
Corporate governance, political connection, and foreign ownership control: The property rights theory perspective

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Article Info

Article history:

Received 28 September 2022

Revised 13 Desember 2022

Accepted 3 April 2023

Keywords:

Corporate Governance;
Political Connection; Foreign
Ownership; Property Right
Theory

ABSTRACT

Over time, the reduction in foreign ownership in Indonesia has prompted questions about its causes. The country is still perceived to have low corporate governance standards and a high level of political connections. The aim of this study is to investigate whether corporate governance and political connections have an impact on foreign ownership. The study utilized manufacturing company data from 2018 to 2021, comprising 48 companies with 192 observations. The findings of the study indicate that foreign investors tend to decrease their investment in companies with strong corporate governance. The study reveals that a firm with robust corporate governance becomes an attractive target for local investors to acquire ownership. The findings provide evidence of a decrease in the proportion of foreign investors in such companies. Instead, foreign investors continue to view companies with political connections as potential concern for surveillance. This study uses another argument to explain how the structure of foreign ownership in Indonesia uses the property right theory. Policy-making authorities can make policies to support corporate governance arrangements and support to reduce the level of corruption so as to support the investment climate in Indonesia. This research can be used as a new insight to understand how the investment climate is, but has not considered aspects related to environmental and social issues.

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INTRODUCTION

According to the data from [Indonesia Stock Exchange \(IDX\) \(2015\)](#), the opportunities and benefits of investing in the Indonesian capital market have increased the attention of foreign investors,

as indicated by the net purchases of foreign investors, which reached an all-time high of 2.397 trillion rupiah in 2022. Obtained at the Indonesian Central Securities Depository (KSEI) in 2021, the share of foreign ownership has declined over the past six years (see Table 1). This shows that the ownership of local investors is increasing, and the ownership of foreign investors is decreasing slowly. This phenomenon cannot be explained clearly as so why the share of foreign ownership in the Indonesian stock market is decreasing. Currently, Indonesia is active in giving a positive signal to foreign investors to invest in Indonesia to increase foreign ownership as a form of trust in corporate governance in Indonesia. Asean Corporate Governance Association (2021) surveyed corporate governance in Asian countries, including Indonesia. The survey results report that Indonesia is ranked 10th out of 11 countries on overall corporate governance indicators. This shows that the condition of corporate governance in Indonesia is still low.

Ownership proportions become important, especially for foreign investor ownership (Driffield et al., 2016). The high foreign ownership level is still to be a stock market improvement indicator in a country. Furthermore, this shows a good image of countries invested in foreign ownership. For example, the Indonesian government arranges investment-specific guidelines for foreign investors to reduce asymmetric information so foreign investors will be interested in investing in Indonesia (Ministry of Investment, 2021). The primary determinant is foreign investors have a more sensitive tendency toward corporate governance issues, so they need complete information to support the investment decisions made (Chen et al., 2010; Yildiz, 2021). Furthermore, because of limited surveillance, foreign investors are more like corporates in countries with a high enforcement level, thus making foreign investors feel safer investing (Leuz, Lins, dan Warnock 2009).

Table 1. Ownership Portion in Indonesian Stock Market

Period	Local	Foreign
2014	40,71%	59,29%
2015	42,67%	57,33%
2016	51,77%	48,23%
2017	54,50%	45,50%
2018	54,82%	45,18%
2019	55,71%	44,29%
2020	56,85%	43,15%
2021	58,60%	41,40%

Resoure: (KSEI, 2021)

So far, the corporate ownership structure changes more explained with agency theory (Arenke et al., 2022; Yildiz, 2021). Based on agency theory, a conflict of interest arises between the agent and the principal, where the principal expects that the agent can carry out what is expected by the principal (Jensen, 1986). From the corporate ownership perspective, agency theory emphasizes a reduction of ownership proportion when agents misappropriate principled expectations (Bushee et al., 2014; Jensen & Meckling, 1976). Agents need supervisors to reduce agent actions that are inconsistent with principal expectations, such as prioritizing short-term goals by manipulating financial reports (Chang et al., 2016). Foreign investors become one of the supervisory parties who are trusted to carry out their roles as investors and supervisors (Leuz et al., 2010). This is because foreign investors prioritize long-term goals thereby encouraging companies to implement good corporate governance (Leuz et al., 2010; Pranesti & Kusuma, 2022; Tunay & Yüksel, 2017; Xu et al., 2022). As it was said by Arenke et al., (2022), foreign investors are capable to improve corporate governance in developing country market environments. This supports the agency theory that corporate shows a commitment by reducing agency cost and maximizing company value by attracting cheaper sources (Driffield et al., 2013; Jensen, 1986; Kim & Mahoney, 2005). Agency theory focuses more on shareholders' interest, however, no other party is involved.

Su (2017) said that the basic concept of property rights is on property rights held by the asset owner to utilize and give benefit in asset and entitlement to remove the assets. Furthermore, according to this theory, the owner has the freedom to transfer his right to another. Property rights theories emphasize that ownership control is held by those who have the biggest impact on performance and output. In the Indonesian context, foreign ownership became a pretty influential stakeholder in corporate decisions. This is because the number of foreign ownership in Indonesia generally shows the proportion of ownership that has significant influence (20%-50% ownership) and even controlling entity (more than 50% ownership) (KSEI, 2021). Consequently, foreign investors have great control over corporate performance changes. Grossman & Hart (1986) emphasize uncomplete contract at property right theory tended to focus on transaction cost over surveillance from foreign ownership because difficult to verify on investee corporate.

This research is trying to explain the condition of foreign investment in Indonesia by trying to answer the question of our foreign investor response about enforcement quality decline or whether foreign investors has improved corporate governance in Indonesia so local investor tries to a takeover of ownership. This research is purposeful to explain changes in ownership structure for explaining phenomena of change in foreign and local ownership structures in Indonesia. Furthermore, the research is trying to explain is the phenomena of high political connection in Indonesia have an impact on foreign ownership quantity in Indonesia. Foreign investor in Indonesia has a limited view of invested companies in Indonesia (Leuz & Oberholzer-Gee, 2006). This is a property right theory that looks that foreign partners can observe but is difficult to verify of operational company's activity.

The research is trying to complete the gap of research because anecdotal evidence about the incident decline of a foreign ownership ratio in Indonesia which haven't been researched by researchers previously, especially in Indonesia (Driffield dkk., 2016; Rhee & Wang, 2009; Shaban & James, 2018). Developing literature about foreign ownership structure decline in developing countries tends to be less researched (Arenke et al., 2022; Driffield et al., 2016; Su, 2017; Yildiz, 2021). Therefore, the research is trying to give a different view covered by the property right theory.

Literature Review

Agency Theory

Agency theory explains a relationship between principals and agents in separating ownership and oversight (Jensen and Meckling 1976; Fama and Jensen 1983). Based on agency theory, each party has its interests. The principal party has a vested interest in profiting off corporate performance but still considering corporate sustainability in the long term. Conversely, agents have short-term goals to meet short-term goals, such as incentives. According to the agency theory, principals are thought to have more limited information than agents, causing information asymmetry. Hence, the surveillance cost was created to protect companies from opportunistic actions by agents. In the developing countries context, research on the relationship of principals has been explained a lot by the agency theory of the agency (Young et al., 2008).

Chang et al., (2016) explained that the company would try to attract potential investors to fund the company they're operating. However, sometimes agents only care about their interests rather than the interests of the company which are also the interests of the principal (Morris, 1987). That situation could influence principals to attract the (investment) trust of an agent. According to agency theory, foreign investors are experiencing information asymmetry in the foreign ownership structure to store information in the company's stock market. Further, most of the foreign investors in Indonesia invest more in mature companies and have active transactions in the Indonesian capital market (KSEI, 2021). This condition shows that foreign investors prefer companies with low volatility and a high rate of return on investment.

Property Right Theory

Property rights are the right to use, earn from, and transfer or exchange assets and resources (Libecap, 1989). Kim & Mahoney (2005) explains the difference between the use of agency theory and property right in terms of changes in ownership structure. The theory of property rights emphasizes that ownership control is held by the greatest affected on performance and output. As Grossman & Hart (1986) proclaims, the property right theory explains the uncomplete contract. Uncomplete contract theory explains the meaning of integration (joint ownership of assets) and indicates the reason for the contract issue (transaction cost) for possible contractual issues. That is different from agency theory which emphasizes the optimal contract. Surveillance distribution in agency theory became important with incomplete contracts, and the investment by partners is observed but not difficult to make verification (Su, 2017).

An example of co-ownership is a joint venture, in which two or more independents merge resources into separate corporations. As foreign investors provide resources to the company they buy through the stock market mechanism, foreign investors, along with other investors, provide resources to certain companies. Table 2 shows the difference between agency theory and property right theory. The main focus of agency theory is property rights over the company as partitions of general ownership. In the context of foreign investors who invest in certain countries, the company's property rights become part of the divide between local and foreign investors.

Table 2. Difference between Agency Theory and Property Right Theory

Difference	Agency Theory	Property Right Theory
Analysis Unit	Company (agency) and ownership (principal)	Between stakeholders
Focus dimension	Asymmetric information between agency and principal	Property rights between companies
Strategic intent	Point of view of ownership	Point of view of stakeholders
Focus contract	Incentive adjustment with ex ante approach: determine the party with the biggest residual claim	Maximizing profit (<i>joint profit maximization</i>)

Source: Kim & Mahoney (2005)

Foreign Ownership in Indonesia

The ease of foreign investor's investment in Indonesia began with the issuance of the Policy Package in December 1987. According to the latest regulation that regulates the investment of Board Regulation Number 3 of 2021 concerning Guidelines and Procedures for Risk Based Business Licensing Services and Investment Facilities up to 100% in certain industrial sectors. (1) taking part of the shares at the time of the establishment; (2) buying stock (3) taking other means in accordance with the provisions of the legislation.

The risk of losing investment capital becomes a high risk because of information asymmetry levels. That is relevant to this topic. Investment in foreign domicile investors is at a greater risk than investing in the country itself (Leuz et al., 2009). The risk of losing investment capital becomes a high risk because of information asymmetry levels. That leaves foreign investors sensitive to company information and susceptible to high stock volatility (Bushee et al., 2014). Foreign investors have limitations in range so it's hard to verify the company's performance output. However, foreign investors can still monitor through the established capital-market mechanism. In the context of this research, foreign investors have incomplete contracts with companies invested in the host country.

Corporate Governance

Corporate governance gives investors confidence to plant capital in companies and acquire compatible benefits (Shleifer & Vishny, 1997). Good company management will increase investors' trust in instilling capital in such companies. In a study carried out by Habib & Muhammadi (2018) and Leuz (2010) foreign investors tend to underinvest companies in countries with low, heavy opacity protections and proprietary structures that support the abuse of corporate assets.

Transparency levels and low disclosure be a bad stereotypes of corporate governance in Indonesia is low (Fan & Wong 2002; Leuz & Oberholzger 2006); Yue et al., (2021) told that improving the transparency level can encourage the creation of a good corporate governance system. Efforts made by Indonesian Stock Exchange (IDX) to remove this stereotype by publishing guidelines of corporate governance are meant to be obeyed by all companies listed in IDX from 2011. Corporate governance is designed to direct professional management of the company based on transparency principles, accountability, responsiveness, independence, fairness, and equality.

Political Connection

Previous research documented that Indonesia has a high political connection level (Faccio, 2010; Habib et al., 2017; Leuz & Oberholzger-Gee, 2006). Furthermore, Faccio (2010) add political connection are more visible in a country that has high corruption level. Indonesia has a fairly high rating of corruption in the world that is 98 of 180 countries (Transparency International, 2021). This reinforces an argument about Indonesia has high corruption level and political connection

There is two literature review about politically connected company. The first argument is that politically connected companies will get more benefits from their connection. Faccio (2006) and Yue et al., (2021) explained that politically connected companies get several benefits one or the other being an easiness to get financing from banking, especially from a government bank. Furthermore, Faccio (2010) show that politically connected company have more high leverage, lower pay taxes, and more power in the market. On the other side, Tee (2020) contend that politically connected company tends to manipulate financial performance and have been reported to the external user to lessen the cost of politics that can be endured by bad news (for example the company losses). In contrast with Bona-Sánchez et al., (2019) the opposite of this argument there is show that politically connected companies have better accounting performance than the companies that do haven't a political connection. Wu et al., (2018) support that the company better have a pollical connection to improving relationships with stakeholders.

Hypotheses Development

Corporate Governance and Foreign Ownership

Driffield et al., (2016), Hoskisson et al., (2013), and Su, (2017) underline two institutional elements in the developing country market is related to poor environment signed by poor property right protection and high financial risk in the money market and capital market. The condition of institutional Indonesia is characterized by a lack of transparency level and a high corruption level that reflects a poor institutional image (Claessens & Fan, 2003; Leuz, 2010; Leuz & Oberholzger, 2006). The presence of foreign investors in a company in Indonesia can improve a good image. That is, the company can be trusted by foreign investors to invest. If the company didn't do what was expected by the principal, as an agency theory foreign investor will root out their ownership. This makes a decline proportion of foreign ownership (Tunay & Yüksel, 2017).

Foreign investors are parties who enter into a new environment outside their country. Because of this, foreign investors use their knowledge from their country to encounter uncertainty in the new business environment. Therefore, the presence of foreign investors in the new environment can be a

reflection of the established practice of governance reflecting experience, competency, and foreign investors' knowledge (Areneke et al., 2022; Kim et al., 2010).

Contrary to agency theory, according to property right theory, there is an uncompleted contract between foreign investors (principal) and companies (agent). Foreign investors are protected from takeover risk at conditions of uncertainty and a poor institutional environment. Driffield et al., (2013) explained that local investors will take over ownership in a safe condition, and choose to change their investment options to companies that offer potential high return and low risk. Because of this, can be summarized that institutional conditions especially corporate governance will affect foreign ownership in Indonesia. In line with improved enforcement conditions, so the role of the foreign investors in the monitoring role became less. Furthermore, local investors will try to take over the ownership, since good corporate governance have been created by foreign investors. Thus, in accordance with the property right theory, the amount of foreign ownership will decrease due to expropriation by local investors (Driffield et al., 2016). Because of that, the first hypothesis put forward in the research is.

H₁: Corporate governance has a negative effect to the foreign ownership

Political Connection and Foreign Ownership

Developing countries (including Indonesia) have an inherent image of high corruption and less transparency level (Faccio, 2010; Leuz et al., 2003; Leuz & Oberholzergee, 2006). Previous research shows that managers with have a connection government tend to influence unethical strategic decisions and affect company value (Faccio, 2006; Francis et al., 2016; Goldman et al., 2009; Habib et al., 2017). The political factors are important to consider in capturing investment decline from foreign investors in developing countries. Habib et al. (2017) informed that 39% of companies in Indonesia have a political connection. This percentage tends to decline if compared with a research paper from Carney and Child (2013) that shows political ties in the family company in Indonesia is 59%. This shows that the Indonesian authorities have improved to form a much better governance system.

Property right theory emphasizes that transaction-relevant attribute from business partner needs to be seen from an outside option context. Dau & Cuervo-Cazurra (2014) informed that foreign investors who has less knowledge benefits less from the improvements provided to the investee. Property right theory emphasizes optimum ownership control is in the partner who has the biggest impact on the company. Because of that, foreign investors tend to be protected by institutional interests to protect property rights and enforce laws against the corruption activities. This activity reduces monitoring cost. However, at the poor institutional condition (high political connection), property right theory emphasized a two-part contribution that is a company and foreign investor. The contribution is to maintain the number of holdings though the institutional condition isn't good, high political connection. The role of foreign investors becomes strategic as unpaid supervisors in unfavorable institutional conditions. Because of that, the second hypothesis which is in accordance with the theory of property rights is put forward in the research.

H₂: Political connection has a positive effect to the foreign ownership

METHOD

Research Design

The research is to test the hypotheses developed by theory and then test using data collected. Data to use in this research is secondary data with analysis from the manufacturing company's annual report in Indonesia period 2018-2021. The selection of the observation year 2018 to 2021 is due to the newest year range so it is expected to have high relevance results.

Sample Selection and Data Sources

The research uses a manufacturing company sample in the Indonesian Stock Exchange (IDX) with the assumption can be representative of the IDX population because this represents the largest quantity in the IDX. Needed data from publication financial statements and annual reports by IDX links or the company website. The population in this research is a company listed in IDX. The selected company as the sample is the company that matches the criteria determined by the researchers which following criteria (1) Manufacturing company listed at the IDX during 2018-2021, (2) The company that published a complete annual report officially included financial information that researchers need to measure the research variable, (3) The company that presented a financial report in the rupiah currency. (4) The company that didn't stop activity in the capital market and didn't stop operations during 2018-2021, (5) The company didn't include mergers and acquisitions during years of observation.

Variable Operational Definition

Foreign investor ownership is measured from one (1) minus the share owned by the local shareholders (Xu et al., 2022). The company's governance index is an aggregate of four corporate governance proxies proportion of the board independent commissioners, the proportion of shares owned by the top management, the proportion of the audit committee, and the quality of auditing recommended by external auditors (Pranesti & Kusuma, 2022). The definition of political connection measures political connection told by Wahyono (2021). The company is politically connected if there is a member of the board of directors and isn't or not a member of independent commissioners are (a) a former government official, (b) the former head of state, minister, or regional head. In this research, the political connection is measured using a dummy variable, one value is to a politically connected company, while if the company hasn't a political connection, so there's a zero. Variable control in this research refers to previous research that included several variables that need attention to capture the ownership structure; there is research by Driffield et al., (2013) and Min & Bowman (2015). The designated control variable covers the ratio of book value toward stock price market value (BTM), firm size (UP), Leverage (LEV), earning after tax ratio before a tremendous component on the asset (PP), and then sales growth (SG).

Data Analysis

Independent variable testing on the independent variable in this research using technic multiple regression testing. There is a hypothetical testing model in the research:

$$KA_{i,t} = \alpha - \beta_1TKP_{i,t} + \beta_2KP_{i,t} + \beta_3BTM_{i,t} + \beta_4UP_{i,t} + \beta_5LEV_{i,t} + \beta_6PP_{i,t} + \beta_7SG_{i,t} + \varepsilon$$

Note:

KA	=	Foreign ownership measured by the proportion of shres that were foreign to have
TKP	=	Corporate governance is an aggregate of four corporate governance proxies are propotion of the board independent commissioners, propotion share is owned by the top management, propotion of the audit committee, and the quality of auditing which recommended by external auditors
KP	=	1 value to politically connected company, 0 for those who do not
BTM	=	Ratio of book value equity to market value equity
UP	=	Natural logarithm total company assets
LEV	=	Ratio of liability to total assets
PP	=	Earning after tax ratio before a tremendous component to assets
SG	=	Sales growth

RESULTS AND DISCUSSION

Results

The research used a manufacturing company sample that was listed in IDX during the accounting period 2018-2021. According to the sample selection result based on the purposive sampling method, the final data is obtained in [Table 3](#).

Table 3. Sample Selection

Criteria of Sample Selection	Quantity
Manufacturing company during observation period (2018-2021)	191
Annual report that using rupiah currency	(22)
Stop the activity in market value and stop operation during 2018-2021	(3)
Company that didn't mergers and acquisitions during years of observation	(5)
The company haven't complete financial data	(108)
Outlier	(5)
Total resource sample	48
Total (n) = 48 x 4 period	192

Table 4. Descriptive Statistics

Variable	Min	Max	Mean	Std. Dev	N
KA	0,002	0,982	0,419	0,184	192
TKP	-2,05	7,37	0,130	2,47	192
BTM	-78,784	21,231	1,811	7,872	192
UP	7,205	34,821	20,324	5,634	192
LEV	-87,23%	83,23%	47,15%	28,22%	192
PP	-26,77%	38,80%	4,28%	7,90%	192
SG	-0,152	0,925	0,121	2,533	192
Valid N (listwise)					192
The Sample Frequency of the Politically Connector Company					
The company have political connection 84 company (43,75%)					
The company haven't political connection 108 company (56,25%)					

Before doing regression testing toward the hypothetical model proposed, the research does a classic assumption test. Classic assumption consists of four tests: normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. Normality test by using Kolmogorov Smirnov. The normality test shows that residual model research has significantly more than 0,05. That indicates residual in the model proposes to have normal distributive and has fulfilled the assumption of normality. Multicollinearity test looks at the VIF value, and tolerance value in each variable and model tested. A model is deemed free from multicollinearity test if the tolerance value is more than 0,10 and the VIF value is less than 10. According to the multicollinearity test result, it can be concluded that the regression model is free from multicollinearity because the value of tolerance is more than 0,1. The value of VIF is less than 10 in each variable model proposed. This research uses Lagrange Multiplier (LM Test) to test the autocorrelation assumption. Model deemed free from autocorrelation if the significant absolute residual value is more than 0,05. Heteroscedasticity test by using the glejser test that indicates discrepancies from residual observations to observations. The heteroscedasticity test result that shows every independent variable isn't significantly effect the absolute residual value of a dependent variable. That can be summarized research models is deemed free from heteroscedasticity problem.

Table 5. Hypothesis Test Result

Variable	Expected Sign	β	Sig.
Const		0,324	0,000***
TKP	-	-0,219	0,001***
KP	+	-0,024	0,034**
BTM	+	0,651	0,108
UP	-	-0,077	0,071*
LEV	-	-0,872	0,769
PP	-	-0,077	0,085*
SG	-	0,023	0,427
Adj. R ²		0,231	-
F Value		3,761	0,003***

Explanation: ***, **, * significant level 1%, 5%, and 10%.

Sources: Data prepared, 2022

Based on the test, the significance value for the corporate governance is $0,001 < 0,05$, and t-count is $4.456 > t$ table 1.97273; therefore first hypothesis is accepted at the significant level of 1%. This result indicates that corporate governance has a negative effect on foreign ownership in Indonesia. Based on the test, the significance value for the corporate governance is $0,034 < 0,05$, and t-count is $2.675 > t$ table 1.97273; The statistical test result of the second hypothesis shows a significant negative result at a 5% level, however, it was a different direction from the hypothesis being asked, which could be argued that statistically, the second hypothesis was rejected. This result shows that political connection has a negative effect on foreign ownership in Indonesia. Based on [table 5](#), it shows that the R square (R^2) is 0.231 so that it can be seen that the coefficient of determination is 23.1%. This figure means that the influence of corporate governance and political connections simultaneously on foreign ownership is 23.1%, while the remaining 76.9% is influenced by other factors. Based on test shown in [table 5](#), it is known that the value of f is 0.003 or significant at the 1% level. This indicates that corporate governance and political connections are strong predictors at the foreign ownership.

Discussion

Effects of Corporate Governance to Foreign Ownership

Hypothesis test results explain that corporate governance has a negative effect on foreign ownership. The research gives the opposite view from previous research that claimed corporate governance positively affects foreign ownership levels ([Abdul Wahab et al., 2017](#); [Areneke et al., 2022](#); [Min & Bowman, 2015](#)). One of them is the research from [Min dan Bowman \(2015\)](#) which explained that corporate governance is designed as foreign investor importance. Good corporate governance is an effort to mitigate information asymmetry between companies and foreign investors, so the company seeks to lure foreign investors by improving its corporate governance. As an agency theory, the presence of foreign investors causes good corporate governance ([Areneke et al., 2022](#)).

Instead, this research reveals that a company with good corporate governance is the point of local investor takeover ownership, this is proved by the decline proportion of foreign ownership value. [Su \(2017\)](#) would say that sellers (foreign investors) invest in the asset that a buyer can buy and use to produce the final output with higher values. In this case, foreign investors give their rights to be assigned to other partners (local investors) to transfer ownership company that was well-laid out by them.

Furthermore, as a property right theory, uncompleted contract show there is a chance of inefficient investment and market failures. At the same time, foreign investors will be protected from poor uncertainty and institutional risks in Indonesia. The takeover by local investors shows a carefulness of local investors in climate elections investment which has the potential to give high and steady returns. Because of that, foreign ownership will be more decline.

The Effect of Political Connection to Foreign Ownership

The second hypothesis test results show that political connections negatively affect foreign ownership. It shows that foreign investors still consider the information transparency aspect and accountability of company financial statements. Furthermore, [Bona-Sánchez et al. \(2019\)](#) and [Habib et al., \(2017\)](#) show that political connection companies with government connections tend to do profit management by tunneling. Furthermore, the company with political connections also tends to have Related Party Transaction (RPT) connected to the audit lag in the auditing process because it takes a long time to scrutinize financial statements ([Habib & Muhammadi, 2018](#)). Instead, [Wu et al., \(2018\)](#) show that a company with political connections has the privilege of accessing rare financial resources and is capable of managing challenging environments.

However, property right theory shows that foreign investors are still in control of monitoring in Indonesia. It shows evidence of the decline in the quantity of politically connected companies in Indonesia ([Habib et al., 2017](#)). At this phase, surveillance by foreign investors of politically affiliated companies has strategic roles. The uncompleted company's information to investors raises questions about the future relationship between investors and the company. It is change stigma about high political connected company must have been bad financial condition. Instead, companies with a connection with powerful governments will have a chance to improve because they are still under the control of foreign investors.

CONCLUSION

Over the years, the decline of foreign ownership in Indonesia raises the question of whether that's causing it. Indonesian country still views low corporate governance stereotypes and high political connection levels. The purpose of this research is to test whether it's corporate governance and political connection have an effect on foreign ownership. The results of this research show that a company that has good corporate governance tends to decline in foreign investors. This study discloses that a company with solid corporate governance is the point for local investors to take over ownership. It shows evidence of a decline in foreign investor proportion value. Instead, the company that has politically connected is still a surveillance concern by foreign investors. Political connection companies tend to have a low of foreign investors.

The findings provide evidence of a decrease in the proportion of foreign investors in such companies. Instead, foreign investors continue to view companies with political connections as potential concern for surveillance. This study has a theoretical contribution, it can be inferred that corporations in Indonesia that possess political connections are considered precarious by foreign investors owing to the possibility of being subjected to surveillance. Consequently, such corporations experience a dearth of foreign investment. The argument postulated in this research elucidates the trend of foreign ownership in Indonesia by utilizing the property right theory. Practically, the result of this research is can be use to policy arrangement about corporate governance and political connection policy, and increased investment from local as well as international. Policy-making authorities can make policies to support corporate governance arrangements and support to reduce the level of corruption so as to support the investment climate in Indonesia. The policy-making authorities can devise policies to bolster corporate governance structures and combat corruption in order to enhance the investment climate in Indonesia. While this research provides a novel perspective on understanding the investment climate, it fails to take into account the environmental and social factors that are relevant to the issue. It is suggested that future research should incorporate environmental, social, and governance (ESG) considerations in explaining the ownership patterns in Indonesia.

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