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The Influence of Political Connections on Firm Financial Performance: Does Board of Commissioner Efficacy Matter?

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ABSTRACT

This study was conducted to analyze the influence of political connections on firm financial performance and to examine whether commissioner efficacy moderates this relationship among companies listed on the Indonesia Stock Exchange (IDX). The study employs three theoretical perspectives: Political Economy Theory (Gray et al., 1996), Resource Dependence Theory (Pfeffer & Salancik, 1978), and Agency Theory (Jensen & Meckling, 1976), which collectively explain the dual role of political ties as both strategic resources and potential governance risks. The population in this study comprises non-financial companies consistently listed on the IDX during the observation period, excluding state-owned enterprises (BUMN) and firms lacking complete governance data. A total of 50 companies were obtained as the sample. Data collection was carried out using secondary sources, including annual reports and corporate governance disclosures. The collected data was processed and analyzed using panel regression models with EViews software, incorporating descriptive statistics, correlation matrices, and multivariate regression to test the hypotheses. The results indicate that political connections does not significantly affect firm financial performance and commissioner efficacy does not moderate the influence of political ties on firm outcomes, whether positive or negative. This finding suggests that commissioner effectiveness may not be sufficient to neutralize external political pressures in environments with weak institutional enforcement.

Keywords: Political Connections, Commissioner Efficacy, Firm Financial Performance, Corporate Governance, Political Economy Theory, Resource Dependence Theory, Agency Theory, Indonesia Stock Exchange (IDX).

INTRODUCTION

Political connections are one of the external determinants that have increasingly gained attention in studies of corporate governance and financial performance, particularly in developing countries with relatively weak institutional quality. In such contexts, firms often establish formal and informal relationships with political actors as a strategy to obtain access to scarce resources, reduce regulatory uncertainty, and increase opportunities for securing government contracts or other preferential treatments. Faccio (2006) argues that politically connected firms tend to receive special treatment, ranging from bailouts to regulatory privileges, especially in countries with underdeveloped institutional structures.

The close interplay between politics and business is not only a local phenomenon but also a global one. In various developing countries such as Russia, China, India, Brazil, Bangladesh, and Turkey, political connections have become an important instrument for navigating bureaucratic barriers and policy volatility. In Russia, for instance, politically connected firms are estimated to account for 86.75% of total market capitalization (Faccio, 2006). Meanwhile, in Bangladesh, ties with political elites have been shown to reduce financing costs for certain business groups (Miah et al., 2025). These findings indicate that political connections can provide substantial economic benefits, particularly in business ecosystems still influenced by political interests and weak law enforcement.

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However, prior studies show that the relationship between political connections and firm performance is complex, non-linear, and not uniformly beneficial across contexts (Faccio, 2006). Political ties may provide advantages such as preferential access to financing, regulatory support, and protection during periods of economic or political instability (Faccio, 2006; Maaloul et al., 2018). Nevertheless, other research highlights potential downsides, including increased rent-seeking behavior, weakened internal oversight, and managerial opportunism that can undermine operational efficiency and long- term performance (Boubakri et al., 2008; Pang & Wang, 2021). Fan, Wong, and Zhang (2007) further argue that the impact of political connections is contingent upon the institutional environment and the robustness of internal corporate governance mechanisms that regulate and monitor politically connected actors within the firm.

Indonesia serves as a highly relevant empirical context given its complex political dynamics, relatively high levels of corruption, and public perception of weak law enforcement. The Transparency International (2023) report ranks Indonesia 110th out of 180 countries in the Corruption Perceptions Index, indicating that political connections remain embedded in the business environment. Firms in Indonesia often build relationships with political actors to gain easier regulatory access, win government tenders, or reduce bureaucratic hurdles. Research by Leuz and Oberholzer-Gee (2006) shows that politically connected firms in Indonesia obtain better external financing access compared to firms without political ties.

A clear example in Indonesia can be seen in the case involving Astra Group. As reported by Monitor Indonesia (2025), the Attorney General's Office was perceived as "half-hearted" in pursuing a major corruption case linked to one of Astra's subsidiaries, allegedly due to political sensitivities surrounding former President Joko Widodo. This situation illustrates how political affiliations may shield firms from full legal accountability, thereby weakening institutional enforcement. Such conditions have direct implications for firm financial performance: reputational risks, diminished investor confidence, and inefficiencies in governance can constrain long-term profitability, even if short-term political ties provide regulatory or financial advantages.

Despite the prevalence of political connections, the variations in depth, form, and intensity of these relationships remain insufficiently understood, especially regarding their effects on firms' financial performance. Previous studies generally measure political connections in a binary manner, failing to capture the hierarchical, informal, and often multidimensional nature of political relationships. Moreover, internal governance factors that influence the effectiveness of political ties particularly the efficacy of the board of commissioners have rarely been explored. Yet, the capacity of commissioners to perform monitoring and decision-making functions is critical in linking political connections to firm performance.

Commissioner efficacy is a concept that explains the extent to which the board can effectively carry out its monitoring function, provide strategic input, and ensure compliance with good corporate governance principles. In firms with political connections, commissioner efficacy becomes even more crucial, as political relationships may generate external pressures or conflicts of interest that can only be managed through strong oversight. Recent studies in Indonesia highlight that governance mechanisms can moderate the effect of political connections on financing decisions and agency costs. Prabowo et al. (2025) find that political connections can reduce the cost of debt for firms with weak governance

or high dependence on banks, although such effects are not always positive when governance quality improves.

Research from various countries indicates that competent boards of commissioners are able to optimize the benefits of political connections such as access to capital and regulatory support while minimizing risks arising from political interference in decision-making processes (Utama & Lukviarman, 2021; Niazi et al., 2023). Conversely, ineffective commissioners may allow room for rent-seeking or abuse of authority, ultimately impairing firms' financial performance. Thus, commissioner efficacy has the potential to serve as a moderating variable that explains inconsistencies in previous findings regarding the influence of political connections on firm performance. Furthermore, the ownership structure in Indonesia dominated by family businesses and large conglomerates heightens the urgency of studying commissioner effectiveness in the context of political connections. Political decentralization also expands the spectrum of political actors who can influence firms at both national and regional levels. During the COVID-19 pandemic, politically connected firms were found to have better access to government assistance and regulatory flexibility (Prabowo & Setiawan, 2022), providing additional evidence of the significance of political ties in maintaining operational stability.

Based on these various findings, research on the influence of political connections on firms' financial performance must consider internal governance capacity, particularly the effectiveness of the board of commissioners. Emphasizing commissioner efficacy as a moderating variable allows this study to offer a more comprehensive academic contribution by identifying conditions under which political connections function either as a strategic asset or a source of risk for firms. Accordingly, this study seeks to bridge the literature gap by proposing an integrative approach that simultaneously accounts for both external and internal factors in explaining firms' financial performance in Indonesia.

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

It explains the research theory, a conceptual framework representing the relationships in the study, and the development of research hypotheses.

Political Economy Theory

Political Economy Theory describes how corporate behavior is influenced by the political, social, and institutional environment. In particular, corporations often develop political relationships to gain credibility, minimize regulatory risk, and increase profits, mostly in developing economies with weak regulatory institutions (Gray et al., 1996; Roe, 2003). The political networks can provide several benefits, for example, access to government procurement contracts and policy risk protection (the helping-hand effect). However, these connections can also lead to a rent-seeking, abuse of power, and inefficiency that can reduce corporate profitability (the grabbing-hand effect) (Shleifer & Vishny, 1994; Maaloul et al., 2018). Therefore, Political Economy Theory argues that the influence of connections on corporate performance is complex and depends on a country's institutional conditions.

Resource Dependence Theory

According to Pfeffer and Salancik (1978), firms rely on external actors to obtain critical resources and must strategically manage these dependencies to ensure survival and

growth. In industries that require substantial capital for long-term operations and where government approval is essential, political connections can enhance firms' competitiveness. Politically connected firms may benefit from tax reductions, easier access to credit, and preferential treatment in public procurement (Faccio, 2006; Goldman et al., 2013). However, such connections may also create vulnerabilities when political support becomes unstable. Niazi et al. (2023) argue that in fragile institutional environments, excessive dependence on political connections can generate adverse consequences if not supported by effective corporate governance.

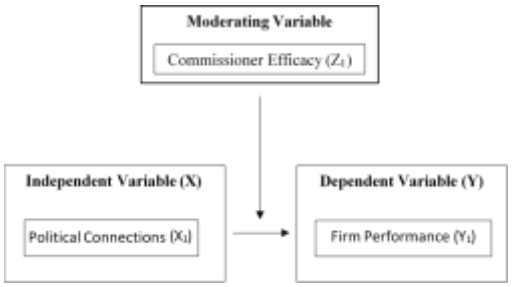
Agency Theory

According to Jensen and Meckling (1976), Agency Theory emphasizes the contractual relationship between firm owners (principals) and managers (agents), where differences in interests and information may lead to agency conflicts. From a monitoring perspective, the theory highlights the importance of control mechanisms to ensure that managerial actions remain aligned with shareholder interests. Agency conflicts often arise because managers may pursue personal interests, possess different perspectives in decision-making, and tend to be more risk-averse than shareholders. Therefore, monitoring mechanisms are required to minimize deviations in managerial behavior. Such monitoring helps ensure that managerial decisions and actions are directed toward maximizing shareholder value and maintaining firm performance.

Theoretical Framework

The research framework describes the relationship between the independent variable, in this case Political Connections (X_1), and the dependent variable, namely Firm Performance (Y_1). The theoretical framework that underlies the development of the research hypothesis is as shown in the following figure:

Figure 1. Theoritical Framework



Hypothesis Development

The Effect of Political Connections on Firm Performance

The relationship between political connections and firm performance has attracted significant attention in corporate governance and political economy literature. Political ties are often viewed as strategic resources that provide firms with regulatory advantages, government contracts, and financial support, particularly in emerging markets (Faccio, 2006; Leuz & Oberholzer-Gee, 2006). However, Resource Dependence Theory suggests that excessive reliance on political actors may create vulnerabilities and reputational risks.

Political Economy Theory further argues that political affiliations may embed firms within power structures that prioritize political agendas over corporate objectives (Niazi et al., 2023; Pang & Wang, 2021). From the Agency Theory perspective, political connections may weaken monitoring mechanisms and managerial accountability, leading to lower governance quality and efficiency (Fan et al., 2007). Consequently, politically connected firms may experience weaker financial performance in the long term. Based on this argument, the following hypothesis is proposed:

H1: Political connections have a significant negative effect on firm performance

The Moderating Role of Commissioner Efficacy

Commissioner efficacy refers to the effectiveness of the board of commissioners in performing monitoring and advisory functions. This includes board independence, financial expertise, gender diversity, industry experience, and performance-based compensation, which reflect the board's capacity to strengthen oversight and reduce managerial opportunism from an Agency Theory perspective. In politically connected firms, commissioner efficacy becomes increasingly important because political ties may increase the risk of external influence and inefficient resource allocation. An effective board can resist political pressure and improve oversight of managerial decisions. Empirical evidence shows that strong board effectiveness can mitigate the negative effects of political connections on firm performance (Niazi et al., 2023). Therefore, commissioner efficacy is expected to moderate the relationship between political connections and firm performance. Based on this argument, the following hypothesis is proposed:

H2: Board of Commissioner efficacy can weaken or strengthen the relationship between politica connections and firm performance.

RESEARCH METHODE

This section describes the research population and sample, the variables used and their measurements, and the research model.

Population and Sample

According to Sugiyono (2015), population refers to a generalization area consisting of objects or subjects with certain characteristics determined by researchers to be studied and concluded. The population of this study consists of all private companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2024. This study focuses on private firms because the dynamics of political connections and governance mechanisms may differ significantly from state-owned enterprises. The sampling technique uses purposive sampling (Sugiyono, 2014) with several criteria, including companies that are consistently listed on the IDX, non-state-owned enterprises, and firms that provide complete financial and governance data required to measure the research variables.

Variable and Measurement

The dependent variable in this study is firm performance, measured using Return on Assets (ROA), calculated as net income divided by total assets. The independent variable is political connections, measured using a dummy variable where 1 indicates that the firm has politically connected board members or shareholders, and 0 indicates otherwise (Faccio, 2006; Niazi et al., 2023). The moderating variable is commissioner efficacy, measured using a composite score based on board independence, financial expertise,

gender diversity, and performance-based remuneration, with a score ranging from 0 to 4. Control variables include leverage, audit quality, firm size, commissioner size, industry type, and year effects.

Type and Source of Data

This study uses secondary data obtained from company annual reports and sustainability reports. The data were collected from the official IDX website and company disclosures during the observation period of 2021–2024.

Data Collection Method

The data collection technique used in this study is documentation, which involves collecting and analyzing company annual reports, financial statements, and corporate governance information available on the IDX website and other official company sources.

Data Analysis Method

This study employs quantitative analysis using panel data regression with EViews version 13. The analysis includes descriptive statistics, correlation analysis, and regression modeling. Panel regression is used to examine the effect of political connections on firm performance and the moderating role of commissioner efficacy. Model selection is conducted through the Chow test, Hausman test, and Lagrange Multiplier test to determine the most appropriate model among Common Effect, Fixed Effect, and Random Effect models. Classical assumption tests, particularly multicollinearity and heteroscedasticity tests, are also conducted to ensure the robustness of the regression results.

RESEARCH RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis was conducted to describe the characteristics of the research data. The analysis includes the mean, median, maximum, minimum, standard deviation, skewness, kurtosis, and the Jarque–Bera normality test to understand the distribution patterns and variation of the data across the sample firms. The descriptive results were obtained from 200 observations derived from 50 companies over a four-year observation period, as follows:

Table 1. Descriptive Statistics

	ROA	CEFF	LEV	FIRMSIZE	COMMSIZE
Mean	5.284400	2.615000	55.90545	30.14775	4.430000
Median	4.345000	3.000000	58.33000	30.25500	4.000000
Maximum	30.20000	4.000000	79.72000	32.80000	16.00000
Minimum	-6.260000	1.000000	15.71000	25.51000	3.000.000
Std. Dev.	5.019163	0.706591	10.55331	1.278188	1.890229
Skewness	2.151956	-0.326038	-1.061601	-0.917430	4.313568
Kurtosis	11.13569	2.93972	5.033394	4.942424	26.40525
Jarque-Bera	705.9428	3.573881	72.02230	59.49767	5185.277
Probability	0.000000	0.167472	0.000000	0.000000	0.000000
Sum	1056.880	523.0000	11181.09	6029.550	886.0000

Sum Sq. Dev.	5013.207	99.35500	22163.11	325.1191	711.0200
Observations	200	200	200	200	200

Source: Data Processed (EViews 13 Output), 2026

Based on the table above, firm performance (ROA) has an average value of 5.284 with relatively high variation, reflected by a standard deviation of 5.019 and values ranging from −6.260 to 30.200. The distribution is right-skewed, indicating that several firms have exceptionally high profitability. Commissioner efficacy (CEFF) has an average of 2.615 with moderate dispersion and a relatively normal distribution. Leverage (LEV) has a mean of 55.91 with substantial variation across firms, reflecting differences in capital structure. Firm size (FIRMSIZE) is relatively stable with an average of 30.15. Commissioner size (COMMSIZE) shows notable variation with an average of 4.43. Additionally, 30% of firms are politically connected, 38% are audited by Big Four firms, and 26% belong to selected industries.

Matrix Correlation

Correlation analysis was conducted to examine the relationships among the research variables and to detect potential multicollinearity. The correlation matrix presents the linear relationships between the dependent, independent, and control variables. The correlation results are interpreted based on the strength and direction of the relationships, considering the multicollinearity threshold, which is generally indicated by correlation values above 0.80. The results obtained are presented as follows:

Table 2. Matrix Correlation

	ROA_Y	PCON_X	CEFF_Z	LEV_CONT...	AQ_CONTROL	FIRMSIZE_C...	COMMSIZE_...	INDUSTRY_...	YEAR_CONTROL
ROA_Y	1.000000	0.405189	0.231099	0.012280	0.452743	0.383377	0.084181	-0.112448	0.003715
PCON_X	0.405189	1.000000	0.202792	-0.089103	0.386635	0.392924	0.365722	-0.089549	0.000000
CEFF_Z	0.231099	0.202792	1.000000	-0.091454	0.325333	0.518821	0.000414	-0.484863	0.078034
LEV_CONTROL	0.012280	-0.089103	-0.091454	1.000000	-0.125288	0.159057	0.045893	-0.227596	-0.020714
AQ_CONTROL	0.452743	0.386635	0.325333	-0.125288	1.000000	0.454552	0.100088	0.005636	0.000000
FIRMSIZE_CONTROL	0.383377	0.392924	0.518821	0.159057	0.454552	1.000000	0.252816	-0.235162	0.042000
COMMSIZE_CONTROL	0.084181	0.365722	0.000414	0.045893	0.100088	0.252816	1.000000	-0.135180	-0.005304
INDUSTRY_CONTROL	-0.112448	-0.089549	-0.484863	-0.227596	0.005636	-0.235162	-0.135180	1.000000	0.000000
YEAR_CONTROL	0.003715	0.000000	0.078034	-0.020714	0.000000	0.042000	-0.005304	0.000000	1.000000

Source: Data Processed (EViews 13 Output), 2026

Based on the table above, the correlation analysis shows that firm performance (ROA) has a moderate positive relationship with political connections, audit quality, and firm size, indicating that politically connected, larger firms audited by reputable auditors tend to achieve better performance. Commissioner efficacy has a weaker positive relationship with firm performance, while leverage and commissioner size have very limited influence. Industry type shows a weak negative relationship, and the year effect is almost insignificant. Political connections are also positively correlated with audit quality, firm size, and commissioner size. Overall, none of the correlation values exceed 0.80, indicating that there is no multicollinearity problem among the variables.

Regression Analysis

Determination of Panel Data Estimation Model

To determine the most suitable panel data estimation model, this study applies three model selection tests, as follows:

Chow Test

The Chow test is used to determine the appropriate model between the Common Effects Model (CEM) and the Fixed Effects Model (FEM) in panel data analysis. In this study, a near singular matrix error occurred due to the inclusion of many dummy variables, such as political connections, audit quality, industry type, and year. In FEM estimation, additional individual dummy variables are introduced, which may lead to a dummy variable trap and cause the regressor matrix to become nearly non-invertible. This issue is more common in short panel data because limited time variation and multiple dummy variables reduce degrees of freedom and increase linear dependence among regressors (Greene, 2018; Baltagi, 2021; Hsiao, 2014; Wooldridge, 2010).

Hausman Test

This test is used to determine the more appropriate model between the Fixed Effects Model (FEM) and the Random Effects Model (REM) when analyzing panel data. The following are the results of the Hausman test:

Table 3. Hausman Test Result: Model 1 & 2

	Model 1			Model 2		
Test Summary	Chi-Sq.Statstic	Chi-Sq. Df	Prob	Chi-Sq.Statstic	Chi-Sq. Df	Prob
Cross-Section random	8.123344	3	**0.0435**	7.782535	5	**0.1686**

Source: Data Processed (EViews 13 Output), 2026

Base on the table above, Model 1 shows a probability value of 0.0435, which is lower than the significance level of 0.05. Therefore, the null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) is accepted. As a result, Model 1 proceeds to the Lagrange Multiplier (LM) test to determine whether the Common Effect Model (CEM) or Random Effect Model (REM) is more appropriate. In contrast, Model 2 has a probability value of 0.1686, which is higher than 0.05, indicating that H_0 is accepted. Thus, the Random Effect Model (REM) is considered the most appropriate model for Model 2.

Lagrange Multiplier (LM) Test

This test evaluates whether the Random Effects Model (REM) is more appropriate than the Common Effects Model (CEM) in panel data analysis. It also ensures model consistency when previous tests show inconsistencies between the Fixed Effects Model (FEM) and REM.

Table 4. LM Test Result: Model 1 & 2

	Test Hypothesis Model 1			Test Hypothesis Model 2		
	Cross-section	Time	Both	Cross-section	Time	Both
Breusch-Pagan	255.6100 **(0.0000)**	1.571056 (0.2101)	257.1811 (0.0000)	255.9360 **(0.0000)**	1.594312 (0.2067)	257.5303 (0.0000)

Source: Data Processed (EViews 13 Output), 2026

Based on the table above, in models 1 and 2, the Breusch-Pagan value is smaller than the significance value (0.0000 < 0.05). Therefore, statistically, H0 is rejected and H1 is accepted. This indicates that the more appropriate model to use is the Random Effects Model (REM). The conclusion of the panel data regression model selection indicates that the Random Effects Model (REM) is the most appropriate model. This result is based on the Hausman Test and the Lagrange Multiplier Test, which show that REM is more suitable than the Common Effects Model (CEM) and the Fixed Effects Model (FEM).

Classical Assumption Test of Panel Data Regression

In the Random Effects Model (REM), scholars have different views regarding the necessity of classical assumption tests. Kosmaryati et al. (2019) argue that REM, which applies the Generalized Least Squares (GLS) method, is designed to address issues such as heteroskedasticity and autocorrelation, making classical assumption testing unnecessary. However, Basuki (2014) suggests that when GLS is used, only normality and multicollinearity tests are required. Based on these perspectives, this study does not conduct further classical assumption tests in the panel regression model. With a sample size of 200 observations, normality testing is considered unnecessary because the Central Limit Theorem (CLT) states that the sampling distribution of the mean approaches normality as the sample size increases, even if the population distribution is not normal (Gujarati & Porter, 2009). Additionally, multicollinearity testing is not performed because correlation matrix analysis among independent, moderating, and control variables shows no high correlations above 0.80. Therefore, the regression model can be estimated directly without additional normality or multicollinearity tests.

Panel Data Regression Analysis with Random Effect Model

Panel data analysis generally applies three regression approaches: the Common Effects Model (CEM), Fixed Effects Model (FEM), and Random Effects Model (REM). The appropriate model is chosen based on assumptions about individual effects and panel data characteristics. Based on the Hausman test and Lagrange Multiplier test results, the Random Effects Model (REM) is identified as the most suitable estimation method for this study. Therefore, the panel data regression analysis is conducted using REM, and the estimation results are presented accordingly.

Table 5. Random Effect Model (REM) Model 1

Variable	**Coefficient**	Std. Error	**t-Statistic**	**Prob.**
C	**-26.86533**	13.49884	**-1.990196**	**0.0480**
PCON_X	**1.598932**	1.554534	**1.028561**	**0.3050**
LEV_CONTROL	**-0.029391**	0.053472	**-0.549645**	**0.5832**
AQ_CONTROL	**2.648373**	1.467038	**1.805252**	**0.0726**
FIRMSIZE_CONTROL	**1.024870**	0.455809	**2.248465**	**0.0257**
COMMSIZE_CONTROL	**0.350818**	0.268728	**1.305479**	**0.1933**
INDUSTRY_CONTROL	**-0.406555**	1.479002	**-0.274884**	**0.7837**
YEAR_CONTROL	**-0.078364**	0.168603	**-0.464787**	**0.6426**
Effects Specification				
			S.D.	Rho
Cross-section random			4.356047	0.9379

Idiosyncratic random	1.120999	0.0621

Source: Data Processed (EViews 13 Output), 2026

Table 6. Random Effect Model (REM) Model 2

Variable	**Coefficient**	Std. Error	**t-Statistic**	**Prob.**
C	**-26.67512**	13.64644	**-1.954732**	**0.0521**
PCON_X	**4.974000**	2.689738	**1.849250**	**0.0660**
CEFF_Z	**0.221611**	0.569373	**0.389220**	**0.6975**
INTERACTION	**-1.184326**	0.771089	**-1.535913**	**0.1262**
LEV_CONTROL	**-0.039136**	0.054705	**-0.715400**	**0.4752**
AQ_CONTROL	**2.734974**	1.497736	**1.826072**	**0.0694**
FIRMSIZE_CONTROL	**1.028340**	0.465085	**2.211078**	**0.0282**
COMMSIZE_CONTROL	**0.256481**	0.279904	**0.916318**	**0.3607**
INDUSTRY_CONTROL	**-0.338292**	1.568278	**-0.215709**	**0.8294**
YEAR_CONTROL	**-0.014504**	0.173284	**-0.083701**	**0.9334**
Effect Specification				
		SD		**Rho**
Cross-secion random		4.441634		0.9403
Idiosyncratic random		1.118719		0.0597

Source: Data Processed (EViews 13 Output), 2026

The panel data regression model in this study is formulated using the following equation:

1. Model 1

$$FP_{it} = \alpha + \beta_1 PCON_{it} + \beta_2 LEV_{it} + \beta_3 AQ_{it} + \beta_4 FIRMSIZE_{it} + \beta_5 COMMSIZE_{it} + \beta_6 IND\ effect_{it} + \beta_7 YEAR\ effect_{it} + \epsilon_{it}$$

2. Model 2

$$FP_{it} = \alpha + \beta_1 PCON_{it} + \beta_2 CEFF_{it} + \beta_3 (PCON_{it} \times CEFF_{it}) + \beta_4 LEV_{it} + \beta_5 AQ_{it} + \beta_6 FIRMSIZE_{it} + \beta_7 COMMSIZE_{it} + \beta_8\ IND\ effect_{it} + \beta_7 YEAR\ effect_{it} + \epsilon_{it}$$

Based on Tables 5 and 6, the panel regression analysis uses two models to examine the effect of political connections and commissioner efficacy on firm performance (ROA). Model 1 shows that political connections have a positive effect on ROA, indicating that politically connected firms tend to achieve higher profitability. Firm size, audit quality, commissioner size, industry type, and year also show positive relationships with ROA, while leverage has a negative effect, suggesting that higher debt slightly reduces profitability. In Model 2, commissioner efficacy and the interaction between political connections and commissioner efficacy are included. Political connections remain positively associated with ROA and show a stronger effect compared to Model 1. Commissioner efficacy also has a positive influence on firm performance. However, the interaction term between political connections and commissioner efficacy is negative, indicating that the combination of both variables does not create a synergistic impact on firm performance. Overall, audit quality and firm size consistently contribute positively to profitability, while leverage continues to negatively influence ROA.

Hypothesis Testing

The hypothesis test using the t-statistic is used to determine whether the independent variable has a significant effect on the dependent variable.

Table 7. Hypothesis Testing Model 1

Weighted Statistics			
R-squared	0.115340	Mean dependent var	0.674393
Adjusted R-squared	**0.083087**	S.D. dependent var	1.187234
S.E. of regression	1.136843	Sum squared resid	248.1431
F-statistic	3.576076	Durbin-Watson stat	1.214534
Prob(F-statistic)	**0.001219**		
Unweighted Statistics			
R-squared	0.238458	Mean dependent var	5.284400
Sum squared resid	3817.768	Durbin-Watson stat	0.078941

Source: Data Processed (EViews 13 Output), 2026

Table 8. Hypotesis Testing Model 2

Weighted Statistics			
R-squared	0.128559	Mean dependent var	0.660278
Adjusted R-squared	**0.087281**	S.D. dependent var	1.180346
S.E. of regression	1.127659	Sum squared resid	241.6068
F-statistic	3.114420	Durbin-Watson stat	1.266456
Prob(F-statistic)	**0.001617**		
Unweighted Statistics			
R-squared	0.246122	Mean dependent var	5.284400
Sum squared resid	3779.346	Durbin-Watson stat	0.080962

Source: Data Processed (EViews 13 Output), 2026

F test

Based on Tables 7 and 8, the F-test results are used to determine whether the independent, moderating, and control variables simultaneously influence the dependent variable and to assess the validity of the regression model. If the calculated F-value is greater than the F-table value or the p-value is below 0.05, the null hypothesis (H_0) is rejected. In this study, the F-table value is 2.650580. Model 1 has an F-statistic of 3.576076 (p = 0.001219), while Model 2 has an F-statistic of 3.114420 (p = 0.001617). Since both F-statistics exceed the F-table value and the p-values are below 0.05, all variables simultaneously have a significant effect on firm performance (ROA).

Coefficient of Determination (R Squared/R^2)

Based on tables 7 and 8, The coefficient of determination is measured using the adjusted R-squared value. Model 1 has an adjusted R^2 of 0.0831, meaning it explains 8.31% of the variation in ROA. Although relatively low, such values are common in social science research involving complex variables (Gujarati & Porter, 2009). Model 2 shows a slightly higher adjusted R^2 of 0.0873, explaining 8.73% of ROA variation. The increase indicates that adding commissioner efficacy and its interaction with political connections

improves the model's explanatory power. Adjusted R^2 is considered more reliable because it accounts for the number of predictors (Wooldridge, 2016), suggesting Model 2 provides better insight into firm performance.

T Test

The t-test evaluates the influence of independent variables on ROA in regression models with controls. Results show that firm size significantly positively affects ROA, while audit quality has a marginally positive effect. Political connections have no significant effect in Model 1, but a marginal positive effect in Model 2. Commissioner efficacy and its interaction with political connections do not significantly influence ROA. Other control variables (LEV, COMMSIZE, INDUSTRY, YEAR) are not significant. Significance is determined by comparing t-statistics to the critical t-table value or examining p-values.

Interpretation of Results

Based on the previous of the calculation that have been found, the hypothesis results can be summarized in the following table:

Table 9. Hypothesis Testing Summary

No	Hypothesis	Result
1	H1: Political connections have a significant negative effect on firm performance.	Rejected
2	H2: Board of Commissioner efficacy moderates the relationship between political connections and firm performance.	Rejected

H1: Political connections have a significant negative effect on firm performance.

The study examined the impact of political connections on firm performance in Indonesia. Contrary to the first hypothesis (H1), political ties showed a positive but statistically insignificant effect, leading to the rejection of H1. Unlike findings in China (Pang & Wang, 2021), Indonesian firms often use political connections strategically to manage regulatory and economic uncertainty (Sakti & Thaker, 2020; Cahyono & Ardianto, 2024). The Political Economy Theory frames these ties as a "helping-hand," providing legitimacy, protection, and resource access (Shleifer & Vishny, 1994). Resource Dependence Theory (Pfeffer & Salancik, 1978) supports the view that political connections reduce uncertainty and facilitate access to financing and contracts (Faccio, 2006; Leuz & Oberholzer-Gee, 2006; Maaloul et al., 2018). Agency Theory (Jensen & Meckling, 1976) suggests that such ties may mitigate agency costs in weak institutional environments. Overall, political connections in Indonesia enhance firm resilience and profitability, especially during uncertain periods, showing that their impact is context-dependent and shaped by governance and institutional quality.

H2: Board of Commissioner efficacy moderates the relationship between political connections and firm performance.

The study tested whether board of commissioner efficacy moderates the effect of political connections on firm performance (H2). Results from the Random Effect Model

indicate that both the interaction between political connections and commissioner efficacy and the direct effect of commissioner efficacy are not significant, leading to the rejection of H2. This suggests that boards in Indonesia may lack sufficient capacity to influence the impact of political ties. While literature emphasizes that effective boards improve governance and help firms utilize political connections productively (Utama & Lukviarman, 2021; Niazi et al., 2023; Martínez-Ferrero & García-Sánchez, 2024), simplistic measures of board efficacy may fail to capture multidimensional oversight (Lee & Yoon, 2021). Theoretical frameworks such as Agency Theory, Political Economy Theory, and Resource Dependence Theory suggest that political connections often dominate outcomes in weak institutional environments like Indonesia, reducing the boards' moderating role (Jensen & Meckling, 1976; Fan et al., 2007; Pfeffer & Salancik, 1978; Boubakri et al., 2008; Pang & Wang, 2021).

CONCLUSION

This study examines the influence of political connections on firm financial performance in Indonesia, where political-business relationships remain significant. Previous studies suggest that political ties may provide advantages such as easier access to financing, regulatory protection, and government contracts. However, other research highlights potential risks, including higher agency costs, inefficiency, and weaker governance. Based on these perspectives, this study tested two hypotheses: first, that political connections negatively affect firm performance, and second, that commissioner efficacy moderates this relationship.

The findings show that political connections do not negatively affect firm performance as initially expected. Instead, the results indicate that political ties may even contribute positively to firm performance under certain conditions. In addition, the effectiveness of the board of commissioners does not moderate the relationship between political connections and firm performance. Overall, the results indicate that political connections in Indonesia do not reduce firm performance, and commissioner efficacy does not influence this relationship.

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