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Political Connections, Business Groups, and Firm Value in Indonesia

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ABSTRACT: This study examines the impact of politically connected board directors on firm value, with business group affiliation serving as a moderating variable, focusing on Indonesian manufacturing firms. Drawing on agency theory and resource dependence theory, the research analyzes 318 observations from 106 listed companies between 2020 and 2022. Tobin's Q is used as a measure of firm value. The findings reveal that political connections alone do not significantly influence firm value (PCBOD = 0.421, PCBOD2 = 0.106), but their effect becomes positive and significant when moderated by business groups (PCBOD×BG = 0.006, PCBOD2×BG = 0.007). This implies that business group structures, particularly in family-controlled firms, can enhance the strategic value of political ties. The study is limited by its broad classification of political connections, without distinguishing their type or depth. Future research should examine more specific political affiliations and consider political dynamics across sectors.

Keywords: Political Connections, Business Groups, Firm Value, Board of Directors, Tobin's Q.

INTRODUCTION

Tobin's Q is a widely used indicator of firm value, reflecting market expectations by comparing the market value of a company's assets to their replacement cost. A higher Tobin's Q suggests that investors perceive strong future growth and profitability potential. Investors see excellent growth prospects and profitability potential when Tobin's Q exceeds 1, as the market value surpasses the cost of replacing the physical asset. (Chung & Pruitt, 2015).

According to agency theory, Tobin's Q reflects how effectively management (agents) creates value for shareholders (principals), but conflicts of interest and information asymmetry often hinder this alignment. In developing countries like Indonesia, political connections represent an external governance mechanism that can influence firm value, particularly amid weak regulatory institutions (Jensen and Meckling, 1976). Beyond internal governance factors, external elements like corporate political connections also significantly influence Tobin's Q values (Joseline et al., 2021), illustrating how the institutional context affects market valuation estimates.

Prior research presents mixed evidence: some studies find that politically connected firms gain easier access to financing and government contracts, while others reveal that such connections can lead to inefficiencies and agency problems. However, few studies have examined how political connections interact with internal ownership structures, especially family-controlled business groups to shape firm value. This study addresses that gap by analyzing the Indonesian context, where family firms and conglomerates remain dominant and politically engaged (Azizah & Al Amin, 2020).

The Danantara case illustrates the strong presence of political connections within the governance structure of state-owned enterprises. As a state asset holding company, PT Danantara has appointed several political figures and active officials, including Minister of State-Owned Enterprises Erick Thohir as Chairman of the Supervisory Board and Deputy Minister Dony Oskaria as Chief Operating Officer. These appointments have drawn criticism for prioritizing political affiliation over professional competence, raising concerns about potential conflicts of interest, weak corporate governance, and risks of corruption similar to the 1MDB scandal in Malaysia. This situation highlights how political ties within the boardroom can undermine the independence, transparency, and credibility of public companies (Merdeka.com). According to Fitria Asas and colleagues, companies with political ties tend to secure government resources more easily, which ultimately enhances firm value, including environmental aspects. Moreover, political connections strengthen a company's position in shaping regulations that favor their business activities re (Asas et al., 2022).

In the business context, political connections are an external factor that can influence a firm's value. These connections are often manifested by the involvement of board members who have direct ties to political actors, such as through formal positions or familial relationships. (Faccio, 2019) reveals that politically connected firms tend to benefit from advantages such as access to government contracts, regulatory protection, and easier financing. However, the impact of political connections on firm value remains a subject of debate, as their effects can be either positive or negative, depending on the prevailing economic conditions and the country's institutional framework. From an agency theory perspective, the relationship between firm owners (principals) and managers or directors (agents) frequently gives rise to conflicts of interest. Although owners expect agents to act in the company's best interests, differences in objectives and information asymmetry may lead agents to make decisions that benefit themselves at the expense of the owners. This situation gives rise to what is known as agency costs (Jensen and Meckling, 1976).

This study argues that the presence of politically connected board members may reduce firm value. For example, (Fisman, 2001) examined the impact of political connections on firm value by analyzing market reactions to news about the health condition of former Indonesian President Suharto. The findings revealed that firms with political ties experienced a significantly greater decline in value compared to those without such connections.

On the other hand, several studies indicate that politically connected boards can enhance firm value. Research by (Boubakri et al., 2009); (Wu et al., 2012); (Liu et al., 2018) has found that political connections provide advantages such as easier access to resources, information, and business opportunities. Additionally, these ties can strengthen a company's position in navigating regulations and bureaucracy. In this context, political connections act as a mechanism to reduce external uncertainty and risk, aligning with Resource Dependence Theory. This theory suggests that firms often appoint board members with political connections to mitigate dependence on an uncertain external environment. By doing so, firms can improve their legitimacy and operational stability (Hillman et al., 2009).

Family ownership refers to a situation where a company is owned and managed entirely or partially by family members. Direct involvement of family in management often positively influences firm value because family owners are typically actively engaged in daily operations, which allows for closer oversight. This involvement helps identify and address issues early, such as inefficient decision-making or opportunistic behavior by management. From an agency theory perspective, this setup can lower agency costs by reducing supervision problems and asymmetry of information between owners (principals) and managers (agents) (Komalasari & Nor, 2014). Meanwhile, a business group is a set of companies linked through ownership or control, usually under a single parent such as a family, foundation, or conglomerate. Although each company within the group may be a separate legal entity, they are typically managed in a coordinated way, often sharing resources, internal financing, market networks, and information. In many developing countries, including Indonesia, business group structures have developed as a response to institutional weaknesses, like inefficient financial markets or limited investor protections. As a result, these groups act as an alternative way for firms to access capital, lower risk, and grow their operations (Khanna & Yafeh, 2010).

Family ownership and the presence of companies within business groups are two critical characteristics of corporate structures in developing countries, including Indonesia, that can significantly influence firm value. Family firms are often associated with stronger managerial oversight and a long-term orientation, enabling them to create greater value for shareholders (Anderson & Reeb, 2003). However, family ownership also carries the potential for conflicts of interest between majority owners and minority shareholders, especially when governance mechanisms are ineffective (Claessens et al., 2000). Additionally, companies affiliated with business groups benefit from broader access to internal resources, financing, and market networks, which can enhance operational efficiency and firm value (Khanna & Yafeh, 2010). On the other hand, complex business group structures can be exploited for entrenchment or tunneling purposes, transferring resources among affiliated firms for particular interests, which may harm minority shareholders (R. La Porta et al., 1999). Therefore, the impact of family ownership and business group affiliation on firm value largely depends on the effectiveness of internal governance and the institutional environment regulating transparency and investor protection.

In the context of family firms and business groups, the presence of politically connected board members acts as a strategic factor that can either strengthen or weaken firm value. Political connections offer advantages, including access to state resources, licensing, and regulatory protection, especially in developing countries with relatively weak institutional frameworks (Faccio, 2019). Within family-owned companies, political ties held by the board are often leveraged to sustain the business and expand power networks for long-term interests. However, when family ownership becomes overly dominant without adequate oversight mechanisms, these political connections may lead to conflicts of interest and inefficient decision-making practices (Fan et al., 2007). A similar dynamic applies to firms within business groups, where political connections can either reinforce synergy among affiliated companies or be exploited for resource tunneling to benefit controlling parties. Therefore, the interplay of political connections, family ownership, and business group structure does not always create added value; its impact on firm value largely depends on the quality of governance and accountability exercised within the company.

The interplay between family ownership, business group affiliation, and political connections on the board of directors can be better understood through the lens of agency theory. Agency theory explains that conflicts of interest may arise between management (agents) and shareholders (principals), particularly when their objectives are not aligned. In family firms, concentrated ownership is often seen as a mechanism to reduce Type I agency conflicts—those between managers and owners—since family members have long-term incentives to preserve firm value (Jensen and Meckling, 1976). However, this structure can give rise to Type II agency conflicts, which occur between majority shareholders (the family) and minority shareholders, especially if controlling owners exploit corporate resources for personal gain, such as through leveraging political connections (Villalonga & Amit, 2004). Within business group structures, incentives to manage firms efficiently may be further distorted by opportunities to transfer resources among subsidiaries in ways that do not equally benefit all shareholders. The presence of politically connected board members in such contexts can serve as a strategic tool to strengthen the family or group's control over business interests, but also raises the risk of entrenchment practices. Therefore, according to agency theory, the combined impact of political connections, family ownership, and business group structure on firm value largely depends on the balance between effective control and the potential for power abuse (Layyinaturrobaniyah et al., 2014).

Prior studies reveal that business groups influence firm value, though this effect is not consistent across all industry sectors. In innovation-intensive industries such as technology and pharmaceuticals, business groups tend to hinder innovation due to their focus on stability and preservation of the status quo (Gomez-Mejia et al., 2001). Conversely, in more conservative or traditional industries, business groups demonstrate a positive correlation with firm value owing to their long-term orientation and focus on business sustainability (Zahra, 2003).

This study offers a novel contribution by specifically examining the role of politically connected boards of directors on firm value, while positioning business group affiliation as a moderating variable within the context of Indonesian companies. This study contributes to the literature by revealing that the moderating effect of business groups on the relationship between political connections and firm value in Indonesian manufacturing firms differs from prior studies that found null or even negative moderation. While earlier research by (Tangke, 2019) did not identify a significant moderating effect, our findings underscore that business groups can transform political connections into value-enhancing mechanisms. This deviation highlights the unique governance structures in Indonesia that potentially mitigate agency costs and amplify the strategic benefits of political ties. By employing a dual theoretical framework, resource dependence theory and agency theory, this article provides deeper insights into the complex relationships among political actors, ownership structures, and corporate governance in developing countries. The findings are expected to make a meaningful contribution to corporate governance literature, particularly regarding strategies to optimize firm value through the synergy between political connections and business group structures within Indonesia's unique institutional environment.

Prior studies provide mixed evidence on whether political connections enhance or harm firm value, and few have explored how business groups might moderate this relationship. Therefore, this study addresses the research question: "Do political connections on the board increase firm value, and how is this relationship moderated by business group affiliation in Indonesian manufacturing firms?"

Theoretical Framework

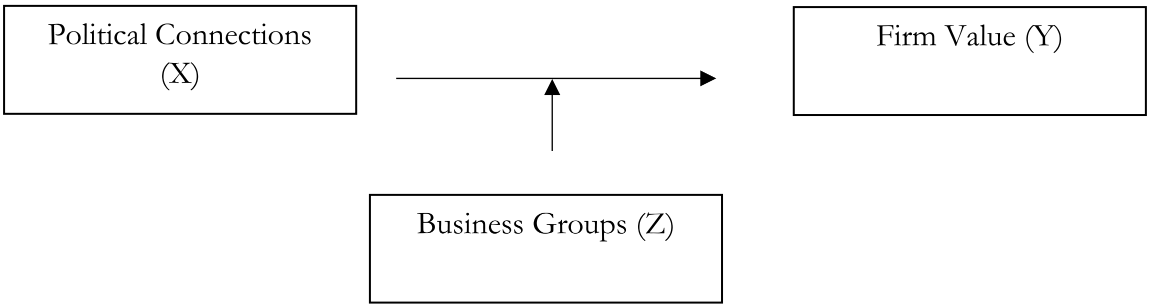
Firm value serves as a key indicator for assessing the success of strategies in managing resources, including the effective utilization of political connections. One common measure of this performance is the market-based indicator Tobin's Q ratio (Ding et al., 2014). Research by (Wu et al., 2012) and (Liu et al., 2018) indicates that political connection can improve market outcomes, especially in countries where regulations are less effective. This study employs Tobin's Q, as formulated by (Lindenberg & Ross, 1981), to assess firm value. A Tobin's Q exceeding 1.00 signifies promising investment opportunities, strong growth potential, and favorable market perceptions of management's ability to utilize company assets efficiently. Generally, a higher Tobin's Q indicates greater firm value. (Momon et al., 2021).

Formal and informal ties between corporate board members and political figures, such as lawmakers, government officials, or members of the armed forces, are referred to as political linkages (Faccio, 2019) (Fan et al., 2007). In developing countries like Indonesia, firms often leverage these political ties as a strategic response to legal uncertainties and unstable regulatory environments (Hillman et al., 2009).

According to Resource Dependence Theory (RDT) (Pfeffer & Salancik, 1978), Organizations under pressure from their external environment look to players with crucial resources—in this case, political elites to help them obtain permits, contracts, or legal protection. Within this framework, political connections serve as strategic assets that can enhance firm value by reducing uncertainty and creating business opportunities (Agrawal & Knoeber, 2001); (Boubakri et al., 2009). However, political connections may result in conflicts of interest between shareholders and management (Jensen and Meckling, 1976). The presence of politicians on boards of directors or commissioner risks decisions being influenced more by personal or party interests rather than those of the company, potentially harming minority shareholders (Fan et al., 2007); (Faccio, 2019).

Family business groupings occur when families own a majority of a company's shares and actively manage it. This ownership significantly influences the firm's strategic direction, including the use of political connections. According to (Anderson & Reeb, 2003), family firms typically adopt a long-term orientation, striving to preserve their reputation and ensure business continuity across generations. Consequently, they tend to be more selective and strategic in leveraging political ties, utilizing them only when they genuinely support long-term performance. However, an alternative perspective suggests that, in some cases, family-owned business groups may exploit political connections for the personal benefit of the family rather than the interests of all shareholders. Such actions can reduce corporate efficiency and harm minority shareholders (Claessens et al., 2000).

Conceptual Framework



Hypothesis Development

The Influence of Political Connections Board of Directors on Firm Value

However, political connections can create a moral hazard if management exploits them for personal or group gain, often leading to biased decisions and projects that benefit only a privileged few. (Fan et al., 2007) Found that companies with political ties typically perform worse following their initial public offering (IPO).

Generally, political connections in a corporate context refer to relationships between firms and influential political figures, such as government officials or legislators. Empirical research suggests political connections have mixed effects on corporate value. (Maaloul et al., 2018), For example, previous research discovered that political connections can enhance shareholder wealth and business performance. Similarly, a study conducted in Indonesia by (Maulana, 2019) found a strong positive correlation between corporate value and political connections. On the other hand, (Fisman, 2001), who studied how the market responded to reports regarding the health of former President Suharto, discovered that enterprises with political connections had greater performance drops than firms without such connections.

Furthermore, (Tangke, 2019) showed that while political connections do not directly affect firm value, they do have a favorable and significant impact on corporate social responsibility. This implies that political connections may influence a company's other operational facets, which may eventually have an indirect impact on firm value. Overall, the research shows that political connection has a variety of effects on firm value, depending on the economic climate and context.

H1: Political connections on the board positively affect firm value

Business Group Moderates the Effect of Political Connections Boards of Directors on Firm Value

In developing nations like Indonesia, family ownership is closely intertwined with the structure of family business groups, where families control most enterprises and manage networks of businesses within both formal and informal groupings (Najahiyah et al., 2022). This model enables cross-entity efficiencies and strong strategic and operational control through internal finance, resource sharing, and business synergies. (Xavier et al., 2020).

Politically connected board members play a crucial role in corporate governance, especially in countries with weak institutional frameworks. Politically connected directors are believed to facilitate access to state resources, lower regulatory costs, and offer protection against government interference. Earlier studies suggest that political ties can increase a company's value, particularly in ineffective regulatory environments. However, these benefits are not available to everyone, as ownership structures and company control mechanisms significantly influence the effectiveness of political connections. According to agency theory, having political connections on the board may provide strategic advantages, but without strict oversight, it can also lead to conflicts of interest. Directors in companies with dispersed ownership might exploit their political ties for personal gain. Conversely, in family-owned and controlled businesses, especially those within family business groups, the controlling family is motivated to ensure that political connections are used to advance the long-term interests of the family and the group as a whole. (Kinger-Hans et al., 2024).

Therefore, family ownership in a business group can significantly influence firm behavior. As controllers, families are incentivized to increase firm value because their wealth and prestige are tied to the company's success. On the other hand, more controlled and strategic exploitation of political connections is made possible by direct family supervision. Therefore, the degree of family influence inside the business group structure will determine how much of an impact political links on the board have on the firm's worth.

While family ownership offers advantages, agency theory highlights potential drawbacks, such as illogical decisions arising from internal conflicts or emotions. The family's complete authority in these circumstances could impede the best possible decision-making. Inefficiencies can also result from nepotistic practices, such as assigning family members to administrative roles without considering their qualifications. Agency costs increase when unqualified individuals are appointed due to familial interests overriding the firm's best interests in decision-making (Morck et al., 1988).

Several prior studies have examined the influence of business groups on firm value, but their findings remain mixed, creating an intriguing empirical gap for further research. For example, (Anderson & Reeb, 2003) found that family businesses often exhibit greater profitability and firm value than non-family businesses. However, they also cautioned that conflicts of interest and managerial skill gaps during generational transitions can diminish firm value. Thus, while family business groups can offer a competitive edge, careful management of governance and succession is crucial to preserving firm value.

(Villalonga & Amit, 2004) Demonstrated that the effect of business groups on firm value heavily depends on the level of family involvement in management. When families are actively involved in management, firm value tends to improve due to tighter oversight and aligned interests between owners and managers. Conversely, if families act merely as passive owners without managerial engagement, firms risk performance declines due to ineffective control.

One study found that political connections within family firms can offer several benefits, such as easier access to financing and protection against political risks (Wu et al., 2012). However, these advantages often come with additional risks, including reduced transparency and agency conflicts between majority family shareholders and minority shareholders.

> H2: Business group affiliation strengthens the positive effect of board political connections on firm value.

METHOD

This research adopts a quantitative explanatory approach to empirically test the influence of politically connected board members on firm value and the moderating role of business group affiliation. The linear regression model is chosen as the primary analytical tool because it effectively captures the linear relationships between variables and allows for the inclusion of interaction terms to test moderation effects (Baig et al., 2023). This approach is suitable for examining firm-level panel data, as it controls for multiple firm characteristics simultaneously and supports causal inference within observational datasets.

The sample was selected using purposive sampling with clearly defined criteria to ensure data consistency and relevance: (1) manufacturing firms listed on the Indonesia Stock Exchange during 2020–2022, (2) availability of complete financial and governance data, (3) financial statements reported in Indonesian Rupiah, and (4) public accessibility of reports. To mitigate potential selection bias and enhance the representativeness of the sample, the study applied consistent filtering across all observations and verified the presence of politically connected directors through triangulation from multiple data sources, including company websites and public announcements.

This method follows (Baig et al., 2023), who stress the need for consistent and representative data in panel analysis. Applying these criteria helps ensure valid and generalizable findings for Indonesia's manufacturing sector. The sample consists of 318 firm-year observations from 106 companies over the period 2020 to 2022. Companies were further selected based on the presence of politically connected board members, identified by reviewing board profiles in the companies' annual reports.

This study relies on secondary data, including financial and corporate governance information. Financial data were gathered from the annual reports of firms listed on the Indonesia Stock Exchange (IDX) between 2020 and 2022, which were accessible via the official IDX and company websites. The reports identified control factors including loss, leverage, firm size, and firm age. Corporate governance data, including political connections and business group affiliations, were gathered from the governance sections of the annual reports to examine the relationship between the independent and dependent variables (Huguet & Gandía, 2014).

This study collected data through a documentation method in three steps. The researcher gathered accurate and reliable data from financial statements and annual reports on the Indonesia Stock Exchange (IDX) website and company websites. (Roychowdhury, 2006). Second, a data selection process was conducted, where only companies meeting the sample criteria were analyzed, including the requirement that financial reports be presented in Indonesian Rupiah (IDR). This criterion was applied to maintain consistency in variable measurement (Joni et al., 2020a). Third, the collected data were processed and analyzed using suitable statistical techniques to test the study's hypotheses. This method enabled precise measurement of political connections and business group roles within corporate governance. The analysis was conducted using SPSS software to answer the research questions and verify the hypotheses.

Table 1. Operational Definition and Variable Measurement

Variable		Measurement	Source
Dependent Variable (Firm Value)	Tobins Q	$Q = \frac{MVE}{TA}$	(Joni et al., 2020a)
Independent variables	PCBOD	The proportion of board members with political connections relative to the total number of board members.	(Joni et al., 2020)
	$PCBOD^2$	The proportion of board members with higher political connections relative to the total number of board members.	
Moderation variables	Business Group	A dummy variable coded as 1 if family ownership includes a business group, and 0 if it does not	(Joni et al., 2020a)
Control variables	Firm Size	$Ln(Total\ Assets)$	(Joni et al., 2020b)
	Leverage	$\frac{\text{TOTAL DEBT}}{\text{TOTAS ASET}}$	(Joni et al., 2020b)
	Firm Age	Reporting year – Company year	(Joni et al., 2020b)
	Loss	A dummy variable coded as 1 if the company reports a loss, and 0 otherwise.	(Joni et al., 2020b)

The equation used to test hypotheses 1 and 2 is as follows:

$$\boldsymbol{Tobins\ Q = \beta_0 + \beta_1 PCBOD + \beta_2 PCBOD^2 + \beta_3 LEV + \beta_4 FSIZE + \beta_5 LOSS + \beta_6 FAGE + \varepsilon_{it}} \quad (1)$$

$$\boldsymbol{Tobins\ Q = \beta_0 + \beta_1 PCBOD + \beta_2 PCBOD^2 + \beta_3 BG + \beta_4 PCBOD * BG + \beta_5 PCBOD^2 * BG + \beta_5 LEV + \beta_6 FSIZE + \beta_7 LOSS + \beta_8 FAGE + \varepsilon_{it}} \quad (2)$$

This research employs multiple linear regression to examine two hypotheses: first, the impact of political connections on firm value; and second, the moderating effect of business groups on this relationship. Tobin's Q, which reflects growth expectations by comparing market and book values, is used to measure firm value.

The first model (1) looks at the direct impact of political connections on the board (PCBOD), the squared term of political connections ($PCBOD^2$) to capture any non-linear effects, leverage (LEV), firm size (FSIZE), loss (LOSS), and firm age (FAGE) on firm value. This model not only assesses the influence of political connections but also controls for internal firm factors that may affect market perception. The goal is to clarify the extent to which political connections contribute positively or negatively to firm value.

The second regression model (2) extends Model 1 by incorporating an interaction term between political connections (PCBOD) and business group affiliation (BG), a dummy variable coded as 1 if the firm belongs to a family business group and 0 otherwise. This study examines how political connections affect firm value in family versus non-family firms. The coefficient of the interaction term (β_4) indicates whether business groups strengthen or weaken the impact of political connections. A negative β_4 suggests that political connections are less effective in family firms, while a positive β_4 implies that family firms leverage political ties more advantageously.

The data analysis is performed using a linear regression model with SPSS software. To ensure the reliability and validity of the regression models, several classical assumption tests were conducted. The normality of residuals was examined using the Kolmogorov–Smirnov test. Multicollinearity was assessed by checking the Variance Inflation Factor (VIF), with all VIF values below 10, indicating no multicollinearity issues. Heteroscedasticity was tested using the Park test, and the results showed that the residuals were homoscedastic. These diagnostic tests confirm that the regression models meet the classical assumptions required for valid inference.

RESULT AND DISCUSSION

Classical Assumption Testing

Before performing regression analysis, diagnostic tests were conducted to ensure the model met classical linear regression assumptions.

Multicollinearity Test

Table 2. Multicollinearity Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
PCBOD	-1.894	1.465	-0.164	-1.293	0.197	0.139	7.191
PCBOD2	1.412	1.952	0.090	0.723	0.470	0.145	6.890

BG	-0.256	0.270	-0.046	-0.948	0.344	0.964	1.038

The results of the multicollinearity test indicate that all independent variables exhibit Variance Inflation Factor (VIF) values below 10.00 and tolerance values above 0.100. These findings confirm that the model meets the assumption of no multicollinearity, indicating that multicollinearity is not a significant issue in this analysis.

Heteroscedasticity Test

Table 3. Heteroscedasticity Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
PCBOD	-1.894	1.465	-.164	-1.293	0.197
PCBOD2	1.412	1.952	0.090	0.723	0.470
BG	-0.256	0.270	-0.046	-0.948	0.344

The Park test is used to detect heteroskedasticity, and the results show no indication of heteroskedasticity, as all variables have significance values greater than 0.05. Therefore, the regression model satisfies all classical assumptions and is appropriate for hypothesis testing.

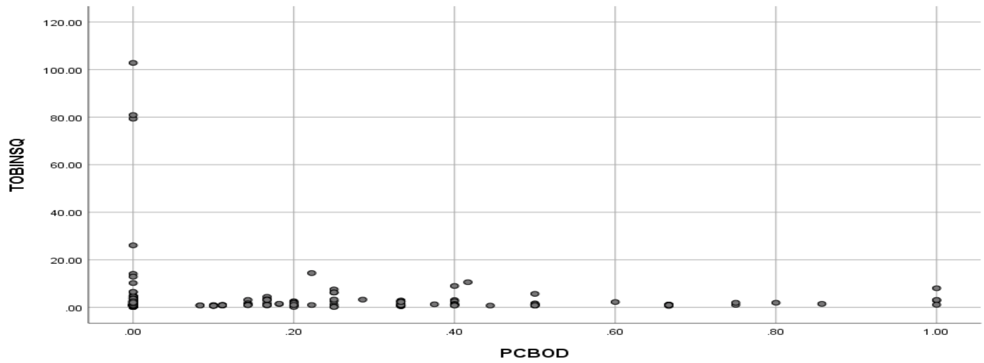
Normality Test

Table 4. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		318
Normal Parameters[a,b]	Mean	0.0000000
	Std. Deviation	8.61966527
Most Extreme Differences	Absolute	0.349
	Positive	0.349
	Negative	-0.327
Test Statistic		0.349
Asymp. Sig. (2-tailed)		2.410

The test results show that the significance values (p-values) are greater than 0.05, indicating that the residuals are normally distributed. Therefore, the normality assumption is satisfied, and the regression model is expected to produce unbiased and efficient estimates.

Scatter Plot



Based on the interpretation of the scatter plot between PCBOD and TOBINSQ, the relationship between the two variables appears weak and does not exhibit a clear linear pattern. The data points are relatively evenly distributed across the range of PCBOD values, without any noticeable funneling or dispersion, indicating no strong evidence of heteroskedasticity. Furthermore, there are no extreme outliers observed that could potentially affect the stability of the relationship between the variables.

Descriptive Statistics

Table 5. Descriptive Statistics

Model	N	Minimum	Maximum	Mean	Std. Deviation
TOBINSQ	318	0.16	102.81	2.6082	8.69730
PCBOD	318	0.00	1.00	0.1063	0.20408
BG	318	0.00	1.00	0.23	0.421
LEV	318	0.00248	3.3875	0.46	0.3268
FSIZE	318	23.31	33.66	28.5191	1.67407
LOSS	318	0	1	0.22	0.415
FAGE	318	7.00	144.00	44.5377	22.75456

The TOBINSQ variable has a minimum value of 0.16, indicating that some companies in the sample have a market value smaller than their total assets compared to other firms. The maximum value of 102.81 shows that certain companies have a market value significantly higher than their assets relative to others in the sample. The average TOBINSQ of 2.61 suggests that, on average, the market value of companies in this sample is approximately 2.6 times their total assets. A standard deviation of 8.70, which exceeds the mean, indicates considerable variation in Tobin's Q values across the sampled firms.

PCBOD represents the ratio of politically connected board directors to the total number of directors within a company. The minimum value of 0.00 indicates that some companies in the sample have boards with no politically connected members. Conversely, the maximum value of 1.00 signifies that in some companies, all board members have political connections. The average PCBOD value of 0.1063, which is calculated as the percentage of politically connected directors relative to the total board size, shows that approximately 10.6% of board members across the sampled companies have political ties. Meanwhile, the standard deviation of 0.2041 reflects variability in the proportion of politically connected directors among the companies included in this study.

Based on the results, the BG variable represents family ownership within a business group and is measured as a dummy variable, coded as 0 for firms without family ownership in a business group and 1 for those with such ownership. The mean value is 0.23, indicating that 23% of the sampled companies are part of a family business group defined as having family ownership exceeding 50% (coded as 1), while the remaining 77% are not (coded as 0) The >50% cut-off aligns with prior studies (Joni et al., 2020b) to identify effective family control typical in Indonesian firms. The standard deviation of 0.421 suggests a considerable variation in the distribution between family and non-family business group companies.

LEV, the ratio of total debt to total assets, has a minimum value of 0.0025, indicating some firms carry almost no debt relative to their assets. The maximum value of 3.3875 reveals that certain companies have debt exceeding three times their total assets, signaling potentially risky financial conditions. The average LEV of 0.46 means that, on average, 46% of the assets in the sample firms are financed through debt. A standard deviation of 0.3268 shows considerable variation in debt usage among the companies.

FSIZE represents firm size, with a minimum value of 23.31 and a maximum of 33.66, reflecting substantial differences in company size within the sample. The average FSIZE of 28.52 suggests that most firms are medium to large in scale based on total assets. A standard deviation of 1.67 indicates moderate variation in firm size, though the range remains relatively stable. This variable provides an overview of the scale of companies studied.

LOSS is a dummy variable coded as 1 if a company reports a loss and 0 if it reports a profit. The minimum and maximum values confirm the binary nature of this variable. An average of 0.22 indicates that 22% of the firms in the sample experienced losses during the observation period, while 78% reported profits. The standard deviation of 0.415 indicates a typical distribution for a binary variable, with most firms not incurring losses.

The FAGE represents the company's age in years. The minimum value of 7 years indicates that the youngest company in the sample has been in operation for 7 years, while the maximum value of 144 years indicates the presence of a company that has been in business for a very long time. The average age of the companies in the sample is 44.5 years, indicating that they are relatively old and experienced. A standard deviation of 22.75 indicates a wide range of company ages, from relatively new to highly established businesses. This age difference can have an impact on firms' strategies, stability, and competitiveness in conducting business.

Hypothesis Test

First Hypothesis

To examine the effect of political connections within the board of directors on firm value, this study employs multiple linear regression analysis. Tobin's Q serves as the dependent variable, acting as a proxy for firm value. The independent variables representing political connections include two indicators: PCBOD and PCBOD². Additionally, control variables such as leverage (LEV), firm size (FSIZE), prior losses (LOSS), and firm age (FAGE) are incorporated into the model to account for other factors influencing firm value.

Table 6. Political connections of the board of directors affect firm value.

Model	Coefficient	t	Sig.
PCBOD	-0.867	-0.805	0.421
PCBOD2	2.188	1.622	0.106
LEV	1.018	3.332	0.001
FSIZE	-0.019	-0.284	0.777
LOSS	-0.298	-1.567	0.118
FAGE	0.024	4.480	0.000

Based on the table above, hypothesis testing was conducted to determine whether political connections among board members influence firm value. This study measures political connections through two variables: PCBOD and PCBOD2.

The regression analysis reveals that political connections (PCBOD) have a negative but statistically insignificant effect on firm value ($p = 0.421$). Similarly, the squared term PCBOD² is not significant ($p = 0.106$), suggesting no clear nonlinear pattern. These findings indicate that political connections, when considered in isolation, do not enhance firm value. From an agency theory perspective, this supports the notion that political ties can introduce agency costs if exploited for managerial or personal gain rather than shareholder interest (Fan et al., 2007; Jensen and Meckling, 1976).

These findings reconcile conflicting results in previous studies. While (Fisman, 2001) reported a negative market response to political ties in Indonesia, (Maulana, 2019; Wu et al., 2012) documented their benefits in specific contexts. Our results bridge this gap by demonstrating that political connections require institutional support like business groups to deliver value.

Consequently, firms must ensure their political connections are substantive and support long-term value creation. This perspective is consistent with prior research (Fan et al., 2007), which indicates that political connections may instead increase agency costs and reduce corporate efficiency.

Second Hypothesis

Table 7. Business groups moderate the effect of political connections of boards of directors on firm value

Variable	Coefficient	t	Sig.
PCBOD	-0.965	-0.734	0.463
PCBOD2	2.300	1.419	0.157
PCBOD_BG	8.862	2.790	0.006
PCBOD2_BG	-14.200	-2.726	0.007
LEV	0.556	1.642	0.102
FSIZE	-0.024	-0.338	0.735
LOSS	-0.437	-1.986	0.048
FAGE	0.015	2.901	0.004

Regression analysis shows that the effects of political connections become significant when moderated by business groups. The variables PCBOD_BG and PCBOD2_BG show significance levels of 0.006 and 0.007, respectively, suggesting that political connections held by the board of directors significantly enhance firm value when combined with business group affiliation.

These findings can be explained through agency theory, business groups internally monitor and reduce conflicts between management and shareholders. When politically connected boards are controlled by founding families, such connections may be leveraged efficiently for strategic corporate objectives.

However, excessive or disproportionate exploitation of political connections by a dominant family risks generating new agency costs, including managerial opportunism and suboptimal decision-making. As emphasized by (Claessens et al., 2000) and (L. Porta, 1998), family ownership can either enhance or diminish firm value depending on the effectiveness of governance mechanisms.

CONCLUSION

This study aims to examine the impact of political connections held by the board of directors on firm value, as well as the moderating role of business groups in this relationship. Tobin's Q serves as a proxy for measuring firm value. The sample includes manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2022.

The results show that political connections alone do not have a statistically significant effect on firm value (PCBOD: $\beta = -0.867$, $p = 0.421$; PCBOD²: $\beta = 2.188$, $p = 0.106$). However, when moderated by business group affiliation, political connections significantly enhance firm value (PCBOD×BG: $\beta = 8.862$, $p = 0.006$; PCBOD²×BG: $\beta = -14.200$, $p = 0.007$).

This suggests that the existence of a business group strengthens the influence of political connections on enhancing firm value. For practitioners, particularly in family-owned manufacturing firms, the findings suggest that political connections should not be used indiscriminately. Instead, they should be institutionalized through group-wide governance strategies to enhance credibility, resource access, and market confidence. Boards should ensure that politically connected members bring tangible value, not just symbolic affiliations.

From a policy perspective, regulators should encourage disclosure of political affiliations and ownership structures to ensure transparency and prevent potential abuses of power. Enhanced governance codes may be necessary to guide how firms, especially family conglomerates, manage politically sensitive positions on boards.

Investors are advised to assess not only the existence of political ties but also whether these connections are embedded within strong governance systems, such as family business groups, which appear to channel political capital more productively

These results support the view that family ownership within business groups serves as an internal monitoring mechanism, reducing agency conflicts and enhancing the efficient use of political connections.

This study has several limitations. First, the measure of political connection is broad and does not differentiate between types of connections, such as formal political positions or party affiliations. Future research should develop a typology of political ties and examine their varying impacts on firm value.

Second, the study focuses exclusively on the manufacturing sector, which may limit generalizability. Subsequent studies could compare across sectors particularly those with higher political exposure, such as infrastructure or energy. Additionally, considering the evolving political landscape in Indonesia, future work should examine how regime changes or regulatory reforms alter the strategic value of political connections.

From a theoretical perspective, this study confirms that within the framework of Agency Theory, family business groups can act as effective internal monitors that discipline the use of political connections, thereby reducing agency conflicts between managers and owners. Simultaneously, drawing on Resource Dependence Theory, politically connected board members are conceptualized as strategic external resources that secure critical assets such as licenses, financing, and regulatory relief. Differentiating between active connections (direct ties with incumbent officials) and passive connections (former officials or indirect networks) could offer deeper insights into the varying strategic utility of these political ties, paving the way for more refined conceptualizations in future research. This study provides empirical evidence that the impact of political connections is contextual and influenced by the firm's ownership structure. Practically, these findings suggest that family-controlled business groups in Indonesia are able to leverage political connections more strategically to support long-term objectives. However, the extent of this benefit may vary depending on factors such as whether the firm is still under first-generation family leadership, or how diversified and complex the business group has become. Future research could explore these heterogeneities by segmenting family firms according to ownership generation or business group scale, providing more granular insights into how these dimensions affect the value derived from political connection.

Moreover, firms are encouraged to strengthen governance structures by enhancing board independence, establishing rigorous disclosure standards for political affiliations, and enforcing transparent nomination processes. Such practices help ensure that political connections are harnessed to drive sustainable competitive advantage rather than to serve narrow interests, aligning with long-term shareholder value creation.

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