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Political connection, board diversity, director's busyness and company performance: Empirical evidence from Indonesia

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Abstract

This research examines the influence of political connections, board diversity, and director busyness on firm performance, while considering the moderating role of ownership structure. The sample comprises 440 firm-year observations of companies listed on the Indonesia Stock Exchange during 2014–2024. Indonesia provides a relevant setting due to the widespread presence of politically exposed individuals and limited transparency in regulations related to political affiliations. This study offers two main contributions. First, it emphasizes the positive role of political connections in improving firm performance and provides implications for regulatory policies. Second, it provides insights into board composition, particularly female representation, which remains relatively low in Indonesia. The results indicate that political connections significantly enhance firm performance, suggesting that government ties create strategic benefits. Similarly, Board diversity shows a positive effect, highlighting the contribution of women in improving decision-making quality and risk management. In contrast, director busyness is not significantly related to company performance. Further moderation analysis shows that managerial ownership weakens the positive effect of political connections on performance, but does not significantly impact the relationship between board diversity or director engagement and firm performance.

Introduction

This research aims to investigate the effects of political connections, board diversity, or directors' busyness on company performance, considering the moderating role of managerial ownership in Indonesia. Global events such as Brexit in the United Kingdom, the Yellow Vest Movement in France, civil unrest in Venezuela, and the U.S. government shutdown demonstrate that companies adjust their investment and growth strategies in response to political uncertainty (Laker & Roulet, 2019). To address such challenges, companies may establish political connections, including appointing politicians or government-affiliated individuals to top management positions (Liu & Liu, 2023).

Indonesia represents a relevant setting for examining these relationships due to the widespread presence of politically exposed individuals and the relatively low level of transparency in regulations governing political affiliations (Firmansyah et al., 2022). Evidence from the Corporate Political Engagement Index (2021) indicates that a substantial proportion of companies, particularly in the energy sector, maintain political connections. Under the framework of agency logic, state relations will function as useful tools that businesses often leverage for optimizing their gains (Cheikh & Loukil, 2023).

Nevertheless, the existence of political connections necessitates proper disclosure to ensure transparency, prevent corruption, and promote fair competition and ethical governance. In

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Indonesia, however, transparency regarding corporate political engagement remains limited. Reports show relatively low transparency scores among industries such as palm oil and coal-based energy, reflecting insufficient disclosure practices (Transparency International Indonesia, 2023).

In addition, many Indonesian firms maintain close relationships with political elites, including government officials and military figures. Business actors are also actively involved in political institutions, both in executive and legislative branches (Joni et al., 2023). These connections may enhance market opportunities and strengthen investor confidence. From a strategic perspective, political ties can provide firms with competitive advantages, particularly in environments characterized by weaker investor protection. Such companies often receive preferential treatment, including greater efficiency in financial markets previously distorted by information asymmetry and weak law enforcement. Political connections also facilitate access to external financing (Hashmi et al., 2022), including lower-interest bank loans, opportunities to secure government procurement contracts (Gao et al., 2019), and easier access to capital markets (Hashmi et al., 2022). However, these advantages may also lead to inefficiencies, as firms could secure benefits without prioritizing productivity, potentially encouraging rent-seeking behavior that harms long-term performance (Brugués et al., 2024).

Beyond political connection, corporate governance is a crucial factor that influences company performance (Farooq et al., 2022; La Rocca et al., 2023). Effective governance is expected to enhance oversight of management, thereby improving performance through recruitment, remuneration, control, and monitoring of managerial activities (Islam et al., 2023). Thus, boards are required to oversee management, ensuring accountability and transparency in decision-making, and maintaining a balance between shareholder interests and sustainability (Jenter et al., 2023). This study responds Osazuwa (2016) to those who recommend increased female representation in director positions as a form of board diversity. Women are often more sensitive to internal compliance policies and discriminatory practices (Jenter et al., 2023).

Another governance characteristic is a director's busyness, which refers to involvement in multiple companies and is thought to enhance board effectiveness in monitoring and advising (Chen & Guay, 2020). According to Kao et al. (2019), directors holding multiple positions can help boards navigate business uncertainty, provide access to diverse information sources, facilitate the diffusion of new business practices, and signal company quality. Approximately 74% of companies in the Standard & Poor's index have directors who concurrently hold positions in other entities (Amin et al., 2023). Harymawan et al. (2023) report that average busyness CEOs in Indonesia is 37%. Nevertheless, overly busy board members often face criticism for insufficient time to monitor management effectively (Baxamusa & Jalal, 2024; Shen et al., 2024). Increasing workload from multiple commitments will limit time and attention available to each company, reducing monitoring effectiveness (Chen & Guay, 2020).

In addition, Indonesia also has a unique two-tier system that includes the board of commissioners and the board of directors (Harymawan et al. 2023). The board of directors is useful for management, while the board of commissioners directs management policies and provides advice to the directors (Yasmin & Utama, 2020). In this system, the role of commissioners parallels that of directors in one-tier systems (Habib et al., 2017).

To regulate political connection, board diversity, and directors' busyness, an ownership structure is necessary (Rusmin et al., 2012; Jaffar & Shukor, 2016; Gao et al., 2019; Queiri et al., 2021; Islam et al., 2022). Ownership structure reflects a company's identity and influences institutional oversight. The ownership concentration, measured by shareholder percentage, reflects control over operational decisions; the higher the shareholding, the greater the control.

The relationships between political connection, governance, ownership structure, and company performance have attracted researchers (Rusmin et al., 2012; Jaffar & Shukor, 2016; Gao et al., 2019; Queiri et al., 2021; Islam et al., 2022). Previous studies often focused on family and foreign ownership as measures of ownership, yielding mixed results. Family ownership is argued to reduce board monitoring capacity, negatively affecting board committee interactions and company performance. Foreign ownership represents parties with direct or indirect authority to influence managerial decisions via voting, media coverage, or board membership. As a form of control, managerial shareholding effectively mitigates moral hazard and encourages managers to make decisions that improve company performance and value (Makpotche et al., 2024). It also allows managers to maintain control over decisions by involving politically influential parties, thereby improving performance (Li, Song, & Wu 2015; Kao et al., 2019). Managerial ownership aligns manager and shareholder interests, reduces agency problems, and increases overall firm value. Following (Queiri et al., 2021), this study employs managerial ownership to measure ownership structure.

This research offers contributions to the literature as follows. First, it identifies the impact of political connections on company performance, providing a basis for regulation regarding the legal protection of corporate political practices, which remain inadequately regulated in Indonesia. Second, the findings inform the low proportion of women on boards in Indonesia. Third, the study offers insights into multiple directorships through the director's busyness, though it does not recommend this practice to enhance company performance in Indonesia, as overly busy commissioners are unable to monitor management effectively (Sahoo et al., 2023). Fourth, the research contributes to the development of agency theory. Political connections often trigger agency problems such as rent-seeking or self-interest, potentially resulting in information concealment and reduced company wealth. Inadequate governance practices, including multiple directorships or ineffective board structures, may exacerbate these issues. This article is ordered as follows. Section 2 examines pertinent literature and proposes hypotheses, with methodology. Section 4 details outcomes and discussion; ultimately, Section 5 closes.

Literature Review and Hypotheses Development

Political connections and corporate governance

Political connections become a strategy that helps companies maximize profits and enhance performance. However, the impact of political connections on firms varies. Companies with political ties often face policy instability, particularly in contexts with weak legal systems (Yang et al., 2022), fragile financial conditions, and inadequate investor protection (Karami et al., 2024). This is often due to greater government intervention in politically connected firms than in those without such connections.

In Indonesia, a fragmented political landscape, coupled with a history of corruption and patronage, makes managing political connections more complex than in countries (Joni et al., 2023). The democratic system, which distributes political power across multiple parties and military forces, exacerbates corporate governance challenges. Perfectly, internal control systems must act significantly to reduce agency problems and encourage stable links between owners and executives (Bai et al., 2023). However, the presence of political connections often distorts these governance mechanisms. As a result, the implementation of corporate governance in Indonesia continues to face significant challenges due to differing interests between principals and agents, as well as non-compliance with established regulations and governance guidelines.

Political connections and company performance

Political connections refer to relationships between politicians and business entities or organizations established through cronyism in decision-making processes (Tarmizi & Brahmana, 2023). The existence of political connections provides greater legitimacy in interactions with policymakers and enables firms to engage in political strategies, which are proactive efforts to influence public policy for corporate benefit. However, close relationships with political actors can lead to incomplete disclosure of information and limited availability of relevant information regarding corporate operations, financial performance, and governance practices (Nhan et al., 2024). Nevertheless, political connections remain prevalent in many countries, including Indonesia, where the relationship between the business sector and political institutions is more closely intertwined.

Rather, the literature suggests that political connections can also provide strategic benefits to firms. Effective and well-established political connections can help reduce agency costs by providing protection and valuable access to political information, thereby enabling firms to obtain

various strategic advantages (Islam et al., 2023). Several previous studies, including Jaffar and Abdul-Shukor (2016) and Chancharat and Chancharat (2019), report that political connections can positively affect firms' financial position and overall performance. Moreover, other studies (Chen & Guay, 2020; Brahma et al. 2023) shows that companies with political connections are more ready to receive government financial support when facing financial difficulties and are less likely to experience bankruptcy than companies without political connections.
H1: Political connections have a positive impact on company performance.

Gender and company performance

The presence of women in top management positions or on boards is often considered detrimental to firm performance, as women are perceived to be less capable of fully leveraging their competencies compared to men (Tao-Schuchardt & Kammerlander, 2024). However, Almarayeh (2023) challenges this notion, arguing that Board diversity represents a strategic resource that positively influences firm performance and value. First, gender diversity is considered to have a positive impact because women are considered more sensitive (Hossain et al., 2024). Second, the presence of women provides benefits such as reducing external dependence, improving corporate reputation, and creating higher competitiveness through better decision-making processes (Ferrary & Déo, 2023). Third, women tend to gather necessary information, encourage diverse viewpoints, and consider the impact of decisions.

From the perspective of agency theory, agency problems can be more effectively mitigated by the presence of women, as female directors are often perceived as more independent and attentive to shareholders' interests. Thus, it enhances transparency and strengthens corporate reputation (Guping et al., 2020). Moreover, the presence of women enhances monitoring and supervision, external relations and cooperation, management responsibility, and understanding, and also brings supportive perspectives and experiences, as well as better identification of investment opportunities (Wongsinhirun, 2023). Previous research (Osazuwa, 2016; Vieira, 2022; Zarefar & Narsa, 2023; La Rocca et al., 2023) supports a positive relationship between Board diversity and company performance.
H2: Board diversity has a positive impact on company performance.

The busyness board and company performance

The supervisory board represents a vital element of a firm's internal management framework, tasked with overseeing and regulating executives to protect the primary goals of equity owners (Sahoo et al., 2023). The board is expected to have broad networking, legitimacy, and advisory/oversight skills (Ferris et al., 2020). To improve experience, board members often hold three or more positions within the same company, referred to as busy boards (James et al., 2018). Such practices have recently been criticized, as they may reduce the board's effectiveness in coordinating corporate strategies and weaken its oversight capacity. One of the main challenges for busy boards is time constraints, which limit the members' ability to monitor and advise the management.

From an agency theory perspective, combining decision-making and control functions may weaken the board's ability to monitor managerial decisions and actions effectively. Agency theory further emphasizes the importance of governance mechanisms that align the interests of principals and agents or effectively monitor managerial behavior to prevent agents from exploiting delegated authority for personal gain. Some researchers (Amin et al., 2023; Trinugroho et al., 2023) supports this statement by establishing that an overly busy board of directors will have a negative impact on the entity's performance.
H3: Busy boards have a negative impact on company performance.

Moderating effect of managerial ownership on political connection and company performance

Political connections are formed through relationships between politicians and businesses, often involving nepotism and policies that benefit certain parties. The presence of such political connections can lead to an uneven allocation of resources and reduce the effectiveness of corporate oversight mechanisms (Tarmizi & Brahmana, 2023). Under these circumstances, managers or board members with political connections may be more likely to make decisions driven by personal interests rather than by the goal of maximizing shareholder value, potentially leading to a decline in company performance (Song, & Wu 2015; Cheikh & Loukil, 2023).

Corporate holding patterns, as an element indicating organizational nature, exert a major influence on the quality of professional supervision and the specific drivers that encourage a company to release financial or strategic information. According to agency theory, the separation between ownership and control within a firm can create agency problems, which are conflicts between shareholders and managers that may adversely affect company performance (Din et al., 2022). In this framework, executive ownership might act as a regulating factor, reducing the impact of government links on firm efficiency. Leaders with large shareholdings often tend to use political ties for individual benefit, thus shifting their attention away from improving business outcomes and increasing the value for regular equity owners (Chen & Guay, 2020; Nhan et al., 2024).

H4: Managerial ownership weakens the relationship between political connections and company performance.

Moderating effect of managerial ownership on board diversity and company performance

The prevailing perception often casts male CEOs as the ideal candidates for leadership roles, while women are frequently viewed as less qualified and lacking the necessary skills to reach top positions. However, research indicates that women on boards often demonstrate higher levels of engagement, commitment, and diligence in decision-making processes (Osazuwa, 2016). This is attributed to women's psychological tendencies toward risk aversion, which allow them to focus more on the value creation for stakeholders. According to agency theory, without adequate monitoring mechanisms and incentives, information asymmetry can lead to managerial moral hazard, in which managers act in their own interests at the potential expense of firm value (Makpotche et al., 2024). With managerial shareholding, the role of women on boards becomes even more significant, allowing them to be more focused and committed to enhancing company performance (Ogabo et al., 2021). Thus, women's board representation not only strengthens their control over managerial decisions but also mitigates agency problems and information asymmetry, thereby enhancing decision-making effectiveness and overall company performance.

H5: Managerial ownership strengthens the relationship between board diversity and company performance.

Moderating effect of managerial ownership on busyness of board members and company performance

One of the critical elements in corporate governance is the busyness of its members (Hauser, 2018). Directors holding too many positions may not have sufficient time to effectively fulfill their obligations to monitor and oversee corporate decisions (Ferris et al., 2020). Consequently, this can negatively impact firm performance, such as decreasing book value, profitability, and lowering the responsiveness of executive replacement to corporate outcomes (Liu & Liu, 2023). To address this issue, shareholders grant stock ownership to the board, thereby aligning their interests with those of the company (Ogabo et al., 2021).

Managerial ownership allows busy directors to focus more on monitoring the company, reducing the potential for opportunistic behavior due to conflicts of interest. With managerial ownership, the board is more likely to be deeply involved in managing the company, ultimately improving company performance (Ahmed & Hadi, 2017). Under the agency theory framework, lacking effective equity patterns might incite executives to seek individual gains over owner interests, resulting in self-serving actions and internal friction between the parties (Khuram et al., 2023). Therefore, granting equity ownership to managers can serve as a governance mechanism to reduce conflicts of interest between shareholders and management (Hu & Zhou, 2008). In this context, ownership structures that reflect appropriate ownership proportions also clarify the board's role in overseeing management, particularly in the context of managerial ownership, which can help address the challenges faced by busy board members.

H6: Managerial ownership strengthens the relationship between busy board members and company performance.

Research Methods

This study adopts a quantitative approach to examine the effects of political connections, Board diversity, and directors' busyness on firm performance, while also incorporating managerial ownership as a moderating variable. This conceptual framework is displayed in Figure 1. Materials were sourced from corporate disclosures via the Indonesia Stock Exchange (IDX) site, including Thomson Reuters and the Osiris financial data provider platforms.

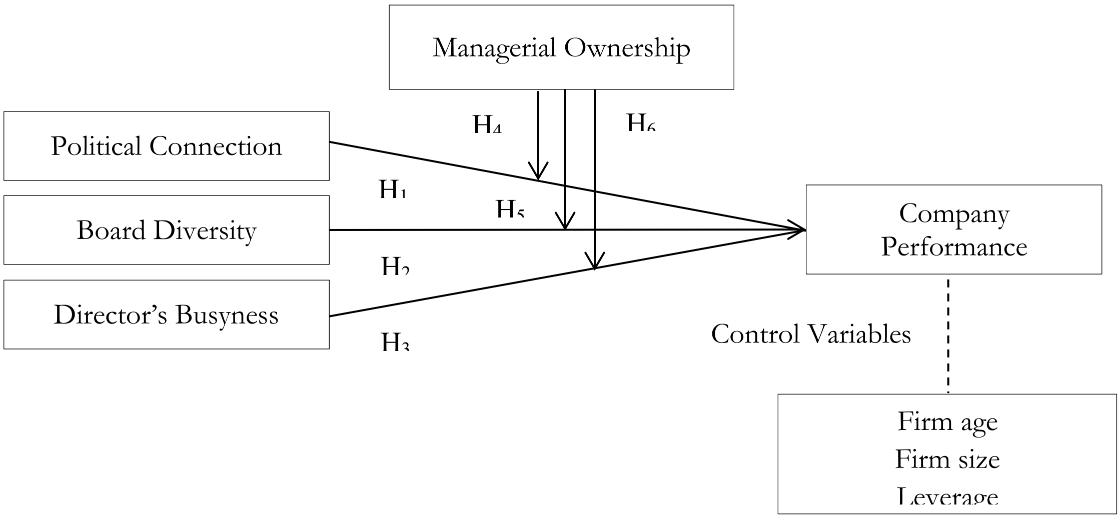

Figure 1. Research Framework

The population of this research includes all companies listed on the IDX in the period 2014-2024. This period illustrates the political system in Indonesia, which runs for five years, so the period from 2014 to 2024 is a complete period to observe the political connections built by companies. A purposive sampling technique was applied to select the sample based on specific criteria.

1) Firms must be consistently listed on the IDX and use a fiscal year ending on December 31 throughout the observation period.
2) Firms must provide complete information regarding the profiles and backgrounds of their board of commissioners and directors.

Based on these criteria, the final sample comprises 40 firms per year, resulting in 440 firm-year observations over 11 years.

Table 1. Research Sample Criteria

Research Sample Criteria	Number of Research Samples
Companies listed on the Indonesia Stock Exchange (IDX) use a financial year ending on December 31	822
Less companies that are not listed on the IDX in 2014-2024 using the financial year ending December 31	(494)
Subtracted companies that do not have background information on the profile of the board of commissioners and directors	(288)
Number of research samples per year	40
Number of research samples in the observation period of 11 years	440

Source: Data processed (2025)

Variable definitions, operations, and data collection

This study distinguishes between personal political connections (i.e., connections held by individual board members) and firm-level political connections (e.g., political donations, ownership by politicians, or other corporate-level affiliations) (Liu et al., 2023). However, consistent with prior studies, this research focuses on personal political connections at the board level. A board member is classified as politically connected if they meet at least one of the following criteria:

(1) Presently occupies or formerly filled a role within the state (e.g., minister, member of parliament, or civil servant);
(2) Has professional experience in public institutions, including military or police (TNI/POLRI);
(3) Holds an official role in a political party; or
(4) Is publicly documented as having formal involvement in political activities.

To ensure objectivity and minimize subjectivity, this study relies solely on publicly verifiable information from credible sources, such as LinkedIn profiles, corporate disclosures, and official biographies (Cheikh & Loukil, 2023).

For board diversity, this study considers the number of female representatives on the board (Muttakin & Ullah, 2012; Eklemet et al., 2023) Indonesia employs a dual-tier business oversight model, comprising a supervisory body and a management team. The executive board handles the firm's routine activities, whereas the supervisory board carries out an oversight and controlling role over the entire leadership (Habib et al., 2017; Yasmin & Utama, 2020). This study focuses on the board of commissioners as the relevant governance body in examining Board diversity. Female membership on the commissioner board should ideally boost controlling effectiveness and advance organizational policy-making, as well as the sharing of vital company information.

A busy board refers to a situation in which a board member holds at least two directorships in a given year. To measure a busy board, this study refers to several previous studies (Lee & Lok, 2020; Amin et al., 2023; Trinugroho et al., 2023) that use a dummy with a score of 1 if it has members with multiple positions in different companies (CEO and board positions), and 0 if the board does not have busy members.

Corporate performance refers to a firm's ability to create value, which can be measured using accounting-based or market-based approaches. To avoid conceptual bias, this study adopts a market-based perspective, as political connections and corporate governance are expected to influence firm value through investor perceptions and long-term prospects. Prior studies have employed measurement such as ROA and ROE to assess firm performance (Osazuwa, 2016; Chancharat & Chancharat, 2019; Hong & Linh, 2023). However, these measures tend to focus on short-term and are based on historical cost, limiting their ability to capture long-term firm value and intangible assets. Thus, this study uses Tobin's Q that incorporates both tangible and intangible assets, including brand reputation, human capital, and strategic networks, making it less susceptible to accounting manipulation (Ji et al., 2024). Furthermore, Tobin's Q captures broader macroeconomic and institutional factors, including regulatory environment, political stability, and government intervention, which are especially relevant in emerging markets (Zarefar & Narsa 2023). Consequently, Tobin's Q is viewed as a superior metric for analyzing the influence of government ties and durable oversight on corporate success within this specific research project.

This research uses executive holdings as a contingent factor. Insider ownership means the percentage of equity owned by leaders in the organization, which acts as a key element in matching director and investor goals while lowering internal friction between the parties involved in management (Munisi, 2020). Managerial ownership is considered a key internal governance mechanism, as it directly influences managerial incentives and decision-making processes, including strategic choices related to corporate governance and political connections (Ahmed & Hadi, 2017). Higher managerial ownership encourages managers to act in the best interests of the firm, thereby improving monitoring effectiveness and enhancing firm performance.

This research incorporates company age, company scale, and debt levels as control factors to reduce potential skewness and separate the impact of primary explanatory variables on corporate results. Organizational age is added to reflect firm development and tenure, since mature corporations usually possess more settled activities, superior reach to capital assets, and more consistent financial outcomes over a longer period of time (Coad et al., 2018). Firm size is controlled because larger firms generally have greater resources, higher market visibility, and better access to external financing, which may influence firm performance. Leverage is included as it reflects the firm's financial structure and risk level, which can affect both performance and managerial decision-making Basdekis et al. (2023). These control variables have been widely used in prior studies examining firm performance (Jaffar & Abdul-shukor, 2016; Wong, 2022; Hong & Linh, 2023).

Table 2. Variable Measurement

Variable	Definitions	Variable Measurement
Board gender	Gender diversity in the board of commissioners (Zarefar & Narsa 2023).	Number of female board commissioners
Busy board	A director status that maintains a minimum of two external board seats annually (Amin et al., 2023).	Dummy: (1) If a company has more than one position such as holding CEO and board positions in different companies; (0) Only have one position
Political connections	Political connections occur when a company has at least one executive director who has political connections either having been a politician or having certain relationships (Tee & Hooy, 2023).	Dummy: (1) Has political connections; (0) Does not have political connections
Company performance	The organization's ability to take advantage of the environment is influenced by a group of interests within a company (Taouab & Issor, 2019).	$\text{Tobin's} = \frac{\text{MVE} + \text{Debt}}{\text{Total Assets}}$
Managerial ownership	Managerial ownership is equity shares owned by managers which is a form of separation between managers and company owners (Ahmed & Hadi, 2017).	Dummy: (1) If a company has managerial ownership in a company; (0) If a company does not have managerial ownership in a company
Firm size	Company size	Natural logarithm of total assets
Firm age	Generalized logarithm of firm age	Natural log of the gap between the establishment date and the specific accounting period
Leverage	Increased debt and contributed to increased volatility of returns.	Ratio of total debt to total assets

Source: Data processed (2025)

The empirical analysis is conducted using multiple linear regression and moderated regression analysis (MRA) to test the proposed hypotheses. The statistical equations employed in this research are defined as follows:

$$Y = \alpha_0 + \beta_1\,\text{PC} + \beta_2\,\text{BD} + \beta_3\,\text{DB} + \beta_4\,\text{SIZE} + \beta_5\,\text{AGE} + \beta_6\,\text{LEV} + \text{e} \quad (1)$$

$$Y = \alpha_0 + \beta_1\,\text{PC} + \beta_2\,\text{OM} + \beta_3\,\text{PC} * \text{OM} + \beta_4\,\text{SIZE} + \beta_5\,\text{AGE} + \beta_6\,\text{LEV} + \text{e} \quad (2)$$

$$Y = \alpha_0 + \beta_1\,\text{BD} + \beta_2\,\text{DB} + \beta_3\,\text{OM} + \beta_4\,\text{BD} * \text{OM} + \beta_5\,\text{DB} * \text{OM} + \beta_6\,\text{SIZE} + \beta_7\,\text{AGE} + \beta_8\,\text{LEV} + \text{e} \quad (3)$$

Where Y represents firm performance, PC represents political connections, BD represents board diversity, DB represents director's busyness, MO to managerial ownership, SIZE is firm size, AGE is firm age, LEV is leverage, and e is the error term.

Results and Discussion

This research used the statistical package for the social sciences (SPSS) to test the hypotheses with a final sample of 440 observations. Although there were originally 440 observations, only 402 were considered after 38 outliers were identified. Outliers occur due to extreme values in the dataset; hence, they must be removed to ensure the integrity of the data analysis (Yang et al., 2023).

Table 3. Descriptive Statistics

	Mean	Std. Deviation	N
Firm Performance	.80863	.408510	402
Political Connection	.46	.499	402
Board Diversity	.66	.671	402
Busy Directors	.54	.499	402
Managerial Ownership	.57	.495	402
Firm Age	30.65839	2.979276	402
Firm Size	3.13778	.768803	402
Leverage	31302577114.82824	444258977883.116000	402

Source: Data processed (2025)

The descriptive statistics indicate that political connections have a mean value of 0.46, suggesting a relatively balanced proportion between politically connected and non-connected firms. Board diversity shows a mean of 0.66, reflecting considerable variation in female representation. The mean value of busy directors is 0.54, indicating that multiple directorships are quite common among firms.

Table 4. Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		402
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.34286898
Most Extreme Differences	Absolute	.034
	Positive	.034
	Negative	-.026
Test Statistic		.034
Asymp. Sig. (2-tailed)		.200[c,d]

Source: Data processed (2025)

Statistical normality was assessed using the One-Sample Kolmogorov-Smirnov test. The outcome indicates an Asymp. Sig. (2-tailed) output of 0.200, surpassing the 0.05 level. This demonstrates that the residual values follow a normal curve, verifying that the chosen model adheres to the basic normality assumption.

Multiple linear regression analysis

Table 5. Multicollinearity Test and Multiple Linear Regression

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.728	.217		12.598	.000		
	Political Connection	.113	.035	.139	3.210	.001	.961	1.040
	Board Diversity	.075	.026	.123	2.876	.004	.975	1.026
	Busy Directors	.056	.035	.069	1.588	.113	.961	1.040
	Firm Age	-.062	.006	-.456	-10.290	.000	.915	1.093
	Firm Size	-.062	.023	-.116	-2.643	.009	.929	1.076
	Leverage	1.947E-13	.000	.212	4.917	.000	.967	1.034

Source: Data processed (2025)

The multicollinearity analysis shows that every predictor variable has a tolerance exceeding 0.10 and a variance inflation factor (VIF) under 10. Tolerance values range from 0.915 to 0.975, whereas VIF values range from 1.026 to 1.093. This evidence suggests that multicollinearity is absent, and the statistical model remains suitable for subsequent testing.

Based on Table 5, the results of the multiple linear regression analysis indicate that political connections have a positive and statistically significant effect on firm performance (β = 0.139; p = 0.001). Board diversity is also positively and significantly related to firm performance (β = 0.123; p = 0.004). In contrast, directors' busyness shows a positive but not statistically significant effect (β = 0.069; p = 0.113), indicating that holding multiple board positions does not significantly affect firm performance. Regarding control variables, firm age has a negative and highly significant effect on performance (β = -0.456; p = 0.000), suggesting that older firms may experience declining efficiency. Firm size also shows a negative and significant relationship (β = -0.116; p = 0.009), indicating potential inefficiencies in larger firms. Conversely, leverage has a positive and significant effect (β = 0.212; p = 0.000), implying that debt may enhance financial discipline and improve performance.

Moderated regression analysis

This research further applies moderated regression analysis (MRA) to examine the role of managerial ownership. The multicollinearity test for interaction terms indicates acceptable tolerance and VIF values, confirming that multicollinearity does not affect the validity of the model.

Table 6. Moderation Regression Analysis Model 1

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.422	.327		7.408	.000
	Political Connection	.225	.054	.275	4.177	.000
	Managerial Ownership	.704	.449	.853	1.568	.118
	Firm Age	-.054	.010	-.391	-5.453	.000
	Firm Size	-.038	.031	-.072	-1.220	.223
	Politicalconnection_Z	-.169	.072	-.180	-2.356	.019
	Firmage_Z	-.014	.013	-.531	-1.123	.262
	Firmsize_Z	-.040	.048	-.163	-.819	.413
	Leverage_Z	2.011E-13	.000	.219	5.095	.000

Source: Data processed (2025)

The findings reveal that the combined effect of political links and executive holdings shows a negative and meaningful impact (β = -0.180; p = 0.019). This result suggests that management stakes diminish the favorable link between government ties and corporate success. Essentially, increased insider ownership lowers the advantages gained from political associations.

Table 7. Moderated Regression Analysis Model 2

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.555	.332		7.706	.000
	Board Diversity	.050	.040	.081	1.247	.213
	Busy Directors	.115	.055	.141	2.109	.036
	Managerial Ownership	.448	.452	.543	.991	.322
	Firm Age	-.056	.010	-.407	-5.546	.000
	Firm Size	-.054	.031	-.102	-1.735	.084
	BoardDiversity_Z	.040	.053	.059	.752	.452
	Busydirectors_Z	-.066	.072	-.076	-.921	.357
	Firmage_Z	-.010	.013	-.380	-.796	.427
	Firmsize_Z	-.022	.048	-.091	-.455	.650
	Leverage_Z	1.821E-13	.000	.198	4.488	.000

Source: Data processed (2025)

The second model examines the moderating effect of managerial ownership on board diversity and directors' busyness. The interaction terms for board diversity (β = 0.059; p = 0.452) and busy directors (β = -0.076; p = 0.357) are not statistically significant. These results suggest that managerial ownership does not moderate the relationship between board diversity or directors' busyness and firm performance.

Discussion

The impact of political connections on company performance

The regression analysis reveals that political connections exert a positive and statistically significant influence on firm performance, as indicated by a coefficient of 0.113 and a significance level of 0.001 ($p < 0.05$). Thus, H1 is supported. This evidence suggests that companies with deeper ties to the government often achieve superior financial results. These associations might offer firms tactical advantages, such as exclusive entry to state assets, beneficial legal status, and defense against harmful public regulations.

These findings support previous research. For instance, Brahma et al. (2023) argue that politically connected firms face lower risk exposure and receive greater protection against potential losses. Similarly, Shin et al. (2018) document a positive association between political ties and firm performance, highlighting the advantages of extensive political networks Tarmizi and Brahmana (2023) also confirm the positive impact of political connections. From the perspective of agency theory, although political ties may introduce conflicts of interest, particularly when political agendas diverge from shareholder objectives (Abdullah et al., 2022). They can simultaneously reduce uncertainty and enhance firm stability.

The impact of board diversity on company performance

The empirical findings indicate that board diversity has a positive and statistically significant effect on firm performance (β = 0.075; p = 0.004), supporting H2. This indicates that greater female representation on business boards leads to improved institutional outcomes. Gender-inclusive boards will likely refine management systems by incorporating diverse viewpoints, thereby enhancing oversight and strategic reasoning. Furthermore, the participation of women leaders might lower self-serving conduct and enhance administrative standards. These results align with earlier research (Osazuwa, 2016; Basdekis et al., 2023; La Rocca et al., 2023), which highlights the positive contribution of female board participation. From an agency theory standpoint, diversity enhances the board's oversight function, thereby mitigating agency conflicts and improving firm performance.

The impact of the busyness of board members on company performance

The results show that board busyness has a positive but statistically insignificant effect on firm performance (β = 0.056; p = 0.113), indicating that H3 is not supported. This implies that directors holding multiple board positions do not significantly influence company performance. While busyness can limit directors' effectiveness due to time constraints, it may also offer advantages, including broader experience, expertise, and professional networks. The insignificant finding suggests that the effect of board busyness is context-dependent, influenced by factors such as governance quality, workload allocation, and directors' ability to manage multiple commitments. Therefore, busyness alone cannot be considered a decisive factor in determining firm performance. This result contrasts with earlier studies (Lu et al., 2013; Harymawan et al., 2023), which argue that overcommitted directors are less effective in their monitoring roles. Through an agency lens, while multiple directorships are predicted to diminish monitoring, this research lacks solid evidence to verify that particular claim.

The moderating effect of ownership structure on political connections and company performance

The findings indicate that the interaction between political connections and managerial ownership has a negative and statistically significant effect on firm performance (β = -0.169; p = 0.019), thus supporting H4. This suggests that managerial ownership weakens the positive impact of political connections. Although political ties independently enhance performance (β = 0.225; p = 0.000), their benefits diminish when managerial ownership increases. This may be explained by the alignment of managerial and shareholder interests under higher ownership levels, which encourages managers to prioritize long-term value over short-term gains derived from political affiliations (Khieu et al., 2023). Consequently, managers may avoid engaging in opportunistic or high-risk activities associated with political connections, thereby limiting their potential advantages (Habib et al., 2017). From an agency theory perspective, while managerial ownership reduces agency conflicts, it may also restrict the aggressive utilization of political ties, thereby weakening their positive contribution to firm performance (Dawood et al., 2023).

The moderating effect of ownership structure on board diversity and company performance

The regression results show that the interaction between Board diversity and managerial ownership is not statistically significant (β = 0.040; p = 0.452), indicating that H5 is not supported. This implies that executive holdings do not reinforce or diminish the link between gender diversity and corporate results. Moreover, board inclusivity itself is not statistically meaningful in this framework (β = 0.050; p = 0.213). A potential reason is that the utility of female presence depends on situational factors, such as the power of women leaders in strategic decisions, board interactions, and the overall institutional oversight climate (Defina & Kuswanto, 2025). If female directors lack substantial influence or are not actively involved in strategic decisions, their presence may not translate into measurable performance improvements. From an agency theory perspective, although managerial ownership aligns interests, it does not enhance the effectiveness of gender diversity (Boachie, 2023).

The moderating effect of ownership structure on busyness of board members and company performance

The findings show that the interaction between director workload and executive holdings is not statistically significant (β = -0.066; p = 0.357), leading to the rejection of H6. This suggests that management stakes do not moderate the relationship between board activity and corporate results within the scope of this study (Khuram et al., 2023). The absence of a moderating effect indicates that the benefits associated with busy directors operate independently of ownership structure. Directors serving on multiple boards may still perform effectively by leveraging their knowledge and external connections, regardless of managerial ownership levels (Ferris et al., 2020). In an agency framework, despite management stakes being intended to strengthen control, they do not notably alter the connection between busy boards and organizational performance in this case.

The control variables

The regression results indicate that both firm age and firm size have negative and statistically significant effects on company performance. This suggests that older and larger firms tend to exhibit lower performance levels. The adverse effect of firm age may be attributed to organizational rigidity, limited flexibility, and slower responsiveness to environmental changes, which can reduce efficiency (Loderer & Waelchli, 2011). Likewise, the negative association between firm size and performance implies that larger firms may face coordination challenges, bureaucratic inefficiencies, and weaker monitoring mechanisms, ultimately hindering effectiveness (Rahman & Yihun, 2021). In opposition, debt levels are seen to produce a positive and statistically significant impact on company value. This finding demonstrates that firms with increased financial obligations typically reach better performance, potentially through heightened fiscal rigor and leaner operational spending prompted by the need for repayment (Vieira & Nogueira, 2022; Mehrotra et al., 2023; Basdekis et al., 2023).

Robustness analysis

As part of the robustness analysis, this study first conducts a comparative test between financial and non-financial firms using multiple linear regression. The objective is to identify whether sectoral differences influence the relationship between corporate governance, political connections, and firm performance, with ownership structure acting as a moderating variable. The findings reveal significant differences between the two sectors, indicating that the determinants of firm performance vary across industries.

These differences may arise because financial firms operate under stricter regulatory frameworks and possess distinct operational characteristics, which influence the behavior of the examined variables (Rusmin et al., 2012). This argument is supported by Ulum et al. (2016) those who suggest that financial institutions tend to focus on regulatory compliance, whereas non-financial firms have greater flexibility to innovate. Similarly, Khan (2022) emphasizes that financial firms are subject to stringent disclosure requirements and accounting standards, which further differentiate them from non-financial firms.

Furthermore, a robustness test is performed to assess the stability of the regression results by modifying the model specification. In this test, managerial ownership is replaced with institutional ownership as an alternative proxy for ownership structure. Institutional ownership is considered important in monitoring managerial actions and enhancing transparency (Ahmed & Hadi, 2017). In contrast, results demonstrate that corporate blockholders do not notably alter the relationship between the key predictors and company value. This suggests that the moderation results are robust and stable, regardless of specific model variations or additional control measures.

Conclusion and Implications

This study investigates the influence of political connections, board characteristics, and managerial ownership on firm performance, using data from companies listed on the Indonesia Stock Exchange during 2014–2024. The results show that government links possess a favorable and meaningful influence on corporate results, showing that companies gain from better asset entry and policy aid. Director variety also has a positive and significant effect, implying that varied boards enhance oversight power and management decision standards. In contrast, board busyness does not significantly affect firm performance, indicating that holding multiple directorships does not necessarily impair or improve board effectiveness.

About the moderating role, managerial ownership is found to weaken the relationship between political connections and firm performance, suggesting that higher ownership levels limit the extent to which firms exploit political advantages. However, managerial ownership does not moderate the relationship between board inclusivity or director workload and firm outcomes, implying that holding designs do not amplify control systems in this case. Additionally, the control variables indicate that company maturity and asset size negatively affect value, whereas financial leverage positively affects overall profitability. These findings confirm the importance of firm-specific characteristics in explaining variations in company performance.

This finding refines agency theory by highlighting that alignment of interests through ownership may also constrain strategic actions, particularly in politically connected firms. In addition, the insignificant moderating effects suggest that governance mechanisms may operate independently rather than interactively in emerging market contexts such as Indonesia. The findings provide several practical insights. First, firms can strategically utilize political connections to enhance performance; however, excessive managerial ownership may limit these benefits. Second, companies are encouraged to promote gender diversity on boards, as it contributes positively to firm performance. Third, the results suggest that multiple board positions should not be viewed solely as a governance weakness, as busy directors may still provide value through experience and networks. Finally, firms should pay attention to organizational efficiency in large and mature firms, as well as the optimal use of leverage, to improve performance.

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