SUPERVISORY BOARD DIVERSITY AND POLITICALLY CONNECTED COMPANIES PERFOMANCE

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Abstrak
Tujuan Utama - Studi ini menguji apakah keragaman Dewan lebih rendah di perusahaan yang terhubung secara politik daripada di perusahaan yang tidak berafiliasi dengan politik dan penelitian ini juga menentukan apakah keragaman dewan kurang efektif di perusahaan yang terhubung secara politik dibandingkan dengan tidak berafiliasi dengan politik.
Metode – Penelitian ini menggunakan 651 observasi (perusahaan-tahun) dan analisis univariat dengan alat uji t independent, serta melihat perbedaan yang signifikan dari keragaman dewan di perusahaan yang terhubung politik vs. perusahaan yang tidak terhubung. Selain itu, analisis regresi berganda digunakan untuk menentukan efektivitas keragaman dewan di dua jenis perusahaan ini.
Temuan Utama - Studi ini menemukan bahwa keragaman dewan (keragaman nasional, gender, dan pengalaman) lebih rendah di perusahaan yang terhubung secara politik, dan ada perbedaan yang signifikan keragaman dewan antara jenis perusahaan ini. Selain itu, keragaman dewan kurang efektif di perusahaan politik daripada di perusahaan afiliasi non-politik. Variable yang signifikan adalah keanekaragaman kualifikasi dewan komisaris.
Implikasi Teori dan Kebijakan - Studi ini menyiratkan bahwa perusahaan yang terhubung secara politik harus meningkatkan keragaman dewan dan efektivitasnya untuk meningkatkan kinerja perusahaan. Secara teoritis, penelitian ini menemukan bahwa teori *teori agency* tidak terkonfirmasi pada di perusahaan yang terhubung secara politik.
Kebaruan Penelitian - Studi ini memberikan diskusi mendalam tentang apakah keragaman dewan bermanfaat di perusahaan yang terhubung secara politis dalam sistem tata kelola perusahaan Eropa kontinental yang unik, seperti Indonesia dan ini kurang dibahas oleh peneliti sebelumnya.

Kata kunci: keanekaragaman dewan, perusahan koneksi politik, Indonesia

Abstract
Main Purpose - *This study examines whether board diversity is lower in politically connected companies than in non-political affiliated companies and determines whether board diversity is less effective in a politically connected company.*
Method - *Using 651 companies-years observation, the univariate analysis using the independent t-test and mean to see any significant difference of board diversity in the politically connected company vs non-connected companies. Besides, multiple regression analysis is employed to determine the effectiveness of board diversity in two types of companies.*
Main Findings – *This study found that board diversity (national, gender, and experience diversity) is lower in politically connected companies, and there is a significant difference between these types of companies. Besides, board diversity is less effective in political companies than non-political affiliated companies. Only one board diversity (qualification diversity) is positively related to the performance of politically connected companies.*
Theory and Practical Implications - *This study implies that politically connected companies should increase board diversity and its effectiveness to boost their performance. Theoretically, this study found that agency theories are not sound in politically connected companies.*
Novelty – *This study provides insightful discussion about whether board diversity is worthwhile in politically connected companies in the unique continental European corporate governance system, Indonesia, where there was little discussion from previous studies.*

Keywords: board diversity, politically connected company, Indonesia

INTRODUCTION

The interaction between politics and business underwent significant attention among scholars a decade ago (Yarbrough et al., 2017). Political connections can lead to various advantages for companies, such as lower-cost financing, favourable tax treatment, higher subsidies, and easier access to regulated industries (Conyon et al., 2015). Unfortunately, political connections can lead to various company issues, such as poor equity compensation levels and high risk (Shen et al., 2015). According to the literature, a politically connected company has had a significant presence in almost every country (Shahzad et al., 2021). The percentage of the politically connected company vary from one country to another. For instance, the politically connected company is 38% in Indonesia (Habib & Muhammadi, 2018), 13.9% in Malaysia (Wahab et al., 2015), 33.45% in Singapore (Ang et al., 2013), 40% in China (Bao et al., 2016), and 29% in Pakistan (Saeed et al., 2017). In addition, (Halawi & Davidson, 2008) reported the politically connected company in middle east countries, such as Oman (26%), Kuwait (21%), Qatar (24%) and UAE (55%).

The literature on political connections has two main strands that deal with the economic consequences of political relations (Brahma et al., 2023; Shahzad et al., 2021). The first stream of research suggests that there is a positive relationship between the politically connected company and company performance (Dicko & Khemakhem, 2015; Herzog et al., 2013) which is backed up by social capital theory (Coleman, 1988) and social network theory (Rowley, 1997). These theories, which deal with political connections, state that the social capital of the politically connected can provide companies with various advantages. These include participating in a contract with government authority, and the knowledge gained from political connections can lead to a favourable outcome as a government develops new regulations (Aggarwal et al., 2012; Dicko & Khemakhem, 2015), lower cost of IPO (Bao et al., 2016), cheaper bank loan(Ling et al., 2016) and ability to access government resources and subsidies (Batta et al., 2014; Chang et al., 2021). Therefore, the competitive advantage that political connections can provide companies is one of the main reasons politically connected companies perform better than non-political connected companies (Brahma et al., 2023; Shahzad et al., 2021).

Another stream is supported by Agency theory (Jensen & Meckling, 1976). This theory posits that the relationship between minority shareholders and majority shareholders can be affected by political connections. It tends to report low political spending, which can lead to information asymmetry (Shahzad et al., 2021), tends to appoint a low-quality external auditor (Habib & Muhammadi, 2018) and poor corporate governance (Shen et al., 2015). In addition, (Boateng & Huang, 2017) argue that another type of agency issue is the conflict between minority and controlling shareholders. For example, the goal of minority shareholders is to maximise the company's value, while the government's goal is to pursue social objectives. This could lead to a decline in the company's performance (Brahma et al., 2023). Previous empirical findings remain inconclusive. Several previous studies documented that politically connected company negatively affects performance (Boubakri et al., 2012; Herzog et al., 2013; Shahzad et al., 2021). Other past studies conclude the positive relationship (Brahma et al., 2023; Cheema & Su, 2016).

Previous studies also attempted to mitigate the conflict between minority and

majority shareholders and the problem of information asymmetry in politically connected companies by investigating the role of board diversity as a corporate governance mechanism. A study in Malaysia conducted by Gul et al. (2016) investigated board diversity in politically connected companies. It concluded that board diversity's role is less relevant to the performance of politically connected companies. Thus, (Liang et al., 2022) conclude that board diversity is negatively related to the performance of the Chinese politically connected company. In addition, another empirical finding also indicates that board members fail to improve the performance of the politically connected company in Europe (Rocca et al., 2022). These studies were conducted in a country implementing different corporate governance systems and business environments. Even though previous studies investigated Indonesia's political connection (Al'Alam & Firmansyah, 2019; Firmansyah et al., 2022; Habib & Muhammadi, 2018; Iswari et al., 2019; Joni et al., 2020; Nugrahanti et al., 2020; Yuniarti & Riswandi, 2021), however, these studies emphasise on audit report lag (Habib & Muhammadi, 2018), audit fee (Yuniarti & Riswandi, 2021), tax avoidance (Firmansyah et al., 2022), tax aggressiveness (Iswari et al., 2019), investment efficiency (Al'Alam & Firmansyah, 2019), and financial distress (Nugrahanti et al., 2020), few discussed board diversity in the politically connected company. One study investigated the supervisory board and performance but did not use the supervisory board diversity (Joni et al., 2020). In addition, they also suggest that further study needs to be done using emerging countries' data. Therefore, this study fills the research gap identified above. Hence, this study analyses the level of board diversity in a politically connected company and the effect of board diversity and politically connected company performance, which was ignored by previous research.

This study aims to investigate the level of supervisory board diversity using five types: ethnic, nationality, gender, experience, and qualification diversity. Hence, this study also determines other corporate governance mechanisms: board composition, board size and external auditor in politically connected companies. In addition, this study also analysed the effect of board diversity on company performance. In this case, we employ four proxies for performance from accounting and market performance. This study contributes to the existing body of knowledge in the following ways. First, this study employs data from a unique corporate governance system in Indonesia which previous studies failed to pay attention to. Second, this study investigates the level of board diversity in politically connected companies compared to the non-political affiliated company since there is no evidence of board diversity (using five proxies) level in the politically related company before. Finally, the effect of board diversity on performance is also investigated since this relationship is unknown in the politically connected company. The four-part paper consists of an introduction, a discussion, a conclusion, and a recommendation.

METHOD

A politically connected company has government ownership or has *Persero* affixed to the company's name. Therefore, the unit analysis of this study is company. The present study uses a public manufacturing company registered in Indonesia's *Bursa*. There were 164 manufacturing companies listed in Indonesia which consists of 57 companies registered in basic and chemical sub-sector (34.76%), 64 companies operating in miscellaneous sub-sector (39.02%), and 43 companies included as consumer goods sub-sector (26.22%). The population of manufacturing companies is 164 companies. The purposive sampling method is employed with the criteria as follow: the company consistently report the annual report and disclose all relevant information need, such as experience, technique, nationality, experience, and qualification of supervisory board. Due to unavailable data, the 93 companies (56.71%) are the final sample of this research or 651 observations. The hand-collected data for seven years were gathered through the annual

report documents and other relevant sources, such as yahoo finance. This study considered only companies that disclose the background information of board ethnic diversity (BED) using three categories: Javanese, Chinese, and other groups (Okten & Osili, 2004; Turner & Allen, 2007). Nationality diversity comprises citizens and non-citizens, whereas gender diversity comprises males and females on the Board (Campbell & Mınguez-Vera, 2008; Kaczmarek et al., 2012).

Furthermore, experience diversity is categorised as the experience of business, academics, accountancy, public service, law, and others (Kim & Lim, 2010). Qualification diversity is classified into pre-bachelor, master's, and doctorate (Kuo, Wang, and Yeh, 2018). Following a prior study by Kagzi and Guha (2018), all diversity variables are measured by Blau Index: $1 - \sum_{i=1}^{n} P_i^2$, with P_i being the percentage of individuals in each group. Board composition is measured by the number of Board independent relative to the Board's total number (Haniffa and Hudaib, 2006). Board size is measured by the number of the Board (Mak and Kusnadi, 2005). The measurement of company growth, audit quality, company leverage, company size, and company age follows previous studies (e.g., Arosa, Iturralde, and Maseda, 2010; Mak and Kusnadi, 2005; Wu, 2012). Previous studies measured performance variables (e.g., Carpenter and Fredrickson, 2001; Wiwattanakantang, 2001; Kagzi and Guha,

2018). The mean difference test is applied to see the level of board diversity in politically connected companies than in non-political related companies. Hence, multiple regression analysis is employed to see the effect of board diversity on performance (Brahma et al., 2023; Gul et al., 2016).

RESULTS AND DISCUSSION

Describe The final research sample is 93 manufacturing companies (56.71% of the population). The descriptive statistic of variables is shown in Table 1. The mean value of board ethnic diversity (BED) is 0.38. It is similar to Gul et al. (2016) finding, and it is slightly lower compared to the finding of Ilona (2015). Thus, the national board diversity (SBND) is 0.13. It is followed by board gender diversity (BGD) (0.15). Board experience (BExD) and board qualification diversity (BQD) are high, 0.50 and 0.46, respectively. The board composition (BC) mean value is 38%, greater than the cut-off Otorisasi Jasa Keuangan (OJK) set-up. The mean value of board size (BZ) is 4.12. The average value of performance variables, ROA, ROS, Tq, and Srtis, 3.96%, 1.42%, 139.24, and 28.43, respectively. Meanwhile, the company's characteristic is 0.37, 33.47, 16.81, 56.47, and Rp. 2,880,147.05 (billion), respectively for AQ, CA, CG, CL and CS.

Table 1. Descriptive Statistic of Research Variables

	Mean	Std	Min	Max
Panel A				
BED	0.38	0.21	0.00	0.67
BND	0.13	0.20	0.00	0.50
BGD	0.15	0.20	0.00	0.50
BExD	0.50	0.15	0.00	0.75
BQD	0.46	0.20	0.00	0.73
Panel B				
BC	0.38	0.12	0.00	0.88
BZ	4.12	1.85	2.00	11.00
Panel C				

ROA (%)	3.96	10.40	-32.99	42.00
ROS (%)	1.42	19.47	-113.00	108.90
TQ	139.24	105.09	67.00	586.90
Str	28.43	80.66	-86.64	385.71
Panel D				
AQ (big 4)	0.37	0.48	0.00	1.00
CS (Rp billion)	2,880,147.05	7,263,090.98	175.40	54,059,000
CA (years)	33.47	16.24	3.00	97.00
CG	16.81	35.85	100.00	205.76
CL	56.47	34.33	0.20	192.18

As demonstrated in Table 2, the results suggested that board diversity's mean difference varies; thus, the first hypotheses are partially accepted. SBED for politically and non-politically affiliated companies are 0.37 and 0.38, respectively. There is not much difference between them. However, using the independent t-test of difference shows that there is no significant difference. The mean value of board diversity is slightly different from (Gul et al., 2016) finding. The Board of national diversity is higher for non-politically affiliated companies (0.13) than politically connected companies (0.00), with a significant difference of 1%. The mean value of board gender diversity is also at a significant difference of 1%. The means of gender diversity keep going higher for non-politically related companies, with a mean difference of 0.15. Further, the independent t-test for experience diversity also indicates a significant difference in which non-politically affiliated companies have a higher diversity of experience. However, qualification diversity shows insignificant differences between politically connected and non-politically affiliated companies.

Table 2. Means and Means Difference: Political Vs. Non-Connected Companies

	Polcon	**Non-Polcon**	**Means difference**
Panel A			
BED	0.37	0.38	-0.00(-0.12)
BND	0.00	0.13	-0.13(-16.42)***
BGD	0.00	0.15	-0.15(-19.19)***
BExD	0.33	0.51	-0.18(-4.38)***
BQD	0.51	0.46	0.05(0.92)
Panel B			
BC	0.43	0.37	0.05(1.30)
BZ	3.86	4.12	-0.26(-0.53)
Panel C			
ROA (%)	3.12	3.97	-0.86(-1.15)
ROS (%)	1.88	1.41	0.47(0.09)
TQ	96.99	140.17	43.14(-5.19)***
Srt	44.65	28.07	16.58(0.49)
Panel D			
AQ (big 4)	0.00	0.38	-0.38(-19.81)***
CS (Rp billion)	1,059,647.29	2,920,158.04	-1,860,510(-0.95)
CA (years)	62.50	32.83	29.67(4.01)***
CG	11.36	16.93	-5.57(-0.58)

CL	46.01	56.70	-10.58(1.24)

Notes: *** significant at 1%

Board composition (BC) and board size (BZ) show the insignificant difference between politically connected and non-politically affiliated companies. Of the four measurements for performance, only Tobin's Q indicates the significant difference between politically and non-politically affiliated companies. Thus, the second hypothesis is partially accepted. Non-politically connected companies have a higher mean value of Tobin's Q. (Hu & Izumida, 2008) argue that Tobin's Q provides a viewing window into a company and indicates management's ability to produce income from assets. According to (Simpson et al., 2010), Tobin's Q signals major fund providers' wealth position. Therefore, the wealth position of a politically connected company is weak compared to non-politically affiliated companies. The company's characteristic variables significant difference is audit quality (1%) and company age (1%). The high-quality audit firms (big 4) did not audit politically connected companies for audit quality. The company will request a high-quality external auditor to signal effective audit monitoring and good corporate governance (Lin & Liu, 2009).

In contrast to politically connected companies, four big audit firms audited 38% of non-politically affiliated companies. According to (Darmadi, 2013), a large company tends to perform better since they have higher business diversification levels. Besides, a company with a high level of assets may improve its confidence in safeguarding its interests (Tam & Tan, 2007). Thus, the company age is older for political connections than for non-political links. Other variables from company characteristics do not significantly differentiate between politically connected and non-politically affiliated companies (company size, company growth, and company leverage). In brief, there is a significant difference in nationality, gender, and experience diversity

between politically connected companies and non-politically affiliated companies.

The following analyses are multivariate regression analyses. This analysis aims to see whether board diversity could better monitor and control the directors in enhancing the company's performance. The first analysis uses all samples of manufacturing companies. The finding is demonstrated in Table 3. There are four proxies of company performance; ROA, ROS, Tobin's Q, and stock return. The result of board diversity is shown in Panel A. Board experience diversity (BED) has a negative relationship with the company's performance using Tobin's Q. Besides, Tobin's Q also indicates the significant effect of board nationality diversity (BND) on company performance, which is measured by Tobin's Q. However, board gender diversity (BGD) negatively affects the manufacturing company's performance using ROA and ROS. In contrast to gender diversity, board experience diversity (BED) has a positive effect on the performance of manufacturing companies using Tobin's Q. Further, board qualification diversity (BQD) has no relationship with company performance. Other board variables (see Panel B in Table 3) show that board composition (BC) is positively related to company performance only for Tobin's Q measurement. Board size (BZ) does not affect company performance.

Audit quality (AQ) has a positive and significant relationship with company performance (except stock return). Company size (CS) does not significantly affect company performance for control variables. However, company age (CA) positively impacts company performance (except on stock return). Thus, company growth (CG) has a positive relationship only with accounting performance. Furthermore, company leverage (CL) negatively impacts accounting performance. However, the effect of company growth (CG) on Tobin's Q is positive

Table 3. Result of Regression: Pooled OLS for all Sample

	ROA		ROS		TQ		Srt	
	Coef	t-stat	Coef	t-stat	Coef	t-stat	Coef	t-stat
Panel A								
BED	−1.899	−1.109	−2.178	−0.625	−70.523	−3.813***	−10.252	−0.664
BND	3.391	1.586	−2.891	−0.665	57.970	2.512***	18.182	0.944
BGD	−5.201	−2.804***	−8.298	−2.200***	−42.726	−2.133	−15.868	−0.949
BExD	−2.406	−0.949	−5.461	−1.060	473.438	1.730**	−8.606	−0.377
BQD	1.021	0.513	4.276	1.057	−22.262	−1.036	17.650	0.985
Panel B								
BC	4.188	1.362	−9.106	−1.457	161.159	4.855***	11.780	0.425
BZ	−0.241	−0.959	−0.375	−0.736	1.074	0.397	−1.516	−0.671
AQ	3.633	4.107***	3.539	1.967***	41.208	4.315***	6.993	0.877
Panel C								
CS	0.000	0.455	0.000	0.958	0.000	−0.617	0.000	1.153
CA	0.148	6.256***	0.185	3.841***	0,546	2.136***	0.182	0.855
CG	0.046	4.636***	0.075	3.725***	−0,004	−0.044	0.067	0.760
CL	−0.086	−7.795***	−0.158	−7.059***	0.611	5.124***	−0.007	−0.070
F stat	19.877		10.7785		8.7500		0.916	
F sign	0.000***		0.000***		0.000***		0.531	
R square	0.272		0.1686		0.1413		0.2721	

Notes: ***, **, and * significant at 1%, 5%, and 10%

Table 4 shows the regression result for non-politically affiliated companies. Consistent with all samples' findings, board experience diversity (BED) also has a negative relationship with the performance (Tobin's Q) of a company that does not have a political connection. However, board nationality diversity (BND) has a positive relationship with the performance (Tobin's Q) of non-politically affiliated companies. Further, board gender diversity (BGD) has a negative effect on performance for all proxies except for stock return. Thus, board experience diversity (BexD) and board qualification diversity (BQD) do not significantly affect non-politically affiliated companies' performance for all proxies. Panel B indicates the result of other board variables; board composition (BC) and board size (BZ). Board composition (BC) only for Tobin's Q has a significant positive effect on performance. Besides, board size (BZ) does not have a significant relationship with all proxies' performance. Thus, audit quality (AQ) has a positive relationship with ROA, ROS, and Tobin's Q as performance proxies. The regression results for the control variable are presented in Panel C. Company size (CS) has no relationship with performance for all proxies. However, company age (CA) has a positive relationship with the performance of all proxies except for stock return. Company growth (CG)has a positive effect on performance for ROA and ROS. Finally, company leverage (CL) has a negative relationship with the version of ROA and ROS. However, company leverage (CL) positively affects performance for Tobin's Q

Table 4. Result of Regression: Pooled OLS for non-politically Connected Company

	ROA		ROS		TQ		Srt	
	Coef	t-stat	Coef	t-stat	Coef	t-stat	Coef	t-stat
Panel A								
BED	-1.698	-0.984	-1.984	-0.562	-69.044	-3.685***	-12.573	-0.823

	ROA Coef	ROA t-stat	ROS Coef	ROS t-stat	TQ Coef	TQ t-stat	Srt Coef	Srt t-stat
BND	2.630	1.215	-3.859	-0.872	53.224	2.265**	20.463	1.068
BGD	-5.728	-3.053***	-8.993	-2.345**	-46.207	-2.269**	-14.296	-0.8861
BExD	-3.712	-1.406	-7.278	-1.349	39.417	1.376	-5.105	-0.218
BQD	1.270	0.621	4.721	1.129	-21.508	-0.968	11.540	0.637
Panel B								
BC	3.196	1.006	-10.266	-1.582	160.453	4.655***	-5.522	-0.196
BZ	-0.291	-1.148	-0.440	-0.851	0.934	0.340	-2.172	-0.969
AQ	3.261	3.642***	3.083	1.685*	39.162	4.029***	6.815	0.859
Panel C								
CS	0.000	0.563	0.000	1.016	0.000	-0.586	0.000	1.439
CA	0.185	6.984***	0.230	4.258***	0.727	2.531**	0.288	1.231
CG	0.046	4.657***	0.075	3.719***	-0.005	-0.045	0.073	0.829
CL	-0.087	-7.884***	-0.161	-7.068***	0.600	4.980***	0.000	0.002
F stat	20.534		8.918		10.595		1.016	
F sign	0.000***		0.000***		0.000***		0.432	
R square	0.283		0.146		0.169		0.019	

Notes: ***, **, and * significant at 1%, 5%, and 10%

The regression result for politically connected companies is shown in Table 5. Out of five variables for diversity, two variables have been excluded from the model due to their values; board nationality diversity (BND) and board gender diversity (BGD). Board experience diversity (BED) and board experience diversity (BexD) do not significantly relate to politically connected companies' performance. This finding is inconsistent with the previous study's Gul et al. (2016). However, board qualification diversity (BQD) has a positive relationship with company performance at 10%. Panel B indicates that the regression result for board composition (BC) and board size (BZ) does not significantly impact company performance. Audit quality (AQ)was excluded from the model due to no variation in its value. The regression result for control variables can be seen in Panel C. Company size (CS) positively affects accounting performance. Besides, company age (CA) only has a negative relationship with Tobin's Q. Company growth (CG) has no relationship with company performance. Furthermore, company leverage (CL) negatively impacts accounting performance.

Table 5. Result of Regression: Pooled OLS for Politically Connected Company

	ROA Coef	ROA t-stat	ROS Coef	ROS t-stat	TQ Coef	TQ t-stat	Srt Coef	Srt t-stat
Panel A								
BED	131.896	1.649	80.559	1.918	4078.42	1.962	5820.35	0.452
BND	1.453	1.712	-2.767	-0.913	41.121	1.745	12.871	1.087
BGD	-4.654	-1.323	-6.312	-1.769	-22.187	-1.623	-12.989	-1.782
BExD	45.999	1.404	27.517	1.599	1663.22	1.953	2955.67	0.560
BQD	8.804	1.640	4.914	1.745	299.543	2.149*	374.07	0.433
Panel B								
BC	-319.501	-1.742	-196.072	-2.036	-977.143	-2.050	-13445.8	-0.455
BZ	-16.069	-1.765	-9.668	-2.023	-486.176	-2.056	-798.319	0.545
AQ	1.223	1.349	2.867	1.879	12.289	1.989	2.879	0.396

Panel C

CS	0.000	2.656*	0.000	2.833**	0.000	1.688	0.001	0.800
CA	-1.546	-1.505	-0.977	-1.812	-58.556	-2.194*	-72.658	-0.439
CG	0.001	0.036	-0.004	-0.216	-1.230	-1.268	-0.104	-0.017
CL	-0.712	-2.955**	-0.398	-3.150**	-7.202	-1.151	-18.492	-0.477
F stat	8.068		8.139		1.251		0.500	
F sign	0.030**		0.028**		0.445		0.822	
R square	0.948		0.949		0.738		0.530	

Notes:***, **, and * significant at 1%, 5%, and 10%

Based on Table 5, there is no significant effect between board diversity and the performance of companies with political connections, except board qualification diversity (BQD) has a positive and significant association with Tobin's Q. Contrast to non-political affiliated companies, board composition (BC) and audit quality (AQ) do not have a significant relationship with the performance of politically connected companies. Further, company size (CS) on performance differs between politically and non-politically affiliated companies. The politically connected companies and company size (CS) positively and significantly affect accounting performance. It does not exist for non-political affiliated companies. Compared to non-politically related companies, the impact of company age (CA) in politically connected companies has a negative relationship with Tobin's Q. Besides, company growth (CG) does not have a significant relationship with the performance of companies with political connections. Finally, company leverage (CL) has the same direction (negative) in politically and non-politically affiliated companies. The board diversity-performance relationship model for a politically connected company is shown in Figure 1 below.
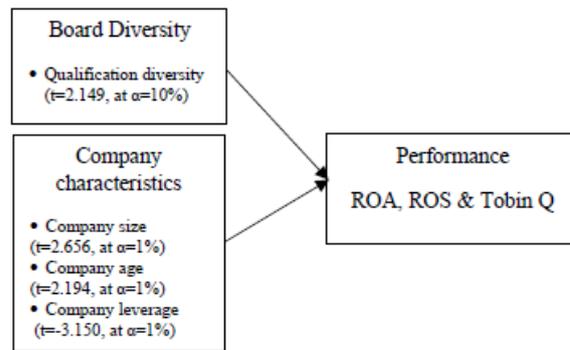

Figure 1. board diversity-performance model

Based on the regression result, most board diversity does not affect performance. The reason is that board diversity may cause a dispute in strategic alteration and deduct the Board's capability to carry out timely strategic action (Goodstein et al., 1994). In addition, this is because the politically connected company is perceived as a company with an unfair corporate governance practice (Mohammed et al., 2017). Despite the multi-ethnic Board's monitoring function, politically connected companies' performance is more likely influenced by the firms' political links. The Board has no power to monitor and audit the actions taken by the directors. As (Shan & McIver, 2011) argued, the Board is poorly monitored. Besides, boards find it difficult to produce high-quality financial reports for politically connected companies (Sani et al., 2020).

One board diversity is significantly related to the performance of the politically connected company. The new finding is the significant positive relationship between board qualification diversity and politically connected company performance. Another new finding is the level of board ethnic,

nationality, gender, experience, and qualification diversity in the politically related company. Therefore, this finding is partially supported by the agency theory (Jensen & Meckling, 1976) in the sense that the conflict between minority and majority shareholders can be affected by political connections, which can lead to information asymmetry (Shahzad et al., 2021). Poor corporate governance (Shen et al., 2015) can be mitigated by the role of board diversity, especially qualification diversity.

(Fernández-Temprano & Tejerina-Gaite, 2020) State that board diversity promotes strict director supervision. Hence, the variety of board members improves board independence. The importance of board diversity has been documented by several pieces of research such as (Abdul et al., 2018; Carter et al., 2003; Kagzi & Guha, 2018; Ooi et al., 2017; Yunos et al., 2015). For example, (Carter et al., 2003) state that a board's diversity is perceived to increase short and long-term financial performance in many ways. A firm may also experience increased innovation and creativity, effective problem solving and growth in corporate leadership effectiveness, and a significant increase in effective global relationships.

CONCLUSION

Scholars have documented the importance of board diversity. However, the evidence of the difference in board diversity between politically connected and non-politically connected companies in Indonesia adapts to the Continental European system is limited. Agency theory explains why board diversity is a critical point in a company. Agency theory helps us understand that diverse boards are expected to monitor better because they are more creative and innovative.

There is a significant difference in board diversity (nationality, gender, and experience) between politically connected and non-politically affiliated companies. The mean value of these diversities is higher for non-politically affiliated companies. Besides, a significant difference in company market performance, measured by Tobin's Q, exists between politically connected and non-politically affiliated companies. Non-politically affiliated companies will likely have higher Tobin's Q than politically connected companies. Further, this study also documented that non-politically affiliated companies use four big audit firms to increase audit quality compared to politically connected companies. The finding also implies the result of board qualification diversity by improving its diversity to gain higher performance.

There are several limitations to this study. First, this study uses data from nine-year data periods. Second, this study is limited to supervisory board diversity. Third, the data were analysed using pooled OLS. Fourth, this uses multiple linear regression. Finally, the research object is limited to manufacturing companies. There is some avenue for future researchers who are interested in these topics. First, future research may add more data periods. Second, the next study could also investigate the relationship between other board diversity, such as management board, and company performance. Third, future research can advance this research using other regression methods, such as panel data. Forth, the next investigator also can consider the other variables, such as moderating or mediating variables. Finally, future research also can study politically connected companies using other industries listed on Indonesia Stock Exchange.

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