

ABSTRACT

This study investigates the complex relationship between political connections and firm performance in the context of a developing economy, focusing on Indonesia's two-tier board system. While political affiliations are often regarded as strategic assets that facilitate access to government contracts, regulatory privileges, and fiscal incentives, empirical evidence on their effectiveness remains mixed. Some findings suggest positive outcomes, while others highlight inefficiencies and governance distortions. Addressing this gap, the study introduces a novel mediating variable: Fixed Asset Investment with Managerial Ownership Orientation (IATKM), which reflects investment decisions directed by managers who also hold equity stakes in the firm.

Drawing on Resource Dependence Theory (RDT), Resource-Based View (RBV), and agency theory, this research proposes that political connections may only translate into financial performance if supported by strong internal governance mechanisms such as managerial ownership. Political connections are conceptualized as external strategic resources, while IATKM is posited as the internal mechanism that channels these resources into productive fixed asset investments. The RBV supports the view that such investments—when strategically managed—generate competitive advantages, whereas agency theory explains that ownership aligns managerial incentives with shareholder interests, leading to more disciplined and long-term investment strategies.

The empirical analysis uses panel data from 381 non-financial firms listed on the Indonesia Stock Exchange between 2015 and 2022, yielding 3,048 firm-year observations. Political connections were mapped onto both boards, revealing a higher concentration in the board of commissioners. Hypothesis testing was conducted in two stages: without and with control variables. Initial models show that political connections in both boards significantly improve Return on Assets (ROA), and that IATKM mediates this relationship positively in the case of the board of directors. However, when firm-specific controls such as size and leverage are included, the effect of political connections becomes insignificant or negative, particularly for the board of commissioners and total political ties. Nevertheless, IATKM consistently shows a positive and significant effect on ROA and mediates the negative effects of political connections under certain governance contexts.

The findings highlight that political connections alone are insufficient for improving performance unless accompanied by internal governance incentives. IATKM emerges as a strategic tool that not only enhances theoretical understanding of the politics-performance nexus but also offers practical governance solutions for firms operating in politically embedded institutional

environments. This has important implications for corporate strategy, investment policy, and regulatory design in emerging markets.

Key Words: Political Connections, Board of Directors, Board of Commissioners, Managerial Ownership, Investment, Return on Assets

