

THE EFFECT OF POLITICAL CONNECTIONS ON FINANCIAL PERFORMANCE: AN EMPIRICAL STUDY OF STATE-OWNED ENTERPRISES LISTED ON THE INDONESIAN STOCK EXCHANGE

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Abstract

This study examines the influence of political connections on the financial performance of state-owned enterprises (SOEs) listed on the Indonesia Stock Exchange. Political connections are considered an external factor that may provide firms with strategic advantages, such as access to government projects, regulations, and financial support, but may also create governance risks. The research employed a quantitative method with a descriptive-associative approach, using panel data from 15 SOEs over the 2020–2023 period. Data were collected from annual reports and financial statements, while financial performance was measured by Return on Assets (ROA). The results of regression analysis indicate that political connections have a positive and significant effect on financial performance, implying that the presence of politically connected individuals within the board of directors or commissioners enhances efficiency and profitability. These findings confirm the hypothesis that political connections play a strategic role in shaping SOEs' financial outcomes. The study concludes that while political connections can be an intangible asset, their benefits should be balanced with strong corporate governance to minimize risks of political dependency and conflicts of interest.

Keywords: Political connections, financial performance, corporate governance, ROA

Abstrak

Penelitian ini mengkaji pengaruh koneksi politik terhadap kinerja keuangan Badan Usaha Milik Negara (BUMN) yang terdaftar di Bursa Efek Indonesia. Koneksi politik dipandang sebagai faktor eksternal yang dapat memberikan keuntungan strategis bagi perusahaan, seperti akses terhadap proyek pemerintah, regulasi, dan dukungan pendanaan, tetapi juga berpotensi menimbulkan risiko tata kelola. Penelitian ini menggunakan metode kuantitatif dengan pendekatan deskriptif-asosiatif, menggunakan data panel dari 15 BUMN pada periode 2020–2023. Data diperoleh dari laporan tahunan dan laporan keuangan, sementara kinerja keuangan diukur dengan Return on Assets (ROA). Hasil analisis regresi menunjukkan bahwa koneksi politik berpengaruh positif dan signifikan terhadap kinerja keuangan, yang berarti keberadaan individu dengan latar belakang politik dalam dewan direksi atau komisaris mampu meningkatkan efisiensi dan profitabilitas perusahaan. Temuan ini mengonfirmasi hipotesis bahwa koneksi politik berperan strategis dalam membentuk kinerja keuangan BUMN. Penelitian menyimpulkan bahwa koneksi politik dapat menjadi aset tak berwujud, namun manfaatnya perlu diseimbangkan dengan tata kelola perusahaan yang baik untuk meminimalkan risiko ketergantungan politik dan konflik kepentingan.

Kata kunci: Koneksi politik, kinerja keuangan, tata kelola perusahaan, ROA.

Introduction

Financial performance is a key indicator for assessing the effectiveness and efficiency of a company's resource management. In the context of State-Owned Enterprises (SOEs), the evaluation of financial performance isn't just about internal profitability; it also reflects the accountability of public asset management and the level of public trust in the transparency of state-owned companies. Despite receiving regulatory support, subsidies, and access to national strategic projects, the performance of several SOEs listed on the Indonesia Stock Exchange (IDX) still shows fluctuations, raising questions about the factors determining their financial performance. One external factor that has recently received significant attention is political connections, namely the involvement of individuals with political backgrounds in the company's managerial ranks and board of commissioners.

Previous studies have yielded diverse results regarding the relationship between political connections and financial performance. Utamaningsi (2020) and Malini & Puspa, 2022 found that political connections have a positive impact because they provide companies with access to strategic resources, state funding, and priority projects. Conversely, research by Rahmawati et al., 2022 and Pratiwi & Hariyati, 2024 indicates that political connections can actually have a negative or insignificant implication, due to the potential for conflicts of interest and weak managerial independence. Other findings are also varied: some state that political connections increase a company's value (Patriarini, 2020), while others suggest that their influence is inconsistent in certain sectors, such as mining and banking (Azizah & Al Amin, 2020; Pramudia et al., 2025). This difference in findings indicates a research gap that needs further investigation, especially in the context of SOEs that have a dual role as both a business entity and a public interest organizer.

Based on this review, the article asserts its scientific novelty in two key areas. First, this study focuses its analysis on State-Owned Enterprises (SOEs) in Indonesia, which have been relatively under-researched despite their strategic contributions to the national economy. Second, it integrates three main theoretical perspectives Agency Theory, Resource Dependence Theory, and the Resource-Based View to provide a more comprehensive understanding of how political connections can function as both a strategic asset and a potential liability for corporate performance. With this approach, the research is expected to reconcile the differences in previous findings and contribute to both academic literature and corporate governance practices.

In a business environment filled with uncertainty, companies often rely on external factors to strengthen their competitiveness and ensure sustained performance. One such external factor that has received much attention is political connections. From an Agency Theory perspective, the involvement of political figures in corporate management can create a conflict of interest, although it can also strengthen the oversight function. According to Resource Dependence Theory, political

connections provide access to government projects, permits, and regulatory support, though excessive dependence can create risks when political changes occur. Meanwhile, from a Resource-Based View (RBV), political connections can be considered an intangible strategic asset that provides a sustainable competitive advantage if managed professionally, but can become a liability if they encourage corruption, collusion, and nepotism.

Based on this framework, the study positions political connections as the independent variable and financial performance measured by Return on Assets (ROA) as the dependent variable. ROA was chosen because it effectively represents a company's ability to manage its assets to generate profit efficiently. Conceptually, this research tests the direct relationship between political connections and the financial performance of SOEs. The research hypothesis is that political connections have an influence on the financial performance of SOEs listed on the Indonesia Stock Exchange.

Thus, the objective of this study is to empirically test the influence of political connections on the financial performance of SOEs in Indonesia. The results are expected to provide a theoretical contribution by enriching the literature on accounting and management regarding non-financial factors that affect financial performance, as well as a practical contribution for SOE management, the government, and investors in making more accurate, accountable, and sustainable decisions.

Research Method

This research employs a quantitative method with a descriptive and associative approach to test the hypothesis regarding the relationship between political connections and corporate performance, measured by Return on Assets (ROA). The primary objects of this study are political connections and corporate performance, while the subjects are State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX) during the period of 2020-2023. The data used in this study is quantitative panel data, which combines both time-series and cross-sectional data. This data was obtained from the companies' annual reports and financial statements. The secondary data source is the official website of the Indonesia Stock Exchange, www.idx.co.id.

The population for this study consists of 26 State-Owned Enterprises (SOEs) listed on the IDX from 2020 to 2023. Non-probability sampling with a purposive sampling approach was used to select the sample based on the following criteria;

1. The company is a State-Owned Enterprise (SOE) listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023.
2. The company consistently published its annual and financial reports throughout the observation period.
3. Complete data on the composition of the company's board of directors and commissioners is available for the political connection analysis.
4. The company did not experience a loss during the research period.

Based on these criteria, the final sample consists of 15 companies, resulting in a total of 60 data points when considering the four-year financial data (2020-2023) for each company. The companies selected are as follows;

Table 1. List of Research Samples

NO	CODE	COMPANY NAME	NO	CODE	COMPANY NAME
1	ANTM	Miscellaneous Mines	9	JSMR	Jasa Marga
2	BMRI	Bank Mandiri	10	PGAS	State Gas Company
3	BBNI	Bank Negara Indonesia	11	PTPP	PP
4	BBRI	Bank Rakyat Indonesia	12	SMBR	Semen Baturaja
5	BBTN	National Savings Bank	13	SMGR	Semen Indonesia
6	PTBA	Bukit Asam	14	TLKM	Telkom Indonesia
7	IPCC	Indonesia Vehicle terminal	15	TINS	Timah
8	IPCM	Indonesian Fleet Services			

Source: Processed data (2025)

This research has two variables: the independent variable (X) is political connections, and the dependent variable (Y) is financial performance, measured using Return on Assets (ROA). The research variables are explained in Table 2

Table 2. Research Variables

VARIABEL	DEFINITION / CONCEPT	INDICATOR	SCALE
POLITICAL CONNECTIONS (X)	Political connections are defined as a company having a board of commissioners / owners / directors with political ties; firm value as the dependent variable. (Nugrahanti & Nurfitri, 2022)	Political office history within the board of directors or commissioners Affiliation with political parties Military/government background 1 = Presence of a politically connected individual 0 = Absence of a politically connected individual	Dummy
FINANCIAL PERFORMANCE (Y)	Financial performance is a representation of a company's efficiency in utilizing all its assets to generate net income, measured using the Return on Assets ratio. (Ali et al., 2022)	<i>Return on Asset</i> (ROA) $= \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$	Rating

Source: Processed data (2025)

Data analysis was conducted using Eviews and Microsoft Excel software. A series of analyses and tests were performed, starting with classic assumption tests: Normality Test, Heteroscedasticity Test, Autocorrelation Test, and Multicollinearity Test. Once the data were confirmed to be normal, without heteroscedasticity, multicollinearity, or autocorrelation, the data processing continued with simple linear regression analysis, a partial hypothesis test, and the calculation of the coefficient of determination.

Results and Discussion

Descriptive Statistical Analysis

Descriptive analysis was performed using Eviews, and the results of the descriptive statistical analysis are as follows

Tabel 3. Descriptive Statistical Analysis Results

Variabel	N	Mean	Median	Minimum	Maximum	Hours of deviation
Political Connections (X)	60	0.333333	0	0	1	0.475383
Financial Performance (Y)	60	0.071375	0.05702	0.00191	0.28174	0.060587
Valid N (listwise)	60					

Source: Eviews 13 Output, 2025

Based on Table 3, it can be seen that:

1. The mean value for the political connection's variable is 0.333333, with a standard deviation of 0.475383. The minimum value for political connections is 0, while the maximum value from the descriptive statistical data processing is 1.
2. The mean value for the financial performance (ROA) variable is 0.071375, with a standard deviation of 0.060587. The minimum value for financial performance (ROA) was 0.00191 in 2020 at Bukit Asam. The maximum value from the descriptive statistical data processing occurred in 2022, also at Bukit Asam, which was 0.28174.

Linear Regression Analysis

Before conducting the regression analysis, a classic assumption test was performed, yielding the following results;

1. Normality Test: The test showed that this study's data is normally distributed, as the resulting probability value of 0.721523 is greater than 0.05.
2. Heteroscedasticity Test: Using the Likelihood Ratio method, a probability value of 0.9987 was obtained, which is greater than the 0.05 significance level. This indicates that the panel regression model does not suffer from heteroscedasticity between periods, meaning the error variance is relatively constant throughout the observation time.
3. Autocorrelation Test: The Durbin Watson (DW) value was 1.803409. Autocorrelation does not occur when the DW value is greater than -2 and less than 2. Therefore, it can be concluded that there is no autocorrelation in this study.
4. Multicollinearity Test: The VIF (Variance Inflation Factor) for Political Connections (X) was 1.00. A VIF value of less than 10 indicates that there is no multicollinearity problem in this research

Based on these results, the data can proceed to a simple regression analysis, with the following outcomes;

Table 4. Simple Linear Regression Analysis Results

Dependent Variable: Y				
Method: Panel Least Squares				
Date: 08/13/25 Time: 04:21				
Sample: 2020 2023				
Periods included: 4				
Cross-sections included: 15				
Total panel (balanced) observations: 60				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.049215	0.008244	5.970214	0.52608
X1	0.066477	0.014278	4.655848	0.00000

Source: Eviews 13 Output, 2025

Based on the calculation results in Table 4, the regression equation is as follows;

$$Y = 0.049215 + 0.066477X + \varepsilon$$

From this equation, the results can be interpreted as follows;

1. The constant value of 0.049215 means that if political connections remain unchanged, financial performance (Y) will have a value of 0.049215, which is significant at an alpha level of 5%.
2. The political connections coefficient of 0.066477 indicates that a 1% increase in political connections (X) will lead to an increase in financial performance (Y) by 0.066477 units.

Hypothesis Testing

Based on the data processing results from Table 4, the Partial Test (t-test) probability value for Political Connections is 0.00000. This value is less than 0.05, meaning that Political Connections (X) have a positive and significant effect on the Financial Performance variable (Y).

Discussion

The empirical finding that political connections exert a positive and significant effect on financial performance in State-Owned Enterprises (SOEs) provides an important contribution to the ongoing discourse on corporate governance and performance in emerging markets. The coefficient value of 0.066477 with a significance level well below the conventional threshold ($0.0000 < 0.05$) indicates that the presence of politically connected individuals within the managerial or supervisory structures of SOEs is not merely symbolic, but functionally impactful in enhancing financial outcomes. This relationship suggests that political embeddedness, when managed effectively, can become a strategic asset rather than a liability in the context of organizational performance.

From the perspective of Agency Theory, the presence of political actors in corporate governance structures can be interpreted as a mechanism that mitigates agency conflicts between principals and agents (Jensen & Meckling, 1976). In SOEs, where the government acts as the

principal, agency problems tend to be more complex due to multiple layers of accountability and the dual objectives of profitability and public service. Political connections may help align managerial actions with broader governmental interests by strengthening oversight and monitoring functions. The involvement of politically affiliated board members or executives can reduce information asymmetry, enhance transparency, and ensure that managerial decisions are consistent with both economic and policy objectives. Consequently, this alignment can lead to improved efficiency and better financial performance outcomes.

In addition to Agency Theory, Resource Dependence Theory offers a complementary explanation for the positive influence of political connections on firm performance. According to Pfeffer and Salancik (2003), organizations depend on external resources to survive and grow, and the ability to secure these resources is often determined by the firm's network and relationships. Political connections enable SOEs to access critical external resources such as government contracts, subsidies, favorable regulations, and strategic information. These advantages can significantly enhance a company's competitive position, reduce operational uncertainty, and improve financial stability. In the Indonesian context, where government involvement in the economy remains substantial, politically connected firms often enjoy preferential treatment in public procurement processes and regulatory approvals, thereby strengthening their financial performance.

Furthermore, the positive impact of political connections can also be analyzed through the lens of institutional theory. In environments characterized by institutional voids or regulatory inefficiencies, firms often rely on informal networks to navigate complex bureaucratic systems (North, 1990). Political connections can serve as an informal institutional mechanism that facilitates smoother interactions with government agencies, reduces transaction costs, and accelerates decision-making processes. This institutional advantage becomes particularly relevant in developing economies, where formal governance structures may not function optimally. Therefore, politically connected SOEs may exhibit superior performance due to their ability to effectively manage institutional constraints.

The findings of this study are consistent with the research conducted by Suryadi et al. (2024), which demonstrated that political connections in Indonesian SOEs enhance profitability by facilitating access to government projects and strategic resources. These results also align with broader empirical evidence from emerging markets, where political connections are often associated with improved firm performance due to preferential access to financing, protection from competition, and enhanced legitimacy (Faccio, 2006). Political ties can also signal credibility and stability to investors, thereby increasing investor confidence and potentially lowering the cost of capital.

However, it is important to acknowledge that the positive effects of political connections are not universally observed across all contexts. The findings contrast with the study by Hazim and

Mediawati (2023), which reported no significant relationship between political connections and firm performance. Such discrepancies may arise due to differences in research design, sample characteristics, measurement of political connections, or institutional contexts. In some cases, political connections may lead to inefficiencies, rent-seeking behavior, or excessive government intervention, which can negatively affect firm performance. Therefore, the impact of political connections is contingent upon how these relationships are managed and the extent to which they are aligned with organizational objectives.

Moreover, the role of political connections in enhancing financial performance must be understood within the broader governance framework of SOEs. While political ties can provide strategic advantages, they may also introduce potential risks, such as conflicts of interest, reduced managerial independence, and susceptibility to political interference. These risks highlight the importance of maintaining a balance between leveraging political connections and ensuring professional, transparent, and accountable corporate governance practices. Effective governance mechanisms, such as independent boards, robust internal controls, and performance-based incentives, are essential to mitigate the potential downsides of political involvement.

Another important dimension to consider is the impact of political connections on different aspects of financial performance. While the overall effect may be positive, the extent of this impact may vary across different performance indicators, such as profitability, efficiency, and market valuation. For instance, politically connected firms may experience higher profitability due to access to lucrative government contracts, but their operational efficiency may not necessarily improve if managerial discipline is compromised. Similarly, market perceptions of politically connected firms may be influenced by investor expectations regarding stability and government support, which can affect stock prices and market value.

The temporal context of the study also plays a crucial role in shaping the relationship between political connections and financial performance. During periods of economic uncertainty or crisis, such as the COVID-19 pandemic, political connections may become even more valuable as firms seek government support and policy interventions to sustain operations. In such situations, politically connected SOEs may have a comparative advantage in accessing financial assistance, regulatory relief, and strategic guidance from the government. This resilience can contribute to more stable financial performance during turbulent periods.

In the Indonesian economic landscape, the role of SOEs is particularly significant, as they are often entrusted with strategic sectors such as banking, telecommunications, energy, and infrastructure. The integration of political connections within these enterprises reflects the broader interplay between economic and political systems in the country. While this integration can enhance coordination between government policies and corporate strategies, it also necessitates careful

management to prevent inefficiencies and ensure that SOEs remain competitive in both domestic and global markets.

From a managerial perspective, the findings suggest that SOEs can benefit from leveraging political connections as a strategic resource, provided that these relationships are managed in a transparent and accountable manner. Managers should focus on aligning political ties with organizational goals, ensuring that access to external resources translates into tangible performance improvements. At the same time, efforts should be made to strengthen internal capabilities, such as innovation, operational efficiency, and risk management, to sustain long-term competitiveness.

From a policy perspective, the government plays a crucial role in shaping the impact of political connections on SOE performance. Policymakers should establish clear guidelines and governance frameworks that regulate the involvement of political actors in corporate management. This includes promoting merit-based appointments, enhancing transparency in decision-making processes, and implementing rigorous performance evaluation systems. By doing so, the government can ensure that political connections contribute positively to economic development without compromising corporate integrity.

In addition, the findings have implications for investors and stakeholders who evaluate the performance of SOEs. Understanding the role of political connections can provide valuable insights into the strategic positioning and risk profile of these enterprises. Investors may perceive politically connected firms as more stable due to government backing, but they should also consider potential governance risks associated with political influence. Therefore, a comprehensive assessment of both financial performance and governance quality is essential for informed investment decisions.

In conclusion, the positive and significant relationship between political connections and financial performance in SOEs underscores the complex and multifaceted role of political ties in corporate governance. By integrating insights from Agency Theory and Resource Dependence Theory, this study highlights how political connections can function as both a monitoring mechanism and a strategic resource that enhances firm performance. While the benefits of political connections are evident in terms of improved access to resources and reduced agency conflicts, it is essential to manage these relationships carefully to avoid potential risks and ensure sustainable value creation. The findings contribute to a deeper understanding of the dynamics of corporate performance in emerging markets and provide practical implications for managers, policymakers, and investors in optimizing the role of political connections in achieving organizational success.

Conclusion

The results of this study show that political connections have a positive and significant effect on the financial performance of Indonesian SOEs. This finding indicates that the involvement of individuals with political backgrounds in a company's management structure can provide strategic

advantages, particularly through easier access to public resources, government projects, and regulatory support, which ultimately drives an increase in efficiency and profitability. Thus, the research hypothesis is proven and the research objective is achieved, which is to confirm the role of political connections as a relevant external factor in determining the financial performance of SOEs, as measured by Return on Assets (ROA). The implications of these results confirm that political connections can be viewed as a valuable strategic resource for a company. However, optimizing its benefits still requires good governance practices to minimize potential risks, such as conflicts of interest and political dependence. For future research, it is necessary to expand the analysis by including other contextual variables, such as macroeconomic factors, government regulations, or governance mechanisms, to gain a more comprehensive understanding of the dynamics of the relationship between political connections and corporate financial performance.

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