Political Connections, Women Commissioners, and Banking Performance: Evidence from Indonesia

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Abstract

Objective – The purpose of this study is to investigate the effect of political connections on banking performance with women commissioners as a moderating variable.

Design/Methodology – The population of this study derive from banking sector listed on Indonesia Stock Exchange from 2016 to 2021 with the final sample of as many as 42 banks with a total of 252 observations. Hypothesis testing was performed using multivariate regression analysis.

Results – This study finds that commissioners who have political connections tend to report higher banking performance, as measured by ROA. Meanwhile, women commissioners tend to report lower banking performance (ROA). Furthermore, there is a positive influence from political connections to banking performance when there are women commissioners. In addition, this study employs alternative measures of banking performance, namely ROE and including bank risk. This study also replaces the measurement of political connections from dummy variables to a number of political commissioner members compared to total commissioners. In particular, these results are robust after replacing the measurement of political connections, the commissioners who have political connection will report higher banking performance than commissioners who have no political connections. However, political connection and women commissioners have no significant effect on banking performance, when using ROE as banking performance. Meanwhile, political connection has a negative impact on bank risk. It suggests that political connections can reduce bank risk by decreasing overdue credit (Non-Performance Loan).

Research limitations/implications – This study focuses primarily on the linear relationship with required gender diversity between political ties and banking performance. This study adds to the growing body of research on how political connection and gender affect banking performance.

Novelty/Originality – Gender diversity or women commissioners are still rare as the impact of commissioners’ political connection on banking performance in Indonesia.

Keywords: political connection, women commissioners, banking performance, bank risk

1. Introduction

Public trust is a bank asset that is crucial to increase bank efficiency and prevent bank runs and panics (Dangnga et al., 2018). Banking performance must be optimized to provide satisfaction and trust to all parties to prevent bank runs and panics. Banking performance is very important for evaluating bank operations and
determining management plans and strategic analysis (Firdausi, 2016). Banking performance is an illustration of what a bank achieves in raising funds and in managing any banking funding or finances (Aluy et al., 2017).

Two factors influence bank performance, namely internal and external factors. Internal factors consist of capital resources and interest income (Octaviyanty, 2013). Meanwhile, external factors include macro-environmental, one of which is political connections (Azizah et al., 2020). The Indonesian Ombudsman provided data that there were 397 public officials holding concurrent positions as commissioners in SOEs in 2019. The Indonesian Ombudsman also reported 254 people or 64% of the total commissioners holding concurrent positions as 112 ministry officials (Fatimah, 2020). In the banking industry, one is connected to politics, one of which is a bank owned by the government or regional government, including state-owned business banks (BUMN) and regional development banks (BPD), which tend to have intervention from the government. For example, Dwi Ria Latifa, a former member of the Indonesian Parliament for the 2014-2019 period, and Zulnahar Usman, who is the treasurer of the Hanura Party, were appointed as commissioners of Bank Rakyat Indonesia (BRI). Pataniari Siahaan, who is a PDIP cadre, was appointed as an independent commissioner at Bank Negara Indonesia (BNI) and Arief Rosyid Hasan, who was a former volunteer for President Joko Widodo in the 2019 presidential election, was appointed as an independent commissioner for Bank Syariah Indonesia (BSI).

Companies that have political connections receive special attention because of indications of preferential treatment from the government, have easy access to obtaining capital loans, and receive protection from the government (Faccio et al., 2006). The corporation is impacted by political connections on both a positive and a negative note. On the positive side, companies with political connections obtain faster information and have greater opportunities to obtain projects and access to government policies (Nys & Trinugroho, 2015). Company reputation can increase if the company is indicated to have political connections. Companies that have political connections tend to have better performance and reputation than companies that do not have political connections (Nys & Trinugroho, 2015).

On the other side, there are two negative impacts of companies with political connections (Proença et al., 2021). First, companies tend to experience a decline in profitability. Dharmayuni & Suryati (2014) found that political connections threaten company value due to poor performance, causing incentive fraud, wrong investment placement and increasing levels of corruption. Second, companies with political connections tend to prioritize personal interests and behave opportunistically (Ling et al., 2016).

Jaffar & Abdul-Shukor (2016), Wulandari (2013), and Kristanto (2019) found that political connections have a negative impact on the efficacy of a company. These results demonstrate that companies with political affiliations have lower performance than those without political connections. Meanwhile, Maaloul et al., (2016) and Setiadi (2019) found that companies with political connections have a positive effect on bank performance. Banks that have political connections gain more trust from customers and investors compared to banks that do not have political connections. Banks that have political connections will not easily go into liquidation and tend to get government projects easily, so the bank’s performance will increase. However, Azizah et al., (2020) found that companies that have political connections do not affect the good or bad performance of the company.

The existence of different previous evidence encourages the authors to investigate other factors that can affect bank performance. The ability of a corporation to achieve financial performance can be enhanced by gender diversity. Gender diversity refers to the distribution of men and women on a company’s board of directors (Yusiana, 2019). Women and men have different perspectives, ideas, and
insights. The argument is that having a women's leadership council allows it to represent the interests of different parties (Harjoto et al., 2015).

Thoomaszen & Hidayat (2020) found that gender diversity within companies has better performance compared to companies with only one gender. Iswadi (2016) found that company performance increased at a higher rate when it was led by a women CEO. When women hold positions of power in a corporation, they have a profound impact on policymaking at every level. Wijaya et al., (2015) prove that gender diversity improves business outcomes. There is a greater representation of women on a company's board of directors, investors place a higher value on the organization as a whole. Nevertheless, Raharjanti (2019) and Kusuma et al., (2018) found no correlation between gender diversity and business performance.

This research is important for the following reasons. First, research that examines the effect of political connections on company performance and bank risk is still rarely conducted in Indonesia (Putri et al., 2020; Setiadi, 2019; Amalia, 2019). Second, research on gender diversity in the banking sector still shows different results. Therefore this study aims to investigate the effect of political connections on banking performance with women commissioners as a moderating variable. This research extends and strengthens research on gender aspects and political connections that are built with agency theory.

The remainder of the study proceed as follows. Section 2 discusses the previous literature and develops research hypotheses. Section 3 presents the research methods, including data collection, variable measures, and empirical models. Section 4 discusses the empirical results, robustness check, and additional analysis. Section 5 is the conclusion.

2. Literature Review, Theoretical Framework, and Hypothesis Development

Bank performance is a summary of the bank’s accomplishments in operational activities such as finance, marketing, raising and channeling capital, technology, and human resources (Aluy et al., 2017). Assessment of bank performance based on financial statements can be estimated through analysis of profitability ratios. The profitability ratio of the bank is a measure that displays a bank's ability to earn profits over a specified time period (Marwansyah & Setyaningsih, 2018). Sutojo (2004) suggests that profitability is one of the ratios used to analyze bank performance. The profitability ratios that are the focus of this study are return on assets (ROA) (Fernos, 2017; Purwoko & Sudityatno, 2013) and return on equity (ROE) (Matiin, 2018). This study also focuses on bank risk, namely loan loss provision (LLP) as a measure of bank performance.

ROA was chosen as an indicator for measuring bank performance because increasing ROA reflects the success of a bank's financial performance (Purwoko & Sudityatno, 2013). A bank’s ability to turn its core capital into a profit is quantified by its Return on Equity (ROE) (Matiin, 2018). Return On Equity (ROE) only measures the return obtained from the company owner’s investment in the business and it can also be used as a tool to predict whether the company can still survive or not in the future (Wijaya, 2019). Loan Loss Provision has a very important role in strengthening the bank's financial position (Asri, 2017). Loan Loss Provisions (LLP) or Allowance for Impairment Losses is a ratio that explains credit risk. Banks must provide Allowances for Impairment Losses to anticipate credit failure, which will ultimately help protect the bank's financial position to improve bank performance (Pelealu & Worang, 2017).

Most economic activities, including social activities, cannot be separated from political overtones. In fact, almost all aspects of life today are associated with politics. Because banks have diverse interests, the board of commissioners can come from various backgrounds, one of which is a political background. In Indonesia, the appointment of a board of commissioners with a political background in the banking
industry has occurred a lot in the past few years. Political connections are related to the political engagement of shareholders, top officials, and government officials (Haryati et al., 2018). Banking as one of the corporate sectors is indicated to have political connections through obtaining funding sources (Amalia, 2019). The advantage of banks that have political connections is that they have faster information and greater opportunities to obtain projects and access government policies (Boubakri et al., 2008). Companies that have political connections have an advantage over those without political connections, so this can be used to improve business results. Businesses with political connections tend to be more common in countries with poor investor protection laws and high levels of corruption than in countries with good investor protection and low levels of corruption (Maulana & Wati, 2019).

Banks that have political connections have very little chance of being rejected when proposing resource procurement, including when they need assistance from the government (Amalia, 2019). In this study, political connections in banking are defined when a bank has a board of commissioners who are ministers, former officials, members of parliament (Dewan Perwakilan Rakyat/DPR) and former members of the military (retired police and military).

The World Health Organization (2019) defines gender as "the socially constructed difference in status and role between women and men that is shaped by cultural values pervasive at a given time." In a social context, the term "gender" is used to describe differences between men and women, as well as feminine and masculine attributes. Gender diversity is also used to define the proportion of men and women on a company's board of directors (Yusiana, 2019).

The presence of women commissioners can have a different effect or can affect the decision-making process. Companies with top management consisting of men and women with diverse skills, knowledge, and experience have greater access to business creativity and innovation (Kusuma et al., 2018).

2.1 Political Connection and Banking Performance

The company views that political connections are one of the most beneficial partnerships. This may be observed in the company's goal of establishing political connections, which is to boost the firm value and performance. Companies that have political connections receive special attention because of indications of preferential treatment from the government, have easy access to obtaining capital loans, and receive protection from the government (Faccio et al., 2006). The ability to secure financial backing through political connections has been shown to improve business (Su & Fung, 2013). Maaloul et al., (2016) suggest that political ties contribute to business success. Based on the explanation above, the first hypothesis is formulated as follows.

H1: Political connections have a positive effect on banking performance.

2.2 Women Commissioner and Banking Performance

Having a diverse board that includes women is a hallmark of effective corporate governance (Wijaya et al., 2015). Gender diversity within the banking commissioners' board will bring more diverse perspectives resulting in better decisions. Gender diversity can also increase business creativity and innovation and have wider access (Kusuma et al., 2018). Gender-diverse teams are more likely to offer fresh perspectives that leadership can use to improve their decision-making (García-Meca et al., 2015). On the other hand, research in the social psychology area reveals that gender diversity in management may slow down and limit decision-making. Martins & Milliken (1996), argue that variety is a "double-edged sword," with positive effects on group processes and higher-quality solutions for some tasks but also significant negative effects on group processes overall.

Chakraborty et al., (2022) and Strom et al., (2014) found that women are better able to reduce operational costs. Women board members are typically more
risk-averse and cautious than their male counterparts. Having women on a company’s board of commissioners has been shown to improve profitability (Kusuma et al., 2018). The presence of women on the board of commissioners in banking can improve banking performance.

This study investigates how the role of women commissioners can influence political connections to bank performance. From an agency perspective, women as compared to men are more diligent and likely to better monitor management. Thus, the monitoring activities by women can yield a reduction in agency costs caused by political connections and it will impact firm performance.

Women tend to be more organized, more risk averse (Palvia et al., 2014) and behave more ethically than men (Ku Ismail & Abdul Manaf, 2016; Proença et al., 2020) the presence of women as commissioners will affect banking performance and risk. Gender diversity will increase the independence of commissioners in thinking, and will ultimately have an impact on the supervisory and advisory functions (Zhou et al., 2019). The presence of women as commissioners is thought to weaken the relationship between political connections and banking performance. Thus, the second hypothesis is formulated as follows.

H2. Women commissioners tend to mitigate the influence of political connections on banking performance.

3. Research Method

In this study, data were collected from 42 banks that were listed on the Indonesian Stock Exchange between 2016 and 2021 with 252 observations. All financial data were manually collected manually selected from the financial statements of Indonesian banking through www.idx.co.id. The commissioner profiles are collected from the annual reports of the sample firms.

Banking performance is the subject of this investigation and serves as the dependent variable which is measured using return on asset (ROA) according to Proença et al (2020) as used in several previous studies (Fernos, 2017; Aluy et al., 2017). A high ROA indicates good financial banking performance. This indicates that the shareholder’s goal to increase the profitability has been achieved. The ratio of net income after taxes in period t to total assets in period t is the basis for our calculation of ROA.

This study uses political connections as the independent variable. Political connection is someone who has worked as a minister, member of parliaments (House of Representatives = Dewan Perwakilan Rakyat/DPR) and or former member of the military (retired police and TNI) (Proença et al., 2020; García-Solarte et al 2018). Political connections have determined as a dummy variable. The value 1 (one) is assigned to the first proxy that has a dummy variable if the firm has political connections, and the value 0 (zero) is otherwise. This study also uses a moderator variable, namely women connections estimated by the number of women commissioners can be estimated by using the number of women commissioners compared to total commissioners (Proença et al., 2020; García-Solarte et al 2018).

The control variables used are as follows: Capital Adequacy Ratio (CAR) (Proença et al., 2020; Marwansyah & Setyaningsih, 2018), leverage (García-Meca et al., 2015), operational efficiency is a ratio that measures how effectively and successfully a bank is able to carry out its operations (Proença et al., 2020; García-Meca et al., 2015), operational activities (Proença et al., 2020; Ibrahim & Raharja, 2018), and non-operational efficiency, with larger institutions being more effective (Proença et al., 2020; Hung et al., 2017). Table 1 presents a summary of the definition and measurement of the variable.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition and Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variable</strong></td>
<td></td>
</tr>
<tr>
<td>Banking performance:</td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>Net income after tax in the period compared to the total asset in period t</td>
</tr>
<tr>
<td><strong>Independent variable</strong></td>
<td></td>
</tr>
<tr>
<td>Political connection (POCO)</td>
<td>Dummy variables, 1 if the company has a political connection, otherwise 0</td>
</tr>
<tr>
<td><strong>Moderating variable</strong></td>
<td></td>
</tr>
<tr>
<td>Women commissioners (POWOCOM)</td>
<td>Number of women commissioners compared to total commissioners</td>
</tr>
<tr>
<td><strong>Control variables</strong></td>
<td></td>
</tr>
<tr>
<td>Capital Adequacy Ratio (CAR)</td>
<td>Total equity compared to total assets</td>
</tr>
<tr>
<td>Leverage (LEV)</td>
<td>Debt compared to total equity</td>
</tr>
<tr>
<td>Operating efficiency (CIR)</td>
<td>Total cost compared to total income</td>
</tr>
<tr>
<td>Non-operational efficiency (NINC)</td>
<td>Non-interest income compared to total income</td>
</tr>
</tbody>
</table>

### 3.1 Research Design

The moderated regression analysis (MRA) model is used to examine the effect of political connection on banking performance with women commissioners as moderating variable presented in equation (1).

\[
\text{Performance}_{it} = \delta_0 + \delta_1 \text{POCO}_{it} + \delta_2 \text{POWOCOM}_{it} + \delta_3 \text{POCO}_{it} \times \text{POWOCOM}_{it} + \delta_4 \text{CAR}_{it} + \delta_5 \text{LEV}_{it} + \delta_6 \text{CIR}_{it} + \delta_7 \text{NINC}_{it} + \varepsilon_{it} \tag{1}
\]

Where, ROA is used as banking performance; \( \text{POCO}_{it} \) = political connections of bank i in period t; \( \text{POWOCOM}_{it} \) = women commissioners; \( \text{CAR}_{it} \) = capital adequacy ratio bank i in period t; \( \text{LEV}_{it} \) = debt ratio of bank i in period t; \( \text{CIR}_{it} \) = operating efficiency bank i in period t; \( \text{NINC}_{it} \) = non-operational efficiency bank i in period t.

### 4. Results and Discussion

The number of research data is 252 observations from 42 banks in Indonesia during 2016-2020. Table 2, Panel A displays the descriptive statistics of dummy variables used in this study. From 252 observations for five years, 69.32% of banking commissioners have political connections. This shows that Indonesian banks tend to have political connections. Furthermore, there are 52.78% of women commissioners in Indonesian banking. These findings indicate that Indonesian banking has considered the role of women as commissioners.

Table 2, Panel B presents the summary of descriptive statistics of the dependent and control variables. ROA as measured of banking performance has an average of 0.0022. In the period of study, there are banks that have negative profitability (ROA), -0.1173 (minimum), and negative CIR (mean -0.4019). Negative CIR shows lower operational efficiency for more efficient banks. This finding also
shows good non-operational efficiency (NINC), mean of 0.1011. These results indicate that average banks have a larger NINC the more efficient the bank is. Bank capital adequacy (CAR) shows the average banks have CAR 0.1667. This finding implies that the higher CAR the lower risk the bank poses to savers. It can influence bank performance.

Table 2. Descriptive statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Obs</th>
<th>Values 1</th>
<th>Values 0</th>
</tr>
</thead>
<tbody>
<tr>
<td>POCO</td>
<td>252</td>
<td>152</td>
<td>100</td>
</tr>
<tr>
<td>POWOCOM</td>
<td>252</td>
<td>133</td>
<td>119</td>
</tr>
</tbody>
</table>

Panel B: Continue Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Obs</th>
<th>Mean</th>
<th>Median</th>
<th>Max</th>
<th>Min</th>
<th>Stdev</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>252</td>
<td>0.0022</td>
<td>0.0054</td>
<td>0.0313</td>
<td>-0.1173</td>
<td>0.0220</td>
</tr>
<tr>
<td>LEV</td>
<td>252</td>
<td>5.7978</td>
<td>5.3379</td>
<td>5.3379</td>
<td>0.1929</td>
<td>3.1976</td>
</tr>
<tr>
<td>CIR</td>
<td>252</td>
<td>-0.4019</td>
<td>-0.3379</td>
<td>-0.1494</td>
<td>-3.1622</td>
<td>0.2620</td>
</tr>
<tr>
<td>NINC</td>
<td>252</td>
<td>0.1011</td>
<td>0.0821</td>
<td>0.4176</td>
<td>0.0068</td>
<td>0.0689</td>
</tr>
<tr>
<td>CAR</td>
<td>252</td>
<td>0.1667</td>
<td>0.1531</td>
<td>0.5653</td>
<td>0.0318</td>
<td>0.0733</td>
</tr>
</tbody>
</table>

Table 3 presents univariate correlation coefficients, showing no multicollinearity issue in the research model. Political connections (POCO) and bank performance metrics (ROA) have a positive association with regard to the examination of the variables of interest. It suggests that an increase in profitability (ROA) is correlated with a rise in political connections. This association has the same directions as predicted in hypotheses. Regarding control variables, connection politics (POCO) and CIR is positively correlated with ROA as banking performance. LEV and NINC do not correlate with ROA and insignificant effects. Furthermore, CAR is negatively correlated with ROA.

Table 3. Correlation matrix

<table>
<thead>
<tr>
<th>Variables</th>
<th>ROA</th>
<th>POCO</th>
<th>LEV</th>
<th>CIR</th>
<th>NINC</th>
<th>CAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>POCO</td>
<td>0.3164</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEV</td>
<td>-0.0090</td>
<td>0.1168</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIR</td>
<td>0.3535</td>
<td>0.0727</td>
<td>0.1378</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NINC</td>
<td>0.1840</td>
<td>0.2159</td>
<td>-0.0615</td>
<td>-0.0758</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>CAR</td>
<td>-0.2240</td>
<td>-0.1901</td>
<td>-0.5326</td>
<td>-0.3437</td>
<td>0.0092</td>
<td>1</td>
</tr>
</tbody>
</table>

4.1 Hypotheses Testing Results

Regression analysis was performed to examine the influence of POCO on ROA by including moderating variables POWOCOM and control variables, namely leverage, CIR, NINC, and CAR. The research regression model is presented in equation (1). Moderating Regression Analysis (MRA) is carried out at the firm level and using a year-fixed effect, as shown in Table 4.

Table 4. Multivariate regression analysis results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coef</th>
<th>t-stat</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>POCO</td>
<td>0.0057</td>
<td>1.6583</td>
<td>0.0985  *</td>
</tr>
<tr>
<td>POWOCOM</td>
<td>-0.0259</td>
<td>-2.0728</td>
<td>0.0392 **</td>
</tr>
<tr>
<td>POCO*POWOCOM</td>
<td>0.0406</td>
<td>2.4573</td>
<td>0.0147 **</td>
</tr>
<tr>
<td>LEV</td>
<td>-0.0102</td>
<td>-2.2796</td>
<td>0.0235 **</td>
</tr>
<tr>
<td>CIR</td>
<td>0.0265</td>
<td>5.3843</td>
<td>0.0000 **</td>
</tr>
<tr>
<td>NINC</td>
<td>0.0513</td>
<td>2.8267</td>
<td>0.0051 ***</td>
</tr>
</tbody>
</table>
The results with 252 observations have an adjusted R-squared coefficient of determination of 25.03%, and 74.96% of the banking performance is impacted by variables outside the research model. For example, the coefficient of POCO for ROA is favorable and significant at the 10% level (coefficient = 0.0056, and t=1.6583, respectively). These results suggest that commissioners that have political connections are more likely to increase in banking performance, supporting H1. These findings imply that, through the endorsement of profitable projects and the easing of risk analysis for loans undergoing appraisal, political connections have contributed to boosting banks' profits and minimizing their risk.

ROA has a 5% level of significance, and POWOCOM's coefficient is negative and substantial (coefficient = -0.02586 and t = -2.0728, respectively). Women commissioners as part of a corporation are more likely to decrease banking performance. These results are consistent with those of Ahern & Dittmar (2012), who found a correlation between women’s quotas and financial performance. Women are more inclined to have inexperienced individuals participate on boards, increasing leverage and acquisitions (Ahern & Dittmar, 2012). Women commissioners appear to be more conservative and ethical than their men counterparts, as discussed earlier.

The interaction of POCO and POWOCOM has a positive coefficient and significant at a 5 percent level (coefficient = 0.0405 and t = 2.4574, respectively). These results provide evidence that commissioners with political connections strengthened by women commissioners are more likely to increase banking performance. These results indicate that political connections and interaction of political connections and women commissioners lead to an increase in banking performance.

4.2 Robustness Check

The authors re-test the models with different proxies for political connection and banking performance and assess the reliability of these findings. The proxy for connection politics was replaced by the number of political commissioner members compared to the total commissioners. For banking performance, ROA was replaced to return on equity (ROE). Table 5 shows the robustness check result with replacing the measurement of political connection.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coef</th>
<th>t-stat</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>POCO</td>
<td>0.3510</td>
<td>3.4160</td>
<td>0.0010  ***</td>
</tr>
<tr>
<td>WOCO</td>
<td>-0.0080</td>
<td>-1.7380</td>
<td>0.0000  ***</td>
</tr>
<tr>
<td>POCO*WOCO</td>
<td>0.0030</td>
<td>5.9680</td>
<td>0.0000  ***</td>
</tr>
<tr>
<td>LEV</td>
<td>-0.0001</td>
<td>-5.5140</td>
<td>0.0000  ***</td>
</tr>
<tr>
<td>CAR</td>
<td>0.0170</td>
<td>1.4560</td>
<td>0.1470</td>
</tr>
<tr>
<td>CIR</td>
<td>-0.0451</td>
<td>-12.3180</td>
<td>0.0000  ***</td>
</tr>
<tr>
<td>NINC</td>
<td>0.5000</td>
<td>2.1456</td>
<td>0.0329  **</td>
</tr>
<tr>
<td>Constant</td>
<td>0.3510</td>
<td>3.4160</td>
<td>0.0010  ***</td>
</tr>
</tbody>
</table>

Year fixed effects: Yes
Observations: 252
Adj. R-squared: 0.3517

Table 5. Robustness check – political connection
These results found that having political connections has a positive effect on banking performance. This finding is consistent with the main analysis. Furthermore, these findings also demonstrate that women commissioners have a negative impact on ROA. This indicates that women commissioners as part of the corporation are more likely to decrease banking performance. The interaction of POCO and WOCO (women commissioners) has a positive coefficient and is significant at a 1 percent level. These results show that commissioners with political connection are less strengthened by women commissioners and are more likely to increase banking performance. These results indicate that political connections and interaction of political connection and women commissioners lead to an increase in banking performance.

Table 6 presents that robustness check with replacing ROA with ROE as a proxy for banking performance. This result shows that political connections are more likely to increase banking performance, ROE. However, women commissioners have no impact on ROE. These findings indicate that women commissioners are not relevant to banking performance when the banking performance replace from ROA to ROE. The interaction of POCO and POWOCO has a coefficient negative and is not significant (coefficient = -0.0246 and p-value = 0.9616). These results provide evidence that commissioners with political connections are less strengthened by women commissioners and are not more likely to increase banking performance.

Furthermore, the interaction of POCO and POWOCO has a negative coefficient and is not significant (coefficient = -0.0246 and p-value = 0.7006). These results provide evidence that commissioners with political connections are less strengthened by women commissioners and have no impact on banking performance. Overall, these findings are not consistent with the main analysis.

### 4.3 Additional analysis

This study utilizes loan loss provisions to total loans (LLP) to estimate bank risk as bank performance. LLP is a measure of the amount of past-due credit (also known as non-performing loans, or NPLs) in a bank's loan portfolio (Asri, 2017). Table 7 presents the additional analysis of bank risk (LLP).

The importance of loan loss provision in strengthening the bank's financial situation is crucial (Asri, 2017). Banks must provide Reserves for Impairment Losses to deal with credit failure, which will ultimately help protect the bank's financial position in terms of profitability (Pelealu & Worang, 2017). Regarding political connections, they have a detrimental effect on bank risk, LLP. At the 1% level, this effect is statistically significant. These results imply that having political connections...
lowers banks' risk by reducing non-performing loans (NPL). Meanwhile, there is no effect between women commissioners on bank risk and the interaction of political connection and women commissioners on bank risk.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coef</th>
<th>t-stat</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>POCO</td>
<td>-0.0191</td>
<td>-3.1535</td>
<td>0.0018 ***</td>
</tr>
<tr>
<td>POWOCOM</td>
<td>-0.0157</td>
<td>-0.7107</td>
<td>0.4779</td>
</tr>
<tr>
<td>POCO*POWOCOM</td>
<td>0.0387</td>
<td>1.3228</td>
<td>0.1872</td>
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<tr>
<td>LEV</td>
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<td>-0.7107</td>
<td>0.4779</td>
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<tr>
<td>CAR</td>
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<td>-4.7240</td>
<td>0.0000 ***</td>
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<tr>
<td>CIR</td>
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<td>0.5223</td>
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<tr>
<td>NINC</td>
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<td>-2.3871</td>
<td>0.0177 **</td>
</tr>
<tr>
<td>Constant</td>
<td>0.0263</td>
<td>2.5130</td>
<td>0.0126 **</td>
</tr>
</tbody>
</table>

Year fixed effects Yes
Observations 252
Adj. R-squared 0.146

Notes:
***p<0.01, **p<0.05, and *p<0.1
See Table 1 for the definition and measurement of variables

Table 7. Additional analysis - LLP

4.4 Discussion

In this study, political connections and the interactions with women commissioners are examined in relation to bank performance and bank risk using MRA analysis. These findings show that political connections have a positive effect on bank performance, ROA. These indicate that the presence of commissioners who have political connections tends to provide convenience in obtaining faster information and greater opportunities to obtain projects and access to government policies, and it will affect banking performance. This finding is in line with studies by Maaloul et al., (2016) and Maaloul et al., (2016), which demonstrate that businesses with political connections perform better. Furthermore, these findings are consistent when the measurement of political connection replaces dummy variables to several political commissioner's members compared to total commissioners.

However, women commissioners have a negative impact on bank performance. This shows that women commissioners in banking tend to have no political connections and tend to result in lower banking performance. These results are consistent with Ahern & Dittmar (2012) that gender quotas are linked to lower financial performance. Women are more likely to have untrained individuals on the boards, which increases leverage and acquisitions (Ahern & Dittmar, 2012). The interaction of political connection and women commissioners revealed a positive and significant effect on bank performance, ROA. This finding demonstrates that the presence of women commissioners enhances the beneficial effects of political connections on bank performance. It indicates that the presence of women elements, with political connections, increases of these commissioners to be privileged to improve banking performance.

Based on additional analysis, it can be concluded that political connections have a negative impact on bank risk, LLP. The 1% level of significance for this impact is statistically significant. Moreover, these findings suggest that political connections reduce banks risk, by decreasing overdue credit (NPL). On the other hand, there is no effect of women commissioners on bank risk and the interaction of political connections and women commissioners on bank risk. This finding is consistent with the main analysis. This implies that the presence of women commissioners does not mitigate bank risk, only political connections that able to reduce bank risk, especially LLP.
5. Conclusion

This study investigates the impact of political connections, the presence of women on commissions, and the interaction between political connections and women commissioners on bank performance in Indonesia. Political connection is indicated by bank has a board of commissioners who are ministers, former officials, members of parliament (the House of Representatives) and formers of the military (retired police and military). There are two indices that represent bank performance, namely return on asset (ROA) and return on equity (ROE). This study also investigates the effect of political connections, the presence of women on commissioners, and the relationship between political connection and women commissioners on bank risk. This study uses loan loss provisions to total loans (LLP) to assess an increase in overdue credit (non-performing loans (NPL)) in the banks’ loan portfolio as bank risk in additional analysis.

Overall, this study finds that political connections have a positive impact on banking performance. This result implies that political connections in banking are able to improve financial performance. This can happen because of the ease of obtaining faster information and greater opportunities to obtain projects and access government policies. Furthermore, women commissioners have a negative effect on banking performance. These results suggest that women commissioners in banking do not have political relations and tend to result in lower banking performance. Women commissioners may wield authority, such as political connections, to improve banking performance. In terms of the moderating influence of female commissioners, it appears that the latter amplifies the favorable impact on ROA. However, this study found that political connections have a detrimental impact on bank risk. This finding suggests that political connections minimize bank risk by lowering non-performing loans (NPLs).

This study has some limitations. First, this study solely looks at the association between political connections and banking performance in a linear relationship with gender diversity imposed. Second, this study focuses on banking performance to estimate ROA, ROE, and LLP. Future research could analyze banking performance in relationship linear and nonlinear to investigate the relationship between political connection, gender diversity, and bank performance. Another opportunity would be to consider the research variables, especially in non-financial bank performance.

By giving more insight into the factors of banking success, this study adds to the burgeoning literature on political connections and gender diversity. These findings highlight the need of considering the impact of political connections and gender diversity on banking performance by re-estimating the political connections and women commissioners’ variables. This study contributes to the growing literature on political connections and gender diversity, especially providing insight into their role as determinants of banking performance. In addition, these results may be useful in assessing whether regulator needs to determine commissioners that have political connections and the presence of women as commissioners in banking sector.

References


Political Connections, Women Commissioners, and Banking Performance: Evidence from Indonesia