

## **A BUILDING MEASUREMENT MODEL OF POLITICAL CONNECTION**

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### **ABSTRACT**

This study aims to perfect developed political connection measurements with ratios which according to researchers still have limitations because they do not consider the weight or quality of politicians who are considered to have a relationship with directors or commissioners. The purpose of this study is to try to find a more precise and rational political connection measurement by considering several things or elements. The aims to build an appropriate model or formula to measure political connections in addition to dummy and ratios that have been proposed and used by previous researchers. This research is a literature study that uses various written sources that are relevant to the measurement of political connections by considering the elements of power. This study proposes seven elements as factors that influence power for each politician, namely: Position in DPR/DPD and MPR, Ranking of Seat Obtained, Position of Politician in Central Government, Position in Political Parties, Background of Politicians, Experience in Political Organizations and Politicians Education. The results of this study propose an index of political connections (IPC) as a more rational political connection measurement because it considers several elements as factors that influence the power of each politician. This research is expected to be a reference for further studies specifically related to political connections. With this research the researcher wants to propose a more rational and realistic political connection by looking at the political system in Indonesia. Practical Implications This research is also expected to be a reference for business practitioners, especially the shareholders, directors and commissioners of companies who have considered political connections as one of the factors that can support the company's survival through political approaches.

**Keywords:** measurement, political connection, political connection index.

## INTRODUCTION

Politics is a term that is familiar among the people. Politics has a profound influence on the life of the nation and state. From the beginning until now politics cannot be separated from people's lives. It is not wrong if Aristotle explained that every human action always means politics every thing is politics (Keyt, 1985) and explained that politics exists everywhere and at any time, so people don't engage in politics, and actually have politics.

The definition of politics according to experts still varies depending on their respective perspectives. Politics according (Keyt, 1985) is an effort to achieve a good and just social order. The same thing was also stated by (Meyliana & Budiardjo, 2014) that politics is an effort to bring people towards a harmonious shared life. This definition is in accordance with the views of the Greek philosophers, Plato and Aristotle who considered politics as an attempt to achieve the best political society. In such polity , humans will live happily because they have the opportunity to develop talent, associate with a close sense of community, and live in an atmosphere of high morality (Budiardjo, 2005). But it cannot be denied that in its implementation, political activities, besides the good aspects, also include negative aspects. This is because politics reflects human nature, both good instincts and bad instincts.

Peter Merkl & Condrat, (1979) explains that: "Politics, in its worst forms, is the struggle for power, position and wealth for its own sake (Politics at its worst is a selfish grab for power, glory and riches)". The presence of the Lapindo case in Sidoarjo, the issue of Papa asked for shares in Freeport, the case caught his hand in Central Sulawesi related to the release of forests, as well as the latest case in early 2017, namely, caught her one Judge Mahkamah Constitution related to the import of meat, all of which involves their political people in it motivate researchers to conduct research on the existence of political people (political connections) in business. Research on political connections in accounting and finance, among others, was conducted by (Battini, Faccio, Persona, & Sgarbossa, 2010), which examines political connections and corporate bailout funds, the results show that companies that have political connections will be more likely to get more bailouts than companies that do not have political connections, but the performance of companies that are not politically connected is better than companies that are related to political

connections (Bandeira-de-Mello & Marcon, 2011). regarding the effect of financing and financial performance on the affiliation of the ruling Communist Party with Private Companies in China, the results show that political connections have a positive effect on company performance. Li et al., (2013)'s research also found that political connections have a positive effect through a number of mechanisms related to the weak institutional environment in China and (de Zúñiga, Copeland, & Bimber, 2014), (Wahab, Zain, James, & Haron, 2009) which examined the effect of company ownership in political connections with firm value, the results show that there is an influence of corporate ownership in political connections with firm value.

If you look at the two versions of the political definition above and by looking at the phenomenon in the last decade, both in developed and developing countries, where companies place political people (politicians) as directors or commissioners, and entrepreneurs become politicians, it appears that there is a relationship between politics and business and this relationship is known as political connections (Bliss & Gul, 2012), (Wati, Primiana, Pirzada, & Sudarsono, 2019). The last few decades, not a few business people entered politics as well as political people become business people, and companies are looking for connections of people who have political connections to maintain and secure their business. The existence of people who are connected with politics in the board of directors or commissioners of the company is now the concern of researchers. This indeed attracts the attention of many researchers because not a few of the politicians or people who are connected with politics who have behavior that is not commendable that if associated with the equality of people who are connected with politics in the ranks of directors or commissioners is seen to be able to disrupt corporate governance (Cheng & Leung, 2016; Ma, Ma, & Tian, 2013). In connection with the presence of people who are connected with politics in the company, this variable needs to be measured properly to be able to obtain a more rational political connection measurement in empirical research. Of the several methods of measuring political connections that researchers have read, on average they still have limitations, so researchers are motivated to find the right formulation for measuring political connections (Hirschman, 1994).

## LITERATURE REVIEW

### Political Connection

The term politics (Indonesia) is absorbed from the term politics which was first introduced by Aristotle a Greek philosopher (*Cambridge Companion to Early Greek Philos.*, 1999). Politics according to (Budiarjo, 2014) is an attempt to determine regulations that can be accepted well by most citizens, to bring the community towards a harmonious shared life. Efforts to achieve the good life involve a variety of activities which include the process of determining the objectives of the system, as well as ways of carrying out those goals. To implement public policies relating to the setting and allocation of natural resources, the needed power and authority. This power is needed both to foster cooperation and to resolve conflicts that may arise in the process of regulating and allocating natural resources. The means used to foster cooperation and resolve conflicts can be persuasive (convincing) and can also be coercive.

Although politics aims for harmonious coexistence, political activity can lead to conflict because of the values (both material and mental) that are pursued are usually rare in nature. On the other hand, in a democratic country, this activity also requires cooperation because human life is collective. In this case politics can basically be seen as an effort to resolve conflicts *conflict resolution* or consensus. Furthermore Merkl argues that politics in the best form is an effort to achieve a good and fair social order, while in the worst form is the struggle for power, position and wealth for one's own interests. In addition, there is also a view which says that politics is not only concerned with the struggle to appoint or elect a rule to set policies, but politics is also related to the distribution of power, policy implementation, and the allocation of authoritative values (Spillane, Reiser, & Reimer, 2002), (Jordan & Tosun, 2012), (Sabatier & Mazmanian, 1980). Thus, politics is also related to cooperation in human groups in the form of associations. Policy (state) is one form of association, in which interactions, relationships or communication are established between individuals who live together. Another form of association is a political party that is a forum for cooperation by a group of citizens who voluntarily based on equality of will and ideas to fight for the interests of members, society, nation and state. In an ideal perspective, a good party is a party funded by members and sympathizers. But what happened in Indonesia is not the case. In Indonesia. Basically political parties are more dependent on government assistance and

corporate assistance, when compared to the contribution of its own members (Roberts, 2017), (Gyampo, Ransford Edward; Graham, Emmanuel; Asare, 2017).

Political parties as a form of association as described above, which aims to fight for the interests of members, society, nation and state, are very closely related to business. Political relations with business are very strong because each one has an interest in each other, namely politics (political parties) need financial support for party activities and survival, likewise business (entrepreneurs/companies) need networks or connections with political people (politicians) to obtain facilities or policies in various matters related to the activities and/or sustainability of the business or company. In other words business and politics are two things that are interconnected and difficult to separate because the purpose of politics is to formulate public policies including those related to business interests. Conversely, business can support politics or political activities in a country (Yeung, 2000; Dobrea & Podgoreanu, 2014). Vermonte, (2015) explains that changing subsidies by the state to political parties from direct subsidies to indirect subsidies provides more open space for corrupt practices. Another adverse effect is the increasingly dependent political parties on the assistance of third parties, both corporations and individuals who have large capital. Finally, political parties look for candidates for legislative or executive members who have a large capital event even though they don't have any connection with their parties (Vermonte, 2003). Providing financial assistance to political parties by business people is certainly not free. There are rewards for donated funds. The economic returns that businesses get from these transactions include tax breaks, acceptance of tenders from the government, or in the form of policies and regulations that facilitate business. In the relationship between business and politics, as explained above, the term political company appears. A company is said to be politically connected if at least one of the company's shareholders or board of commissioners / director was a member of parliament, a minister, or a head of state, or is someone who has close relations with top politicians (Bauer, Pool, & Dexter, 2017), (Ruitenbergh, 2011). Several studies have found that political connections provide valuable contributions or benefits, such as the existence of political relations between companies and the government so that companies can gain comparative advantages, which can improve company performance and value (Samsonowa, 2012), (Grimmer & Bingham, 2013), and government-sponsored bailouts (Cheng, Wang, Keung, & Bai, 2017; Wickert, 2016). Companies that have political connections can get several benefits including easy access to get loan facilities from banks as well as

ease to get contracts or win projects tenders from the government , however, the existence of political connections can also threaten the company's value stated that corporate value could be threatened if political connections distorted incentives, misplaced investments, and increased levels of corruption.

### **Formulation of the problem**

The formulation of the problem in this study is the measurement of political connection with the ratio proposed and used by Yusoff et al. (2015) still has limitations because it does not consider the weight or quality of the politicians associated with political connections. Measurement of political connections using a ratio that compares the number of commissioners or directors connected with politics divided by the total number of commissioners and directors in a company according to researchers still has limitations because it gives the same weight to each politician who is considered to have a relationship / connection with directors or commissioners. This study proposes measurement of political connection by weighting by considering several factors, such as: Position in MPR/ DPR / DPD, Ranking of Obtaining Legislative Chairs, Position in the Central Government, Position or Position in Political Parties, Background of Politicians, Experience in Political Organizations, and Education.

### **Research Objectives**

This study aims to perfect developed political connection measurements with ratios which according to researchers still have limitations because they do not consider the weight or quality of politicians who are considered to have a relationship with directors or commissioners. The purpose of this study is to try to find a more precise and rational political connection measurement by considering several things or elements. The consideration of researchers is that politicians do not have the same weight or quality.

## **METHODOLOGY**

This research is a research literature, namely study done by research to conduct a search of various written sources, both in the form of books, records, magazines, Articles, and journals, or documents relevant to the issues being studied. So the information obtained from the literature study is used as a reference to strengthen the existing arguments.

## **Operational Definition and Measurement**

Political connection or political relations by (Datta & K. Ganguli, 2014) as a situation where a company has politicians or close relatives or close friends of politicians with good positions as directors, commissioners, shareholders. Based on the definition and description above, the operational definition of political connections in this study is the existence of politicians or close relatives or close friends of politicians who occupy directors and/or commissioners positions in a company (S. Li, Song, & Wu, 2015). From the above definition, the measurement of political connections can be done with several formulations in accordance with the point of view of the researchers and/or research objectives. From some articles that researchers read, there are several formulas for measuring political connections that researchers found include: 1). Dummy Variable (Balestra, 2011), 2. Dummy Variable regression (Fox, 2008), 3. Dummy Regression analyze (Skrivanek, 2009)

## **DISCUSSION**

### **Political Connection**

Political connection or political relations (Duggan & Martinelli, 2017) as a situation where a company there are a politician or a close relative or close friend of Politicians with good positions as directors, Commissioners, shareholders. Based on the definition and description above, the operational definition of political connections in this study is the existence of politicians or close relatives or close friends of politicians who occupy directors and / or commissioners' positions in a company. The measurement of political connections in this study refers to the research (Ang, Ding, & Thong 2013) that uses ratios, but the measurement of political connections using ratios in the view of researchers still has limitations namely that all politicians associated with political connections are considered to have the capacity or ability Similarly, when every politician has the capacity or power level ( power ) are different, both in terms of political experience, level of education, status or position in the party and in the DPR / MPR / DPD as well as in government. Therefore, to complete/perfect the limitations of political connection measurement, researchers add weighting to politicians as a multiplier to the

ratio to show a more rational measurement of political connections (S. Li et al., 2015).

Thus the political connection in this study is measured by the number of politicians or close relatives of politicians who occupy directors and / or commissioners positions divided by the total number of directors and / or commissioners then multiplied by the index (weighting) (Fletcher, 2017). Political connection measurements are formulated index as follows:

$$\text{Political Connection Index} = \frac{\text{Number of politicians or close relatives of politicians who have become Directors and / or Commissioners}}{\text{Total Number of Directors and / or Commissioners}} \times X$$

Index = Weight x Scores of politicians in companies that have Political Connections.

In connection with the index in the measurement of political connections above, the researcher uses seven weighting components, with their respective values. The seven components or elements in question are:

### **Position in Legislative**

The position or position of politicians in parliament according to researchers is very important influence the capacity and breadth of a politician's political network. With reference to RI Law No. 17 of 2014, concerning MPR, DPR, DPD and DPRD (MD3) which is a substitute for RI Law No. 27 of 2009, then there are 3 (three) differences in institutional arrangements between the DPR and DPD, namely:

DPR arrangements are regulated in Articles 67 to 245. Moderate The DPD regulation is regulated in Articles 246 to 262. This it means that in general the DPR is regulated in 178 provisions, whereas the DPD only stipulated in 16 conditions. There are 10 items of the DPR's fittings (Article 83 paragraph 1 of the

Law MD3), whereas in DPD there are only 7 items of completeness (Article 259 paragraph 1 of Law MD3). The rights of DPR members are formulated in 11 items (Article 80 of MD3 Law), while The right of DPD members is formulated only 7 items (Article 257 of MD3 Law). Based on the different institutional arrangements of the DPR and DPD above, then the researcher classifies the capacity of the *political connection* according to position, status or his position in the MPR, DPR and DPD institutions, with a score as follows:

Table 1. *Position on the Board*

No	Position on the Board	Score
1	<i>Chairman of DPR</i>	<i>1,00</i>
2	<i>Chairman of MPR</i>	<i>0,90</i>
3	<i>Chairman of DPD</i>	<i>0,80</i>
4	<i>Vice of the Chairman of the DPR</i>	<i>0,70</i>
5	<i>Vice of the Chairman of the MPR</i>	<i>0,60</i>
6	<i>Vice of the Chairman of the DPD</i>	<i>0,50</i>
7	<i>Chairman of the Commission</i>	<i>0,40</i>
8	<i>Vice of the Chairman of the Commission</i>	<i>0,30</i>
9	<i>Member of DPR</i>	<i>0,20</i>
10	<i>Member of DPD</i>	<i>0,10</i>

### **Ranking of Obtaining Seats in the Legislature**

Ranking based on the number of seats obtained from political parties Politicians also determine the capacity and network connections of a politician. Increasingly the number of seats obtained by political parties from the politician in the House of Representatives People's Republic of Indonesia representative the higher the weight of political parties from the politician in question. Of the 15 political parties participating in the 2014 election in Indonesia (including 3 political parties from Aceh) there were 10 political parties that escaped get 560 seats provided or contested in the national legislative. Thus based on the

number of seats obtained from 10 political parties pass the legislative candidates to the Republic of Indonesia Parliament in the 2014 Election, then you can arranged for the acquisition of seats for political parties ranging from the largest to the ones the smallest with each score as follows:

Table 2. Name of the Party Gaining

No	Name	Score	Delegation
1	<i>PDIP</i>	109	1.00
2	<i>Golkar</i>	91	0.90
3	<i>Gerindra</i>	73	0.80
4	<i>Democrats</i>	61	0.70
5	<i>PAN</i>	49	0.60
6	<i>PKB</i>	47	0.50
7	<i>PKS</i>	40	0.40
8	<i>PPP</i>	39	0.30
9	Nasdem	35	0.20
10	Hanura	16	0.10

### Position in the Central Government

Central government officials in weighting capacities *Political connection* bags in this study are the president, vice president, men anchovies or ministerial level as well as vice minister or equivalent. because of the handshake this position or position is a political position, so that anyone those who sit in these positions are seen as having network / political connections wide or strong tick. Based on the description above, the researcher classifies the working capacity bat / former officials in relation to political connections and provide the following score:

Table 3. *Officials*

No	Officials	Score
1	President	1.00
2	Vice President	0.75
3	Minister / Equal	0.50
4	Deputy Minister / Equal	0.25

The position or position of a politician in a political party is one of the elements that show the capacity of the politician concerned in the internal environment of his political party. The higher position of a politician in a political party, wider the network of connections, both within the party's internal environment, and with the party's external environment. The weighting of politicians based on position / position in political parties in this study is classified and scored as follows:

Table 4. *Position*

No	Background	Score
1	Chairman	1.00
2	Board of Supervisor	0.75
3	Floor Leader	0.50
4	Ordinary Member	0.25

Factors that according to researchers can also affect the capacity or weight political connection is the background of politicians. The background of the politician referred this research is whether the politician concerned from famous family politicians or entered as politicians because of friendship / friendship with politicians that are well known. This cannot be separated from what is called political socialization is a process of how to introduce the political system to someone, and how that person determines their responses and reactions his reaction to political symptoms. Political socialization is determined by social, economic and cultural environment in which individuals are located, in addition

also determined the interaction of experiences and personality. External factors influence the process socialization include family environment, friendship environment, and educational environment. Based on the observation of researchers of the political world that if a politicians are family or descendants of famous politicians then all the stronger or wider political network compared to politicians born of families who are not politicians. Politicians born from family politicians or close relatives of politicians will be more easily recognized by the public so before plunging into politics in general is widely known and get to know politicians and public officials. Thus existence politicians from descendants or close relatives with a background in politicians will become big capital for politicians concerned because of charisma or name large parents or close relatives that were previously known as politician. From the description above, the researcher classifies the score of political connections based on family background / relatives of politicians as follows:

Table 5. *Background*

No	Background	Score
1	Son in Low	1.00
2	Brother / Sister in Law	0.75
3	Close Relative / Cousin	0.50
4	Friend of Politicians	0.25

Experience will not only be a good teacher, but will also support someone has more friends. Someone's experience at un generally determined by the length of membership / inactivity in an organization (usually measured in years). More or longer someone's experience will be more (more extensive) interaction with other people, both in the internal environment of the organization and at external environment of the organization. With more and more people interacting with others then the greater / wider room to make friends or family relationships with others. Based on the description above, the researchers determined political experience as one element to be checked with in giving political connection weight. In connection with the description above, the researcher uses the duration the political experience (in years) of each politician as one factor weighting in this study, by giving the following scores:

Table 6. *Political Experience*

No	Political Experience	Score
1	>15 years (15 years and above)	1.00
2	10 - 15 years (Over 10 years - 15 years)	0.75
3	- 10 years 5 (Over 5 years - 10 years)	0.50
4	< 5 Years (5 years and below)	0.25

Factors that also support the success of a person or organization according to researchers the existence of a wide network of connections. An extensive network will be determine by the extent of the association. The rate of association will be influenced by education level. The higher level of education, the more also the friendship network that will be owned by someone. The reasons for place the level of education as one of the factors that can need as network connections include: Someone every time you go up an education level will meet or get- new friends, so friends or friendships will increase. mThe higher level of one's education, the more extensive knowledge- Her, this will be a capital for someone to easily be able to hang out with other people. Friendship or friendship will be easy to realize form if there is good communication between one individual to the individual the other. And one of the factors that support the establishment of communication good is the knowledge generally obtained from education. Based on the description above, the researcher concludes that the higher the education level of a politician, the higher the score. This means that the higher the level of education of politicians the more possible it is to have many friends or the more it is possible to have a wider network of connections. The level of education and the scores used in measuring the capacity of political connections in this study are:

Table 7. *Capacity Of Political*

No	Educational Level	Score
1	Doctoral	1.00
2	Magister	0.75
3	Bachelor	0.50
4	High School	0.25

From the seven elements or components taken into account in the weighting above, the researcher then gives weight to each component based on the amount of influence or power of the component. And the total weight of the seven components must be equal to one. For more details, the weighting for the seven weighting components based on the description above is as follows:

Table 8. *Weight Components*

No	Components	Weight
1	Position in Legislative	0.26
2	Ranking/Amount of Seat Obtained	0.22
3	Position in government	0.18
4	Position in a political parties	0.14
5	Politician background	0.10
6	Experience of politicians	0.06
7	Level of Education	0.02
	Total	1.00

The weighting of the seven components Mentioned above by Researchers is determined based on the amount of power that is closely related to the influence and authority of a politician. This is consistent with what was stated which states

that in general power is defined as ability possessed by someone to influence others. And if it is associated with state life, then power is closely related to influence and authority. Furthermore power cannot be separated from office, because authority and influence in essence are on those who have office or in power. In other words, power and office are like two sides of a coin that are difficult to separate, positions are in a circle of power (Rasmussen & Brown, 2005), (Bedeski & Shue, 1988). Data or information regarding the measurement of political connections proxy by the number of politicians or relatives/close friends occupying directors or commissioners positions in the company including data/information related to the measurement component of the Political Connection Index can be seen in the company profile, especially in the composition and profile section of commissioners and directors. In addition, researchers also obtained information and data can be both politicians through personal profile web concerned or through website board members of political parties can be freely and easily on the internet.

## **IMPLICATIONS**

### **Theory Implications**

This research is expected to be a reference for further studies specifically related to political connections in relation to socio political theory. With this research the researcher wants to propose a more rational and realistic political connection by looking at the socio-political system in Indonesia. Application of the theory is well proved.

### **Practical Implications**

This research is also expected to be a reference for business practitioners, especially the shareholders, directors and commissioners of companies who have considered political connections as one of the factors that can support the company's survival through political approaches.

## **CONCLUSION**

Measurement political connection for this by the investigator priority to the general use of the dummy and the ratio, will be but According to Researchers measuring the still has limitations where not all Politicians have the weight or quality of the same. On the basis of consideration of this the Researchers looked at the need no form or formula of measurement political connection that is more

rational and proportionate suit the conditions and the fact that there is in the life of society. The researcher believes that the measurement of the ratio still has limitations because every politician does not have the same power. It was researchers will be influenced or determined by some factors among others: 1) Position the Legislative, 2) Ranked Earned seats in the Legislature, 3) Position in Government Center, 4 ) Position or Position in Party Politics , 5) background behind the politician, 6) Organization experience and 7) Education . Seventh element or factor is that the researchers used as a variable to calculate the Index of Political Connection (IPC) which is then multiplied by the ratio to obtain the value of the power of political connection.

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