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HOW AUDIT COMMITTEE ADDRESS THE EFFECTS OF POLITICAL CONNECTIONS AND GOVERNMENT OWNERSHIP IN BANKING SECTOR

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ABSTRACT

Purpose: *This research aims to examine the influence of political connections, government ownership, and changes in loans on financial performance, as well as the role of the audit committee in moderating the relationship between political connections, government ownership, and financial performance.*

Methodology/approach: *The research sample consists of 32 banking companies listed on the Indonesia Stock Exchange from 2017 to 2021. This study utilizes the Structural Equation Model-Partial Least Squares (SEM-PLS) analysis with WarpPLS..*

Findings: *The research results indicate that political connections and changes in loans have a significant impact on financial performance, while government ownership does not show any influence on financial performance. Moreover, the audit committee was found to moderate the relationship between political connections and government ownership with financial performance.*

Practical implications: *This research contributes to the management of companies by providing insights into the factors that influence the improvement of the company's financial performance. A significant improvement in financial performance is a positive signal that investors receive about the company, thus influencing their investment decisions.*

Originality/value: *This research adds an audit committee as a moderator, uses market-based measurements for banking financial performance, and uses a new measurement scale to assess the size of companies, especially in the banking sector, referring to POJK. Number 12 of 2021 based on Bank Group Core Capital (KMBI).*

KEYWORDS: *Audit Committee; Change in Loans; Government Ownership; Financial Performance; Political Connection.*

ABSTRAK

Tujuan penelitian: Penelitian ini bertujuan untuk menguji pengaruh koneksi politik, kepemilikan pemetintah, dan perubahan pinjaman terhadap kinerja keuangan serta bagaimana peran komite audit dalam memoderasi hubungan koneksi politik dan kepemilikan pemerintah terhadap kinerja keuangan.

Motode/pendekatan: Sampel penelitian terdiri dari 32 perusahaan perbankan yang terdaftar di Bursa Efek Indonesia pada tahun 2017-2021. Penelitian ini menggunakan analisis *Stuctural Equation Model-Partial Least Squares* (SEM-PLS) dengan WarpPLS.

Hasil: Hasil penelitian menemukan bahwa koneksi politik dan perubahan pinjaman berpengaruh positif terhadap kinerja keuangan, namun kepemilikan pemerintah tidak berpengaruh terhadap kinerja keuangan. Selanjutnya, komite audit memoderasi hubungan koneksi politik dan kepemilikan pemerintah terhadap kinerja keuangan.

Implikasi praktik: Penelitian ini memberikan kontribusi bagi manajemen perusahaan untuk mempertimbangkan faktor yang mempengaruhi kinerja keuangan perusahaan meningkat. Peningkatan kinerja keuangan yang tinggi merupakan sinyal positif yang diterima investor untuk perusahaan, sehingga akan berdampak kepada keputusan investasi yang akan dilakukan oleh investor.

Orisinalitas/kebaharuan: Penelitian ini menambahkan komite audit sebagai pemoderasi, menggunakan pengukuran berbasis pasar untuk kinerja keuangan perbankan, dan menggunakan skala pengukuran baru untuk menilai besar kecilnya perusahaan khususnya di sektor perbankan, mengacu pada POJK. Nomor 12 Tahun 2021 berdasarkan Modal Inti Kelompok Bank (KMBI).

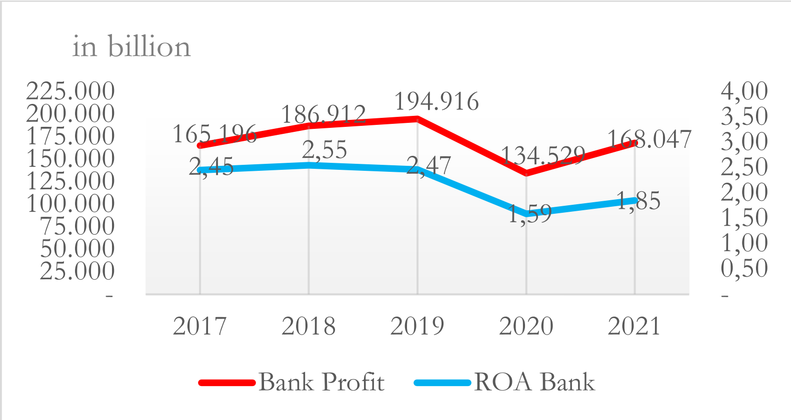
KATA KUNCI: Kepemilikan Pemerintah; Kinerja Keuangan; Komite Audit; Koneksi Politik; Perubahan Pinjaman.

INTRODUCTION

Banks are business entities that collect funds from the public in the form of deposits and channel them to the public in the form of loans and other forms in order to improve the standard of living of the people (Undang-Undang Republik Indonesia, 1998). According to Otoritas Jasa Keuangan (2017) banks carry out their functions based on the principle of prudence because banking functions involve collecting and disbursing public funds to support national development, promote economic growth, and national stability towards improving the standard of living of the people. This is also stated by Dang (2019), who emphasizes that the banking sector is one of the financial institutions that plays a crucial role in a country's economy. However, in 2020, Indonesia's economy experienced a significant decline due to the emergence of the COVID-19 pandemic in the country, first reported in early 2020. This was evident by the condition of the Gross Domestic Product (GDP), which decreased by -2.07% compared to the economic growth before the COVID-19 outbreak.

The decline in economic growth led to a recession, affecting the performance of various business sectors, including the banking sector. The function of fund distribution to the public decreased in line with the decline in credit demand caused by the weakened economy during 2020 (Bank Indonesia, 2021). Furthermore, the impact of the COVID-19 crisis also led to a decline in the financial performance of the banking sector, measured using return on assets (ROA). During the period of 2017-2021, the financial performance of banking companies experienced changes each year, with a particularly significant decline occurring in 2020. Figure 1 illustrates the financial performance and profit of the companies, showing the highest financial performance in 2018 at 2.55% with a profit of IDR 186,912 billion, followed by a drastic decrease in financial performance in 2020, reaching 1.59% with a profit of IDR 134,529 billion. However, the financial performance of the banking sector started to recover during the transition period of COVID-19 in 2021, reaching 1.85% with a profit of IDR 168,047 billion. Shawtari (2018) argues that banking performance is a major concern for policymakers and decision-makers because it serves as the foundation for financial and banking system stability and smooth functioning. When bank performance is poor, it directly affects the weak financial and economic system. Good financial performance provides an indication of successful company management, and thus, better financial performance will have a positive impact on investments made by company stakeholders such as investors, suppliers, creditors, and others.

Several factors influence the financial performance of banks, one of which is political connections. Houston et al. (2014) revealed that government policies often have a profound effect on company performance, leading companies to take steps to foster good relationships with key government officials. Sutopo et al. (2017) found that political connections are highly valuable for companies as they provide "privileges" such as preventing competition, creating barriers for new entrants in the industry, and improving access to resources. Politically connected companies have advantages in accessing higher loans at lower costs (Cheema, 2018; Haris et al., 2019). Haris et al. (2019) also showed that political connections are not only beneficial in terms of accessing tax benefits, licenses, and others, but they can also influence corporate governance mechanisms and increase agency problems risks since politically connected companies tend to prioritize political interests over shareholder interests. For banks with political connections, there are higher risks associated with granting larger loans to politically connected companies at lower costs and with easier conditions (Haris et al., 2019).



Source: Indonesian Banking Statistics, OJK

Figure 1. Profit and ROA Bank from 2017-2021

The second factor is that financial performance can be influenced by government ownership in the company's share composition. Ownership structure within a company is closely related to agency theory proposed by Jensen & Meckling (1976), where the relationship between principal (shareholders) and agent (management) often encounters agency problems. This is due to differences in objectives; shareholders, who are the owners of the company, want to ensure that management takes appropriate actions for the company, resulting in maximum profits from their investments. On the other hand, management is responsible for optimizing shareholder profits but also desires to improve their own welfare. The ownership structure of a company includes government ownership, where Shawtari (2018) states that government ownership differs from private ownership in terms of performance due to agency, intermediation, operations, support, asset allocation for financing, and investments. Government ownership can help align the interests of shareholders and management. This is because the government has clear mechanisms and rules in performing its tasks, making it an effective and efficient means to oversee management performance, ultimately leading to improved financial performance of the company (Hunardy & Tarigan, 2017).

The third factor that can influence financial performance, especially in the banking sector, is changes in loans. Dang (2019) revealed in their research that the primary activity of banks is to mobilize deposits to borrowers, thus generating interest income, which consistently contributes significantly to the total interest income. Ekpu & Paloni (2016) disclosed that business loans are an essential source of bank profits, where the profit from loans depends on each bank's capacity to maximize net interest income, reduce loan losses, and minimize non-interest costs on loans.

Good financial performance can occur because one of the factors is the existence of an audit committee in the company. The audit committee is a part of the human resources within the company that functions to maximize supervision related to the implementation of corporate governance, where Ramadhan & Laksito (2022) revealed that the presence of an audit committee can minimize the occurrence of improper accounting disclosures, thus impacting better financial performance. The Financial Services Authority Circular No. 13 of 2017 on Corporate Governance Implementation for Commercial Banks states that the implementation of corporate governance in the banking industry must always be based on the 5 (five) fundamental principles of good corporate governance (Otoritas Jasa Keuangan, 2017c), which are (1) Transparency, openness in disclosing material and relevant information, as well as transparency in decision-making processes; (2) Accountability, clarity of the roles and responsibilities of the Bank's organs to ensure effective management; (3) Responsibility, compliance of the Bank's management with regulations and principles of sound banking management; (4) Independence, professional management of the Bank without influence or pressure from any party; and (5) Fairness, justice and equality in fulfilling the rights of stakeholders arising from agreements and regulations. According to Article 1 of Financial Services Authority Regulation No. 55 of 2015 regarding the establishment and guidelines for the work of the audit committee, the audit committee is a committee established by and accountable to the board of commissioners to assist in carrying out the tasks and functions of the board of commissioners, and the audit committee consists of at least 3 (three) members who come from independent commissioners and individuals from outside the issuer or public company (Otoritas Jasa Keuangan, 2015). The audit committee is classified as one of the entity's resources that contribute to the operational activities of the company because it relates to the functions of supervision, internal control, audit implementation, financial reporting processes, and corporate governance implementation (Ramadhan & Laksito, 2022).

This study aims to provide new empirical evidence by examining three independent variables, namely political connections, government ownership, and changes in loans, on financial performance, moderated by the audit committee, in banking companies listed on the Indonesia Stock Exchange (IDX). The banking sector also has good regulations as they are crucial in supporting economic activities, where financial regulations play a role in ensuring fair, cautious actions by financial sector participants, without causing distortions or systematic risks to the economy (www.tempo.co, 2015). The study uses the audit committee as a moderating variable because it plays a vital role in ensuring good financial reporting practices in companies (Fariha et al., 2022). With the presence of an audit committee, it is expected to minimize agency conflicts, thus enhancing financial performance and firm value (Dakhlallh et al., 2020; Haris et al., 2019). This research is different from previous studies because it utilizes SEM-PLS analysis for hypothesis testing, employs market-based measurements for banking financial performance, and utilizes a new measurement scale for assessing the size of companies, specifically in the banking sector, referring to POJK No. 12 of 2021 based on the Core Capital Bank Group (KMBI).

Companies with political connections are those that have political ties. Wang et al. (2019) revealed that political connections can benefit companies. This is consistent with the research conducted by Hung et al. (2017), which states that politically connected banks have higher asset returns, lower default risk, lower credit risk, and better performance. This finding is also supported by Sutopo et al. (2017), where political connections can improve bank performance by facilitating access to larger funds, lower funding costs, and gaining advantages in obtaining lower deposit interest rates. Azizah & Amin (2020) revealed that the presence of political connections within a company improves and reduces information asymmetry, leading to increased investor interest in investing in the company, which ultimately impacts the company's performance. Based on these explanations, the first hypothesis in this study is as follows:

H_1: Political connection has a positive influence on financial performance.

Government ownership refers to the government holding a majority of shares in a company (Cornett et al., 2010; Dianitasari & Hersugondo, 2020). The study by Hunardy & Tarigan (2017), where government ownership is proxied by the percentage of government-owned shares out of the total outstanding shares, provides evidence of a positive and significant relationship between government ownership and financial performance measured by Net Interest Margin (NIM). This finding is also supported by the research of Shawtari (2018) and

Dianitasari & Hersugondo (2020), which reveal that government ownership has a positive impact on financial performance. These results indicate that when a company has a composition of shares owned by the government, it can lead to improved company performance because the government is considered an effective and efficient means of overseeing management performance. Consequently, when management performs well, it has a positive impact on financial performance as well (Hunardy & Tarigan, 2017). Based on these explanations, the second hypothesis in this study is as follows:

H_2: Government ownership has a positive influence on financial performance.

Numberi & Dwiyanto (2016) revealed that banks are financial institutions that, in addition to their main activities of accepting demand deposits, savings, and deposits, are also known as places to borrow money (credit) for people in need. Dang (2019) in their research showed that the primary activity of banks is to mobilize deposits to borrowers, thus generating interest income, which consistently contributes significantly to the total interest income. Kerimkulova et al. (2021) demonstrated in their research that bank loans have an impact on financial performance. This finding is consistent with the research conducted by Dang (2019) and Ekpu & Paloni (2016), which indicated that business loans significantly influence bank profits, and business profitability depends on the size of the company, whether large or small. This shows that when banks have a high loan volume, it will result in improved bank performance. Based on these explanations, the third hypothesis in this study is as follows:

H_3: Changes in loan has a positive influence on financial performance.

Companies with political connections not only have potential benefits but also potential disadvantages for the company. Companies with political connections tend to have lower accounting information quality compared to companies without political connections because they have less need to respond to market pressures to improve information quality, leading to lower-quality accounting information disclosure (Chaney et al., 2011). Joseline et al. (2021) revealed that political intervention can weaken good managerial practices and worsen corporate governance mechanisms. The agency theory developed by Watts and Zimmerman in Deegan (2014) reveals that individuals are driven by self-interest, and they will always act opportunistically to increase their wealth. The political process is considered a competence for transferring wealth from companies through minimum wage increases. The potential disadvantages experienced by politically connected companies can be minimized with the role of the audit committee, which is part of the corporate governance mechanism. This is because the audit committee, which should have knowledge in accounting recognition and measurement, gains access to various control elements such as internal control, audit implementation, financial reporting processes, and corporate governance implementation (Ramadhan & Laksito, 2022). The audit committee is established by the board of directors to perform independent oversight over financial reporting processes and external audits, monitor and supervise the financial statement audit to ensure compliance with applicable financial standards. When the audit committee performs its functions optimally, it can minimize the likelihood of management disclosing low-quality accounting information, which would then attract investor interest and ultimately lead to better financial performance.

H_4: The audit committee moderates the influence of political connections on financial performance.

Similar to political connections, companies with government ownership can also have a negative impact on financial performance (Migliardo & Forgione, 2018; Rahman & Reja, 2015). Razak et al. (2008) revealed that the reasons government ownership results in poor financial performance are because the government is guided by social altruism, which may not align with profit motives; the government is not the ultimate owner but rather an agent of the true owners; and bureaucrats, not the actual owners, run the government, leading to a lack of personal interest in ensuring efficient operations or good governance. Government, as a shareholder, does not focus on maximizing profits as its primary goal, resulting in conflicting interests with management (Sabrina & Muharam, 2015). Conflicting interests can be minimized with the presence of an audit committee in the company. The audit committee, required to have high integrity, knowledge, and experience in relevant fields, functions to review financial information, ensure compliance with regulations, provide independent opinions in cases of disagreements between management and accountants, and more (Otoritas Jasa Keuangan, 2015). With the audit committee's role as an independent overseer, it becomes an effort to reduce conflicting interests or agency problems in the company, ultimately impacting the company's financial performance.

H_5: The audit committee moderates the influence of government ownership on financial performance.

Based on the explanations above, the following sequence of explanations regarding the relationship between political connections, government ownership, the audit committee, and financial performance is illustrated in the following Figure 2:

This research employs two hypotheses moderated by the audit committee, namely political connections and government ownership. This is because political connections and government ownership are directly related to shareholders and management and often involve agency problems, necessitating the presence of an audit committee to oversee management performance in running the company.

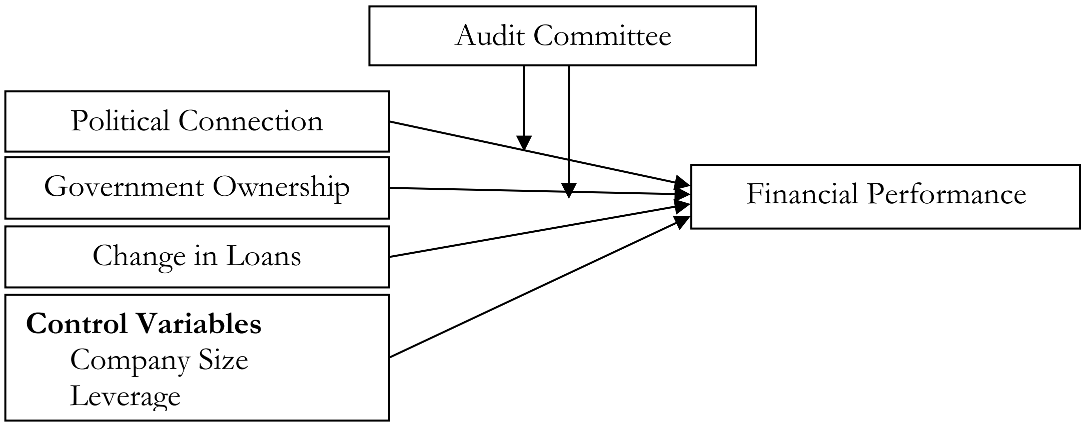


Figure 1. Research Framework

METHOD

No.	Sample Criteria	Total
1.	Banks listed on the Indonesia Stock Exchange (BEI) during the period 2017-2021.	47
2.	Banks that were not consistently listed on the Indonesia Stock Exchange (BEI) during the years 2017-2021.	(6)
3.	Banks that do not have political connections.	(9)
Total number of companies		**32**
Total of observation data		**160**

Source: Data processed (2023)

Table 1. Research Sampling

This research is a quantitative study that uses secondary data. The data collection technique used in the research is documentation. The data sources used are from the annual reports of companies accessed on the official website of the Indonesia Stock Exchange and the official websites of each company. The research was conducted from the period of 2017 to 2021. The population of this research is banking companies listed on the Indonesia Stock Exchange (IDX). The sample selection in this research uses the purposive sampling method. Table 1 shows the sampling process, where out of a total of 47 companies, 32 companies were selected, resulting in 160 data observations that meet the sample criteria.

This research uses Structural Equation Model-Partial Least Squares (SEM-PLS) analysis with WarpPLS version 4.0. Thus, an evaluation of the measurement model (outer model) and the structural model (inner model) is conducted before testing the hypotheses. The measurement model in this study is a formative measurement model, where the indicator weights must be statistically significant and multicollinearity is assessed with a value of VIF < 3.3. Meanwhile, the structural model is evaluated based on the coefficient of determination (R-squared) with values of 0.75, 0.50, and 0.25 for each dependent variable, which can be interpreted as substantial, moderate, and weak, respectively; predictive relevance (Q-squared) with a value > 0, indicating that independent variables have predictive relevance to the dependent variables, and effect size or the contribution of each independent variable to the dependent variable, which is categorized as weak (0.02), medium (0.15), and large (0.35) (Sholihin & Ratmono, 2013). Moderate regression analysis (MRA) is performed to determine whether the moderation test is classified as pure moderator, quasi moderator, homologizer moderator, or predictor moderator (Ghozali, 2014). Hypothesis testing is done based on decision-making criteria using a significance value or p-value < 0.05, indicating that independent variables have a significant impact on the dependent variable.

The variables in this study consist of financial performance as the dependent variable, political connections, government ownership, and loan changes as independent variables, as well as the audit committee as a moderating variable, company size, and leverage as control variables. The measurement of each variable is explained in Table 2.

Table 2. Operationalization of Variables

Variable	Indicator	Authors
Financial Performance	Tobin's Q = $\frac{Market\ Capitalization+Total\ Debt}{Total\ Assets}$	Fariha et al. (2022)
Political Connection	POLBO = $\frac{Number\ of\ board\ members\ with\ political\ connections}{Total\ number\ of\ board\ members} x100\%$	Proença et al. (2020)
Government Ownership	Value 1 if the bank is owned by the government and 0 if it is not owned by the government.	Migliardo & Forgione (2018)
Change in Loans	Change in Loans = $\left(\frac{Loan_{(t)} - Loan_{(t-1)}}{Total\ Assets_{(t-1)}}\right)$	Dinç (2005)
Audit Committee	Audit Committee = $\sum$ $Audit\ Committee\ Members$	Fariha et al. (2022)
Company Size	Value 1 if the banking company is classified in group KBMI 1, value 2 if it is classified in group KBMI 2, value 3 if it is classified in group KBMI 3, and value 4 if it is classified in group KBMI 4.	Otoritas Jasa Keuangan (2021)
Leverage	DER = $\frac{Total\ Liabilities}{Equity}$	Proença et al. (2020)

Source: Data processed (2023)

The regression model equations established in this study are as follows:

$$PERFORM = \alpha + \beta_1 POLSO + \beta_2 GOV + \beta_3 CoL + \beta_4 AUDCOM + \beta_5 POLSO{*}AUDCOM + \beta_6 GOV{*}AUDCOM + \beta_7 LEV + \beta_8 SIZE + e$$

Keterangan:

PERFORM = Financial Performance
a = Constant
POLSO = Political Connection
GOV = Government Ownership
CoL = Change in Loans
SIZE = Company Size
LEV = *Leverage*
AUDCOM = Audit Committee
$\beta_1 \ldots \beta_n$ = Regression Coefficient
e = *epsilon* (*error term*)

RESULT AND DISCUSSION

The results of the descriptive analysis are presented in Table 3, which provides an overview of each variable. Among all the analysis units, the minimum value for PERFORM is 0.00608, obtained by Bank Panin Dubai Syariah Tbk. in 2017, and the maximum value is 3.31496, obtained by Bank Jago Tbk. in 2019. POLSO has a minimum value of 0.12500 and a maximum value of 1. Out of all the analysis units, 125 units (78.13%) do not have GOV, while the remaining 35 units (21.88%) have GOV. CoL has a minimum value of -0.32298, obtained by Bank Jtrust Indonesia Tbk. in 2018, and a maximum value of 2.02561, obtained by Bank Jago Tbk. in 2021. AUDCOM has a minimum value of 2 and a maximum value of 8. SIZE has a minimum value of 1 and a maximum value of 4. LEV has a minimum value of 0.19287, obtained by Bank Dubai Syariah Tbk. in 2020, and a maximum value of 16.07858, obtained by Bank Tabungan Negara (Persero) Tbk. in 2020.

The adequacy of the research model is indicated by the results of the evaluation of the measurement model (outer model) in Table 4 and the structural model (inner model) in Table 5. First, for the measurement model evaluation in Table 4, the p-value of all indicators is less than 0.05, indicating that all indicators are reliable. Furthermore, the VIF values for all indicators, including independent, dependent, and moderating variables, are less than 3.3, indicating that all indicators are free from collinearity.

Table 3. The results of the Descriptive Statistical Analysis

	N	Min	Max	Mean	Std. Deviation
PERFORM (Y)	160	0.00608	3.31496	1.08966	0.39084
POLSO (X1)	160	0.12500	1.00000	0.44888	0.23319
GOV (X2)	160	0.00000	1.00000	0.21875	0.41340
CoL (X3)	160	-0.32298	2.02561	0.04221	0.19521
AUDCOM (Z)	160	2.00000	8.00000	3.89375	1.16510
SIZE (X4)	160	1.00000	4.00000	2.09375	1.07120
LEV (X5)	160	0.19287	16.07858	5.64260	2.92243

Source: Data processed (2023)

Table 4. Result of Measurement Model Evaluation

Variable	Indicator Weight (P-*value*)	*Variance Inflation Factor* (VIF)
PERFORM (Y)	<0,001	1,040
POLSO (X1)	<0,001	1,540
GOV (X2)	<0,001	2,442
CoL (X3)	<0,001	1,040
AUDCOM (Z)	<0,001	1,633
SIZE (X4)	<0,001	1,339
LEV (X5)	<0,001	1,406

Source: Data processed (2023)

Second, for the structural model evaluation in Table 5, the R-square value is 0.109. This means that the independent and moderating variables can explain 10.9% of the variance in the dependent variable, while the remaining variance is explained by other factors outside the research model. According to the criteria, the R-square value in this study is below 0.25, indicating that the model falls into the weak category in explaining variance. The Q-square value is 0.209, which means that the Q-square > 0, indicating that the model has predictive relevance, with good values of observed observations and parameter estimates. Furthermore, the effect size values for each variable are limited to 0.02, which means that each test has a small effect on financial performance.

Table 6 shows that the audit committee variable (Z) statistically indicates non-significant results. This can be observed from the p-value of 0.182, which is greater than 0.05 (5%).

Table 5. Result of Structural Model Evaluation

	R-square	Q-*square*	*Effect Size*	Hypotheses
Y	0,109	0,209	0,022	POLSO->PERFORM
			0,004	GOV->PERFORM
			0,101	CoL->PERFORM
			0,011	POLSO*AUDCOM->PERFORM
			0,008	GOV*AUDCOM->PERFORM
			0,025	SIZE->PERFORM
			0,018	LEV->PERFORM

Source: Data processed (2023)

Table 6. Result of Moderate Regression Analysis (MRA)

	Path Coefficients	P-*value*	Explanation
AUDCOM->PERFORM	-0.058	0.182	Not significant

Source: Data processed (2023)

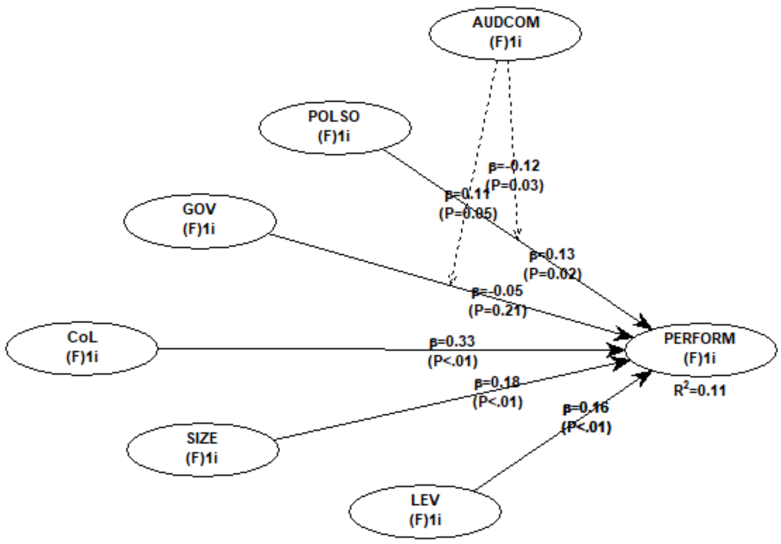


Figure 3. The Results of Hypothesis Testing

Hypotheses	*Path Coefficients*	*P-value*	Explanation
POLSO->PERFORM	0,133	0,019	Significant
GOV->PERFORM	-0,052	0,210	Not significant
CoL->PERFORM	0,326	<0,001	Significant
POLSO*AUDCOM->PERFORM	-0,117	0,034	Significant
GOV*AUDCOM->PERFORM	0,108	0,046	Significant
SIZE->PERFORM	0,183	0,002	Significant
LEV->PERFORM	0,160	0,007	Significant

Source: Data processed (2023)

Table 7. The Results of Hypothesis Testing

Based on the analysis results, the model equations formed through path coefficients are as follows:

PERFORM = 0,133 POLSO – 0,052 GOV + 0,326 CoL – 0,058 AUDCOM – 0,117 POLSO*AUDCOM + 0,108 GOV*AUDCOM + 0,183 LEV + 0,160 SIZE + e

Based on the test results, political connections have a significant influence on the financial performance of banking companies listed on the Indonesia Stock Exchange during the period 2017-2021. Table 7 shows a positive coefficient value of 0.133 with a significance of $0.019 < 0.05$; thus, political connections have a positive effect on financial performance, and thus the first hypothesis (H_1) stating that political connections have a positive effect on financial performance is accepted. Companies with political connections have higher financial performance compared to those without political connections. This analysis supports the research conducted by Sulistyowati & Prabowo (2020); Hung et al. (2017); Bencheikh & Taktak (2017); and Sutopo et al. (2017).

Political connections, proxied by the number of politically connected members in the board of commissioners out of the total board members, can explain its influence on financial performance. This is because the board of commissioners is an organ within the company that oversees general or specific matters according to the articles of association and provides advice to the directors (Otoritas Jasa Keuangan, 2014), and the board members play a critical role in maintaining effective corporate governance, thus reducing agency conflicts within the company (Chancharat et al., 2019). Saeed et al. (2019) reveal that politicians have access to a lot of information related to future strategic economic policies, so companies with politically connected board members are better positioned to assist the company in making beneficial decisions in the short term. In line with what Watts and Zimmerman stated in Deegan (2014), where the political process can lobby the government through taxes, licensing, and subsidy cuts. Ahmed & Hussainey (2023) also state that political connections serve as a mechanism for companies to withstand social and global pressures to reduce uncertainty, leading companies to appoint politicians to join the board of directors. Hung et al. (2017), Chancharat et al. (2019), Bencheikh & Taktak (2017), and Sutopo et al. (2017) also reveal that politically connected companies have better access to funding sources, which are crucial for business expansion, business innovation, and operational needs. Watts and Zimmerman in Deegan (2014) revealed that accounting information is influenced by many factors, where organizations interact with all aspects of running the organization that can affect accounting information, especially financial information (financial performance). Political connections provide advantages that companies can utilize as a way to improve stock prices, which will attract investor interest and instill confidence that political connections can benefit shareholders, thereby reducing agency conflicts and increasing demand in the stock market, ultimately leading to improved financial performance of the company (Joseline et al., 2021). Therefore, the more politically connected members in the board of commissioners, the more positively it will impact investor consideration for investing in the company, and concurrently, the company's financial performance will also improve.

Based on the test results, government ownership does not have a significant influence on the financial performance of banking companies listed on the Indonesia Stock Exchange during the period 2017-2021. Table 7 shows a negative coefficient value of -0.052 with a significance of 0.210 > 0.05; thus, government ownership has a non-significant negative effect on financial performance, and therefore the second hypothesis (H_2) stating that government ownership has a positive effect on financial performance is rejected. This is because the research sample includes not all banking companies that have government ownership proportions in their share ownership structure. Out of the 32 companies used as samples, only 7 companies have government ownership proportions. Therefore, it cannot be statistically determined how it affects financial performance. These findings support the research conducted by Nugrahanti & Novia (2012), Abramov et al. (2017), and Chen et al. (2013).

Ownership structure is closely related to agency conflicts where shareholders and management have different interests, and government ownership helps unite the interests of both parties (Shawtari, 2018). However, Nugrahanti & Novia (2012) revealed that companies with government ownership have other goals, such as social goals, rather than maximizing company profits, unlike private companies whose main goal is to maximize profit. These findings contradict the previously proposed theory that government ownership can be an effective and efficient means to oversee management performance, ultimately leading to improved financial performance. In other words, the government is considered to lack sufficient resources and experience to supervise and discipline management, leading to conflicting interests between the government and management. Abramov et al. (2017)1 also revealed that the performance of government-owned companies is worse than private-owned companies because government-owned companies tend to act as instruments for social or industrial policies, and government-owned companies allow them to report higher operating costs not as a result of efficiency but as losses due to economic policies.

Based on the test results, the variable of loan changes has a significant influence on the financial performance of banking companies listed on the Indonesia Stock Exchange during the period 2017-2021. Table 7 shows a positive coefficient value of 0.326 with a significance of <0.001 < 0.05; thus, loan changes have a positive effect on financial performance, and therefore the third hypothesis (H_3) stating that loan changes have a positive effect on financial performance is accepted. This means that when a company experiences an increase in loan changes, the company will have higher financial performance. These findings are consistent with the research conducted by Kerimkulova et al. (2021), Dang (2019), and Ekpu & Paloni (2016).

Ekpu & Paloni (2016) revealed that loans are a critical component of the activities of banks and other financial institutions. This is because business loans are the main activity of banks (Otoritas Jasa Keuangan, 2017) and a vital source of bank profits, where these profits depend on each bank's capacity to maximize net interest income, reduce loan losses, and minimize non-interest loan costs (Ekpu & Paloni, 2016). Dang (2019) also revealed that the banking system plays a crucial role in economic growth. This is because bank loans can help businesses maintain and expand their operations, thereby generating profits and, in turn, driving economic growth. As a result, it will impact the bank's condition to continue its activities in a stable, effective manner, and minimizing risks. This revenue source contributes a significant portion to the bank's total income, so accelerating loan activities can help the bank expand market share, increase profits, and ultimately improve the company's financial performance.

Based on the test results, the variable of political connections moderated by the audit committee has a significant effect on the financial performance of banking companies listed on the Indonesia Stock Exchange during the period 2017-2021. Table 7 shows a negative coefficient value of -0.117 with a significance of 0.034 < 0.05; thus, the variable of political connections moderated by the audit committee has a negative relationship with financial performance. This indicates that the audit committee weakens the relationship between political connections and financial performance, and therefore the fourth hypothesis (H4) stating that the audit committee moderates the influence of political connections on financial performance is accepted. The type of moderation in the fourth hypothesis is a pure moderator.

Chaney et al. (2011) revealed that companies with political connections have lower accounting information quality compared to companies without political connections because they have lower incentives to respond to market pressure for improving information quality, leading to the disclosure of low-quality accounting information. Joseline et al. (2021)also revealed that political intervention can weaken good managerial practices and worsen corporate governance mechanisms. Individuals are driven by self-interest, and individuals will always act opportunistically to increase their wealth, and the political process is considered a competence to transfer wealth from companies through minimum wage increases (Deegan, 2014). The potential losses experienced by politically connected companies can be minimized with the involvement of the audit committee as part of the corporate governance mechanism. This is because the audit committee, with its knowledge of accounting recognition and measurement, gains access to every element of control, such as internal oversight, audit implementation, financial reporting processes, and corporate governance implementation (Ramadhan & Laksito, 2022). When the audit committee has functioned optimally and the audit committee, which is part of corporate governance, has adhered to the five good principles based on SEOJK No. 13 of 2017, it will minimize the likelihood of management disclosing low-quality accounting information. As a result, investors will be attracted to invest, ultimately leading to better financial performance.

Based on the test results, the variable of government ownership moderated by the audit committee has a significant effect on the financial performance of banking companies listed on the Indonesia Stock Exchange during the period 2017-2021. Table 7 shows a positive coefficient value of 0.108 with a significance of 0.046 < 0.05; thus, the variable of government ownership moderated by the audit committee has a positive relationship with financial performance. This indicates that the audit committee strengthens the relationship between government ownership and financial performance, and therefore the fifth hypothesis (H5) stating that the audit committee moderates the influence of government ownership on financial performance is accepted. The type of moderation in the fifth hypothesis is a pure moderator.

Ownership structure is related to agency issues. This is because of the differing objectives between shareholders and management. Agency theory suggests that company shareholders aim to maximize value, while managers may prioritize personal interests that are far from maximizing the company's value. Without appropriate incentives or adequate monitoring, managers can use their discretion to harm the company's ownersn (Razak et al., 2008). The existence of an audit committee, which is required to have high integrity, knowledge, and relevant experience, serves to review financial information, ensure compliance with regulations, provide independent opinions in cases of disagreement between management and accountants, and more. It also functions as an independent supervisor (Otoritas Jasa Keuangan, 2015), which is one of the efforts to reduce conflicts of interest or agency problems within the company. When the audit committee carries out its oversight based on the principles of good corporate governance, it will lead to increased investor trust in the company and their interest in investing in the company. This trust and interest are expressed through the investments made by investors, which in turn impact the company's financial performance.

Based on the test results, the variable of company size has a significant partial effect on the financial performance of banking companies listed on the Indonesia Stock Exchange during the period 2017-2021. Table 7 shows a positive coefficient value of 0.183 with a significance of 0.002 < 0.05; thus, company size has a positive influence on financial performance. Companies with larger size have higher financial performance compared to smaller-sized companies. This result is consistent with research conducted by Doğan (2013), Sabrina & Muharam (2015), and Ghazali (2010). Sabrina & Muharam (2015) revealed that larger companies differ in their ability to achieve performance due to the advantages obtained by these companies. Saragih & Sihombing (2021) stated that larger companies have easier access to the capital market, which provides them with flexibility, funding capability, ability to face economic competition, and resources to improve company performance.

Based on the test results, the variable of leverage has a significant partial effect on the financial performance of banking companies listed on the Indonesia Stock Exchange during the period 2017-2021. Table 7 shows a positive coefficient value of 0.106 with a significance of 0.007 < 0.05; thus, leverage has a positive influence on financial performance. Companies with higher leverage have higher financial performance compared to companies with lower leverage. This result is consistent with research conducted by Wulandari & Asyik (2022) and Khafa & Laksito (2015). Wulandari & Asyik (2022) revealed that companies using leverage ratios will gain more profits compared to the cost of their assets and sources of funding. Therefore, when the profits obtained are greater, it will impact an increase in financial performance. Khafa & Laksito (2015) also found that companies perform better when using higher debt. This is because, when the debt value of a company is larger, the value of the company's assets will increase, enabling it to finance business activities with the goal of improving the financial performance of the company.

CONCLUSION

The research results prove that political connections have a positive impact on financial performance. This is because political connections provide advantages that companies can use as a way to increase stock prices, gain access to information related to future economic policy, and have better access to funding sources. Furthermore, changes in loans have a positive effect on financial performance. This is because loans are a primary activity of banks and a significant source of bank profits, so when companies with high annual change in loans help banks expand their market share and increase profits. Other results show that government ownership does not affect financial performance. This is because out of the 32 companies in the research sample, only 7 companies have government ownership proportions in their share structure. This research also proves that the audit committee plays a role in moderating the relationship between political connections and government ownership on financial performance, which can then be concluded as a pure moderator. In other words, political connections play a role in oversight and have used principles of good corporate governance toward the company, thereby minimizing improper accounting disclosures and reducing agency problems within the company.

However, there are some limitations to this research. There is incomplete data for the political connections variable, and some banking companies that are newly listed on the Indonesia Stock Exchange cannot be included in the research sample. Another limitation is this research uses secondary data, thus not obtaining perspectives from company management. For future research, it is suggested to consider adding or replacing other independent variables that might influence financial performance and explore other moderating variables that could strengthen or weaken the relationship between independent and dependent variables. Examples of potential variables to explore are Corporate Social Responsibility (CSR) and other governance indicators such as audit quality. CSR, being a voluntary disclosure report, can influence investor decisions as companies are perceived as responsible to the community and stakeholders. Furthermore, measuring audit quality using the Big 4 auditing firms is believed to have lower risk levels, leading to higher returns on investments for investors and thus encouraging more investment activities. Moreover, future studies could also investigate other industries listed on the Indonesia Stock Exchange, such as mining, information technology, pharmaceuticals, and automotive sectors. This broader scope could offer valuable insights into the relationships between political connections, government ownership, and financial performance across various industries.

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