---------- Forwarded message ---------
From: **Nisful Laila** <nisful.laila@gmail.com>
Date: Sun, Apr 7, 2019 at 12:02 AM
Subject: Document from nisful laila
To: GATR Team <gcbsscommittee@gmail.com>

Dear Ms Flora,
please find my revised paper as requested.

thank you.
Regards,

TEMPLATE OF a PAPER to ESI 2019 June - with the EU funding fix.doc

--
Nisful Laila, SE., M.Com.

Wakil Dekan 3 Fakultas Ekonomi dan Bisnis
Vice Dean for Partnership and Research
Universitas Airlangga
Jl. Airlangga 4 Surabaya, Indonesia
Phone : +62 31 5033 642
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Mobile : +62 81233 9933 52
Email : nisful.laila@feb.unair.ac.id
nisful.laila@gmail.com
Website : www.feb.unair.ac.id

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Fwd: (MOST URGENT)-Entrepreneurship and Sustainability Issues (ISI & Scopus) REVIEW PAPERS (Dr. Nisful Lail) !

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Dari: **NISFUL LAILA** <nisful.laila@feb.unair.ac.id>
Date: Sab, 20 Apr 2019 pukul 13.27
Subject: Fwd: (MOST URGENT)-Entrepreneurship and Sustainability Issues (ISI & Scopus) REVIEW PAPERS (Dr. Nisful Lail) !
To: arie fianto Bayu <bayu.fianto@feb.unair.ac.id>

---------- Forwarded message ---------
From: **GATR Team** <gcbsscommittee@gmail.com>
Date: Tue, Apr 16, 2019, 15:12
Subject: (MOST URGENT)-Entrepreneurship and Sustainability Issues (ISI & Scopus) REVIEW PAPERS (Dr. Nisful Lail) !
To: NISFUL LAILA <nisful.laila@feb.unair.ac.id>, Nisful Laila <nisful.laila@gmail.com>
Cc: admin <admin@gcbss.org>

Dear Dr. Nisful Lail,

With reference to the **Entrepreneurship and Sustainability Issues (ISI & Scopus)** indexed journal review process.

We would like you to review two attached papers for other colleagues same as other colleagues are reviewing your paper. Please note that, all papers are already accepted by the Journal editor.

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Ms. Flora Anak Janting, on behalf of Dr. Kashan Pirzada
Email: admin@gcbss.org
Website: http://gcbss.org/cimssr2019/index.html
http://gatrenterprise.com

--
Dr. Nisful Laila, SE., M.Com.

Vice Dean for Cooperation and Research
Universitas Airlangga
Jl. Airlangga 4 Surabaya, Indonesia
Phone : +62 31 5033 642
Fax : +62 31 5026 288
Mobile : +62 81233 9933 52
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Dari: **GATR Team** <gcbsscommittee@gmail.com>
Date: Sab, 20 Apr 2019 pukul 08.46
Subject: Re: (MOST URGENT)-Entrepreneurship and Sustainability Issues (ISI & Scopus) REVIEW PAPERS (Dr. Nisful Lail) !
To: NISFUL LAILA <nisful.laila@feb.unair.ac.id>

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Take this task in your priority.

Kind regards,
GCBSS Committee

On Sat, Apr 20, 2019 at 9:26 AM NISFUL LAILA <nisful.laila@feb.unair.ac.id> wrote:

> Dear Ms Flora,
>
> Thank you for your kind offer to me to review the papers, unfortunately i am now still in overseas with limited internet access.
> will happily help you next week when i come back to Indonesia.
>
> Regards,
>
> On Tue, Apr 16, 2019, 15:12 GATR Team <gcbsscommittee@gmail.com> wrote:
>
>> Dear Dr. Nisful Lail,
>>
>> With reference to the **Entrepreneurship and Sustainability Issues (ISI & Scopus)** indexed journal review process.
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>> **Please send back the filled ESI review form to me.**

Thank you.

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Ms. Flora Anak Janting, on behalf of Dr. Kashan Pirzada
Email: admin@gcbss.org
Website: http://gcbss.org/cimssr2019/index.html
http://gatrenterprise.com

--

Dr. Nisful Laila, SE., M.Com.

Vice Dean for Cooperation and Research
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Jl. Airlangga 4 Surabaya, Indonesia
Phone : +62 31 5033 642
Fax : +62 31 5026 288
Mobile : +62 81233 9933 52
Email : nisful.laila@feb.unair.ac.id
nisful.laila@gmail.com
Website : www.feb.unair.ac.id

Fwd: (MOST URGENT)-Entrepreneurship and Sustainability Issues (ISI & Scopus) REVIEW PAPERS (Dr. Nisful Lail) !

---------- Forwarded message ---------
Dari: **GATR Team** <gcbsscommittee@gmail.com>
Date: Min, 28 Apr 2019 pukul 15.29
Subject: Re: (MOST URGENT)-Entrepreneurship and Sustainability Issues (ISI & Scopus) REVIEW PAPERS (Dr. Nisful Lail) !
To: NISFUL LAILA <nisful.laila@feb.unair.ac.id>

Thank you

On Sat, Apr 27, 2019 at 7:56 PM NISFUL LAILA <nisful.laila@feb.unair.ac.id> wrote:

> pls find in attachment the ORCID ID both of them.
>
> On Sat, Apr 27, 2019, 13:55 GATR Team <gcbsscommittee@gmail.com> wrote:
>
> > Please provide below two authors ORCID ID soon today
> >
> > **Karina Ayu Saraswati[2], Himmatul Kholidah[3]**
> >
> > On Sat, Apr 20, 2019 at 9:45 AM GATR Team <gcbsscommittee@gmail.com> wrote:
> >
> > > Please fill the form and and used the old reviews and send back ESI review form to us today.
> > > Delays will cost the process and publication.
> > >
> > > Please note that, someone else is reviewing your paper.
> > >
> > > Take this task in your priority.
> > >
> > > Kind regards,
> > > GCBSS Committee
> > >
> > > On Sat, Apr 20, 2019 at 9:26 AM NISFUL LAILA <nisful.laila@feb.unair.ac.id> wrote:
> > >
> > > > Dear Ms Flora,
> > > >
> > > > Thank you for your kind offer to me to review the papers, unfortunately i am now still in overseas with limited internet access.
> > > > will happily help you next week when i come back to Indonesia.
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> > > > On Tue, Apr 16, 2019, 15:12 GATR Team <gcbsscommittee@gmail.com> wrote:
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> > > > > Dear Dr. Nisful Lail,
> > > > >
> > > > > With reference to the **Entrepreneurship and Sustainability Issues (ISI & Scopus)** indexed journal review process.
> > > > >
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Email: admin@gcbss.org
Website: http://gcbss.org/cimssr2019/index.html
http://gatrenterprise.com

--
Dr. Nisful Laila, SE., M.Com.

Vice Dean for Cooperation and Research
Universitas Airlangga
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Phone : +62 31 5033 642
Fax : +62 31 5026 288
Mobile : +62 81233 9933 52
Email : nisful.laila@feb.unair.ac.id
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JOB TITLE		**Date Received By Reviewer**	12/06/2018
OCCUPATION	Academic	**Date Submitted By Reviewer**	10/07/2018
SPECIALIZATION	Accounting		
MANUSCRIPT NO.	**MS-26**	**Date Received By EE**	10/07/2018

TITLE OF PAPER	**Political Connection on Blockholder Ownership: Evidence From Indonesia**

SECTION II: ***Rating***
*(****Referee*** *to rate the article)* **1**=poor; **2**=fair; **3**=good; **4**=excellent; **W**=Weight

ϕMultiply your rating by the corresponding **W** value to get the **total score** for each criterion.
e.g. if you have rated 3 for item 1, your total would be 3 x *2* = **6** or if you have rated 3 for item 2, your total would be 3 x *1*= **3**.

No	CRITERIA	1	2	3	4	W	TOTALϕ
1.	Clarity of formal structure	☐	☐	☒	☐	2	6
2.	Suitability of title to the contents	☐	☐	☒	☐	1	3
3.	Abstract sufficiently informative	☐	☐	☒	☐	1	3
4.	Originality / Novelty	☐	☐	☒	☐	1	3
5.	Methodology sufficiently described	☐	☐	☒	☐	1	3
6.	Methodology appropriate to study	☐	☐	☒	☐	1	3
7.	Results / Conclusions supported by data analysis	☐	☐	☐	☒	2	8
8.	Clarity in the presentation of findings	☐	☐	☒	☐	2	6
9.	Scientific soundness	☐	☐	☒	☐	2	6
10.	Bibliography adequate and relevant	☐	☐	☒	☐	1	3
	OVERALL MERIT						**42**

SECTION III: ***Specific Comments by the Referee*** *[for the Author(S)]*

The reviewer should identify and comment on major strengths and weaknesses of the study design and methodology and provide the author(s) with useful suggestions for improvement of the manuscript. The review should also provide the editor the proper context and perspective to make a decision on acceptance (and/or revision or rejection) of the manuscript.

Please provide your comments here. This section will be **given to the author** with your name removed.
(The space in the box below will expand automatically as you type. Use ***additional*** *sheet(s)if necessary)*

THE PAPER IS AN INTERESTING DISCUSSION OF THE CONNECTION BETWEEN COMPANIES' SUCCESS AND POLITICAL CONNECTIONS. OF COURSE, THE RESULTS OF THE STUDY ARE PREDICTABLE, ESPECIALLY IF CORRUPTION IS RIFE IN THE COUNTRY UNDER INVESTIGATION.

I STRONGLY SUGGEST THAT THE CONCEPT OF 'BLOCKHOLDER' BE DISCUSSED EARLY IN THE PAPER. THIS IS NOT DONE AND IT MAKES READING MORE DIFFICULT THAN IT OUGHT TO BE. ALSO, THE CONCEPT IS SPELLED DIFFERENTLY IN DIFFERENT PARTS OF THE PAPER (IS IT ONE WORD OR TWO WORDS?) AND IT IS CLEARLY MISSPELLED IN ONE OF THE DATA GRAPHS.

IT IS NECESSARY TO HAVE THE PAPER READ BY A NATIVE ENGLISH SPEAKER BECAUSE, AT TIMES, THE EXPRESSIONS ARE WEIRD AND THE GRAMMAR IS WRONG.

AUTHOR SHOULD CHECK ALL REFERENCES, TYPE, CITATION, FORMATTING BEFORE FINAL SUBMISSION.

REDUCE EXTRA TABLES AND PAGES NOT EXCEED FROM 15

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Based on the score you have given in Section IIon page 2, select only one of the following by placing (X).

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RETURN TO AUTHOR(S) FOR IMPORTANT MODIFICATIONS —*author to revise & resubmit for another round of reviews* *(35-40)*	☐
REJECT *(14-34)*	☐

ACCEPT AS IS: The manuscript warrants publication as a peer-reviewed article. It is a solid contribution and is well conceived & executed.
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Signature*:

Date (dd/mm/yyyy): **10/07/2018**

* By **typing your name** into theabove space, it implies that you have **signed** this form. It is understood that my review provided on this form is **professional**, **honest**, **courteous**, **prompt**, and **constructive**. *(Your digital signature is as legally binding as a physical signature).*

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REVIEWER'S NAME		Date Sent To Reviewer *(dd/mm/yyyy)*	19/04/2018
JOB TITLE		Date Received By Reviewer	19/04/2018
OCCUPATION		Date Submitted By Reviewer	17/05/2018
SPECIALIZATION	Finance and Economics		
MANUSCRIPT NO.	MS-11	Date Received By EE	17/05/2018

TITLE OF PAPER	WHY LABOR FORCE PARTICIPATION RATE RISES? NEW EMPIRICAL EVIDENCE FROM INDONESIA

SECTION II: *Rating*

(Referee to rate the article) **1**=poor; **2**=fair; **3**=good; **4**=excellent; **W**=Weight

$^{\phi}$Multiply your rating by the corresponding **W** value to get the **total score** for each criterion.
e.g. if you have rated 3 for item 1, your total would be 3 x *2* = **6** or if you have rated 3 for item 2, your total would be 3 x *1*= **3**.

No	CRITERIA	1	2	3	4	W	TOTAL$^{\phi}$
1.	Clarity of formal structure	☐	☐	☒	☐	2	8
2.	Suitability of title to the contents	☐	☐	☐	☒	1	4
3.	Abstract sufficiently informative	☐	☐	☐	☒	1	4
4.	Originality / Novelty	☐	☐	☒	☐	1	3
5.	Methodology sufficiently described	☐	☐	☐	☒	1	4
6.	Methodology appropriate to study	☐	☐	☒	☐	1	3
7.	Results / Conclusions supported by data analysis	☐	☐	☒	☐	2	6
8.	Clarity in the presentation of findings	☐	☐	☒	☐	2	6
9.	Scientific soundness	☐	☐	☒	☐	2	6
10.	Bibliography adequate and relevant	☐	☐	☒	☐	1	3
	OVERALL MERIT						**45**

SECTION III: *Specific Comments by the Referee* *[for the Author(S)]*

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THIS IS VERY NORMATIVE. IN THE INTRODUCTION, BETTER TO EXPLAIN THE PURPOSE OF DOING THIS TYPE PAPER. LITERATURE IS VERY BASIC. AVOID TEXTBOOK MATERIALS. USE RESEARCH INSTEAD. AUTHOR NEED TO ENSURE THAT, ALL CITATIONS IN TEXT MUT BE DOCUMENTED IN THE REFERENCES. AUTHOR SHOULD USE THE CONSISTENT TERMS FOR BETTER READERSHIP .

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NO ETHICAL CONCERNS.

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SECTION V: ***Recommendation.***

Based on the score you have given in Section IIon page 2, select only one of the following by placing (X).

OPTIONS	DECISION
ACCEPT AS IS —*with or without only minor changes to be made by editorial staff* *(50-56)*	☐
ACCEPT WITH MINOR REVISIONS —*with only minor changes to be made by the author* *(41-49)*	☒
RETURN TO AUTHOR(S) FOR IMPORTANT MODIFICATIONS —*author to revise & resubmit for another round of reviews* *(35-40)*	☐
REJECT *(14-34)*	☐

ACCEPT AS IS: The manuscript warrants publication as a peer-reviewed article. It is a solid contribution and is well conceived & executed.
ACCEPT WITH MINOR REVISIONS: The manuscript should be accepted after minor revisions as noted in the comments. **N.B**: Reviewers' comments should be sufficiently specific and detailed for the author to address issues of concern.
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REJECT: The manuscript does not warrant publication as a peer-reviewed article.

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ISSN 2345-0282 (online) http://jssidoi.org/jesi/
2019 Volume 6 Number 4 (June)
http://doi.org/10.9770/jesi.2019.6.4(..)

Publisher
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POLITICAL CONNECTION, BLOCKHOLDER OWNERSHIP AND PERFORMANCE*

Received ; accepted….; published…..

Abstract. This paper aims to examine the effect of blockholder of political connected firm on the performance of conglomerates. The sample of this paper is all 66 conglomerates listed on the Indonesia Stock Exchange from 2006 to 2014. Regression panel data with General Least Square was used for this analysis. It was found that Family and state blockholder have positive and significant effect on firm value at all cut off (10%-50%), political connections in the family, state, and public blockholder have significant positive effect on firm value. The result of this paper indicates that the structure of companies' ownership has contribution to determine the political connections in the conglomerates. The concentration of ownership in the company and family as controlling highest conglomerate in Indonesia as well as their involvement in politics implies that Indonesia has fallen into oligarchy state, in which the rules are held by a group of wealthy political elites.

Keywords: Firm Value, Political Connection, Blockholder, Indonesia.
Reference to this paper should be made as follows: (Times New Roman 9 pt)
JEL Classifications: XXX, XXX, XXX (Times New Roman 9 pt) https://www.aeaweb.org/econlit/jelCodes.php?view=jel
Additional disciplines: law; political sciences; sociology; information and communication

1. Introduction

In developing countries, conglomerates have strong position due to the concentration of economic power in the hands of a small group of large conglomerates (Claessens et al., 1999). Likewise, the conditions that occur in Indonesia is similar, where the company contributes huge portion to GDP Indonesian conglomerate. With a small number (only 0.01%) of the total companies in Indonesia, they contribute enormously to the GDP of Indonesia at

* *This research was supported by Directorate of General for Strengthening Research and Development, the Ministry of Research and Technology Republic Indonesia, Higher Education (DIKTI) for providing Doctoral Scholarship and Sekolah Tinggi Ilmu Ekonomi Muhammadiyah Jakarta Indonesia.*

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44.4% (BPS, 2009). In fact, of the total 510 companies listed on the Indonesia Stock Exchange in 2014, there were 116 conglomerate's companies in the Indonesia Stock Exchange which control more than 70% of the total market capitalization of the Stock Exchange (Wati et al., 2016a). In the period of 2006 – 2014, they dominate the market capitalization which consecutively account for 76.25%, 77.62%, 76.10%, 78.88%, 75.24%, 68.46%, 74.45%, 72.35% and 71.61%.

In 2009, the capitalization of conglomerate increased by 94.46%. Likewise, in 2014 alone, their capitalization increased by 22.66% from the previous year and the highest value for the whole year of observations. Increased conglomerate's capitalization in 2009 was attributed to significant increase and improvements in economic conditions after the global crisis which was predicted by the legislative and presidential elections in Indonesia. This phenomenon is amplified by the increasing market value of companies in the enterprise political connections with the winner of the election party and the president, especially in large companies and state-owned enterprises. The condition shows that the entrepreneurs and corporate leaders in developing countries such as Indonesia where the level of corruption is still high, are believed to have political connections that provide benefits to achieve the companies' objectives. Hence, they strive to foster political connections in order to achieve the growth of the company since they realize that the political connections are a valuable resource (Fisman, 2001; Li et al., 2012).

In the countries with weak legal system and the high level of corruption, political connections are very valuable to the company; even these aspects are not inseparable in the country which has a strong legal system such as in the USA (Goldman et al., 2009). in their study, they found that political connections have a broad effect on the value of the firm in the United States Presidential Election in 2000 and a parliament member who won by Republican Party. Likewise, Faccio (2006) supported the findings of Goldman et al. (2009), using a sample of 47 countries, he documented that political connections are very common in countries with high levels of perceived corruption, even samples of first ranked companies in Indonesia have the largest political connections with members of parliament (DPR), ministers, president, and relations relatives.

This condition is underpinned by the structure of corporate ownership in Indonesia which are concentrated and controlled by the family. These conditions are inseparable from companies' conglomerate. La Porta et al., 1999; Claessens et al., 2000; Lukviarman, 2004; Kim, 2006; and Siregar, 2006, proved that companies in Indonesia have concentrated ownership structure in the family.

There are various researches on conglomerates in some countries encouraging writer's interest in investigating the conglomerates in Indonesia, as well as many businessmen who get involved in politics. To the author's best knowledge; there are few researchers who conducted extensive study on the conglomerate in Indonesia. The results of this present research shows that the political connection on family controlling and state block holder have a positive and significant effect on firm value (Tobin's Q and Return on Assets).

The rest of this paper is structured as follows: After the introduction, Section 2 discusses important literature on this topic an examination of relevant theories as well as hyphoteses development, while section 3 elaborates on research methodology. Section 4 discusses major findings of the study and finally in section 5, paper is summarised and concluded.

2. Literature Review

According to Dicko (2017) the basic presupposition of agency theory is the separation of management and ownership. In the classic economic model, capitalist companies are supposed to be owned by several shareholders scattered across the market, each of whom hold a small share. The shareholders then hire a professional manager who, in return for a substantial payment, is supposed to ensure that shareholders get a return on their investment. Given the opportunistic nature of human beings, manager can act in their own interest at the expense of shareholders to maximize their own personal utility – hence the potential conflicts of interest between shareholders and management and the resulting cost.

Claessens et al. (2000) mentioned that the block holder in Indonesia is controlled by the family, the state and financial institutions. Furthermore, Siregar (2006) supported the findings of Claessens et al. (2000), in which it is

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stated the cut-off 10% - 50% concentration of ownership in Indonesia is 99.09%, 95.36%, 89.95%, 79.83%, and 68.04%, respectively. Family as a block holder is not only found in developing countries, but it is also common in developed countries even though there are still many companies that are controlled by the family (Faccio et al., 2001). Arifin (2003) and Siregar (2006) also proved that the block holder of a public company is mostly controlled by the family of Indonesia. Arifin (2003) stated that the family is a primary owner of a public company in Indonesia. These findings are consistent with the study results of La Porta et al. (1999), and Claessens et al. (2000) which stated that the family dominates ownership of public companies.

Based on the literature review and previous researches regarding the block holder, especially in Indonesia, Hypothesis 1 is formulated as follows:

H_{1a} : The family block holders have positive effect to the conglomerate performance.
H_{1b}: The institutions block holders have positive effect to the conglomerate performance.
H_{1c} : The state block holders have positive effect to the conglomerate performance.
H_{1d}: The public firm block holders have positive effect to the conglomerate performance.

The ownership structure of the company has a contribution in determining the political connections (Wati et al., 2015). This is evidenced by Boubakri et al. (2008), resulting that political connections in the company are positively related to the rest of government ownership, and are negatively related to foreign ownership. On the other hand, Tian and Cheung (2013) documented the different results, where political connections in China can increase the value of firms controlled by the family, but the political connections do not significantly affect the value of firms controlled by the government. Political connections of the company controlled by the family have better access to bank loans, tax rebates and subsidies granted by the government compared to those controlled by the government (Tian and Cheung, 2013). When the block holder is a family which has political connection, it is likely to dominate the board of directors so that they can make a deal with government officials and enjoy exclusive privileges among them (Chen et al., 2011).

The company has political connection if one of the shareholders or the top management of the company is a member of parliament, ministers or heads of state, or who have a close relationship with political party officials (Faccio, 2006: 370).

Political connections would be more effective in the conditions of high levels of corruption and weak regulation, for both small companies and large companies (Faccio, 2006; Do et al., 2013). Wong (2010) proved that the company experienced an increase in ROE and MBV ratio after joining the Selection Committee. This means that political connections are able to improve the company's performance as measured by ROE and MBV Ratio. In addition, Do et al. (2013) supported research Wong (2010), stating that political connections are able to increase the value of the company at the state level.

Although various profits can be gained by corporate politically connected, political connections had a negative impact on the company, namely high leverage followed by overinvestment (Wu et al., 2012), the decline in stock prices and stock returns (Fisman, 2001; Fan et al., 2007), the decline in performance of the company (Leuz and Gee, 2006; Xu and Zhou, 2008; Li and Xia, 2013), the poor quality of financial report (Chaney et al., 2011).

Deng et al. (2012) examined the effect of diversification in the companies which have political connection and its influence on companies in China. They found that political connections have a positive and significant impact on the performance of the company. The influence of political connections on conglomerate (unrelated diversification) is stronger than the related diversification. However, politically connected conglomerate (unrelated diversification) will have a negative impact on the performance of the company in the future (long-term) which can harm the company. The company which has a market value of political connection tend to diversify in unrelated field (unrelated diversification).

Supporting the findings of Deng et al. (2012), Ang et al. (2013) examined the companies politically connected in Singapore. They found that within three years after the IPO, most of companies which were previously independent from political connections, but, after the sample was broken down into several categories

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of industry, it was found the director of the company had political connection and positive and significant impact on the value of the firm.

Based on the systematic review of previous researches, it is found that, positive influence of political connections on firm value (Johnson and Mitton, 2003; Faccio, 2006; Goldman et al .; 2006; Boubakri et al., 2008; Wong, 2010; Cooper et al ., 2010; Ang et al., 2013; Do et al., 2013). It is supported by the study results of Li et al. (2012) which showed a strong positive correlation between political connections and the company diversification. Political connections can be more impactful for the company diversified in unrelated fields (conglomerate). Deng et al. (2012) supported the findings of Li et al. (2012), confirming that the performance of conglomerate (unrelated diversification) which has political connection is better than that of the company which has political connection with related diversification. Wati et al (2016b) and Wati (2017) showed positive effect between political connections on conglomerate performance (accounting and market performance). These results indicate that political connections to the conglomerate are more valuable than non-conglomerate.

According to Pirzada et al. (2015) the role of the block holder in a strong political connection already stated above, according to the author's best knowledge, there still lack of research which examines and focuses on the role of block holder (family, institution, state and public firm) and the influence of political connections on the performance or value of conglomerate. Based on the empirical explanation mentioned above and examining the phenomenon of the ownership structure in Indonesia, Hypothesis 2 is formulated as follows:
H_{2a} : Political connections at the family blockholder have a positive effect on the conglomerate performance;
H_{2b} : Political connections at the institution blockholder have a positive effect on the conglomerate performance;
H_{2c} : Political connections at the state blockholder have a positive effect on the conglomerate performance;
H_{2d} : Political connections at the company controlled by public firm have a positive effect on the conglomerate performance.

3. Research Methodology

The present study used secondary data from the period of 2006 – 2014 based on published annual report. The research sample is all conglomerates listed on the Indonesia Stock Exchange since 2006 which publish annual financial reports and never delisting from the capital market. Based on these criteria, the total of conglomerate accounted for 72 companies, from which it can be processed as many as 66 companies (2006 – 2014), so that the total samples observed in this study were 594.

The variables used in this research were conglomerate performance, political connection, and block holder. Conglomerates performance in this paper used a market-based approach (market performance) and profit-based approach (accounting performance) (Niessen & Ruenzi, 2007; Deng et al., 2012). Market performance indicators used the proxy of Tobin's Q and profit-based approach (accounting performance) used the proxy of Return on Assets (Niessen & Ruenzi, 2007; Deng et al., 2012).

Meanwhile, the political connection used a number of criteria according to Fisman, 2001; Leuz dan Gee, 2006; Faccio, 2006. In regard with the criteria, it is defined if one of the shareholders or top management of the companies is a member of parliament, ministers or heads of state, or who have a close relationship with them from political party officials, the army and police officials. The member of parliament, ministers, or former heads of state are included because they still have power to connect with government (Pirzada, K., 2016.).

To ensure that the model used to test the hypotheses as mentioned in the previous paragraph applies to all conglomerates, the variable of firm size, age and growth as a control variable were used. The following table (Table 1) explains the operationalization of variables.

Table 1. Description of Variables

Variables	**Description**
Performance Measure: Return on Assets	Ratio of profit after tax to total assets

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Tobin's Q	Ratio of the market capitalization plus debt divided the total assets
Independent Variable:	Dummy Variable:
Political Connection	1 = political connected; 0 = nonpolitical connected
Ownership Variables:	Dummy Variable
Family	1=if the firm has family Blockholder, 0 = otherwise
Institutional (finance)	1=if the firm has institutional Blockholder, 0 = otherwise
State	1=if the firm has state blocholder, 0 = otherwise
Public firm	1=if the firm has public firm blocholder, 0 = otherwise
Blockholder of cut off 10%	1=if the blocholder owns (10-20%) of the shares, 0 = otherwise
Blockholder of cut off 20%	1=if the blocholder owns (20-30%) of the shares, 0 = otherwise
Blockholder of cut off 30%	1=if the blocholder owns (30-40%) of the shares, 0 = otherwise
Blockholder of cut off 40%	1=if the blocholder owns (40-50%) of the shares, 0 = otherwise
Blockholder of cut off 50%	1=if the blocholder owns (>50%) of the shares, 0 = otherwise
Control Variables:	
Firm Size	Log of Total Assets
Growth	Ratio of ΔTotal Sales to total sales
Firm Age	Number of years since incorporation

In this study, a block holder is defined according to La Porta et al (1999), Claessens et al (2000), Faccio and Lang (2002), Arifin (20030, Siregar (2006), as families, financial institutions, state enterprises, and public company owned by people at the level of control rights which are 10% - 50% (cut off).

To test the hypotheses in the study, regression model with General Least Square was used as follows:

Hypotheses1 testing used Model 1

$$Tobin'sQ_{it} = \alpha 1 + \beta 1 Fam_{it} + \beta 2 Inst_{it} + \beta 3 State_{it} + \beta 4 Tbk_{it} + \beta 5 Size_{it} + \beta 6 Growth_{it} + \beta 7 Age_{it} + \varepsilon 1 ...(1)$$

$$ROA_{it} = \alpha 2 + \beta 8 Fam_{it} + \beta 9 Inst_{it} + \beta 10 State_{it} + \beta 11 Tbk_{it} + \beta 12 Size_{it} + \beta 13 Growth_{it} + \beta 14 Age_{it} + \varepsilon 2 ...(2)$$

Hypotheses 2 testing used Model 2

$$\text{Tobin'sQ}_{it} = \alpha 1 + \beta_1 \text{Pol* Fam}_{it} + \beta_2 \text{Pol* Inst}_{it} + \beta_3 \text{Pol*} \, State_{it} + \beta_4 \text{Pol* Tbk}_{it} + \beta_5 \text{Size}_{it} + \beta_6 \text{Growth}_{it} + \beta_7 \text{Age}_{it} + \varepsilon 3 ...(3)$$

$$ROA_{it} = \alpha 2 + \beta 8 Pol * Fam_{it} + \beta 9 Pol * Inst_{it} + \beta 10 Pol * State_{it} + \beta 11 Pol * Tbk_{it} + \beta 12 Size_{it} + \beta 13 Growth_{it} + \beta 14 Age_{it} + \varepsilon 4 ...(4)$$

4. Results

4.1. Descriptive Statistics Analysis

An overview of research data in 2006 - 2014 shown in Table 2 is presented as follows.

Table 2

Blockholder Ownership

Cut Off	Year	Blockholder Ownership				Total
		Family	Institution	State	Public Firm	
10%	2006	54	21	9	11	95
	2007	54	21	10	10	95
	2008	53	24	10	13	100
	2009	53	19	10	13	95
	2010	52	20	10	11	93
	2011	53	27	10	11	101
	2012	52	23	10	10	95
	2013	54	20	10	10	94
	2014	53	20	10	9	92
	Conglomerate	478	195	89	98	860
	Percentage	55,58%	22,67%	10,35%	11,40%	100%

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20%	2006	54	14	8	9	85
	2007	51	14	9	9	83
	2008	52	13	9	10	84
	2009	51	15	9	10	85
	2010	50	11	9	9	79
	2011	49	12	9	9	79
	2012	48	13	9	9	79
	2013	49	9	9	9	74
	2014	49	8	9	9	74
	Conglomerate	453	109	80	82	724
	Percentage	62,57%	15,06%	11,05%	11,33%	100%
30%	2006	46	7	8	6	67
	2007	43	6	9	6	64
	2008	47	6	9	6	68
	2009	48	9	9	6	72
	2010	46	9	9	6	70
	2011	45	10	9	6	70
	2012	45	11	9	7	72
	2013	46	8	9	7	70
	2014	47	7	9	6	69
	Conglomerate	413	73	80	56	622
	Percentage	66,04%	11,74%	12,86%	9%	100%
40%	2006	44	4	8	5	61
	2007	43	5	9	5	62
	2008	42	4	9	5	60
	2009	40	6	9	5	60
	2010	39	6	9	5	59
	2011	36	7	9	5	57
	2012	38	7	9	6	60
	2013	40	6	9	5	60
	2014	41	5	9	5	60
	Conglomerate	363	50	80	46	539
	Percentage	67,35%	9,28	14,84%	8,53%	100%
50%	2006	36	2	8	4	85
	2007	38	3	9	4	83
	2008	37	4	9	4	84
	2009	35	4	9	4	85
	2010	35	5	9	4	79
	2011	31	3	9	5	79
	2012	33	3	9	6	79
	2013	34	2	9	5	76
	2014	37	1	9	5	74
	Conglomerate	316	27	80	41	464
	Percentage	68,10%	5,82%	17,24	8,84%	100%

Source: Data IDX processed, 2016

Based on table 2, the data of the conglomerates indicate that family is the main block holder, which accounts for 55.58%, 62.56%, 66.40%, 67.84%, and 68.10% at cut off 10%, 20%, 30%, 40%, and 50% respectively. The higher the value of cut off is, the greater the percentage of family ownership will be. It indicates that the family is the main controller in the conglomerate. The results of this study are not much different from the findings of Claessens et al. (2000) who found that 54% of public companies are controlled by the family at the cut off control rights 10%. Moreover, they found that the highest percentage of the companies controlled by families is in Indonesia, which accounts for 69%. At the cut off 20%, the number of family companies is 53% and the number of family-controlled companies is mostly in Indonesia, which accounts for 72%. The study results are also supported by the findings of Siregar (2006), who found that the family is the main block holder, which accounts for 55.61%55.55%, 55.67%, 55.29%, and 53.80% at the cut off 10%, 20%, 30%, 40%, and 50% respectively.

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These results indicate that the majority of conglomerate in Indonesia is controlled by the family. This finding is also consistent with those of La Porta et al. (1999), Faccio and Lang (2001), Arifin (2003), and Siregar (2006) which stated that the family dominates the ownership of public companies.

In addition, based on Table 2 above, at cut off 10% - 50%, the percentage of the financial institutions which control the companies is 22.67%, 15.05%, 11.74%, 9.35%, and 5.83% respectively. Meanwhile, the state controls public companies by 10.35%, 11.05%, 12.86%, 14.95%, and 17.24% respectively. This result is not much different with the findings of Claessens et al. (2000) which stated that the government controls public companies primarily in Singapore and Indonesia by 24% and 10% respectively. Likewise, La Porta et al. (1999) found that at the cut off control rights 20%, the average public company controlled by the government is 18%.

A public company is categorized as that controlled by another public company if its largest block holder is a public company owned by the community with the certain level of control rights. Based on Table 2 above, at the cut off 10% - 50%, the number of public company which is controlled by other public companies accounts for 11.40%, 11.33%, 9%, 8.60% and 8.84% respectively. In fact, the results of this study are not much different from that of Claessens et al. (2000) which found that at the cut off of control rights at 10%, 17%, Asian public companies which are controlled by other public companies with extensive holdings are especially in Philippines (36%) and Hong Kong (24%). In Indonesia, there are 17% of public companies which are controlled by other public companies with extensive holdings. But for the right to control cut off 20%, there are 13% of public companies which are controlled by other public companies with extensive holdings, especially in Philippines (27%) and Hong Kong (20%). On the other hand, in Indonesia, there are 13% public companies controlled by another public company with extensive holdings.

The greater cut off used, the greater decrease the number of the block holder in the conglomerate will have. However, although the cut off value increases by 20%, 30%, 40% and 50%, the concentration of conglomerate ownership in Indonesia still remains high, especially in the controlling family. These results are supported by the finding that the ten family companies in Indonesia during the year of observation dominated the average market capitalization by 30% out of the total number of public companies in Indonesia. In 2006, with a small number of companies controlled only by 10 families, they dominated the market capitalization accounted for 25.45% of the total companies of 344. In the year of 2007, they further dominated the market capitalization of 25.76% of 383 total companies. Furthermore, in 2008, the market capitalization they dominated was 25. 73% out of 396 total companies. In 2009, the portion increased to 30.44% of 398 total companies. A year later, the market capitalization they dominated slightly decreased to 29.22% of 420 companies compared with that of the previous year. In 2011, their domination of market capitalization was at 26.35% of 440 total companies, while in 2012, they dominated market capitalization by 33.77% of 462 total companies. In the following year, they dominated the market capitalization by 32.73% out of 483 companies, and in 2014, their domination on market capitalization was 31.73% of 510 companies (IDX processed data, 2016).

These findings on that market capitalization is held by ten families is also in agreement with that of Claessens et al., (2000) in which they revealed that the market capitalization in Indonesia is controlled by one family by 16.6%, and a half of the market capitalization in the country is dominated by the ten largest family..The massive accumulation of ownership supports the previous findings revealing that there is a shift of main conflict within the company from a conflict between shareholders and management (Jensen and Meckling, 1976) to a conflict between block holders and minority shareholders in Indonesia (La Porta et al., 1999; Claessens et al. 2000; Lukviarman, 2004; Siregar, 2006).

Table 3 below describes the Tobin's Q, Return on Assets, company size, company growth and firm age in politically connected conglomerate and that which is non-politically connected.

Table 3
Description of Firm Value and Control Variabel

Variable	Panel A	Panel B

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	Political Connected N=349				Non Political Connected N=237			
	Min	**Max**	**Mean**	**St.Dev**	**Min**	**Max**	**Mean**	**St.Dev**
Tobins Q	0,11	17,94	1,994	2,279	0,07	11,13	1,7	1,599
ROA (%)	-17	82	8,93	11,72	-29	46	6	11,9
Size (Log)	5,18	8,93	7,082	0,712	4,33	7,80	6,546	0,695
Growth (%)	-94	1071	32,75	101,48	-92	21.514	119,79	13.986
Age	3	32	15,79	5,56	1	64	16,41	10,08

Source: Data IDX processed, 2016

Based on Table 3, the average value of Tobin's Q on politically connected companies are larger than those which do not have political connection (1.994> 1.7). Likewise, the average value of Return on Assets in the politically connected companies is higher than those which do not have political connection (8.93%> 6%). The average value of the size of the firm which has political connection is also higher than those which do not have political connection (7.082> 6.546). Meanwhile, the average value of the company's growth which is proxied by sales growth in the politically connected companies is lower than those which do not have political connection (32.75 <119.79). Furthermore, the average age of the firms which have political connection is found to be younger than those which do not have political connection (15.79 <16.41). The higher value of Tobins'Q and Return on Assets of the conglomerate which has political connection that that which does not have political connection in Indonesia indicate that the existence of political connections provide benefit to the company.

4.2. **Hypothesis testing and Discussion**

Based on the result of first hypothesis model testing in Table 4 and 5, it shows that the families blockholder have positive effect on the value of the firm both on Tobin's Q and Return on Assets only in the cut off 20%, 40% and 50% at the significance level of 5%. Meanwhile, the block holders of financial institutions have negative effect on the value of the firm both on Tobin's Q and Return on Assets at the all cut off ranging from 10% to 50%.

State block holder has significantly positive effect on Tobin's Q and Return on Assets on all cut off 10%, 20%, 30%, 40% and 50% at significance level of 1%. Meanwhile, the block holder of public company has positive effect only on Return on Assets at cut off 20% - 50%. Based on the research result by standardized regression analysis (in appendix), state controlling has stronger effect on the value of the firm both in Tobinn's Q and the Return on Assets in all cut off 10% to 50% compared to other controllers (family, financial institutions, and public company). The test result is consistent with the result of robustness test, the result of which shows that the second model is robust.

The result of research on the block holder is in line with Wiwattanakantang (2001); Isik and Soykan (2013); stating that the presence of large shareholder has positive effect on firm value. It means that large shareholder in the company encourages to conduct better monitoring of the manager. This research also proves that large shareholder at the higher ownership level has positive effect on firm value. This finding is in line with the statement of Shleifer and Vishney (1997) which said that company with some of the large shareholders can enable shareholders to monitor each other and also to collaborate to put common interests above their own private interests.

Concentrated ownership can serve as a corporate governance mechanism to perform better monitoring and effective management so that it would reduce agency conflict (Shleiver and Vishny, 1986; Anderson and Reeb, 2003; Konijn et al., 2011). Thus, the block holder of the company will have positive impact on the firm value. This result indicates that large shareholders do not always generate private benefits (self-oriented) on the cost paid by the minority shareholders. Hence, the result of this research also proves that the agency problem in the conglomerate will be reduced by the existence of block holders.

The existence of block holder, especially the family and the state in the conglomerate, will give positive effect on the firm value both on market performance and financial performance. This breaks the perception of some people where monitoring is less effective in affiliated group company or conglomerate.

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Table 4
Testing Results of Model 1.1

$$Tobin'sQ = \alpha 1 + \beta 1 Fam_{it} + \beta 2 Inst_{it} + \beta 3 State_{it} + \beta 4 Tbk_{it} + \beta 5 Size_{it} + \beta 6 Growth_{it} + \beta 7 Age_{it} + \varepsilon 1 ...(1)$$

	Prediction	Panel A. Research Model Tobin's Q					Panel B. Robust Test Tobin's Q				
		Pisah Batas (*Cut Off*)					Pisah Batas (*Cut Off*)				
		10%	20%	30%	40%	50%	10%	20%	30%	40%	50%
Constanta		1,22***	0,554***	0,556**	0,743***	0,427*	1,615***	1,29***	1,335***	1,368***	1,342***
Fam	β+	-0,119	0,143**	0,078	0,143**	0,254***	-0,089	0,227**	0,189***	0,178***	0,244***
Inst	β+	-0,243***	-0,065	-0,098	-0,157**	-0,224***	-0,24***	-0,075	-0,051	-0,145**	-0,214***
State	β+	0,378***	0,637***	0,6***	0,659***	0,655***	0,348***	0,679***	0,65***	0,618***	0,644***
Tbk	β+	-0,134*	0,048	0,06	0,036	0,06	-0,151*	0,001	0,057	-0,022	0,005
Size	β+	-0,01	0,05	0,054	0,013	0,061*	-	-	-	-	-
Growth	β+	0,001	0,001	0,001	0,001	0,002	-	-	-	-	-
Age	β+	0,031***	0,027***	0,029***	0,035***	0,03***	-	-	-	-	-
F_{stat}		11,94***	26,941***	11,96***	13,67***	20,84***	10,58***	15,17***	13,07***	16,57***	20,79***
Adjusted R^2		11,46	11,11%	11,47%	13,04%	19 %	6,1%	8,72%	7,53%	9,52%	11,78 %

Source: Data processed, 2016
*** Significance 1%, ** Significance 5%, * Significance 10%.
The table above summarizes the results of testing the effect of controlling shareholders consisting of family, financial institutions, state and public company to firm value are proxied by Tobin's Q and Return on Assets, and robust test without using control variables, namely size, growth and age. Controlling shareholder tested on a cut-off of 10% -50% which is the ownership control. Tobin's Q calculated from the market value of the shares plus the book value of debt divided by the book value of assets. Return on Assets is calculated from the company's net profit divided by the book value of assets. The controlling shareholder of using dummy, "1" if the company is controlled by a controller (family, institutions, countries and companies tbk); and "0" otherwise. Size is the logarithm of total assets, growth is the growth of the company sales Δsales / sales, and age is calculated from the first time the company go public.

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Table 5
Testing Results of Model 1.2

$$ROA = \alpha 2 + \beta 8 Fam_{it} + \beta 9 Inst_{it} + \beta 10 State_{it} + \beta 11 Tbk_{it} + \beta 12 Size_{it} + \beta 13 Growth_{it} + \beta 14 Age_{it} + \varepsilon 2 ...(2)$$

	Predict	Panel A. *Research Model ROA* *Cut Off*					Panel B. *Robust Test ROA* *Cut Off (Cut Off)*				
		10%	20%	30%	40%	50%	10%	20%	30%	40%	50%
Constant		0,013	-0,022	-0,008	-0,011	-0,03*	0,067***	0,047***	0,047***	0,048***	0,044***
Fam	β+	0,008	0,018***	0,008*	0,015***	0,024***	-0,001	0,013**	0,011**	0,011**	0,027***
Inst	β+	-0,027***	-0,013**	-0,02***	-0,016***	-0,02*	-0,033***	-0,017***	-0,015***	-0,015**	-0,02
State	β+	0,077***	0,099***	0,09***	0,1***	0,09***	0,056***	0,086***	0,08***	0,082***	0,086***
Tbk	β+	0,006	0,013**	0,02***	0,036***	0,025***	0,003	0,013**	0,022***	0,033***	0,026***
Size	β+	-0,002	0,0007	0,0003	-0,0002	0,002	-	-	-	-	-
Growth	β+	-0,0003	-0,0004	-0,0004	-0,0004	-0,0005	-	-	-	-	-
Age	β+	0,004***	0,004***	0,004***	0,004***	0,004***	-	-	-	-	-
F_{stat}		37,22***	42,24***	47,14***	48,27***	50,03	29,83***	31,88***	39,11***	36,8***	34***
Adjusted R^{22}		29,99%	32,78%	35,3%	35,89%	36,7%	16,28%	17,24%	20,45%	19,48%	18,21 %

Source: Data processed, 2016
*** Significance 1%, ** Significance 5%, * Significance 10%.
The table above summarizes the results of testing the effect of controlling shareholders consisting of family, financial institutions, state and public company to firm value are proxied by Tobin's Q and Return on Assets, and robust test without using control variables, namely size, growth and age. Controlling shareholder tested on a cut-off of 10% -50% which is the ownership control. Tobin's Q calculated from the market value of the shares plus the book value of debt divided by the book value of assets. Return on Assets is calculated from the company's net profit divided by the book value of assets. The controlling shareholder of using dummy, "1" if the company is controlled by a controller (family, institutions, countries and companies tbk); and "0" otherwise. Size is the logarithm of total assets, growth is the growth of the company sales Δsales / sales, and age is calculated from the first time the company go public.

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From four block holders, it is only financial institution that has negative effect on Tobin's Q and Return on Assets at all cut off. This result is consistent with the research result of Khanna and Palepu (1999) arguing that the financial institutions in domestic companies have negative effect on the firm value. The existence of institutional shareholders is not able to monitor conglomerate, instead, it is supposed due to the presence of family block holders and the state which is large in the conglomerate. The result of descriptive analysis supports the result of hypothesis testing where the greater cut off, then the smaller the percentage of controlling financial institutions and public companies will be. Yet, the opposite happens to the family block holder and the state, where the higher cut off, the greater percentage of controller is.

The expropriation is carried out by the block holder in large companies in Indonesia, particularly by conglomerate to gain private benefits and controls to maximize their own welfare. Although the practice is commonly carried out by large companies through distributing wealth from other parties, it will undermine their reputation. Yet, the practice is proven not to be common for conglomerate in Indonesia.

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Table 6. Testing Results of Model 2.1

$$\text{Tobin'sQ}_{it} = \alpha 1 + \beta_1 \text{Pol* Fam}_{it} + \beta_2 \text{Pol* Inst}_{it} + \beta_3 \text{Pol*} \textit{State}_{it} + \beta_4 \text{Pol* Tbk}_{it} + \beta_5 \text{Size}_{it} + \beta_6 \text{Growth}_{it} + \beta_7 \text{Age}_{it} + \varepsilon 3 \ldots (3)$$

		Panel A. Research Model					Panel B. Robust Test				
		Cut Off					*Cut Off*				
	Prediction	10%	20%	30%	40%	50%	10%	20%	30%	40%	50%
Constant		0,575**	0,575**	0,709***	0,798***	0,628**	1,365***	1,333***	1,341***	1,352***	1,342***
Pol*Fam	β+	0,098*	0,16***	0,167***	0,263***	0,36***	0,2***	0,274***	0,285***	0,347***	0,429***
Pol*Inst	β+	-0,129*	-0,058	-0,134	-0,232**	-0,236	-0,098	-0,038	-0,084	-0,153*	-0,213
Pol*State	β+	0,484***	0,589***	0,607***	0,627***	0,624***	0,522***	0,631***	0,654***	0,643***	0,652***
Pol*Tbk	β+	-0,049	-0,157	-0,022	-0,03	-0,016	-0,08	-0,152	-0,005	0,017	0,026
Size	β+	0,056***	0,06	0,036	0,016	0,04	-	-	-	-	-
Growth	β+	0,0006	0,0006	0,0006	0,0006	0,0009	-	-	-	-	-
Age	β+	0,028***	0,024***	0,027***	0,03***	0,029***	-	-	-	-	-
Fstat		10,346***	10,65***	11,854***	12,92***	14,72***	9,51***	15,11***	16,93***	18,47***	19,6***
Adjusted R^2		9,95%	10,24%	11,37%	12,37%	13,96%	5,43%	8,69%	9,71%	10,56%	11,15%

Source: Data processed, 2016
*** Significance 1%, ** Significance 5%, * Significance 10%.
The table above summarizes the results of testing the effect of political connections in various controlling shareholders consisting of family, financial institutions, state and public company to firm value are proxied by Tobin's Q and Return on Assets, and robust test without using control variables, namely size, growth and age. Controlling shareholder tested on cut-off of 10% -50%, the control of ownership. Political connections using a dummy, "1" if the conglomerates have political connections; and "0" otherwise. Interaction political connection is made to all the variables controlling shareholder (family, institutions, countries and public companies). Tobin's Q is calculated from stock market value plus the book value of debt divided by the book value of assets. Size is the logarithm of total assets, growth is the growth of the company sales Δsales / sales, and age is calculated from the first time the company go public.

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Table 7. Testing Results of Model 2.2

$$ROA_{it} = \alpha 2 + \beta 8 Pol * Fam_{it} + \beta 9 Pol * Inst_{it} + \beta 10 Pol * State_{it} + \beta 11 Pol * Tbk_{it} + \beta 12 Size_{it} + \beta 13 Growth_{it} + \beta 14 Age_{it} + \varepsilon 4 ...(4)$$

		Panel A. *Research Model*					Panel B. *Robust Test*				
		Cut Off					*Cut Off*				
	Predict	10%	20%	30%	40%	50%	10%	20%	30%	40%	50%
Constant		-0,009	-0,011	-0,013	-0,02	-0,02	0,051***	0,047***	0,047***	0,046***	0,047***
Pol*Fam	β+	0,01**	0,016***	0,015***	0,023***	0,028***	0,011**	0,018***	0,021***	0,03***	0,036***
Pol*Inst	β+	-0,021***	-0,022***	-0,023***	-0,02***	-0,019*	-0,015**	-0,013**	-0,01*	-0,01	-0,017*
Pol*State	β+	0,075***	0,09***	0,088***	0,089***	0,09***	0,065***	0,086***	0,084***	0,085***	0,084***
Pol*Tbk	β+	-0,001	-0,0007	0,007	0,018**	0,013*	0,003	-0,003	0,01	0,024***	0,016**
Size	β+	0,0006	0,0003	0,001	0,002	0,001	-	-	-	-	-
Growth	β+	-0,0007	-0,0006	-0,0007	-0,0007	-0,0007	-	-	-	-	-
Age	β+	0,004***	0,004***	0,004***	0,004***	0,0037***	-	-		-	-
Fstat		31,34***	44,29***	46,65***	51,2***	51,57***	15,35***	31,47***	33,9***	37,61***	39,81***
Adjusted R^2		26,4%	33,86%	35,06%	37,29%	37,42%	8,83%	17,05%	18,16%	19,83%	20,75%

Source: Data processed, 2016
*** Significance 1%, ** Significance 5%, * Significance 10%.
The table above summarizes the results of testing the effect of political connections in various controlling shareholders consisting of family, financial institutions, state and public company to firm value are proxied by Tobin's Q and Return on Assets, and robust test without using control variables, namely size, growth and age. Controlling shareholder tested on cut-off of 10% -50%, the control of ownership. Political connections using a dummy, "1" if the conglomerates have political connections; and "0" otherwise. Interaction political connection is made to all the variables controlling shareholder (family, institutions, countries and public companies). Return on Assets is calculated from the company's net profit divided by the book value of assets. Size is the logarithm of total assets, growth is the growth of the company sales Δsales / sales, and age is calculated from the first time the company go public.

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Based on the result test of second hypotheses model testing presented in Table 6 and 7, it shows that political connection in the state and family-controlled companies have significant positive effect on Tobin's Q and Return on Assets at all cut off from 10% to 50%, while the political connections in the companies controlled by institutions have negative affect on Tobin's Q and Return on Assets at all cut off from 10% to 50%. Political connections in the companies controlled by the public company have positive effect only on Return on Assets at the cut off 40% and 50% only. Based on the results of standardized regression analysis (in appendix), the effect of political connections on companies controlled by the state have greater effect on the firm value both in Tobinn's Q and Return on Assets in all cut off from 10% to 50% compared to other controllers (family, institutional or public company). The result of of third model testing is consistent with robustness test which indicates that that the third research model is robust or sturdy.

This result is consistent with the finding of Boubakri et al. (2008) in which they found that political connection in the company is positively related to government ownership. Likewise, Tian and Cheung (2013) found that political connection can increase the firm value which is controlled by family. Political connection proves to be able to obtain government protection, such as greater amount of bank loans, long-term credit, lower real effective tax rate as well as greater government subsidies.

The result of this research indicates that the structure of companies ownership have contribution to determine the political connections in the conglomerate. The family block holder and the state in the company with political connection, tend to dominate the board of commissioners so that they can make a deal with government officer to obtain the exclusive benefit from them (Chen et al., 2011).

The test result of political connections on the companies which are controlled by the public ownership do not have effect on Tobin's Q at all cut off from 10% to 50%. Neither do it have effect on the ROA at cut off from 10% to 30%. But, at the cut off 40% and 50%, political connections with the control of public company have positive effect on Return on Assets. It shows that political connection in the public company has positive effect on firm value only at major ownerships (majority shareholder) so that it has a greater control on the decisions making. Meanwhile, political connections in the companies controlled by financial institutions have negative effect on both the Tobins'Q and ROA at the all cut off from 10% to 50%. This results show that financial institutions in the conglomerate are not able to control the company, so that political connections cannot affect the firm value.

The results of present study revealed that political connection on the controlling family, state, and public companies has positive effect on the firm value in conglomerate in Indonesia. These results support the finding of Tian and Cheung (2013), where they only found positive effect of political connection on the controlling family. Given that the third hypothesis about the influence of political connections on companies controlled by the family, the State and public companies is clearly evidenced. As such, it implies that the controlling company can easily control the other parties and determine policies which provide benefit for them. They are also free to determine who may eventually occupy board of commissioners, an independent commissioner or chairman of commissioner who can provide benefits for their interests and companies. Thus, it is not surprising that the position of commissioners which has very vital function for a company is occupied by retired generals, high officials of state, both active and non-active government officials who lack of competence in their field. This finding is in line with the statement of Winter (2014), arguing that Indonesia is already falling into oligarchy, where the government is occupied by a group of wealthy political elites.

Oligarchy in Indonesia adjusts quickly to the new regime. When the old regime ("orde lama or old order") collapsed, the oligarchs in Indonesia adjusted quickly to the new regime (so-called "new order"). Through the process of transition and adaptation, Indonesia oligarchy held the power and had a good luck for more than 30 years under Suharto's administration. The greatest change in oligarchies during the new orde was that networks had become very rich elite and therefore its power resources also increased sharply. When the "new order" fell, oligarchs adapted itself to this era of reform for several weeks in 1998 and quickly turned into the time of restoration for the oligarchy. Oligarchy (elite network) in Indonesia persisted and had a high ability to adapt whenever there were changes in the shape, structure, or other government agencies (Winters, 2004).

5. Conclusions

The results study on the effect of family block holder, the state and public companies on firm value (Tobin's Q & ROA), showed that the presence of large shareholders in the company motivates them to perform better monitoring of the management. The study also proved that a large shareholder at a rate higher ownership has a positive effect on firm value. Accumulated or concentrated ownership can serve as a corporate governance mechanism to better and more effectively monitor the management that would reduce conflicts of agency (Shleiver and Vishny, 1986; Anderson and Reeb, 2003; Konijn et al., 2013). Hence, the block holder of the company will have a positive impact on firm value.

The presence of political connection at the state and family-controlled company has positive effect on the firm value (Tobin's Q & ROA) at all cut off. It indicates that the ownership structure of companies has contribution to determine the political connections in the conglomerate. The family block holder and the state which have political connection, tend to dominate the board of commissioners so that they can make a deal with government officer and obtain the privileges from them (Chen et al., 2011).

The concentration of ownership in the company and family as controlling highest conglomerate in Indonesia as well as their involvement in politics implies that Indonesia has fallen into oligarchy state, in which the rules are held by a group of wealthy political elites. Various cases of bribery are widespread among the businessmen and the authorities in many cases. It leads to high-cost in economy, inefficiency and misallocation of the nation's resources, unfair competition, and disharmony in the social life which may reduce public confidence in the country and worsen the image of Indonesia in the international communities.

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WHY LABOR FORCE PARTICIPATION RATE RISES? NEW EMPIRICAL EVIDENCE FROM INDONESIA

Abstract. The labor force participation rate in Indonesia has increased during the period from 2008 to 2017. This paper attempt to investigate the issue, three independent variables encompassing, gross regional domestic product per capita at current prices, male life expectancy, and the number of dependents were considered in this paper, to understand if the selected variables have an impact on the increase in the labor force participation rate in Indonesia. The regional panel data obtained from the Indonesian central bureau of statistics were extracted from the period of 2010 to 2015. The panel data model and the Hausman test were applied to test the hypotheses. The findings indicate that the fixed effect model is suitable for data analysis. The results reveal that gross regional domestic product per capita at current prices positively affect the labor force participation rate while male life expectancy was noted to have a negative effect on the labor force participation rate. Theoretically, a lower income and a higher life expectancy would encourage more people to enter the labor market, but the Indonesian data showed the different and interesting results.

Keywords: Labor Force Participation Rate, Gross Regional Domestic Product Per Capita, Life Expectancy, Indonesia
JEL Classifications: J80, J82, J89

1. Introduction

The previous global financial crisis has changed the global economic order of the world. Among the many countries, Indonesia began to feel the financial effect of the crisis during the drastic decline of the economic growth at the end of the year 2008 (SMERU, 2011). The country had recorded an economic growth of above six percent until the third quarter III-2008 and following this, the Indonesian economy began to experience an economic slowdown in the last quarter IV-2008 (Bank of Indonesia, 2009). Fortunately, the Indonesian economy was more resilient to this crisis in relation to its neighboring countries. This is endorsed by the fact that Indonesia was still able to record a 4.4 percent growth in the first quarter of I-2009 (SMERU, 2011). During the same period of time, there was no increase in school dropout rate or a decrease in school attendance and the labor force participation rate remained relatively stable (McCulloch & Grover, 2010) but there was an increase labor force participation rate between 2008 to 2017. This can be seen in Table 1 below.

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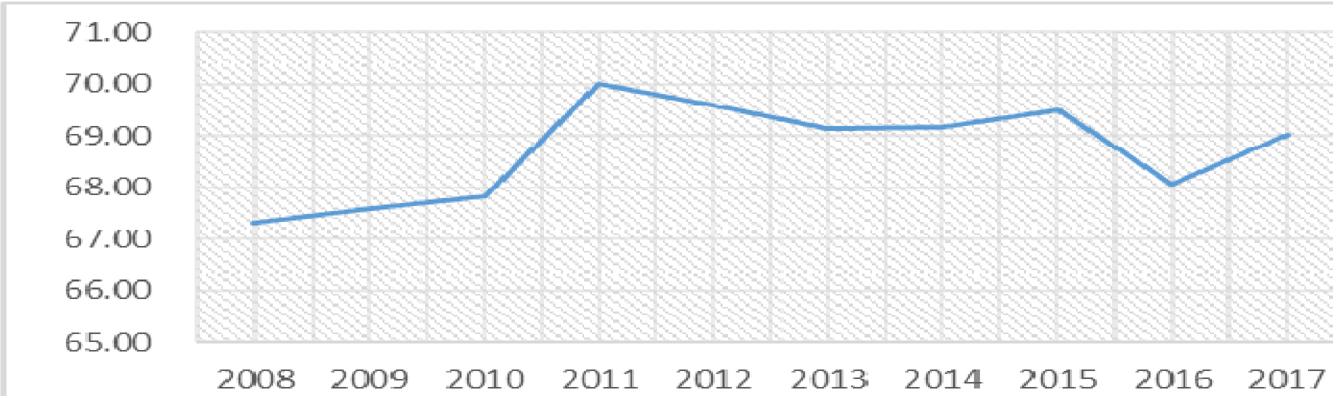

Figure 1. Labor Force Participation Rate Period 2008 - 2017
Source: Central Bureau of Statistics (2018)

Labor force participation rate can be empirically explained. Studies (see Balleer, Gómez-Salvador & Turunen, 2009; Cai, 2009; Dayıoğlu & Kirdar, 2010; Luque, 2013; AaronSon et al., 2014; Reddy, 2016; Blagrave & Santoro, 2017) have shown that there are various areas to focus on when examining labor force participation rate. For instance, the textile sector, life cycles, marital status, and the number of children (Dayıoğlu & Kirdar, 2010; Luque, 2013), labor market slack (AaronSon et al., 2014), age and cohort effect (Balleer, Gómez-Salvador & Turunen, 2009), health status (Cai, 2009), ageing (Reddy, 2016; Blagrave & Santoro, 2017), health expenditures, gross capital formation, mortality rate, secondary school enrolment, life expectancy (Mushtaq, Mohsin, & Zaman, 2013), structural transformation, education and real wage (Mehrotra & Parida, 2017), unemployment rate, gross domestic product per capita, fertility rate (Taşseven, Altaş, & Ün, 2016) and life expectancy (Rechel, Doyle, Grundy & McKee, 2009). Further to that, women-related issues can also contribute to an increase in labor force participation, for example, female education, sectoral employment share, unemployment rate, wages, marital status (Fatima & Sultana, 2009), poverty and women workers (Azid, Khan & Alamasi, 2010), and unemployment rate for females (Özerkek, 2014).

Several studies have empirically shown that many factors affect the labor force participation rate and most seem to come from the household perspective. In that regard, this paper aims to expand on that perspective by attempting to analyze three independent variables namely Gross Regional Domestic Product per capita at current prices, Male Life Expectancy, and the Number of Dependents.

2. Literature Review

The Labor-Leisure Choice Theory defines labor force participation as a function of real wage, working, and leisure. This implies that the allocation of working time is a function of the choice between working and leisure, and a function of increased real wage. In contrast, the Added Worker Theory argues that when recession causes husbands to be unemployed, other family members will enter the labor market thereby, producing an "added" number of labor force (Ehrenberg & Smith, 2012).

Previous studies have investigated the labor force participation rate of females only, males only or both females and males together. From the female labor force perspective, Fatima and Sultana (2009) found that a higher rate of economic development increases female labor force participation. Women were taking full advantage of the opportunity by increasing their education level and this eventually reflects the U-shape relationship.

By using the non-linear maximum likelihood probability function, Azid, Khan, and Alamasi (2010) found that poverty determines female labor participation. Their results showed that poverty pushes the married women to participate in the labor market. In contrast, Dayıoğlu and Kırdar's (2010) household survey noted that the geographical shift of the rural population reduces female labor participation. Their findings suggest that rural women tend to migrate and this causes a reduction in female labor force participation rate. This, inevitably causes the part of the agricultural households in villages to decline.

Using the panel data analysis, Özerkek (2014) found a long-term relationship between female unemployment and labor force participation in European countries. The study revealed some aspect of the hidden female unemployment rate. The outcome may be attributed to the Turkish economic structure that was so highly dependent on imported raw materials and which offered low job opportunities. Taşseven, Altaş, and Ün (2016) also used the panel data analysis to identify female labor force participation in OECD countries. They found that unemployment rate, per capita gross domestic product, and fertility rate positively affect female labor force participation rate. The outcome was traced to the significant growth such as increased products exhibited by the observed countries. Deploying the household survey as their method, Mehrotraa and Paridab (2017) note that the structural transformation process of a nation can push a great number of women out of the agricultural sector by thrusting them into the manufacturing sector. Unfortunately, both the agricultural growth mechanism and the capital intensity of the manufacturing sector offer very limited opportunities to women. Consequently, this reduces female labor force participation rate substantially.

From the male labor force perspective, Blagrave and Santoro (2017) found that age is an important factor which can predict the decision to participate in the labor force, particularly for men. The cohort effect and the business cycle can also affect the decision to participate in labor force. Cai (2009) noted that health status can positively influence labor force participation for both men and women. His study also found that labor force participation can negatively affect men's health status but positively affect women's health status.

Using a cohort-based labor force participation model, Balleer, Gómez-Salvador, and Turunen (2009) was able to show that age and cohort can increase labor force participation rate in the Euro area. Using the autoregressive distributed lag, Mushtaq, Mohsin, and Zaman (2013) found that infant mortality rate, gross capital formation, and secondary school participation rate can reduce labor force participation rate, in the long run but health expenditure has a positive effect on the labor force participation rate, in the short run.

From the household perspective, Luque (2013) found that the demand factor (the presence of textile sector) and the supply factor (life cycle, marital status, and number of children) can determine labor force participation rate. However, in aggregate, the demand factor has the strongest effect. By using a probit regression model, Reddy (2016) showed that poor and old people were more likely to participate in the labor force, especially among those in the informal and low-wage sectors. A high proportion of elders who worked freelance or as entrepreneurs had indicated that an absence of pension funds had caused them to join the labor force.

Scholars and policy makers have been debating about the decreased labor force participation rate. Some proposed that weak labor demands suppress labor force participation rate but others proposed that structural forces of a nation, such as an aging population, can contribute to this phenomenon (Aaronson et al., 2014). It appears that the cyclical weakness, as indicated by labor market looseness, is more likely to explain the decrease better than the structural factors.
Previous studies had exhibited varying results thus the following hypotheses were proposed:
H1: Gross regional domestic product per capita at current prices affects labor force participation rate.
H2: Male life expectancy affects labor force participation rate.
H3: The number of dependents affects labor force participation rate.

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3. Reserch Methods

The panel data extracted for this study consists of two parts: (1) time series data and (2) cross section data. The former comprises the annual data of six years, from 2010 to 2015. The latter comprises data drawn from the Indonesian Central Bureau of Statistics (except for Northern Kalimantan and the Papua provinces).

This study used three independent variables to predict the Indonesian labor force participation rate: Gross Regional Domestic Product per capita at current prices, Male Life Expectancy, and the Number of Dependents. The Gross Regional Domestic Product per capita at the current price was measured by dividing the total gross regional domestic product with the number of population. The number of family members who are dependent on the family heads is the proxy for the Number of Dependents. Lastly, the average remaining life years of a man in certain years was used as the proxy for Male Life Expectancy. The dependent variable, labor force participation rate was measured as the ratio between population above 15 years old who had worked or searched for jobs with the total population that is above 15 years old.

This study uses panel data regression as the estimation technique. First, the best model was selected from between the Fixed Effect Model (FEM) and the Random Effect Model (REM). The Hausman test was then used to determine the model that is most appropriate for the data. The test indicates that the best model is the Fixed Effect Model and this is then used to test the three hypotheses. The calculation is as follows:

$$LFPR_{it} = a0 + a1GRDPCap_{it} + a2MLE_{it} + a3NoD_{it} + e_{it} \quad (1)$$

Where,
$LFPR_{it}$: Labor Force Participation Rate of province i in year t
$GRDPCap_{it}$: Gross Regional Domestic Product per capita at current prices of province i in year t
MLE_{it} : Male Life Expectancy in province i year t
NoD_{it} : Number of Dependents in province i year t
a_0 : Unobserved time-invariant individual effect
a_1, a_2, a_3 : Regression coefficients
e_{it} : error term of province i in year t

This was followed by a subsequent step where the stationary panel data test was run on all the observed variables by using the Levin-Lin Chu (LLC) Unit Root Test method. If all the observed variables are stationary, then only can the FEM model be used to predict the hypothesis.

4. Results

In the initial stage, the Hausman Test statistics was compared with the probability value α = 5% so as to determine the best model. If the probability value is less (more) than α = 5%, then the FEM (REM) would serve as the best model. This can be seen in Table 1 below.

Table 1. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.403323	3	0.0384

Source: the authors

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Table 1 indicates that the best model is the Fixed Effect Model (FEM) because the Hausman Test statistics was 8.403323, with a probability of 0.0348, less than $\alpha = 5$ %. Before estimating the FEM, the time-series data were observed so as to ensure that the data were stationary and not containing any unit root. This can be seen in Table 2 below.

Table 2. Unit Root Test

Parameter	Hypotheses	P-Value	Conclusion
LFPR	Ho: Panels contain unit root	0.0000	I (0)
	Ha: Panels are stationary		
GRDPCap	Ho: Panels contain unit root	0.0000	I (0)
	Ha: Panels are stationary		
MLE	Ho: Panels contain unit root	0.0000	I (0)
	Ha: Panels are stationary		
NoD	Ho: Panels contain unit root	0.0000	I (0)
	Ha: Panels are stationary		

Source: the authors

Table 2 indicates that the observed variables are stationary on the level integration degree (I_0) with a confidence level of 95%. This suggests that the data can be used for further analysis. Moreover, the panel dta regression results can be seen in Table 3.

Table 3. Fixed Effect Model

$LFPR_{it} = 77.03954 + 0.209761\ GRDPCap_{it} - 1.558982\ MLE_{it} - 6.171927\ NoD_{it}$ [2.657311] [4.569922] [-3.404912] [-0.430512]
R^2 : 0.927678
F statistic : 59.23105
Durbin Watson Stat: 1.878282

Source: the authors

Table 3 indicates that the Gross Regional Domestic Product per capita at current prices positively affects the labor force participation rate. The results also showed that Male Life Expectancy has a negative influence on labor force participation rate. However, the number of dependents exhibited no significant effect on labor force participation rate.

5. Discussions

5.1 Gross regional domestic product per capita at current prices affects labor force participation rate

The estimation results gained through the Fixed Effect Model support the first hypothesis (H1). In the Indonesian context, increased income per capita at current prices generally increases labor force participation rate. The income per capita at current prices was used as the independent variable because in general, the Indonesian population spends more than sixty percent (60%) of their income on their primary needs namely, food and beverages, clothes, housing, health, and education. Expenditures for the primary needs were subject to inflation less. Table 4 shows the Gross Domestic Product at current prices, based on expenditure categories.

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Table 4. GDP at Current Prices based on Expenditure Categories (%) 2010 – 2016

No	Expenditure Categories	2010	2011	2012	2013	2014	2015	2016
1	Food and Beverage, non-Restaurant	38.5	38.5	38.9	38.5	38.0	38.5	39.2
2	Clothes, Footwear and Their Maintenance Services	4.1	4.1	3.9	3.8	3.7	3.7	3.6
3	Housing and Household Appliances	13.6	13.4	13.4	13.3	13.1	13.1	12.8
4	Health and Education	6.7	6.8	6.9	6.8	6.7	6.7	6.7
5	Transportation and Communication	23.6	23.3	22.8	23.4	24.0	23.3	22.8
6	Restaurant and Hotel	8.9	9.0	9.3	9.4	9.6	9.8	9.9
7	Others	4.5	4.8	4.9	4.8	4.8	4.9	4.9
	Total Household Consumption Expenditures	100	100	100	100	100	100	100

Source: Central Bureau of Statistics (2018b)

Besides the above, the Time Allocation theory can also be used to explain the effect of the income per capita at current prices on labor force participation rate. This theory assumes that workers either opt for working or for leisure. At certain income levels, these workers will decide on how to allocate their time into working or leisure. It appears that low-income individuals were more likely to have insufficient income to meet their needs thus it encourages family members who were previously not in the labor force to join the labor market (added worker theory). This can be seen in Figure 2 below.

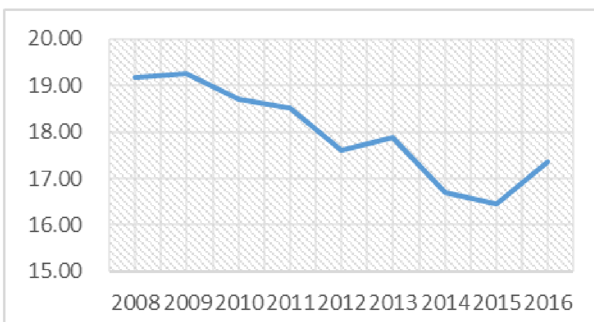

Figure 2. Population of 20 – 24 Years Old Who Look After Households
Source: Central Bureau of Statistics (2018d)

Figure 2 indicates that the number of those aged 20 – 24 years old who are not in the labor force (looking after households) had declined sharply during 2008-2016. These figures support the added worker theory which argues that low income encourages those previously not in the labor force, due to taking care of their households, to participate in the labor market so as to help their households meet their needs.

The Income per capita figure illustrates the ratio between the GDP and the number of population. The previous part of this paper had explained that the effect of income per capita on labor force participation depends on the income level. This implies that income distribution affects labor force participation rate. In the Indonesian context, the rural population exhibits a different Gini ratio pattern than the urban population. More specifically, the Gini ratio of the urban areas tends to be higher than that of the rural areas which tends to remain relatively constant. This can be seen in Figure 3 below.

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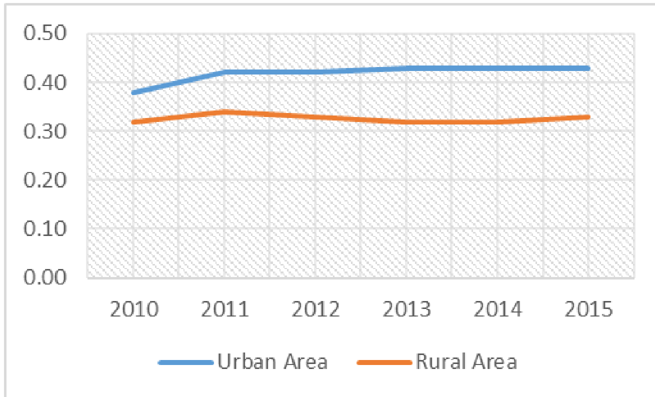

Figure 3. Comparison of Urban and Rural Gini Ratio
Source: Central Bureau of Statistics (2018a)

Figure 3 indicates that most of the Indonesian population live in the rural areas. The fact that the urban areas have a higher Gini index indicates that the largest proportion of the Indonesian population contributes to a smaller portion of the total GDP. In other words, the largest proportion of the Indonesian population are those from the rural areas with low income. In their study, Hubacek, Guan, and Barua (2007) argued that the economic success of several Asian developing countries had improved the quality of life for their population. It appears that majority of the population in these countries have undergone a transition, moving from poverty to sufficient fulfillment of their basic needs (e.g. foods, clothes). However, these people are not satisfied with only fulfilling their basic needs; they also wish to have a better life quality, such as highly nutritious food, better health care, more life comforts, and other life desires. Consequently, the relationship between the Gross Regional Domestic Product per capita at current prices and the labor force participation rate is positive.

5.2 Male life expectancy affects labor force participation rate

The test was applied by using the fixed effect model and the outcome supports the second hypothesis (H2) of this study. The fact that the Labor Force Participation Rate of the population aged 20-59 years old and those above 60 years old had increased. This suggests that a higher life expectancy increases labor force participation rate for these two age groups.

In the meantime, the Indonesian paternalistic culture which requires men to serve as family heads suggest that men enter the labor force. This factor confirms the current findings as the Indonesian quality of public health had equally increased (Ministry of Health, 2015). Central Bureau of Statistics (2018e) had reported that during the period of 2009 to 2015, the percentage of the population who have health complaints had decreased from 33.68 % to 30.35 %. This condition makes the population who are above 60 years old still able to participate in the labor market.

Relevant to this, Mustaq, Mohsin, and Zaman (2013) further proposed that well-managed health expenditure increases life expectancy at birth. Likewise, this will eventually increase labor force participation rate because people will have more years to enter the labor market.
In the Indonesian context, it appears that the Labor Force Participation Rate of the young population (those who are 15-19 years old) tends to decline. This suggests that most of the young population prefer to continue with their studies rather than enter the labor market. It also implies the success of the compulsory education program in Indonesia. This can be seen in Figure 4 below.

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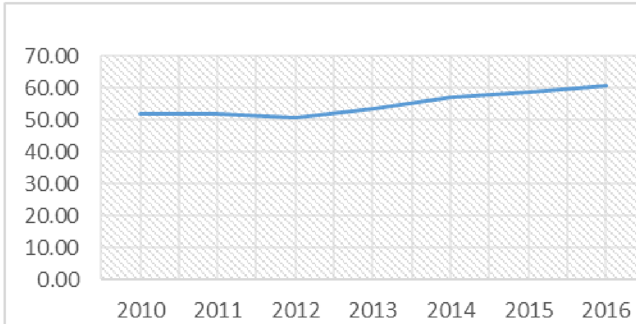

Figure 4. Population of 15-19 Years Old Who Continue Their Studies
Source: Central Bureau of Statistics (2018c)

In relation to these findings, Hipple (2016) had proposed that from 2000 to 2015, the younger population exhibit showed a decline in the labor force participation. The adolescents exhibited the largest decline in the labor force participation rate and this is possibly due to the increased school enrollment rate which implies that they prefer to continue their studies than to participate in the labor force. This can be seen in Figure 5 below.

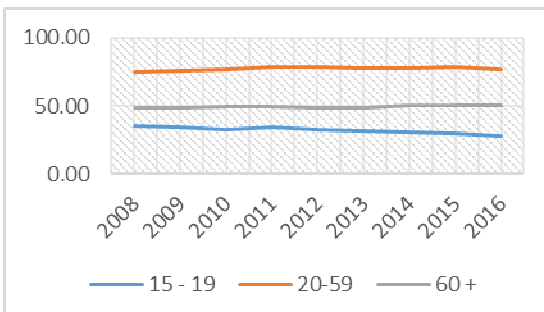

Figure 5. Labor Force Participation Rate by Age Group
Source: Central Bureau of Statistics (2018d)

Figure 5 indicates when the LFPR of the population aged 15-19 years old decreases because of the increased intention to continue with their studies, the LFPR of the population aged 20-59 years old and those above 60 years old increases. In sum, male life expectancy has a negative effect on labor force participation rate.

5.2 Number of dependents affects labor force participation rate

Using the fixed effect model, the test did not support the third hypothesis (H3). However, Mustaq, Mohsin, and Zaman (2013) stated that the number of dependents is a great impediment for growth and development. They proposed that governments reduce the number of dependents by providing old-age allowance to older workers and free educational and health facilities to the children.

Conclusions

This paper contributes to the empirical literature on the fact that low-income households constitute the largest proportion of the Indonesian population explains the positive relationship between the Gross Regional Domestic Product per capita at current prices and the labor force participation rate. However, Male Life Expectancy is negatively related to labor force participation because of the success of the compulsory education programs implemented by the government. Consequently, it is necessary for the Indonesian government to focus more on the low-income population and to simultaneously, increase the quality of public health.

While the unemployment rate has declined in recent years, labor force participation has also been declining, perhaps suggesting that unemployment is not as reliable an indicator of macroeconomic performance as it may have been in the past, but unemployment rate has positive relationship with female labor force participation established in few researches. The rise in labor force participation is often attributed in part to the maturing of the Baby Boom generation, as well as to the increase in the number of women in the workforce. The decline has often been attributed to the aging of the Indonesian labor force. A satisfactory model has to account for the rise and fall over many decades. The literature is not completely satisfactory, however, household decision making inside economic models. This would allow us to better understand what motivates or deters labor force participation.

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