# THE INFLUENCE OF MANAGERIAL STRATEGY AND POLITICAL CONNECTIONS AND COMPANY SIZE ON COMPANY VALUE

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## ABSTRACT

***Purpose*** *- This study aims to test the Influence of Managerial Strategy and Political Connections as well as company size on Company Value using secondary data on banking companies listed on the Indonesia Stock Exchange from 2013 to 2021.*
***Design/Methodology/approach*** *- The sample selection method used the purposive sampling method with several criteria resulting in 383 participants. In addition, this study used simple and multiple linear regression analysis techniques.*
***Finding*** *- The results showed empirical evidence that the managerial strategy of a banking company cannot increase the value of the company. Political connections also have a negative value on company values. Political connections tend to get convenience facilities from the government to reduce the company's value. The size of the company can increase its value of the company.*
***Practical implications*** *— This research can also provide input in making policies and regulations in Indonesia regarding managerial strategies, political connection practices, and company sizes related to company values.*
***Originality/value*** *—This research has implications for academic enrichment. The agency is mainly concerned with the performance of companies with political connections. It also provides enrichment of stakeholders' theories about managerial strategies toward company value by increasing company investment.*
***Keywords*** *— Managerial strategy, Political Connections, Company Size, Company Value*
***Paper Type:*** *Quantitative Research*

## BACKGROUND

In general, banks have a somewhat important role in economic activity. This strategic role enables the banking sector to collect and distribute public funds effectively and efficiently to improve people's standard of living. The strategic role of banks requires the support of sound banking performance. The bank's managerial strategy is one of the keys to the bank's success in continuing to participate in the global competition that continues to heat up. This situation makes the banking industry continue to move dynamically to adjust to the increasingly fierce competition. Failure to implement managerial strategies can result in banking companies losing the opportunity to develop their business more widely (Rao, 2005).

Political connections are a valuable resource for many companies because political relations can provide many conveniences and facilities for companies in making transactions to affect the company's value (Saeed et al., 2019). Political connections can also affect banks' health, which impacts company value (Supatmi et al., 2019). Political connections can make it easier for companies to acquire projects from the government (Berkman & Galpoththage, 2016), in addition to smaller tax bills (Zhang, 2017). Companies obtain lighter penalty facilities (Idris et al., 2020). Nonetheless, political connections can also have negative implications for the company. Political connections have decreased company productivity (Saraswati et al., 2020). Companies have political connections less fond of outside funding (Nasih et al., 2020) and over-investing (Ling et al., 2016), so the company's long-term value tends to deteriorate (Oberholzer-gee, 2003). According to the agency's theory, politically connected boards can flow resources from companies for their benefit (Habib et al., 2017), and politically connected companies have different corporate values than those without political connections (Chen et al., 2014; J. H. Kim & Lee, 2021) (Motilewa et al., 2017) (Zhao et al., 2019).

Business size is an essential feature for corporate entities. According to the theory of the size effect, companies with large sizes can help create economies of scale to improve operational efficiency and increase market power to increase bargaining ability with suppliers (Kiliç et al., 2015). However, the view is different; agency theory states that the size of the company can cause an increase in agency conflicts and destroy the company's value (Saha & Akter, 2013).

Disclosure of social and environmental responsibility can affect corporate values while also being influenced by governance mechanisms ((Diono et al., 2017). Jensen & Meckling (1976) says that agency problems arise because of differences in interests between company owners and management. Such circumstances encourage management to create mechanisms to reduce conflicts and align the interests of managers with shareholders. The implementation of governance mechanisms can regulate and control the company to create added value for all stakeholders and provide progress on company values (Berkman & Galpoththage, 2016).

Based on some of the descriptions mentioned above, the researcher formulated a research question, namely, whether there is an influence of managerial strategy, political connections, and company size on the value of the company.

## THEORETICAL STUDIES

The use of theory in research aims to clarify the direction and scope of the study. This research uses the theory of stakeholders, agencies, and legitimacy.

### Stakeholder Theory

Stakeholder theory explains that the company is responsible to shareholders and various groups in society because behavior and decisions affect the welfare of society (Tilt, 2016). In reality, the whole core of stakeholder theory lies in what will happen when corporations and stakeholders carry out their relationships (Valdez et al., 2018). Reimsbach et al. (2018) explained that companies with political connections get convenience from the government.

### Agency Theory

Agency theory explains the relationship between principal and agent based on the company's separation of ownership and management (Jensen & Meckling, 1976). There is one thing that cannot be separated from achieving the goals of the bank organization and its value, namely the management or management of the bank. Regarding agency theory, CSR is a company strategy for conflict resolution to agency problems (Cooper et al., 2018). CSR activities involving top management will reduce the opportunistic behavior of managers (Yogiswari & Badera, 2007).

### Company Values

Bank value measures the success rate in usage operations in the banking industry (Mais et al., 2018). The measure of company value with Tobin's Q method is a market-based measure of company value that researchers use as a proxy for company value (Supatmi et al., 2019). Tobin's Q is a market value method that can provide a more accurate picture of future operational status (Chen et al., 2014). Tobins' Q formulation divides the market value of the company's assets by the book value of the company's assets at the end of the year. An asset's market value is the debt's book value plus the equity market value of the shares outstanding at the end of the year (Ioannou & Serafeim, 2012). Tobins' Q's value result of more than number one means that reflecting investors' assessment of the company's growth in the coming period is reasonable. Conversely, the company's future growth is not suitable for investors if the value of Tobins' Q is less than one.

### Managerial strategy

Ismail (2009) uses four stages of managerial strategy preparation, namely as follows.

1. Identifying the intersection of the point: identifying company activities,
2. Choosing which social issues to address: categorizing the impact of company activities,
3. Creating a corporate social agenda: creating an explicit and affirmative corporate agenda to achieve social and economic benefits simultaneously,
4. Creating a social dimension to the value proposition: The most strategic managerial strategy occurs when the company becomes an integral part of the overall strategy.

**Political connections**

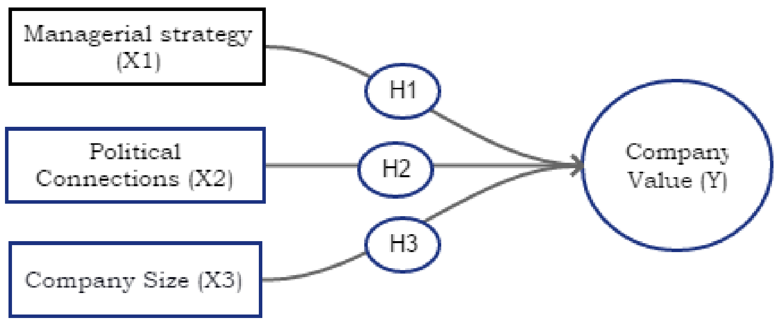
Suppose one of the shareholders or management (CEO, president, vice president) serves as a member of parliament, minister, or has a relationship with a political party. In that case, the company has a political connection (Habib et al., 2017). Faccio et al. research (2002) state that political connections positively influence company value because these privileges can help companies increase their company value. Ang et al. (2013) and Pérez & Lopez-Gutierrez (2017) state that ex-politicians presence in the council can also realize political connections. Even though he is an ex, the experience and relationships established by the ex-politician will still help the company. Suppose one company's management has experience working in government, parliament, institutions, or the military. In that case, the company has political connections (Wu & Cheng, 2011). The positive benefits of political connections include companies with better value, obtaining low-interest loans, and having better access to credit (Ang et al., 2013).

**Company size**

The size of the company (size) describes the size of a company seen in the total assets. Size is the size of a company that is a reflection of the magnitude of the company's wealth (Masud et al., 2009). The larger the total assets of a company, the larger the company's size. Thus, the size of the company is the size or magnitude of the assets owned by the company.

## HYPOTHESIS

**Research Concept Framework**




**Research hypothesis**

**The influence of managerial strategy on the value of the company**

Brunelle (2005) and Amran et al.(2014) found that managerial strategies explain communication strategies through disclosure in annual reports. Reputation makes it easier for companies to gain trust in contracting from institutions such as the government and other parties. Such reputation can ultimately increase the value of the company, which includes the financial value of the company (Walsh et al., 2003).

**H1:** Managerial strategy positively affects the value of the company

**The influence of political connections on the value of the company**

Faccio et al. (2002) examined the influence of political connections on company value using a sample of companies from forty-seven countries. The study found that political connections can change the allocation of investment funds by providing benefits to less competitive companies. Haris et al. ( 2019) state that government banks serve as a mechanism to provide political support. Ang et al. (2013) revealed that political relations provide ease of lending to the government. Ang et al. (2013) proved that political connections have an impact on influencing government policies to increase the value of companies. According to Ang et al. (2013), the politically connected board of commissioners still makes a positive contribution to the company even though the position it has as an independent board of commissioners. Based on the results of research on political connections, researchers can formulate hypotheses as follows:

**H2:** Political connections positively affect company values

**The effect of the size of the company on the value of the company**

The size of the company describes the magnitude of the company's value based on the operational field of the company. The larger the total sales, the greater the size of a company, and it will increase the value of the company. These results follow research by (Dunnas et al., 2020), which reveals that the larger the company's size, the more the company's value increases. Based on the results of the study, the second hypothesis in this study is as follows:

**H3:** The company's size positively affects the company's value in banking companies on the IDX.

## RESEARCH METHODS

### Population and Research Samples

The population of this study is all banking companies listed on the Indonesia Stock Exchange (IDX) for the 2013-2021 period, with as many as 383 research samples.

### Types and Methods of Data Collection

This type of research data is secondary data consisting of the company's annual report, the company's stock market price, and information on the board of directors and the board of commissioners. Researchers obtained research data through the official website of www.idx.co.id in the form of the company's annual report and stock market price. In addition, researchers obtained other information through other sites to verify the political connections between management and company owners.

### Operational Definition and Variable Measurement

#### Company Values

The study's dependent variable is the company's value, whose size uses Tobin's Q method (Supatmi et al., 2019). The calculation of Tobin's Q is based on market value. This formulation can provide a more accurate picture of operational status in the future to measure the value of market-based companies (Bidhari et al., 2013). The Tobins' Q method is based on the market value of the company's assets at the end of the year divided by the book value of the company's assets at the end of the year. An asset's market value is the debt's book value plus the equity market value of the shares outstanding at the end of the year (Berkman & Galpoththage, 2016).

According to Bidhari et al. ( 2013), the formulation of Tobin's Q is as follows:

$$\text{Tobin } Q = \frac{\text{EMV}+DEBT}{\text{TA}}$$

**Information:**

Tobin Q: Company value.

E M V: The number of company shares outstanding times the closing price of the year-end shares as of December 31.

DEBT: Total Company Debt at the End of the Period
TA: Total assets at the end of the period.

**Managerial strategy**

The relative quantity index calculation uses the residual standard of the OLS disclosure regression model with the size and average of the industry disclosure as independent variables.

$$Disc_i = \beta_0 + \sum_{j=1}^{k} \beta_j IND_j + \beta_{k+1} SIZE_i$$

**Information:**

DISĈi: estimated disclosure
INDj: average disclosure per industry
SIZEit: company size (natural log of sales)

**Political Connections**

Companies that make political connections have a special relationship with the government (Bel et al., 2015). Political connections are also beneficial for companies to gain access to the central government (C. F. Kim & Kim, 2016). The owner of the company is a prominent political figure. It is a councilor in the central and local governments or a political party member (Bel et al., 2015). According to (J. H. Kim & Lee, 2021), political connections can benefit companies with unique information about public policy processes, communication networks, other politicians/bureaucrats/politicians' access, and potential access to political policymakers. Political connections also allow smaller companies to be sanctioned by regulators (Francis et al., 2016). The measurement of political connections uses the political connection index, which is the number of political connection scores attached to the company. The criteria for parties in the company are said to have political connections adopting the research of (Faccio et al., 2002; Habib et al., 2017; Wu & Cheng, 2011) by modifying according to the Indonesian context. Supatmi et al. (2019) use a hierarchy of office consisting of nine levels so that the political connection score range from a score of 0 (no political connection) to a score of 9 (the highest level as a minister).

The Political Connection Index (PCI) attached to the company is calculated using the natural logarithm method, namely the total political connection score in the company plus one point. Such methods can be formulated as follows:

$$\mathrm{LN(PCI)} : \mathrm{LN}(1 + \mathrm{PCI})$$

This calculation uses the basis of considering the skewness of this calculation uses the basis of considering the skewness of the political connection index as well as the fact that some companies do not have connections Supatmi et al. (2019).

**Company size**

Company size had an impact on lowering company value (Guerra Pérez et al., 2015; Habib et al., 2017; Kohlbeck & Mayhew, 2010; Ming & Wong, 2005; Wong & Hooy, 2021). In contrast, Other research reveals that the larger the size of the company, the better the value (Chen et al., 2014; Ling et al., 2016; López-pérez, 2017). This study used company size as a control variable measured using a natural log of market capitalization ( Utama et al., 2010).

**Data Analysis Methods**

In conducting hypothesis testing, this study uses descriptive statistical analysis tools with data regression methods, static tests, selection of regression estimation techniques, regression, classical assumption testing, feasibility tests according to the model, hypothesis testing, and sensitivity analysis.

## RESULTS OF RESEARCH AND DISCUSSION

**Sample Selection Results**

This study used all banking companies listed on the Indonesia Stock Exchange during 2014 – 2020, with sample selection criteria contained in the following table:

**Sample Selection Results**

| Criterion | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Sum |
|---|---|---|---|---|---|---|---|---|---|---|
| IDX-listed banking | 38 | 40 | 42 | 44 | 44 | 46 | 45 | 47 | 50 | 396 |
| Banks that do not have a closing share price as of December 31 | (3) | 0 | 0 | 0 | 0 | 0 | (1) | (2) | (2) | (8) |
| Banks that have incomplete statements | 0 | 0 | 0 | 0 | 0 | 0 | (1) | (2) | (2) | (5) |
| Banking samples | 35 | 40 | 42 | 44 | 44 | 46 | 43 | 43 | 46 | 383 |

**Descriptive Statistics**

**Descriptive Statistical Data**

| Variables | Observation | Mean | STD.DEV |
|---|---|---|---|
| Tobin Q | 383 | 1.0897 | 0.27092 |
| managerial strategy | 383 | 0.0221 | 0.02256 |
| political connections | 383 | 2.4573 | 0.66710 |
| Company size | 383 | 29.3473 | 2.10111 |

The value of the sample company during the research period, on average, is good. The indication is from Tobin Q, with a mean value of 1.0897. The managerial strategy has an average value of 0.0221 and political connections of 2.4573, while the size of the company is 29.3473

**Multicollinearity Test**

The multicollinearity test aims to test the correlation between independent variables on the regression model. The multicollinearity test in this study used the Variance inflation factor (VIF) test. If the value of the Variance inflation factor (VIF) is smaller than the number 10, it indicates that there is no multicollinearity, but vice versa; if the value of the Variance inflation factor (VIF) is more excellent than the number 10, multicollinearity occurs in each independent variable (Gujarati & Porter, 2010). The results of the multicollinearity test in this study showed that no variables had a value greater than the number ten (> 10), so there was no multicollinearity between independent variables.

**Autocorrelation Test**

The Durbin-Watson table shows the values of dl and du with the number of samples and variables for testing autocorrelations. The dl and du values in the Durbin-Watson table will adjust to the number of samples and variables. The value of D describes the Durbin-Watson coefficient (DW) for all hypothesis tests that show the value of d is between 4-DU and 4-DL. The results of the Durbin-Watson (DW) test showed that the linear regression model in this study did not correlate the residual of one observation and the residual of another. In other words, no autocorrelation occurred (Winarno, 2015: 5.31).

**Heterochemedasticity Test**

The heteroskedasticity test aims to test whether the regression model occurs in residual variance inequality from one observation to another (Ghozali, 2018). This study used the Park Glejser test by regressing the residual absolute value against an independent variable. The regression test shows no heteroscedasticity if there are no valid independent variables. The results of the heteroskedasticity test on the model showed that the probability value was 0.0000, which showed no heteroskedasticity problem. After all, the parameter coefficient for each independent variable is not significant (p > 0.05) (Winarno, 2015).

**Hypothesis Testing**

Hypothesis testing of this study used regression model estimation techniques using the help of the Stata version 12 application. This section will lay out the test results of each research hypothesis, as shown in the following table.

**T-Statistic Test Results**

| **Variable** | **Coefficient** | **T** | **Probability** |
|---|---|---|---|
| Cons | 0.212 | 0.320 | 0.974 |
| SM | 0.638 | 1.176 | 0.241 |
| PCI | 0.026 | -2.043 | 0.042** |
| Size | 0.008 | 5.037 | 0.000* |
| Information:<br><br>SM: Managerial strategy<br><br>PCI: Political connections<br><br>SIZE: Company Size<br><br>*** signification: 1 %<br><br>** signification: 5 %<br><br>* signification : 10 % | | | |
| Test F Singnifikan at 0.000<br><br>And R2 of 0.65 | | | |

The following is a linear regression equation without moderation according to the results of statistical tests.

$$\text{Tobin Q} = 0.212 + 0.638\ \text{BC} + 0.026\ \text{KP} + 0.008\ \text{Size} + e$$

**The influence of managerial strategy on the value of the company**

The test results of managerial strategy's influence on the company's value have a regression coefficient of 0.638. The regression coefficient figure of 0.638, more significant than the number 0.10 (0.638 > 0.10), means that the first hypothesis of this study is unacceptable. Therefore, the managerial strategy does not affect the value of the company. The results of this study are consistent with the research by Ang et al. (2013), which revealed empirically that managerial strategies do not affect company value.

**The influence of political connections on the value of the company**

The results of the hypothesis test in this study show that political connections have a positive effect on the value of financial companies. In this context, political connections can provide benefits as well as costs for large companies in Indonesia. The linear regression results of 0.042 < 0.05 show that this research hypothesis has significance over the hypothesis. The political connections between the board of commissioners and the board of directors can provide advantages and convenience for the company when dealing with the government. The facility of political connection can increase the value of the company. The theory of political stakeholders reveals that the government has a hand in protecting stakeholders by implementing regulations that can benefit interested groups, namely company management and investors, in lobbying with politicians. Management uses assets from the company to bear the cost of nominating politicians to protect if elected. Therefore, political connections significantly affect the value of the company. The research hypothesis that says that political connections positively affect the value of banking is acceptable. In line with the research of Habek (2017) and Patriarini (2020). Haris et al. (2019) that banking companies that have political connections can increase loan interest because they have higher market power. In addition, bank companies with political connections can also gain convenience in funding and drive their value.

**The effect of the size of the company on the value of the company**

The test results of the influence of the company size variable on the company's value showed a regression coefficient of 0.000. The figures worth 0.000 < 0.05 mean that the hypothesis of the company size variable affecting the company's value has significance and is acceptable in this study. The size of the company can increase the value of the company in every banking company listed on the IDX. The results of this study are consistent with the results of research by Fitri Prasetyorini (2013) and Handayani et al. (2019), which show that the size of the company has a positive effect on company value. The indicator of the company's size can be seen from the total assets of the company that the company has been using for operational activities. Significant total assets can make it easier for companies to access the capital market. For investors, the company's size is a prospect that can positively influence the company's value. The large size of the company also indicates that the company is experiencing good growth. Companies with considerable growth will quickly enter the capital market because investors catch positive signals towards the company. Investors' positive responses can stimulate an increase in the company's value.

## CONCLUSIONS AND SUGGESTIONS

### Conclusion

This study aims to determine and analyze the influence of managerial strategies, political connections, and company size on company values, both directly and indirectly. We are using secondary data on banking companies listed on the Indonesia Stock Exchange from 2013 to 2021. The sample selection method uses purposive sampling by applying several criteria to produce 383 observations. The analysis technique uses simple and multiple linear regression techniques using the STATA 12 application and the Sobel Test for mediation tests.

The results of this study provide empirical evidence that the managerial strategy of banking companies cannot increase the company's value due to inflation and Bank Indonesia regulations. Political connections also affect the value of the company. Politically connected companies tend to get convenience facilities from the government. Politically connected boards of directors tend to choose good companies. However, political connections have the effect of lowering the value of the company. The size of the company affects increasing the value of the company because the more significant the company, the better the value of the company.

### Suggestion

The determination and measurement of the level of political connections in the determination of the index of political connections of companies in this study contain subjectivity. Some information in the profile of the company's board members does not describe the position (position) of the government agency in the past. For example, the board member's profile mentions that he has experience working in the Directorate General of Taxes of the Ministry of Finance. However, the position does not have a detailed explanation. However, the explanation regarding the position is not in detail. However, the position does not have a detailed explanation. Researchers conducted a 'googling' search but found no additional information about the position. Therefore, this limited information makes the proxy of the councilors have the lowest political connection score because consideration of the actual conditions may not be appropriate. In addition, this study has not accommodated the period or length of position (position) of politically connected personnel in determining and measuring the level of political connections.

Based on the existing limitations, researchers can then find a more comprehensive way of determining and measuring the level of political connections within the company. In addition to considering the position/position of a politically connected party, future research may consider the period or length of position (position) of politically connected personnel in determining and measuring the level of political connection. The longer the position/position in the past, the politically connected party allows, the stronger and broader the relationship established by that party with the other party.

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