonesia strongly rely on the benefits from their connections under the Suharto regime and often have the privilege to access financing. The step-down of Suharto's in 1998 represents a fundamental transition in Indonesia's political economy at the national level. The shift is evidenced by the decline of military and state backgrounds and the rise of private sector backgrounds among members of Indonesia's political elite (Poczter and Pepinsky, 2016). Leuz and Oberholzer-Gee (2006) find that political connections might lose their value through election losses. Connected firms thus need to be more responsive to market pressure since firms can no longer rely on the same benefits from their connections (Harymawan and Nowland, 2016). This subsequent regime changes step-down of Suharto trigger financial and operational shocks on politically connected firms. These firms then need to face all kind of market pressures by themselves, resulting in higher stock price crash risk. Therefore, we predict that the step-down of Suharto increases the need for politically connected firms to respond to market pressure, resulting in higher stock price crash risk.

Hypothesis 2: After Suharto stepped down, the risk of stock price crash for firms with political connections increases.

The complexity of firm structure may affect the stock price crash risk. We measure the complexity of firm structure by number of subsidiaries owned by a company. As the number of subsidiaries increases, the benefits derived from the political connections are more pronounced.

Hypothesis 3: The negative relationship between risk of stock price crash and politically connection is more pronounced for firms with a more complex firm structure.

BAB 3. TUJUAN DAN MANFAAT PENELITIAN

The purpose of this study is to examine the relationship between firm-level political connections on stock price crash risk. This study has implications for the stakeholder as a consideration in examining the occurrence of stock price crash risk in a company with political connection. The stock price crash risk research is very interesting, because this information will be very useful for the company's stakeholders in measuring the risk that is owned by a company. For the government, this research can contribute to the accountability policy of a company. So, all stakeholders will have more information related to the risk of a company which can then be the basis for better decision making.



BAB 4. METODE PENELITIAN

4.1. Samples and Data Source

Our sample covers the period from 1995 to 2001. We obtain political connection data from Indonesia Capital Market Directory (ICMD) and total number of subsidiaries from Osiris. Accounting and Financial data is from Compustat Global. We delete observations with missing Compustat data and missing stock price, return, and trading volume data in estimating our crash risk measures and control variables. We exclude the year when Suharto stepped down (1998) to get an unambiguous pre-event and post-event periods for the main tests, especially for difference in difference test. The main sample includes 730 firm–year observations.

4.2. Measuring stock price crash risk

We follow Hutton et al. (2009) and Kim et al. (2016) to construct the three measures of stock price crash risk. Our first measure is the firm-specific return crashes. An indicator variable CRASH that equals one for a firm–year that experiences one or more crash weeks during the fiscal year and zero otherwise.

To calculate the first measure of crash likelihood for each firm-year, we first estimate the weekly returns by firm and by year with the following regression model.

$$r_{j,k} = \alpha_j + \beta_{1j}r_{m,k-2} + \beta_{2j}r_{m,k-1} + \beta_{3j}r_{m,k} + \beta_{4j}r_{m,k+1} + \beta_{5j}r_{m,k+2} + \beta_{6j}r_{i,k-2} + \beta_{7j}r_{i,k-1} + \beta_{8j}r_{i,k} + \beta_{9j}r_{i,k+1} + \beta_{10j}r_{i,k+2} + \varepsilon_{jk} \quad \text{Eq. (1)}$$

where $r_{j,k}$ is the return on stock j in week k , $r_{m,k}$ is the return on the value-weighted market index in week k provided in Center for Research in Security Prices, and $r_{i,k}$ is the return on the Fama–French value-weighted industry index in week k . As in Dimson 1979, the lead and lag terms for the market and industry indexes are to control for nonsynchronous trading. The firm-week return is measured by the natural logarithm of one plus the residual return in Eq. (1) with at least 26 weekly return observations be available per firm-year. Crash weeks are firm-week returns which is below 3.2 standard deviations of the mean firm-week return of the fiscal year.

For the second measure, we use the volatility of below-mean versus above-mean returns (DUVOL). For each firm-year. The variable DUVOL is calculated by the natural logarithm of the ratio of the standard deviation of weekly returns below the annual mean divided to the standard deviation of weekly returns above the annual mean.

For the third measure, we use the negative skewness of firm-specific weekly returns (NCSKEW). For each firm-year, we multiply minus one to the third power of weekly returns and then divide it by the third power of standard deviation of weekly returns.

4.3. Main Model

To test our hypotheses, we perform multiple regression tests with a series of control variables to make sure the results are not subject to some crucial factors which have systematic effects on the cross-sectional variation in stock crash risk.

To examine our hypothesis one (H1), we estimate the following linear regression that regresses stock crash risk (CRASH, DUVOL, or NCSKEW) on political connection (PCON) and control variables.

$$DepVar_t = \beta_0 + \beta_1 PCON_t + \sum \beta_i X_t + \sum \beta_j YRD_t + \sum \beta_k INDD_t + e_t \quad \text{Eq. (2)}$$

Where DepVar is CRASH, DUVOL, or NCSKEW. X is control variables, YRD is year dummy and INDD is industry dummy.

To examine our hypothesis two (H2), we estimate the following linear regression that regresses stock crash risk (CRASH, DUVOL, or NCSKEW) on the differences in differences dummy (DID), political connection (PCON), and control variables.

$$DepVar_t = \beta_0 + \beta_1 DID_t + \beta_2 PCON_t + \sum \beta_i X_t + \sum \beta_j YRD_t + \sum \beta_k INDD_t + e_t \quad \text{Eq. (3)}$$

where DepVar is CRASH, DUVOL, or NCSKEW. X is control variables. YRD is year dummy and INDD is industry dummy.

To examine our hypothesis three (H3), we estimate the linear regression using Eq. (1) that regresses stock crash risk (CRASH, DUVOL, or NCSKEW) on the political connection

(PCON). However, this time we partition the full sample into Complex and Less-Complex subsamples. COMPLEX is a subsample with total number of subsidiaries being greater than the median. Less-complex firms is a subsample with total number of subsidiaries not being greater than the median.

4.4 Sample Selection

Our sample consists of listed companies from Indonesia. The sample covers the period from 1995 to 2001. This study adopts the two-digit Standard Industrial Classification (SIC) system to classify the different industrial sectors. We also remove observations that do not have firm-specific control variables. The final sample for the main model contains 730 firm-year observations. Continuous variables are winsorized at 1 or 99% to control for the effects of outliers.

BAB 5. HASIL DAN LUARAN YANG DICAPAI

HASIL

Table 1 presents the sample distribution for the period 1995-1997 and 1999-2001. We exclude the year when Suharto stepped down (1998) to get an unambiguous pre-event and post-event periods for the main tests, especially for difference in difference test. Among the 730 firm-year observations, the number of firms with political connections is 149 and that without political connections is 581.

Table 1 Sample distribution

Year	Number of firms with political connections	Number of firms without political connections	Total
1995	13	29	42
1996	23	62	85
1997	29	106	135
1999	27	126	153
2000	28	125	153
2001	29	133	162
Total	149	581	730

Note: We exclude the year when Suharto stepped down (1998) to get an unambiguous pre- and post-event periods for the difference in difference model.

Table 2 presents descriptive statistics for the period 1995-1997 and 1999-2001, totaling 730 firm-year observations. All variables are defined in Appendix A. The sample mean of *PCON* is 0.204, indicating that about 20% of the sample is political connected to Suharto and the remaining 80% is not. Dependent variables (*CRASH*, *DUVOL*, and *NCSKEW*) and variable of interest (*PCON*) are presented in current-year values. The control variables are presented in lag-1-year values because lag-1-year values of these variables are used in the regression model.

Table 2 Summary statistics (n=730)

Variables	Mean	Std	Min	Q1	Median	Q4	Max
<i>CRASH</i>	0.563	0.496	0.000	0.000	1.000	1.000	1.000
<i>DUVOL</i>	-0.066	0.298	-1.026	-0.251	-0.079	0.100	2.092
<i>NCSKEW</i>	-0.114	1.068	-3.861	-0.608	-0.139	0.268	17.407
<i>PCON</i>	0.204	0.403	0.000	0.000	0.000	0.000	1.000
<i>SIZE_(t-1)</i>	4.800	1.446	1.328	3.763	4.666	5.743	8.865
<i>ROA_(t-1)</i>	-0.013	0.193	-1.175	-0.065	0.028	0.083	0.473
<i>LEVERAGE_(t-1)</i>	0.477	0.317	0.000	0.242	0.468	0.646	1.613
<i>MTB_(t-1)</i>	1.323	2.252	-8.558	0.385	0.908	1.711	23.928
<i>NCSKEW_(t-1)</i>	-0.089	1.257	-8.230	-0.545	-0.107	0.326	10.310
<i>DTURN_(t-1)</i>	0.001	0.004	-0.022	-0.001	0.000	0.001	0.026
<i>SIGMA_(t-1)</i>	0.063	0.038	0.015	0.036	0.055	0.078	0.421
<i>RET_(t-1)</i>	0.554	2.551	-0.979	-0.465	-0.146	0.555	21.187
Observations							

This table presents summary statistics for our sample for the period 1995-1997 and 1999-2001.

Table 3 presents the Pearson correlations. It displays the correlations among dependent variables, independent variable, and control variables. Significance level is denoted at the 10 percent, 5 percent, and 1 percent.

Table 3 Pearson correlations (n=730)

Variables	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
[1] CRASH	1.000											
[2] DUVOL	0.303***	1.000										
[3] NCSKEW	0.296***	0.851***	1.000									
[4] PCON	0.042	-0.096***	-0.069*	1.000								
[5] SIZE _(t-1)	0.168***	-0.064*	0.008	0.391***	1.000							
[6] ROA _(t-1)	0.053	-0.029	-0.022	-0.002	0.044	1.000						
[7] LEVERAGE _(t-1)	-0.068*	0.044	0.043	0.093**	0.132***	-0.589***	1.000					
[8] MTB _(t-1)	0.070*	-0.013	0.006	0.063*	0.141***	0.191***	-0.115***	1.000				
[9] NCSKEW _(t-1)	-0.059	0.060	0.064*	-0.082**	-0.008	-0.061	0.029	-0.000	1.000			
[10] DTURN _(t-1)	0.077**	-0.020	0.005	0.018	0.051	0.027	-0.054	0.058	-0.041	1.000		
[11] SIGMA _(t-1)	-0.151***	0.113***	0.045	-0.065*	-0.328***	-0.136***	0.170***	-0.081**	-0.029	-0.054	1.000	
[12] RET _(t-1)	0.007	-0.012	-0.049	0.051	-0.030	0.165***	-0.035	0.209***	-0.117***	-0.007	0.239***	1.000

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 4 presents characteristics of politically connected and non-politically connected firms. We observe that firms with political connections is in general bigger in terms of total asset than those without political connections. These politically connected firms are also have higher leverage.

Table 4 Characteristics of politically connected and non-politically connected firms

Variables	firms with political connections N=149	firms without political connections N=581	Coef	t-value
<i>CRASH</i>	0.604	0.552	0.052	-1.131
<i>DUVOL</i>	-0.123	-0.052	-0.071***	2.601
<i>NCSKEW</i>	-0.258	-0.077	-0.182*	1.854
<i>SIZE_(t-1)</i>	5.916	4.514	1.402***	-11.458
<i>ROA_(t-1)</i>	-0.014	-0.013	-0.001	0.065
<i>LEVERAGE_(t-1)</i>	0.535	0.462	0.074**	-2.533
<i>MTB_(t-1)</i>	1.601	1.252	0.350*	-1.692
<i>NCSKEW_(t-1)</i>	-0.293	-0.037	-0.256**	2.220
<i>DTURN_(t-1)</i>	0.001	0.001	0.000	-0.492
<i>SIGMA_(t-1)</i>	0.058	0.064	-0.006*	1.761
<i>RET_(t-1)</i>	0.811	0.488	0.323	-1.381

Table 5 presents the regression results on the relationship between political connection and stock crash risk. The coefficient on political connection (*PCON*) is negative and significant for all three risk models (*CRASH* and *DUVOL* at 1% level, and *NCSKEW* at 5% level) after controlling the firm-specific control variables. This result is consistent with our prediction, which indicates that the stock crash risk is lower for politically connected firms. Therefore, hypothesis 1 is supported.

Table 5 Main results: results of regression of political connections on stock price crash risk

Variables	(1) <i>CRASH</i>	(2) <i>DUVOL</i>	(3) <i>NCSKEW</i>
<i>PCON</i>	-0.366***	-2.92	-0.276**
<i>SIZE</i> _(t-1)	0.275***	4.47	0.053
<i>ROA</i> _(t-1)	-0.119	-0.12	0.256
<i>LEVERAGE</i> _(t-1)	-0.741***	-2.65	0.090
<i>MTB</i> _(t-1)	0.035	0.64	0.013
<i>NCSKEW</i> _(t-1)	-0.069	-1.16	0.031
<i>DTURN</i> _(t-1)	6.830	0.39	-12.449***
<i>SIGMA</i> _(t-1)	-5.672*	-1.93	1.465
<i>RET</i> _(t-1)	0.041	1.57	-0.004
Constant	2.261*	0.109	1.832
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Observations	704	730	730
<i>R</i> ²	.	0.151	0.118
Adjusted <i>R</i> ²	.	0.078	0.042

t statistics in second column

Notes: This table presents regression results testing the effect of political connections on stock price crash risk. Standard errors are clustered by firm and year. *, **, *** denote significance at the 10 percent, 5 percent, and 1 percent levels (two-tailed) respectively.

* $p < .1$, ** $p < .05$, *** $p < .01$

Table 6 presents the regression results that the effect of the fall of Suharto on the relationship between political connection and stock crash risk. The coefficient on differences in differences (*DID*) is positive and significant at 1% level for all three risk models after controlling the firm-specific control variables and country-level control variables. This result is consistent with our prediction, which indicates that the stock crash risk of politically connected firms increases after the fall of Suharto. Therefore, hypothesis 2 is supported.

Table 6 Difference-in-difference results

Variables	(1) <i>CRASH</i>	(2) <i>DUVOL</i>	(3) <i>NCSKEW</i>
<i>DID</i>	2.142***	2.74	0.284***
<i>PCON</i>	-1.576*	-1.79	-0.251***
<i>SIZE</i> _(t-1)	0.281***	4.61	0.010
<i>ROA</i> _(t-1)	-0.203	-0.22	0.045
<i>LEVERAGE</i> _(t-1)	-0.835***	-3.25	-0.004
<i>MTB</i> _(t-1)	0.041	0.70	0.002
<i>NCSKEW</i> _(t-1)	-0.051	-0.94	0.008
<i>DTURN</i> _(t-1)	-0.147	-0.01	-5.234***
<i>SIGMA</i> _(t-1)	-5.082	-1.61	0.713*
<i>RET</i> _(t-1)	0.043*	1.73	0.000
Constant	2.637**	2.21	0.163
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Observations	704	730	730
<i>R</i> ²	.	0.188	0.148
Adjusted <i>R</i> ²	.	0.116	0.073

t statistics in second column

Notes: This table presents regression results testing the effect of Suharto's stepped-down on stock price crash risk. Standard errors are clustered by firm and year. *, **, *** denote significance at the 10 percent, 5 percent, and 1 percent levels (two-tailed) respectively.

* $p < .1$, ** $p < .05$, *** $p < .01$

Table 7 reports the results of sensitivity test for Table 5 on the regression of stock price crash risk on political connection because this test includes the year 1998 in which Soeharto stepped down. The coefficient of political connection (*PCON*) for all three models are negative (*CRASH* at 1% level, and *NCSKEW* at 10% level), indicating that political connection lowers stock crash risk. The significance level for *NCSKEW* and *DUVOL* in Table 7 are lower than that in Table 5. This is because the inclusion of observations for year 1998, in which Soeharto stepped down, may introduce some noises into the regression model.

Table 7 Results of regression of political connections on stock price crash risk (including year of Soeharto's stepped down, 1998)

Variables	(1) <i>CRASH</i>	(2) <i>DUVOL</i>	(3) <i>NCSKEW</i>
<i>PCON</i>	-0.373***	-3.32	-0.200*
<i>SIZE</i> _(t-1)	0.255***	4.85	0.016
<i>ROA</i> _(t-1)	-0.283	-0.32	0.230
<i>LEVERAGE</i> _(t-1)	-0.591**	-2.22	0.045
<i>MTB</i> _(t-1)	0.050	1.10	0.010
<i>NCSKEW</i> _(t-1)	-0.087	-1.50	0.038
<i>DTURN</i> _(t-1)	5.944	0.42	-2.049
<i>SIGMA</i> _(t-1)	-4.252*	-1.80	1.681*
<i>RET</i> _(t-1)	0.040	1.63	-0.003
Constant	1.737	1.25	1.616
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Observations	879	886	886
<i>R</i> ²	.	0.125	0.088
Adjusted <i>R</i> ²	.	0.062	0.022

t statistics in second column

Notes: This table presents regression results testing the effect of political connections on stock price crash risk. Standard errors are clustered by firm and year. *, **, *** denote significance at the 10 percent, 5 percent, and 1 percent levels (two-tailed) respectively.

* $p < .1$, ** $p < .05$, *** $p < .01$

Table 7 reports the results of sensitivity test for Table 5 on the regression of stock price crash risk on Difference-in-Difference because this test includes the year 1998 in which Soeharto stepped down. The coefficient of *DID* for all three models are significantly positive, indicating that the stock crash risk of politically connected firms increases after the fall of Suharto.

Table 8 Difference-in-difference results (including year of Soeharto's stepped down, 1998)

Variables	(1) <i>CRASH</i>	(2) <i>DUVOL</i>	(3) <i>NCSKEW</i>
<i>DID</i>	2.441***	3.46	0.274***
<i>PCON</i>	-1.496***	-2.66	-0.190**
<i>SIZE_(t-1)</i>	0.262***	5.23	0.002
<i>ROA_(t-1)</i>	-0.361	-0.44	0.040
<i>LEVERAGE_(t-1)</i>	-0.657**	-2.50	0.002
<i>MTB_(t-1)</i>	0.064	1.22	0.002
<i>NCSKEW_(t-1)</i>	-0.073	-1.25	0.010
<i>DTURN_(t-1)</i>	1.527	0.10	-1.871
<i>SIGMA_(t-1)</i>	-3.713	-1.54	0.644*
<i>RET_(t-1)</i>	0.034	1.38	-0.001
Constant	2.007	1.49	0.148
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Observations	879	886	886
<i>R</i> ²	.	0.161	0.121
Adjusted <i>R</i> ²	.	0.100	0.057

t statistics in second column

Notes: This table presents regression results testing the effect of Suharto's stepped-down on stock price crash risk. Standard errors are clustered by firm and year. *, **, *** denote significance at the 10 percent, 5 percent, and 1 percent levels (two-tailed) respectively.

* $p < .1$, ** $p < .05$, *** $p < .01$

To investigate whether political connection exerts distinct impacts on stock crash risk when interacting with differential strength of complexity of firm structure (H3), the full sample is partitioned into two sub-samples according to the complexity of firm structure. The sub-sample analysis reported in Table 9 presents the regression results that the effect of complexity of firm structure on the relationship between political connection and stock crash risk. The coefficient on political connection (*PCON*) is negative and significant at 1% level for all three risk models for complex firms after controlling the firm-specific control variables. This result is consistent with our prediction, which indicates that the negative relationship between political connection and stock crash risk is more pronounced for firms with complex firm structure. Therefore, hypothesis 3 is supported.

Table 9 Results of regression on complex and less complex firms

Variables	<i>CRASH</i>				<i>DUVOL</i>				<i>NCSKEW</i>			
	(1)		(2)		(3)		(4)		(5)		(6)	
	Complex firms	Less-complex firms	Complex firms	Less-complex firms	Complex firms	Less-complex firms	Complex firms	Less-complex firms	Complex firms	Less-complex firms	Complex firms	Less-complex firms
<i>PCON</i>	-0.610***	-9.48	-0.028	-0.07	-0.154***	-3.09	-0.103*	-1.73	-0.601***	-3.14	-0.237	-1.19
<i>SIZE_(t-1)</i>	0.296*	1.68	0.166	1.52	-0.005	-0.18	0.030	1.46	0.055	0.68	0.075	1.25
<i>ROA_(t-1)</i>	0.312	0.24	-0.067	-0.05	0.046	0.40	0.066	0.78	0.251	0.60	0.222	0.99
<i>LEVERAGE_(t-1)</i>	-2.047**	-2.43	-0.110	-0.18	-0.042	-0.36	0.006	0.11	0.015	0.04	0.071	0.53
<i>MTB_(t-1)</i>	0.077	1.21	0.062	0.76	0.006	1.31	0.004	0.54	0.029	1.03	0.021	1.20
<i>NCSKEW_(t-1)</i>	-0.071	-0.50	-0.053	-0.44	-0.002	-0.14	0.011	0.53	0.017	0.28	0.046	1.02
<i>DTURN_(t-1)</i>	-21.782	-0.53	30.546	0.92	-5.211**	-2.50	-1.083	-0.24	-19.726***	-2.72	2.715	0.17
<i>SIGMA_(t-1)</i>	-5.253	-1.07	-6.479***	-2.87	0.569	0.67	0.553	1.33	1.053	0.35	1.182	1.26
<i>RET_(t-1)</i>	0.037	0.83	0.067**	2.33	-0.007	-1.27	0.008	1.50	-0.019	-0.70	0.017	1.24
Constant	3.415**	2.24	2.929*	1.69	0.343	0.92	-0.197	-0.88	2.270	1.07	-0.308	-0.62
Year FE	Yes		Yes		Yes		Yes		Yes		Yes	
Industry FE	Yes		Yes		Yes		Yes		Yes		Yes	
Observations	299	372			315	397			315	397		
<i>R</i> ²					0.278	0.165			0.167	0.151		
Adjusted <i>R</i> ²					0.148	0.058			0.016	0.042		

t statistics in second column

Notes: This table presents regression results testing the effect of political connections on stock price crash risk in complex and less complex subsamples.

COMPLEX is a subsample with total number of subsidiaries being greater than the median.

Less-complex firms is a subsample with total number of subsidiaries not being greater than the median.

Standard errors are clustered by firm and year. *, **, *** denote significance at the 10 percent, 5 percent, and 1 percent levels (two-tailed) respectively.

* $p < .1$, ** $p < .05$, *** $p < .01$

LUARAN YANG DICAPAI

Luaran yang direncanakan dan capaian tertulis dalam proposal awal :

No	Luaran yang Direncanakan	Capaian
1	Publikasi Ilmiah Jurnal Internasional	Sudah Dilaksanakan
2	Pemakalah dalam pertemuan ilmiah Internasional	Sudah Dilaksanakan
3	Visiting Lecturer Internasional	Sudah Dilaksanakan

CAPAIAN**1. PUBLIKASI ILMIAH**

	Keterangan
Artikel Jurnal Ke-1*	
Nama jurnal yang dituju	Asia-Pacific Journal of Accounting and Economics
Klasifikasi jurnal	Jurnal Internasional
<i>Impact factor</i> jurnal	0,478
Judul artikel	Political connections and stock price crash risk: An empirical evidence from the fall of Suharto
Status naskah	<i>Under Review</i>

2. PEMBICARA PADA TEMU ILMIAH (SEMINAR/SIMPOSIUM)

	Internasional
Judul Makalah	
Nama Temu Ilmiah	Airlangga International Conference on Economics and Business
Tempat Pelaksanaan	Sheraton Hotel Surabaya
Waktu Pelaksanaan	24 Oktober 2018
Status	Sudah Dilaksanakan

3. CAPAIAN LUARAN LAINNYA

Visiting Lecturer Internasional	Melakukan Visiting Professor ke University of Macau
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BAB 6. RENCANA TAHAPAN BERIKUTNYA

Sebagaimana disampaikan diawal, tujuan utama dari kegiatan penelitian dasar unggulan perguruan tinggi ini adalah publikasi jurnal internasional terindeks Scopus. Jurnal-jurnal yang diterbitkan juga diharapkan bisa menjadi acuan dalam pembuatan kebijakan dan berkontribusi dalam meningkatkan peringkat Universitas Airlangga menuju QS WUR 500 terbaik dunia. Untuk tahapan selanjutnya peneliti akan melakukan *submission* ke Asia Pacific Journal of Accounting and Economics. Berdasarkan *roadmap* penelitian yang telah disusun oleh peneliti maka selanjutnya untuk tahun ke-2 peneliti akan melakukan penelitian mengenai pengaruh *Military Connection* terhadap *Stock Price Crash Risk*.

Roadmap Penelitian PDUPT

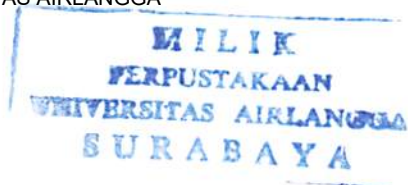


- = Riset yang diajukan dalam skema ini
- = Variabel Dependen
- = Riset yang dilakukan pada pendanaan 2018

MILIK
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BAB 7. KESIMPULAN DAN SARAN

Establishing political connections for the firms can generate benefits and costs for the firms. By involving the politician to the firms, in one side, politicians can bring their network and power to support the firms. In contrast, it could also increase the risk of the firms due to the potential of conflict of interest. This study is focus on providing some evidences of the relationship between political connections and stock price crash risk in a country with centralized political decision-making. In general, we show that firms with political connections are less likely to have stock price crash risk. This finding indicates that political connections can help the firm to reduce the probability of the firms' stock price crash risk. Using difference-in-difference method, we find that firms with political connections are more likely to have higher probability of stock price crash risk after their connections fall from power. This result implies that the cost of having political connections are emerges after their connections lose their power. In addition, we also find that negative associations between political connections and stock price crash risk are more pronounced in firms with more complex firm structures. Despite the issue of sample period, this study provides a better research setting which produce better information on how political connections affect the stock price crash risk of the firms.



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LAMPIRAN 1 - RINCIAN BIAYA YANG TELAH DIKELUARKAN

SURAT PERNYATAAN TANGGUNG JAWAB BELANJA

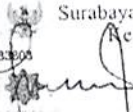
Yang bertanda tangan di bawah ini :

Nama : IMAN HARYMAWAN S.E.,
M.B.A, Ph.D
Alamat : Baratajaya 18 no 35 Surabaya
berdasarkan Surat Keputusan Nomor 01/E/KPT/2018 dan Perjanjian / Kontrak Nomor
200/UN3.14/LT/2018 mendapatkan Anggaran Penelitian Stock price crash risk and political
connections sebesar 100000000 .
Dengan ini menyatakan bahwa :

1. Biaya kegiatan penelitian di bawah ini meliputi :

No	Uraian	Jumlah
01	Honorarium 2 Pembantu Peneliti dan 1 Sekretaris Bendahara. 2 Pembantu Peneliti dengan waktu kerja (8 jam x 5 hari x 28 minggu), tarif pembantu peneliti berdasarkan PMK No.49 th.2017 sebesar Rp.25.000/Orang-Jam dan 1 Sekretaris – Bendahara dengan waktu kerja 6 bulan, tarif Sekretaris-Bendahara berdasarkan PMK No.49 th.2017 sebesar Rp.300.000/Orang-Bulan	61800000
02	Peralatan Penunjang Sewa perangkat lunak – Grammarly (USD 139,95)	1978333
03	Bahan Habis Pakai -	0
04	Perjalanan Visiting Professor di University of Macau (6,8 Hari) yang terdiri atas biaya transportasi dan Lump-Sum. Biaya transportasi terdiri atas Biaya Taksi, Tiket Pesawat (SUB-HKG PP) dan Tiket Ferry (HKG-MACAU PP) - HKD 405 dengan Kurs KMK 1 HKD = Rp. 1.770. Uang Lumpsum – Hongkong Macau (6,8 Hari) dengan satuan biaya uang harian perjalanan dinas luar negeri berdasarkan PMK No.49 th 2017 sebesar USD 287/Hari, dengan Kurs KMK: 1 USD = Rp. 13.894	34652480
05	Lain-lain Pembuatan Laporan dan Jasa Copy Editing	2089676
	Jumlah	100520489

2. Jumlah uang tersebut pada angka 1, benar-benar dikeluarkan untuk pelaksanaan kegiatan penelitian dimaksud.
 3. Bersedia menyimpan dengan baik seluruh bukti pengeluaran belanja yang telah dilaksanakan.
 4. Bersedia untuk dilakukan pemeriksaan terhadap bukti-bukti pengeluaran oleh aparat pengawas fungsional Pemerintah
 5. Apabila di kemudian hari, pernyataan yang saya buat ini mengakibatkan kerugian Negara maka saya bersedia dituntut penggantian kerugian negara dimaksud sesuai dengan ketentuan peraturan perundang-undangan.
- Demikian surat pernyataan ini dibuat dengan sebenarnya.

Surabaya, 10 - 9 - 2018
Ketua,

(IMAN HARYMAWAN, S.E., M.B.A, Ph.D)
NIP/NIK 198404202008121005

LAMPIRAN 2 – SUBMISSION STATUS

Bukti *Submission* ke Asia Pacific Journal of Accounting and Economics

Asia-Pacific Journal of Accounting & Economics **Routledge**
Taylor & Francis Group

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Author Dashboard

- 1 Unsubmitted and Manuscripts in Transit
- 1 Submitted Manuscripts**
- 2018 New Submission
- Help & Instructions
- Latest Recent Uploads
- English Language Editing Service

Submitted Manuscripts

STATUS	ID	TITLE	CREATED	SUBMITTED
Under Review	RAAE-HK-2018-0151	Political connections and stock price crash risk: An empirical evidence from the fall of Sunardjo View Submission Cover Letter	15 Nov 2018	15 Nov 2018 View Receipt

Letter of Acceptance pada Temu Ilmiah Internasional



AICEB 2018
Airlangga International Conference on Economics and Business
Sheraton Hotel, 24 October 2018
Website: <http://aiceb.feb.conference.unair.ac.id>
Email: aiceb@feb.unair.ac.id

Date: 13 November 2018

Letter of Acceptance

Dear Authors: Siti Zulaikah, Mohammad Nasih, Iman Harymawan*

We are pleased to inform you that your abstract (ABS-179, Oral Presentation), entitled:


"GOVERNMENT OWNERSHIP, THE EXTENT OF HUMAN RESOURCES DISCLOSURE, AND FINANCIAL PERFORMANCE OF BANKING COMPANIES IN INDONESIA"

has been reviewed and accepted to be presented at AICEB 2018 conference to be held on 24 October 2018 in Surabaya, Indonesia.

Please submit your full paper and make the payment for registration fee before the deadlines, visit our website for more information.

Thank You.

Best regards,



Dr. Rudi Purwono
AICEB 2018 Chairperson

LAMPIRAN 3 – Borang Evaluasi atas Capaian Luaran**EVALUASI ATAS CAPAIAN LUARAN KEGIATAN**

Ketua : Iman Harymawan
 Perguruan Tinggi : Universitas Airlangga
 Judul : Stock Price Crash Risk And Political Connection
 Waktu Kegiatan : tahun ke 1 dari rencana 2 tahun

Luaran yang direncanakan dan capaian tertulis dalam proposal awal :

No	Luaran yang Direncanakan	Capaian
1	Publikasi Ilmiah Jurnal Internasional	Sudah Dilaksanakan
2	Pemakalah dalam pertemuan ilmiah Internasional	Sudah Dilaksanakan
3	Visiting Lecturer Internasional	Sudah Dilaksanakan

CAPAIAN**4. PUBLIKASI ILMIAH**

	Keterangan
Artikel Jurnal Ke-1*	
Nama jurnal yang dituju	Asia-Pacific Journal of Accounting and Economics
Klasifikasi jurnal	Jurnal Internasional
Impact factor jurnal	0,478
Judul artikel	Political connections and stock price crash risk: An empirical evidence from the fall of Suharto
Status naskah	Under Review

5. PEMBICARA PADA TEMU ILMIAH (SEMINAR/SIMPOSIUM)

	Internasional
Judul Makalah	
Nama Temu Ilmiah	Airlangga International Conference on Economics and Business
Tempat Pelaksanaan	Sheraton Hotel Surabaya
Waktu Pelaksanaan	24 Oktober 2018
Status	Sudah Dilaksanakan

6. CAPAIAN LUARAN LAINNYA

Visiting Lecturer Internasional	Melakukan Visiting Professor ke University of Macau
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LAMPIRAN 4 – DRAFT ARTIKEL TEMU ILMIAH INTERNASIONAL

Government Ownership, the Extent of Human Resources Disclosure, and Financial Performance of Banking Companies in Indonesia

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Keywords: Government Ownership, Extent of Human Resources Disclosure, Financial Performance, Banking Companies

Abstract: The purpose of this study is to analyze how is the influence of government ownership and the extent of human resources disclosure on company's financial performance. This study uses 129 observations on all banking companies listed on the Indonesia Stock Exchange (IDX) from 2014 to 2016 and uses the Ordinary Least Square (OLS) Regression model. This study found that government ownership has positive and significant effect on company's financial performance. The second finding is done by variable interaction regression. It is found that there is a positive and significant relationship between government ownership and the extent of human resources disclosure on financial performance. This study has implications for governments and banking companies in Indonesia to expanding investment cooperation. The results of this study indicate that banking companies with government ownership that perform higher human resources disclosure will result in higher financial performance.

1. INTRODUCTION

Jensen and Meckling (1976) stated that the theory used in studying ownership is the agency theory where there is a difference of interest between the principal (shareholder) and the agent (management). In this case, management must pay attention to the interests of shareholders, besides they seek to improve personal welfare that is often not in line with the interests of shareholders. The higher level of shareholder ownership in a company, the authority to control the company is getting stronger. One of the majority shareholders in the company is the government.

Government within a company has two roles as primary stakeholders and secondary stakeholders (Carroll and Buchholtz, 2003). Government as primary stakeholder when it becomes a shareholder of a company namely government ownership. The government as a secondary stakeholder plays a role in determining political policy. But often the government as shareholders has a different purpose with other shareholders. In general, the government that acts as the state apparatus have

political and social objectives, where the objectives are often not in line with corporate objectives. To avoid the occurrence of the issue of differences of interest, the government needs to improve the effectiveness of its role within the company. So companies will be more responsive in the face of market pressures and increase quality incomes (Harymawan and Nowland, 2016). The increase indicates that the company has better performance prospects.

Government ownership becomes one of the interesting ownership structures to be examined. Given that the government has the authority and great influence in making a policy on various lines even in the economic field. The role of government ownership in an enterprise can implement policies that can discipline self interest management behavior (Ab Razak et al, 2008). The government's ability to reduce the agency conflicts can have a positive effect on the financial performance (Sun and Tong, 2002; Ab Razak et al, 2008; Najid & Rahman, 2001). Yet, in other studies, it shows the negative relationship of government ownership to

financial performance (Ting & Lean, 2015; Tran et al, 2014).

Besides government ownership, disclosure of human resources is another factor that can improve the financial performance of the company. In Indonesia there has been little research on the interaction of government ownership and the extent of human resources disclosure. Companies with government ownership have substantial disclosure responsibilities due to government interference within the company. One of the important information that companies need to disclose is human resources. The company's human resources refers to creating core competencies, knowledge, and innovation values which beyond physical and financial resources (Swart, 2006). Human resources become an important factor in creating quality of company's management, especially service oriented company that is banking company. Human resources disclosure can maintain good corporate relations with shareholders. So companies with government ownership that do the disclosure of human resources have better performance prospects in the future.

This study wants to analyze the influence of government ownership and the extent of human resources disclosure on financial performance. This study predicts that companies with government ownership will result in high financial performance. Furthermore, if companies with high government ownership disclosure of human resources are expected to result in higher financial performance. This study uses 129 observations from all banking companies listed on the Indonesia Stock Exchange from 2014 to 2016. The analysis method used in this study is ordinary least square (OLS) regression and OLS with robust that is cluster model from Petersen (2009) to test the influence of government ownership and the extent of human resources disclosure on financial performance.

This study found that government ownership is positively and significantly related to financial performance. This indicates that companies with government ownership will result in higher performance. Subsequent discovery of interaction done by multiplying the variable of government ownership with the extent of human resources disclosure. There is a positive and significant relationship between government ownership and the extent of human resources disclosure with financial performance. These results indicate that firms with higher government ownership and

disclosure of human resources will result in higher financial performance.

This research can give contribution to the government in making investment policy, and make banking companies in Indonesia as a profitable place to invest. In addition it can be a consideration for the company's management in determining policies to improve the company's performance by expanding investment cooperation with the government, as well as on the policy of the need to disclose human resources.

2. LITERATURE REVIEW AND HYPOTHESES

The welfare of shareholders is one of the objectives of the establishment of the company. Government ownership is the percentage of government shareholding in an organization that acts as external monitoring because it has a large investment in capital markets (Yonedi and Sari, 2009). Government ownership makes the company try to harmonize and adjust to the interests desired by the government. The government as the shareholder has the authority to control the company whether it has performed well. With such authority, the government can reduce the occurrence of conflict of interest with management. The higher level of shareholder ownership in the company, the authority to control the company is greater. The government as the majority shareholder provides a control mechanism to discipline self-interest management behaviors to align with corporate objectives, which impact on improving performance (Ab Razak et al, 2008). Government ownership and financial performance have a positive relationship (Sun, Tong and Tong, 2002). In line with previous research which found that government ownership has a positive effect on financial performance (Ab Razak et al, 2008; Najid & Rahman, 2011).

H1: Companies with government ownership produce higher performance compared to companies without government ownership.

The performance of the organization depends on the quality of the human being, by stating the success of an organization depends on the quality of human resources owned by the company (Claudhary and Sharma, 2012). The advantages of

human resources disclosure in the company's annual report include improving corporate image, reducing capital costs, attracting potential investors, lowering stock volatilities, building information related to company products and services, and the main advantages as a medium for enhancing corporate relationships with stakeholders (Vergauwen and Alem 2005, Singh and Van-der-Zahn 2008). This suggests that disclosure of human resources can attract potential investors and can maintain good corporate relationships with shareholders. The relationship will make the government as the owner of shares retain ownership of the company. So the interaction of government ownership and the extent of human resources disclosure can improve the firm company.

H2: Companies with government ownership which conduct higher extent of human resources disclosure are result in higher financial performance than companies with government ownership conduct lower extent of human resources disclosure.

3. DATA AND VARIABLES MEASUREMENT

3.1 Sample and Data Sources

Sample used in this study is all banking companies in 2014-2016 listed in Indonesia Stock Exchange. There are total of 129 samples of banking companies listed on the IDX during 2014 to 2016. Sources of data used in this study is secondary data derived from the annual report of banking companies in 2014 until 2016. Data related to disclosure of human resources and auditor type can be obtained in the narrative section of the annual report. While government ownership data, financial performance, firm size, firm age, capital adequacy ratio and non performing loan can be obtained from the quantitative part of annual report. Company annual report data is obtained from the official website of Indonesia Stock Exchange (www.idx.co.id) and through the official website of each company.

3.2 Measurement of Government Ownership

Government ownership is an independent variable in this study which measured using dummy variables referring to previous studies (Ab Razak et al. 2008). Government ownership in this study is measured using two dummy variable proxies: first, value 1 for government ownership (G) and value 0 for non-government ownership (S). Second, % government ownership (G) and value 0 for non-government ownership (S).

3.3 Measurement of Extent of Human Resources Disclosure

The moderation variable is the human resource disclosure (HRD) which measured by human resources disclosure index (HRDI). HRDI is developed to measure the level of disclosure of human resources in the company's annual report. HRDI is obtained by using content analysis technique. Content analysis approach is used to analyze the annual report of banking companies conducted in this study. Content analysis is a method often used in Human Capital research, Intellectual Capital, and CSR disclosure (Guthrie et al, 2004). This study uses 7 categories of human resource disclosure index (HRDI) consisting of 30 items that can be seen in the appendix section in this study.

3.4 Measurement of Financial performance

Financial performance is the dependent variable in this study. To assess the performance of management can be done with financial analysis that includes the analysis of financial ratios, analysis of weaknesses and financial strength of the company, so it can show the performance of management in the past period and prospects in the coming period (Gerianta, 2007). Financial performance is measured using earning per share (EPS) as an indicator (Rehma et al, 2011; Akindehinde et al, 2015; Venugopal and Subha, 2015). EPS shows the profit amount of each share in a certain period. The higher EPS of a company, so company's ability to give earning to shareholders is also higher. So in this study the financial performance is measured using earnings per share (EPS) by dividing net income with average outstanding shares.

3.5 Measurement of Control Variables

In this study, using several control variables such as firm size (SIZE) measured by total assets; capital adequacy ratio (CAR) is measured by dividing capital by weighted assets according to the risk divided by one hundred percent; non performing loan (NPL) is measured by dividing problem loans with the loan rate given by one hundred percent; the age of the company (Age) is measured by the length of companies listed on the Indonesia Stock Exchange (IDX); and the auditor type (DA) is measured by dummy variable that value 1 for firms audited by Big 4 audit firms, and value 0 for companies not audited by Big 4 audit firms. Summary of operational definition of variables can be seen in the appendix section of this study.

4. EMPIRICAL ANALYSIS

4.1 Descriptive Statistics and Univariate Analysis

Measurement and definition of all variables used in this study are explained more specifically in the attachment section. Table 1 shows the distribution of the sample by year. This is because the sample used in this research is one industry sector that is banking company in Indonesia. The second column shows that as much as 16.28% has government ownership with a total of n value 21. While the third column shows as much as 83.72% with a total n value of 108 without government ownership of 129 observations.

Table 1: Sample Distribution

Year	Company with Government Ownership		Company without Government Ownership		Total	
	N	%	N	%	N	%
2014	7	16.28	36	83.72	43	100
2015	7	16.28	36	83.72	43	100
2016	7	16.28	36	83.72	43	100
Total	21	16.28	108	83.72	129	100

Notes: This table displays distribution of sample banking companies by year with government ownership and

without government ownership from 129 companies listed on the IDX in 2014-2016.

Table 2 shows descriptive statistics. Financial performance is measured using EPS proxy which has mean value of 112,834. GovP and HRD have an average of 9.377 and 16.953 respectively. The average company has SIZE of Rp 113,000,000,000,000,000.

Table 2: Descriptive Statistic

Var.	Mean	Median	Minimum	Maximum
EPS	112.834	17.000	-368.000	1030.430
GovP	9.377	0.000	0.000	80.000
HRD	16.953	17.000	9.000	24.000
SIZE	113.000,000,000,000,000	20,020,000,000,000,000	745.600,000,000,000	1,039,000,000,000,000,000
CAR	19.392	18.410	10.050	35.120
NPL	2.929	2.590	0.000	15.820
Age	5.736	7.000	0.000	9.000
DA	0.620	1.000	0.000	1.000

Notes: This table shows descriptive statistics for all variabel used in this study. The sample in this study amounted to 129 companies listed on the IDX in 2014-2016.

Table 3 shows the results of Pearson correlation. The relationship between GovP and EPS variables is positive and significant with a 1% significance level. It means that firms with government ownership will produce higher EPS. EPS has a positive and significant relationship with several variables, namely HRD, SIZE, Age, and DA with a significance level of 1%. This shows that any increase or decrease in EPS variable, then those variables will change in the direction of EPS variables. While the EPS relationship with NPL is negative and significant with 1% significance level. The last variable is CAR, such as the relationship between EPS and CAR variables is negative and not significant.

Notes: This table shows the Pearson Correlation test result from 129 companies listed on the IDX in 2014-2016 with $r > 1.657$ **, $r > 1.979$ ***, significance at 10%, 5%, and 1%.

	EPS	GDP	HRD	SIZE	CAR	NPL	Age	DA
EPS	1.000							
GDP	0.510***	1.000						
HRD	0.422***	0.283***	1.000					
SIZE	0.685***	0.488***	0.594***	1.000				
CAR	-0.036	-0.031	-0.078	-0.219**	1.000			
NPL	-0.234***	0.020	-0.004	-0.011	-0.021	1.000		
Age	0.268***	0.053	0.435***	0.641***	-0.291***	0.234***	1.000	
DA	0.340***	0.210**	0.490***	0.577***	-0.111	-0.122	0.410***	1.000

Table 4 shows the results of independent t-test based on government ownership and financial performance. Companies with government ownership have higher performance measured by EPS. Judging from firm size (SIZE) and auditor type (DA) companies with significant government ownership have larger size or higher total assets and are audited by Big 4 audit firms.

Table 4: T-Test

Variables	Company with Government Ownership N=21	Company without Government Ownership N=108	mean t-statistic
EPS	401.640	56.677	7.222***
HRD	19.714	16.417	3.902***
SIZE	39.930	37.294	7.031***
CAR	18.390	19.587	-0.999
NPL	3.004	2.915	0.148
Age	6.571	5.574	1.306
DA	0.905	0.565	3.017***

Notes: This table shows the characteristics of companies that have government ownership and without government ownership from 129 companies listed on the IDX in 2014-2016. The t-test result are displayed with * $t > 1,657$ ** $t > 1,979$, *** $t > 2,617$, significance at 10%, 5%, and 1%.

4.2 Primary Analysis

In this study, two regression is done using ordinary least square regression (OLS) and ordinary least square (OLS) with robust.

4.2.1 Government Ownership and Financial performance

To test the first hypothesis in this study, the authors use the regression model with the following equation:

$$EPS_{i,t} = \beta_0 + \beta_1 GovP_{i,t} + \beta_2 HRD_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 CAR_{i,t} + \beta_5 NPL_{i,t} + \beta_6 Age_{i,t} + \beta_7 DA_{i,t} + \epsilon_{i,t}$$

Table 5 presents the results of OLS and OLS robust regressions between government ownership variables in financial performance variables. In the EPS column with OLS, the GovP coefficient is 0.020 and the t-value is 2.54, the significance is at the 5% level. In the EPS column with OLS with robust, the GovP coefficient of 0.020 and the t-value of 1.71, the significance at the 10% level. Both regression results show that government ownership has a positive and significant effect on company performance. These results are consistent with the hypothesis that firms with government ownership will

result in higher financial performance. The value of r^2 in EPS shows that the regression results are able to explain the independent and dependent variabel relationship by 58.5%.

Table 5: Government Ownership and Financial performance

Variables	Predicted significance	EPS	
		OLS	OLS robust
GovP	+	0.020** (2.54)	0.020* (1.71)
HRD	+	0.030 (0.62)	0.030 (0.71)
SIZE	+	0.894*** (6.18)	0.894*** (5.34)
CAR	+	0.045 (1.42)	0.045* (1.83)
NPL	-	-0.204*** (-3.33)	-0.204*** (-2.78)
Year Dummy		Included	Included
Industry Dummy		Included	Included
r^2		0.585	0.585
N		129	129

Notes: This table shows the result of multiple linier regression between government ownership and financial performance from 129 companies listed on the IDX 2014-2016 with * $t > 1,657$ ** $t > 1,979$, *** $t > 2,617$, significance at 10%, 5%, and 1%

4.2.2 Interaction of Government Ownership and Extent of Human Resource Disclosure to Company Performance

To test the second hypothesis in this study, the authors use the regression model with the following equation:

$$EPS_{i,t} = \beta_0 + \beta_1 GovP_HRD_{i,t} + \beta_2 GovP_{i,t} + \beta_3 HRD_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 CAR_{i,t} + \beta_6 NPL_{i,t} + \beta_7 Age_{i,t} + \beta_8 DA_{i,t} + \epsilon_{i,t}$$

Table 6 presents OLS and OLS robust results of interaction variables government ownership and the extent of human resource disclosure to financial performance. In the EPS column with OLS, the GovP_HRD coefficient is 0.010 and the t-value is 4.96, the significance is at the 1% level. In the EPS column with OLS with robust, GovP_HRD coefficient 0.010 and t-value of 3.65, significance at 1% level. Both results of the above regression indicate that if the interaction between independent variables, then the government ownership and the extent of human resources disclosure have a positive and significant impact on company performance. These results are consistent with the

second hypothesis that firms with higher government ownership of human resources disclosure result in higher financial performance. The value of r^2 on EPS shows that the regression result is able to explain the relation of independent and dependent variable equal to 65.7%.

Table 6: Interaction Government Ownership and Human Resource Disclosure to Financial performance

Variable	Predicted significance	EPS	
		OLS	OLS <i>robust</i>
GovP_HRD	+	0.010*** (4.96)	0.010*** (3.05)
GovP	-	-0.172*** (-4.38)	-0.172*** (-3.00)
HRD	-	-0.010 (-0.22)	-0.010 (-0.24)
SIZE	+	0.823*** (6.19)	0.823*** (4.74)
CAR	+	0.044 (1.52)	0.044* (1.85)
NPL	-	-0.192*** (-3.42)	-0.192** (-2.58)
Year Dummy		<i>Included</i>	<i>Included</i>
Industry Dummy		<i>Included</i>	<i>Included</i>
r^2		0.657	0.657
N		129	129

Notes: This table shows the result of multiple linear regression between government ownership and extent of human resource disclosure to financial performance from 129 companies listed on the IDX 2014-2016 with $t > 1.657$ ** $t > 1.979$, *** $t > 2.617$, significance at 10%, 5%, and 1%

5. CONCLUSION

This study analyzes how government ownership relationship and extent of human resources disclosure on financial performance. This study finds that government ownership has a positive and significant effect on financial performance. It means that companies with government ownership result in higher performance. This is because the government as the majority shareholder has the authority to control the management behavior. Government ownership can be useful in resolving conflicts of interest in the company so that the company will be in stable condition and the realization of corporate objectives as reflected in improving company performance. Furthermore, the interaction of government ownership and the extent of human resource disclosure have a positive and significant impact on the performance of the company, meaning that companies with high government disclosure of human resource possess higher performance compared to companies with government ownership that disclose lower human resources. This suggests companies tend to present open information. So the government as the

majority shareholder gives the trust to the company to keep managing the fund. Such trust will result in good policy direction and favorable decisions that can improve the company's performance.

This study can give consideration to the government in making investment policy, in order to make banking company in Indonesia as a profitable place to invest. This is because the greater government ownership in the company will result in high performance of the company. Consideration for management in determining policy to improve company performance by expanding investment cooperation with government, and about policy of necessity to do human resource disclosure.

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Appendix 1

Variabel Operational Definitions and Measurement

Variables	Proxies	Sources
Dependent :		
EPS	Net income divided by average of outstanding share	FR
Independent :		
GovP	Dummy variable: 1 for compaanies with government owership and 0 compaanies without government owership. Then, % for compaanies with government owership and 0 compaanies without government owership.	AR
Moderation :		
HRD	Content analysis	AR
Control :		
SIZE	Natural logarithm of total assets	FR
CAR	Capital divided by wighted assets according to the risk by one hundred percent.	FR
NPL	Problem loans divided by loan rate given by one hundred percent.	FR
Age	Length of companies listed on the Indonesia Stock Exchange (IDX)	AR
DA	Dummy variable, 1 for firms audited by Big 4 audit firms, and 0 for companies not audited by Big 4 audit firms	FR

Appendix 2**List Information of Human Resources Disclosure Index (HRDI) in Annual Report**

No.	Categories of Disclosure	Items of Disclosure
1.	HR Policies (5)	<ul style="list-style-type: none"> - Policy of compensation - Policy of reward - Policy of recruitment - Policy of training - Policy related to human resource development
2.	Financial Information on HR (7)	<ul style="list-style-type: none"> - Statutory wages (salaries) - Employee/Executive compensation - Awards & rewards for good performance - Amount spent on recruitment and selection - Amount spent in training - Employee life insurance - Superannuation fund
3.	Health and Safety at Work (1)	<ul style="list-style-type: none"> - Health and safety at work
4.	HR Relationship & Culture (4)	<ul style="list-style-type: none"> - Employee attitude/behavior - Employee commitments - Employee to employee relationship - Management to employee relationship
5.	Basic HR Information (7)	<ul style="list-style-type: none"> - Number of employee - Employee education - Work-related knowledge - Work-related competencies - Employee age - Categories of employee by sex - Special know how/skill/knowledge
6.	HR Importance to organization (2)	<ul style="list-style-type: none"> - Performance recognition - Recognition human resource an important resource of the organization
7.	HR Development (4)	<ul style="list-style-type: none"> - Employee career development - Training program - Categories of employees trained - Number of employees trained

Appendix 3
Score Human Resource Disclosure Index (HRDI) Classified into 7 Category (Number)

No	Bank Names	HR Policy (5)			Financial Information on HR (7)			Health and Safety at Work (1)			HR Relationship & Culture (4)			Basic HR Information (7)			HR Importance to Organization (2)			HR Development (4)		
		2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
1	Bank Rakyat Indonesia Agro Nisaa Tbk	5	5	5	7	7	7	0	1	1	2	3	3	3	4	4	0	1	1	3	3	3
2	Bank Agris Tbk	4	2	2	5	5	5	1	1	1	2	1	2	2	2	2	2	2	2	1	1	1
3	Bank Artos Indonesia Tbk	3	3	3	4	4	4	0	0	0	1	1	1	2	2	2	1	1	1	2	2	2
4	Bank MNC Internasional Tbk	4	5	5	5	5	5	1	1	1	0	2	2	3	4	4	2	2	2	2	3	3
5	Bank Capital Indonesia Tbk	3	3	3	2	2	2	0	0	0	1	1	1	2	2	2	2	2	2	3	2	2
6	Bank Central Asia Tbk	5	5	5	5	5	5	1	1	1	3	3	3	3	3	3	2	2	2	3	3	3
7	Bank Harada Internasional Tbk	3	3	2	3	3	3	0	0	1	0	0	0	3	3	3	1	1	0	2	1	1
8	Bank Bukopin Tbk	4	3	4	4	4	4	1	1	1	1	1	4	4	4	5	2	2	2	2	2	2
9	Bank Mestika Dharma Tbk	2	2	2	4	4	5	1	1	1	2	2	1	4	4	4	1	1	2	1	1	1
10	Bank Negara Indonesia (Persero) Tbk	5	5	4	3	3	4	0	1	1	2	3	3	5	5	5	1	1	1	3	3	3
11	Bank Nusantara Parahyangan Tbk	5	5	4	6	6	6	1	1	1	1	1	1	3	4	4	2	1	1	2	2	2
12	Bank Rakyat Indonesia (Persero) Tbk	5	4	4	6	6	6	1	1	1	3	3	3	3	4	4	1	1	1	3	3	3
13	Bank Tabungan Negara (Persero) Tbk	5	5	5	3	3	5	1	1	1	4	3	3	4	4	4	2	2	2	2	3	4
14	Bank Yudha	3	4	4	2	5	5	0	0	0	1	1	1	3	3	3	1	2	2	1	1	1

15	Bhakti Tbk Bank J Trusi Indonesia Tbk	5	5	5	3	4	4	1	1	1	2	2	2	3	4	4	2	2	2	2	2		
16	Bank Danamon Indonesia Tbk	4	5	5	4	3	4	1	0	0	1	1	1	3	4	4	2	2	2	2	3	3	
17	Bank Pembangunan Daerah Banten Tbk	3	3	4	3	3	3	1	1	1	2	2	2	3	3	3	2	1	2	4	3	2	
18	Bank Ganesha Tbk	2	4	5	2	2	3	0	1	1	1	1	1	5	5	5	1	1	2	1	1	3	
19	Bank Ina Perdana Tbk	3	3	4	2	4	5	0	1	1	1	2	3	3	3	4	1	1	1	2	2	2	
20	Bank Jabar Banten Tbk	5	5	5	4	3	3	0	0	1	2	1	1	3	5	3	2	2	1	2	3	3	
21	Bank Pembangunan Daerah Jawa Timur Tbk	3	5	5	6	2	3	1	1	1	1	0	0	2	2	2	2	2	2	1	2	3	3
22	Bank QNB Indonesia Tbk	4	4	4	4	7	7	1	1	1	1	1	1	3	3	3	1	1	1	2	3	3	
23	Bank Maspion Indonesia Tbk	5	5	5	3	4	4	0	0	1	1	1	1	3	3	4	2	2	2	1	2	2	
24	Bank Mandiri (Persero) Tbk	4	5	5	4	5	5	1	1	1	2	2	2	4	4	4	2	2	2	2	3	3	
25	Bank Bumi Arta Tbk	2	3	3	3	3	5	0	0	1	1	2	1	3	3	3	0	0	1	1	1	2	
26	Bank CIMB Niaga Tbk	5	5	5	6	6	6	1	1	1	2	2	2	3	3	4	2	2	2	2	2	3	
27	Bank Maybank Indonesia Tbk	5	5	5	6	6	6	1	1	1	2	2	2	3	4	4	2	1	1	3	3	3	
28	Bank Permata Tbk	3	3	2	4	4	4	0	1	1	2	2	1	3	3	3	1	0	1	1	1	1	
29	Bank Sinar Mas Tbk	4	4	4	3	3	4	1	1	1	1	1	1	4	3	3	1	2	1	2	2	3	
30	Bank of India Indonesia Tbk	1	2	0	5	4	0	0	0	0	0	0	1	3	3	3	0	0	0	1	1	0	
31	Bank Tabungan Pensiunan Nasional Tbk	2	2	2	6	6	6	0	0	0	1	0	0	3	3	3	1	1	0	2	2	2	

32	Bank Victoria International Tbk	5	5	5	6	5	5	1	1	1	0	0	2	4	4	3	2	1	1	3	3	3
33	Bank Dinar Indonesia Tbk	3	3	3	5	4	5	0	0	0	1	1	1	3	3	3	1	1	1	2	1	1
34	Bank Artha Graha International Tbk	4	4	5	3	5	5	1	1	1	1	3	2	4	4	4	1	1	1	3	3	3
35	Bank Mayapada International Tbk	4	4	4	3	3	3	1	1	1	2	1	1	2	2	2	1	1	1	2	2	2
36	Bank China Construction Bank Ind. Tbk	2	2	2	4	4	4	0	0	0	1	1	1	3	3	3	1	1	1	2	2	2
37	Bank Mega Tbk	3	3	4	4	4	4	0	0	1	1	1	1	4	4	3	1	0	2	3	3	3
38	Bank Mitra Niaga Tbk	1	1	1	3	3	4	0	0	0	0	0	0	2	4	4	1	1	1	2	1	1
39	Bank OCIC NISP Tbk	5	5	5	4	4	3	1	1	1	2	3	3	5	4	4	2	1	2	3	3	3
40	Bank Nationalnobu Tbk	4	4	3	4	5	5	0	0	0	2	2	2	3	3	3	1	1	0	2	2	2
41	Bank Pan Indonesia Tbk	4	5	4	4	4	4	0	0	1	2	2	2	3	3	4	1	1	1	3	2	2
42	Bank Panin Syariah Tbk	5	4	4	4	4	4	0	0	1	1	1	1	2	2	2	1	2	1	3	3	3
43	Bank Woori Saudara Indonesia 1906 Tbk	3	3	3	4	5	5	1	1	1	1	1	1	4	2	2	1	1	1	2	2	2

Appendix 4
Score Human Resource Disclosure Index (HRDI) Classified into 7 Category (Percentages)

No	Bank Names	HR Policy (5)			Financial Information on HR (7)			Health and Safety at Work (1)			HR Relationship & Culture (4)			Basic HR Information (7)			HR Importance to Organization (2)			HR Development (4)		
		2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
1	Bank Rakyat Indonesia Agro Niasa Tbk	100	100	100	100	100	100	0	100	100	50	75	75	42.9	57.1	57.1	0	50	50	75	75	75
2	Bank Agris Tbk	80	40	40	71.4	71.4	71.4	100	100	100	50	25	50	28.6	28.6	28.6	100	100	100	25	25	25
3	Bank Artos Indonesia Tbk	60	60	60	57.1	57.1	57.1	0	0	0	25	25	25	28.6	28.6	28.6	50	50	50	50	50	50
4	Bank MNC Internasional Tbk	80	100	100	71.4	71.4	71.4	100	100	100	0	50	50	42.9	57.1	57.1	100	100	100	50	75	75
5	Bank Capital Indonesia Tbk	60	60	60	28.6	28.6	28.6	0	0	0	25	25	25	28.6	28.6	28.6	100	100	100	75	50	50
6	Bank Central Asia Tbk	100	100	100	71.4	71.4	71.4	100	100	100	75	75	75	42.9	42.9	42.9	100	100	100	75	75	75
7	Bank Harda Internasional Tbk	60	60	40	42.9	42.9	42.9	0	0	100	0	0	0	42.9	42.9	42.9	50	50	0	50	25	25
8	Bank Bukopin Tbk	80	60	80	57.1	57.1	57.1	100	100	100	25	25	100	57.1	57.1	71.4	100	100	100	50	50	50
9	Bank Mestika Dharma Tbk	40	40	40	57.1	57.1	71.4	100	100	100	50	50	25	57.1	57.1	57.1	50	50	100	25	25	25
10	Bank Negara Indonesia (Persero) Tbk	100	100	80	42.9	42.9	57.1	0	100	100	50	75	75	71.4	71.4	71.4	50	50	50	75	75	75
11	Bank Nusantara Parahyangan Tbk	100	100	80	85.7	85.7	85.7	100	100	100	25	25	25	42.9	57.1	57.1	100	50	50	50	50	50
12	Bank Rakyat Indonesia (Persero) Tbk	100	80	80	85.7	85.7	85.7	100	100	100	75	75	75	42.9	57.1	57.1	50	50	50	75	75	75
13	Bank Tabungan Negara (Persero) Tbk	100	100	100	42.9	42.9	71.4	100	100	100	75	75	75	57.1	57.1	57.1	100	100	100	50	75	100
14	Bank Yudha Bhakti Tbk	60	80	80	28.6	71.4	71.4	0	0	0	25	25	25	42.9	42.9	42.9	50	100	100	25	25	25
15	Bank J Trust	100	100	100	42.9	57.1	57.1	100	100	100	50	50	50	42.9	57.1	57.1	100	100	100	50	50	50

	Indonesia Tbk																					
16	Bank Danamon Indonesia Tbk	80	100	100	57.1	42.9	57.1	100	0	0	25	25	25	42.9	57.1	57.1	100	100	100	50	75	75
17	Bank Pembangunan Daerah Banten Tbk	60	60	80	42.9	42.9	42.9	100	100	100	50	50	50	42.9	42.9	42.9	100	50	100	100	75	50
18	Bank Ganesha Tbk	40	80	100	28.6	28.6	42.9	0	100	100	25	25	25	71.4	71.4	71.4	50	50	100	25	25	75
19	Bank Ina Perdana Tbk	60	60	80	28.6	57.1	71.4	0	100	100	25	50	75	42.9	42.9	57.1	50	50	50	50	50	50
20	Bank Jabar Banten Tbk	100	100	100	57.1	42.9	42.9	0	0	100	50	25	25	42.9	71.4	42.9	100	100	50	50	75	75
21	Bank Pembangunan Daerah Jawa Timur Tbk	60	100	100	85.7	28.6	42.9	100	100	100	25	0	0	28.6	28.6	28.6	100	100	50	50	75	75
22	Bank QNB Indonesia Tbk	80	80	80	57.1	100	100	100	100	100	25	25	25	42.9	42.9	42.9	50	50	50	50	75	75
23	Bank Maspion Indonesia Tbk	100	100	100	42.9	57.1	57.1	0	0	100	25	25	25	42.9	42.9	57.1	100	100	100	25	50	50
24	Bank Mandiri (Persero) Tbk	80	100	100	57.1	71.4	71.4	100	100	100	50	50	50	57.1	57.1	57.1	100	100	100	50	75	75
25	Bank Bumi Arta Tbk	40	60	60	42.9	42.9	71.4	0	0	100	25	50	25	42.9	42.9	42.9	0	0	50	25	25	50
26	Bank CIMB Niaga Tbk	100	100	100	85.7	85.7	85.7	100	100	100	50	50	50	42.9	42.9	57.1	100	100	100	50	50	75
27	Bank Maybank Indonesia Tbk	100	100	100	85.7	85.7	85.7	100	100	100	50	50	50	42.9	57.1	57.1	100	50	50	75	75	75
28	Bank Permata Tbk	60	60	40	57.1	57.1	57.1	0	100	100	50	50	25	42.9	42.9	42.9	50	0	50	25	25	25
29	Bank Sinar Mas Tbk	80	80	80	42.9	42.9	57.1	100	100	100	25	25	25	57.1	42.9	42.9	50	100	50	50	50	75
30	Bank of India Indonesia Tbk	20	40	0	57.1	71.4	57.1	0	0	0	0	0	25	42.9	42.9	42.9	0	0	0	25	25	0
31	Bank Tabungan Pensiunan Nasional Tbk	40	40	40	85.7	85.7	85.7	0	0	0	25	0	0	42.9	42.9	42.9	50	50	0	50	50	50
32	Bank Victoria International	100	100	100	85.7	71.4	71.4	100	100	100	0	0	50	57.1	57.1	42.9	100	50	50	75	75	75

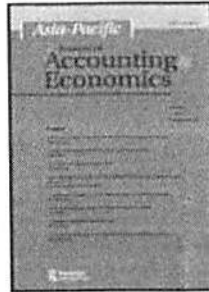
	Tbk																					
33	Bank Dinar Indonesia Tbk	60	60	60	71.4	57.1	71.4	0	0	0	25	25	25	42.9	42.9	42.9	50	50	50	50	25	25
34	Bank Artha Graha Internasional Tbk	80	80	100	42.9	71.4	71.4	100	100	100	25	75	50	57.1	57.1	57.1	50	50	50	75	75	75
35	Bank Mayapada Internasional Tbk	80	80	80	42.9	42.9	42.9	100	100	100	50	25	25	28.6	28.6	28.6	50	50	50	50	50	50
36	Bank China Construction Bank Ind Tbk	40	40	40	57.1	57.1	57.1	0	0	0	25	25	25	42.9	42.9	42.9	50	50	50	50	50	50
37	Bank Mega Tbk	60	60	80	57.1	57.1	57.1	0	0	100	25	25	25	57.1	57.1	42.9	50	0	100	75	75	75
38	Bank Mitra Niaga Tbk	20	20	20	42.9	42.9	57.1	0	0	0	0	0	0	28.6	57.1	57.1	50	50	50	50	25	25
39	Bank OCBC NISP Tbk	100	100	100	57.1	57.1	42.9	100	100	100	50	75	75	71.4	57.1	57.1	100	50	100	75	75	75
40	Bank Nationalnobu Tbk	80	80	60	57.1	71.4	71.4	0	0	0	50	50	50	42.9	42.9	42.9	50	50	0	50	50	50
41	Bank Pan Indonesia Tbk	80	100	80	57.1	57.1	57.1	0	0	100	50	50	50	42.9	42.9	57.1	50	50	50	75	50	50
42	Bank Panin Syariah Tbk	100	80	80	57.1	57.1	57.1	0	0	100	25	25	25	28.6	28.6	28.6	50	100	50	75	75	75
43	Bank Woori Saudara Indonesia 1906 Tbk	60	60	60	57.1	71.4	71.4	100	100	100	25	25	25	57.1	28.6	28.6	50	50	50	50	50	50

Appendix 5

Total Human Resource Disclosure Index (HRDI) Year 2014-2016

No	Code	Bank Names	In Number			In Percentages (%)		
			2014	2015	2016	2014	2015	2016
1	AGRO	Bank Rakyat Indonesia Agro Niaga Tbk	20	24	24	52.55	79.59	79.59
2	AGRS	Bank Agris Tbk	17	14	15	65	55.71	59.29
3	ARTO	Bank Artos Indonesia Tbk	13	13	13	38.67	38.67	38.67
4	BABP	Bank MNC Internasional Tbk	17	22	22	63.47	79.08	79.08
5	BACA	Bank Capital Indonesia Tbk	13	12	12	45.31	41.73	41.73
6	BBCA	Bank Central Asia Tbk	22	22	22	80.61	80.61	80.61
7	BBII	Bank Harda Internasional Tbk	12	11	10	35.1	31.53	35.82
8	BBKP	Bank Bukopin Tbk	18	17	22	67.04	64.18	79.8
9	BBMD	Bank Mestika Dharma Tbk	15	15	16	54.18	54.18	59.8
10	BBNI	Bank Negara Indonesia (Persero) Tbk	19	21	21	55.61	73.47	72.65
11	BDNP	Bank Nusantara Parahyangan Tbk	20	20	19	71.94	66.84	63.98
12	BBRI	Bank Rakyat Indonesia (Persero) Tbk	22	22	22	75.51	74.69	74.69
13	BBTN	Bank Tabungan Negara (Persero) Tbk	21	21	24	78.57	78.57	86.22
14	BBYB	Bank Yudha Bhakti Tbk	11	16	16	33.06	49.18	49.18
15	BCIC	Bank J Trust Indonesia Tbk	18	20	20	69.39	73.47	73.47
16	BDMN	Bank Danamon Indonesia Tbk	17	18	19	65	57.14	59.18
17	BEKS	Bank Pembangunan Daerah Banten Tbk	18	16	17	70.82	60.1	66.53
18	BGTG	Bank Ganesha Tbk	12	15	20	34.29	54.29	73.47
19	BINA	Bank Ina Perdana Tbk	12	16	20	36.63	69.08	69.08
20	BJBR	Bank Jabar Banten Tbk	18	19	17	57.14	62.24	62.24
21	BJTM	Bank Pembangunan Daerah Jawa Timur Tbk	17	15	15	64.18	56.63	56.63
22	BKSW	Bank QNB Indonesia Tbk	16	20	20	57.86	67.55	67.55
23	BMAS	Bank Maspion Indonesia Tbk	15	17	19	47.96	69.9	69.9
24	BMRI	Bank Mandiri (Persero) Tbk	19	22	22	70.61	79.08	79.08
25	BNBA	Bank Bumi Arta Tbk	10	12	16	25.1	57.04	57.04
26	BNGA	Bank CIMB Niaga Tbk	21	21	23	75.51	81.12	81.12
27	BNII	Bank Maybank Indonesia Tbk	22	22	22	79.08	73.98	73.98
28	BNLI	Bank Permata Tbk	14	14	13	40.71	48.57	48.57
29	BSIM	Bank Sinar Mas Tbk	16	16	17	57.86	61.43	61.43
30	BSWD	Bank of India Indonesia Tbk	9	11	8	20.71	17.86	17.86
31	BTPN	Bank Tabungan Pensiunan Nasional Tbk	15	14	13	41.94	31.22	31.22
32	BVIC	Bank Victoria International Tbk	21	19	20	73.98	69.9	69.9
33	DNAR	Bank Dinar Indonesia Tbk	15	13	14	42.76	39.18	39.18
34	INPC	Bank Artha Graha International Tbk	17	21	21	61.43	71.94	71.94
35	MAYA	Bank Mayapada International Tbk	15	14	14	57.35	53.78	53.78
36	MCOR	Bank China Construction Bank Ind. Tbk	13	13	13	37.86	37.86	37.86
37	MEGA	Bank Mega Tbk	16	15	18	46.33	68.57	68.57
38	NAGA	Bank Mitraniaga Tbk	9	10	11	27.35	29.9	29.9
39	NISP	Bank OCBC NISP Tbk	22	21	21	79.08	78.57	78.57
40	NOBU	Bank Nationalnobu Tbk	16	17	15	47.14	39.18	39.18
41	PNBN	Bank Pan Indonesia Tbk	17	17	18	50.71	63.47	63.47
42	PNBS	Bank Panin Syariah Tbk	16	16	16	47.96	59.39	59.39
43	SDRA	Bank Woori Saudara Indonesia 1906 Tbk	16	15	15	57.04	55	55
Average per Year			16	17	18	55%	57%	61%

LAMPIRAN 5 – DRAFT PUBLIKASI ILMIAH INTERNASIONAL



Political connections and stock price crash risk: An empirical evidence from the fall of Suharto

Journal:	<i>Asia-Pacific Journal of Accounting & Economics</i>
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Manuscript Type:	Original Paper
Keywords:	politically-connected firms, stock price crash risk, complex firm structure

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Political connections and stock price crash risk: An empirical evidence from the fall of Suharto

Abstract

This study examines the relationship between firm-level political connections on stock price crash risk. This study employs the difference-in-difference design to deal with self-selection bias issue on politically connected firms. We use the sudden step-down of Soeharto (former President of Indonesia) to show that politically-connected firms are associated with lower stock price crash risk and that the risk for those politically-connected firms increases after Suharto stepped down from his presidency. Furthermore, we find evidence that these negative associations are more pronounced in firms with more complex firm structures.

Keywords: *politically-connected firms; stock price crash risk; complex firm structure*

1. Introduction

Previous studies found that the firms with political connections have preferential treatment to finance, enjoy lower cost of debt and equity, and have more procurement contracts (Claessens, Feijen, and Laeven, 2008; Boubakri, Guedhami, Mishra, Saffar, 2012; Houston, Jiang, Lin, and Ma, 2014; Goldman, Rocholl, and So, 2013). Other studies also shows connected firms pay higher audit fee to auditor and charged a higher cost of debt by the debtholder as a cost of political connections (Bliss and Gul, 2012; Gul, 2006).

This study extends the prior findings in the political connections literature by investigating the effect of political connections on firms' stock price crash risk. Recent studies provide evidences that establishing political connections (i.e. hiring politician as a director) can decrease the firms stock price crash risk (Luo, Gong, Lin, and Fang, 2016; Hu and Wang, 2018). In contrast, Lee and Wang (2017) and Tee (2018) shows that connected firms tend to have a higher stock price crash risk. Using the unexpected event of the stepped down of former Indonesian President, Soeharto, this study are able to investigates the probability of stock price crash risk of connected firms in the pre and post period of Soeharto resignation. This unique event provides a better setting to provide the answer whether connected firms will have higher or lower probability of the stock price crash risk.

Investigating the relationship between political connections and stock price crash risk in the pre and post Soeharto era provide us better research setting due to several reasons. First, Fisman (2001) argue that during the Soeharto era, the political connection in Indonesia is centralized. This situation provides us a better proxy to value the political connections. Measuring the value of political connections in country with decentralized political decision making is more complex due to variety of connections types. Second, the unexpected stepped down of Soeharto is an

exogenous event which allow us to have a more clear estimates to value the relationship between political connections and stock price crash risk.

In this study, first we employ some univariate tests to describe our data and test the hypotheses. The correlation matrix shows that firms connected to Soeharto are significantly have higher probability of stock price crash risk. Then we compare the mean between a group of connected versus non-connected firms. The results also shows that firms with Soeharto connections have significantly higher mean of stock price crash risk to firms with no connections.

In the multivariate analyses, we use ordinary least square (OLS) regression to test the hypotheses. We find that firms with political connections have a negative and significant association to the stock price crash risk. To deal with endogeneity issue, this study employs difference-in-difference model using the unexpected stepped down of Soeharto as a natural experiment. We find that in the pre period of the Soeharto stepped down, connected firms are more likely to have a lower stock price crash risk. Interestingly, after Soeharto stepped down, we find a positive and significant association between political connections and stock price crash risk.

This study extends the literature of political connections by providing evidence on how political connections affect the stock price crash risk. Specifically, this study compares the results when the connections are in and out of power. The remaining of this article will discuss about the institutional setting of political connections in Indonesia, the hypotheses, data and method, results and discussion, and conclude the findings of the study.

2.Literature review and hypothesis development

2.1 Literature review

2.1.1 The business – politics connectedness in new order era

Since late 1970s, Indonesia experienced economic transformation from state-owned enterprise and small-traditional business dominated economy towards modern private enterprise. Unfortunately, rather than signaling the development of entrepreneurship and healthy business sectors, the transformation marked the beginning of an era where political connections in businesses is increasingly widespread, with Suharto's cronies at its center. The success of these politically connected firms is heavily depended on their ability to get and maintain relationships to Suharto's regime in order to secure special privilege from the state.

Some of these privileges, as noted by McLeod (2000), are: giving import protection for their business, granting license to import, awarding contracts from government and state-owned enterprises without bidding, providing cheap loans from state and central banks, granting rights to extract natural-resource, offering tax relief and even the right to collect taxes.

At first, the majority of these politically well-connected firms are dominated by the Sino-Indonesian (the Chinese descent) business elites that already close to Suharto since 1950s. The Suharto's administration granted them special right to monopolize the import and distribution of sugar and rice, forestry products, and the automobile sector. Over time, two other elite groups emerged, the well-connected pribumi enterprises and the business owned by Soeharto's children. These three groups formed a core group of cronies in the Suharto's regime (Schwarz, 1994). Hill (2000) shows the size of Suharto's cronies as follow: all of the twenty largest conglomerates in 1993, with total turnover valued around 21 percent of GDP, were connected to Suharto. Three of those twenty conglomerates were owned by Suharto's children. Another perspective provided

by Claessens et al. (1999) show that in 1996 Suharto's cronies controlled 417 listed and non-listed companies in Indonesia stock market. Together, these companies contribute 16.6 percent of total stock market capitalization.

2.1.2 *After the fall of Soeharto*

In 1998, Indonesia was severely hit by a financial crisis. The crisis started off in Thailand and South Korea which then spread throughout Asia. During the crisis, Rupiah depreciated by 30 percent, exports declined, inflation rate escalated to almost 100 percent, poverty rate doubled to over 27 percent, and economic growth contracted to almost 14 percent (Hofman et al, 2004). The financial crisis then evolved into a political crisis which leads to resignation of Suharto after 32-years of power. Pangestu and Habir (2002) argue that the favorable treatment to politically connected firms create moral hazard had caused the crisis, as those firms became reckless in their business practice by violating legal lending limits and generated non-performing loans.

Sato (2004) finds that the performance of Suharto connected firms varies after the crisis. The firms that survived in the crisis are those established in the 1970s and ranked in the top thirty or top twenty richest in 1980s and 1996. In contrast, the firms that suffered severely in the crisis are those younger firms that established in the 1980s and ranked in the top thirty in 1996 or those below twentieth in the 1980s but top ten in 1996. Carney and Hamilton-Hart (2015) also find that significant number of large firms in 1996 shrank tremendously and fell below the top two hundred, including Suharto's children firms. The well-established old cronies of Suharto seem to successfully reconsolidate their business and actively reconnect with the current political actors and government officials in post-Suharto administration, which were possibly motivated in securing the benefit they gained in Suharto government (Winter, 2013).

2.1.3 Stock Price Crash Risk

Conceptually, stock price crash risk is premised on the tendency of managers to withhold bad news, which leads to bad news being stockpiled within the firms. At a certain point, it becomes too costly or impossible for managers to withhold the bad news any longer. When such point arrives, all the hidden bad news will reveal to the market at once, resulting in a significant drop, that is, a stock price crash (Kim, Li, and Zhang, 2011). Extant studies have investigated various determinants of stock price crash. For instance, Kim, Li, and Zhang (2011) find that corporate tax avoidance facilitates managers to hoard bad news which leads to a stock price crash risk. He and Ren (2017) provide evidence that financial constraints are positively associated with future stock price crash risk, via both bad-news-hoarding and default risk channels. Chen, Kim, and Yao (2016) find that firms with higher degree of earnings smoothing are more prone to stock price crashes. Chauhan, Kumar, and Pathak (2017) show that stock liquidity, which identified by threat of intervention and price informativeness, decreases stock price crash-risk as it works as a governance mechanism to discipline managers for withholding bad news. In addition, prior research shows that firms' corporate social responsibility significantly mitigates stock price crash risk (Lee, 2016). Our research extends this stream of literature by examining the relationship between crash risk and political connections using the sudden step-down of Suharto (former President of Indonesia) to address the self-selection bias issue.

2.2 Hypothesis development

Prior literature suggests that politically connected firms can derive significant benefits in terms of financing, whereas non-politically connected firms are more likely to suffer from financing constraints (Luo and Zhen, 2008). Hence, in order to get the financing requirements, managers are encouraged to whitewash financial statements and hide negative information. These actions may result in an increase on information asymmetry and the accumulation of bad news may eventually lead to a stock price crash. Hu and Wang (2018) find that with the ease of financing constraints, politically connected firms can reduce bad news hoarding activities to avoid government regulation and maintain access to government subsidies. Through such a path, the degree of information asymmetry can be reduced, thus decreasing the likelihood of stock price crash risk. Therefore, we predict that politically connected firms have a lower stock price crash risk.

Hypothesis 1: Firms with political connections have a lower risk of stock price crash

Fisman (2001) finds that politically connected firms in Indonesia strongly rely on the benefits from their connections under the Suharto regime and often have the privilege to access financing. The step-down of Suharto's in 1998 represents a fundamental transition in Indonesia's political economy at the national level. The shift is evidenced by the decline of military and state backgrounds and the rise of private sector backgrounds among members of Indonesia's political elite (Pocster and Pepinsky, 2016). Leuz and Oberholzer-Gee (2006) find that political connections might lose their value through election losses. Connected firms thus need to be more responsive to market pressure since firms can no longer rely on the same benefits from their connections (Harymawan and Nowland, 2016). This subsequent regime changes step-down of

Suharto trigger financial and operational shocks on politically connected firms. These firms then need to face all kind of market pressures by themselves, resulting in higher stock price crash risk. Therefore, we predict that the step-down of Suharto increases the need for politically connected firms to respond to market pressure, resulting in higher stock price crash risk.

Hypothesis 2: After Suharto stepped down, the risk of stock price crash for firms with political connections increases.

The complexity of firm structure may affect the stock price crash risk. We measure the complexity of firm structure by number of subsidiaries owned by a company. As the number of subsidiaries increases, the benefits derived from the political connections are more pronounced.

Hypothesis 3: The negative relationship between risk of stock price crash and politically connection is more pronounced for firms with a more complex firm structure.

3.Data and method

3.1 Data

Our sample covers the period from 1995 to 2001. We obtain political connection data from Indonesia Capital Market Directory (ICMD) and total number of subsidiaries from Osiris. Accounting and Financial data is from Compustat Global. We delete observations with missing Compustat data and missing stock price, return, and trading volume data in estimating our crash risk measures and control variables. We exclude the year when Suharto stepped down (1998) to get an unambiguous pre-event and post-event periods for the main tests, especially for difference in difference test. The main sample includes 730 firm–year observations.

3.2 Measuring stock price crash risk

We follow Hutton et al. (2009) and Kim et al. (2016) to construct the three measures of stock price crash risk. Our first measure is the firm-specific return crashes. An indicator variable *CRASH* that equals one for a firm-year that experiences one or more crash weeks during the fiscal year and zero otherwise.

To calculate the first measure of crash likelihood for each firm-year, we first estimate the weekly returns by firm and by year with the following regression model.

$$r_{j,k} = \alpha_j + \beta_1 r_{m,k-2} + \beta_2 r_{m,k-1} + \beta_3 r_{m,k} + \beta_4 r_{m,k+1} + \beta_5 r_{m,k+2} \\ + \beta_6 r_{i,k-2} + \beta_7 r_{i,k-1} + \beta_8 r_{i,k} + \beta_9 r_{i,k+1} + \beta_{10} r_{i,k+2} + \epsilon_{jk} \quad \text{Eq. (1)}$$

where $r_{j,k}$ is the return on stock j in week k , $r_{m,k}$ is the return on the value-weighted market index in week k provided in Center for Research in Security Prices, and $r_{i,k}$ is the return on the Fama–French value-weighted industry index in week k . As in Dimson 1979, the lead and lag terms for the market and industry indexes are to control for nonsynchronous trading. The firm-week return is measured by the natural logarithm of one plus the residual return in Eq. (1) with at least 26 weekly return observations be available per firm-year. Crash weeks are firm-week returns which is below 3.2 standard deviations of the mean firm-week return of the fiscal year.

For the second measure, we use the volatility of below-mean versus above-mean returns (*DUVOL*). For each firm-year. The variable *DUVOL* is calculated by the natural logarithm of the ratio of the standard deviation of weekly returns below the annual mean divided to the standard deviation of weekly returns above the annual mean.

For the third measure, we use the negative skewness of firm-specific weekly returns (*NCSKEW*). For each firm-year, we multiply minus one to the third power of weekly returns and then divide it by the third power of standard deviation of weekly returns.

3.3 Main Model

To test our hypotheses, we perform multiple regression tests with a series of control variables to make sure the results are not subject to some crucial factors which have systematic effects on the cross-sectional variation in stock crash risk.

To examine our hypothesis one (H1), we estimate the following linear regression that regresses stock crash risk (*CRASH*, *DUVOL*, or *NCSKEW*) on political connection (*PCON*) and control variables.

$$DepVar_t = \beta_0 + \beta_1 PCON_t + \sum \beta_i X_t + \sum \beta_j YRD_t + \sum \beta_k INDD_t + e_t \quad \text{Eq. (2)}$$

where *DepVar* is *CRASH*, *DUVOL*, or *NCSKEW*. *X* is control variables, *YRD* is year dummy and *INDD* is industry dummy.

To examine our hypothesis two (H2), we estimate the following linear regression that regresses stock crash risk (*CRASH*, *DUVOL*, or *NCSKEW*) on the differences in differences dummy (*DID*), political connection (*PCON*), and control variables.

$$DepVar_t = \beta_0 + \beta_1 DID_t + \beta_2 PCON_t + \sum \beta_i X_t + \sum \beta_j YRD_t + \sum \beta_k INDD_t + e_t \quad \text{Eq. (3)}$$

where *DepVar* is *CRASH*, *DUVOL*, or *NCSKEW*. *X* is control variables, *YRD* is year dummy and *INDD* is industry dummy.

To examine our hypothesis three (H3), we estimate the linear regression using Eq. (1) that regresses stock crash risk (*CRASH*, *DUVOL*, or *NCSKEW*) on the political connection

(*PCON*). However, this time we partition the full sample into Complex and Less-Complex subsamples. *COMPLEX* is a subsample with total number of subsidiaries being greater than the median. Less-complex firms is a subsample with total number of subsidiaries not being greater than the median.

3.4 Sample Selection

Our sample consists of listed companies from Indonesia. The sample covers the period from 1995 to 2001. This study adopts the two-digit Standard Industrial Classification (SIC) system to classify the different industrial sectors. We also remove observations that do not have firm-specific control variables. The final sample for the main model contains 730 firm-year observations. Continuous variables are winsorized at 1 or 99% to control for the effects of outliers.

4. Empirical Results

Table 1 presents the sample distribution for the period 1995-1997 and 1999-2001. We exclude the year when Suharto stepped down (1998) to get an unambiguous pre-event and post-event periods for the main tests, especially for difference in difference test. Among the 730 firm-year observations, the number of firms with political connections is 149 and that without political connections is 581.

< TABLE 1 ABOUT HERE >

Table 2 presents descriptive statistics for the period 1995-1997 and 1999-2001, totaling 730 firm-year observations. All variables are defined in Appendix A. The sample mean of *PCON* is 0.204, indicating that about 20% of the sample is political connected to Suharto and the remaining 80% is not. Dependent variables (*CRASH*, *DUVOL*, and *NCSKEW*) and variable of

interest (*PCON*) are presented in current-year values. The control variables are presented in lag-1-year values because lag-1-year values of these variables are used in the regression model.

< TABLE 2 ABOUT HERE >

Table 3 presents the Pearson correlations. It displays the correlations among dependent variables, independent variable, and control variables. Significance level is denoted at the 10 percent, 5 percent, and 1 percent.

< TABLE 3 ABOUT HERE >

Table 4 presents characteristics of politically connected and non-politically connected firms. We observe that firms with political connections is in general bigger in terms of total asset than those without political connections. These politically connected firms are also have higher leverage.

< TABLE 4 ABOUT HERE >

Table 5 presents the regression results on the relationship between political connection and stock crash risk. The coefficient on political connection (*PCON*) is negative and significant for all three risk models (*CRASH* and *DUVOL* at 1% level, and *NCSKEW* at 5% level) after controlling the firm-specific control variables. This result is consistent with our prediction, which indicates that the stock crash risk is lower for politically connected firms. Therefore, hypothesis 1 is supported.

< TABLE 5 ABOUT HERE >

Table 6 presents the regression results that the effect of the fall of Suharto on the relationship between political connection and stock crash risk. The coefficient on differences in differences (*DID*) is positive and significant at 1% level for all three risk models after controlling

the firm-specific control variables and country-level control variables. This result is consistent with our prediction, which indicates that the stock crash risk of politically connected firms increases after the fall of Suharto. Therefore, hypothesis 2 is supported.

< TABLE 6 ABOUT HERE >

Table 7 reports the results of sensitivity test for Table 5 on the regression of stock price crash risk on political connection because this test includes the year 1998 in which Soeharto stepped down. The coefficient of political connection (*PCON*) for all three models are negative (*CRASH* at 1% level, and *NCSKEW* at 10% level), indicating that political connection lowers stock crash risk. The significance level for *NCSKEW* and *DUVOL* in Table 7 are lower than that in Table 5. This is because the inclusion of observations for year 1998, in which Soeharto stepped down, may introduce some noises into the regression model.

< TABLE 7 ABOUT HERE >

Table 7 reports the results of sensitivity test for Table 5 on the regression of stock price crash risk on Difference-in-Difference because this test includes the year 1998 in which Soeharto stepped down. The coefficient of *DID* for all three models are significantly positive, indicating that the stock crash risk of politically connected firms increases after the fall of Suharto.

< TABLE 8 ABOUT HERE >

To investigate whether political connection exerts distinct impacts on stock crash risk when interacting with differential strength of complexity of firm structure (H3), the full sample is partitioned into two sub-samples according to the complexity of firm structure. The sub-sample analysis reported in Table 9 presents the regression results that the effect of complexity of firm structure on the relationship between political connection and stock crash risk. The

coefficient on political connection (*PCON*) is negative and significant at 1% level for all three risk models for complex firms after controlling the firm-specific control variables. This result is consistent with our prediction, which indicates that the negative relationship between political connection and stock crash risk is more pronounced for firms with complex firm structure. Therefore, hypothesis 3 is supported.

< TABLE 9 ABOUT HERE >

5. Conclusion

Establishing political connections for the firms can generate benefits and costs for the firms. By involving the politician to the firms, in one side, politicians can bring their network and power to support the firms. In contrast, it could also increase the risk of the firms due to the potential of conflict of interest. This study is focus on providing some evidences of the relationship between political connections and stock price crash risk in a country with centralized political decision-making. In general, we show that firms with political connections are less likely to have stock price crash risk. This finding indicates that political connections can help the firm to reduce the probability of the firms' stock price crash risk. Using difference-in-difference method, we find that firms with political connections are more likely to have higher probability of stock price crash risk after their connections fall from power. This result implies that the cost of having political connections are emerges after their connections lose their power. In addition, we also find that negative associations between political connections and stock price crash risk are more pronounced in firms with more complex firm structures. Despite the issue of sample period, this study provides a better research setting which produce better information on how political connections affect the stock price crash risk of the firms.

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Appendix I Variable definitions

Variable	Definition	Data Source
<i>CRASH</i>	1 for a firm-year that experiences one or more firm specific weekly returns falling 3.2 standard deviations below the mean firm-specific weekly returns over the fiscal year, with 3.2 chosen to generate frequencies of 0.1% in the normal distribution during the fiscal year period, otherwise 0	Compustat
<i>DUVOL</i>	Down-to-up volatility of firm-specific weekly returns	Compustat
<i>NCSKEW</i>	Negative skewness of firm-specific weekly returns over the fiscal year period.	Compustat
<i>PCON</i>	1 for a firm that is politically connected with Suharto, otherwise 0	ICMD
<i>DTURN</i>	Average monthly share turnover over the current fiscal year period minus the average monthly share turnover over the previous fiscal year period, where monthly share turnover is calculated as the monthly trading volume divided by the total number of shares outstanding during the month	Compustat
<i>SIGMA</i>	Standard deviation of firm-specific weekly returns over the fiscal year period.	Compustat
<i>RET</i>	Mean of firm-specific weekly returns over the fiscal year period	Compustat
<i>SIZE</i>	Natural logarithm of the market value of equity	Compustat
<i>MTB</i>	Market value of equity divided by the book value of equity	Compustat
<i>LEVERAGE</i>	Total long-term debts divided by total assets	Compustat
<i>ROA</i>	Income before extraordinary items divided by lagged total assets	Compustat

Table 1 Sample distribution

Year	Number of firms with political connections	Number of firms without political connections	Total
1995	13	29	42
1996	23	62	85
1997	29	106	135
1999	27	126	153
2000	28	125	153
2001	29	133	162
Total	149	581	730

Note: We exclude the year when Suharto stepped down (1998) to get an unambiguous pre- and post-event periods for the difference in difference model.

Table 2 Summary statistics (n=730)

Variables	Mean	Std	Min	Q1	Median	Q4	Max
<i>CRASH</i>	0.563	0.496	0.000	0.000	1.000	1.000	1.000
<i>DUVOL</i>	-0.066	0.298	-1.026	-0.251	-0.079	0.100	2.092
<i>NCSKEW</i>	-0.114	1.068	-3.861	-0.608	-0.139	0.268	17.407
<i>PCON</i>	0.204	0.403	0.000	0.000	0.000	0.000	1.000
<i>SIZE_(t-1)</i>	4.800	1.446	1.328	3.763	4.666	5.743	8.865
<i>ROA_(t-1)</i>	-0.013	0.193	-1.175	-0.065	0.028	0.083	0.473
<i>LEVERAGE_(t-1)</i>	0.477	0.317	0.000	0.242	0.468	0.646	1.613
<i>MTB_(t-1)</i>	1.323	2.252	-8.558	0.385	0.908	1.711	23.928
<i>NCSKEW_(t-1)</i>	-0.089	1.257	-8.230	-0.545	-0.107	0.326	10.310
<i>DTURN_(t-1)</i>	0.001	0.004	-0.022	-0.001	0.000	0.001	0.026
<i>SIGMA_(t-1)</i>	0.063	0.038	0.015	0.036	0.055	0.078	0.421
<i>RET_(t-1)</i>	0.554	2.551	-0.979	-0.465	-0.146	0.555	21.187
Observations							

This table presents summary statistics for our sample for the period 1995-1997 and 1999-2001.

Table 3 Pearson correlations (n=730)

Variables	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
[1] CRASH	1.000											
[2] DUVOL	0.303***	1.000										
[3] NCSKEW	0.296***	0.851***	1.000									
[4] PCON	0.042	-0.096***	-0.069*	1.000								
[5] SIZE _(t-1)	0.168***	-0.064*	0.008	0.391***	1.000							
[6] ROA _(t-1)	0.053	-0.029	-0.022	-0.002	0.044	1.000						
[7] LEVERAGE _(t-1)	-0.068*	0.044	0.043	0.093**	0.132***	-0.589***	1.000					
[8] MTB _(t-1)	0.070*	-0.013	0.006	0.063*	0.141***	0.191***	-0.115***	1.000				
[9] NCSKEW _(t-1)	-0.059	0.060	0.064*	-0.082**	-0.008	-0.061	0.029	-0.000	1.000			
[10] DTURN _(t-1)	0.077**	-0.020	0.005	0.018	0.051	0.027	-0.054	0.058	-0.041	1.000		
[11] SIGMA _(t-1)	-0.151***	0.113***	0.045	-0.065*	-0.328***	-0.136***	0.170***	-0.081**	-0.029	-0.054	1.000	
[12] RET _(t-1)	0.007	-0.012	-0.049	0.051	-0.030	0.165***	-0.035	0.209***	-0.117***	-0.007	0.239***	1.000

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 4 Characteristics of politically connected and non-politically connected firms

Variables	firms with political connections N=149	firms without political connections N=581	Coef	t-value
<i>CRASH</i>	0.604	0.552	0.052	-1.131
<i>DUVOL</i>	-0.123	-0.052	-0.071 ^{***}	2.601
<i>NCSKEW</i>	-0.258	-0.077	-0.182 [*]	1.854
<i>SIZE_(t-1)</i>	5.916	4.514	1.402 ^{***}	-11.458
<i>ROA_(t-1)</i>	-0.014	-0.013	-0.001	0.065
<i>LEVERAGE_(t-1)</i>	0.535	0.462	0.074 ^{**}	-2.533
<i>MTB_(t-1)</i>	1.601	1.252	0.350 [*]	-1.692
<i>NCSKEW_(t-1)</i>	-0.293	-0.037	-0.256 ^{**}	2.220
<i>DTURN_(t-1)</i>	0.001	0.001	0.000	-0.492
<i>SIGMA_(t-1)</i>	0.058	0.064	-0.006 [*]	1.761
<i>RET_(t-1)</i>	0.811	0.488	0.323	-1.381

Table 5 Main results: results of regression of political connections on stock price crash risk

Variables	(1) <i>CRASH</i>	(2) <i>DUVOL</i>	(3) <i>NCSKEW</i>
<i>PCON</i>	-0.366 ^{***}	-2.92	-0.276 ^{**}
<i>SIZE</i> (<i>t-1</i>)	0.275 ^{***}	4.47	0.053
<i>ROA</i> (<i>t-1</i>)	-0.119	-0.12	0.256
<i>LEVERAGE</i> (<i>t-1</i>)	-0.741 ^{***}	-2.65	0.090
<i>MTB</i> (<i>t-1</i>)	0.035	0.64	0.013
<i>NCSKEW</i> (<i>t-1</i>)	-0.069	-1.16	0.031
<i>DTURN</i> (<i>t-1</i>)	6.830	0.39	-12.449 ^{***}
<i>SIGMA</i> (<i>t-1</i>)	-5.672 [*]	-1.93	1.465
<i>RET</i> (<i>t-1</i>)	0.041	1.57	-0.004
Constant	2.261 [*]	1.70	1.832
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Observations	704	730	730
R^2	.	0.151	0.118
Adjusted R^2	.	0.078	0.042

t statistics in second column

Notes: This table presents regression results testing the effect of political connections on stock price crash risk. Standard errors are clustered by firm and year. *, **, *** denote significance at the 10 percent, 5 percent, and 1 percent levels (two-tailed) respectively.

* $p < .1$, ** $p < .05$, *** $p < .01$

Table 6 Difference-in-difference results

Variables	(1) <i>CRASH</i>	(2) <i>DUVOL</i>	(3) <i>NCSKEW</i>
<i>DID</i>	2.142 ^{***}	2.74	0.284 ^{***}
<i>PCON</i>	-1.576 [*]	-1.79	-0.251 ^{***}
<i>SIZE</i> _(t-1)	0.281 ^{***}	4.61	0.010
<i>ROA</i> _(t-1)	-0.203	-0.22	0.045
<i>LEVERAGE</i> _(t-1)	-0.835 ^{***}	-3.25	-0.004
<i>MTB</i> _(t-1)	0.041	0.70	0.002
<i>NCSKEW</i> _(t-1)	-0.051	-0.94	0.008
<i>DTURN</i> _(t-1)	-0.147	-0.01	-5.234 ^{***}
<i>SIGMA</i> _(t-1)	-5.082	-1.61	0.713 [*]
<i>RET</i> _(t-1)	0.043 [*]	1.73	0.000
Constant	2.637 ^{**}	2.21	0.163
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Observations	704	730	730
<i>R</i> ²	.	0.188	0.148
Adjusted <i>R</i> ²	.	0.116	0.073

t statistics in second column

Notes: This table presents regression results testing the effect of Suharto's stepped-down on stock price crash risk. Standard errors are clustered by firm and year. *, **, *** denote significance at the 10 percent, 5 percent, and 1 percent levels (two-tailed) respectively.

* $p < .1$, ** $p < .05$, *** $p < .01$

Table 7 Results of regression of political connections on stock price crash risk (including year of Soeharto's stepped down, 1998)

Variables	(1) <i>CRASH</i>	(2) <i>DUVOL</i>	(3) <i>NCSKEW</i>
<i>PCON</i>	-0.373***	-3.32	-0.059
<i>SIZE</i> _(t-1)	0.255***	4.85	0.002
<i>ROA</i> _(t-1)	-0.283	-0.32	0.049
<i>LEVERAGE</i> _(t-1)	-0.591**	-2.22	0.011
<i>MTB</i> _(t-1)	0.050	1.10	0.001
<i>NCSKEW</i> _(t-1)	-0.087	-1.50	0.009
<i>DTURN</i> _(t-1)	5.944	0.42	-1.445
<i>SIGMA</i> _(t-1)	-4.252*	-1.80	0.616*
<i>RET</i> _(t-1)	0.040	1.63	-0.001
Constant	1.737	1.25	0.113
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Observations	879	886	886
<i>R</i> ²	.	0.125	0.088
Adjusted <i>R</i> ²	.	0.062	0.022

t statistics in second column

Notes: This table presents regression results testing the effect of political connections on stock price crash risk. Standard errors are clustered by firm and year. *, **, *** denote significance at the 10 percent, 5 percent, and 1 percent levels (two-tailed) respectively.

* $p < .1$, ** $p < .05$, *** $p < .01$

Table 8 Difference-in-difference results (including year of Soeharto's stepped down, 1998)

Variables	(1) <i>CRASH</i>	(2) <i>DUVOL</i>	(3) <i>NCSKEW</i>
<i>DID</i>	2.441 ^{***}	3.46	0.274 ^{***}
<i>PCON</i>	-1.496 ^{***}	-2.66	-0.190 ^{**}
<i>SIZE</i> _(t-1)	0.262 ^{***}	5.23	0.002
<i>ROA</i> _(t-1)	-0.361	-0.44	0.040
<i>LEVERAGE</i> _(t-1)	-0.657 ^{**}	-2.50	0.002
<i>MTB</i> _(t-1)	0.064	1.22	0.002
<i>NCSKEW</i> _(t-1)	-0.073	-1.25	0.010
<i>DTURN</i> _(t-1)	1.527	0.10	-1.871
<i>SIGMA</i> _(t-1)	-3.713	-1.54	0.644 [*]
<i>RET</i> _(t-1)	0.034	1.38	-0.001
Constant	2.007	1.49	0.148
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Observations	879	886	886
<i>R</i> ²		0.161	0.121
Adjusted <i>R</i> ²		0.100	0.057

t statistics in second column

Notes: This table presents regression results testing the effect of Suharto's stepped-down on stock price crash risk. Standard errors are clustered by firm and year. *, **, *** denote significance at the 10 percent, 5 percent, and 1 percent levels (two-tailed) respectively.

* $p < .1$, ** $p < .05$, *** $p < .01$

