

Political Connection and The Readability of The MD&A Disclosure

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Abstract

This research examined the relationship between politically connected companies and the readability of the company's MD&A. Our results show that in the Indonesian setting, the experience of parliamentarians (DPR, MPR), regional heads and local government officials at the company executive level plays an important role in the readability of a company's Management Discussion & Analysis (MD&A). Based on self-presentation theory, we suspect that companies with political connections make it possible to make the disclosures on the company's MD&A easy to read because the management with political connections puts forward their image in the stakeholders' eyes. The narrative that is conveyed is easier to understand as a result. Besides this, management who come from the political circle have the talent and expertise of managing their image in the public eye, thus enabling the management to convey the narrative on MD&A in a way that is easy to read for reasons of concealing the company performance or maintaining their image. We also tested the endogeneity effect using Coarsened Exact Matching Regression (CEM) to confirm our findings and obtained the same result as our previous assumption - that politically connected companies have an MD&A that is easy to read.

Keywords: *disclosure; MD&A; political connection; readability*

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INTRODUCTION

The development of research in the accounting world highlights the various kinds of reporting carried out by companies. Apart from not being researched much before, it also brings in new challenges and excitement to the world of research. It's like looking for loopholes in something hidden and difficult to analyze. The studies previously conducted (Durnev and Mangen, 2020; Bochkay and Levin, 2019; Clarkson et al., 1994; Li, 2019; Tarca et al., 2011; Waymire, 2004) are not far from off the analysis of disclosure, usefulness, improvement and the possible MD&A intentions required by the SEC. The rest have tried to do sentiment analysis like that done by (Dutta et al., 2019). We have questioned how a text can be analyzed using other methods to provide an objective picture of the underlying interests.

Before that, the SEC decided that MD&A was part of the company's obligation to make disclosures in order to see the management's point of view in relation to the business analysis in both the short- and long-term (Koelbl, 2020). The MD&A guidelines urge companies to provide information on the quality and potential variability of any cash flows

so then any investors can determine potential prospects (Bochkay and Levine, 2019). What we found is that it provides a picture of MD&A becoming longer and redundant over time, but it is not accompanied by quality standards and is no longer relevant for investment decisions (Dyer et al., 2017). What happened? This is the same as the explanation given by Bloomfield (2008) which states that managers have the intention to obscure information for investors by increasing the amount of repeated disclosures and delaying the investors' reaction to bad news. Li (2008) reinforced this argument by finding that companies with negative earnings news tend to have a less legible MD&A than companies with positive earning news.

We began our analysis by exploring the readability of the MD&A produced by the executive management. As expected, the MD&A has become a unique attraction for company management interested in information either in good faith or manipulatively. The management may seek to manage their narratives in order to signal to the stakeholders about both present and future prospects (Schipper, 1989). We have tried to be positive when addressing this phenomenon. We assume that the management wants to openly share as much information as possible (Ertugrul et al., 2017) or that they are confused with the information they have so then what is produced is a complex form of information (Li, 2008; Ajina et al., 2016; Lo et al., 2017). Regrettably, other arguments are growing more popular including those complications in terms of legibility are markers of analyst dispersion and uncertainty in the earnings forecasts (Lehavy et al., 2017), in addition to the existence of higher debt and equity capital (Fang et al., 2014).

In Indonesia, at least 55% of the members of the People's Representative Council (DPR) are involved in the business sector.¹ The first associated fact is the inauguration of the People's Representative Council of the Republic of Indonesia for the period 2019 - 2024, where as many as 45.5% of the 575 members are affiliated with 1016 companies.² Second, the entry of businessmen into the parliamentary ranks creates a conflict of interest with a tendency to support policies that are favorable to their companies (Agrawal & Knoeber, 2001; Faccio, 2006; Goldman, Rocholl, & So, 2009; Unsal, 2019). Jackowicz et al., (2014) did the same in Poland, as did Muttakin et al (2015) in Bangladesh. Ling et al (2016) in China showed that political connections actually have a negative impact on company performance due to the rent-seeking activities of party politicians. Guedhami et al (2014) stated that politically connected companies can manipulate the accounting numbers and hide the true economic performance of the company. Thus the information performance of the MD&A disclosure is the company's biggest hope when there is a political connection to arrive at various benefits to maintain the company's good image.

Based on self-presentation theory, we suspect that companies with political connections make it possible to make the disclosures in the company's MD&A easy to read because management with political connections puts forward their image in the stakeholders' eyes so then the narrative that is conveyed is easier to understand. In addition, management who come from the political circle have the talent and expertise related to managing their image in the public eye, enabling them to convey the narrative of the

¹<https://www.liputan6.com/bisnis/read/4378020/penelitian-55-persen-anggota-dpr-pengusaha-potensi-konflik-kepentingan-besar>

²<https://koran.tempo.co/read/446368/mayoritas-pimpinan-dpr-miliki-perusahaan>

MD&A in a manner that is easy to read to cover the company performance to maintain their appearance.

Various interesting phenomena occur in companies with political connections in both developing countries and high-income economies (Fisman, 2001; Johnson and Mitton, 2003; Ferguson and Voth, 2008; Goldman et al., 2009; Cingano and Pinotti, 2013; Acemoglu et al., 2016). The hypothesis that we have built is that there is a relationship between companies with political connections and the level of readability of the company's MD&A. The existence of political relations in the company makes the company regulate the information that the management provides to investors (Chen et al. 2011). This means that the management will influence the content and quantity of the disclosure they engage in in order to maintain their business position. Politically connected companies will disclose more content in their financial reports to try to cover up the condition of their financial performance so as to produce ambiguous information. On the other hand, we also suspect that management engages in less disclosure because it intends to mislead the readers of the financial statements by submitting disclosures that are not maxima for the two reasons. This is so then the company management maintains their image in front of its shareholders.

Lo et al (2017) suggested that almost 80% of management disclosures are complex and difficult to understand, in addition to usually being aimed at hiding poor performance from investors or stakeholders. The management may attempt to manage their narrative in order to provide a signal to the stakeholders about the current and future prospects and state of the company (Schipper, 1989). Related research that attempts to link the readability of financial reports to economic results has shown positive results (Xu et al., 2020). According to Ertugrul et al. (2017), an annual report that is easier to read indicates the openness of the managers to sharing information. Leavy et al. (2011) found that unreadable financial statements were positively related to analysis dispersion and uncertainty in the earnings forecasts. In addition, this will put any analysts in a bad information environment because the company is trapped in debt and higher equity capital (Fang et al., 2014). Other things may also occur, for example, other works (Li, 2008; Ajina et al., 2016; Lo et al., 2017) revealed that the larger the size of the company, the greater the possibility that the company will experience difficulties when disclosing its resources. The words conveyed by the management in the annual report are getting wider and more complex and the MD&A report is therefore increasingly difficult to understand.

In our analysis, MD&A is a means for the management to explain the company's performance and to describe the management's performance of managing the company. In addition, we found that the MD&A provides information that is evaluative while also providing information on the impulsive expectations that the management wants to achieve by choosing the right sentences. Based on self-presentation theory, we suspect that companies with political connections make it possible to make disclosures on the company's MD&A easy to read. This is because management with political connections puts forward their image in the eyes of stakeholders so then the narrative that is conveyed is easier to understand. In addition, management who come from the political here have the talent and expertise in managing their image in the public eye, thus enabling the management to convey the narrative in the MD&A so then it is easy to read for reasons of covering up the company performance or just maintaining their image. Zhang, Li and Jian (2012) suggest that companies whose boards of commissioners are politically connected

tend to avoid tax avoidance practices where they prioritize the government's interests in the company's contribution to increasing the tax revenue. Thus the companies can make more conservative policies that emphasize the aspects of legitimacy and build their corporate image, thereby increasing the readability of the company's MD&A. This also leads us to believe in our hypothesis.

H₁: Companies with political connections have a more readable MD&A.

RESEARCH METHOD

Our sample selection procedure is shown in Table 1 (Panel A). The financial accounting data was taken from the Osiris Database. Our sample initially consisted of 4974 firm-year observations from public companies listed on the Indonesia Stock Exchange during the 2010 - 2017 period. However, we deleted 2947 observations covering the financial industry (SIC 6). We also deleted the company-year for which any variables were missing. We used this method to get our final sample of 1137 firm-year observations.

Table 1 (Panel B) shows the companies' distribution by industry, where we used the single-digit Standard Industry Classification (SIC) for each industry. We classified the observations based on politically connected companies (PCON) totaling 169 (14.86%) firm-year observations and those that are not politically connected (Non-PCON) totaling 968 (85.14%) firm-year observations. The largest politically connected industry segment was (SIC 2) Construction Industries with 38 firm-year observations, followed by (SIC 4) Transportation, Communications and Utilities with 37 firm-year observations and (SIC 1) Mining and (SIC 3) Manufacturing with 24 firm-year observations.

Table 1. Sample selection and firm distribution by industry

Panel A: Sample selection process						
Selection criteria	Observations					
Initial observations	4974					
Excluded: firms within the financial industry (SIC 6)	(2944)					
Excluded: firms with missing data	(893)					
Final observations	1,137					
Panel B: Firm distribution by industry						
Industry	PCON		Non-PCON		Total	
	N	%	N	%	N	%
(SIC 0) Agriculture, Forestry and Fisheries	6	11,11	48	88,89	54	100
(SIC 1) Mining	24	11,95	177	88,05	201	100
(SIC 2) Construction Industries	38	12,79	259	87,21	297	100
(SIC 3) Manufacturing	24	12,90	162	87,10	186	100
(SIC 4) Transportation, Communications and Utilities	37	19,68	151	80,32	188	100
(SIC 5) Wholesale & Retail Trade	15	15,15	84	84,85	99	100
(SIC 7) Service Industries	22	23,66	71	76,34	93	100
(SIC 8) Health, Legal, and Educational Services and Consulting	3	15,79	16	84,21	19	100
Total	169	14,86	968	85,14	1137	100

Source: data processed by author

In this study, the dependent variable used was the readability index. In this study, the readability of the content calculated was the Management and Discussion (MD&A), which

is one of the sections in the Annual Report. In this study, readability was measured using five readability indexes (Miller, 2010; Lehavy et al., 2011; Rennekamp, 2012), namely the Flesch-Kincaid Grade Level (FLESCH), the Flesch-Kincaid Readability Index (KINCAID), the Gunning-Fog Readability Index (FOG) and the Simple Measure of Gobbledygook (SMOG), Coleman-Liau (COLEMAN). The measurements of the five readability indices are as follows:

$$FLESCH = 206.835 - 1.015 \left(\frac{\text{total words}}{\text{total sentences}} \right) + 84.6 \left(\frac{\text{total syllables}}{\text{total words}} \right) \quad (1)$$

$$KINCAID = 0.39 \left(\frac{\text{total words}}{\text{total sentences}} \right) + 11.8 \left(\frac{\text{total syllables}}{\text{total words}} \right) - 15.59 \quad (2)$$

$$FOG = 0.4 \left\{ \left(\frac{\text{total words}}{\text{total sentences}} \right) - 100 \left(\frac{\text{complex words}}{\text{total words}} \right) \right\} \quad (3)$$

$$SMOG = 1.043 \sqrt{30 \times \frac{\text{total syllables}}{\text{total sentences}}} - 3.1291 \quad (4)$$

$$COLEMAN = 5.89 \left(\frac{\text{total characters}}{\text{total words}} \right) - 29.5 \left(\frac{\text{total sentences}}{\text{total words}} \right) - 15.8 \quad (5)$$

This is where complex words are words consisting of three or more syllables. The higher the readability score, the more difficult the sentence or paragraph is to understand according to Lo et al (2017).

The independent variable in this study was companies that are politically connected as measured by the presence of commissioners, company directors and audit committees who have previously served as members of parliament (DPR, MPR), regional heads and local government officials who meet PEP (politically exposed persons) according to Bank Indonesia regulation Number: 12/3 / PBI / 2010 in the explanation of article 11 (Bank Indonesia, 2010). The data regarding political connections was obtained through the profiles of the directors, commissioners and company audit committees contained in the company's annual report. These details were then used as a dummy variable which was given a value of 1 for companies that are politically connected and a value of 0 for companies that are not politically connected.

To overcome one of the endogeneity problems, namely omitted variables, a condition in which there are other explanatory variables that can explain the relationship with the dependent variable but are not included in the research model, some control variables were used. The more control variables are used, the stronger the relationship between the independent and dependent variables will be. Referring to the previous research by Lehavy et al (2011), Li (2008) and Lo et al (2017), this study used several control variables including board size (BOARDSIZE), which was measured by the natural logarithm of the number of members of the board of directors and the board of commissioners in the company. Total Commissioners (COMSIZE)I was measured by the natural logarithm of the number of commissioners. The proportion of independent commissioners (INDCOM) was measured using the number of independent commissioners compared to the number of commissioners in the company. (BIG4) was measured by a dummy variable with a value of 1 when the company was audited by one of the big four public accounting firms (PwC, EY, Deloitte, KPMG) and it was 0 otherwise. Company size (FIRMSIZE) was measured using the natural logarithm of the company's total assets. Total debt (LEVERAGE) was

measured by dividing the total debt by the company's total assets. Return on Asset (ROA) was measured by dividing the net income by total assets. In addition, this study also used several fixed effect variables to accommodate the differences in the characteristics found via the observations, including year fixed effects and industry fixed effects (Petersen 2009).

We used the OLS regression analysis to test our hypothesis in an Indonesian setting. We employed one equation to test our hypothesis respectively. The regression equation was as follows:

$$READABILITY = \beta_0 + \beta_1 PCON_{it} + \sum Control_{it} + \varepsilon_{it} \quad (6)$$

Where:

READABILITY: the readability of the MD&A

PCON: politically connected companies

ε_{it} errors

RESULTS AND DISCUSSION

We have provided a summary of the characteristics of our data statistics in Table 2. Our preliminary analysis shows that the number of companies that are politically connected in Indonesia is 14.9% with a readability rate in reference to the MD&A (KINCAID, FLESCH, FOG, SMOG and COLEMAN) of difficult to read. In panel B, we can see that the sample of companies connected politically with MD&A legibility proxies is easier to understand than the sample of companies that are not politically connected.

In this study, we chose two univariate analyzes, namely the Pearson Correlation and Independent T-Test. We provide the results of the Pearson Correlation test in Table 3 and the results of the Independent T-Test in Table 4. Based on Table 3, there is a significant negative relationship between PCON and FLESCH ($p=0.028$), FOG ($p=0.052$) and COLEMAN ($p=0.004$). We have also documented a significant positive relationship between DIRSIZE, COMSIZE, INDCOM, BIG4, FIRMSIZE and KINCAID, FLESCH, FOG and SMOG.

Based on Table 4, we find there to be a significant difference with a negative coefficient of FLESCH, FOG and COLEMAN between politically connected companies and companies that are not politically connected. These results confirm that in both univariate tests, the negative association between PCON and FLESCH, FOG and COLEMAN is consistent. We also found there to be some significant differences between the companies connected politically and the companies that were not politically connected, such as DIRSIZE, COMSIZE, INDCOM and FIRMSIZE. Overall, the two univariate test results show that companies that are connected politically have a level of readability in MD&A that is easy to understand, proxied by KINCAID, FLESCH, FOG, SMOG and COLEMAN compared to companies that are not politically connected.

Table 2. Descriptive Statistics

Panel A: Descriptive Statistics Full Sample						
	Count	Mean	Med	Std. Dev	Min	Max
KINCAID	1137	21.907	21.935	1.645	14.126	30.737
FLESCH	1137	25.533	25.961	7.269	-34.270	44.796
FOG	1137	25.642	25.656	1.851	16.032	34.032
SMOG	1137	20.123	20.197	1.651	12.148	27.270
COLEMAN	1137	23.401	23.364	1.114	17.462	28.131
PCON	1137	0.149	0.000	0.356	0.000	1.000
DIRSIZE	1137	4.994	5.000	1.935	2.000	15.000
COMSIZE	1137	4.460	4.000	1.813	1.000	13.000
INDCOM	1137	1.660	2.000	0.874	0.000	5.000
BIG4	1137	0.445	0.000	0.497	0.000	1.000
FIRMSIZE	1137	21.838	21.798	1.534	16.113	26.413
LEV	1137	0.532	0.505	0.390	0.002	6.499
ROA	1137	4.625	3.310	9.398	-21.520	39.360

Panel B: Descriptive Statistic Split Sample

	PCON sample					Non-PCON sample				
	Mean	Med	Std. Dev	Min	Max	Mean	Med	Std. Dev	Min	Max
KINCAID	21.776	21.900	1.733	15.861	25.906	21.929	21.944	1.629	14.126	30.737
FLESCH	24.397	25.507	8.525	-27.563	41.209	25.732	26.012	7.013	-34.270	44.796
FOG	25.386	25.566	1.926	17.961	29.649	25.687	25.679	1.835	16.032	34.032
SMOG	20.010	20.243	1.726	14.294	23.793	20.143	20.183	1.638	12.148	27.270
COLEMAN	23.175	23.260	1.172	17.462	26.968	23.441	23.395	1.100	17.674	28.131
PCON	1.000	1.000	0.000	1.000	1.000	0.000	0.000	0.000	0.000	0.000
DIRSIZE	5.432	5.000	1.981	2.000	13.000	4.917	5.000	1.918	2.000	15.000
COMSIZE	5.272	5.000	1.799	2.000	10.000	4.318	4.000	1.778	1.000	13.000
INDCOM	2.071	2.000	0.863	0.000	5.000	1.588	1.000	0.856	0.000	5.000
BIG4	0.462	0.000	0.500	0.000	1.000	0.442	0.000	0.497	0.000	1.000
FIRMSIZE	22.254	22.580	1.584	17.150	25.362	21.766	21.699	1.514	16.113	26.413
LEV	0.498	0.498	0.246	0.065	2.294	0.538	0.506	0.410	0.002	6.499
ROA	5.274	3.290	10.854	-21.520	39.360	4.511	3.310	9.121	-21.520	39.360

Panel C: Mean Readability Score by Industry

Industry	KINCAID	FLESCH	FOG	SMOG	COLEMAN
(SIC 0) Agriculture, Forestry and Fisheries	21.638	24.521	25.412	19.908	23.387
(SIC 1) Mining	22.151	25.910	25.940	20.437	23.436
(SIC 2) Construction Industries	21.547	24.006	25.258	19.791	23.259
(SIC 3) Manufacturing	21.760	25.059	25.515	19.995	23.541
(SIC 4) Transportation, Communications and Utilities	22.138	26.423	25.876	20.307	23.359
(SIC 5) Wholesale & Retail Trade	21.986	26.098	25.629	20.167	23.351
(SIC 7) Service Industries	22.194	27.607	25.931	20.283	23.489
(SIC 8) Health, Legal, and Educational Services and Consulting	23.016	31.049	26.739	21.002	24.180

Source: data processed by author

Table 3. Pearson Correlation

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
[1] KINCAID	1.000						
[2] FLESCH	0.804*** (0.000)	1.000					
[3] FOG	0.955*** (0.000)	0.806*** (0.000)	1.000				
[4] SMOG	0.968*** (0.000)	0.711*** (0.000)	0.943*** (0.000)	1.000			
[5] COLEMAN	0.457*** (0.000)	0.561*** (0.000)	0.496*** (0.000)	0.367*** (0.000)	1.000		
[6] PCON	-0.033 (0.262)	-0.065** (0.028)	-0.058* (0.052)	-0.029 (0.335)	-0.085*** (0.004)	1.000	
[7] DIRSIZE	0.074** (0.012)	0.049* (0.098)	0.048 (0.108)	0.082*** (0.006)	-0.005 (0.862)	0.095*** (0.001)	1.000
[8] COMSIZE	0.152*** (0.000)	0.091*** (0.002)	0.121*** (0.000)	0.167*** (0.000)	-0.029 (0.326)	0.187*** (0.000)	0.505*** (0.000)
[9] INDCOM	0.172*** (0.000)	0.103*** (0.000)	0.146*** (0.000)	0.182*** (0.000)	0.005 (0.862)	0.197*** (0.000)	0.388*** (0.000)
[10] BIG4	0.090*** (0.002)	0.061** (0.039)	0.069** (0.020)	0.106*** (0.000)	-0.057* (0.057)	0.014 (0.640)	0.277*** (0.000)
[11] FIRMSIZE	0.164*** (0.000)	0.077*** (0.009)	0.121*** (0.000)	0.187*** (0.000)	-0.022 (0.453)	0.113*** (0.000)	0.484*** (0.000)
[12] LEV	-0.029 (0.324)	-0.019 (0.515)	-0.040 (0.174)	-0.039 (0.187)	-0.044 (0.142)	-0.036 (0.219)	-0.053* (0.076)
[13] ROA	0.047 (0.114)	0.043 (0.143)	0.058* (0.052)	0.049 (0.101)	0.023 (0.446)	0.029 (0.330)	0.178*** (0.000)
	[8]	[9]	[10]	[11]	[12]	[13]	
[8] COMSIZE	1.000						
[9] INDCOM	0.769*** (0.000)	1.000					
[10] BIG4	0.299*** (0.000)	0.231*** (0.000)	1.000				
[11] FIRMSIZE	0.516*** (0.000)	0.443*** (0.000)	0.348*** (0.000)	1.000			
[12] LEV	-0.061** (0.040)	-0.042 (0.159)	-0.055* (0.063)	-0.001 (0.982)	1.000		
[13] ROA	0.156*** (0.000)	0.064** (0.014)	0.227*** (0.000)	0.083*** (0.000)	-0.215*** (0.000)	1.000	

Source: data processed by author

Table 4. T-Test (Difference (mean) PCON)

	PCON	Non-PCON	t-value
KINCAID	21.776	21.929	-1.121
FLESCHE	24.397	25.732	-2.205**
FOG	25.386	25.687	-1.948*
SMOG	20.010	20.143	-0.965
COLEMAN	23.175	23.441	-2.866***
DIRSIZE	5.432	4.917	3.202***
COMSIZE	5.272	4.318	6.424***
INDCOM	2.071	1.588	6.763***
BIG4	0.462	0.442	0.468
FIRMSIZE	22.254	21.766	3.839***
LEV	0.498	0.538	-1.229
ROA	5.274	4.511	0.974

Source: data processed by author

Table 5. Political Connections and Management Discussion & Analysis (MD&A) Readability

Panel A: MPR, DPR, Regional Heads and Local Government Officials					
	KINCAID	FLESCHE	FOG	SMOG	COLEMAN
PCON	-0.367*** (-2.62)	-1.989*** (-2.80)	-0.496*** (-3.13)	-0.343** (-2.44)	-0.272*** (-2.74)
DIRSIZE	-0.004 (-0.15)	0.110 (0.86)	-0.013 (-0.40)	-0.018 (-0.62)	0.021 (0.96)
COMSIZE	0.022 (0.46)	0.136 (0.68)	0.021 (0.42)	0.029 (0.64)	-0.038 (-1.28)
INDCOM	0.237*** (2.68)	0.654* (1.76)	0.272*** (2.80)	0.230*** (2.66)	0.098* (1.69)
BIG4	0.093 (0.92)	0.416 (0.96)	0.078 (0.69)	0.129 (1.28)	-0.126* (-1.77)
FIRMSIZE	0.083* (1.88)	-0.033 (-0.17)	0.044 (0.89)	0.108** (2.47)	-0.020 (-0.62)
LEV	-0.064 (-0.72)	0.021 (0.06)	-0.100 (-0.94)	-0.111 (-1.26)	-0.078 (-1.14)
ROA	0.009 (1.57)	0.048** (2.02)	0.015** (2.38)	0.008 (1.42)	0.007** (1.98)
CONSTANT	18.491*** (19.75)	18.695*** (4.56)	22.959*** (22.34)	16.322*** (17.45)	23.253*** (34.05)
Year FE	Included	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included	Included
R-squared	0.101	0.091	0.096	0.099	0.061
N	1137	1137	1137	1137	1137
Panel B: Non- MPR, DPR, Regional Heads and Local Government Officials					
	KINCAID	FLESCHE	FOG	SMOG	COLEMAN
PCON2	0.020 (0.17)	-0.087 (-0.17)	0.079 (0.61)	0.055 (0.48)	0.004 (0.05)
CONSTANT	18.611*** (19.23)	19.046*** (4.35)	23.205*** (21.60)	16.492*** (17.16)	23.325*** (33.45)
Control Variables	Included	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included	Included
Year FE	Included	Included	Included	Included	Included
R-squared	0.095	0.082	0.087	0.094	0.054
N	1137	1137	1137	1137	1137

Source: data processed by author

Table 5 shows the results of the hypothesis testing using OLS regression. We divided the companies that are politically connected into categories namely PCON and PCON2. PCON is defined as a company whose commissioners, company directors and audit committee members have previously served as parliament members (DPR, MPR), regional heads and local government officials. At the same time, PCON2 is a company whose commissioners, company directors and audit committee have previously served as members of international organizations (ex: PBB, WHO etc.), officials at State-Owned Enterprises (BUMN), non-ministerial government institutions, and become members or leaders of political parties in Indonesia. In panel A, we document that PCON is significantly negatively associated with KINCAID ($p=-2.62$), FLESCHE ($p=-2.80$), FOG ($p=-3.13$), SMOG ($p=-2.44$) and COLEMAN ($p=-2.74$) whereas in panel B, we did not find there to be significant results between PCON2 with KINCAID, FLESCHE, FOG, SMOG and COLEMAN. This study provides evidence that in the Indonesian setting, the experience of parliamentarians (DPR, MPR), regional heads and local government officials at the company executive level plays an important role in the readability of a company's MD&A.

Coarsened Exact Matching Regression

Iacus et al. (2012) described Coarsened Exact Matching Regression (CEM) as a Monotonic Imbalance Bounding matching method that allows for the selection of a fixed maximum imbalance level to reduce the maximum imbalance in one variable without changing it for another variable. In Table 6, we document that PCON is significantly negatively associated with KINCAID ($p=-3.12$), FLESCHE ($p=-3.20$), FOG ($p=-3.41$), SMOG ($p=-2.87$) and COLEMAN ($p=-3.24$). Our CEM test employed DIRSIZE, COMSIZE, INDCOM, BIG4, FIRMSIZE, LEV and ROA for the matched variables based on five strata. This result confirms our argument that with the matched approach, companies connected politically have a level of readability in MD&A that is easier to understand than companies that are not connected politically.

Table 6. Political Connection and Management Discussion & Analysis (MD&A) Readability - Matching Method

Panel A: Propensity Score Matching Method Management Discussion & Analysis (MD&A) Readability					
	KINCAID	FLESCHE	FOG	SMOG	COLEMAN
PCON	-0.518*** (-3.12)	-2.797*** (-3.20)	-0.645*** (-3.41)	-0.476*** (-2.87)	-0.391*** (-3.24)
CONSTANT	18.883*** (14.03)	17.589*** (2.80)	23.055*** (15.74)	16.576*** (12.53)	23.442*** (23.00)
Control Variables	Included	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included	Included
Year FE	Included	Included	Included	Included	Included
R-squared	0.089	0.092	0.085	0.087	0.091
Adjusted R-squared	0.062	0.066	0.059	0.060	0.065
N	782	782	782	782	782

Source: data processed by author

Additional Analysis

To improve the relationship between politically connected companies and the level of readability in the MD&A, we added an additional analysis to examine the relationship

between political experience and corporate executive positions. In Table 7, we show the four executive positions in the company, namely the Board of Commissioners (BOC), the Board of Directors (BOD), the Chief Executive Officer (CEO) and the Board of the Audit Committee. Panel A shows that PCON_BOC is significantly negatively associated with KINCAID ($p=-2.54$), FLESCH ($p=-2.71$), FOG ($p=-3.05$), SMOG ($p=-2.39$) and COLEMAN ($p=-2.64$). Panel B shows there to be insignificant results between PCON_BOD and KINCAID, FLESCH, FOG, SMOG and COLEMAN. Panel C shows there to be partial significance between PCON_CEO and COLEMAN ($p=-2.97$). Panel D shows that PCON_AUCOM has a significant negative correlation with KINCAID ($p=-2.73$), FLESCH ($p=-2.06$), FOG ($p=-3.13$) and SMOG ($p=-2.39$). This proves that the overall positions that are often filled by politicians in the company are on the Board of Commissioners (BOC), the Executive Officer (CEO) and the Board of the Audit Committee which enables the narrative presented in the MD&A to be influenced.

Table 7. Political Connections on the Board and MD&A Readability

Panel A: Political Connections on the Board of Commissioners (BOC)					
	KINCAID	FLESCH	FOG	SMOG	COLEMAN
PCON_BOC	-0.358** (-2.54)	-1.944*** (-2.71)	-0.488*** (-3.05)	-0.339** (-2.39)	-0.264*** (-2.64)
CONSTANT	18.482*** (19.74)	18.648*** (4.54)	22.946*** (22.32)	16.313*** (17.45)	23.247*** (34.01)
Control Variables	Included	Included	Included	Included	Included
Year FE	Included	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included	Included
R-squared	0.101	0.091	0.095	0.099	0.060
N	1137	1137	1137	1137	1137

Panel B: Political Connections on the Board of Directors (BOD)					
	KINCAID	FLESCH	FOG	SMOG	COLEMAN
PCON_BOD	-0.254 (-1.27)	-1.294 (-1.57)	-0.363 (-1.57)	-0.187 (-0.95)	-0.266 (-1.48)
CONSTANT	18.591*** (19.75)	19.234*** (4.68)	23.095*** (22.35)	16.414*** (17.44)	23.330*** (34.43)
Control Variables	Included	Included	Included	Included	Included
Year FE	Included	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included	Included
R-squared	0.096	0.084	0.089	0.094	0.057
N	1137	1137	1137	1137	1137

Panel C: Political Connections on the Board of the Chief Executive Officer (CEO)					
	KINCAID	FLESCH	FOG	SMOG	COLEMAN
PCON_CEO	0.299 (0.75)	-0.881 (-0.48)	-0.016 (-0.04)	0.368 (1.09)	-1.047*** (-2.97)
CONSTANT	18.567*** (19.63)	19.221*** (4.68)	23.081*** (22.28)	16.390*** (17.34)	23.367*** (35.68)
Control Variables	Included	Included	Included	Included	Included
Year FE	Included	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included	Included
R-squared	0.096	0.082	0.087	0.095	0.069
N	1137	1137	1137	1137	1137
Panel D: Political Connection on the Board of the Audit Committee					
	KINCAID	FLESCH	FOG	SMOG	COLEMAN
PCON_AUCOM	-0.543*** (-2.73)	-1.745** (-2.06)	-0.643*** (-3.13)	-0.528*** (-2.74)	-0.089 (-0.64)
CONSTANT	18.270*** (19.42)	18.185*** (4.39)	22.713*** (21.90)	16.104*** (17.15)	23.269*** (33.84)
Control Variables	Included	Included	Included	Included	Included
Year FE	Included	Included	Included	Included	Included
Industry FE	Included	Included	Included	Included	Included
R-squared	0.101	0.085	0.094	0.099	0.054
N	1137	1137	1137	1137	1137

Source: data processed by author

CONCLUSION

As a result of several tests in this study, we found that politically connected companies have an MD&A report legibility that is easy to read. Politically connected companies make it possible to make disclosures in the company's MD&A that are easy to read because management with political connections puts forward their image in the stakeholders' eyes, making the narrative easier to understand. Besides this, management who come from the political circle have the talent and expertise in relation to managing their image in the public eye, thus enabling the management to convey the narrative in the MD&A as be easy to read, be it for reasons of covering up the company performance (making little disclosure) or just maintaining their image.

In the additional analysis, we found that the political connections of the board of commissioners, the chief executive officer and the audit committee's board make the company's MD&A easy to read. This suggests that in the Indonesian setting, these positions are the positions most often occupied by politicians who regulating the corporate disclosure in order to maintain their status quo with the company in the stakeholders' eyes. This is in line with the research conducted by Aidulsyah et al. (2020) on "the map of businessmen in the Indonesian parliament: a portrait of Indonesian oligarchs." They found that 55% of parliamentarians in Indonesia consist of business people where 44% have a position as CEO or owner. Following this, 15% percent have a role as commissioner. This study also contributes to the literature on how the government's institutional environment affects corporate disclosure. This research focuses on the possible quality of the readability

of the MD&A of companies with political connections, thus providing an overview for the stakeholders on the quality of the readability of public companies, especially those with political connections.

This study has limitations, such as where the researcher only focuses on the readability level of the company's MD&A. It does not examine the context of the sentences more in-depth, such as the intonation (positive and negative) used. Whether the expressions used are more using positive tones or negative so that the positive and negative tones can be used to further clarify the level of openness by management and how management manages their disclosures to convey the state and performance of the company.

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