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POLITICAL CONNECTION, BLOCKHOLDER OWNERSHIP AND PERFORMANCE*

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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

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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 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 hypotheses 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 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 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

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
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

$$Tobin' sQ_{it} = \alpha_1 + \beta_1 Fam_{it} + \beta_2 Inst_{it} + \beta_3 State_{it} + \beta_4 Tbk_{it} + \beta_5 Size_{it} + \beta_6 Growth_{it} + \beta_7 Age_{it} + \varepsilon_1 \dots (1)$$

$$ROA_{it} = \alpha_2 + \beta_8 Fam_{it} + \beta_9 Inst_{it} + \beta_{10} State_{it} + \beta_{11} Tbk_{it} + \beta_{12} Size_{it} + \beta_{13} Growth_{it} + \beta_{14} Age_{it} + \varepsilon_2 \dots (2)$$

Hypotheses 2 testing used Model 2

$$Tobin' sQ_{it} = \alpha_1 + \beta_1 Pol * Fam_{it} + \beta_2 Pol * Inst_{it} + \beta_3 Pol * State_{it} + \beta_4 Pol * Tbk_{it} + \beta_5 Size_{it} + \beta_6 Growth_{it} + \beta_7 Age_{it} + \varepsilon_3 \dots (3)$$

$$ROA_{it} = \alpha_2 + \beta_8 Pol * Fam_{it} + \beta_9 Pol * Inst_{it} + \beta_{10} Pol * State_{it} + \beta_{11} Pol * Tbk_{it} + \beta_{12} Size_{it} + \beta_{13} Growth_{it} + \beta_{14} Age_{it} + \varepsilon_4 \dots (4)$$

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 Percentage	478	195	89	98	860
		55,58%	22,67%	10,35%	11,40%	100%
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 Percentage	453	109	80	82	724
		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 Percentage	413	73	80	56	622
		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 Percentage	363	50	80	46	539
		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%

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. 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			
	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

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 Tobin's 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 Tobin'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.

Table 4.

Testing Results of Model 1.1

$$Tobin's Q = \alpha_1 + \beta_1 Fam_{it} + \beta_2 Inst_{it} + \beta_3 State_{it} + \beta_4 Tbk_{it} + \beta_5 Size_{it} + \beta_6 Growth_{it} + \beta_7 Age_{it} + \varepsilon_{1...}(1)$$

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

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 $\Delta sales / sales$, and age is calculated from the first time the company go public.

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				
	10%	20%	30%	40%	50%
Constant	0,013	-0,022	-0,008	-0,011	-0,03*
Fam $\beta+$	0,008	0,018***	0,008*	0,015***	0,024***
Inst $\beta+$	-0,027***	-0,013**	-0,02***	-0,016***	-0,02*
State $\beta+$	0,077***	0,099***	0,09***	0,1***	0,09***
Tbk $\beta+$	0,006	0,013**	0,02***	0,036***	0,025***
Size $\beta+$	-0,002	0,0007	0,0003	-0,0002	0,002
Growth $\beta+$	-0,0003	-0,0004	-0,0004	-0,0004	-0,0005
Age $\beta+$	0,004***	0,004***	0,004***	0,004***	0,004***
F _{stat}	37,22***	42,24***	47,14***	48,27***	50,03
Adjusted	29,99%	32,78%	35,3%	35,89%	36,7%

Predict	Panel B. Robust Test ROA				
	Cut Off (Cut Off)				
	10%	20%	30%	40%	50%
Constant	0,067***	0,047***	0,047***	0,048***	0,044***
Fam $\beta+$	-0,001	0,013**	0,011**	0,011**	0,027***
Inst $\beta+$	-0,033***	-0,017***	-0,015***	-0,015**	-0,02
State $\beta+$	0,056***	0,086***	0,08***	0,082***	0,086***
Tbk $\beta+$	0,003	0,013**	0,022***	0,033***	0,026***
Size $\beta+$	-	-	-	-	-
Growth $\beta+$	-	-	-	-	-
Age $\beta+$	-	-	-	-	-
F _{stat}	29,83***	31,88***	39,11***	36,8***	34***
Adjusted	16,28%	17,24%	20,45%	19,48%	18,21 %

Source: Data processed, 2016

*** Significance 1%, ** Significance 5%, * Significance 10%.

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.

Table 6.
Testing Results of Model 2.1

$$\text{Tobin's } sQ_{it} = \alpha_1 + \beta_1 \text{Pol* Fam}_{it} + \beta_2 \text{Pol* Inst}_{it} + \beta_3 \text{Pol* State}_{it} + \beta_4 \text{Pol* Tbk}_{it} + \beta_5 \text{Size}_{it} + \beta_6 \text{Growth}_{it} + \beta_7 \text{Age}_{it} + \varepsilon_{3...}(3)$$

Panel A. Research Model (Tobins Q)						
<i>Cut Off</i>						
Prediction		10%	20%	30%	40%	50%
Constant		0,575**	0,575**	0,709***	0,798***	0,628**
Pol*Fam	β+	0,098*	0,16***	0,167***	0,263***	0,36***
Pol*Inst	β+	-0,129*	-0,058	-0,134	-0,232**	-0,236
Pol*State	β+	0,484***	0,589***	0,607***	0,627***	0,624***
Pol*Tbk	β+	-0,049	-0,157	-0,022	-0,03	-0,016
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***
Adjusted R ²		9,95%	10,24%	11,37%	12,37%	13,96%

Panel B. Robust Test (Tobins Q)						
<i>Cut Off</i>						
		10%	20%	30%	40%	50%
Constant		1,365***	1,333***	1,341***	1,352***	1,342***
Pol*Fam	β+	0,2***	0,274***	0,285***	0,347***	0,429***
Pol*Inst	β+	-0,098	-0,038	-0,084	-0,153*	-0,213
Pol*State	β+	0,522***	0,631***	0,654***	0,643***	0,652***
Pol*Tbk	β+	-0,08	-0,152	-0,005	0,017	0,026
Size	β+	-	-	-	-	-
Growth	β+	-	-	-	-	-
Age	β+	-	-	-	-	-
Fstat		9,51***	15,11***	16,93***	18,47***	19,6***
Adjusted R ²		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). 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 $\Delta sales / sales$, and age is calculated from the first time the company go public.

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 (Return on Assets)				
		Cut Off				
Prediction		10%	20%	30%	40%	50%
Constant		-0,009	-0,011	-0,013	-0,02	-0,02
Pol*Fam	$\beta+$	0,01**	0,016***	0,015***	0,023***	0,028***
Pol*Inst	$\beta+$	-0,021***	-0,022***	-0,023***	-0,02***	-0,019*
Pol*State	$\beta+$	0,075***	0,09***	0,088***	0,089***	0,09***
Pol*Tbk	$\beta+$	-0,001	-0,0007	0,007	0,018**	0,013*
Size	$\beta+$	0,0006	0,0003	0,001	0,002	0,001
Growth	$\beta+$	-0,0007	-0,0006	-0,0007	-0,0007	-0,0007
Age	$\beta+$	0,004***	0,004***	0,004***	0,004***	0,0037***
Fstat		31,34***	44,29***	46,65***	51,2***	51,57***
Adjusted R ²		26,4%	33,86%	35,06%	37,29%	37,42%

		Panel B. Robust Test (Return on Assets)				
		Cut Off				
		10%	20%	30%	40%	50%
Constant		0,051***	0,047***	0,047***	0,046***	0,047***
Pol*Fam	$\beta+$	0,011**	0,018***	0,021***	0,03***	0,036***
Pol*Inst	$\beta+$	-0,015**	-0,013**	-0,01*	-0,01	-0,017*
Pol*State	$\beta+$	0,065***	0,086***	0,084***	0,085***	0,084***
Pol*Tbk	$\beta+$	0,003	-0,003	0,01	0,024***	0,016**
Size	$\beta+$	-	-	-	-	-
Growth	$\beta+$	-	-	-	-	-
Age	$\beta+$	-	-	-	-	-
Fstat		15,35***	31,47***	33,9***	37,61***	39,81***
Adjusted R ²		8,83%	17,05%	18,16%	19,83%	20,75%

Source: Data processed, 2016

*** Significance 1%, ** Significance 5%, * Significance 10%.

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 Tobin'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 Tobin's 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 Winters (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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