

## LIQUIDITY MANAGEMENT, CORPORATE INVESTMENT, AND PRESIDENTIAL ELECTION

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### ABSTRACT

*This study analyzes whether election as a political event affects the liquidity management and investment decisions of Indonesian listed firms. Using the presidential election as an uncertainty shock over the 2010-2016 time period, we find that firms are more likely to increase their liquid assets and delay investment one year prior to the election year. The precautional measure of holding more cash is that firms allocate more cash prior to the election year to maintain financial flexibility because rising funds rendered transaction costs. However, we further find that firms reduce their liquidity and increase their investment during the election year. These results suggest that elections create political uncertainty and induce a higher risk of extraction. Since cash, as well as other liquid assets, are the easiest resource to be grabbed by the politicians, firms have more incentives to hold less cash and therefore structure their liquid assets into hard assets to prevent such a risk.*

**Keywords:** liquidity, investment, election.

Penelitian ini bertujuan untuk menganalisis pemilihan presiden sebagai salah satu *event* politik yang akan memengaruhi manajemen likuiditas dan keputusan investasi perusahaan publik di Indonesia. Dengan menggunakan *event* pemilihan presiden sebagai *uncertainty shock* dengan periode sampel 2010-2016, kita menemukan bahwa perusahaan akan cenderung meningkatkan likuiditasnya dan menunda keputusan investasi setahun sebelum pemilihan presiden. Keputusan meningkatkan kas ini adalah bentuk strategi perusahaan untuk menjaga likuiditasnya dikarenakan adanya ketidakpastian di masa yang akan datang terkait dengan hasil dari pemilihan presiden. *External financing* di masa ketidakpastian akan menimbulkan kos transaksi yang lebih tinggi. Tetapi, bukti selanjutnya menunjukkan bahwa perusahaan akan mengurangi likuiditasnya dan meningkatkan investasi di tahun pemilihan presiden. Bukti empiris ini menunjukkan bahwa pemilihan presiden akan meningkatkan risiko *political extraction*. Dikarenakan kas, dan juga aset likuid lainnya, adalah bentuk sumber daya yang mudah untuk dimanfaatkan oleh politisi, perusahaan akan memiliki motif yang lebih kuat untuk mengurangi aset likuidnya dan menggunakannya untuk investasi di aset fisik untuk menghindari risiko *political extraction*.

**Kata kunci:** likuiditas, investasi, pemilihan umum

### INTRODUCTION

Political uncertainty has a direct impact on corporate decision-making (Julio & Yook, 2012). We posit that political uncertainty, as a result of the political election, is considered to influence corporate decisions through possible changes in regulations or political leaderships. Understanding how this external factor affects corporate decisions is of fundamental policy significance. Indonesian's institutional setting offers

interesting settings to explore the relationship between politics and their effects on corporate decisions making.

In this study, we empirically examine the relationship between election and liquidity-investment decisions. Aside from the large body of accounting literature that usually relies on the political cost hypothesis to explain corporate accounting choice (Demski, 1988; Watts & Zimmerman, 1978), our study offers an alternative analysis by

using the theory of irreversible choice under uncertainty to explain the liquidity and investment decisions (Bernanke, 1983). The premise of the political cost hypothesis is that firms are more likely to choose conservative accounting methods to avoid public attention that may cause costly regulatory oversight. Accordingly, elections signify these firms' incentives to report earnings decreasing method to manage political costs from negative scrutiny (Ramanna & Roychowdhury, 2010) or shelter their assets when political extraction risk is higher (Caprio, Faccio & McConnell, 2013). Under the irreversible choice theory, the uncertainty environment plays a significant role in investment decisions. Since the investment expenditures are mostly irreversible, firms postpone current investments to anticipate possible adverse outcomes in the future due to the uncertainty (Caballero & Pindyck, 1996). Several studies identify election as an important political event driving the uncertainty (Goodell & Bodey, 2012; He, Lin, Wu & Dufrene, 2009; Jens, 2017; Julio & Yook, 2012; Ozoguz, 2009; Wang, Chen & Huang, 2014). Jens (2017), for instance, using the gubernatorial election as an uncertainty shock, shows that firms reduce investment before an election. They argue that firms delay capital investment during greater political uncertainty.

To examine the effect of the election on a firm's liquidity and investments, we use the Indonesian presidential election and cover six years sample period from 2010 to 2016. Interestingly, our first analysis reveals that the firms' liquidity is increasing a year prior to the election time. This evidence partially supports the irreversible choice theory. A year prior to the election seems to be an uncertain period where firms find it difficult to predict the election results. Consequently, firms tend to delay the investments and hold more cash before the election time. Therefore, during the election year where the incentives of politicians to extract rent increase, firms are more likely to reduce their liquid assets. The results hold when we use cash and equivalent cash and current ratio to measure a firm's liquidity. Given these results, we estimate the use of cash during

the election year by estimating the level of the firm's investments in property, plant, and equipment. As expected, our results suggest that firms sheltering their cash by increasing their investment in property, plant, and equipment.

Our study contributes to the literature in two ways. First, this study complements the findings of Caprio *et al.* (2013). While their study solely focuses on the impact of corruption on cash holdings and investment, our study fills the gap by exploring how political uncertainty drives liquidity management and investment decisions. By focusing on volatile emerging democracies in Indonesia, this study helps us better understand the economic consequences of a political event, e.g., the presidential election. Second, our findings extend the theoretical model of Stulz (2005), who analyzes the twin agency problems and their risk of political extraction. Furthermore, our study provides highlights into the possibility of using the investment to shelter corporate assets in the event of uncertainty shocks.

The remainder of this paper proceeds as follows. We discuss prior literature and hypothesis development in the next section. Section 3 presents the research method. Section 4 discusses the findings of the paper. Finally, we conclude the analysis with limitations and suggestions for future research.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Since 1998, Indonesia has experienced a dramatic transformation in the political system after the fall of the authoritarian regime of Soeharto that almost thirty-two years in power. Indonesia has started the democratization and decentralization era that entails dispersion of political power across regions and institutions. For instance, the parliament acquires substantial power in the legislation process, the appointment of top bureaucrats, and controls the state budget (Habib, Muhammadi & Jiang, 2017). However, these changes have facilitated the ascendance of business in the political power and led to the transformation of the patrimonial state (Fukuoka,

2012).

The institutional reform in the post-Soeharto era brings some consequences. The decentralization system is composed of two layers of state administration, e.g., local and national government. In this context, there is a growing importance of local government in controlling financial and regulatory resources. Political contestation in the democracy system elevates the cost-intensive electoral politics in which capital became an inevitability (Fukuoka, 2013). With a multi-party system, a presidential election event becomes an important opportunity for a political party to win the election. To the extent that the election and economic outcomes will be tied together, the winning party uses its power to govern and control public policy and governmental resources (Voia & Ferris, 2013). Previous research has documented the effect of an election as a political event on market reaction (Bouoiyour & Selmi, 2017; Fung, Gul & Radhakrishnan, 2015; Goodell & Vähämaa, 2013; Shen & Lin, 2015) business cycle (Chang, Kim, Tomljanovich & Ying, 2013; Foremny & Riedel, 2014; Voia & Ferris, 2013), tax and financing decisions (Baloria & Klassen, 2018; Chen, Shen & Lin, 2014) or government spending (Arifin & Purnomowati, 2017). For instance, Goodell & Vähämaa (2013) show that political uncertainty around the presidential election leads to stock market volatility. Investors adjust their expectations as new information is received regarding the impact of election results on its future economic policy.

Bureaucracy and governance reformation in early 2000 does not significantly bring improvement of law enforcement indicating the high corruption level among political parties. Therefore, the role of politicians in the public policy process has significantly increased. Within the political economy literature, several studies have identified the framework of how businesses, bureaucrats, and politicians interact. For instance, Frye & Shleifer (1997) develop two alternatives views, the helping-hand, and the grabbing-hand, to identify the outcomes and consequences of the relationship between business and government.

The helping-hand views government as above law and uses power to help businesses. Particular firms that have strong connections with the government may enjoy regulatory benefits and preferential access to resources, e.g., lower cost of prosecutions (Correia, 2014), licenses (Luebke, 2009), bailouts (Faccio, Masulis & McConnell, 2006), procurement contracts (Goldman, Rocholl & So, 2013), and preferential access to finance (Houston, Jiang, Lin & Ma, 2014).

In contrast with the helping-hand view, the grabbing-hand posits that government is above law and uses power to extract rent. The risk of rent extraction is more prevalent in countries with a high level of political corruption. Seminal papers on this view are Spiller and Savedoff (1999) who study the top management behavior of decisions making in state-owned enterprises and Shleifer & Vishny (1994) who study the behavior of state-owned enterprises and how politicians extract rent for their private benefits. Using a cross-countries sample, Caprio *et al.* (2013) show the risk of political extraction also exists in private firms, particularly in a country with weak law enforcement and high corruption level. They argue that when the risk of political extraction increases, firms are more likely to shelter their asset by holding less liquid assets. The risk increases particularly during the election period because the incentives of politicians to seek rent also increase. Politicians need extra resources to run their political campaigns. If the election is associated with the increase of political, two things must be true; election must affect a firm's liquidity management and firms structure their liquid assets to avoid political extraction. Following from the previous discussion, therefore we formulate the following hypothesis:

- H1: All else being equal, firms are more likely to hold fewer liquid assets in the year of election to avoid political extraction.
- H2: All else being equal, firms are more likely to increase their investment in the year of election to avoid political extraction

**RESEARCH METHODS****Empirical Model**

$$\text{Liquid}_{i,t} = \alpha + \beta_1 \text{ELECT}_{i,t} + \sum \beta_2 X_{i,t-1} + \beta_3 \eta_{i,t} + \beta_4 \mu_{i,t} + \varepsilon_{i,t} \dots \dots \dots (1)$$

We examine our hypothesis using the following regression model:

Where  $\text{Liquid}_{i,t}$  represents the liquidity measures; CASH and CURR. While CASH is cash and equivalent cash scaled by the book value of total assets, CURR is a current ratio calculated as current assets divided by current liabilities. ELECT is a dummy variable that is equal to one in the year of the presidential election (2014), and zero otherwise.  $X$  is a lagged vector of firm-specific control variables; the financial leverage ratio (LEV), firm's growth (GROWTH), the number of years the firms has been listed on the Indonesian stock exchange (AGE), ROA volatility (VOLT), Altman Z-Score (ZSCR), Tobin's Q (TOBQ), and dummy positive accrual (ACCD). In addition, the dummies of industry ( $\eta$ ) and year ( $\mu$ ) are included in all regressions to control the industry and year fixed effect. See Table 1

for definitions and measurement of all variables.

**Data**

We start with a sample of non-financial firms listed in the Indonesian Stock Exchange from 2010 to 2016. Our main source of financial and stock market information is from the Indonesian Capital Market Directory and firms' annual reports. We eliminate firm-year observations with missing information and left an unbalanced panel of 2282 firm-year observations on 417 Non-financial Indonesian-listed firms. We winsorize all the continuous variables at the top and bottom 5% to mitigate potentially biased inference caused by the outliers (Arifin, Hasan & Kabir, 2020).

**ANALYSIS AND DISCUSSION****Univariate Analysis**

Table 2 presents firms' characteristics for the sample which are based on 2.282 firm-year observations. Similar to the current assets-to-current liabilities (CURR), cash-to-net assets (CASH) is right-skewed across the sample with the sample mean (median) value of 0.0911 (0.0903). The sample firms

**Table 1.**  
Variable Definition

Variable	Description
CASH	Cash and equivalent cash scaled by book value of total assets.
CURR	Current ratio calculated as current assets divided by current liabilities.
PPE	Net property, plant, and equipment scaled by book value of total assets.
ELECT	Dummy variable sets equal to one in presidential election year (2014), and zero otherwise.
LEV	Long-term debt scaled by book value of total assets.
GROWTH	Market value of equity divided by book value of equity
AGE	Years since IPO
VOLT	Time series standard deviation of return on assets calculated over the previous three years.
ZSCR	Altman Z-score for emerging markets computed as: $Z = 3.25 + 6.56 \times (\text{current assets-current liabilities}/\text{total assets}) + 3.26 \times (\text{retained earnings}/\text{total assets}) + 6.72 \times (\text{EBIT}/\text{total assets}) + 1.05 \times (\text{book value of equity}/\text{total liabilities})$
TOBQ	Tobin's Q calculated as market value of equity plus book value of debt divided by book value of total assets.
ACCD	Dummy variable sets equal to one if firm has positive accrual, and zero otherwise.

have higher Altman's Z-score and accounting accruals. Panel B Table 2 presents the Pearson correlation matrix between all of the variables in the sample. Our two measures of a firm's liquidity are positively correlated with growth opportunity (GROWTH) but negatively correlated with leverage (LEV). In sum, the correlation between control variables is generally consistent with our expectations.

Table 3 presents a correlation matrix between all of the variables. The table shows that our two measures of liquidity (CASH and CURR) are positively correlated. As predicted, CASH and CURR are negatively correlated with PPE. Similarly, LEV is negatively correlated with CASH and CURR, indicating that higher leverage is associat-

ed with a lower liquidity.

### Multivariate Analysis

We estimate our empirical model separately for each of our liquidity measures with similar control variables. Therefore, we use pooled ordinary least squares (OLS) regressions with heteroscedasticity robust standard errors. Each model includes industry and year fixed-effect to control for systematic differences in firms' characteristics across industry types and factors changing over time.

We show our baseline results in Table 3. The dependent variable in Table 3 is cash-to-net assets (CASH) and current assets-to-current liabilities (CR). Models (1) and (2) of Table 3 show the results of

**Table 2.**  
Descriptive Statistics

Variable	Mean	Std.Dev	Min	Max
CASH	0.0911	0.0903	0.0035	0.3212
CURR	2.0132	1.6987	0.2940	7.1830
PPE	0.3479	0.2382	0.0123	0.7987
LEV	0.1296	0.1476	0.0001	0.4916
GROWTH	1.8860	1.8463	0.0500	6.6971
AGE	13.916	7.7018	1.0000	26.000
VOLT	4.8373	4.6112	0.5345	18.208
ZSCR	6.5731	4.4108	-3.262	16.042
TOBQ	0.9718	0.9911	0.0910	3.7600
ACCD	0.3623	0.4808	0.0000	1.0000

**Table 3.**  
Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) CASH	1.000								
(2) CURR	0.080	1.000							
(3) PPE	-0.260	-0.177	1.000						
(4) LEV	-0.201	-0.152	0.353	1.000					
(5) GROWTH	0.182	-0.009	-0.024	-0.020	1.000				
(6) AGE	0.018	-0.004	-0.016	-0.093	-0.076	1.000			
(7) VOLT	-0.018	0.043	0.088	0.106	0.027	0.062	1.000		
(8) ZSCR	0.421	0.416	-0.307	-0.425	0.135	0.020	-0.204	1.000	
(9) TOBQ	0.282	0.086	-0.063	-0.173	0.814	-0.045	0.064	0.310	1.000

pooled OLS regressions testing whether liquidity is significantly lower prior to the election year. The coefficient of ELECT<sub>t-1</sub> in Model (1) is positive and statistically significant at the 1% level, suggesting that firms are more likely to increase their cash holdings prior to the election year. Similarly, the coefficient of ELECT<sub>t-1</sub> in Model (2) is significantly positive at the 5% level. This result consistent with the theory of irreversible choice suggesting that firms are more likely to hold more cash or other liquid assets by delaying investment during an uncertainty environment.

Models (3) and (4) of Table 3 are similar to Models (1) and (2) in all aspects except that we use the origin election variable (ELECT<sub>t</sub>). In contrast, the next results in Model (3) and (4) show that the coefficient of ELECT<sub>t</sub> is negative and significant at the 1% and 10% level respectively, implying that the negative association between election and liquidity is limited to the election year. The results confirm the political cost hypothesis, implying that firms reduce their liquid assets to avoid regulatory attention as well as political extraction. Our findings support the evidence of Caprio *et*

**Table 4.**  
Presidential Election and Liquidity Management

	(1)	(2)	(3)	(4)
	CASH	CR	CASH	CR
ELECT <sub>t-1</sub>	0.020*** (3.042)	1.159** (2.012)		
ELECT <sub>t</sub>			-0.019*** (-2.878)	-1.128* (-1.842)
LEV <sub>t-1</sub>	-0.023* (-1.857)	0.111 (0.197)	-0.023* (-1.857)	0.111 (0.197)
GROWTH <sub>t-1</sub>	-0.001 (-0.811)	-0.187** (-2.284)	-0.001 (-0.811)	-0.187** (-2.284)
AGE <sub>t-1</sub>	0.001*** (5.503)	-0.008 (-0.466)	0.001*** (5.503)	-0.008 (-0.466)
VOLT <sub>t-1</sub>	0.001 (1.388)	0.159*** (4.627)	0.001 (1.388)	0.159*** (4.627)
ZSCR <sub>t-1</sub>	0.007*** (12.150)	0.559*** (9.424)	0.007*** (12.150)	0.559*** (9.424)
TOBQ <sub>t-1</sub>	0.015*** (3.773)	-0.093 (-0.380)	0.015*** (3.773)	-0.093 (-0.380)
Constant	-0.026*** (-2.689)	-0.856 (-0.940)	-0.006 (-0.650)	0.303 (0.315)
Industry Dummy	Yes	Yes	Yes	Yes
Year Dummy	Yes	Yes	Yes	Yes
Obs.	2282	2272	2282	2272
R-squared	0.216	0.170	0.216	0.170

CASH = cash and equivalent cash scaled by book value of total assets; CURR = current ratio calculated as current assets divided by current liabilities; ELECT = dummy variable that is equal to one in the year of presidential election (2014), and zero otherwise; LEV = long-term debt scaled by book value of total assets, GROWTH = market value of equity divided by book value of equity, AGE = the number of years the firms has been listed on the Indonesian stock exchange; VOLT = ROA volatility; ZSCR = Modified Altman Z-Score for emerging countries, TOBQ = market value of equity plus book value of debt divided by book value of total assets, and ACCD = dummy variable sets equal to one if firm has positive accrual, and zero otherwise.

\*\*\* The White's corrected t-statistics are statistically significant at the 1% level.

\*\* The White's corrected t-statistics are statistically significant at the 5% level.

\* The White's corrected t-statistics are statistically significant at the 10% level (one-tailed tests).

al. (2013), suggesting that liquid assets are the most effortlessly grabbed by the politicians for their private benefits. To avoid this extraction, firms are more likely to hold less liquid assets during an election

**Table 5.**  
Presidential Election and  
Investment Decisions

	(1)	(2)
	DPPE	DPPE
ELECT <sub>t</sub>	0.015** (1.969)	0.013* (1.811)
LEV <sub>t-1</sub>		-0.008 (-0.379)
GROWTH <sub>t-1</sub>		0.001 (0.258)
AGE <sub>t-1</sub>		-0.000 (-0.995)
VOLT <sub>t-1</sub>		-0.000 (-0.357)
ZSCR <sub>t-1</sub>		0.002** (2.290)
TOBQ <sub>t-1</sub>		-0.005 (-0.784)
Constant	0.004 (0.383)	0.001 (0.028)
Industry Dummy	Yes	Yes
Year Dummy	Yes	Yes
Obs.	3434	2282
R-squared	0.010	0.017

DPPE = changes in Net property, plant, and equipment scaled by book value of total assets; ELECT = dummy variable that is equal to one in the year of presidential election (2014), and zero otherwise; LEV = long-term debt scaled by book value of total assets, GROWTH = market value of equity divided by book value of equity, AGE = the number of years the firms has been listed on the Indonesian stock exchange; VOLT = ROA volatility; ZSCR = Modified Altman Z-Score for emerging countries, TOBQ = market value of equity plus book value of debt divided by book value of total assets, and ACCD = dummy variable sets equal to one if firm has positive accrual, and zero otherwise.

\*\*\* The White's corrected t-statistics are statistically significant at the 1% level.

\*\* The White's corrected t-statistics are statistically significant at the 5% level.

\* The White's corrected t-statistics are statistically significant at the 10% level (one-tailed tests)

year. Overall, the results presented in Table 4 support H1.

As for control variables, are somewhat mixed but mostly as predicted. Older, healthier, and profitable firms exhibit a

**Table 6.**  
Presidential Election and  
Accounting Accrual

	(1)	(2)
	DACC	DACC
ELECT	0.107** (2.209)	0.191*** (3.466)
LEV <sub>t-1</sub>		-0.254** (-2.469)
GROWTH <sub>t-1</sub>		0.001 (0.065)
AGE <sub>t-1</sub>		0.002 (1.168)
VOLT <sub>t-1</sub>		0.001 (0.209)
ZSCR <sub>t-1</sub>		-0.018*** (-4.795)
TOBQ <sub>t-1</sub>		0.021 (0.815)
Constant	0.086 (1.520)	-0.001 (-0.006)
Industry Dummy	Yes	Yes
Year Dummy	Yes	Yes
Obs.	3192	2295
R-squared	0.028	0.036

ACC = changes in accounting accrual (earnings management), and zero otherwise; ELECT = dummy variable that is equal to one in the year of presidential election (2014), and zero otherwise; LEV = long-term debt scaled by book value of total assets, GROWTH = market value of equity divided by book value of equity, AGE = the number of years the firms has been listed on the Indonesian stock exchange; VOLT = ROA volatility; ZSCR = Modified Altman Z-Score for emerging countries; and TOBQ = market value of equity plus book value of debt divided by book value of total assets.

\*\*\* The White's corrected t-statistics are statistically significant at the 1% level.

\*\* The White's corrected t-statistics are statistically significant at the 5% level.

\* The White's corrected t-statistics are statistically significant at the 10% level (one-tailed tests).

higher level of liquidity. While leverage is negatively related to a firm's liquidity, firms that are more engaged in risk-taking behavior tend to be, on average, more liquid.

Having confirmed a negative association between election and firms' liquidity, therefore, we examine the usage of cash or liquid assets during the election as our second hypothesis. In doing so, we estimate OLS regressions in which the dependent variable is the change of investment-to-assets ratio and present the results in Table 5. The independent variables are *ELECT* along with the firm's characteristics similar to our baseline model. All two models in Table 5 show that the variables of *ELECT* are significantly positive, thus suggesting that firms' investments are significantly increasing in the election year.

### Additional Test

Throughout this paper, we argue that the negative effect of the election on firms' liquidity is due to the likelihood of political extraction is higher during the election. Firms are more likely to increase their investment in hard assets which are difficult to be extracted by politicians. In this section, we investigate whether firms use accounting accrual to manipulate earnings during the election year. The results in Table 6 show that the accounting accrual is significantly increasing during the election year. The possible explanation is that firms react to government or politicians' rent-seeking behavior by engaging earnings management to manipulate earnings. These findings are consistent with the evidence of Ramanna & Roychowdhury (2010) showing that elections signify the firms' incentive to use accounting discretion to manipulate earnings for their favor.

### CONCLUSION

This study pays attention to the liquidity and investment decisions among Indonesian listed firms anticipating uncertainty during a presidential election. It has been shown that firms convert their liquid into harder assets to avoid political extraction (see also Caprio *et al.*, 2013). Weak law enforcement and high political corruption

increase the likelihood of corporate assets extraction by politicians. As an example, Xu, Chen, Xu & Chan (2016) contend that firms reduce their cash holding when facing high uncertainty and political extraction risk. By exercising the Indonesian political environment, we empirically examine the effect of political uncertainty on liquidity and investment decisions using 2,282 firm-year observations during the period of 2010-2016. In other words, this study explores whether listed firms have incentives to increase their cash holding by delaying investments to anticipate uncertainty or structure their liquid into harder assets to avoid political extraction.

Our empirical results show preliminary evidence that a year before the election, firms are more likely to increase their liquid assets and delay investment in hard assets. The precautionary measure of holding more cash is that firms allocate more cash prior to the election year to maintain financial flexibility because rising funds rendered transaction costs. However, we further find that firms reduce their liquidity and increase their investment during the election year. These results suggest that elections create political uncertainty and induce a higher risk of extraction. Since cash (and other liquid assets) is the easiest resource to be grabbed by politicians, firms have more incentives to hold less cash and therefore structure their liquid assets into hard assets to prevent such a risk. Taking together, our findings suggest that the presidential election, as a political uncertainty shock, determines the amplitude of firms' liquidity and investment.

This study offers practical implications to firms on how to manage firm value when facing political uncertainty risk, e.g., election, through maintaining liquidity and investment. Since both holding cash or investment incurs different consequences for firms, it is important to appropriately anticipate the political uncertainty. Nevertheless, this study has some caveats. First, since our study only focuses on the presidential election, we couldn't further explain whether firms behave differently during legislative or regional elections. It would be interesting if future research could explore



these angles. Second, considering political connections play important role in the Indonesian context, it is also worth examining whether politically-connected firms facing a greater risk of political extraction than their non-connected counterparts. Future research can also explore other corporate decisions, e.g., employment, accruals, or corporate social responsibility, during political uncertainty.

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