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The Influence of Political Connections on Banking Performance with Board of Directors Diversity as a Moderating Variable

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ABSTRACT: The study endeavors to empirically demonstrate how political ties impact the performance of banks, while considering the Board of Directors' diversity as a potential influencing factor among banking firms listed on the Indonesia Stock Exchange during the 2017-2022 period. Within this research, political connections are represented as dummy variables, denoting firms linked with the government, directors having affiliations with shareholders, or associations with political parties or other governmental bodies. Banking performance is assessed through proxies such as ROA, ROE and loan loss provision. The diversity of the board of directors, evaluated by the ratio of female directors to the total board members, serves as a moderating variable. The research formulates two hypotheses, all of which underwent testing using the SPSS 28 application. Findings revealed that political connections positively influence banking performance as measured by ROA, demonstrate no impact on ROE, and exhibit a significant negative effect on LLP. Moreover, the diversity of the board of directors moderates the correlation between political connections and banking performance in terms of ROA and ROE, while it does not moderate this relationship concerning LLP. The implication of this research is based on the theory of resource dependence where political connections owned by banks provide benefits to firm in the form of easy market access and are able to reduce banking performance in the form of decreasing bad debts. These findings might prompt future regulators to contemplate regulations concerning gender diversity within board compositions, considering its potential implications for governance and performance.

Keywords: Banking Performance, Political Connections, Board of Directors Diversity, Resource Dependency Theory, Agency Theory

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INTRODUCTION

The link between politics and banking performance is an important topic in economic and financial literature. Banks are one of the financial institutions that play an important role in the economy of a country including Indonesia. According to Law No. 10 of 1998 concerning amendments to Law No.7 of 1992 concerning banking in Chapter 1 Article 1 and paragraph 2, it is explained that a bank is a business entity that collects funds from the public in the form of deposits and distributes them to the public in the form of credit and or other forms in order to improve the lives of many people (Mutiasari, 2020).

After the implementation of market mechanism in the banking sector, Indonesian banks experienced a two-decade-long crisis. The flood of banks in Indonesia was not accompanied by very prudent regulation and management of bank funds to reduce and anticipate high banking risks. In addition, regulation emerged as a reactive measure to crises or unfavourable banking conditions at the time, mainly because of its effect on the national economy and in the interest of the people whose money was deposited in national banks. Banking regulations are made to prevent the abuse of banks' financial power, which may affect government and authority policies, either directly or indirectly. It aims to maintain the stability of the overall financial system, effective monetary policy, smooth and secure payment system. Banking regulation in Indonesia is done through the enactment of banking laws. The aim is to protect the banking industry from risks, which ultimately means protecting customers and the economy from misconduct that could affect the financial system as a whole (Sudarmanto, 2021)

Regulations set by the banking industry to encourage national banks to increase lending while maintaining prudential principles to improve banking performance. Resources are required for internal and external business survival to improve performance. The existence of these external relationships can cause the company to have political connections, which can help obtain funds (Cabo et al., 2012).

Companies with political connections are those that, in accordance with specific regulations, establish affiliations or pursue links with governmental entities. A company is considered to have political ties if any of its stakeholders, board members, or directors have prior service or affiliation with government, military, or parliamentary roles (Nuswantara, 2023). This association finds its roots in the resource dependency theory, which posits that organizations have a necessity to acquire and exchange resources, consequently fostering interdependence between the company and external entities like the government (Proença & Murteira, 2020).

Amid the global crisis triggered by the Covid-19 pandemic, the financial sector, including banking firms, felt a significant impact. Banking institutions were pressed to maintain robust performance regardless of the circumstances, crucial for the effective functioning of these financial intermediaries. To sustain financial performance during this pandemic, the Indonesian Government, in collaboration with the Financial Services Authority, Ministry of Finance, Bank Indonesia, and the Deposit Insurance Corporation, rolled out stimulus packages and supportive

policies. The initial response came in the form of the Financial Services Authority Regulation (FSAR) (Maulidia & Wulandari, 2021).

Several previous studies have proven that political relations owned by companies have a positive effect on banking companies. Based on research conducted by (Banerji et al., 2018; Cheikh & Loukil, 2023; Faisal et al., 2021; Maaloul et al., 2016; Putriani, 2023; Reimsbach et al., 2018; Setiadi, 2019; Song et al., 2016; Su & Fung, 2013; Sutopo et al., 2017) proves that political connections have a positive effect on banking performance. These results prove that political connections will improve banking performance and with political connections banks can get lower funding costs. Companies that have political connections are easier to gain the trust of customers and investors than banks that do not have political connections. politically connected companies can increase sales, facilitate access to credit markets, with lower interest rates, often providing informal protection mechanisms capable of reducing operational risk and increasing their performance level profits. Politically connected firms perform better than non-connected firms because they have fewer financial constraints.

Contrarily, other research has indicated a negative impact of political connections on banking performance. Studies by (Domadenik et al., 2016; Ghosh, 2023; Khanchel et al., 2023; Ling, 2016; Proença & Murteira, 2020; Tee & Hooy, 2023; Wulandari & Rahardja, 2012) revealed that political connections owned by companies can cause a decrease in banking performance such as causing reduced bank profitability, increased risk, worse performance compared to companies that do not have connections, excessive investment in risky businesses, lower profits, tendency to prioritise personal interests, lower productivity, lending to low-quality borrowers will increase default rates and lending decisions are not optimal.

To counteract the adverse effects of politically connected banks on their performance, impartial oversight is crucial, ensuring actions benefit the bank's interests. Agency theory suggests that the presence of female directors enhances board independence, reducing agency costs and elevating firm value. Women on boards tend to exhibit high responsibility in decision-making processes (Farida, 2019).

Given the diverse outcomes of previous studies, the author aimed to explore additional factors influencing banking performance. A diverse Board of Directors, encompassing both genders, could potentially enhance a firm's financial performance. Agency theory indicates that women, compared to men, tend to be more vigilant in monitoring management (Kirsch, 2018). Studies by (Eksandy, 2017; Novitasari et al., 2020; Rahmawati et al., 2017) highlighted the positive influence of the Board of Directors on financial performance. However, (Intia & Azizah, 2021) found no impact of the Board of Directors on financial performance, implying that altering board membership doesn't affect financial outcomes due to variations in firm characteristics, limiting the board's effectiveness in resource management activities.

Given the contradictory findings in prior research, this study aims to elucidate the influence of political connections on banking performance and how the diversity of the Board of Directors

moderates this relationship among banking firms listed on the Indonesia Stock Exchange (BEI) from 2017 to 2022.

Resource Dependence Theory

The Resource Dependency Theory, introduced by Pfeffer and Salancik in 1978, elucidates how external resources shape organizational behavior. Pfeffer (1972) further underscores that firms cultivating external relationships wield substantial influence in mitigating uncertainties. This theory forms the foundation for understanding the correlation between political connections and a company's financial performance (Ivonilenia et al., 2023).

This theory holds significant implications for optimal organizational structures, board and employee recruitment, production strategies, contract frameworks, external affiliations, and various other facets of organizational strategy. Firms alter their external landscapes to secure essential resources vital for their survival, underscoring that a company's competitiveness hinges on its adeptness in handling external resources. While the resource-based view of the firm centers on managing internal resources and capabilities, the resource dependency theory emphasizes the significance of external entities like shareholders (Gordon, 2023).

According to the resource dependency theory, firms rely on their board members to enhance their resource base. Politically affiliated firms, however, exhibit lower stability and possess a weaker resource foundation due to their ties with influential politicians (Wong & Hooy, 2018). Following this theory, organizations maneuver changes in their external environments to harness resources that sustain their viability as ongoing concerns (Gordon, 2023).

Agency Theory

As per Pfeffer and Salancik (1978), a firm's financial performance could benefit from having gender diversity within its board members. Jensen & Meckling (1976) describe agency theory, elucidating the relationship between the principal (firm owner or shareholder) and the agent (firm manager represented by the Board of Directors). This theory explains an agency relationship, where the principal delegates decision-making authority to the agent, leading to a potential information imbalance (information asymmetry) favoring the agent over the principal (Intia & Azizah, 2021).

This information imbalance gives rise to agency costs, encompassing monitoring costs, bonding costs, and residual losses. These costs, when incurred, tend to diminish firm performance. Women's presence on the board of directors can serve as a monitoring and control mechanism for the board's performance. Women are often perceived as more independent compared to men (Farida, 2019). Female directors typically possess high levels of education, contributing to their professional and experienced reputation (Farida, 2019).

Political Connection Affects Banking Performance

The business realm and political sphere often intertwine. (Purwoto, 2011) defines politically connected firms as those having specific affiliations or actively seeking proximity to politicians or governmental entities. In the context of this study, political connections refer to firms, particularly within the banking sector, that are either government-owned or have managerial interests in politics (Amallia & Muazaroh, 2019). Several studies have explored the impact of political connections on different performance metrics. Amallia & Muazaroh (2019) discovered a significant positive correlation between political connections and bank performance (ROA) in Indonesian banking. Their findings revealed that politically connected firms tend to exhibit higher ROA compared to non-politically connected banks.

Similarly, research conducted by Tang (2023) delved into the influence of corporate governance and political ties on firm performance in the Indonesia Stock Exchange. Tang's study concluded that strong political connections positively affect firm performance, specifically enhancing ROE. Establishing robust political connections with the government was associated with higher firm performance metrics.

Contrarily, Proença et al. (2020) examined the impact of political connections on banking performance, measured through LLP (Loan Loss Provision), discovering a positive effect. However, their findings suggested that greater political connections within firms resulted in a reduction in firm profitability due to increased net credit loss reserve provisions.

Building upon previous research, the initial hypothesis of this study is:

H1: Political connections have an impact on banking performance.

Board Diversity Moderates the Relationship between Political Connections and Banking Performance

The diversity of a company's board of directors stands as a critical factor influencing its financial performance. Board diversity is typically measured by the ratio of female board members to the entire board composition within a firm. Research by (Luh Gede Krisna Dewi et al., 2016) suggests that having female board members can enhance team performance by offering varied perspectives, thereby leading to improved decision-making.

The board of directors serves as the governing body responsible for steering the firm's management by setting strategic directions and operational policies (Intia & Azizah, 2021; Kristanto, 2020). Their authority enables them to shape the firm's objectives, selecting members who can advance the firm's interests or contribute to shareholder prosperity due to their strategic positions (Wong & Hooy, 2018). The integration of politics in business arises from the interdependency between entrepreneurs, political entities, and governments.

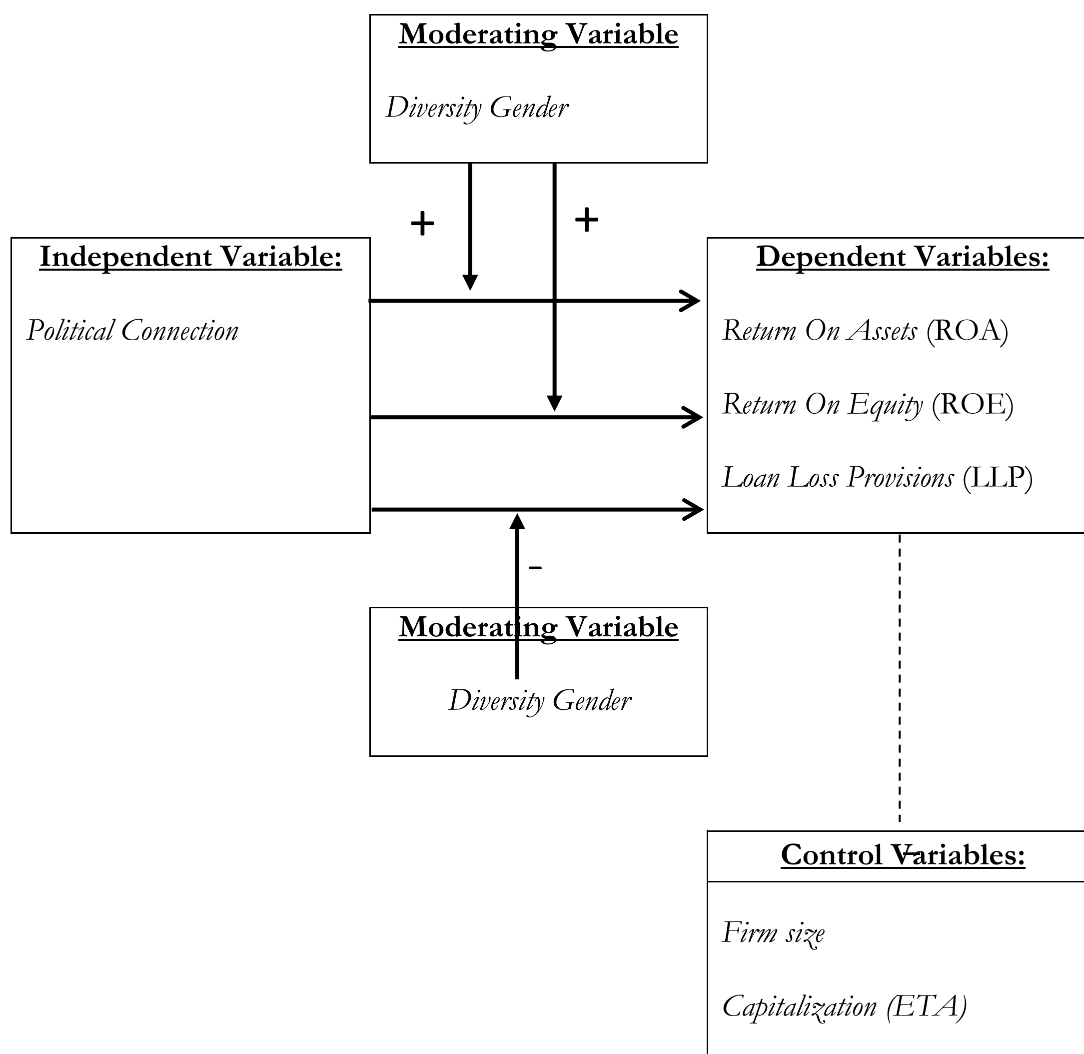
The presence of women on the board is highlighted as beneficial for decision-making processes. Women's cautious approach and risk-averse nature, along with their conscientiousness, are noted by (Nuswantara, 2023) to lead to more deliberate decision-making processes. Consequently, having women in board positions is anticipated to result in more informed and lower-risk decisions, potentially enhancing firm performance (Fathonah, 2018).

Proença et al. (2020) conducted research indicating that gender diversity has a moderating effect, showing the adverse impact of political connections on banking performance, measured through Return on Assets (ROA), Return on Equity (ROE), and the moderating influence of board diversity on the relationship between political connections and banking performance, particularly measured using LLP (Loan Loss Provision).

Therefore, the hypothesis derived from this analysis is:

H2: Board diversity moderates the relationship between political connections and banking performance.

Research Framework



METHOD

Research Type and Design

Based on the data obtained, this type of research is descriptive quantitative (Sabrina et al., 2020). The quantitative data acquired undergoes measurement through quantitative or statistical analysis in this study. The research aims to elucidate the impact of political connections on banking performance, taking into account the moderating influence of gender diversity.

Population and Sample

The study utilized the entire set of banks listed on the Indonesia Stock Exchange (IDX) from 2017 to 2022 as the population, totaling 46 banks. The sample focused specifically on conventional banks within this population during the same period, amounting to 39 banks. The sampling method employed in this research was purposive sampling, adhering to specific criteria: a) being commercial banks listed on the Indonesia Stock Exchange, b) availability of annual reports spanning 2017-2022, and c) comprehensive information regarding financial summaries and director profiles within the annual reports.

Operational Definition and Variable Measurement

Table 1 Describe the method of operationalizing and measuring the variables of the study

Variabels		Measurement	Source
Dependent Variable	Banking Performance	ROA = Net Income/Total Assets ROE = Net Income/Total Equity LLP = Loan Loss Provisions/Total Loan	(Nuswantara, et al., 2023) (Proença, et al., 2020)
Independent Variable	Political Connection	Dummy Variable, (1) for Banks that are political connections and (0) banks that are not political connections	(Amallia & Muazaroh, 2019)
Moderating Variables	Board of Directors Diversity	Number of women on the board of directors / Total board of directors	(Nuswantara, et al., 2023)
Control Variables	Firmsize	Fsize = Ln (Total $Assets_{it}$)	(Suranta, et al., 2014)
	Capitalization	ETA = Total Assets/Total Equity	(Proença, et al., 2020)

Data Collection Method

The study relies on secondary data derived from comprehensive annual reports of conventional banks listed on the Indonesia Stock Exchange (IDX), spanning from 2017 to 2022. Data collection involved sourcing information from the banking websites of these institutions, primarily utilizing

the documentation technique to gather insights from their annual reports. The research incorporates data from a total of 39 banks for analysis.

RESULT AND DISCUSSION

According to the established criteria for purposive sampling, this study comprises 39 observations obtained from the pool of 46 banks listed on the Indonesia Stock Exchange throughout the observation span of 2017-2022.

Descriptive Statistics

The descriptive analysis outcomes for the dependent, independent, and control variables in this investigation are delineated in the subsequent table:

Table 2 Descriptive Statistics of Research Variables

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	234	-0.1806	0.0331	0.004016	0.0224761
ROE	234	-2.1072	0.2094	0.020836	0.1940558
LLP	234	0.0000	34.7382	0.206680	2.2740812
ETA	234	0.0190	1.4493	0.187739	0.1294609
POLCON	234	0.0000	0.5000	0.024359	0.0765723
GENDER	234	0.0000	3.0000	0.186838	0.2507881
FIRMSIZE	234	26.6875	35.2282	31.400908	1.7767080
Valid N (listwise)	234				

	Category	Frequency	Percentage
Political Connection	0 = Bank with no political connections	207	88.5%
	1= Bank that has political connections	27	11.5%

Source: Secondary data processed in 2023

Variable descriptive statistics show the average value for the Return on Assets (ROA) variable is 0.004016 which indicates a profit of 0.4016% of total assets. The minimum value of -0.1806 reflects the firm's loss level of 18.06%, while the maximum value of 0.0331 reflects the potential increase in firm profits of 3.31%. The ROA standard deviation value is 0.0224761. This value is higher than the average value, which means the data from the ROA variable varies.
The return on equity (ROE) variable has an average value of 0.020836, indicating that the average equity owned by the company is able to produce a profit of 2.0836%, the minimum value is -2.1072, indicating that the company experienced a loss rate of 210.72% and the maximum value is 0.2094, meaning the company can achieve profit from total assets is 20.94%. The standard

deviation of the ROE variable is 0.1940558. This value is higher than the average value, which means the data from the ROE variable varies.

The Loan Loss Provision (LLP) variable displays an average value of 0.206680, suggesting a profit potential of 20.668%. The data ranges from a minimum value of 0.0000 to a maximum of 34.7382, with a standard deviation of 2.2740812, denoting significant variability in the LLP data.

The analysis of the political connection variable, representing connections of the Board of Directors with shareholders, government, or political parties, indicates that 11.5% of banking firms (27 out of 234) have such connections, while 88.5% (207 out of 234) do not. This reveals a small percentage of politically connected banking firms compared to those without such ties.

Regarding the Gender variable, the average proportion of women on the Board of Directors is 18.68%. The data range varies from firms without female board members to those with boards that are 300% female, with a standard deviation of 0.2507881, indicating variability in gender representation.

The firm size variable demonstrates an average value of 31.400908, signifying the average firm size. The data range spans from the smallest firm size of 26.6875 to the largest of 35.2282, with a standard deviation of 1.7767080, suggesting consistency in firm size data.

Moving to hypothesis testing, it aims to ascertain the impact of political connections on banking performance, considering the diversity of the Board of Directors as a moderating variable. The results of this testing are detailed in the subsequent table.

Table 3 Results of Ordinary Least Square (OLS) ROA

	Panel A **Coefficient** **t** **(Sig.)**	**Panel B** **Coefficient** **t** **(Sig.)**	**Panel C** **Coefficient** **t** **(Sig.)**
Constant	0.003 4.488 **(0.000)**	-0.038 -6.382 **(0.000)**	-0.106 -6.537 **(0.000)**
POLCON	0.036 2.693 **(0.009)**		0.031 2.245 **(0.026)**
GENDER	0.003 2.169 **(0.034)**		-0.001 -0.368 **(0.713)**
FIRMSIZE		0.003 7.253 **(0.000)**	0.005 7.036 **(0.000)**
ETA		-0.001 -0.339 **(0.735)**	-0.005 -0.636 **(0.525)**
R Square	0.157	0.220	0.225

Adj. R. Square	0.131	0.213	0.212
F	6.048	29.230	16.362
Sig	0.004	0.000	0.000

The Ordinary Least Square (OLS) results table for ROA demonstrates the outcomes of the F Statistical Test. The regression model employed in this study yielded an F count of 16.362. This F test presents a Sig value of 0.000, indicating the model's suitability for hypothesis testing, meeting the Sig value criterion of <0.05.

The Coefficient of Determination results in panel A exhibit an Adjusted R Square value of 13.1% for the political connection variable and the diversity of the Board of Directors. This value implies that the combined impact of political connections and Board of Directors diversity on banking performance, measured via ROA, accounts for 13.1%. Meanwhile, the panel B test outcomes reveal an Adjusted R Square value of 21.3% for the firm size and capitalization control variable, signifying that the influence of firm size and capitalization on banking performance, measured through ROA, stands at 21.3%. The test results of panel C on all research variables show the Adjusted R Square value of 21.2%, meaning that the effect of all research variables on banking performance measured using ROA is 21.2%.

Table 4 Results of Ordinary Least Square (OLS) ROE

	Panel A Coefficient t (Sig.)	**Panel B Coefficient t (Sig.)**	**Panel C Coefficient t (Sig.)**
Constant	0.019 7.326 **(0.000)**	-1.313 -5.549 **(0.000)**	-1.287 -5.445 **(0.000)**
POLCON	-0.040 -0.831 **(0.407)**		0.196 1.258 **(0.210)**
GENDER	0.025 2.506 **(0.013)**		.068 1.417 **(0.158)**
FIRMSIZE		0.041 5.668 **(0.000)**	.040 5.460 0.000
ETA		0.205 2.053 **(0.041)**	0.206 2.062 **(0.040)**
R Square	0.034	0.122	0.135
Adj. R. Square	0.024	0.115	0.120
F	3.537	16.067	8.973
Sig	**0.031**	**0.000**	**0.000**

The table provided outlines the outcomes of the F Statistical Test, revealing that the regression model in this study generated an F count of 8.973. The obtained Sig value of 0.000 from this F test indicates the model's suitability for hypothesis testing, meeting the Sig value criterion of <0.05.

In Panel A, the Coefficient of Determination test showcases an Adjusted R Square value of 2.4% for the political connection and Board of Directors diversity variables. This value signifies that the combined impact of political connections and Board of Directors diversity on banking performance, assessed through ROE, accounts for 2.4%. As for Panel B, the test outcomes present an Adjusted R Square value of 11.5% for the firm size and capitalization control variables. This denotes that the influence of firm size and capitalization on banking performance, evaluated using ROE, stands at 11.5%. Additionally, Panel C's test outcomes exhibit an Adjusted R Square value of 12%, representing the collective impact of all research variables on banking performance measured through ROE, which amounts to 12%.

Table 5 Results of Ordinary Least Square (OLS) LLP

	Panel A Coefficient t Sig	Panel B Coefficient t Sig	Panel C Coefficient t Sig
Constant	0.020 35.023 0.000	-0.051 -2.046 0.042	-0.070 -2.860 0.005
POLCON	-0.726 -36.961 0.000		-0.008 -0.288 0.774
GENDER	-0.489 -76.785 0.000		-0.006 -0.849 0.397
FIRMSIZE		0.004 2.680 0.008	0.005 3.657 0.000
ETA		0.021 1.208 0.228	0.029 1.846 0.006
R Square	0.988	0.033	0.063
Adj. R. Square	0.987	0.024	0.046
F	2949.342	3.727	3.709
Sig	0.000	0.026	0.006

The table presents the F test outcomes, revealing a calculated F value of 3.709. This F test yields a Sig value of 0.006, indicating the suitability of the model for hypothesis testing due to the Sig value being <0.05. In Panel A, the Coefficient of Determination test illustrates an Adjusted R Square value of 98.7% for the political connection and Board of Directors diversity variables. This indicates that the combined impact of political connections and Board of Directors diversity on banking performance, assessed through LLP, accounts for 98.7%. Conversely, Panel B's test results display an Adjusted R Square value of 2.4% for the firm size and capitalization control variables. This denotes that the influence of firm size and capitalization on banking performance, measured using LLP, stands at 2.4%. The test results of panel C on all research variables show the

Adjusted R Square value of 4.6%, meaning that the effect of all research variables on banking performance measured using LLP is 4.6%.

Table 6 Moderation Variable Test Results for ROA, ROE, and LLP

	ROA Coefficient t (Sig.)	ROE Coefficient t (Sig.)	LLP Coefficient t (Sig.)
GENDER	0.009 1.277 **0.206**	-0.800 -3.993 **0.000**	-0.008 -0.984 0.326
POLCON	0.360 4.040 **0.000**	0.003 2.872 **0.006**	-0.021 -0.501 0.617
ETA	-0.021 -1.577 **0.119**	0.677 3.494 **0.001**	0.025 1.479 **0.141**
FIRMSIZE	0.000 2.930 **0.005**	0.076 0.289 **0.774**	0.004 2.790 **0.006**
POLCON x GENDER	-0.753 -3.661 **0.000**	-0.037 -2.496 **0.015**	0.181 1.024 **0.299**
R Square	0.387	0.330	0.049
Adj. R. Square	0.344	0.271	0.028
F	9.074	5.612	2.267
Sig	0.000	0.000	0.049

The Impact of Political Connections on Banking Performance

The initial hypothesis delves into whether political connections influence banking performance gauged through return on assets (ROA), return on equity (ROE), and loan loss provision (LLP) proxies. As seen in the table, the analysis reveals a coefficient of 0.036 for political connections with a Sig. of 0.009 (0.009 < 0.05), signifying a substantial and positive impact on banking performance measured via return on assets (ROA). This suggests that higher political connections within firms correspond to enhanced banking performance. Such positive effects indicate that politically connected firms gain better resource access, market ease, heightened productivity, leading to increased sales and improved bank performance. This aligns with resource dependency theory, emphasizing firms' reliance on external entities like the government for resources (Proença, et al., 2020). These findings support prior research (Amallia & Muazaroh, 2019), confirming the significant positive influence of political connections on bank performance (ROA).

However, the ROE analysis shows a coefficient value of -0.040 with a Sig. of 0.407 (0.407 > 0.05), indicating an insignificant negative impact of political connections on banking performance measured by ROE. This negativity suggests challenges in accessing capital, excessive investments

affecting financial stability, reduced bank profitability, and heightened risks like increased overdue loans. This aligns with resource dependency theory, indicating that politically connected firms are less stable due to reliance on a single influential politician (Wong & Hooy, 2018). These results differ from research by Tang (2023), revealing a positive effect of political connections on firm performance (ROE) through strong governmental ties.

In measuring banking performance via LLP, the a nalysis presents a coefficient value of -0.726 with Sig. 0.000 (0.000 < 0.05), indicating a significant negative effect of political connections on LLP-based banking performance. This suggests that political connections tend to mitigate loan losses, reducing associated risks while enhancing profitability and overall bank performance. Contrary to previous research (Proença, et al., 2020), these findings oppose the positive impact of political connections on banking performance measured through LLP.

Board of Directors Diversity Moderates the Relationship between Political Connections and Banking Performance

The study explores the moderating influence of the Board of Directors' diversity on the connection between political affiliations and banking performance. Results indicate that Board diversity has a significant moderating effect on the relationship between political connections and banking performance, measured by Return on Assets (ROA) and Return on Equity (ROE). The coefficient values reveal a negative trend of -0.753 for ROA and -0.037 for ROE, with significance values of 0.000 and 0.015, respectively (both <0.05). Interestingly, Board diversity seems to negatively impact the link between political connections and banking performance. This outcome aligns with previous findings suggesting that women, known for their cautious decision-making nature, might prolong the decision process within corporate settings. Additionally, meticulousness in decision-making, as indicated by Shrader et al. (1997), could lead to missed opportunities from political connections, potentially diminishing the firm's profitability. These findings resonate with prior research (Proença, et al., 2020), supporting the negative moderating effect of gender diversity on political connections' impact on ROA and ROE in banking performance.

Conversely, when measured by loan loss provisions (LLP), the Board of Directors' diversity doesn't significantly moderate the influence of political connections on banking performance. The coefficient value reveals a positive direction of 0.181, signifying that the Board of Directors potentially reinforces the connection between political affiliations and banking performance measured via LLP. Nevertheless, the insignificance of the significance value (0.299 > 0.05) implies that politically connected or unconnected female Board members have no substantial impact on banking performance. In essence, the diversity of the Board insignificantly fortifies the relationship between political connections and banking performance measured by LLP. These results concur with earlier research (Proença, et al., 2020), supporting the positive moderating effect of gender diversity on political connections' influence on banking performance through LLP.

CONCLUSION

The results of this study prove that the effect of political connections on banking performance as measured using Return on Assets (ROA) has a positive and significant effect, which means that the more companies that have political connections, the more banking performance will improve. This positive influence can show that companies that have high political connections will make it easier for companies to obtain financial resources from the government, easier to obtain investment projects, obtain resources, get easy access to markets so as to increase sales and improve bank performance. The results of this study support research (Amallia & Muazaroh, 2019) which states that political connections have a significant effect on bank performance (ROA). Then when banking performance is measured using Return on Equity (ROE) political connections have no effect on banking performance. This shows that companies do not get easy access to capital, reduce bank profitability due to decreased productivity, so that it can have a negative impact on bank performance. The results of this study are inconsistent with research (Tang, 2023) which examines the effect of corporate governance and political connections on company performance on the Indonesia Stock Exchange proving that political connections have a positive effect on company performance as measured using ROE. In addition, political connections also have a significant negative effect on banking performance as measured using lost loan provisions (LLP). The existence of this negative influence, political connections can suppress losses on loans given as a result of bad credit, so that the existence of political connections can improve bank performance due to bad credit. These results contradict research conducted (Proença, et al., 2020) which states that political connections have a positive effect on banking performance as measured using LLP.

The test results of moderating variables prove that the diversity of the Board of Directors moderates the relationship between political connections and banking performance measured using Return on Assets (ROA) and Return on Equity (ROE). The negative direction of the coefficient proves that the more meticulous and attentive nature of women can lead to longer decision making, which can cause companies to miss opportunities to benefit from their political connections. This can also cause the company's profitability to decrease because it does not take advantage of political connections that can increase sales so that it can increase the company's profitability. The results of this study are consistent with research (Proença, et al., 2020) which states that the moderating effect of gender diversity shows a negative impact of political connections on banking performance as measured using Return on Assets (ROA) and Return on Equity (ROE). Board diversity does not moderate the relationship between political connections and banking performance measured using lost loan provisions (LLP). This means that there is no effect of having a female Board of Directors with or without political connections in the bank. The use of loss reserves in banking can improve bank performance. This is used to protect capital from non-performing loans (bad loans), prevent a decrease in capital and avoid potential bankruptcy due to bad loans. So it can be concluded that the diversity of the Board of Directors strengthens insignificantly the relationship between political connections and banking performance as measured using loan loss provisions (LLP). This is consistent with research (Proença, et al., 2020) which states that the moderating effect of gender diversity shows the positive impact of political connections on banking performance using loan loss provisions (LLP).

This research, rooted in the theory of resource dependence, sheds light on how political connections benefit banks by easing market access and mitigating banking performance risks related to bad debts. It also emphasizes the nuanced impact of gender-diverse boards, showcasing that female board members' cautious approach and decision-making precision could shape performance outcomes. This suggests potential considerations for future regulatory frameworks governing gender diversity on boards of directors.

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