

Capital, Governance, and Power: How Political Ties Influence Firm Value


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| INFO | ABSTRACT |
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| Article History Received: 2025-04-11 Revised: 2025-06-17 Accepted: 2025-08-15 | <p>This study aims to determine the influence of political connection and its role in moderating the influence of capital structure and corporate governance on a firm's value. The study was conducted on 97 samples of companies listed on the Indonesia Stock Exchange from 2020-2024 that were established about 10 years old or more, collected from various types of industrial sectors, with limitations on the criteria of ownership of political officials or political party officials (politically connected), family ownership who also serves as political officials (politically connected), pure ownership of businessman families (not politically connected), and central and/or regional government ownership (politically connected). The study used random sampling and panel data from the moderating regression analysis to examine the relationship between political connection, capital structure, and DAR proxy on a firm's value. A significant positive relationship between these factors and Tobin's Q was found. However, there was a negative association between political connection-moderated DAR and Tobin's Q. The study also uncovered a negative relationship between board size and the proportion of independent commissioners, but a positive relationship between board size and political connection. The study's novelty is that it fills the literature gap, investigating how the influence of capital structure and governance, moderated through political connections, affects the firm's value, which other studies have not exhaustively studied.</p> |
|  This work is licensed under Attribution-NonCommercial-NoDerivatives 4.0 International . | Keywords: Capital structure; Corporate governance; Firm value; Political connection; Tobin's Q |

INTRODUCTION

A company's performance is driven by intrinsic factors such as stakeholder expectations, management style, and capital structure. These factors contribute positively to the company's growth and development. A close relationship with power owners or the center of power over law and government can also benefit the company by identifying loopholes or avoiding government regulations (Siciliya, 2021). Political connections cause pressure of interests and influence from the rulers, making companies perform better than conventional companies (Baig et al., 2024). Other opinions state that political connections worsen the company's financial or accounting performance. Still, on the other hand, political connections in the company spur the company's market performance (Wati et al., 2019).

Political relationships do not always have to be formal, such as the ownership of shares by officials or the inclusion of names in the party structure, but they can also be informal yet still have a strong influence on the company's decisions and its value in the eyes of investors.

When a businessman openly establishes a political party like Hari Tanoesoedibjo, the political relationship becomes clear and transparent. In this case, political identities and business affiliations run parallel and openly. In addition, these relationships directly influence investor perceptions and regulations governing related businesses, and the company's value can spike, especially ahead of major political events such as general elections (Faccio, 2006). However, it is important to note that not all similar relationships have a positive impact. For example, when political connections are used to increase a company's leverage without considering its financial health, this can create negative sentiment in the stock market and lower its value (Fan et al., 2007).

Apart from that, the company's capital structure includes internal and external funding sources, with leverage being a significant proportion of external funding; as a consequence, the company pays interest costs and principal returns (Roslita & Daud, 2019). Leverage can enhance a company's performance by transferring risk to external funding, reducing costs, and prioritizing cash flow, but it can also potentially lead to bankruptcy if not managed properly (Febiana et al., 2023).

Moreover, good company management significantly influences a firm's value, replacing dividend policy as the sole indicator. Good governance, including the number of personnel on the board of commissioners and independent commissioners, also plays a crucial role in enhancing a firm's value (Hermawan et al., 2022). The board of commissioners' supervisory function, protecting shareholders' interests, disciplining management, and reducing CEO decision-making autonomy, indicates corporate governance implementation, with larger boards influencing financial and market performance (Charbti et al., 2021). In the meantime, effective governance will reduce conflicts of interest, safeguard the interests of shareholders, and improve the company's financial performance (Mukherjee & Sen, 2022).

Thomsen and Pedersen (2000) emphasize that company performance is primarily influenced by economic factors like share return, turnover, capital growth, and revenue, with indicators like market price to book value to stock (MTBV), return to asset ratio (ROA), and sales growth indicating performance (Kao et al., 2019). Moreover, the firm's value is reflected in stock price and investor trust, encompassing performance and future growth prospects (Rahmah & Abbas, 2023). A firm's value is influenced by investors' assessments of a company's performance, profit performance, and transparency in its activity reports, particularly in relation to social responsibility (Roslita & Daud, 2019). Through signaling theory, political connectivity influences company performance, enhancing profit and value. Management discloses positive business achievements to attract shareholders and investors, aiming to classify quality and unqualified businesses (Khan et al., 2020; Maaloul et al., 2018).

Given the inconsistency of results from partial studies and the limited research examining the simultaneous interaction and moderating role of political connections, this research is highly relevant and crucial. Also, since previous studies have failed to provide a complete and integrated picture, this research seeks a more holistic and comprehensive view of the factors influencing firm value.

Based on prior studies, this research highlights a research gap in the literature, stating that no research has explored the impact of capital structure and governance, mediated by

political connections, on a firm's value. Previous studies have only partially tested these variables, and no study has examined the influence of independent variables on company performance from market performance, making further investigation crucial. This research focuses on the problem of how political connections and their role in moderating the effects of capital structure and governance on the corporate value of emitters on the Indonesia Stock Exchange from 2020 to 2024.

LITERATURE REVIEW

Agency theory, introduced by Jensen in 1976, is crucial for understanding political relations in companies, analyzing agency conflicts, and examining the contractual relationship between principal, owner, and agent or management, as well as corporate governance and political connections (Kholid et al., 2023). However, from the agency theory perspective, it can be seen that boards with political ties can increase the risk of resource extraction from shareholders' welfare (Kao et al., 2019; Saputra & Supatmi, 2021). Ang et al. (2011) also use political theory in their investigation, which shows that the proximity of companies to the government, the authorities, or aspects related to the limited distribution of resources can impact the company itself. The relationship between political and other theories is also examined through resource dependence theory, suggesting that a board with political connections can be a strategic element for companies to achieve positive performance (Saputra & Supatmi, 2021).

On the other hand, the resource dependence theory suggests that organizations can benefit from close ties to political parties, including advice, expertise, resource access, and legitimacy (Salancik & Pfeffer, 1978). This theory highlights the importance of management's role in profit-making and political relations. Meanwhile, signal theory examines how financial leverage and company size can influence the relationship between company performance, political connections, and organizational structure to a firm's value, focusing on communication efforts (Arhinful & Radmehr, 2023). The theory posits that the information owner sends signals to the recipient, including attributes, criteria, and qualities, which the recipient can use based on the information owner's presence (Spence, 1973).

The imbalanced financial information indicates management's deeper understanding of the company's business situation and prospects, with investors focusing on accurately assessing company signals. High-quality companies gain a competitive advantage, unlike low-quality ones (Megginson, 1997). This becomes very important for stakeholders in decision-making. Previous research has also stated that signal theory is a method management uses to communicate to investors their views on future business projections (Spence, 1973). Previous research has also shown that financial information published by companies is essential for users in decision-making, especially when there is encouraging news, because stakeholders such as investors are highly interested in and appreciate positive news (Sujoko dan Jogianto, 2001). Saputra and Supatmi (2021) noted that political interference in a company's decision-making can be influenced by ownership by government officials, state companies, or political party management. Management personnel with positions such as board members, military members, or close relatives can indicate political connections within the company. Certain paths exist in political relations and relations with political actors and the government (Martin et al., 2022). Another opinion also states that

political connections can be interpreted as a relationship between interested parties and certain parties related to the distribution of power by being oriented towards fulfilling the interests of the parties (Faccio, 2006; Fan et al., 2007).

H1: Political connection influences a firm's value.

In addition, the company's capital funding sources, including joint ventures and bank debt, impact investment returns accountability. A financial ratio measures a company's ability to pay long-term and short-term debt obligations (Arhinful & Radmehr, 2023). It can be calculated by dividing total debt by total assets (DAR) for operational purposes (Febiana et al., 2023).

Regarding achieving company profits, the significant relationship to the synchronicity of stock prices is also greatly influenced by the leverage ratio, with the indicator of total debt divided by total capital (Arhinful & Radmehr, 2023). At certain limits, bank debt strongly supports the company's growth. However, if the debt-to-capital or asset-to-asset ratio increases, it can result in financial difficulties that hit the company. Financial difficulties and bankruptcy risk will more easily threaten companies with a high leverage ratio in the event of arrears in the form of principal instalments and debt interest at maturity (Wulandari, 2013). Continuing from the bad influence of the very high leverage ratio in the company, Arhinful and Radmehr (2023) also found that bank debt composition in a company's assets increases dependence on debt financing, causing investor skepticism due to the high risk of financial difficulties and bankruptcy, affecting the purchasing feasibility of shares.

H2: Capital structure directly influences a firm's value.

H3: Political connection moderates the influence of a firm's value on capital structure.

Further explanation by Hermawan et al. (2022) stated that corporate governance directs and controls management activities, with independent commissioners minimizing conflicts and agency costs. Mukherjee and Sen (2022) consider CEO attributes as corporate governance indicators since the CEO's value system and experience through demographics, job specifications, and CEO psychology affect the determination of company strategies, such as budgeting policies. In addition, the audit committee implements the company's Global Corporate Governance (GCG) principles, ensuring compliance with laws and regulations. The committee's size depends on its personnel and the frequency of meetings. The committee's responsibility is to meet shareholders' interests, serving as a reference and standard for managing activities (Bradbury et al., 2022).

H4a: Corporate governance (board size) directly influences the firm's value.

H4b: Corporate governance (proportion of independent commissioners) directly influences the firm's value.

An independent and competent board of directors is important for good company performance, related party transactions, fraud, trade, and abuse of political authority and assets by executives, ensuring an effective organization, and preventing related party transactions (Peng et al., 2015).

H5a: Political connection moderates the influence of corporate governance (board size) on a firm's value.

H5b: Political connection moderates the influence of corporate governance (proportion of independent commissioners) on a firm's value.

Previous research also uncovered a negative relationship between agency costs and a firm's value in the long run. The stock performance variable, or a firm's value, typically uses stock performance indicators. Tobin's Q ratio is a tool for assessing a company's growth potential by dividing the outstanding stock's market value and the debt book value by the book value of the company's assets. If there is more than one value, Tobin's Q ratio is considered adequate (Saputra & Supatmi, 2021). However, the increase in management income can negatively impact the firm's value (Khan et al., 2020). On the other hand, the debt ratios of banks, using high leverage, tend to impact the firm's value negatively. Then, it is stated that the manager's policy in selling company assets can harm the firm's value (Khan et al., 2020).

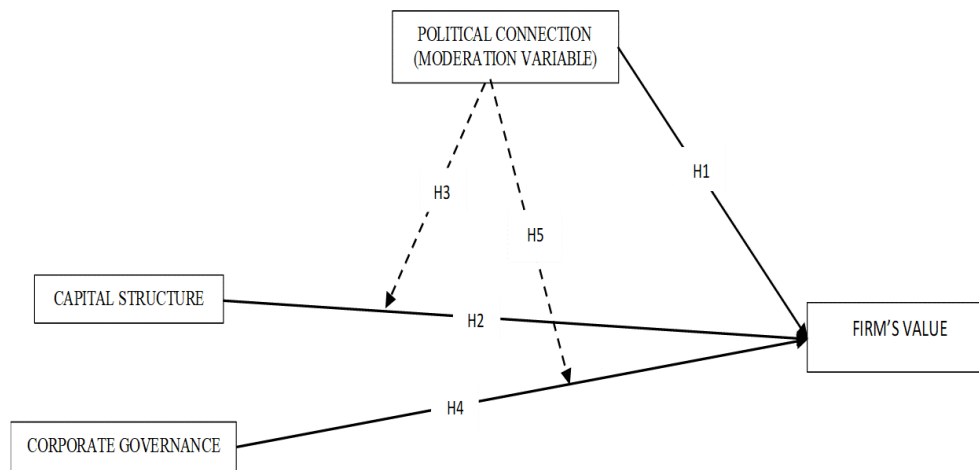


Figure 1. Theoretical Framework

Figure 1 illustrates how capital structure and corporate governance (independent variables) affect firm value (the dependent variable). Political connections serve as a moderating variable, influencing the strength of the relationships between the independent and dependent variables. The study proposes five hypotheses: H1 proposes a direct link between political connections and H2 posits that capital structure affects firm value, respectively. H3 suggests that political connections moderate the relationship between capital structure and firm value. Furthermore, H4 proposes a direct link between corporate governance and firm value, and H5 depicts a moderating effect of political connections on this relationship.

RESEARCH METHOD

This study used a quantitative approach to examine causal relationships between variables in 97 companies listed on the Indonesia Stock Exchange. The sample included individuals over 10 years old, engaged in various industrial sectors, and was collected from 2020 to 2024. The data were analyzed using panel data regression analysis, which combined time series data and cross-sectional data to determine the patterns of relationships between variables. The study aimed to understand the relationship between government officials, council members, political party officials, family ownership, pure family ownership, and pure ownership of central and local governments.

Political connections (X_1) were positioned as an independent variable and a moderation variable in the conceptual framework of this study. The independent variables in this study

comprised capital structure (X_2), which was proxied by Debt to Assets Ratio (DAR), and corporate governance (X_3), which was divided into the dimensions of *board size* and *proportion of independent commissioners*, where in the relationship pattern, X_2 and X_3 were moderated by X_1 , and X_1 was also positioned as an independent variable in this study. The bound variable in this study was the *firm's value* (Y), which was proxied with *Tobin's Q*. The focus of the conceptual framework of this study is on the factors (X_1 , X_2 , X_2 moderated X_1 , X_3 , and X_3 moderated X_1) affecting the *firm's value* as a bound variable (Y), or the other variables outside of this study (Table 1).

Table 1. Variables and Indicators

| No. | Variables | Size | Indicators | References |
|-----|-----------------------------|---|--|-----------------------------|
| 1. | <i>Political Connection</i> | The relationship between the organization/company and politics and government | Dummy variable: "1" = If the company has political connections. "0" = If the company has no political affiliations. | Giosi and Caiffa (2021) |
| 3. | <i>Capital Structure</i> | Leverage | Debt-to-total assets (DAR) ratio of a company | Nassar (2016) |
| 4. | <i>Corporate Governance</i> | Proportion of independent commissioners | The ratio of the number of independent commissioners to the number of board members of commissioners | Uwuigbe and Fakile (2012) |
| | | Board size | The number of audit committee members in the company | Lisbeth and Edastami (2024) |
| 5. | <i>Firm's Value</i> | Tobin's Q | The ratio of the value of shares + the value of debt, divided by the value of assets | Bartlett and Partnoy (2020) |
| | | Price to Book Value (PBV) | The ratio of the value of shares on the stock exchange, divided by the value of the shares in the company's financial statement book | Abuzayed et al. (2009) |

The research was conducted on N=128, with various criteria limitations, as presented in Table 2. Firms were classified as politically connected based on their ownership structure. Directly owned by officials, political councils, or parties, a firm benefits from preferential access, influence, or regulatory advantages. Firms owned by family members are not connected, suggesting they are private without undue influence. Firms owned by both family and politically affiliated authorities are politically connected, reflecting concerns about nepotism or indirect influence. State or government-owned firms are connected, as government ownership implies strong political alignment or strategic control.

Table 2. Population Criteria

| Type of Firm's Ownership | Units | Connectivity Identification |
|---|------------|-----------------------------------|
| Ownership of Officials/Councils/Political Parties | 29 | Suspected of Political Connection |
| Firms Owned by Family | 59 | Allegedly Not Connected |
| Firms Owned by Family and Authorities | 15 | Suspected of Political Connection |
| State-owned/ Local Government-owned Companies | 25 | Suspected of Political Connection |
| Total | 128 | |

These categories were considered formal and easily verifiable through public records. The categorization was based on agency theory, suggesting that political actors might

leverage company resources to serve their own interests. Political power theory also suggests that companies with political ties benefit from enhanced access to policy-making and regulatory processes. In addition, resource dependence theory highlights how political connections could provide companies with legitimacy, capital, and a smoother regulatory path. These theories collectively underpinned the study's systematic coding of political relationships, underscoring their critical importance in understanding corporate behavior and outcomes.

The data was tested using panel data regression analysis with EViews 12 software. The analysis examined the relationship between cross-sectional data from 97 companies listed on the Indonesian Stock Exchange and their development over a specific period. Moreover, the data analysis model used was Moderation Regression Analysis (MRA) due to the hypothesis that moderation variables influence the influence of independent variables on dependent variables (Liana, 2009). MRA is a multiple regression analysis used to measure moderation variables in regression equations with multiple independent variables affecting the dependent variable, with $\alpha=5\%$ significance level (Octavia et al., 2024).

Regression tests were then performed to determine how much influence independent variables have on dependent variables (Tranmer et al., 2020). The significance of the influence between the independent variables moderated by *political connection* on the dependent variables was calculated by comparing the values of the "t" calculation and the "t" of the table. The determination of the "t" value of the table was done by determining the desired probability and the degrees of freedom. From a total sample of 97 emitters and four independent variables in this study, it can be known that the degree of freedom (DF) obtained was 93 (ninety-three). With the desired probability of 0.05 and a DF value of 93, the "t" value of the table for this study could be obtained as 1.984. The regression test used *the Generalized Least Squares* technique with weights (*Cross-Section Weight*) to reduce the differences between units from the *cross-section* data (Gujarati & Porter, 2009).

Table 3. Average Value of Independent Variables from 2018 to 2024

| No. | Variable | Year | | | | | | |
|-----|--|-------|-------|-------|-------|-------|-------|-------|
| | | 2020 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| 1 | <i>Political Connection</i> | 1.22 | 1.22 | 1.22 | 1.22 | 1.22 | 1.23 | 1.23 |
| 2 | <i>Capital Structure</i> | 13.59 | 13.91 | 15.45 | 27.10 | 14.14 | 14.15 | 14.13 |
| 3 | <i>Board Size</i> | 48.33 | 48.33 | 48,33 | 48,33 | 48.33 | 48.33 | 48.33 |
| 4 | <i>Proportion of Independent Commissioners</i> | 0.48 | 0.48 | 0.48 | 0.48 | 0.48 | 0.48 | 0.48 |

Table 3 shows consistent average scores for political connection, board size, and proportion of independent commissioners from 2020 to 2024 in all firms. However, as shown in Figure 2, a potential increase in companies' capital structure in 2021 indicates improved economic conditions as the COVID-19 pandemic recedes and business and trade sectors recover. This increase is driven by the need for emitters to revive operations and restore purchasing power, as people's purchasing power recovers.

Then, the structural equations built in this study to describe the pattern of relationships between variables are translated into the research model as Equations 1 and 2.

Main model (Tobin's Q as dependent variable):

$$\text{Tobin's } Q_{it} = \alpha + \beta_1 PC_{it} + \beta_2 CS_{it} + \beta_3 Board_{it} + \beta_4 Ind_Com_{it} + \beta_5 (PC \times CS)_{it} + \beta_6 (PC \times Board)_{it} + \beta_7 (PC \times Ind_Com)_{it} + \varepsilon_{it} \quad (1)$$

Robustness check model (PBV as dependent variable):

$$PBV_{it} = \alpha + \beta_1 PC_{it} + \beta_2 CS_{it} + \beta_3 Board_{it} + \beta_4 Ind_Com_{it} + \beta_5 (PC \times CS)_{it} + \beta_6 (PC \times Board)_{it} + \beta_7 (PC \times Ind_Com)_{it} + \varepsilon_{it} \quad (2)$$

Where, α is constant, *Tobin's Q* is ratio of stock value + debt value divided by asset value, *PBV* is the ratio of the value of shares on the stock exchange divided by the value of shares in the firm's financial report book, *PC* is political connection, *CS* is capital structure, *Boar* is board size, *Ind_Com* is proportion of independent commissioners, and ε_{it} is the error term.

RESULTS AND DISCUSSION

Results

The authors also conducted resilience tests to determine the impact of independent variables and political relations on financial performance. They changed proxies across affected variables to assess data sensitivity. The results of the regression analysis comparison using panel data show the interaction between independent variables, moderation variables, and affected variables.

Table 4. Comparison of Regression Analysis Results Related to Robustness Test Research Data

| Assumption | Main Model | | | Robust Model | | |
|------------|------------|----------------------|-------------|--------------|-------------|----------------------|
| | Variable | | T-Statistic | Variable | | Conclusion |
| | And | X | | And | T-Statistic | |
| $\beta+$ | Tobin's Q | PC | 8.997405 | PBV | -4.573166 | <i>Not supported</i> |
| $\beta+$ | | BUT | 256.5769 | | -1.122331 | <i>Not supported</i> |
| $\beta+$ | | BOARD | -4.342104 | | 3.082629 | <i>Not supported</i> |
| $\beta+$ | | IND-COM | -3.227036 | | -4.715380 | <i>Supported</i> |
| $\beta+$ | | PC Moderated | -5.312261 | | 0.133282 | <i>Not supported</i> |
| $\beta+$ | | DAR | | | | |
| $\beta+$ | | PC Moderated | 4.099377 | | 1.688841 | <i>Not supported</i> |
| $\beta+$ | | BOARD | | | | |
| $\beta+$ | | IND-COM PC Moderated | -1.418619 | | 5.167558 | <i>Not supported</i> |

Table 4 outlines independent and moderating variables, including political connection (PC), capital structure (Debt-to-Asset Ratio/DAR), corporate governance (board size), and the proportion of independent commissioners (IND-COM). The primary dependent variable for the main model is financial performance, measured using Tobin's Q, while price-to-book value (PBV) is the metric for robust models. The moderating effect of political connection pertains to its influence on the relationships between capital structure, board size, and firm value, both of which are statistically significant in the main model. The hypothesis testing results in Table 5 indicate that the t-value for political connection's impact on firm value is 8.997405, exceeding the critical t-table value of 1.984 ($p\text{-value} < \alpha = 0.05$). This finding confirms that a political connection significantly affects the firm's value. Furthermore, the coefficient of 0.878697 suggests a positive correlation, indicating that a one-unit increase in political connection results in an increase of 87.86% in the firm value and demonstrates a significant positive effect.

Table 5. Hypothesis Testing Results

| Hypothesis | Coefficient Parameters | T Statistics | P value | Result |
|-------------------|-------------------------------|---------------------|----------------|-----------------|
| Hypothesis 1 | 0.878697 | 8.997405* | 0.0000 | Significant |
| Hypothesis 2 | 0.998753 | 256.5769* | 0.0000 | Significant |
| Hypothesis 3 | -0.212530 | -5.312261* | 0.0000 | Significant |
| Hypothesis 4a | -0.041345 | -4.342104* | 0.0000 | Significant |
| Hypothesis 4b | -0.071173 | -3.227036** | 0.0013 | Significant |
| Hypothesis 5a | 0.071297 | 4.099377* | 0.0000 | Significant |
| Hypothesis 5b | -0.067081 | -1.418619*** | 0.1567 | Not Significant |

Note: P-value>0.001*, >0.005**, >0.010***

Regression analysis results in Table 4 reveal that capital structure significantly influences firm value (Hypothesis 2), as evidenced by a calculated t-value of 256.5769, which is greater than the critical t-table value of 1.984 ($p\text{-value} < \alpha = 0.05$). It confirms the significant effect of capital structure on firm value. The coefficient of 0.998753 indicates a positive relationship, concluding that capital structure positively influences firm value. Consequently, Hypothesis 2 (H2) is validated, affirming that capital structure significantly impacts firm value.

Further in Table 5, the regression analysis illustrates the moderating effect of political connection on the relationship between capital structure and firm value (Hypothesis 4). The computed t-value of 5.312261 surpasses the t-table value 1.984 ($p\text{-value} < \alpha = 0.05$), indicating a significant moderating effect of political connection on the relationship between capital structure and firm value. Further supports the strength of this moderating effect. Additionally, a coefficient of -0.212530 suggests that political connection moderation significantly reduces firm value, leading to the acceptance of Hypothesis 3 (H3), which posits that political connection weakens the positive influence of capital structure (measured by DAR) on firm value.

Effective and transparent corporate governance is crucial for sustaining a positive corporate image, which, in turn, influences the performance of the share issuer. The regression analysis of corporate governance variables on firm value, as exhibited in Table 5, divides Hypothesis 4 (H4) into H4a, concerning board size, and H4b, related to the proportion of independent commissioners. For the board size variable, the calculated t-value of 4.342104 exceeds the critical t-table of 1.984 ($p\text{-value} = 0.000 < \alpha = 0.05$), indicating a significant relationship between board size and firm value, while the coefficient of -0.041345 indicates a negative impact, suggesting that each unit change in board size results in a decrease of -4.13% in firm value.

Regarding the proportion of independent commissioners, the calculated t-value of 3.227036 surpasses the critical t-value (3.227036 > 1.984), indicating its significant influence on firm value. The significance level of 0.0013 is below the alpha threshold ($p\text{-value} = 0.0013 < \alpha = 0.05$), validating the strong effect of this variable. The coefficient of -0.071173 denotes a negative relationship, meaning that any unit change in the proportion of independent commissioners results in a decrease of 7.11% in firm value. Therefore, both components of Hypothesis 4 (H4a and H4b) are validated, affirming that corporate governance significantly impacts company performance, particularly regarding firm value.

The linear regression analysis results in Table 5 regarding the moderation of Political Connection on the effects of corporate governance on firm value lead to the evaluation of

Hypothesis 5 (H5), which is subdivided into H5a. Concerning the moderation effect of political connection on board size, hypothesis 5 indicates that the calculated t-value of 4.099377 exceeds the critical t-value of 1.984, confirming that political connection significantly moderates the influence of board size on firm value ($p\text{-value}=0.0000 < 0.05$), further substantiating the strength of this moderation. The coefficient of 0.071297 indicates a positive interaction, suggesting that political connection strengthens the influence of board size on firm value.

Conversely, the H5b analysis concerning political connections' moderation on the proportion of independent commissioners reveals a calculated t-value of 1.418619, less than the critical t-value ($1.418619 < 1.984$). This indicates a lack of moderating effect of political connection on the proportion of independent commissioners' influence on firm value. This conclusion is supported by a significant value of 0.1567, which exceeds the alpha level (0.05), and a coefficient of -0.067081, indicating that the relationship is not statistically significant.

Discussion

Impact of Political Connection on a Firm's Value

Related to the first hypothesis, H1 is declared valid, meaning that political connection significantly positively affects the firm's value. This aligns with the answers to the research (Febiana et al., 2023; Siciliya, 2021; Wati et al., 2019).

The findings from the calculation of the results of the above research answer that basically, it is associated with the illustration of the current situation, the existence of the power of political connection in companies that tends to affect the firm's value is supported by several opinions expressed (Ang et al., 2011), which states that politically connected issuers tend to experience an increase in the firm's value sector on the momentum of important political events. In this case, the theory of political power and the theory of resource dependence play a role, in line with the findings of the previous researcher above that the firm's value, both eminent affiliated with political officials and supporting political officials, tends to increase when approaching, on the day of implementation, and especially in the momentum leading up, during implementation, and shortly after the occurrence of important political events, such as the local government leader election or presidential election, which is influential on the volatility of the stock prices of affiliated issuers.

Impact of Capital Structure on a Firm's Value

Determining the right debt composition strategy results in good growth in the company's accounting performance. The firm's value can increase because signal theory works very effectively here. Share issuers with high accounting performance are in great demand and attract investors to buy their shares (Baig et al., 2024; Maaloul et al., 2018). This means that the stocks that investors are interested in result in an increase in the firm's value, which is reflected in the issuer's share price.

Impact of Capital Structure Moderated by Political Connection on a Firm's Value

Although capital structure alone positively impacts firm value, when firms are politically connected, the increasing debt levels (DAR) might trigger negative investor

perception and increase the company's profit-to-assets ratio (ROA), perhaps due to rent-seeking behaviors or non-transparent use of leverage. However, the increase in DAR due to the support of political connections' moderation can cause negative sentiment in the stock market because investors usually dislike companies that experience an increase in the DAR dependency ratio. This clearly lowers the value of the company in the stock market. However, the findings contradict the research announced (Febiana et al., 2023; Wulandari, 2013), which stated that leverage does not affect a firm's value. In this case, the combination of the agency theory that represents the interest of the rent seeker to influence the management of the company and the signal theory that controls the determination of the capital composition leads to an increase in the company's leverage carried out in a measurable and controlled manner is very helpful in achieving financial performance, but on the other hand, does not have a bad impact on the firm's value provided that the condition of financial performance is still well considered.

The Impact of Corporate Governance on a Firm's Value

In corporate governance, this opinion contradicts Black and Kim (2012), who state that the firm's value receives positive support from corporate governance, which is measured by the number of audit committees and the level of public ownership. The addition of board size contributes to the creation of effective and optimal supervision, thereby strengthening financial performance in the short term and further impacting the firm's value in the long term. Nevertheless, in terms of agency theory of the existence of rent seeker interests, if the size of the commissioners is too large, or the number of independent commissioners on the board increases, where each independent commissioner works in their own idealistic style, this can actually make it difficult to coordinate in optimal supervision and negatively impact the overall performance of the company (Hermawan et al., 2022; Saputra & Supatmi, 2021).

The Impact of Corporate Governance Moderated by Political Connection on a Firm's Value

To determine Hypothesis 5, corporate governance was assessed using two key indicators: board size and the proportion of independent commissioners. The results reveal that political connections significantly strengthen the relationship between board size and firm value, indicating that politically connected firms may leverage larger boards to enhance strategic influence, regulatory access, or investor confidence. Conversely, political connections do not significantly moderate the effect of the proportion of independent commissioners, suggesting that the oversight role of independent commissioners remains consistent regardless of political influence. These findings imply that not all governance mechanisms are equally responsive to political ties, highlighting a selective moderating effect: political influence appears to align more closely with governance elements that enable strategic expansion than those aimed at neutral oversight.

Political connections can enhance a firm's board size and strategic influence, enabling it to navigate complex regulatory landscapes more effectively. This can lead to favorable policies, permits, or contracts, increasing firm value. However, political connections do not significantly moderate the effect of the proportion of independent commissioners on firm value. Independent commissioners are expected to maintain a neutral, professional, and idealistic stance, focusing more on the company's accounting performance and being less

susceptible to political influence. This suggests that politically connected firms may leverage a larger board for strategic gain, but independent commissioners are less susceptible to such influence.

Regarding the results of the study showing a positive influence on the board size moderated by political connection on the firm's value, in line with the theory of resource dependence and the theory of political power, the success of issuer self-branding triggered by the influence of political connection on board size actually increases the firm's value. This means that the reputation of political officials related to the company, whether as shareholders, in a position in management, or simply through a network of relations, is also associated with the company's reputation or brand. Political intervention is recognized as playing a role in creating the image of the company's reputation.

In the context of research results showing that political connection cannot moderate the influence of the proportion of independent commissioners on a firm's value, in line with the theory of political power, independent commissioners who have a neutral, professional and idealistic attitude must make every effort to monitor the strong influence of incoming political interventions, including among company commissioners. In this case, the proportion of independent commissioners is completely unmoderated by political connections and is unrelated to stock price changes, as the supervision carried out through corporate governance tends to focus more on the company's accounting performance. Similar findings emerged from previous research, which stated that a company's performance that has political relations is significantly and positively supported by the effectiveness of the board of commissioners, which functions as a proxy for the company's corporate governance (Mawarni & Putra, 2023). The emphasis is that political connection reduces the effectiveness of corporate governance on the company's accounting performance, but actually has the opposite impact on the firm's value (Wati et al., 2019).

Compared to the results of previous research, previous studies revealed that the emphasis on political connection reduced the effectiveness of corporate governance on financial performance but positively impacted the firm's value (Wati et al., 2019). Regarding the hypothesis that has been established, the H5a hypothesis is accepted. However, the intervention of the political connection cannot affect and intervene in the proportion of independent commissioners concerning its impact on the firm's value (Hypothesis H5b).

CONCLUSION

This study investigates the impact of political connections on firm value in companies listed on the Indonesia Stock Exchange from 2020-2024. The results uncover that political connections positively and significantly influence firm value, suggesting that companies with political connections tend to have higher value perceptions from investors. Capital structure, measured by the debt-to-asset ratio (DAR), positively affects firm value but can be reduced due to investor concerns about financial risk and rent-seeking practices. Corporate governance, represented by the size of the board of commissioners and the proportion of independent commissioners, has a negative and significant effect on firm value, indicating potential dysfunction of coordination or effectiveness of supervision if not combined with appropriate management practices. Political connections strengthen the influence of board size on firm value, suggesting that political connections can magnify the

strategic benefits of a large board size. However, political connections do not moderate the effect of the proportion of independent commissioners, meaning the role of supervision by independent commissioners remains neutral and is not affected by political affiliation. The study contributes to the literature on corporate governance and corporate finance in emerging markets, emphasizing the importance of considering the complexity of the relationship between governance, capital structure, and political affiliation when assessing the quality and risk of a company. The findings suggest that while political connections can be a strategic asset, they also come with risks that must be carefully managed. Similarly, debt can increase a firm's value, but its use requires careful oversight to avoid financial instability. The research also cautions against simply having a large board of commissioners, emphasizing that effective coordination and management are more important than size alone. Moreover, the study raises concerns about market fairness, as political connections can give some companies an unfair competitive advantage. This suggests a need for government and regulators to create stricter rules to monitor interactions between companies and political officials.

Future research should include additional variables such as ownership concentration, institutional ownership, or profitability, use a mixed methods approach, test the model's stability under different political conditions, and conduct cross-country analysis to see whether the influence of political connections on firm value differs across political and institutional systems. The study suggests the need for new financial models for emerging markets, highlighting the need for a holistic approach by policymakers and regulators, considering external factors like political connections and internal structures like capital and governance. It also emphasizes the crucial role of independent commissioners as a neutral oversight function.

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