

Debt Covenant, Political Cost, Political Connection, And Bank Connections Towards Company Value

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Abstract: The goal of this study is to look at how debt covenant, political cost, political connection, and bank connections affect company value. The research used secondary data with completed financial reports from 24 public companies or 120 data in the banking sector that met purposive sampling criteria over five years (2017 to 2021). The research found that debt covenant and bank holder connection (the second form of bank connection) have a negative effect on company value. Meanwhile, political cost, political association and shareholder connection (the third form of bank connection) positively impact company value. At the same time, executive connection (the first bank connection) did not affect company value. At the same time, it was discovered that debt covenant, political cost, political connections, and three types of bank connections all impacted company value.

Keywords: Debt Covenant; Political Cost; Political Connection; Bank Connections; Company Value.

Abstrak: Tujuan dari studi ini untuk mengetahui bagaimana kontrak hutang, biaya politik, koneksi politik, dan koneksi bank memengaruhi nilai perusahaan. Kajian dalam penelitian mempergunakan data sekunder dengan laporan keuangan lengkap dari 24 perusahaan publik atau 120 data di sektor perbankan yang sesuai kriteria *purposive sampling* selama lima tahun (2017 sampai 2021). Hasil penelitian menunjukkan bahwa kontrak hutang dan koneksi pemegang bank (bentuk kedua koneksi bank) berpengaruh negatif terhadap nilai perusahaan. Sedangkan biaya politik, koneksi politik dan koneksi pemegang saham (bentuk ketiga koneksi bank) berpengaruh positif terhadap nilai perusahaan. Sementara koneksi eksekutif (bentuk pertama koneksi bank) tidak memengaruhi nilai perusahaan. Penelitian secara simultan, ditemukan adanya pengaruh kontrak hutang, biaya politik, koneksi politik, dan ketiga bentuk koneksi bank terhadap nilai perusahaan.

Kata Kunci: Kontrak Hutang; Biaya Politik; Koneksi Politik; Koneksi Bank; Nilai Perusahaan.

INTRODUCTION

Financial institutions are crucial to economic growth and stability. The financial sector, particularly banking, can move and support the national economy. Banks are the primary source of funding that brings solutions for businesses since they manage funds from entities with excess funds and lend them to entities in need (Simatupang, 2019).

Securities trading is part of the capital market, which distributes public funds to the productive sector. A high share price indicates that the market values profitable companies, demanding banks perform competently to raise their share price and attract investors (Pratama et al., 2022).

Investors are looking for transparent, honest management that doesn't manipulate financial accounts or engage in corruption as a barometer of a company's management performance, reflected in its stock price. Ups and downs in stock prices can signal that purchasing and selling shares can yield the maximum return when investors analyze their risk tolerance before investing (Saripudin and Lutfi, 2017).





Figure 1. Average banking *closing price information* from 2017 to Q3'2022

Source: www.finance.yahoo.com

Figure 1 shows depicts the average stock price trend from 2017 to Q3'2022, with 2017 to 2019 rising, 2019 to Q2'2022 decreasing sharply, and Q3'2022 slightly improving. In mid-2019, economic conflict between China and the US slowed global markets and impacted banking stocks. The JCI fell 2.240 per cent, making banking stocks a volatile sector (Yoliawan and T.Rahmawati, 2019).

After President Joko Widodo requested banks lower lending rates, banking share prices fell again near the end of 2019. This statement triggered a sell-off in banking stocks and the majority in the red zone. Permata bank fell 12.320 per cent, BRI 3.850 per cent, and BCA 0.160 per cent. The market reacted negatively because banks were concerned that interest expense would affect the Company's financial performance (Ayuningtyas, 2019).

The banking situation deteriorated when the Coronavirus arrived in early 2020, having a massive impact on the global economy. Indonesia's GDP shrank by 5.320 per cent in two quarters due to the threat of a recession or depression (Junaedi and Salistia, 2020). Poor banking performance has lowered banking stock prices, and many have suffered losses due to the pandemic's impact (Putri, 2020; Lautania et al., 2021; Kristina, 2022).

Since 2021, Russia-Ukraine tensions have worsened and are alarming the world. Russia's invasion of Ukraine on February 24, 2022, shook the global economy, including Indonesia's banking sector, as the world was recovering from the COVID-19 pandemic. Exchange rate appreciation, capital market declines as investors withdraw dollars to their home countries, falling export values, increasing oil and fuel prices, and stock market turmoil have driven up inflation and slowed economic development (Yusuf, 2022; CNN, 2022).

Many factors influence company value, including company performance, government policies, taxes, and political situations. To see company performance, company data is required, specifically financial statements, where companies tend to engineer to increase revenue to lower leverage ratios and decrease profits to minimize political costs. Management decisions and stock market trading also depend on the political situation. The political relationship between the government and the Company can benefit both parties.

Corporate finance and banking literature have long studied the relationship between banks and publicly traded companies since banks influence numerous company operating decisions, such as loan availability, cost of capital, and capital structure. By overcoming asymmetric information, banks and companies can facilitate loans. Information asymmetry can occur when one party has less information than the other, allowing one party to capitalize on opportunities created by the other (Ernestin et al., 2020). Bank connections can benefit company value in two ways: On the one hand, banks can increase company value by providing funding and good monitoring; on the other hand, banks can distort management incentives, causing companies to avoid financial and operational decisions that can impair company judgment.

This research differs from the previous study because the variables did not explain its efforts to increase firm value. This research expands positive accounting and agency theories by analyzing their effects on company value. There is little study on the banking sector, so we want to understand how lenders affect firm value. Furthermore, research has yet to be done in Indonesia to explore the impact of bank connections on firm value.

Based on the information above, the researcher wishes to investigate further and examine the phenomena that occur by using the variables of debt covenant, political cost, political connection, and bank connections as independent variables to measure their effect on company value. This study aims to provide an overview of the impact of debt covenant, political cost, political connections and bank connections on company value in banking companies.

THEORETICAL REVIEW

Agency Theory. Research written by (Sitanggang and Chusnah, 2021) describes a conflicting contractual relationship between two economic actors (principal and agent) in which one or more people (*principal(s)*) employ another (*agent*) to make the best decision for the principal. This agency theory states the relationship contract refers to the shareholders as the principal and management as an agent. Management works for the shareholders as part of the contracted party or representatives.

According to Law of PTs No.40 of 2007, there is usually a separation of duties between owners or shareholders and the board or management in legally incorporated companies. As investors, owners or principals entrust management to the manager. Then, as company administrators, managers have a better understanding and know more about company information than owners; hence, this agent-principal relationship is based on information asymmetry. So, the agent's actions may not always benefit the principal. A conflict of interest between two parties always causes relationship problems.

Positive Accounting Theory. The concept of positive accounting theory, according to (Ahalik et al., 2021), is to reveal how accounting practices should be in processing data into financial information that is presented correctly to the users of that information, from



the past to the present, as well as how this information can be communicated to parties who need it within the Company.

The Debt Covenant Hypothesis. According to one of the hypotheses of this positive accounting theory, debt agreements or contracts consider managers' choice of accounting methods to reduce technical costs arising in a contract breach by increasing company profits to avoid or postpone costs that can hinder management's performance.

The Political Cost Hypothesis. Political costs are part of the hypothesis of positive accounting theory, which arises from conflicts of interest between managers and the government. Firm size is the benchmark for this hypothesis because the more significant the firm, the higher the political costs that must be borne. This allows managers to determine the accounting method for decreasing income to minimize political costs.

Theory Of The Firm. (Agustini, 2018) in her book, explains that companies, as one of the economic actors, are formed by utilizing available resources to produce and sell goods and services. As an economic unit, it can be easily analyzed using the Company's economic example. The Company's basic economic model derived from the *firm's theory* shows that various companies are designed to produce products efficiently for their going concern in an economic system. In this theory, the Company's goal is to maximize profits. However, as time and uncertainty passed, these objectives began to shift. Many businesses now prioritize maximizing the Company's value or wealth (wealth maximization) rather than short-term profits.

Political Connection. Companies can be interpreted as having political connections (Saputra and Supatmi, 2021) if one of the principal shareholders (controls at least 10 per cent of the shares with voting rights) or one of the Company's top officials (CEO, board of directors, board of commissioners) who are currently or have held positions as members of parliament, military, officials in ministries or other government agencies, heads of local governments, or are closely tied to well-known politicians or parties.

Politically connected companies often get '*backup*' from the government because they have access to government knowledge and policies and develop problem-solving solutions, which becomes a benchmark for investors and a basis for investment security (Harymawan and Ayuningtyas, 2020). This relationship creates opportunities and loopholes that entrepreneurs use to gain mutual benefits from the political effects of the authorities (Bandiyono, 2020).

Bank Connection. A bank connection is almost identical to the concept of a political connection. Political connections are generally formed due to the Company's relationship with government politics. In contrast, bank connections are more critical because they directly capture company behaviour in taking advantage of the benefits, which can increase company value. Assisting businesses in obtaining bank loans with lower collateral, overcoming market failures, and avoiding social and political discrimination leads to guaranteed bank loans, lessening creditors' concerns about loan losses (Kebin, 2018).

As a lender, the bank can develop long-term relationships with borrowers. The bank's proximity to the borrower helps monitor, verify, and resolve asymmetric information (Li et al., 2017). According to this concept, banks gain power over lenders through relationships. The bank aims to eliminate information asymmetry, but the most direct connection is to solve the problem (Kebin, 2018). The cause of financing constraints is information asymmetry between capital's supply and demand sides. Building bank connections and facilitating symmetrical information distribution is a powerful way to reduce financing barriers (Guo and Xiao, 2021). Bank connections can help companies build a good reputation and relationship to increase the value of their Company.



Company Value. The value of the Company is one of the reasons why investors invest. Investors may buy more shares if the Company is healthy. The value of a listed company that has already been IPO (Initial Public Offering) is measured by the price of shares traded. The more enthusiasts, the higher the investor's assessment of the Company (Sulastri and Sari, 2021).

Since its inception, the Company's value has been a benchmark for the Company's success in managing its business and community credibility. Given this vital goal, companies must decide carefully and consider the impact on stock prices. According to company theory, optimizing company value indirectly increases shareholder wealth, which is the primary goal of a business (Ahalik et al., 2021).

Hypothesis Development. Debt covenant and company value. A debt covenant or contract is a debt agreement made to protect creditors from managerial actions detrimental to creditor's needs, such as determining dividends, share buybacks, working capital, asset disposal, and future costs (Ahalik et al., 2021). The debt covenant is proxied by the leverage ratio (Debt to Equity Ratio), which divides the Company's total debt and total equity. It indicates the emitted's obligation to fund their investment and business activities (Putra and Gantino, 2021).

The higher the debt ratio level, the more freedom the Company has to choose methods to increase revenue to reduce the cost of renegotiating debt contracts. According to the trade-off capital structure theory, high debt can cause financial distress, decreasing company value. However, banking excludes this because the customer's savings fund becomes a debt to the bank to keep loans. The higher the amount of third-party savings (DPK), the greater the number of DERs and the more funds banks can allocate in the form of loans, which increases the probability of profits and the Company's value.

(Nasution, 2020) agrees that leverage reduces (negative impact) firm value. While (Putri and Yanuar, 2020) and (Putra and Gantino, 2021) found that leverage ratio (proxied for debt covenant) has a positive impact on company value, the findings of (Agustina et al., 2017), (Sitanggang and Chusnah, 2021) and (Ahalik et al., 2021) show that debt covenant has no impact on company value.

H1: Debt covenant increases the value of the Company.

Political cost and company value. Businesses have to pay political costs for taxes, subsidies, and regulations, and they will increase along with company profits. As a result, businesses are driven toward selecting accounting methods to minimize gains and reduce political costs. Larger companies have higher public visibility and are more vulnerable to public and social pressures than smaller companies. Because political intensity is related to company size, political costs are measured using a scale based on total assets (Ahalik et al., 2021).

Companies with a large size make it easier for investors to invest in them, which can raise the Company's value (Putri and Yanuar, 2020). (Ahalik et al., 2021) and (Agustina et al., 2017) found that political cost, as measured by company size, positively affects company value. Another study from (Pratiwi and Aligarh, 2021) and (Endri and Fathony, 2020) states that political costs have a negative impact on firm value.

H2: Political cost improve company value.



Political connection and company value. Politics affects businesses in various ways, such as how political events affect supply and demand in the capital market. The interaction or relationship between politics and companies is known as political connections (Sulastris and Sari, 2021). It is a common phenomenon that describes how political relations with the government can help companies obtain benefits, such as more accessible access to debt financing, lighter taxation, more stable market power and relaxation of regulatory oversight, all of which are valuable resources in helping to increase company value (Chen et al., 2017). Even a case study by (Harymawan and Ayuningtyas, 2020) reveals that political connections can assist companies in minimizing the risk of falling stock prices.

Political connections are a two-edged sword in that they can both increase and decrease company value. Political connections have a positive effect on company value, according to (Maulana and Wati, 2019), (Idris et al., 2020), and (Bandiyono, 2020). At the same time, the empirical research by (Sulastris and Sari, 2021) and (Haryati et al., 2021) shows that political connections do not impact company value. This political connection variable is measured using a dummy variable where 0 represents no political connections with companies, and 1 represents the opposite.

H3: Political connections increase company value.

Bank connections and company value. According to KBBI, a link is a relationship that facilitates all activities (Badan Pengembangan dan Pembinaan Bahasa, 2022). They are also known as a network of interrelated parties. Individuals and businesses build relationships based on reputation and trust to compensate for each other's lack of formal institutions and effective contracts.

Connections are essential for companies and necessary in business operations that increase the Company's performance and benefits, but they also play an important role in allocating bank capital. In addition, connections can lead to corporate governance issues, leading to unjust treatment of unrelated parties in some cases where linked parties collaborate and obstruct transparency. Yet, a relationship can lower the cost of searching for information while producing more profound and more excellent quality (Li et al., 2017).

Based on research by (Zhai et al., 2017), there are three forms of bank connections: (1) executive connection (executives holding dual positions in banks and companies), (2) bank holder connection (banks holding company shares), and (3) shareholder connection (companies that hold bank shares). The existence of concurrent positions allows companies to share information to reduce uncertainty and streamline resource searches. Meanwhile, bank holding reduces information asymmetry between banks and firms, removing banks' loan default concerns and providing more loans to related firms to support them as shareholders and achieve a mutually beneficial result. Furthermore, companies with bank shares can benefit through credit lines, effectively reducing funding issues (Li et al., 2017).

According to Anti Monopoly Law No. 5 of 1999, the existence of executives or company officials who hold multiple or concurrent positions can lead to unhealthy practices due to market dominance. This kind of relationship can also violate governance principles, leading to conflicts of interest. On the other hand, this type of relationship can assist companies to gain access to markets and compete (Prihandoko, 2018). Indonesian public companies have a concentrated ownership structure, with shareholders having



significant influence over management and corporate policy, necessitating control limits to minimize conflicts of interest (Sari and Sugiharto, 2018).

PSAK No.4 of 2013 explains that control exists if it has more than 50 per cent of the voting rights unless it can be clearly shown that there is no control. However, the 50 per cent control limit needs to be stronger because shareholders can exercise control even if they own less than 50 per cent of the stock (Sari and Sugiharto, 2018). For example, the Company Law 2007 Article 144 paragraph (1) specifies the requirements for shareholders, with a minimum of 1/10 (ten per cent) of voting rights, to propose the dissolution of the Company to the GMS (Riyanto, 2018). As a result, this research employs the parameter of entities with a minimum of 10 per cent share ownership.

Bank connections increase lending efficiency and profit-seeking. As a result, all three forms show a close relationship between the bank and the Company, which can increase loan access and company value. Bank loans can certify companies to raise public funds and develop a reputation in the public market. This bank relationship can raise loan default costs and lower the equilibrium default probability. It can also reduce agency problems because the risk of reducing the amount of loans encourages managers to pursue less risky projects (Zhai et al., 2017). This improves the Company's performance and value. Therefore, the researcher assumes a positive relationship between bank connections and company value. A dummy variable with the value 1 is for companies with bank connections, and the value 0 for the opposite.

H4.1: Executive connection increase and positive impact on company value.

H4.2: Bank holder connection increase and positive impact on company value.

H4.3: Shareholder connection increase and positive impact on company value.

Debt covenant, political cost, political connection and bank connections all impact company value. Based on positive accounting theory, one aspect of company value is profit. Debt covenant and political cost can help companies effectively manage funds and easily access funding with company size assessed from total assets so that they can be used for company operations in raising profits and company value. Meanwhile, political connections and bank connections can help improve the Company's image by providing reputational value and protection functions, allowing the Company to expand by strengthening its position in competitors' minds. This is also one of the fundamental aspects of the firm that can raise the company value to a high degree.

H5: Company value is affected by debt covenant, political cost, political connection, and bank connections.



Figure 2 can be used to explain the research framework.

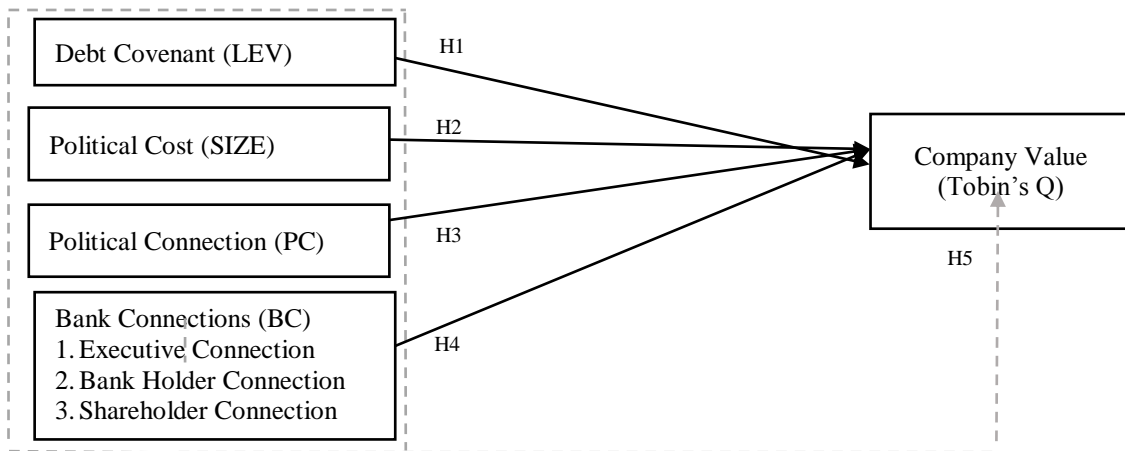


Figure 2. Research Model

Source: Data processed for research, 2023

METHODS

Variable definitions. This study has two types of variables: dependent and independent variables. A dependent variable is subject to the influence of independent variables. This study has six independent variables. The debt-to-equity (DER) ratio to measure debt covenant (LEV) and the size of the Company to measure political cost (SIZE). The dummy variable measures political connection (PC) and three bank connection (BC) forms. Tobin's Q methods determine company value as the dependent variable. The definition of variables and their measurements can be seen in **Table 1**.

Table 1. Variable Definitions and Measurement

Variable	Code	Measurement Scale	Source
Debt Covenant	Leverage (DER)	Ratio	https://www.idx.co.id
Political Cost	Size	Ratio	https://www.idx.co.id
Political Connection	PC	Nominal (1=Connection, and 0=No connection)	
Bank Connections	BC		
1. Executive Connection	BC1	Nominal (1=Connection, and 0=No connection)	
2. Bank Holder Connection	BC2		
3. Shareholder Connection	BC3		
Company Value	Tobin's Q	Ratio	https://www.idx.co.id

Dependent Variable. Company Value. The Company's value is measured using the Tobin Q method, which uses the ratio between total market value and total debt divided by total assets (Idris et al., 2020), and the formula for calculating it is:

$$\text{Tobin's Q} = \frac{(\text{Market value} + \text{Total debt})}{\text{Total Assets}} \dots\dots\dots(1)$$



Independent Variables. Debt Covenant. Using leverage, as measured by the DER (Debt of Equity) ratio, divides total debt and equity (Ahalik et al., 2021). The following formula calculates DER:

$$\text{Leverage (DER)} = \frac{\text{Total Debt}}{\text{Total Equity}} \dots\dots\dots(2)$$

Political Cost (SIZE). The size of the Company affects political costs. Then, the total assets of the Company can be used to calculate its size (Ahalik et al., 2021), and the formula for calculating it is:

$$\text{SIZE} = \text{Ln (Total Assets)} \dots\dots\dots(3)$$

Political Connection (PC). Measured using a dummy variable, where the number is one if it has political connections and zero if it does not (Idris et al., 2020). PC of 1 (Have political relationship) and 0 (No political connection)

Bank Connections (BC). According to (Zhai et al., 2017), there are three forms of bank connections: (1) executive connection (executives holding dual positions in banks and companies), (2) bank holder connection (banks holding company shares), and (3) shareholder connection (companies that hold bank shares). Measured using a dummy variable with 1 for companies with bank connections and 0 for the opposite. BC1 of 1 (Have executive connection), and 0 (No executive connection), BC2 of 1 (Have bank holder connection), and 0 (No bank holder connection), and BC3 of 1 (Have shareholder connection), and 0 (No shareholder connection).

Population and sample method. This study's sampling source is banking data listed and active on the Indonesia Stock Exchange from 2017 to 2021 with completed and profitable annual financial reports. Based on secondary data from the Indonesian Stock Exchange website, business entity or company websites and other research-related websites, the sample is determined with specified criteria using a quantitative scheme and a purposive sampling pattern (Sugiyono, 2017). A sample of 24 banking or 120 research data points is obtained, as seen in **Table 2**, as follows:

Table 2. Sample Criteria Data

No	Criteria Sample	Number
1	Banking that is registered and active on the Indonesia Stock Exchange	47
2	Acquired and Merged	(4)
3	Incomplete financial statements for the period 2017-2021	(6)
4	Having negative financial statements	(13)
	Count of samples	24
	Year of Research	5
	Total research samples (observation)	120

Source: Processed data, 2023



RESULTS

Data analysis. Researchers used descriptive statistical analysis approaches, classic assumption tests, and panel data regression with STATA 17 software to analyze the data.

Descriptive statistical analysis. These statistics, based on the mean (average), highest, lowest, and standard deviation used to characterize the collected data, can provide an overview of the independent variables in the form of the marketing mix (Sugiyono, 2017). Data from these statistics can be presented as diagrams or tables to tell the size of data concentration, data distribution, cluster, and location length.

Table 3 shows that of the 120 observations from 2017 to 2021, it is known that the debt covenant variable proxied by leverage ratio has the highest value of 16.078 at Bank BTN in 2020 and the lowest is 1.593 at Bank Ina Perdana in 2017. The standard deviation is 2.541, meaning that the data variance for the leverage variable is lower than the average value of 5.885. The political cost variable represented by company size (size) has a maximum value of 30.402, occupied by Bank Mestika Dharma in 2021, and a minimum value of 14.954 at Bank Ina Perdana in 2017.

Political connection (PC), the independent variable as measured by the dummy variable, has the smallest value of 0 and the larger of 1 with a standard deviation of 0.470 and median of 0.675, indicating that the distribution of the data studied from most companies has a smaller weight than the mean value of a variable. The bank connection variable (BC) is also measured using a dummy variable with a minimum value of 0 and a maximum of 1, and the average value of the three forms of connection (BC1, BC2, BC3) is 0.775, 0.483, and 0.750. This shows that companies with executive connections are the most popular form used, which accounts for 77.500 per cent of the total sample, followed by shareholder connections with 75 per cent and bank holder connections with 48.330 per cent.

In Tobin's Q variable, Bank BRI has a minimum value of 0.829 in 2018 and a maximum value of 2.397 held by Bank Ina Perdana in 2017. Meanwhile, the median value of this Q ratio is 1.110 with a standard deviation of 0.264, indicating that the data distribution is less variable, judging by the slight standard value deviation from the mean value.

Table 3. Results of Descriptive Statistical Analysis

Variable	Observation	Means	Std. Deviation	Minimum	Maximum
Leverage	120	5.885	2.541	1.590	16.080
Size	120	19.937	3.822	14.950	30.400
PC	120	0.675	0.470	0	1
BC1	120	0.775	0.419	0	1
BC2	120	0.483	0.502	0	1
BC3	120	0.750	0.435	0	1
Tobin's Q	120	1.110	0.264	0.830	2.400

Source: Processed data, 2023

Statistical tests of adjusted R squared measure the independent variable's effect on the dependent variable. The independent variable can explain almost all of the information needed to estimate the variance of the dependent variable if its coefficient of determination is close to 1 (Ghozali, 2018). The test result shows that the *adjusted R²* has a determination

coefficient of 0.246 or 24.620 per cent, as shown in **Table 4**. This means that 24.620 per cent of the variables that influence the fluctuations in firm value are dominated by debt covenant, political cost, political connection and three forms of bank connections. In comparison, other factors influenced 75.380 per cent.

Table 4. Determination Coefficient Test Results

Information	Coefficient of Determination
R squared	0.284
Adjusted R squared	0.246
Root MSE	0.229

Source: Processed data, 2023

Normality Test examines processed data for fair distribution. Using the Jarque-Bera test, if the estimated p-value is more than 0.050, the data has an equitable distribution and does not have a fair distribution of less than 0.050. The results for this test were 0.174, which explained that the data in this research were normally distributed based on a chi2 value greater than 0.050 (**Table 5**).

Table 5. Normality Test Results

Variables	Obs	Pr (skewness)	Pr (kurtosis)	Adj chi2(2)	Prob- χ^2
data_rest	120	0.236	0.161	3.490	0.174

Source: Processed data, 2023

Heteroscedasticity Test. If the variances of the residuals are similar, it can be said to be homoscedasticity, and if they are different, it is interpreted as heteroscedasticity. So, homoscedasticity is a good model for this test (Ghozali, 2018). In STATA statistics (Park Test), the data is said to be homoscedasticity if the p-value is more than 0.050 for each independent variable. The resulting test using Breusch-Pagan/Cook-Weisberg declares the data free of symptoms with a probability value of 0.514 more than 0.050, indicating no heteroscedasticity, as seen in **Table 6**.

Table 6. Heteroscedasticity Test Results

Breusch-Pagan/Cook-Weisberg test for heteroskedasticity	H0: Constant variance
Assumption: Normal error term	Chi-Square 0.430
Variable: Fitted values of Tobin	Prob. Chi-Square 0.514

Source: Processed data, 2023

Multicollinearity Test. The tolerance value on the statistical test results indicates the multicollinearity test, and the data is interpreted as not occurring multicollinearity when the Variance Inflation Factor (VIF) value is less than 10. The multicollinearity test results in **Table 7** show a mean VIF value of 1.350, less than 10, indicating that the data is free of multicollinearity (Ghozali, 2018).



Table 7. Multicollinearity Test Results

Variables	VIF	1/VIF
PC	1.640	0.611
Leverage	1.460	0.684
BC2	1.360	0.733
BC3	1.350	0.742
Size	1.200	0.831
BC1	1.090	0.922
VIF means	1.350	

Source: Processed data, 2023

Autocorrelation Test. The Durbin-Watson test (DW test) measures residual correlation in a linear regression model with time series data. The results show that the DW value in **Table 8** was 2.096 between numbers 1 and 3, meeting the requirements for the value, namely 1.827 less than 2.096 less than 2.173, which means that the resulting data is not autocorrelated (Ghozali, 2018).

Table 8. Autocorrelation Test Results

D-statistic (7, 120)	Durbin-Watson stat 2.096
Table DW, $\alpha = 0.050$	dU = 1.827
(4-dU)	$4 - 1.827 = 2.173$
dU*DW*(4-dU)	$1.827*2.096*2.173$

Source: Processed data, 2023

*less than

Test F (Chow Test) has a significance of 0.000, where the significance of the F test less than 0.050 indicates that all the independent variables in this research can affect company value simultaneously. The results can be seen in **Table 9** below:

Table 9. F Test Results

Source	SS	df	MS	F	Sig.
Model	2.357	6	0.393	7.480	0.000
Residual	5.937	113	0.053		
Total	8.294	119	0.070		

Source: Processed data, 2023

T-test referring to the results of **Table 10**, the independent variable has a partially significant effect on the variable bound if the partial test significance is less than 0.050. The results show that debt covenant and bank holders' connection decrease the Company's value. Political cost, political association and shareholder connection can influence firm value, whereas executive connection cannot.



Table 10. T Test Results

Tobin's Q	Coefficient	Std. Error	t	P t stat
Leverage	-0.031	0.010	-3.060	0.003
Size	0.015	0.006	2.530	0.013
PC	0.310	0.057	5.430	0.000
BC1	-0.081	0.052	-1.550	0.123
BC2	-0.127	0.049	-2.590	0.011
BC3	0.165	0.056	2.940	0.004
_cons	0.776	0.173	4.490	0.000

Source: Processed data, 2023

Hausman Test, which model is the most accurate and suitable for estimating data. Suppose the FE model accepts the hypothesis with a p-value less than 0.050, while the CE/PLS model rejects the hypothesis if the p-value is more than 0.050. The Chow test yields 0.000 less than 0.050, meaning the best choice model for this research is Fixed Effect (FE).

Panel Data Regression Analysis for calculating the Panel Data Regression with the Fixed Effect (FE) model is as follows, based on statistical testing results:

$$\text{Tobin's Q} = 0.776 - 0.031\text{LEV} + 0.015\text{SIZE} + 0.310\text{PC} - 0.081\text{BC1} - 0.127\text{BC2} + 0.165\text{BC3} + 0.173 \dots \dots \dots (8)$$

To determine whether company performance affects the six variables above on firm value, researchers take additional tests to examine this hypothesis. The variable ROE (*Return on Equity*) determines the Company's potential ability to earn profits. **Table 11** displays the results of this additional test.

Table 11. Addition Test T Results

Tobin's Q	Coefficient	Std. Error	t	P t stat
Lev*ROE	-0.002	0.001	-2.250	0.026
Size*ROE	-0.000	0.000	-0.330	0.746
PC*ROE	0.017	0.007	2.500	0.014
BC1*ROE	-0.002	0.006	-0.390	0.694
BC2*ROE	-0.001	0.005	-0.100	0.922
BC3*ROE	0.012	0.005	2.320	0.022
_cons	1.097	0.044	24.730	0.000

Source: Processed data, 2023

*moderates

Additional tests show that independent variables affect dependent variables if the significance value is less than 0.050. ROE moderates the influence of political and shareholder connections (the third form of bank connections), while leverage has a negative impact, and other variables do not affect company value.



DISCUSSION

The impact of debt covenant on company value. Data processing using the t-test showed that the debt covenant variable (leverage) negatively affected company value from 2017 to 2021. As a result, the hypothesis (H1) is rejected. This is supported by the results of (Nasution, 2020), which find that leverage negatively impacts firm value and that the higher the leverage, the greater the risk the Company faces.

(Putri and Yanuar, 2020) (Putra and Gantino, 2021) show that leverage positively affects firm value because DER will improve company performance, which has a good impact on company value by increasing the profit generated. In contrast to the results of (Agustina et al., 2017), (Sitanggung and Chusnah, 2021) and (Ahalik et al., 2021), which prove that *debt covenant* has no impact on company value and state that leverage does not always increase or decrease the value of a company because it is not directly related to the interest rate on debt.

Consequently, high levels of debt can increase interest costs, which has a negative impact on both profitability and the value of the Company.

Companies with high debt ratios can have a negative impact on company value, but this is excluded in the banking sector, whose activities are savings and loans. Banking with a high DER ratio can benefit from channelled credit and increase firm value. The phenomenon shows that due to poor economic conditions (COVID-19 outbreak), banks have restricted lending transactions to prevent lousy credit from arising due to default (Putri, 2020). Many debtors request rescheduling instalments or reduced terms. Loan profits decrease while operating costs continue to rise.

Banks must continue to pay remuneration for customer savings, which means they must also pay additional costs to improve technology according to the circumstances and regulations issued by the government. The economic war also triggered the loss of credit services related to import exports due to the caution of company owners in expanding their business (Caesario, 2022). If the DER ratio decreases, the profits will decrease, and the company value will fall.

The impact of political cost on company value. The hypothesis (H2) accepts that political cost increases firm value. The proxied value of the political cost variable by size suggests that political cost increases company value. The research results are consistent with those of (Ahalik et al., 2021) and (Agustina et al., 2017), who found that political cost increases company value.

However, research by (Pratiwi and Aligarh, 2021) and (Endri and Fathony, 2020) state that political cost decreases company value because large companies also require significant funds for their operational activities, one of which is making loans to external parties. So, the increase in corporate debt can be a risk for the Company to go bankrupt.

Based on the result, banks with large-scale companies have high asset values, making it easier for investors to invest in them due to their high return expectations, which drives up their stock prices and increases their value.

The impact of political connection on company value. The third hypothesis is accepted, indicating that political relationships increase firm value, as seen in **Table 8**. This statistical test supports (Maulana and Wati, 2019), (Idris et al., 2020) and (Bandiyono, 2020), who found empirical evidence that political connection increased firm value.

Research by (Sulastri and Sari, 2021) and (Haryati et al., 2021) found no effect of political connection on company value, which states that investors are more interested in companies with high or steady returns than how close a company's political relationships



are. In addition, politically affiliated companies tend to have poor performance, so they prefer not to invest their shares.

The results of this study show that banks with more political connections receive more facilities that benefit the bank's interests, such as the ease of obtaining government infrastructure projects that are more entrusted to banks with political connections. In addition, political connections may assist companies in minimizing external uncertainty caused by government political acts, allowing them to confront market competition, gain strong community trust, and raise stock prices and company value.

The impact of bank connections on company value. The research results on the fourth hypothesis (H4) are slightly different since there are three forms of bank connections. From the results of H4.1, the executive connection variable (BC1) did not affect company value, as evidenced by the significance value (0.123) being larger than 0.050. This is because concurrent positions are more focused on managerial behaviour related to a person's position and authority in the Company.

Occupying multiple positions can create chances for abuse of authority (*abuse of power*) for the benefit of oneself and related parties, resulting in conflicts of interest that encourage violations (Harjono, 2022). As a consequence, clear laws governing the limitations and bans on the practice of multiple positions are required to prevent the creation of a bureaucratic culture that impacts changing the work culture within the Company (Harjono, 2022).

The value of BC2 on hypothesis H4.2 shows that bankholder connections lower company value. To minimize competition between companies and simplify financing, bankholder connections are required in its efforts to expand market expansion. With accessible sources of funding and accurate decisions, the presence of bankholder links can increase the efficiency of the Company's operations. But the fact is, besides expanding in various industries, this relationship will help the owner avoid losses and taxes.

In agency theory, shareholders can utilize subsidiaries to be objective for their benefit. Banks with corporate shares can lead to conflicts of interest by using their authority as shareholders to influence the amount of return on investor involvement (*exposure*), determine subsidiary policies that affect their independence (*one-person show management*), cause *conglomerate games* (manipulation of reporting and financial information), and become a channel of tax avoidance (*transfer pricing*). Moreover, suppose one of the subsidiaries is affected by the law. In that case, the entire related Company suffers, which can damage the Company's reputation and public trust and lower share prices and value.

The form of shareholder connection on hypothesis H4.3 positively influences firm value, as seen in **Table 8**. This relationship helps companies enjoy the benefits of getting credit lines at a lower cost, which effectively solves their financing issues. In addition, companies can improve supervision optimally as a form of prevention against inefficiency and profit manipulation by management. It can maximize profits and value by quickly obtaining cheaper resources and accessing information that lowers monitoring costs.

The impact of debt covenant, political cost, political connection and bank connections on company value. Debt covenant, political cost, political relationship and the three forms of bank connections all significantly impact company value, as shown in the results from the F test table above.

Debt covenant represented by leverage had a favourable response from investors, who stated that the higher the leverage (third-party savings funds), the greater the public's faith in the Company, and the Company is large-scale (political costs are represented by

company size). Companies having more significant total assets make it easier for investors to invest in them, allowing them to assist companies in adequately managing their funds, resulting in greater profits and company value.

The existence of government politics (regulation, subsidies and taxes) that is full of uncertainty causes companies to devise a strategy to minimize this situation by establishing political connections, where this relationship can make it easier for companies to obtain information about regulatory processes within the government, the direction of government policies as well as priority access to getting cooperation contracts that can provide benefits to the Company.

Policies from the outside and building policies from the inside by establishing bank connections. This relationship can help improve the Company's image with a reputational value and protection function to achieve company growth by strengthening its position in competitors' minds, reducing information asymmetry, facilitating access to bank loans with low collateral, overcoming market failures and avoiding social and political discrimination.

Thus, the hypothesis that all independent variables simultaneously influence firm value (H5) is accepted because these six variables are connected and complementary in helping to increase stock prices and create good corporate value in the future.

CONCLUSION

This research is intended to detect the effect of debt covenant, political costs, political connections, and bank connections on company value, so the conclusion that can be drawn is that debt contracts (leverage) have a negative impact on firm value. Businesses having a lot of debt can have a negative effect on their value since it raises interest payments, which reduces profitability. However, the treatment is different for the banking sector. Due to the other application of DER (debt ratio) in the banking sector, which fell when the banking situation worsened due to the Coronavirus and the economic war that shook the global economy, the profits were reduced, and the company value also decreased. The lower DER ratio reduces the gain and decreases the Company's value.

Political costs increase company value because large companies are always in the public spotlight. The larger the Company, the more assets it has, the higher its turnover, the more information it has, and the wider its market capitalization, which investors use to evaluate a company before investing. High expectations of the return to be received drive up the stock price, which is in huge demand and can increase the value of the Company.

Political connections may assist corporations in acquiring more accessible debt financing, less taxation, more steady market dominance, and less regulatory supervision, which can positively impact companies as they can be a valuable resource in helping increase company value. Allowing them to confront market competition, gain strong community trust, and raise stock prices and company value.

Executive bank connections do not affect company value because concurrent positions focus more on management behaviour related to a person's position and authority in the Company. This can lead to conflicts of interest and violations affecting bureaucratic and work cultures.

Holder connections have a negative effect because this form of relationship can lead to a conflict of interest by using their authority as a shareholder in planning, coordinating, consolidating, developing and controlling to optimize profits for the holding Company. If one of the subsidiaries is affected by the law, the entire related Company suffers, which



can damage the Company's reputation and public trust and lower share prices and value. Without strict rules, this relationship can drop share prices and company value.

Meanwhile, the form of shareholder connections has a positive effect on firm value because this relationship can optimize monitoring to prevent managerial manipulation, increase company access to low-cost credit, and build reputation through bank loans that provide certification, which allows companies to raise funds in the public market and effectively reduces their financing problems.

Nonetheless, these six independent variables are connected and complementary, helping improve stock prices and build substantial company value.

Limitations. This research has limitations in detecting political connection information obtained from the emitted's annual report. It does not examine whether there are political connections in subsidiaries because there is a possibility that subsidiary entities have political connections. The research results may be different if the data regarding political links to the subsidiary companies is obtained so that the researcher can provide more solid conclusions.

Researchers also have difficulties in obtaining articles or research journals regarding bank connections because only a few people examine this variable, so the research results obtained may not be supportive. If there are more sources from a wider variety of references, it will allow for more ideal and reliable results from research on banking connections.

This researcher uses (Idris et al., 2020) with modifications to trace political and bank connections. The data acquired is companies with a minimum of 10 per cent share ownership, which is deemed effective in influencing company policy. In addition, this research focuses on public banks since it aims to observe from the perspective of companies that manage and provide credit or loans. However, many other sectors can be used as research material.

Suggestion. Based on the limitations described above, the authors expect future studies to make better use of reliable data and information and additional formulae to quantify the same variables so that different research results can present a clear picture for the future. This research only influences independent variables by 24.620 per cent, and we hoped that other variables such as bonus plans, Good Corporate Governance (GCG), audit reports, and taxation could be added.

To acquire different results and conclusions for other sorts of industries or firm sectors, the bank connections variable is suggested to be used in other sector companies, both financial and non-financial non-public companies.

Implications. The results of the research above have provided a good that debt covenant, political cost, political connection and bank connections can improve company value if implemented and practised according to excellent and strict rules and supervision to avoid conflicts of interest that might damage the Company's image and impact negatively on firm value.

The Company should also implement good governance to monitor and avoid resource misuse to create a healthy growth company with a good reputation among investors for continuing and sustainably contributing to the country's economy.

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