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Article

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ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

The involvement of Ex-Military commissioners and the selection of industry specialist auditors

Ilhamda Azis¹, Iman Harymawan^{1*} and Mohammad Nasih¹

Abstract: This study aims to examine the relationship of military connections in the form of company commissioners with retired military backgrounds to the selection of industrial specialist auditors. The sample selection technique we use is a purposive sampling technique with several criteria. This study uses a sample of 618 public companies listed on the Indonesia Stock Exchange from 2016–2018. This study employs logistic regression analysis used through the STATA 14 application to test the hypotheses. This study found that companies with retired military commissioners had a significant positive effect on the selection of industrial specialist auditors. This research contributes to the literature on military connections and the selection of industry specialist auditors, especially in Indonesia.

Subjects: Accounting; Audit; Business

Keywords: military connections; industrial specialist auditors; good governance; military commissioners; board commissioners

1. Introduction

Indonesia is a country with a strong military influence. Since the proclamation of independence of the Republic of Indonesia, for 42 years people with military backgrounds have led Indonesia (Harymawan, 2018). President Soeharto, a former military general, is the first president with a military background and served a presidential term from 1967 to 1998. President Susilo Bambang Yudhoyono is a former general who also served as president from 2004 to 2014. Quoted from tirto.co.id which was accessed on 5 August 2019, he said that “during the New Order era the role of the military was not only as a means of state defense, but was expanded to roles in politics, ideology, economy, social, and culture”. President Soeharto exercised tighter control over ABRI by reducing the autonomy of the Army, Navy, Air Force, and Police (Crouch, 2007). The dual function of ABRI in the Soeharto era led to the military being involved in politics and civil society strategic positions. Active and retired military not only hold political positions in the DPR/MPR, or as governors or regents, but have held many strategic positions in state-owned companies since the Soeharto era (Habib et al., 2017).

The strategic position of military retirees in the company, in general, is as a company commissioner who comes from the Army, Navy, and Air Force units. Quoted from the online media cnnindonesia.com which was accessed on 13 March 2019, there are 3 out of 6 TNI commanders occupying strategic positions in the company. General Retired Endriartono served as President Commissioner of Bank Pundi, Rear Admiral Agus Suhartono served as President Commissioner of PT Tambang Batubara Bukit Asam, Marshal Retired Djoko Suyanto was an independent commissioner at PT Adaro, General Retired General Subagyo Hadi Siswoyo was appointed commissioner of

PT Berau Coral Energy based on the General Meeting Shareholders of the Commonwealth dated 29 June 2013.

The recruitment of retired military officers as commissioners of the company is motivated by several objectives and interests. Quoted from *Republika.com* which was accessed on 13 March 2019, the recruitment of retired Indonesian National Armed Forces (TNI) usually goes to conflict-prone companies as a strategy to deal with conflict and security problems. In plantation, mining, property, and real estate companies, there are many land disputes and conflicts with the surrounding community so friction can occur between the surrounding community and the company. Extensive relationships and charisma possessed by retired military officers will make it easier to carry out negotiations, therefore placing retired military officers as part of the company is expected to secure the company from interference and resolve disputes. There are also values of leadership, discipline, loyalty, integrity, and transparency possessed by military retirees (Law & Mills, 2013). The recruitment of retired military officers as company commissioners can provide benefits of reduced loan interest rates for companies, as research on the effect of military connections with bank loan interest rates found that companies affiliated with military connections will get lower interest rates (Harymawan, 2018) so that the company can easily get a loan. Banks can consider the financial statements evaluated by this auditor to be more credible and valuable (Zhang et al., 2017).

Indonesia is a country that is prone to fraudulent financial statements. Based on Association Certified Fraud of Examiner data, financial statement fraud that occurred in Indonesia in 2016 was the second-highest in the Asia-Pacific region. Fraudulent financial statements can be caused by a lack of audit quality. The results of a survey from IFIAR (International Forum of Independent Auditors) found that Indonesia has low audit quality. The quality of financial statements can be influenced by the selection of auditors. Companies that choose industry specialist auditors aim to improve audit quality, provide added value in the disclosure of company reports, and give signals to investors and creditors (Dunn & Mayhew, 2004). Industry specialist auditors have adequate competence and ability in auditing a type of industry (Neal & Riley, 2004). The involvement of retired military officers as commissioners who have the values of honesty, leadership, integrity, transparency, and loyalty, can help the decision of whether to choose industry specialist auditors as an effort to minimize agency conflicts, increase financial statement transparency, prevent financial statement fraud, or not choose industry specialist auditors as an effort to cover up fraudulent financial statements. The author is interested in examining the effect of the involvement of retired military officers as company commissioners on the selection of industrial specialization auditors.

This study aims to examine the relationship of military connections in the form of company commissioners with retired military backgrounds to the selection of industrial specialist auditors. Previous research (Harymawan, 2018) focused on the effect of military connections on bank lending rates and on the effect of industry specialist auditors on bank loan rates (Zhang et al., 2017). This study is a combination of previous research related to military connections and the selection of industry specialist auditors. Previous research discussed the selection of the majority auditor using a qualified or less qualified Public Accounting Firm proxy (Cheng et al., 2015; Guedhami et al., 2014; Habib et al., 2017; Ho & Kang, 2013). It is important to conduct this research in Indonesia because there is no doubt that the military has a big influence on business in the country. The relationship between military connections and business activities in Indonesia is mutually beneficial and provides a unique institutional setting for examining the relationship (Nasih et al., 2019).

This study focuses on the selection of industry specialist auditors and companies that have military background commissioners from various military units. This study uses a sample of 618 public companies listed on the Indonesia Stock Exchange from 2016–2018. This study found that companies that have commissioners with retired military backgrounds have a significant positive effect on the selection of industry specialist auditors.

Chapter 2 discusses the literature review and development hypothesis. Chapter 3 will discuss the research methods we used and the measurement of our variables. Chapter 4 contains the results and discussion with details of our test, and finally, Chapter 5 presents conclusions and suggestions.

2. Literature review

2.1. Corporate governance

Corporate governance is a supervisory mechanism that can be applied by companies to control opportunistic management actions that can cause a decrease in the quality of financial reports (Dechow et al., 2010; Mihret & Admassu, 2011). Supervision mechanisms in the implementation of corporate governance can be divided into internal mechanisms and external mechanisms. Internal mechanisms are ways of controlling the company by using various elements that exist within the organization, namely the existence of a board of commissioners, audit committee, and internal auditor (Achmad, 2005). External mechanisms are ways to control the company in addition to using the company's internal mechanisms, including by presenting an external auditor as a mediator between the agent and the principal (Achmad, 2005). Qualified external auditors can embody the principles of transparency, accountability, independence, fairness, and equality in corporate governance. The realization of the principles in corporate governance provides added value to the company in the eyes of investors as a result of their increasing trust in the management of the company (Achmad, 2005).

2.2. Military connection

During Suharto's presidency, companies with military connections gained privileges in business (Brown, 2007). Before the reform of Indonesia in 1998, the Indonesian military was divided into 4 institutions, namely the army, air force, navy, and police, but after the reform, in 1998 the MPR established a separation of duties between the army (army, air force, and navy) and the police. Military connections occur in companies that have at least 1 director or commissioner who has a military background (Harymawan, 2018). The recruitment of retired military officers as commissioners is due to military experience which always prioritizes the values of discipline and transparency so that these values are expected to be implemented into the company. This is because research on the effect of military experience on tax avoidance found that companies led by people who have military experience tend to be more orderly in taxation rules and smaller in tax avoidance efforts compared to companies led by people with non-military backgrounds (Law & Mills, 2013).

The recruitment of retired military officers as commissioners is motivated by the spirit of leadership, honesty and high loyalty possessed by retired military officers, this is because they are always taught about the values of honesty, leadership, right decision making, and integrity in carrying out their duties as soldiers (Benmelech & Frydman, 2015). The values of honesty, leadership, right decision making and integrity that have been embedded in these retired military officers will make them more loyal to shareholders (Lin et al., 2011). Military personnel are taught about "surrender of private interest", namely prioritizing the public interest over personal interests so that retired military officers will always supervise the performance of agents so that they are in accordance with the interests of shareholders (Daboub et al., 1995).

2.3. Industry specialist auditor

External auditors have the function of improving the quality of financial reports so that the occurrence of information asymmetry is smaller and becomes one of the important components of corporate governance (Abdel-Khalik, 2002). Adequate quality of financial information is obtained if the external auditor has the competence and practical ability in providing audit services (Quick et al., 2013), but not all external auditors can provide the same quality of service (Xin et al., 2007). The complexity of the business means that the auditor must specialize in the field of business so that the quality of financial reports improves.

Improving the quality of audit services not only requires competence in the field of accounting, but the client's business industry must also be known. Specialized auditors are auditors who have

long experience in auditing certain industries so that they are more likely to improve the quality of financial information compared to non-industrial specialist auditors (Balsam et al., 2003). In addition to having a lot of experience in auditing a particular industry, specialized auditors have also attended many pieces of training and seminars in the industry they are engaged in (Suyono, 2015).

Industry specialist auditors can be seen from auditors who have the largest market share in an industry (Hoelscher & Seavey, 2014). The market share of industry-specialized auditors can be seen from the total assets of companies audited in an industry (Gul et al., 2009). Industry specialist auditors provide a higher level of assurance when compared to non-industry specialization auditors because of the auditor specialist's knowledge and abilities about the related industry (Balsam et al., 2003). Auditor specialization in certain industries is a strategy in competition with other public accounting firms (Mayhew & Wilkins, 2003).

3. Hypothesis development

This study focuses on the effect of the involvement of retired military officers as commissioners on the selection of industrial specialist auditors. We use agency theory as a basis for analyzing the relationship between commissioners with military backgrounds in the selection of industry specialist auditors. Agency conflicts that occur within the company can occur because shareholders do not play an active role in managing the company. Shareholders delegate responsibility and authority in managing the company to work on behalf of the owner and the interests of the owner (Wulandari, 2018). Agents must present financial reports as a form of accountability for their performance to the principals. Therefore, the presentation of financial statements must be accompanied by good quality. This is because the financial statements are the basis for decision making by shareholders, so the theory is considered capable of explaining the conflict between agents and shareholders, especially in companies related to the military through the board of commissioners.

The military has had a great influence on the history of the Indonesian nation (Crouch, 2007). The involvement of retired military officers (military connections) in companies provides the same benefits to the company's business as the involvement of politicians (political connections) in companies in Indonesia (Crouch, 2007). There may be similarities regarding the category of auditor selection in military connection companies with political connection companies. Research in Indonesia by Habib et al. (2017) empirically tested the selection of auditors for political and military connection companies; the study empirically proves that military connection companies and political connection companies choose and prefer non-Big 4 auditors because they allow for financial manipulation. Auditor quality is determined by the selection of auditors where industry specialist auditors have better audit quality than industry specialist auditors (Balsam et al., 2003; Dunn & Mayhew, 2004). This makes it possible for militarily connected companies to choose non-industrial specialist auditors.

Military-connected companies not only benefit from the company's ease of access but also the character and values contained in retired military personnel are beneficial for company compliance and performance. Benmelech and Frydman (2015), found that military CEOs have the values of leadership, honesty, loyalty, and integrity, so military-connected companies are less likely to commit fraud. The leadership and discipline of retired military officers help companies perform better during a time of declining industrial performance (Benmelech & Frydman, 2015). Research on military-connected S&P 500 companies found that the leadership values of retired military personnel can improve overall company performance (Duffy, 2006). There is no direct relationship between the values of leadership, loyalty, discipline, integrity, and transparency of retired military officers and the selection of industry specialist auditors, however, retired military officers who serve as commissioners are responsible for overseeing the performance of directors by conducting financial audits to prevent asymmetry of information and fraud finance. The values of leadership, discipline, loyalty, integrity, and transparency of retired military officers who serve as

company commissioners may have an indirect influence on the selection of industry specialist auditors as an effort to monitor the performance of directors, improve the quality and transparency of financial reports that are beneficial to shareholders in decision making. Based on the description above, the hypotheses formulated are as follows:

Hypothesis 1: Retired military officers as commissioners of companies affect the selection of industry specialist auditors.

4. Methodology

4.1. Variable measurement

4.1.1. Industry specialist auditor

The dependent variable in this study is the selection of industry specialist auditors. Industry specialist auditors can be seen from auditors who have the largest market share in an industry (Hoelscher & Seavey, 2014). The method in determining industry specialization auditors based on market share can be seen from the total assets of companies audited in an industry (Gul et al., 2009). This method assumes that specialization in auditors is the result of experience conducting audits of large business volumes in an industry (Gul et al., 2009). The company's asset data is obtained from OSIRIS for 2016–2018.

The calculation of industry specialist auditors (AS) is as follows:

$$AS = \frac{\text{total asset of clients in the same insutry subsector}}{\text{total company assets in industry subsectors}} \times 100\%$$

The value of industry specialist auditors is measured using a dummy variable with a value of 1 for KAP which is an industry specialist auditor SPEC and a value of 0 for KAP which is a non-industrial specialist auditor. Industry specialist auditors provide a higher level of assurance when compared to non-industry specialization auditors because of the auditor specialist's knowledge and abilities about the related industry (Balsam et al., 2003). Auditor specialization in certain industries is a strategy in competition with other public accounting firms (Mayhew & Wilkins, 2003). Companies audited by industry specialist auditors have better quality financial information than companies audited by non-industrial specialist auditors (Dunn & Mayhew, 2004).

4.1.2. Military connections

The independent variable in this study is military connections. A company is categorized as having military connections if there is at least 1 retired military officer who serves on the board of commissioners (Harymawan, 2018). Military connection data is based on biographies listed in the annual reports of companies listed on the Indonesia Stock Exchange for the period 2016 to 2018. The determination of military connections as an independent variable uses a dummy variable, namely the company is included in the military connected category in general if there are retired military officers as commissioners with a value of 1 if there is no retired military officer as a commissioner with a value of 0. This proxy is coded MCON.

4.1.3. Control variables

The control variables in this study refer to previous studies by Ho and Kang (2013), and Cheng et al. (2015). The control variables used are Firm size, ROA, ROE, and Leverage. Firm size is the natural logarithm of the total assets of the company expressed in rupiah. Return on assets can describe the effectiveness of management in managing company assets to generate company profits. Return on equity describes the effectiveness of management in managing the company's equity to generate company profits. Leverage describes the proportion of funds sourced from debt to finance company assets.

Table 1. Sample selection				
Criteria	2016	2017	2018	TOTAL
Public Companies listed on the IDX (2016–2018), except for the financial and insurance sectors	561	563	565	1689
Public Companies that do not publish an annual report from 2016 to 2018	-100	-97	-20	-217
Companies that do not provide complete information about the profile of the board of commissioners	-358	-353	-143	-854
Companies that meet the criteria	103	113	402	618

4.1.4. Research sample

This study uses secondary data in the form of financial statements and audited annual reports on companies listed on the Indonesia Stock Exchange from the profiles of commissioners with military backgrounds in the company’s annual reports sourced from <https://www.idx.co.id>. The sample selection technique we use is a purposive sampling technique by setting several criteria. The population in this study is companies listed on the Indonesia Stock Exchange and OSIRIS in 2016–2018 with a total of 1689 companies after being deducted by companies in the banking, finance, and insurance sectors. Exceptions for the banking, finance, and insurance sectors are due to the presence of large cash assets belonging to third parties and different performance measurements compared to companies that have cash that does not come from funds raised from third parties. After deducting missing data, the sample is 618 companies. The sample selection criteria in this study are presented in Table 1 below:

4.1.5. Research methodology

The analytical techniques used in this research are the logistic regression analysis technique. Logistic regression analysis is used because the dependent variable is specialist auditors and the independent variable is a military connection using a *dummy* variable. STATA program was used for statistical data analysis. This study uses the regression model as follows:

$$\text{logit}(\text{SPEC}) = \beta_0 + \beta_1\text{MCON} + \beta_2\text{FSIZE} + \beta_3\text{ROA} + \beta_4\text{ROE} + \beta_5\text{LEV} + e$$

Description:

SPEC = Industrial Specialist Auditor

MCON = Military connection in the position of company commissioner

FSIZE = Natural logarithm of total assets

ROA = Return on assets of the company

ROE = Return on Equity of the company

LEV = Ratio of total debt with total assets

Table 2. Distribution of samples based on military connections and non-military connections

SIC	INDUSTRI	MCON		NON-MCON		TOTAL
		n	%	n	%	
0	Agriculture, Forestry, and Fisheries	5	26%	14	74%	19
1	Mining	33	34%	65	66%	98
2	Construction Industry	43	33%	88	67%	131
3	Manufacturing	23	26%	65	74%	88
4	Transportation, Communication, Electricity, Gas, and Cleaning Services	23	24%	73	76%	96
5	Wholesale and Retail Trade	18	27%	49	73%	67
6	Real Estate	14	23%	47	77%	61
7	Service Industry	19	44%	24	56%	43
8	Health, Legal, Consultant, Educational Service	9	60%	6	40%	15
	TOTAL	187	30%	431	70%	618

5. Result and discussion

5.1. Sample distribution

Table 2 illustrates the sample distribution based on military and non-military connection companies. The largest percentage of military-connected companies is found in the SIC 8 industry classification, which is 60% of the total companies. In terms of quantity, the largest military-connected companies are found in the SIC 2 industrial classification, which is 43 companies. In general, the distribution of samples based on military-connected companies is evenly distributed in each industrial sector.

Table 3 illustrates the sample distribution for industry specialist auditors and non-industry specialists. The largest quantitative distribution of companies using industry specialist auditors after deducting missing data is found in SIC 2, which is 32 companies. Around 26% of the total sample of SIC 1 uses industrial specialist auditors. In general, the distribution of samples based on companies using industry specialist auditors is evenly distributed in each industrial sector.

6. Descriptive statistics

Table 4 shows the descriptive statistics of the variables used in this study. The total assets of the company have a minimum value of 52,190,000,000 which was achieved by PT. Akbar Indo Makmur Tbk, while the maximum value of 102,300,000,000,000 was achieved by PT. Telekomunikasi Indonesia Tbk (TLKM). The average value (mean) of the total assets of the sample companies is 11,010,000,000,000. ROA of the sample company has a minimum value of -42,658 achieved by PT. Express Transindo Utama Tbk (TAXI), while the maximum value of 31.40 was achieved by PT. Unilever Indonesia Tbk (UNVR). The average value (mean) of the sample company's ROA is 1,918. ROE of sample companies has a minimum value of -125.16 achieved by PT. Intraco Penta Tbk (INTA), while the maximum value of 62.03 was achieved by PT. Unilever Indonesia Tbk (UNVR). The average value (mean) of the sample companies' ROE is 2,686. LEVERAGE of sample companies has a minimum value of 0.000031 achieved by PT. Indonesia Prima Property Tbk (OMRE), while the maximum value of 0.757 was achieved by PT. Trikonsel Oke Tbk (TRIO). The average value (mean) of the sample companies' LEVERAGE is 0.168.

Table 3. Distribution of auditors for industry specialists and non-industry specialists

SIC	INDUSTRI	SPEC		NON-SPEC		TOTAL
		n	%	n	%	
0	Agriculture, Forestry, and Fisheries	5	26%	14	74%	19
1	Mining	16	16%	82	84%	98
2	Construction Industry	32	24%	99	76%	131
3	Manufacturing	3	3%	85	97%	88
4	Transportation, Communication, Electricity, Gas, and Cleaning Services	14	15%	82	85%	96
5	Wholesale and Retail Trade	12	18%	55	82%	67
6	Real Estate	10	16%	51	84%	61
7	Service Industry	5	12%	38	88%	43
8	Health, Legal, Consultant, Educational Service	3	20%	12	80%	15
Total		100	16%	518	84%	618

6.1. Two-sample independent t-test

Table 5 presents the characteristics of the independent variable in the form of company military connection with non-military connection company. The SPEC coefficient of 2,563 and significant at the 5% level indicates that military-connected companies prefer industry specialist auditors to non-military-connected companies. The same results also show that military connection companies have more company sizes than non-military connection companies.

6.2. Pearson correlation test

Table 6 presents the output of the Pearson correlation test to identify correlations in all variables in the study. The results of the Pearson correlation test show that industry specialist auditors (SPEC) have a significant positive correlation of 5% with military connections (MCON), a significantly positive correlation of 1% with the company's total assets (FSIZE), a significant positive correlation of 5% with the Return of Assets (ROA), and a significantly positive correlation 1% with Return of Equity (ROE).

6.3. Hypothesis testing

This study used logistic regression analysis for hypothesis testing. Logistic regression analysis was chosen because the dependent variable in this study used a dummy variable. Hypothesis testing uses 4 regression equations and is summarized in Table 7. Table 7 presents the empirical results of the regression to examine the effect of military connections owned by companies on the selection of industry specialist auditors.

In Table 7, the coefficient on the military-connected commissioner variable (MCON) is positive at 0.588 and significant at the 5% level. This means that military connections have a significant positive effect on the selection of industrial specialist auditors (SPEC). The control variable firm size (FSIZE) is positive at 0.006 and significant at the 1% level for industrial specialist auditors (SPEC). The ROA control variable has a negative direction toward industrial specialist auditors (SPEC). The control variable ROE has a positive direction of 0.027 and is significant at the level of 5% for

Table 4. Descriptive statistics

Variables	N	Mean	Median	Minimum	Maximum
LEV	317	0.168	0.144	0.00086	0.757
TASSET	317	11,010,000,000,000	3,528,000,000,000	52,190,000,000	102,300,000,000,000
ROA	317	1.918	2.875	-42.658	31.404
ROE	317	2.686	4.945	-125.16	62.03

Table 5. Two-Sample Independent t-Test

Variable	Military Connections	Military connections	Mean	Median
	N = 187	N = 431	t-value	z-value
SPEC	0.219	0.137	2.563**	2.552**
FSIZE	841.233	835.735	0.668	0.299
ROA	1.228	2.217	-1.035	-0.711
ROE	1.664	3.129	-0.711	-0.98
LEV	0.178	0.164	0.97	-1.282

Table 6. Pearson correlation

	SPEC	MCON	FSIZE	ROA	ROE	LEV
SPEC	1					
MCON	0.103**	1				
	0.011					
FSIZE	0.203***	0.027	1			
	0.000	-0.504				
ROA	0.095**	-0.042	0.235***	1		
	0.018	0.301	0.000			
ROE	0.140***	-0.029	0.195***	0.715***	1	
	0.001	0.478	0.000	0.000		
LEV	0.044	0.039	0.180***	-0.231**	-0.118**	1
	0.274	0.332	0.000	0.000	0.003	

p-values in parentheses

* p < 0.1, ** p < 0.05, *** p < 0.01

industrial specialist auditors (SPEC). The control variable Leverage (LEV) is positive for industrial specialist auditors (SPEC). The relationship of the dependent variable (SPEC) with the independent variable military connection (MCON) can be explained by 8.15% of the total 618 samples.

7. Discussion

Military connections and political connections provide the same benefits to companies in Indonesia (Habib et al., 2017). In companies that are considered militarily connected, at least one of the commissioners and directors is a former Indonesian National Army (TNI) soldier from the Army, Navy, and Air Force units (Habib et al., 2017; Harymawan, 2018). The advantages obtained by military-connected companies are easy to access for government and creditors and include company business security and reduced loan interest rates (Habib et al., 2017; Harymawan, 2018). The results of the statistical test for the military connection variable (MCON) presented in Table 7 show a significance of 5% with a coefficient value of 0.588 which indicates a significant positive H1 direction, meaning that military connections have a significant positive effect on the selection of industrial specialist auditors. Statistical test results show that military-connected companies appoint industry specialist auditors 58.8% more often than those that are not military-connected. This shows that more military-connected companies appoint industry specialist auditors compared to non-military-connected companies; therefore, military-connected companies have a better quality of financial information and financial transparency than non-military-connected companies. These results have fulfilled the purpose of this study by providing evidence of the importance of the involvement of commissioners with military backgrounds in improving the quality of financial reporting through the selection of industry specialist auditors.

Table 7. Results of logistic regression and military connections industry specialist auditor

VARIABLES	SPEC	SPEC	SPEC	SPEC
MCON	0.588**			
	2.49			
FSIZE	0.006***	0.006***	0.006***	0.006***
	4.4	4.32	4.5	4.43
ROA	-0.018	-0.02	-0.018	-0.021
	-1.06	-1.19	-1.03	-1.16
ROE	0.027**	0.027**	0.026**	0.027**
	2.4	2.43	2.36	2.41
LEV	0.008	-0.004	0.145	0.074
	0.01	-0.01	0.19	0.1
_cons	-6.835***	-6.661***	-6.753***	-6.609***
	-6.41	-6.27	-6.33	-6.23
Year Dummies	Include	Include	Include	Include
Industry Dummies	Include	Include	Include	Include
r2	0.0815	0.0779	0.0728	0.0701
N	618	618	618	618

This table presents the regression result of military-connected firms in the auditor specialist industry. This research uses 317 companies from all industries except the financial industry which are listed on the IDX (Indonesia Stock Exchange) from 2016 to 2018. *, **, and *** are significant at the 10%, 5% and 1% levels, respectively.

These results are supported by research (Dunn & Mayhew, 2004), whereby companies that appoint specialist auditors can improve report quality and financial transparency. Improving the quality of reports and financial transparency can be caused by the influence of the values of leadership, discipline, integrity, and transparency possessed by commissioners with retired military backgrounds. The results of this study are based on a sample of companies listed on the Indonesia Stock Exchange. The results of testing hypothesis 1 are in line with research (Guedhami et al., 2014) which states that political connection companies have a positive effect on the selection of Big 4 auditors, this is because the military in Indonesia plays the same role as politicians who provide benefits to companies (Crouch, 2007). The results of testing hypothesis 1 are not in line with the results of research (Habib et al., 2017) that military connection companies have a significant negative effect on the selection of Big 4 auditors.

The perspective on agency relationships in agency theory is the basis used to understand military connections in this study. Agency conflicts that occur within the company can occur because the shareholders do not play an active role in the management of the company. Shareholders tend to delegate responsibility and authority in managing the company to agents to work on behalf of the owner and the interests of the owner (Wulandari, 2018). Agency conflicts will be more complicated when there are differences in interests between shareholders and agents, so it is necessary to have a commissioner who supervises the performance of agents to work in accordance with the interests of shareholders. So agency theory is considered capable of explaining the conflict between management and shareholders, especially in military-connected companies through the board of commissioners. Agents generally have better and faster information than shareholders. Therefore, as a manager, the agent is obliged to give a signal about the condition of the company to shareholders (Gunawan & Lina, 2015). The signal given can be done through the disclosure of accounting information such as financial statements (Gunawan & Lina, 2015). Financial statements are a form of accountability for the performance of agents and commissioners in a certain period. The financial statements to be issued must be reviewed in advance by the board of commissioners. Financial statements are

the basis for decision-making by shareholders, so the signal theory is considered capable of explaining conflicts between agents and shareholders, especially in military-connected companies through the board of commissioners.

Improving the quality of information disclosure in the annual report is the goal of implementing Good Corporate Governance. This is in line with the policies of companies connected to the military to provide information disclosure and improve the quality of financial reports by appointing industry specialist auditors. The GCG implementation can be seen in military-connected companies in the list of winners of the Annual Report Award for the 2016 and 2018 financial years, while for the 2017 financial year there is no Annual Report Award. The Annual Report Award is an annual event held by the Financial Services Authority in collaboration with the Ministry of SOEs, the Directorate General of Taxes, Bank Indonesia, the National Committee for Governance Policy, and the Indonesian Institute of Accountants. The Annual Report Award category for listed companies is divided into listed non-financial SOEs, private non-financial listed companies, and the overall winner for all Annual Report Award participants. 1st and 2nd place in the Annual Report Award for the 2016 financial year in the category of listed non-financial SOEs are PT Aneka Tambang (ANTM), and PT Perusahaan Gas Negara (PGAS), where the company is a military-connected company that was appointed industry specialist auditor to examine the fairness of financial statements. The 1st winner of the Annual Report Award for the 2016 financial year in the private non-financial listed category was PT AKR Corporindo (AKRA), where the company is a military-connected company that appoints industry specialist auditors to conduct audits of the fairness of financial statements. The overall winner for all participants in the 2016 Annual Report Award was PT Aneka Tambang (ANTM). The 1st and 3rd place winners of the Annual Report Award for the 2018 financial year in the private non-financial listed category are PT Aneka Tambang (ANTM) and PT Bukit Asam (PTBA), where the companies are military-connected companies that appoint industry specialist auditors to examine the fairness of the finance reports. The overall winner for all Annual Report Award participants for the 2018 financial year is PT Aneka Tambang (ANTM).

8. Conclusion

8.1. Conclusion and limitation

This study has examined the relationship between the military connection of the board of commissioners to the selection of industry specialist auditors using a sample of 618 public companies listed on the Indonesia Stock Exchange from 2016–2018. The results of this study indicate that a company with a board of commissioners with a retired military background has a significant positive effect on the decision to appoint an industrial specialist auditor. This could be due to the character of retired military officers who put forward the values of honesty, discipline, integrity, transparency, and appropriate decision making, appointing industry specialist auditors so that financial reports can provide better quality information, improve audit quality, and provide added value in company reports disclosure and signals to investors and creditors. The results of this study prove that companies with a military background have good financial control by appointing industry specialist auditors so that they can support the company's commitment to implementing Good Corporate Governance.

This study has several limitations, including the company's annual report disclosure being incomplete which causes many companies to not meet the criteria of the sample so the impact on the limited sample and the sample amount is small. Future research can use independent variables that are still rarely studied, such as ethnic connections or demographic connections. This is expected to give different results from previous studies. Future researchers are expected to use a wider sample in determining military connections and industry specialist auditors based on total assets.

8.2. Implications

This research has a practical implication that military-connected companies choose industry specialist auditors who aim to improve the quality of financial reports and transparency of financial reports so that they can support the company's commitment to realizing Good Corporate Governance. This can be done by the company to provide added value to shareholders. The results of this study can provide an overview for shareholders regarding the benefits of recruiting retired military officers as company commissioners. This study also provides other alternative measurements of military connection variables and industry-specific auditors to be used in further research.

8.3. Policy recommendations

The research results can be used by policymakers as a consideration in recruiting retired military officers as company commissioners. This is considering that our results have proven a positive relationship between military connections and improvement in financial reporting quality through the selection of industry specialist auditors. Improving the quality of financial reporting is also supported by several good characteristics possessed by retired TNI officers, including prioritizing appointing industry specialist auditors so that the resulting financial reports can provide quality and useful information for all users of financial statements. This is important because improving the quality of financial reporting is the goal of implementing Good Corporate Governance.

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