

obtained were 21 politically connected companies and 5 non-politically connected ones. The regression equation is as follows:

$$\text{Leverage} = \alpha + \beta_1 \text{DConnected} + \beta_2 \text{Size} + \beta_3 \text{ROA} + \varepsilon \quad (1)$$

$$\text{Tax} = \alpha + \beta_1 \text{DConnected} + \beta_2 \text{Size} + \beta_3 \text{ROA} + \varepsilon \quad (2)$$

$$\text{Market Share} = \alpha + \beta_1 \text{DConnected} + \beta_2 \text{Size} + \beta_3 \text{ROA} + \varepsilon \quad (3)$$

The ratio leverage in this study was measured using debt to asset ratio (DAR); namely, comparing total debt with total assets (Naseer & Naseem, 2015). Tax variables in this study followed Faccio's (2010) formulation, which was income tax divided by income before taxes, then multiplied by 100.

Furthermore, market share is company sales to total sales of its industries (Siburian, 2017). Referring to Kamaludin (2010), criteria on the political connection are as follows: political support by the government obtained from government ownership of shares in a corporation (SP) and formal political support. Value of 1 was given if the shareholders, board of commissioners, or company directors are connected to certain political parties or the government. Value of 0 was given if supports were obtained from other (SF) and informal political support. Besides, the value of 1 was given if the company, indirect shareholders, board of commissioners, or directors have a close relationship with the leader. The value of 0 was also given if the supports obtained from others (SI). To ensure the research results were not biased, the control variables used in this study were company size and return of assets (ROA).

## 5 DISCUSSION AND IMPLICATIONS

Research conducted by Khwaja and Mian (2005) found that politically connected companies in Pakistan enjoy greater access to debt financing. Although they show a much higher default rate, they do not pay higher interest rates than their non-politically connected counterparts. In the context of Indonesia, Kamaludin (2010) also showed the influence of political connections on leverage, the relationship between political support and leverage. His research showed the more significant the size of the company, the higher the amount of leverage only for informal political support (SPI). Based on the theory and results of discussed and found in previous studies, it is assumed that politically connected companies have higher leverage than non-politically connected ones on the Indonesia Stock Exchange.

Politically connected companies have very close relationships with the government, either through company ownership or corporate leadership. The government, as the owner of the company, has an interest in the company improving its performance in the form of return on investment, and one of the ways is by reducing the tax owed as stated in Dharma and Ardiana (2016). According to Dharma and Ardiana (2016) and Faccio (2010), the majority of shares owned by the government negatively affect the effective tax rate. The higher the level of government ownership, the lower the company's effective tax rate. Based on the theory and results of previous studies, it is assumed that politically connected companies obtain higher tax reductions than non-politically connected ones on the Indonesia Stock Exchange.

In reality, the monopoly causes unfair business competition and tends to reduce business quality because of the absence of competitors. The ability to monopolize the market cannot be separated from the support of the authorities in making decisions. In this study, market share was measured using market capitalization because the sample included financial companies. Research by Chaney, Faccio, and Parsley (2011) found that politically connected companies enjoy a far higher market share than non-politically connected ones. Based on the theory and results of previous studies, it is also assumed that politically connected companies have a higher market share than non-politically connected ones on the Indonesia Stock Exchange.

## REFERENCES

- Anthony, R., and Govindarajan, V. (2005). *Management Control System*, Volume I and II.
- Chaney, P. K., Faccio, M., and Parsley, D. (2011). "The quality of accounting information in politically connected firms." *Journal of Accounting and Economics*. Elsevier {BV}, 51(1–2), 58–76. DOI: 10.1016/j.jacceco.2010.07.003.
- Chi, J., Liao, J., and Chen, X. (2016). "Politically connected CEOs and earnings management: Evidence from China." *Journal of the Asia Pacific Economy*. Informa UK Limited, 21(3), 397–417. DOI: 10.1080/13547860.2016.1176644.
- Dharma, I. M. S., and Ardiana, P. A. (2016). "Effects of leverage, fixed asset intensity, company size, and political connections on tax avoidance." *E-Journal of Accounting, Udayana University*, 15(1), 584–613.
- Faccio, M. (2006). "Politically connected firms." *American Economic Review*, 96(1), 369–386.
- Goldman, E., J. R., and So, J. (2009). "Do politically connected boards affect firm value?" *Review of Financial Studies*, 22(6), 2331–2360.
- Gomez, E. (2002). "Political Business in Malaysia." *Political Business in East Asia*. Routledge.
- Gomez, E., and Jomo, K. (1998). *Malaysia's Political Economy: Politics, Patronage, and Profits*. Cambridge: Cambridge University Press.
- Harymawan, I., and Nowland, J. (2016). "Political connections and earnings quality." *International Journal of Accounting & Information Management*. Emerald, 24(4), 339–356. DOI: 10.1108/ijaim-05-2016-0056.
- Kamaludin (2010). "Political Support and Leverage: The Case of Indonesia." *Journal of Business Economics*, 15(2).
- Khwaja, A. I., and Mian, A. (2005). "Do lenders favor politically connected firms? Rent provision in an emerging financial market." *The Quarterly Journal of Economics*. MIT Press, 120(4), 1371–1411.
- Kim, C., and Zhang, L. (2013). *Corporate Political Connections and Tax Aggressiveness*. Hong Kong: City University of Hong Kong.
- Leuz, C., and Oberholzer-Gee, F. (2006). "Political relationships, global financing, and corporate transparency: Evidence from Indonesia." *Journal of Financial Economics*. Elsevier, 81(2), 411–439.
- Shleifer, A., and Vishny, R. W. (1994). "Politicians and firms." *The Quarterly Journal of Economics*. MIT Press, 109(4), 995–1025.
- Siburian et al. (2017). "Market share based financial analysis in the telecommunications industry in Indonesia (Case Study of Telecommunications Companies)." 5(2), p. 465–474.
- Wulandari, L. (2018). "Pengaruh Political Connection pada dewan komisaris dan dewan direksi terhadap kinerja perusahaan sektor pertambangan yang terdaftar di Bursa Efek Indonesia (BEI) Periode Tahun 2010-2014." *CALYPTRA*, 7(1), 1196–1296.

obtained were 21 politically connected companies and 5 non-politically connected ones. The regression equation is as follows:

$$\text{Leverage} = \alpha + \beta_1 \text{DConnected} + \beta_2 \text{Size} + \beta_3 \text{ROA} + \varepsilon \quad (1)$$

$$\text{Tax} = \alpha + \beta_1 \text{DConnected} + \beta_2 \text{Size} + \beta_3 \text{ROA} + \varepsilon \quad (2)$$

$$\text{Market Share} = \alpha + \beta_1 \text{DConnected} + \beta_2 \text{Size} + \beta_3 \text{ROA} + \varepsilon \quad (3)$$

The ratio leverage in this study was measured using debt to asset ratio (DAR); namely, comparing total debt with total assets (Naseer & Naseem, 2015). Tax variables in this study followed Faccio's (2010) formulation, which was income tax divided by income before taxes, then multiplied by 100.

Furthermore, market share is company sales to total sales of its industries (Siburian, 2017). Referring to Kamaludin (2010), criteria on the political connection are as follows: political support by the government obtained from government ownership of shares in a corporation (SP) and formal political support. Value of 1 was given if the shareholders, board of commissioners, or company directors are connected to certain political parties or the government. Value of 0 was given if supports were obtained from other (SF) and informal political support. Besides, the value of 1 was given if the company, indirect shareholders, board of commissioners, or directors have a close relationship with the leader. The value of 0 was also given if the supports obtained from others (SI). To ensure the research results were not biased, the control variables used in this study were company size and return of assets (ROA).

## 5 DISCUSSION AND IMPLICATIONS

Research conducted by Khwaja and Mian (2005) found that politically connected companies in Pakistan enjoy greater access to debt financing. Although they show a much higher default rate, they do not pay higher interest rates than their non-politically connected counterparts. In the context of Indonesia, Kamaludin (2010) also showed the influence of political connections on leverage, the relationship between political support and leverage. His research showed the more significant the size of the company, the higher the amount of leverage only for informal political support (SPI). Based on the theory and results of discussed and found in previous studies, it is assumed that politically connected companies have higher leverage than non-politically connected ones on the Indonesia Stock Exchange.

Politically connected companies have very close relationships with the government, either through company ownership or corporate leadership. The government, as the owner of the company, has an interest in the company improving its performance in the form of return on investment, and one of the ways is by reducing the tax owed as stated in Dharma and Ardiana (2016). According to Dharma and Ardiana (2016) and Faccio (2010), the majority of shares owned by the government negatively affect the effective tax rate. The higher the level of government ownership, the lower the company's effective tax rate. Based on the theory and results of previous studies, it is assumed that politically connected companies obtain higher tax reductions than non-politically connected ones on the Indonesia Stock Exchange.

In reality, the monopoly causes unfair business competition and tends to reduce business quality because of the absence of competitors. The ability to monopolize the market cannot be separated from the support of the authorities in making decisions. In this study, market share was measured using market capitalization because the sample included financial companies. Research by Chaney, Faccio, and Parsley (2011) found that politically connected companies enjoy a far higher market share than non-politically connected ones. Based on the theory and results of previous studies, it is also assumed that politically connected companies have a higher market share than non-politically connected ones on the Indonesia Stock Exchange.

## REFERENCES

- Anthony, R., and Govindarajan, V. (2005). *Management Control System*, Volume I and II.
- Chaney, P. K., Faccio, M., and Parsley, D. (2011). "The quality of accounting information in politically connected firms." *Journal of Accounting and Economics*. Elsevier {BV}, 51(1–2), 58–76. DOI: 10.1016/j.jacceco.2010.07.003.
- Chi, J., Liao, J., and Chen, X. (2016). "Politically connected CEOs and earnings management: Evidence from China." *Journal of the Asia Pacific Economy*. Informa UK Limited, 21(3), 397–417. DOI: 10.1080/13547860.2016.1176644.
- Dharma, I. M. S., and Ardiana, P. A. (2016). "Effects of leverage, fixed asset intensity, company size, and political connections on tax avoidance." *E-Journal of Accounting, Udayana University*, 15(1), 584–613.
- Faccio, M. (2006). "Politically connected firms." *American Economic Review*, 96(1), 369–386.
- Goldman, E., J. R., and So, J. (2009). "Do politically connected boards affect firm value?" *Review of Financial Studies*, 22(6), 2331–2360.
- Gomez, E. (2002). "Political Business in Malaysia." *Political Business in East Asia*. Routledge.
- Gomez, E., and Jomo, K. (1998). *Malaysia's Political Economy: Politics, Patronage, and Profits*. Cambridge: Cambridge University Press.
- Harymawan, I., and Nowland, J. (2016). "Political connections and earnings quality." *International Journal of Accounting & Information Management*. Emerald, 24(4), 339–356. DOI: 10.1108/ijaim-05-2016-0056.
- Kamaludin (2010). "Political Support and Leverage: The Case of Indonesia." *Journal of Business Economics*, 15(2).
- Khwaja, A. I., and Mian, A. (2005). "Do lenders favor politically connected firms? Rent provision in an emerging financial market." *The Quarterly Journal of Economics*. MIT Press, 120(4), 1371–1411.
- Kim, C., and Zhang, L. (2013). *Corporate Political Connections and Tax Aggressiveness*. Hong Kong: City University of Hong Kong.
- Leuz, C., and Oberholzer-Gee, F. (2006). "Political relationships, global financing, and corporate transparency: Evidence from Indonesia." *Journal of Financial Economics*. Elsevier, 81(2), 411–439.
- Shleifer, A., and Vishny, R. W. (1994). "Politicians and firms." *The Quarterly Journal of Economics*. MIT Press, 109(4), 995–1025.
- Siburian et al. (2017). "Market share based financial analysis in the telecommunications industry in Indonesia (Case Study of Telecommunications Companies)." 5(2), p. 465–474.
- Wulandari, L. (2018). "Pengaruh Political Connection pada dewan komisaris dan dewan direksi terhadap kinerja perusahaan sektor pertambangan yang terdaftar di Bursa Efek Indonesia (BEI) Periode Tahun 2010-2014." *CALYPTRA*, 7(1), 1196–1296.