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The Religiosity Mechanism on Political Connections in the Indonesian Stock Exchange

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Abstract: The purpose of this research was to prove that political connections affect idiosyncratic risk and firm performance. The uniqueness of this research was that it involved religiosity, board characteristic, and institutional ownership as moderating variables that strengthen insights about corporate governance practices in religious corridors. The analysis technique used was the linear regression method to test the hypothesis using a sample of companies at the Indonesia Stock Exchange for 2016-2019. The political connection has a significant positive effect on idiosyncratic risk but a negative effect on performance. This study raises the corporate social responsibility (CSR) variable to contrast political connections in explaining corporate risk and performance. The result is that environmental CSR is more sensitive and significant than total CSR. All moderating variables (religiosity, characteristic board, and institutional ownership) strengthen all models. Political connections and environmental CSR have a significant influence on idiosyncratic risk and performance. Environmental CSR is better in reducing idiosyncratic risk and improving performance compared with total CSR. This study did not include the pyramid structure of majority ownership, so the measurement of political connection ignored it. In the future, it can be related to the relationship between political connections and the domination of controlling shareholders in the company.

Keywords: political connection, corporate social responsibility, idiosyncratic risk, company performance, religiosity, institutional ownership.

印尼证券交易所政治联系的宗教性机制

摘要：本研究的目的是证明政治联系会影响特殊风险和公司绩效。这项研究的独特之处在于它涉及宗教信仰、董事会特征和机构所有权作为调节变量，这些变量加强了对宗教走廊中公司治理实践的洞察力。使用的分析技术是线性回归方法，使用 2016-2019 年印度尼西亚证券交易所的公司样本来检验假设。政治联系对异质风险有显著的积极影响，但对绩效有消极影响。本研究提出了企业社会责任变量，以对比解释企业风险和绩效的政治联系。结果是环境企业社会责任比总体企业社会责任更为敏感和重要。所有调节变量（宗教信仰、特色董事会和机构所有权）都加强了所有模型。政治关系和环境企业社会责任对特殊风险和绩效有重大影响。与总体企业社会责任相比，环境企业社会责任在降低异质风险和提高绩效方面更好。本研究不包括多数股权的金字塔结构，因此政治联系的测量忽略了它。未来可能与政治关系和控股股东在公司的支配地位有关。

关键词：政治联系、企业社会责任、特殊风险、公司业绩、宗教信仰、机构所有权。

1. Introduction

Maintaining political connections has become an essential component of a company's non-market strategy to compete with other companies [1]. This

activity is widespread not only in developed countries but also in developing countries such as Indonesia. As many as 55% of DPR (House of Representative) members in Indonesia are businessmen who are spread across various sectors [2]. By sector, these businessmen

are primarily involved in the energy and oil and gas sector (15%) and technology, industry, manufacturing, and retail (15%). The rest are in the developer and contractor sectors (12%), the plantation, fishery, and livestock sectors (11%), to finance, and to the bank (6%). It shows that the involvement of political connections in the business world in Indonesia is relatively high. The impact is that the policies taken in parliament focus more on the interests of businesspeople and tend to ignore aspects of social and environmental justice. In addition, the government has difficulty controlling companies independently [3]. The involvement of businesspeople in politics causes the policy-making strategy to take sides and benefits the company's sustainability.

There are two explanations in the literature regarding the impact of political connections on companies. The first explanation is the benefits of political connections for companies. Companies will provide incentives and select government executives from specific political backgrounds to increase the company's competitive advantage [4]. The government can regulate corporate activities and the economic environment through policies such as regulations and taxes [3] so that executives with political connections will influence these policies. It means that companies can make strategies by taking advantage of government policies, by building and maintaining connections with the government [1].

Meanwhile, the second explanation is the harmful impact of political connections on companies. Executives who have political connections will conflict with the principle of maximizing corporate value due to inefficient decision-making [1]. One example is an increase in employee salaries before the election to get support. Companies will be regulated in such a way as to produce goods or attributes of politicians, which will be rewarded in the form of subsidies or tax deductions. As a result, the management of company assets and resources is not used to maximize firm values. Two contradictory results indicate inconsistent results, so this study wanted to fill the gaps in the consistency of literature by applying it in developing countries like Indonesia.

Apart from political connections, literature which uses the topic of CSR also has inconsistent results. Some research on CSR in developed countries can hardly be applied in developing countries [5] because they do not consider the contextual factors influencing CSR. Recently, CSR research has been applied in countries where most of the population is Muslim [5], but it does not consider religious orientation. This research is more critical because most CSR research in developing countries only takes compliance into account. Moreover, individuals with religious orientation show different attitudes towards CSR [5].

From the research results on political connections

and CSR, there are inconsistencies in the results; therefore, they need to be reexamined. This research was aimed to answer the following questions: How do political and CSR connections affect idiosyncratic risk and performance? How can religiosity, characteristic board, and institutional ownership moderate the political and CSR connections to idiosyncratic and performance risks? The faith-based stock represents religiosity. The characteristic board used is the independent board. This research answers questions of interest not only to academics but also to capital market practitioners. Using a large sample of companies listed at the Indonesia Stock Exchange for 2016-2019, this study provides strong evidence that political connections and CSR influence idiosyncratic risk and performance. The novelty of this research is the inclusion of religiosity, board characteristic, and institutional ownership in seeing the influence of political connection and CSR on idiosyncratic risk and performance.

The contribution of this research can be formulated as follows. First, there is almost no research on political connections to idiosyncratic risk moderated by religiosity, board characteristic, and institutional ownership, which have been conducted before. Second, in addition to the issue of company executives with political connections that are very interesting to research [4], the issue of religiosity associated with economic phenomena is still a new topic [5], [6], [7], so that the use of these two variables is beneficial for future studies. Third, research conducted in Indonesia as an emerging market is still minimal. Research on political connections has been carried out in several developed countries such as China [3], [4] and developing countries like Malaysia [1]. Research in both developed and developing countries has had inconsistent results. The nature and results of interactions differ in each country depending on the identity and conditions of each [8], [9]. This research is applied in Indonesia to fill up the gap from the previous literature for emerging markets. It is expected to contribute to corporate governance theory, stakeholder theory, and business ethics. Good corporate governance should enforce the transparency principles so that the political connection can increase the asymmetric information, which will harm the investors. The stakeholder theory and business ethics support the mechanism of company governance to retain the balance between financial goals and financial welfare. The balancing process can be seen from the company social responsibility (CSR) to the environment and the implementation of business ethics oriented to the moral, religious, and professional ethics as a long-term investment to enhance the company performance.

The practical contribution of this research can be utilized by capital market players in assessing the performance and risk of issuers. The finding that

becomes a point of concern for investors is that the religiosity mechanism that prioritizes morals and ethics supports good corporate governance. It was found that companies that rely on political connections can weaken investors' perceptions; on the other hand, companies' concern for the environment (environmental dimension CSR) strengthens the investors' perceptions.

Novelty carried out in this research was that the approach adopted took the dimension of a non-financial approach in favor of the stakeholder theory, namely religiosity, which is associated with the environmental dimension of CSR in responding to political connections in corporate governance. So far, the approach relied upon is the shareholder approach with a financial achievement orientation. Existing research results have ignored the religiosity in the influence of CSR and political connections on performance and existing risks. That is the uniqueness of this study, where the results of this study can prove that non-financial factors, namely religiosity, significantly affect performance. In addition to the fact that religiosity is rarely used in research, what is currently available is that religiosity stands alone as an independent variable so that its effect is seen directly. Thus, this research has a practical novelty by making religiosity a moderating variable that will strengthen or weaken CSR or political connections on the company risk and performance.

The objective of this research was to prove that political connection and CSR affect idiosyncratic risk and performance. Another important objective was to analyze the mechanisms for religiosity, board characteristic, and institutional ownership to moderate political and CSR connections to idiosyncratic risk and performance. The remainder of this paper is organized as follows. Section 2 discusses the prior literature and Section 3 develops our methodology and research design. The result analysis is presented in Section 4. The discussion for empirical results is in Sections 5. Finally, the conclusions, suggestions, and limitations are presented in Section 6.

2. Literature Review

2.1. Political Connection in Indonesia

Political connotation is very different from government corruption. Different definitions for political connections are because political and economic systems vary from country to country [10]. The political connection can be indicated by a CEO who has a relationship with the government. Political relations in companies are divided into direct and indirect relationships with the government [11]. Political connections are widespread in various countries. Each one has its characteristics so that the impact of these connections will produce different

effects according to the exogenous and endogenous factors involved. It is easier to cover up the trade-offs between business and politics [10]. Weak laws can make these exchanges stronger so that political connections quickly build value for the company. Therefore, it is essential to pay attention to the political environment in which companies operate to understand the factors that can hinder value creation and enhancement.

In Indonesia, the 2019 elections noted many changes in the system. The fundamental change is the simultaneous implementation of the legislative elections and the president and vice president [12]. The change in the government leadership results in unstable policies, making companies cautious in making investment policies, and delaying or even reducing the investment [3]. The benefits of having a political connection in the company include increasing financial security [1] and assisting companies in obtaining loans from banks with lower interest rates and helping companies solve financing constraints [4]. However, companies can use political connections to over-invest, have lower productivity levels, and have higher debt ratios because they have easier access which will be detrimental for shareholders [13]. According to agency theory, the separation between shareholders and company managers results in information asymmetry. Political involvement by board members to use political resources in their interests can be a disadvantage for the shareholders [13]. As a result, the company's performance decreases, which will be a wrong signal for potential investors to increase the risk.

H1: Political connections have a positive effect on idiosyncratic risk.

H2: Political connections have adverse effects on the performance.

2.2. Corporate Social Responsibility

CSR is beneficial as a global phenomenon that occurs in various countries. The right way for the company to face the risk from the dynamic business environment is to have self-defense [13]. Environmental aspects in the internal and cultural scope must be considered. CSR is carried out in the form of benefits that can be felt directly or indirectly. CSR has been carried out in almost all companies and has increased from year to year. The implementation of social responsibility in Indonesia is regulated by the central government and local governments, both provincial and district or city. Apart from being a company strategy in gaining customer trust [14]. CSR has direct and indirect benefits and impacts on stakeholders [15]. For the community, CSR can be used to prevent corruption [16]. For companies, CSR involvement in the company can reduce risk and increase performance [17]. Meanwhile, the practice of social responsibility is categorized into two

implementation patterns, namely, activities carried out simultaneously with the community whose benefits can be directly felt by the community and activities carried out not simultaneously with the community, but the benefits can be felt directly by the community.

Companies cannot be separated from the environment in their operations [18]. If social responsibility programs are defined as strategic aspects of operations, social responsibility programs will be included in operational costs. If not managed properly, these costs will hurt the company. Thus, in achieving company goals, consideration must be made from various stakeholders so that CSR can help reduce the risk of losing one or more support from stakeholders [19].

H3: CSR harms idiosyncratic risk.

H4: CSR has a positive effect on performance.

2.3. Moderating Variable of Religiosity, Board Independent, and Institutional Ownership

Companies influenced by religiosity have a lower level of fraud risk, a lower error of estimation, so religiosity has a vast impact on unethical restraining behavior [20]. Executives working in Islamic institutions tend not to be involved in earnings management because they must be more ethical in managing the company [21]. Political connections in companies with faith-based stock will behave more in line with the "syariat" prescribed by religion [22]. This connection provides benefits to the company so that in its operations, executives with political connections will pay more attention to company value. CSR is used as an investment that is not just for branding the company or investing with an unfavorable impact on the company. Companies that own sharia shares will be prosecuted according to the truth so that the company's management will get more attention by investing in CSR. The result is that the firm's value will increase, and the company's idiosyncratic risk will be lower.

The board of commissioners plays a crucial role in the company, especially in implementing good corporate governance (GCG). The board of commissioners functions to oversee the performance of the board of directors [22] so that the board of directors works to maximize the value of the company. With the existence of independent commissioners, it is hoped that the supervision of the board of directors will be tighter. Independent commissioners make GCG implementation better to reduce agency conflicts between principals and agents and can be used in the effective implementation of social responsibility. A high proportion of independent commissioners will monitor the actions of directors who are selfish to minimize agency costs [10]. That can increase investor confidence in a company. In addition, investors perceive the company to be good because the company has implemented GCG properly. Thus the company's

stock price will increase, thereby increasing the market value of the company's assets and avoiding risks. Institutional investors and independent commissioners tend to see social responsibility not as an unprofitable investment tool so that idiosyncratic risk will decrease and performance will increase.

According to [23], institutional ownership is the proportion of share ownership by institutional investors to the number of shares issued. These institutional investors include companies, banks, foundations, investment companies, insurance companies, and pension funds. Institutional investors can provide funds by using their relationships to assist corporate funding sources in developing the company and political connections. Institutional ownership can minimize agency problems that occur between managers and shareholders. Institutional investors can influence corporate behavior through several mechanisms [15]. First, it can advise management on steps and support to achieve goals. Second, it can provide additional capital to implement specific plans such as social responsibility. Third, it can use its voice to support or oppose the manager's plan. This mechanism can be used to produce changes in the risk that the company has. In addition, institutional investors (mutual funds, hedge funds, pension funds, or banks) are an essential group of investors in a company who can become supervisory managers. They tend to put considerable pressure on management to create wealth for investors so that managers pay much attention to fulfilling the financial targets set by investors. Through their interactions, institutional investors can correct their own cognitive biases [15]. Institutional investors have more significant incentives and efficiency in the company information-gathering process so that company supervision will be more effective and, in turn, can reduce information asymmetry.

H5: Religiosity, board independence, and institutional ownership enforce political connections and CSR on the idiosyncratic risk and performance.

3. Research Methods

This study used panel regression analysis in analyzing idiosyncratic risk and performance. The criteria for the research data used were as follows. First, the company was listed on the Indonesia Stock Exchange in 2016-2019. Second, disclose information for all variables studied was in the annual report in total and per dimension for CSR. Third, all necessary data for the control variables were available. Based on these criteria, a research sample of 547 firm years was obtained. The hypothesis was tested by regressing all samples obtained.

The dependent variables were idiosyncratic risk and performance. The idiosyncratic risk was unique in certain investments that can be minimized with a well-diversified portfolio and measured using idiosyncratic

proxy volatility (IVOL).

$$R_{i,t} = \alpha_1 + \sum_{j=1}^{12} \alpha_2 \cdot j R_{i,t-j} + \beta_t (R_m - R_f) + \varepsilon_{i,t} \quad (1)$$

where: $R_{i,t}$ is the average rate of return on individual stocks in the portfolio, R_m is the average market rate of return, R_f is the risk-free rate of return, $\varepsilon_{i,t}$ is the residual error. Stock return $R_{i,t}$ can be calculated using historical data on the company's daily stock price from 1 January 2016 to 31 December 2019. From the equation model above, we obtained the residual error $\varepsilon_{i,t}$, which measures the average IVOL of shares. IVOL was measured as follows:

$$Tivoli_{i,t} = \sqrt{Var(\varepsilon_{i,t})} \quad (2)$$

The second dependent variable is performance, as measured by return on assets by dividing profit against total assets owned by the company.

The independent variable is political connection and CSR (total CSR and environmental dimension CSR). Political connection is the involvement of the executive and government as measured by a dummy. Score 1 if the executive has executive involvement, while score 0 means there is none. For CSR, it was collected from annual reports. The instrument used was the GRI index which had been adjusted to the conditions in Indonesia. CSR analysis was carried out using content analysis, where the disclosure was calculated using the CSR disclosure ratio. The moderating variables were the use of faith-based stock, independent boards, and institutional ownership. Control variables were cash holding (CASH), company size (SIZE), total debt (LEV), long-term debt ratio (LEVLT), Earning per share (EPS), Net Profit Margin (NPM), and Sales Growth (SG). The following are the model equation used to test the hypothesis:

Model 1:

$$IVOL_{it-1} = \alpha + \beta_1 PC_{it} + \beta_2 CSRTOT_{it} + \beta_3 CSRENV_{it} + \beta_4 CASH_{it} + \beta_5 EPS_{it} + \beta_6 LEVTOT_{it} + \beta_7 LEVLT_{it} + \beta_8 NPM_{it} + \beta_9 SG_{it} + \varepsilon_{it} \quad (3)$$

Model 2:

$$IVOL_{it-1} = \alpha + \beta_1 PC_{it} + \beta_2 CSRTOT_{it} + \beta_3 CSRENV_{it} + \beta_4 CASH_{it} + \beta_5 EPS_{it} + \beta_6 LEVTOT_{it} + \beta_7 LEVLT_{it} + \beta_8 NPM_{it} + \beta_9 SG_{it} + \beta_{10} FBS_{it} + \beta_{11} PC_{it} FBS_{it} + \beta_{12} CSRTOT_{it} FBS_{it} + \beta_{13} CSRENV_{it} FBS_{it} + \varepsilon_{it} \quad (4)$$

Model 3:

$$IVOL_{it-1} = \alpha + \beta_1 PC_{it} + \beta_2 CSRTOT_{it} + \beta_3 CSRENV_{it} + \beta_4 CASH_{it} + \beta_5 EPS_{it} + \beta_6 LEVTOT_{it} + \beta_7 LEVLT_{it} + \beta_8 NPM_{it} + \beta_9 SG_{it} + \beta_{10} INDK_{it} + \beta_{11} PC_{it} INDK_{it} + \beta_{12} CSRTOT_{it} INDK_{it} + \beta_{13} CSRENV_{it} INDK_{it} + \varepsilon_{it} \quad (5)$$

Model 4:

$$IVOL_{it-1} = \alpha + \beta_1 PC_{it} + \beta_2 CSRTOT_{it} + \beta_3 CSRENV_{it} + \beta_4 CASH_{it} + \beta_5 EPS_{it} + \beta_6 LEVTOT_{it} + \beta_7 LEVLT_{it} + \beta_8 NPM_{it} + \beta_9 SG_{it} + \beta_{10} IO_{it} + \beta_{11} PC_{it} IO_{it} + \beta_{12} CSRTOT_{it} IO_{it} + \beta_{13} CSRENV_{it} IO_{it} + \varepsilon_{it} \quad (6)$$

Model 5:

$$ROA_{it} = \alpha + \beta_1 PC_{it} + \beta_2 CSRTOT_{it} + \beta_3 CSRENV_{it} + \beta_4 CASH_{it} + \beta_5 EPS_{it} + \beta_6 LEVTOT_{it} + \beta_7 LEVLT_{it} + \beta_8 NPM_{it} + \beta_9 SG_{it} + \varepsilon_{it} \quad (7)$$

Model 6:

$$ROA_{it} = \alpha + \beta_1 PC_{it} + \beta_2 CSRTOT_{it} + \beta_3 CSRENV_{it} + \beta_4 CASH_{it} + \beta_5 EPS_{it} + \beta_6 LEVTOT_{it} + \beta_7 LEVLT_{it} + \beta_8 NPM_{it} + \beta_9 SG_{it} + \beta_{10} FBS_{it} + \beta_{11} PC_{it} FBS_{it} + \beta_{12} CSRTOT_{it} FBS_{it} + \beta_{13} CSRENV_{it} FBS_{it} + \varepsilon_{it} \quad (8)$$

Model 7:

$$ROA_{it} = \alpha + \beta_1 PC_{it} + \beta_2 CSRTOT_{it} + \beta_3 CSRENV_{it} + \beta_4 CASH_{it} + \beta_5 EPS_{it} + \beta_6 LEVTOT_{it} + \beta_7 LEVLT_{it} + \beta_8 NPM_{it} + \beta_9 SG_{it} + \beta_{10} INDK_{it} + \beta_{11} PC_{it} INDK_{it} + \beta_{12} CSRTOT_{it} INDK_{it} + \beta_{13} CSRENV_{it} INDK_{it} + \varepsilon_{it} \quad (9)$$

Model 8:

$$ROA_{it} = \alpha + \beta_1 PC_{it} + \beta_2 CSRTOT_{it} + \beta_3 CSRENV_{it} + \beta_4 CASH_{it} + \beta_5 EPS_{it} + \beta_6 LEVTOT_{it} + \beta_7 LEVLT_{it} + \beta_8 NPM_{it} + \beta_9 SG_{it} + \beta_{10} IO_{it} + \beta_{11} PC_{it} IO_{it} + \beta_{12} CSRTOT_{it} IO_{it} + \beta_{13} CSRENV_{it} IO_{it} + \varepsilon_{it} \quad (10)$$

4. Result and Discussion

Table 1 presents a statistical description with the number of observations (N) as many as 547 firm years. The first moderating variable is FBS with an average value of 0.852, close to number 1, which indicates that most of them have used Islamic stocks. The independent board variable (INDK) has a minimum value of 20%, which indicates that companies in Indonesia have not met the minimum 30% regulation. Institutional ownership (IO) shows an average institutional share of 0.644 and a maximum of 0.979.

Models 1, 2, and 4 show that political connections significantly positively affect idiosyncratic risk. The greater the political connection, the higher the idiosyncratic risk. Models 5-8 show that political connections have a significant negative effect on performance. The results of this study are supported by [24], which states that the existence of a political connection makes it possible for managers to invest excessively [25]. In addition, in the lead-up to the

general election, companies will be directed to produce things related to politics to have lower productivity levels for their core products. As a result, the company has a low income and a waste of resources. Political involvement by board members who use political resources for personal gain will be harmful to

shareholders.

Furthermore, having access to the government makes the process of borrowing funds very easy. If not controlled, the debt ratio will increase. If the debt is too high, the company's performance will deteriorate.

Table 1 Statistical description (Author's calculations)

Variable	N	Min.	Max.	Mean	Std. Dev.
PC	547	0,00	1,00	0,41	0,49
CSRTOT	547	0,02	0,68	0,35	0,12
CSRENV	547	0,00	1,00	0,37	0,27
ROA	547	-0,31	0,46	0,04	0,07
CASH	547	0,00	0,77	0,09	0,09
EPS	547	-646,6	4050,2	138,4	417,44
SIZE	547	24,61	33,30	28,74	1,58
LEV	547	0,01	1,06	0,44	0,19
LEVLT	547	0,00	2,17	0,17	0,18
NPM	547	-0,40	0,62	0,06	0,14
SG	547	-0,91	3,07	0,08	0,28
IO	547	0,00	0,97	0,64	0,22
PCIO	547	0,00	0,98	0,27	0,35
CSRTOTIO	547	0,00	0,55	0,22	0,11
CSRENVIO	547	0,00	0,94	0,23	0,20
INDK	547	0,20	0,8	0,40	0,09
PCINDK	547	0,00	0,83	0,16	0,21
CSRTOTINDK	547	0,01	0,46	0,14	0,06
CSRENVINDK	547	0,00	0,83	0,15	0,12
FBS	534	0,00	1,00	0,85	0,35
PCFBS	547	0,00	1,00	0,35	0,47
CSRTOTFBS	547	0,00	0,63	0,29	0,16
CSRENVFBS	547	0,00	1,00	0,31	0,2
IVOL	547	0,01	0,43	0,07	0,05

Models 1-4 show that total CSR has a negative and insignificant effect on idiosyncratic risk but a positive and insignificant effect on performance. Models 1-4 show that environmental CSR has a significant negative effect on idiosyncratic risk. Meanwhile, Models 5-8 show that environmental CSR has a significant positive effect on performance. The higher the CSR, the lower the company's risk and the higher its performance. From these results, it can be seen that environmental CSR has a significant relationship while total CSR is not significant. The results of this study are in line with the research of [13]. In Indonesia, environmental CSR can better reduce idiosyncratic risk and improve performance compared to total CSR. The existence of insignificance in total CSR because contributions and donations to communities outside the environment are expected. Every company has carried out total CSR [23]. The impact of this CSR is not considered insignificant and does not help much in the contribution of increasing the company performance or reducing company risk.

Environmental CSR has a critical role. Generally, environmental protection is something done by the government. Companies that disclose environmental CSR are considered very caring and involved in environmental empowerment. These activities make stakeholders feel satisfied with the company. As a result, the market will be more sensitive to the

company, resulting in increased company performance. In addition, the idiosyncratic risk will decline because the company commits to being actively involved in protecting and caring for the environment so that it will gain market trust and avoid difficulties in obtaining capital. Environmental CSR activities and disclosures are used to gain legitimacy, reputation, trust, and support from stakeholders. In the end, investors think that all of this will provide performance stability, sustainability and reduce idiosyncratic risk.

The first moderation in Islamic stocks was proxied by FBS (Models 2 and 6). Model 2 proves that FBS strengthens the positive influence of political connections on idiosyncratic risk. Model 6 shows that FBS strengthens the negative influence of political connections on performance. FBS reinforces the negative effect of environmental CSR on idiosyncratic risk. FBS also strengthens the positive influence of environmental CSR on performance. Political connections at FBS will behave more in line with the sharia (syariat) prescribed by religion [22]. This connection benefits the company so that executives with political connections will pay more attention to company value in its operations. In addition, CSR is used as an investment that is not just for branding the company or investing with an unfavorable impact on the company. Companies that own sharia shares will be prosecuted according to the truth so that the company's

management will pay close attention to investing in CSR.

The second moderation is the independent board (INDK) (Models 3 and 7). Model 3 proves that INDK weakens the positive influence of political connections on idiosyncratic risk and strengthens the negative influence of political connections on performance (Model 6). INDK strengthens the negative influence of environmental CSR on idiosyncratic risk and strengthens the positive effect of environmental CSR on performance. The independent executive causes the implementation of GCG to be better to reduce agency conflicts between the principal and the agent and implement social responsibility to be effective. A high proportion of independent executives minimizes agency costs which can increase investor confidence [10].

Table 2 Factors affecting idiosyncratic risk and performance (Author's calculations, reviews release 1)

VARIABLE	MODEL 1		MODEL 2		MODEL 3		MODEL 4		MODEL 5		MODEL 6		MODEL 7		MODEL 8	
	t	Sig	t	Sig	t	Sig	t	Sig	t	Sig	t	Sig	t	Sig	t	Sig
PC	0,014	0,099*	0,159	0,087*	1,314	0,189	0,109	0,091*	-2,016	0,044**	-4,021	0,000***	-3,650	0,000***	-0,208	0,084*
CSRTOT	-0,743	0,458	-1,415	0,158	-1,125	0,261	-1,125	0,261	0,542	0,588	0,951	0,342	0,914	0,361	0,147	0,883
CSRENV	-1,964	0,050*	-0,218	0,083*	-0,175	0,086*	-2,438	0,015**	2,163	0,031**	2,283	0,023**	2,662	0,008***	0,934	0,035**
CASH	-1,236	0,022**	-1,336	0,082*	-1,170	0,243	-1,224	0,022**	1,652	0,099*	1,552	0,021**	2,010	0,045**	1,830	0,068**
EPS	0,829	0,408	0,654	0,513	0,884	0,377	0,947	0,344	3,134	0,002***	3,067	0,002***	2,453	0,014**	2,758	0,006***
SIZE	-3,542	0,000***	-3,512	0,000***	-3,416	0,001***	-3,795	0,000***	1,932	0,054*	2,125	0,034**	2,625	0,009***	1,957	0,051**
LEV	0,527	0,598	0,272	0,786	0,675	0,500	0,951	0,342	-0,531	0,596	-1,034	0,302	-2,108	0,035**	-0,472	0,637
LEVLT	3,054	0,002***	2,987	0,003***	2,971	0,003***	2,769	0,006***	-4,867	0,000***	-5,272	0,000***	-5,008	0,000***	-4,902	0,000***
NPM	-0,437	0,066*	-0,577	0,016**	-0,357	0,072*	-0,519	0,060*	14,692	0,000***	13,908	0,000***	14,249	0,000***	14,754	0,000***
SG	-2,354	0,019**	-2,137	0,033**	-2,343	0,019**	-2,261	0,024**	1,599	0,011**	1,778	0,076*	1,919	0,056**	1,496	0,014**
FBS	-	-	1,339	0,018**	-	-	-	-	-	-	-0,142	0,089*	-	-	-	-
PCFBS	-	-	0,254	0,080*	-	-	-	-	-	-	-3,572	0,000***	-	-	-	-
CSRTOTFBS	-	-	1,148	0,251	-	-	-	-	-	-	1,190	0,234	-	-	-	-
CSRENVFBS	-	-	0,520	0,060*	-	-	-	-	-	-	-1,615	0,011**	-	-	-	-
INK	-	-	-	-	-0,667	0,051*	-	-	-	-	-	-	3,385	0,001***	-	-
PINK	-	-	-	-	-1,345	0,018**	-	-	-	-	-	-	4,091	0,000***	-	-
CSRTOTINDK	-	-	-	-	0,965	0,335	-	-	-	-	-	-	1,235	0,217	-	-
CSRENVINDK	-	-	-	-	-0,702	0,048**	-	-	-	-	-	-	3,157	0,002***	-	-
IO	-	-	-	-	-	-	0,180	0,086*	-	-	-	-	-	-	0,561	0,058*
PCIO	-	-	-	-	-	-	0,008	0,099*	-	-	-	-	-	-	0,852	0,039**
CSRTOTIO	-	-	-	-	-	-	-1,505	0,133	-	-	-	-	-	-	0,076	0,940
CSRENVIO	-	-	-	-	-	-	1,941	0,053*	-	-	-	-	-	-	1,643	0,101
Obs.	547		547		547		547		547		547		547		547	
Adj. R ²	0,076		0,070		0,073		0,083		0,443		0,461		0,510		0,451	
F-stat	5,470		3,846		4,073		4,549		44,385		33,557		41,595		33,098	

*** significant 1%

** significant 5%

* significant 10%

The third moderation is institutional ownership (IO) in models 2 and 6. Model 2 shows that IO strengthens the positive influence of political connections on idiosyncratic risk and strengthens the negative influence of political connections on performance (Model 6). IO strengthens the negative influence of environmental CSR on idiosyncratic risk and strengthens the positive influence of environmental CSR on performance [13]. Institutional ownership can minimize agency problems that occur between managers and shareholders. Institutional investors can influence corporate behavior through several mechanisms [23]. They tend to put considerable pressure on management to create wealth for investors so that managers pay much attention to fulfilling the financial targets set by investors. Interactions among institutional investors can correct their own cognitive biases [21].

5. Conclusion

This study found that political connections have a significant positive effect on idiosyncratic risk but negatively affect performance. Total and environmental CSR harm idiosyncratic risk but have a positive effect on performance. The effect is not significant for total CSR, whereas, for environmental CSR, the effect is significant. It means that environmental CSR can reduce idiosyncratic risk and increase performance compared with the total CSR. All moderating variables (faith-based stock, independent board, and institutional ownership) can strengthen all research models.

The result of this research can be helpful for company managers in managing the company. By reducing idiosyncratic risk and improving performance, the company will be able to survive amid competition. Apart from that, this research is also helpful for shareholders. By knowing the significant variables that can affect the company, the shareholders will achieve their goals.

The practical limitation of this study lies in the description of the pyramid structure dominated by majority ownership which has not been exposed in depth so that the measurement of political connections does not involve these factors. In the future, for further research, religiosity and political connections can be linked with the pyramid ownership structure in Indonesia in the case of corporate governance.

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