

HOW DOES THE ROLE OF POLITICAL CONNECTIONS INFLUENCE THE CORPORATE SOCIAL RESPONSIBILITY SCORES

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ABSTRACT

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Purpose of the study — The objective of this study is to examine the impact of the board of commissioners and directors on CSR scores.

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Research method— This research adopts a quantitative approach and employs purposive sampling to select samples. The sample comprises 17 companies in the IDX-IC sector A for the period spanning from 2016 to 2021. Panel data regression analysis is utilized for the empirical analysis, with STATA software being employed for the statistical computations.

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Result— The findings reveal that having a politically affiliated board of commissioners, the variable concerning politically affiliated board, and the variable concerning politically affiliated audit committee positively influences CSR scores.

Conclusion— The implications of this study shed light on how companies or practitioners address political affiliations while considering CSR values, particularly in light of social conditions such as the Covid-19 pandemic, elections, and other matters that involve new government regulations pertaining to social responsibility.

Keywords: Political Connections, Corporate Governance, Social Responsibility, Political Affiliation Of The Board Of Commissioners, Political Affiliation Of The Board Of Directors, CSR, STATA.



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INTRODUCTION

Corporate social responsibility (CSR) has become a basic concept considered by academics and practitioners to assess whether the implementation of CSR brings benefits to business interests (Aboud & Yang, 2022; Jiao et al., 2022; Rianda, 2023). Menurut Gupta et al. (2017) previous literature states that companies are often only oriented towards maximizing profits, so many of them prefer to allocate the resources they obtain to other investments rather than focusing on CSR. Therefore, when formulating CSR policies, companies tend to

adapt to the assets they own and may ignore social values (Arora & Dharwadkar, 2011). However, according to Mohammadi et al. (2021) customers tend to buy products from companies that hold high moral and social standards.

Previous research shows that CSR committees, management ownership, and business size have a positive impact on CSR reporting (Adel et al., 2019; Nurhandika & Rahim, 2020). Penelitian lain dari Bhaduri et al. (2016), Khan et al. (2013), Nurhandika & Hamzah, (2019), Sun et al. (2012) tested the influence of corporate governance on certain levels of CSR. Researchers in the literature conclude that governance mechanisms have a positive impact on CSR disclosure. However, sometimes CSR disclosures can be used to hide opportunistic behavior from managers with the aim of gaining attention from shareholders (Bédard et al., 2008; Mohammadi et al., 2021).

Various countries around the world with diverse political environments have conducted in-depth research on political involvement in corporate business activities (Bliss & Gul, 2012; Houston et al., 2014; Joni et al., 2020). Statements regarding the relationship between political affiliation and CSR are based on theoretical foundations including Resource Dependency Theory and Social Exchange Theory (Selin et al., 2023). Resource Dependency Theory (RDT) emphasizes that open organizations are very dependent on external factors Pfeffer & Gerald (1978). Meanwhile, *Social Exchange Theory* (SET) states that dependency relationships between individuals, groups or organizations involved involve reciprocal exchange in the future (Tee, 2020). Companies that have political affiliations gain advantages over their competitors in conducting business because they receive preferential treatment from the government (Lin et al., 2015; Selin et al., 2023). The results of research conducted by Selin et al. (2023) shows that in Indonesia, a number of companies have formed political relationships that may or may not have a direct impact.

Wong & Hooy (2018) conducted research on how different political affiliations affect financial performance in Malaysia. Joni et al. (2020), revealed that company involvement with politics, both through members of the military and professionals, has an impact on reducing the cost of capital in Indonesia. Nevertheless, according to Phan et al. (2020) companies that have ties to the government allocate more capital for investment compared to companies that have political ties through their family businesses. In addition, according to Chaney et al. (2011) governments and outside parties tend to pay special attention to companies with strong political connections. Furthermore, Tee (2020) states that political linkages tend to be the main source of agency problems for shareholders. Therefore, political tendencies are thought to have an impact on low income and less accurate reporting (Yudhanti & Tjahjadi, 2021).

Thus, people or companies who have political affiliations benefit from their personal relationships, but this cannot be separated from the obligation to follow government regulations (Selin et al., 2023). Companies that have political connections gain privileges compared to their competitors in running business because they receive preferential treatment from the government (Lin et al., 2015; Selin et al., 2023). Bianchi et al., (2019) and Qian &

Chen,(2021) note an increase in CSR disclosure when companies have significant political intervention during periods of government interest, such as general elections or campaigns favorable to the government. Empirically, companies that have political connections have been proven to have better access to loans from banks compared to companies that have no political connections at all (Khwaja & Mian, 2005). They also tend to gain tax benefits (Wu et al., 2012) and have higher firm value (Faccio & Parsley, 2006). Therefore, political connections, both at the director and commissioner level, are thought to influence CSR implementation.

METHOD

In this study, the samples used were all companies listed in the D sector industrial classification on the Indonesia Stock Exchange in the consumer non-cyclicals sector for 2016-2021. We collect data regarding CSR, company political relations, and audit committee characteristics manually from annual reports. We also obtained data via the datastream website at www.esgi.ai. Next, we filtered the data to obtain the ideal sample for this research by considering several sampling characteristics, including: first, we excluded companies that had incomplete data for this research; second, we exclude companies that do not have political involvement among directors, commissioners, and audit committees. We also used STATA software as a tool for statistical analysis.

In this research, there are two variables included. First, the dependent variable is measured based on the G4 Global Reporting Initiative (GRI) framework, which is considered a good method for measuring CSR (Uyar et al., 2023). This involves calculating the number of items disclosed divided by the number of dimensions of the GRI criteria (Chakroun et al., 2022; Firmansyah et al., 2022). Second, the independent variable is measured by referring to Tee (2020) namely 1 for companies that have political affiliations, both at the director, commissioner and audit committee levels; and 0 otherwise.

The research framework will be presented is as follow:

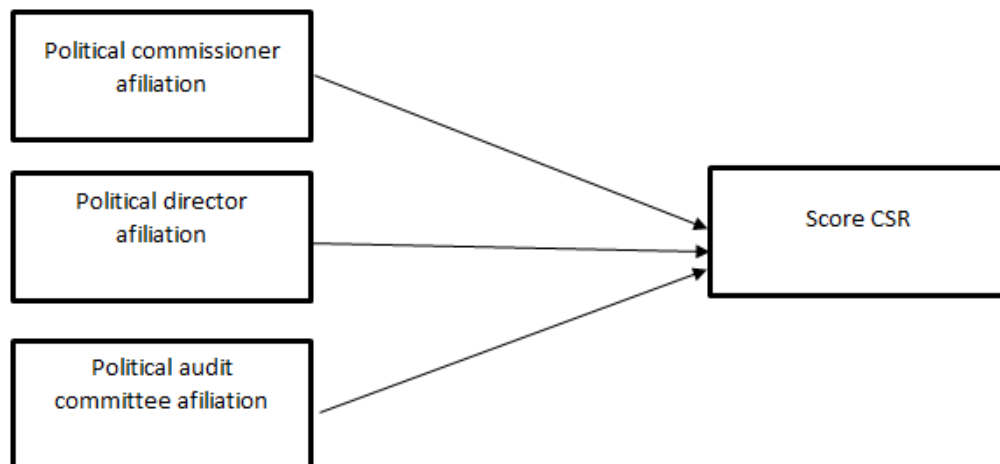


Fig. 1 Research Framework

$$\text{CSRscore} = \beta_0 + \beta_1\text{POLIKOM} + \beta_2\text{POLIDIR} + \beta_3\text{POLIAUD} + \epsilon$$

The symbol β refers to the regression coefficient; POLIKOM represents commissioners who have political affiliations; POLIDIR is a director who has political affiliations; while POLIAUD is a member of the audit committee who has political affiliations.

RESULTS AND DISCUSSION

The Normality Test shows the characteristics of normally distributed variable data to be continued to test other classical assumptions.

Tabel 1 Uji Normalitas

| Variable | Prob>Z |
|------------|---------|
| CSR | 0.01484 |
| Polikom_X1 | 0.01992 |
| Polidir_X2 | 0.00000 |
| Poliaud_X3 | 0.00108 |

Table 1 explains the normal distribution of data in this study. Then, from the statistical results, the four variables have a normal distribution with a value of less than 0.05 for each variable.

Descriptive statistical analysis shows the characteristics of data distribution, such as minimum value, maximum value, mean and standard deviation

Tabel 2 Descriptive Statistics

| Variabel | Mean | Std Dev. | Min | Max |
|-----------|----------|----------|--------|--------|
| CSR | .616383 | .175595 | .15267 | .97787 |
| x1polikom | .9692437 | .2564553 | 0 | 1 |
| x2polidir | .9626806 | .2423187 | 0 | 1 |
| X3poliaud | .2444444 | .4321649 | 0 | 1 |

Descriptive statistics can be seen in table 1. Corporate Social Responsibility (CSR), politically affiliated commissioners (X1polikom), politically affiliated directors (X2polidir), and politically affiliated audit committees (X3poliaud) reveal minimum and maximum data variations. It can be seen that the mean value is greater than the standard deviation value.

Table 3 Multicollinearity Test

| Variabel | VIF | 1/VIF |
|-----------|------|----------|
| x1polikom | 2.12 | 0.472039 |
| x2polidir | 1.38 | 0.726582 |
| X3poliaud | 2.45 | 0.407670 |
| Mean VIF | 7.87 | |

Politically affiliated commissioners (X1polikom), politically affiliated directors (X2polidir), and politically affiliated audit committees (X3poliaud) revealed that the VIF value was less than 10 and the 1/VIF value was more than 0.01, so it could be interpreted according to Ghazali (2016) that all variables in this study no symptoms of multicollinearity occurred.

Table 4 Hypothesis Test Results

| Variabel | CSRscore (sig 0,05) | |
|-----------|---------------------|--------|
| | koef | Pvalue |
| constant | .5212154 | |
| x1polikom | .1244424 | 0.047 |
| x2polidir | .2765962 | 0.023 |
| X3poliaud | .2170603 | 0.022 |
| R-squared | 0.5507 | |

In Table 3, the hypothesis test can be explained. The coefficient value and significance level of the board of commissioners' political affiliation on the CSR score are .1244424 and 0.047, indicating that the board of commissioners' political affiliation variable has a positive influence on the CSR score. This finding is in line with research by K. J. Lin et al. (2015) dan Selin et al. (2023). Menurut Bianchi et al. (2019) dan Qian & Chen (2021) there is an increase in CSR disclosure when companies are involved in significant political intervention, such as during election periods or campaigns that are favorable to the government. The coefficient value and significance level of the political affiliation of the board of directors and the political affiliation of the audit committee on the CSR score are 0.023 and 0.022 with a significance value of 0.2765962 and 0.2170603, shows that the political affiliation variable of the board of directors

influences the CSR score. These results are consistent with the findings of Selin et al. (2023) which states that companies that have politically affiliated employees will be motivated to make good CSR disclosures because this will have an impact on the company's image which is considered good for society as well.

CONCLUSION

This research concludes that the presence of a board of commissioners who have political affiliations has a positive influence on Corporate Social Responsibility (CSR) scores. These findings indicate that companies are more likely to gain benefits, such as tax privileges and increased firm value, if they have close relationships with individuals or professionals who have political affiliations in their companies, compared to competitors who do not have political affiliations. In addition, board directors who have political affiliations also influence the level of CSR scores, indicating that companies have positive motivation to provide good CSR disclosures for the smooth running of their business.

Audit committee variables also influence CSR. This indicates that companies in the sector studied by researchers have the view that placing members with political affiliations on the audit committee can have a positive impact on the company, including additional privileges and motivation to contribute positively to society. This research contributes to understanding how companies or practitioners respond to political connections by considering CSR values, especially in the context of social circumstances such as the Covid-19 pandemic, elections, and changes in government regulations related to social responsibility. However, there are several potential shortcomings in this study. First, the data used is only from one sector. For further research, you can consider adding other sectors to provide a more comprehensive picture. Second, this research only considers three independent variables related to political connections, so it still requires further and more specific research, such as involving the military or former ministers (Selin et al., 2023).

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