

The Impact of the Board, Political Connections on Financial Distress in Indonesia: Effects of Corporate Governance

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ABSTRACT

This paper analyzes the impact of political connection, interlocking directorates, and female directors on financial distress, and corporate governance as a moderating variable. The results showed that all variables had a significant effect on financial distress partially. Political connection, interlocking commissioner positions, and audit committees have a significant and positive effect. While the interlocking CEO, female director, audit committee and board size variables have a significant negative effect. After entering the moderating variable, the results indicate that the political connection and interlocking variables moderated by the audit committee had a positive impact to the financial distress. While the political connection and interlocking CEO variables have negative values after being moderated by board size.

JEL Classification: G32, G34

Keywords: financial distress, political connection, interlocking directorate, female director, board size, audit committee

I. INTRODUCTION

Every company wants to maximize the value of its company (Ross et al., 2006). However, the fact that occurred in some insurance companies is experienced bankruptcy predictions as a result of the phenomenon of default. Among of them are PT Asuransi Jiwasraya, PT Asuransi Jiwa Kresna, PT Asuransi Jiwa Bakrie Life and PT Asuransi Bumi Putera (Rahajeng, 2020). Not only insurance companies, but the banking sector also shows a condition of financial distress and even threatened with bankruptcy. Based on the altman z score bankruptcy prediction model that has been carried out by researchers, there are 103 banks experienced a bankruptcy period from 2006 to 2020. The study by Bushman and Smith (2001) found the problem of limited financial record information in governance which is considered not transparent in terms of the presentation of financial statements.

In addition, companies which are in a state of financial distress can be caused by various factors including agency conflicts between principals and agents (Jensen and Meckling, 1976). Therefore, the agent does not always act as the interests of the principal alone. Agents have the authority to manage the company so they may set the policies and maximize individual welfare. According to Al-dhamari and Ismail (2015), many companies engage in political relations to pursue optimal profits that involved their business relationships closer to the government and politicians. Indeed, the relationship is considered be able to provide benefits to the company. According to Kim and Zhang (2016), companies which have political connections will find it easy to obtain capital loans, and the risk of tax audits is low. However, according to Chaney and Parsley (2011) companies with the most political connection have poorer accounting performance quality than companies with no political connection.

The phenomenon that occurs in developing countries, based on the data obtained from the Business Competition Supervisory Commission (KPPU) was found that there were at least 62 SOE directors and commissioners who held concurrent positions in non-BUMN or private companies. In finance, insurance, and investment SOEs, there are 31 directors/commissioners who hold concurrent positions in private companies. These high-ranking officials can hold one to 11 positions in other companies. On average, SOE officials can hold one to five director/commissioner positions in other companies. The existence of these dual positions can lead to a fairly high conflict of interest. The condition of a company executive serves on the board of another company, which form a bond between the two companies is called an interlocking directorate (Rosa and Cerasi, 2020). In this case the dual position bond allows for the reduction of agency costs and at the same time affects market competition. In addition, it is also possible to exchange information between companies to convey effective and innovative organizational information to other companies (Borgatti and Foster, 2003).

In order to improve the application of good corporate governance principles for Issuers or Public Companies, an interesting fact can be seen from the percentage of women on the Board of Commissioners and Board of Directors of public companies in Indonesia which is higher than in other countries such as Hong Kong (10.7%), India (8.6%), Singapore (7.7%), Japan (3.3%), and Korea a (2.6%). Gender diversity in a board can influence decisions within the company. It is because women have a high prudence and more thorough than men who tend to be brave in taking greater risks in the decision making, as a result, the company is likely run into financial distress. It can be small if the

company is dominated by women (Fathonah et al., 2018). This argument is supported by Zik et al. (2020) who state that the board of directors suspect women have less risk-averse than men, so that women have a lower percentage in some positions than men. On the other hand, female directors tend to be more risk averse which can have an impact on reducing the cost of financial distress and systemic risk which can improve performance for companies with weak governance mechanisms (Cardillo et al., 2021).

The study conducted by (Lee and Yeh, 2004; Chen, 2008) states that companies with poor governance are directly proportional to the financial distress. Therefore, the implementation of good corporate governance can prevent the possibility of mistakes in making policies and increase the value of the company which reflected in the performance and reduced the financial distress. There are several good corporate governance variables that influence the prediction of bankruptcy such as board size and audit committee (Lakshan and Wijekoon, 2012; Salloum and Azoury, 2012). According to the Zhou et al. (2021), in corporate governance independence is needed from audit committee members to reduce deviant practices. In addition, based on Jensen and Meckling (1976); Lakshan and Wijekoon (2012) the ideal minimum number of board sizes ranges is from seven to eight members so that the board can work effectively and control the function efficiently.

This study is interesting to do, because of the uniqueness of Indonesia using a two-tier corporate governance system, where the Board of Commissioners supervises and provides advice to the Board of Directors consisting of the company's management. It has a level of political connection, intelligent directorate, and a consistently higher gender diversity team. As well as the phenomenon of the financial sector in Indonesia, almost 50% experience financial distress.

II. HYPOTHESES AND RELATED LITERATURE

A. Hypotheses

Political connection is one of the important factors that can be seen from the company's ongoing activities, including lobbying efforts, campaign contributions and the appointment of politicians to the board of directors to maintain good relations with incumbent government officials (Houston et al., 2014). Many benefits accrue to politically connected firms including preferential access to lenders (Boubakri et al., 2012), obtaining low costs of debt and equity, high probability of obtaining bailout funds (Faccio et al., 2010), favorable government contracts and regulatory profitable (Goldman et al., 2009), lower taxes (Habib et al., 2017). However, on the other hand, the political connection is also considered to be detrimental to the minority interests of shareholders, because this connection can lead to agency costs (Khan et al., 2016), over-investment of the company (Su et al., 2013), earnings management (Chaney and Parsley, 2011), and high levels of corruption (Goldman et al., 2009). Chaney and Parsley, (2011) stated that companies with the most political connection have poorer accounting performance quality than companies with no political connection. However, it is different from the research conducted by Wang et al. (2019) that political connection is very beneficial for companies. Political connection is able to prevent companies from financial distress because companies will get more access to long-term loans and investments.

H1: Political connection has a significant and positive effect on financial distress.

Interlocking directorate is one of the factors that affect the financial difficulties of a company. Interlocking directorate occurs when the same person sits on two or more company boards of directors. All aspects related to interlocking have important implications for the structure and effectiveness of corporate board functions, which in turn have an important role in corporate governance and corporate performance (Adams et al., 2010). Explicitly according to article 26 of Law no. 5 of 1999, concurrent positions are not something that is prohibited, but the condition is prohibited if it does not meet the provisions that have been given (Ahmar et al., 2016).

H2: Interlocking Directorate has a significant and positive effect on financial distress

Meanwhile, companies led by female chief executive officers (CEOs) are often seen as avoiding risky policies or decisions. This is because women are more risk averse than men, women are not as brave as men in taking risks. The findings of Carter et al. (2010) show that if the top management of a corporation consists of women, then the corporation will be more vulnerable to experiencing financial distress than those led by men. However, unlike the findings of (Ararat et al., 2021), they found results where companies that have women on the boards of directors and commissioners have better performance than companies that do not have women on the boards of directors and commissioners. This shows that an increase in the proportion of women on the board of directors will increase the role of women in management decision making, the company will be more conservative in its operations (Hartantri and Hatane, 2017; Fathonah et al., 2018).

H3: Female director has a significant and negative effect on financial distress.

In accordance with agency theory, where the board of directors is better able to increase their disciplinary control over the CEO because there is a diversification of expertise from each member who is able to produce various perspectives in problem solving so as to protect the organization from financial difficulties (Brédart, 2014). From the same point of view, a study conducted by Lakshan and Wijekoon (2012) concluded that the ideal number of board structures can reduce the possibility of financial difficulties in the company.

H4: Board size is able to moderate the relationship between political connection, interlocking directorate, foreign ownership, female director, and financial distress

The audit committee has direct responsibility to the board of commissioners for improving the quality of the company's performance. The main task of the audit committee is to ensure that the information provided to management is reliable, reliable and free from misstatement. The results of the study found that the audit committee provided financial information objectively (Abbott et al., 2004). An effective audit committee will increase the credibility and objectivity of financial statements. A large audit committee size will provide more oversight of top management and the quality of financial reports, thereby improving internal governance practices (Salloum and Azoury,

2012). The effectiveness of the audit committee can be seen from the number of human resources that are focused on dealing with issues related to the company. When a company has an effective audit committee, it is expected to be able to provide accounting profit achievement so as to avoid financial difficulties (Lakshan and Wijekoon, 2012).

H5: The Audit Committee is able to moderate the relationship between political connection, Interlocking directorate, Foreign ownership, Female director, and financial distress.

B. Related Literature

Agency theory is the relationship between agency and principle (Jensen and Meckling, 1976). This theory defines the problem of separation between ownership and control of the company. Usually the principle (owner) distributes management and control of resources to management (agent) to act in the best interest of the principle (Oh et al., 2011). The conflict of interest that occurs between the principal and the agent encourages the agent to present incorrect information to the principal, especially if the information relates to the agent's performance measurement. This conflict of interest is caused by the agent's motives which are highly motivated by short-term profits and opportunities (Muttakin, 2016). Based on the result of research, the right treatment for agent is one of the ways companies align their interests in overcoming agency conflicts between owners and agents and to ensure that managers will act to maximize shareholder wealth this (Rahim et al., 2020). Therefore, conflict creates agency problems and agency costs. In addition, the management of the organization has a different purpose from the board of directors. Board members are accountable to stakeholders for decision-making, monitoring, and reporting, although they have limited power and scope (Cardillo et al., 2020).

Financial distress is defined as the company's inability to meet its maturing financial obligations (Beaver et al., 2011). Financial distress can occur in various companies, both large and small. Financial distress becomes a sign or signal of bad things or the possibility of bankruptcy for the company. If the company is already in a state of financial difficulty and is not immediately addressed, then the company will have an impact on bankruptcy (Elloumi and Gueyie, 2001a). Management of companies experiencing financial distress, it is highly recommended to manage this and prevent the possibility of bankruptcy (Li et al., 2020). On the other hand, companies can reduce the possibility of financial distress by maintaining a high level of short-term liquidity and implementing corporate governance (Iqbal, 2015).

Corporate Governance is an effective mechanism used to explain every responsibility and authority that each stakeholder has in the company (Ho and Wong, 2001). Governance is a process in which shareholders try to certify that the managers of the companies in which they invest will provide sufficient returns. Based on research by Pan, (2020) it showed that weaker corporate governance leads to higher input costs, wages, and overhead costs. At the same time, weak governance firms experience lower firm value and stock returns, and a decline in operating performance. The World Bank (2016) explains that corporate governance is a system where companies are directed and supervised where this is about owners and regulators being more responsible and transparent to build trust.

III. RESEARCH METHOD

This study uses a deductive approach, namely, to test the hypothesis between the independent and dependent variables by using quantitative data in the form of financial statement data of financial sector companies. The population in the study are banking companies and other financial institutions on the Indonesia Stock Exchange (IDX) for the 2016-2020 period as many as 90 companies. The sample selection used the purposive sampling method based on the criteria set previously (Bougie, 2016).

Company bankruptcy can be predicted with the Altman Z-Score model, the Altman model has the highest accuracy rate of 51.6% in predicting financial distress compared to other models, namely the Zmijewski model, the Ohlson model and the Grover model (Rudianto, 2013). The model used in this study is as follows.

$$Z(\text{FinDistr}) = 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$$

The comparison of scores that become the company's sustainability standard is as follows:

- $Z > 2.60$ = healthy condition, financial difficulties do not occur.
 $1.1 < Z < 2.60$ = bankrupt prone condition / gray zone.
 $Z < 1.1$ = bankrupt condition/bad business financial situation.

In addition, the panel data equation model in this study is as follows:

$$\text{FinDistr} = \alpha + \beta_1 \text{Pol_CON}_{it} + \beta_2 \text{Interloc_CEO}_{it} + \beta_3 \text{Interlock_COM}_{it} + \beta_4 \text{FEM}_{it} + \beta_5 \text{AC}_{it} \text{ACit} + \beta_6 \text{Bz}_{it} + \beta_7 \sum \text{Controlit} + e_{it} \quad (1)$$

$$\text{FinDistr} = \alpha + \beta_1 \text{PolCON}_{it} \times \text{AC}_{it} + \beta_2 \text{Interloc_CEO}_{it} \times \text{AC} + \beta_3 \text{Interlock_COM}_{it} \times \text{AC} + \beta_4 \text{PolConit} \times \text{Bzit} + \beta_5 \text{Interloc_CEO}_{it} \times \text{Bzit} + \beta_6 \text{Interlock_COM}_{it} \times \text{Bzit} + \beta_7 \sum \text{Controlit} + e_{it} \quad (2)$$

IV. RESULT AND DISCUSSION

In the descriptive statistical table each variable is described in detail so that the highest, lowest, average and standard deviation values will be seen. for the interlocking variable we divide into two approaches, namely for the CEO and the Commissioner (Table 1).

After the data is presented in the form of descriptive statistics, then the samples are classified based on their financial condition, which in this case is divided into gray conditions and financial distress. It can be seen in Table 2 that the majority of financial companies are in a gray condition with a total of 27 companies and experiencing financial distress as many as 15 companies.

The results of the regression assumption test are shown in Table 3, where the data is normally distributed. The correlation value between independent variables shows that there is no problem of multicollinearity and heteroscedasticity. This can be seen from the value of the independent variable which is smaller than 0.8. So that the regression model above can be used in this study.

Based on the results of the regression carried out, it can be seen the results in Table 4 below.

Table 1
Descriptive Statistic

	Max	Min	Mean	Std
Fin_Dist	2.588	-6.014	1.2428	1.03680
Pol_Con	1.000	0.000	.4683	.50098
Intloc_CEO	1.000	0.000	.0317	.17602
Intrloc_Com	1.000	0.000	.5952	.49281
Female	0.800	0.000	.1691	.20451
Aud_Com	7.000	3.000	1.2649	.21734
Board_S	2.833	0.000	1.4290	.45686
Man_Own	0.127	0.000	.0078	.02116
Inst_Own	1.000	0.000	.3773	.33789
Lev_	15.498	0.087	5.7090	4.57366
Liq_	8.179	0.165	1.3097	.84069
Sales_G	8.100	-16.640	.1299	.54570
ROA_	2.624	-2.885	1.2482	2.39303
Growth_O	1,783	0.002	.2944	.29764
Firm_A	3.611	1.099	2.5371	.64942

Notes: Table 1 represents the parameter coefficients of the descriptive statistic results, maximum, minimum, mean, median, and standard deviation. FinDistr is company bankruptcy can be predicted with the Altman Z-Score model, 1 if the company is politically connected and 0 otherwise., IntlocCEO is 1 if company executives hold multiple positions and 0 otherwise. Interlock_Com 1 if the company's commissioners hold multiple positions and 0 otherwise., Female is the proportion of women on a board, Aud_com is number of audit committee members, Board_S is number of commissioners, Man_Own is proportion of share ownership by managers, Inst_Own is proportion of share ownership by institutional, Lev_ is total debt to total asset, Liq_ is current assets to current liabilities. Sales_G is sales t-sales t-1 to sales t-1, ROA is earning after tax to total asset, GrowthO is Market value of total assets per Book value of total assets, Firm_A is company age.

Table 2
Financial Condition of Financial Company

No	Nama Perusahaan	Gray Z score: 1.10 < Z < 2.60	Distress Z score < 1.10	No	Nama Perusahaan	Gray Z score: 1.10 < Z < 2.60	Distress Z score < 1.10
1	AGRO	√		22	BNLI	√	
2	ARTA		√	23	BNLI	√	
3	ASMI	√		24	BSIM	√	
4	BABP		√	25	BSWD	√	
5	BACA		√	26	BTPN	√	
6	BBKP		√	27	BVIC		√
7	BBLD	√		28	CFIN	√	
8	BBNI	√		29	DNAR		√
9	BBRI	√		30	H DFA	√	
10	BBTN	√		31	IBFN		√
11	BCIC		√	32	IMJS		√
12	BDMN	√		33	INPC		√
13	BEKS		√	34	MAYA	√	
14	BINA	√		35	MCOR		√
15	BJBR	√		36	MEGA		√
16	BJTM	√		37	NOBU	√	
17	BKSW		√	38	SDRA	√	
18	BMAS	√		39	TRIM	√	
19	BNBA	√		40	PNBN	√	
20	BNGA	√		41	VRNA	√	
21	BNII		√	42	WOMF	√	
Jumlah		13	8	Jumlah		14	7

Table 3

Testing Assumption Regression		
Regression Assumption	Test	Test Result
Normality	JB-test: $0,000 > \alpha = 5\%$	Normal
Multicollinearity	Correlation between independent variables $< 0,8$	No multicollinearity
Autocorrelation	Dwstat $1.6108 < Dwstat < 2,3892$	Durbin Watson 1.0024, this study is independent autocorrelation test
Heterokedasticity	Obs * R Squared $0,2484 > \alpha - 5\%$	No heterokedasticity

Table 4

Regression – Panel LS Model					
Panel- LS Model					
	Predict Sign	Model (1) Coeff	t-stat (prob)	Model (2) Coeff	t-stat (prob)
Constanta		0.6809	2.4243**	0.0491	1.0875
Pol_Con	+	0.2787	5.543.7***	0.3228	7.8867***
IntLoc_CEO	-	-0.0838	-2.4543	-0.2196	-1.3421
Intloc_Com	+	0.1992	2.9331***	0.1241	4.8765**
Female	-	-0.6718	-7.4294**	-0.3589	-9.7865***
Aud_Com	+	0.4700	2.5967***	0.3471	9.8763***
Board_Siz	-	-0.1942	-3.6434**	-0.4812	-9.0654***
Own_Manag	-			-0.4452	-0.7651
Own_Inst	-			-0.4237	-9.6572**
Lever	+			0.0054	0.6893
Liq	-			-0.0079	-3.5641***
Sales_Gr	-			-0.3314	-8.3459***
ROA	-			-0.0579	-7.9865***
Growth_O	+			0.5974	9.0875***
Firm_Ag	+			0.1831	3.0873***
Size	+			0.2593	1.4326
F statistic		19.334 ***		36,2145	
Adj R2		0.3182		0.6003	
N-Obsev		126		126	

Notes: This table presents the parameter coefficients of the panel data regression results with the Least square models. FinDistr is company bankruptcy can be predicted with the Altman Z-Score model, 1 if the company is politically connected and 0 otherwise., IntlocCEO is 1 if company executives hold multiple positions and 0 otherwise. Interlock_Com 1 if the company's commissioners hold multiple positions and 0 otherwise.,Female is the proportion of women on a board,Aud_com is number of audit committee members,Board_S is number of commissioners, Man_Own is proportion of share ownership by managers, Inst_Own is proportion of share ownership by institutional, Lev is total debt to total asset, Liq is current assets to currents liabilities. Sales_G is $\text{sales}_t - \text{sales}_{t-1}$ to sales_{t-1} , ROA is earning after tax to total asset, GrowthO is Market value of total assets per Book value of total assets, Firm_A is company age. Denotes. *** statistical significance at the 1% level, ** statistical significance at the 5% level, and * statistical significance at the 10% level

All variables have a significant effect on financial distress partially. political connection variable has a positive influence on financial distress conditions. The results of this study are in line with Chaney and Parsley, (2011) where companies with the most political connection have poorer performance quality. In addition, the political connection is also considered to be detrimental to the minority interests of shareholders, because this connection can lead to agency costs, Muttakin (2016) over-investment of the

company (Su et al., 2013), earnings management (Chaney and Parsley, 2011), high levels of corruption (Goldman et al., 2009). Indonesia has a long history of political interference, which began with the Soeharto government followed by the Habibie government, the Abdurrahman Wahid government to the Megawati government, political stability then emerged under the Yudhoyono government. Since Indonesia entered the reform era after the end of Soeharto's reign, many business people have entered politics (Habib et al., 2017). Parliament in the reform era has considerable power in the legislative process and has the right to approve the appointment of bureaucrats and commanders of the Indonesian National Army and the Indonesian National Police, as well as determine the state budget (Habib et al., 2017). The new parliament tends to adopt consensus decision making rather than using a majority vote, which causes political elites to act as rent-seeking agents (Fukuoka, 2013). This situation is utilized to gain access to funding and facilitate existing regulations, which results in the company's performance not maximizing due to over investment (Su et al., 2013).

The next variable, namely interlocking connection CEO has a negative effect on financial distress, this is in line with the hypothesis made, where dual position ties allow for a reduction in agency costs and at the same time affect market competition. In addition, it is also possible to exchange information between companies to convey effective and innovative organizational information to other companies so as to minimize the occurrence of financial difficulties (Borgatti and Foster, 2003). The results of this study are in line with the findings of Ismail (2015) which said that not a few companies that engage in political relations will benefit the company. As well as getting easy access to capital loans, and low tax audit risk (Kim and Zhang, 2016).

As for the interlocking connection variable, the commissioners have positive results, this can be explained because the commissioners only act as supervisors, having multiple positions in more than 2 companies makes them lose their focus and responsibility in carrying out their duties, therefore more and more concurrent positions are held. carried out by a commissioner, it can increase the potential for financial difficulties. On the other hand, companies with a political connection have poorer accounting performance quality than companies without a political connection (Chaney et al., 2011). The results of this study are in line with Prihandoko (2018) where the interlocking directorate has a positive relationship to financial performance.

The female director variable has negative results, this means that women are more risk averse than men, women are not as brave as men in taking risks. with the increase in the proportion of women on the board of directors, it will increase the role of women in management decision making, the company will be more conservative in its operations (Fathonah et al., 2018). On the other hand, female directors who tend to avoid risk can have an impact on reducing the cost of financial difficulties where this can improve performance with weak governance mechanisms (Cardillo et al., 2020). The results of this study are in line with (Shoham et al., 2020) where the presence of one woman's position is able to give influence in making a decision in company management.

The moderating variable, namely the partially tested audit committee, has a positive value, this can mean that the practice of corporate governance in Indonesia is still weak. The process of appointing members of the audit committee is still unclear and open so that the level of independence of the audit committee is still questionable. Then the existence of provisions for audit committee members may cause the existence of audit committee members in companies in Indonesia to only fulfill regulatory provisions and

avoid existing sanctions so that they are not yet effective in carrying out their functions. In addition, according to Pan, (2020) the size of the audit committee members will not be effective in overcoming agency conflict if the number is too large or too small. This result contradicts the research of (Lakshan and Wijekoon, 2012; Salloum and Azoury, 2012) where in the absence of an audit committee, the company fails to emphasize the monitoring mechanism to oversee the company's financial reporting process and the credibility of the audited financial statements. Thus, the company is vulnerable to the possibility of failure.

For the last moderating variable that was partially tested, namely board size has a negative value, this can be interpreted that the ideal size of the board of commissioners in financial companies is able to avoid the possibility of companies experiencing financial difficulties (Lakshan and Wijekoon, 2012). The results of this study are in line with Brédart (2014), where the ideal board of directors is able to increase disciplinary control over the CEO because there are various diversification of expertise from each member that is able to produce various perspectives in problem solving so as to protect the organization. This is because if the CEO dominates the company, it is likely that they will prioritize personal interests so that it is very dangerous for the company which has an impact on financial difficulties (Eloumi and Gueyié, 2001b).

In addition, the impact of political connections, interlocking directorates, and women on Financial Distress with moderating variables can be seen in Table 5 below.

After being tested by including the moderating variable, it was found that the political connection remained positive when moderated by the audit committee variable, but on the other hand it was found that the political connection had a negative value after being moderated by the board size variable. This can be explained because the ideal number of commissioners is able to carry out their functions optimally which has an impact on the minimum number of financial difficulties.

For the interlocking connection variable, after being moderated by the two moderating variables, namely the audit committee and board size, positive results were found. this can be explained because of the loss of focus and responsibility in carrying out their duties, therefore the more multiple positions a commissioner carries out, the more potential financial difficulties can be increased.

In addition to the regression test, the research also uses a robustness test. It aims to get accurate results from the parameters tested because this test is able to detect data deviations (outliers). The results of the robustness test can be seen in Table 6 below.

Based on the table above, it can be seen that the results of each variable still have a significant effect on the partial relationship, but the interlocking connection CEO variable is positive. This can be explained in accordance with Wang et al. (2019) that political connection is very beneficial for companies. While the audit committee has a negative value, this indicates that an effective audit committee will increase the credibility and objectivity of financial statements. In addition, a large audit committee size will provide more oversight of top management and the quality of financial reports, thereby improving internal governance practices (Salloum and Azoury, 2012). When a company has an effective audit committee, it is expected to be able to provide accounting profit achievement so as to avoid financial difficulties (Lakshan and Wijekoon, 2012). The rest is for the control variables that experience a change in direction, namely ROA and company size.

Meanwhile, the results of the robustness test, after including moderating variables,

did not change the direction for the main variables, but only a few on control variables such as managerial ownership, leverage, ROA, and size.

Table 5
Regression – Panel FEM Model

Panel- FEM Model					
	Predict Sign	Model (1) Coeff	t-stat (prob)	Model (2) Coeff	t-stat (prob)
Constanta		1.1427	2.2119*	1.2679	1.9602*
Pol_Con * AC	+	0.4117	5.2975**	0.3089	3.2463**
IntLoc_CEO * AC	+	0.0094	3.0444	0.0039	1.1642
Intloc_Com * AC	-	-0.0115	-1.0934**	0.0246	2.9112**
Pol_Con * Bz	-	-0.2035	-2.3057**	-0.2475	-1.9699**
IntLoc_CEO * Bz	-	-2.2159	-2.8242	-1.4369	-1.0522
Intloc_Com * Bz	-	-0.0151	-0.7249*	-0.0466	-1.2784*
Female	-	-0.23012	-4.5221**	-0.0902	-0.5339*
Own_Manag	+			0.3158	1.6789*
Own_Inst	-			-0.3266	-6.9095***
Lever	+			0.0053	0.5753
Liq	-			-0.1093	-1.1541
Sales_Gr	-			-0.3504	-0.9999
ROA	-			-0.0125	-0.0743
Growth_O	+			0.2067	9.3629**
Firm_Ag	+			0.2406	3.0900***
Size	+			0.1582	1.7935*
F statistic		56.3631***		39.708***	
Adj R ²		0.6473		0.6842	
N-Obsev		126		126	

Notes: This table presents moderating variable with the parameter coefficients of the panel data regression results with the FEM models. FinDistr is company bankruptcy can be predicted with the Altman Z-Score model, 1 if the company is politically connected and 0 otherwise., IntlocCEO is 1 if company executives hold multiple positions and 0 otherwise. Interlock_Com 1 if the company's commissioners hold multiple positions and 0 otherwise.,Female is the proportion of women on a board,Aud_com is number of audit committee members,Board_S is number of commissioners, Man_Own is proportion of share ownership by managers, Inst_Own is proportion of share ownership by institutional, Lev_ is total debt to total asset, Liq_ is current assets to current liabilities. Sales_G is sales t -sales $t-1$ to sales $t-1$, ROA is earning after tax to total asset, GrowthO is Market value of total assets per Book value of total assets, Firm_A is company age. Denotes. *** statistical significance at the 1% level, ** statistical significance at the 5% level, and * statistical significance at the 10% level

Table 6
Robustness Test

		Panel- OLS Model				Panel- FEM Model					
	Predict Sign	Model (1) Coeff	t-stat (prob)	Model (2) Coeff	t-stat (prob)	Predict Sign	Model (1) Coeff	t-stat (prob)	Model (2) Coeff	t-stat (prob)	
Constanta		0.2628	2.1760	0.5014	2.7852	Constanta	0.1056	1.3581	1.07653	2.7652	
Pol_Con	+	0.0345	6.4667**	0.07311	6.2047*	Pol_Con*AC	+	0.0576	1.8762**	0.1887	1.6754**
IntLoc_CEO	+	0.0343	1.7654	0.05803	3.4593	IntLoc_CEO*AC	+	1.6438	1.7676	1.0652	6.7650
Intloc_Com	+	0.0398	1.8976*	0.012551	1.459*	Intloc_Com*AC	-	-0.0073	-0.1553**	-0.0886	-0.8976*
Female	-	-0.0535	-1.5412**	-0.048136	-0.9858*	Pol_Con*Bz	-	-0.0091	-0.3848*	-0.0448	-0.5768**
Aud_Com	-	-0.0974	-1.7768*	-0.021935	-0.3735	IntLoc_CEO*Bz	-	-0.5986	-1.6081	-0.8223	-5.9654
Board_Siz	-	-0.0543	-1.2581	-0.024705	-1.1101	Intloc_Com*Bz	-	-0.0075	-0.3124**	-0.08445	-1.0436***
Own_Manag	-			-0.455619	-2.5285**	Female	-	-0.0498	-2.5874*	-0.0027	-0.7956**
Own_Inst	-			-0.062497	-3.0123**	Own_Manag	-			-0.3356	-1.2254
Lever	+			0.000139	0.1094	Own_Inst	-			-0.0493	-1.7675
Liq	-			-0.004669	-5.3567***	Lever	-			-0.0005	-0.5323
Sales_Gr	-			-0.048864	-2.2980**	Liq	-			-0.0073	-2.6564
ROA	+			0.011351	1.5028	Sales_Gr	-			-0.0658	-5.16782
Growth_O	+			0.072409	2.4864**	ROA	+			0.0043	0.4321
Firm_Ag	+			0.006609	1.8908**	Growth_O	+			0.0512	1.6754
Size	-			-0.021636	-2.7768***	Firm_Ag	+			0.0584	8.6754
						Size	-			-0.0669	-5.8769
F statistic		19.334 ***		36,2145*		F statistic		6.5696***		30,5642***	
Adj R2		0.3182		0.6003		Adj R2		0.2241		0.6102	
N-Obsev		81		81		N-Obsev		81		81	

Notes: This table presents robustness test with the parameter coefficients of the panel data regression results with the PLS and FEM models. FinDistr is company bankruptcy can be predicted with the Altman Z-Score model, 1 if the company is politically connected and 0 otherwise., IntlocCEO is 1 if company executives hold multiple positions and 0 otherwise. Interlock_Com 1 if the company's commissioners hold multiple positions and 0 otherwise.,Female is the proportion of women on a board, Aud_com is number of audit committee members,Board_S is number of commissioners, Man_Own is proportion of share ownership by managers, Inst_Own is proportion of share ownership by institutional, Lev_ is total debt to total aset, Liq_ is current assets to currents liabilities. Sales_G is sales_t-sales_{t-1} to sales_{t-1}, ROA is earning after tax to total asset, GrowthO is Market value of total assets per Book value of total assets, Firm_A is company age. Denotes. *** statistical significance at the 1% level, ** statistical significance at the 5% level, and * statistical significance at the 10% level

V. CONCLUSION

Based on the results of data processing, it is known that all variables have a significant effect on financial distress partially. Political connection, special interlocking for commissioners, foreign ownership, and audit committees have significant and positive effects. While the interlocking CEO, female director, and board size variables have negative values. After entering the moderating variable, different results were obtained, where the political connection and interlocking variables moderated by the audit committee had a positive value. While the political connection and interlocking CEO variables have negative values after being moderated by board size. Especially for the partial robustness test, the main variables such as the interlocking directorate CEO and the audit committee have changed direction, but both are still significant. Therefore, it is important for company management to understand the importance of implementing good corporate governance in improving company performance. This study explain that political connections are utilized by company executives in access to funding, resulting in agency conflicts (Jensen and Meckling, 1976) where power is misused for personal gain, causing the stronger the political relationship, the higher the tendency for financial distress (Wang et al., 2018). Especially in the case of companies that have strong political connections, to overcome agency conflicts that occur within the company, good corporate governance is needed. The results of this study indicate that board interlocks can be an important tool that companies use to evaluate certain strategies. One important aspect of interlocks is that they allow firms to observe the behavior of other firms and reduce the uncertainty associated with strategic initiatives, so that firm performance can be properly monitored by the board, anticipating the occurrence of a financial crisis within the firm. Meanwhile, the presence of women in the board of commissioners and members of the board of directors results in better performance, better performance will reduce the occurrence of financial distress this is because the presence of women provides added value to the company will sharply reduce the risk of corporate financial difficulties (Zhou, 2019).

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