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How poilitical connection moderate audit committee characteristics and csr: evidence from Indonesian companies

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ABSTRACT

This study aimed to examine the moderation of corporate political connections on the relationship between audit committee characteristics and CSR. This article has developments from various literature on the relationship between corporate governance and CSR; one of those is the audit committees in recent years, which have been synonymous with financial reporting and process audits. This study also uses agency theory, Resource Dependency Theory (RDT), and Social Exchange Theory (SET). The results show a significant positive effect of audit committee independence and expertise. Moreover, political connection is not effect on CSR. Then, political connection can be low moderate between audit committee independence and CSR and political connection can be hight moderate between expertise and CSR.

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1. INTRODUCTION

Corporate social responsibility (CSR) has developed into a rationale where academics and practitioners debate whether it is profitable for business interests to practice CSR (Aboud & Yang, 2022; Jiao et al., 2022). According to (Gupta et al., 2017), previous theories stated that companies focus on maximizing profits. Consequently, many companies depend on the resources they get but are interested in something other than CSR investments. Therefore, companies, in making their social responsibility, adjust what they have and put aside their social values (Arora & Dharwadkar, 2011). According to (Mohammadi et al., 2021), Customers tend to buy products because the company has maintained good social and moral standards.

Previous literature reveals that CSR committees, management ownership, and business size all benefit CSR reporting (Adel et al., 2019; Nurhandika & Rahim, 2020). Other research from (Bhaduri et al., 2016; Khan et al., 2013; Nurhandika & Hamzah, 2019; Sun et al., 2012) states that corporate governance influences CSR. The literature states that governance mechanisms have a positive influence on CSR disclosure, but sometimes CSR disclosure is used to cover up a manager's opportunistic behavior in order to get the attention of shareholders; therefore, supervision from the audit committee is needed to increase CSR disclosure (Mohammadi et al., 2021). Indeed, mind function of the audit committee is to oversee both the financial and non-financial reports of the company and mitigate any asymmetri information from manager (Karamanou & Vafeas, 2005). According to (Bédard et al., 2008; Mohammadi et al., 2021) The audit committee can significantly influence variables other than non-financial, one of which is CSR.

This article was developed from exploring literature on the correlation between corporate governance and CSR. In recent years, one of the audit committees has been synonymous with financial reporting and process audits (Bhuiyan & D'Costa, 2020; Kim et al., 2012; McDaniel et al., 2002; Nurhandika, 2023; Zhang et al., 2007). Only a little research has been conducted on the impact of audit committees on CSR issues (Dwekat et al., 2020; Pozzoli et al., 2022; Uyar et al., 2023). According to research by (Karamanou & Vafeas, 2005; Mohammadi et al., 2021; Musallam, 2018; Othman et al., 2014), they presence audit committee characteristics has positively influence CSR disclosure. The attributes of audit committee characteristic in this study are independent and expertise audit committees (Pozzoli et al., 2022; Uyar et al., 2023). previous studies, independent audit committees has a positive impact on CSR (Appuhami & Tashakor, 2017; Buallay & Al-Ajmi, 2020; Mangena & Tauringana, 2007; Mohammadi et al., 2021; Musallam, 2018; Uyar et al., 2023). However, in contra research by (Haniffa & Cooke, 2005), suggests independent audit committees have an negative effect on CSR disclosure. According (Li et al., 2012) explain independent audit committee does not impact social disclosure. Still to be ongoing debate the association between the audit committee and CSR. According Yu et al. (2016) and Mohammadi et al. (2021) in their research show that good audit committee experience can increase CSR. On the other hand, (Appuhami & Tashakor, 2017) explains that audit committees expertise in finance and accounting cannot impact CSR. So, the relationship between audit committees and CSR indexes still requires more in-depth research.

Several countries with various characteristics of the political environment have demonstrated extensive research on political relations (Bliss & Gul, 2012; Djayanti & Abidin, 2023; Houston et al., 2014; Joni et al., 2020). Selin et al. (2023) show that in Indonesia, several companies create relationships that have an influence or do not directly influence political relations. According Wong & Hooy, (2018) examine how different political affiliations affect financial outcomes in Malaysia. According Joni et al. (2020), political membership through military members and professionals in related industries reduces the cost of capital in Indonesia. According to (Phan et al., 2020), companies with ties to the government have more investment capital than companies with political ties through their family business. According to (Chaney et al., 2011), the government and outsiders tend to pay more special attention to companies with strong political connections. Furthermore, (Tee, 2020) says that political ties are the main source of shareholder agency problems. So, political tendencies are thought to impact low-income and inaccurate reporting (Yudhanti & Tjahjadi, 2021). Therefore, people or companies with affiliations enjoy the benefits from their private relationships, but this cannot be separated from reciprocity so that companies accommodate government regulations (Selin et al., 2023). Thus, political connections will likely weaken or enhance the correlation between audit committee characteristics and CSR.

2. RESEARCH METHOD

Our research tests the model using all companies listed on the IDX from 2016-2021. We collected data on CSR, corporate political relations, and audit committee characteristics from annual reports. We also collected data through the data stream website www.esgi.ai. We also use STATA software in our statistical analysis. Next, we eliminated it to find ideal data for this study using several sampling characteristics, i.e., all companies except financial companies, companies with incomplete data, and companies with political relations (directors, commissioners, audit committees).

This study encompasses three variable configurations. Initially, the dependent variable is assessed using the Global Reporting Initiative (GRI) G4 framework, which stands as a robust metric for evaluating CSR (Uyar et al., 2023). Therefore, the computation of disclosed items is derived by dividing the total count by the number of dimensions outlined in the GRI criteria (Chakroun et al., 2022; Firmansyah et al., 2022). The independent variables consist of the independent audit committee, measured by the ratio of members within the audit committee, and the financial expertise of the audit committee, evaluated as the percentage of members possessing proficiency in finance and accounting relative to the total number of audit committee members (Iliev & Roth, 2018; Kılıç et al., 2021; Uyar et al., 2023). The moderating variables are assessed by referencing prior research (K. Z. Lin et al., 2018), Specifically, this entails taking the natural logarithm of the count of individuals associated with political affiliations within the company.

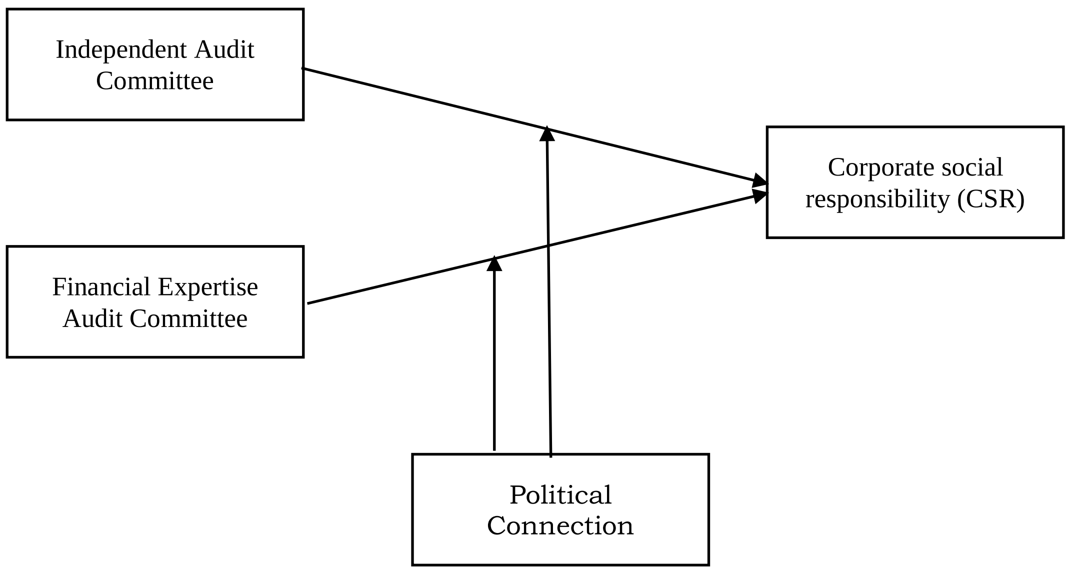

Figure 1. Research Conceptual Framework

This study uses 3 models to measure the hypothesis, including:
Model 1
CSRscore = = β0 + β1KAI + β2policon + β1KAI* policon + ε
Model 2
CSRscore = = β0 + β2EXP + β3policon + β2EXP*policon + ε

Model 3

CSRScore = β0 + β1KAI + β2EXP + β3policon + β1KAI* policon + β2EXP*policon + ε

Here, β represents the regression coefficient; KAI is an independent audit committee; Exp denotes an audit committee with expertise in financial accounting; and Policon pertains to a category of companies with political connections.

3. RESULTS AND DISCUSSIONS

Descriptive statistical analysis eluciadates the distribution of the data, encompassing metrics like the minimum and maximum value, mean, and variability represented by the standard deviation.

Table 1 Statistical descriptive analysis

	Mean	Std Dev.	Min	Max
Csr	.0870112	.0758475	.0003	.4073
Kai	.4174312	.089248	.4	1
Exp	.6588685	.2940022	.2	1
Policon	.276682	.2226366	.09	.94
Number of observations: 654				

Statistical summaries are presented in Table 1. Corporate Social Responsibility (CSR), Independent Audit Committee (KAI), audit committee financial expertise (EXP), and Political Connections (POLICON) exhibit a range of data variations, spanning from minimum to maximum values. It is evident that the mean value surpasses the standard deviation value.

Table 2 Data correlation

	Kai	Exp	Policon
Kai	1.0000		
Exp	-0.0654	1.0000	
Policon	0.0468	0.0756	1.0000

Data correlation can be seen in Table 2. The Independent Audit Committee (KAI), audit committee financial expertise (EXP), and Political Connections (POLICON) reveal that the value of each variable is less than 0.8, which means that all variables in this study show no symptoms of multicollinearity.

Table 3 Hypothesis Test Results

Variable	CSRscore (sig 0,05)	
	coefficient	Pvalue
Model 1		
Constant	.1339199	0.000
Kai	.1030503	0.000
Policon	.0417376	0.307
Kai* policon	-.1292457	0.050
R-squared	0.0344	
Model 2		
Constant	.1345612	0.000
Exp	-.0661132	0.000
Policon	-.0798041	0.026
Exp* policon	.0960699	0.030
R-squared	0.0368	
Model 3		
Constant	.183972	0.000
Kai	.1125779	0.000
Exp	-.0700572	0.000
Policon	-.0252861	0.634
Kai* policon	-.1354573	0.031
Exp* policon	.1028652	0.014

Table 3 shows the hypothesis testing for each model. First, in model 1, the coefficient and significance of KAI on CSR are -.1030503 and 0.000, respectively, which means the independent audit committee variable has a negative effect on CSR. This is in accordance with research that reveals that audit committees are serious about social issues and will continue to supervise companies to disclose CSR (Buallay & Al-Ajmi, 2020; Musallam, 2018; Uyar et al., 2023). Model 1 reveals that the company's political connections do not affect CSR scores. This shows that political connections in model 1 of this study do not affect the acquisition of CSR scores in companies (K. J. Lin et al., 2015). Model 1 reveals that political connections moderate the influence of independent audit committees negatively at the coefficient and significance level of -.1292457 and 0.050, so this reveals that political connections have a negative influence when associated with the influence of independent audit committees on CSR scores. This likely occurs because The company's enormous political power can influence the audit committee to act as desired (Bianchi et al., 2019; Phan et al., 2020).

Table 3 shows model 2 on the audit committee with accounting expertise (EXP) has a coefficient and significance value of -.0661132 and 0.000, respectively. This indicates that the EXP variable has a negative effect on the CSR score. It is possible that audit committees having expertise in accounting cannot provide disclosures in the non-financial sector (Musallam, 2018). The same thing is shown in the POLICON variable. The company's Political connections have a negative effect on CSR; the coefficient and its significance are -0798041 and 0.026, respectively. This indicates that the level of political connection is determined by companies whose resources need to match the capacity or expertise in management (Firmansyah et al., 2022). Supported by the interaction shown by the POLICON variable on the effect of EXP on the CSR score, the coefficient and significance values are .0960699 and 0.030, respectively. The scores show the strong influence of the POLICON on EXP to agree with policies influenced by politically connected stakeholders (Joni et al., 2020).

Table 3 shows model 3 on the overall evidence of how the Independent Audit Committee (KAI), audit committee financial expertise (EXP), and Political Connections (POLICON) affect the company's CSR score level. Model 3 of the KAI variable positively influences the CSR score with values of .1125779 and 0.000, respectively. This shows that the audit committee consistently has high integrity in overseeing the company so that the company is always transparent about social CSR issues (Appuhami & Tashakor, 2017; Buallay & Al-Ajmi, 2020; Mangena & Tauringana, 2007; Mohammadi et al., 2021; Musallam, 2018; Uyar et al., 2023). The EXP variable in Model 3 negatively influences the CSR score. The coefficient and significance value are -.0700572 and 0.000, respectively. It is the same in testing model 2; consistently, the EXP variable has a negative effect. This reveals that audit committees with accounting expertise tend to lack an understanding of social responsibility disclosure (Uyar et al., 2023). The variable POLICON demonstrates no significant impact on the CSR score, as evidenced by a coefficient of -.0252861 with a corresponding significance value of 0.634, mirroring the findings of Model 1. It is established, however, that POLICON does exert a moderating effect on the relationship between KAI and CSR scores. This is indicated by a coefficient of -.1354573 and a significant value of 0.031. The variable POLICON attenuates the impact of KAI on CSR scores due to the considerable strength of political connections established by the company. This enables individuals with political influence to sway decisions made by the audit committee, particularly the independent audit committee (Houston et al., 2014; Qian & Chen, 2021). The POLICON variable is proven to strengthen the effect of EXP on the CSR score with a coefficient and significance value of .1028652 and 0.014, respectively. This happens when the political atmosphere in a country is holding general elections, or the government requires financial support for companies so that the government does not care about the results of audits carried out by the audit committee and tends to improve reports so that they look credible (Joni et al., 2020).

4. CONCLUSION

This research indicates that the independent audit committee variable has a favorable impact on corporate social responsibility scores. This outcome demonstrates the committee's dedication to overseeing the company in accordance with established regulations and norms, thereby optimizing its contribution to social sustainability. Conversely, the variable pertaining to audit committee expertise in accounting displays an adverse effect on social responsibility scores. This reveals that audit committees with accounting expertise must gain competence in non-financial disclosures. The political connection variable in the company has no effect on social responsibility scores in other treatments. Model 2 explains that the political connection variable has a negative effect. This reveals that politics is very dynamic depending on how to treat and place it. The political connection variable partially weakens the influence of the independent audit committee on social responsibility scores. This proves that an independent audit committee tends to weaken oversight due to intervention by government or political persons. However, the political connection variable strengthens the influence of audit committees with accounting expertise on social responsibility scores. This illustrates that government people or political people placed in companies tend to like audit committees with backgrounds already known to them.

This research explain RDT illustrates that political affiliation have failed to yield a positive influence on the correlation between audit committee and CSR. According Uyar et al., (2023) independent audit committee can mitigate its integrity and does not under the correlation of company's political. This insight offers valuable for practition that indicating a stronger indepdendent audit committee can maintenance they integrity. This research needs to cover its shortcomings, one of which is that first, this research still collects data manually so that future research will try with datasets from Bloomberg or Thomson Reuters. Second, we suggest other measures of political connections, and third, we suggest research provides an overview before, during, and after the COVID-19 pandemic.

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