

## EXPERTISE ON POLITICALLY CONNECTED BOARD AND FIRM PERFORMANCE

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**Abstract:** *Political connections are prevalent in various contexts, offering firms access to critical resources but yielding mixed performance outcomes. This study examines the moderating role of board expertise in the relationship between political connections and corporate performance, focusing on Indonesian publicly listed firms. Using panel regression with the random effects and robustness tests with Driscoll-Kraay standard errors, expertise is assessed through educational background, board tenure, and industry-specific experience, providing a more comprehensive measurement compared to prior studies. The findings indicate that the interaction variable between political connections and educational background is significantly positive, demonstrating that educational expertise enhances the benefits of political connections. This study contributes to the literature by using a more diverse measurement of expertise and providing evidence from Indonesia, a context with distinctive socio-political characteristics. The findings highlight the importance of board expertise in maximizing the value of political connections and offer practical implications for firms and policymakers to prioritize expertise in board appointments as a means of improving governance and corporate performance.*

**Keywords:** Corporate Governance, Expertise Board, Firm Performance, Political Connections

### INTRODUCTION

Political connections are prevalent across various economic and institutional contexts. Firms are considered politically connected when their owners, Board of Commissioners (BOC), or Board of Directors (BOD) maintain close ties with government leaders, members of parliament, politicians, or former high-ranking officials (Faccio 2006). Such connections are often established to gain access to valuable resources, consistent with the principles of resource dependence theory.

These resources may include favorable policies, bailouts, privileged information, and reduced costs of bank loans, which can contribute positively to a company's performance (Broadstock et al. 2020; Faccio 2006; Houston et al. 2014; Prasetyo & Nasution 2022; Saeed et al. 2016; Tee 2018). However, studies have shown mixed results regarding the overall impact of political connections. While some evidence highlights the benefits, other research indicates negative consequences, including poor accounting performance, a tendency

toward expropriation, and lower earnings quality ([Chaney et al. 2011](#); [Habib et al. 2017](#); [Saeed et al. 2016](#)). This dual nature underscores the complex and multifaceted role of political connections in corporate contexts.

Several studies suggest that politically connected boards tend to exhibit lower levels of professionalism and are often associated with higher levels of bureaucratic influence ([Berkman et al. 2010](#); [Cassar 2009](#); [Fan et al. 2007](#)). From the perspective of agency theory, a lack of expertise among commissioners can undermine the effectiveness of monitoring and overall corporate governance performance. Prior research has demonstrated that board expertise, as indicated by industry experience ([Wang et al. 2015](#)) and professional background ([Gray & Nowland 2017](#)), positively impacts corporate performance. The varied effects of political connections on a company's financial performance may be attributed to the insufficient expertise of politically connected boards.

In the context of politically connected boards, their professional backgrounds and experiences tend to vary widely. Some members are purely politicians, while others come from professional, scientific, bureaucratic, or business backgrounds. An example from Indonesia is Muhammad Lutfi, a former head of the Investment Coordinating Board (BKPM) during the administration of President Susilo Bambang Yudhoyono. Before taking office, Lutfi had extensive experience in the business world, serving as a commissioner and holding an academic background in business. Boards with both political connections and expertise may fulfill dual roles: first, providing networks and additional resources through their political ties, and second, effectively performing monitoring and management functions. However, prior

research has yet to thoroughly explore whether boards with both expertise and political connections contribute more positively to corporate performance compared to boards that are politically connected but lack expertise, possess expertise but lack political connections, or lack both expertise and political connections.

The existing literature has not extensively explored the role of expertise in moderating the relationship between political connections and corporate performance. To date, limited studies have examined this topic. Notably, [El Ammari \(2023\)](#) investigated the role of financial expertise in moderating the relationship between political connections and corporate financial performance in Tunisia. This opens an avenue for further research to test the role of expertise in different country contexts. Moreover, prior studies have predominantly utilized financial expertise as a proxy for expertise, leaving room for exploration of other types of expertise in moderating the relationship between political connections and corporate performance.

This study aims to investigate the moderating role of expertise in the relationship between political connections and corporate performance, focusing on the Indonesian context. It provides several contributions to the literature. First, the research setting, Indonesia is particularly compelling due to its unique characteristics regarding political connections. As one of the world's largest democracies, Indonesia is known for its high prevalence of political connections ([Faccio 2006](#); [Murti et al. 2025](#); [Rudyanto et al. 2023](#)). Furthermore, Indonesia's socio-political characteristics differ significantly from Tunisia and Pakistan, which was the context of the previous study ([EL Ammari 2023](#); [Niazi et al. 2021](#)), thereby

enriching the body of empirical evidence. Additionally, this study expands the proxies for expertise. Beyond educational background, it incorporates proxies such as board tenure and industry-specific experience to assess board expertise comprehensively.

This study contributes to the literature by providing empirical evidence on the interaction between board expertise and political connections in influencing corporate performance within a unique setting. The findings underscore the importance of good corporate governance practices, particularly in considering board expertise when appointing politically connected directors or commissioners.

The remainder of this paper is structured as follows. Section 1 outlines the study's background, objectives, and research gap. Section 2 reviews the literature and develops hypotheses. Section 3 describes the methodology, including sample selection, variable definitions, and models. Section 4 presents the results and discusses the findings. Finally, Section 5 concludes with key insights, implications, and future research directions.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### Upper Echelon Theory

Upper echelon theory posits that the characteristics of the top management team (TMT) significantly influence a company's strategies and decisions, ultimately shaping its performance ([Berisha & Miftari 2022](#); [Hambrick & Mason 1984](#)). Key factors such as experience, values, education, and personality play a critical role in determining how commissioners and directors perform their monitoring and policy execution duties. In the context of expertise, politically connected boards with a high level of

expertise are likely to differ in their capacity to monitor and manage effectively, leading to varying impacts on corporate performance.

### Resource Dependence Theory

Resource dependence theory (RDT) explains that organizations, including companies, are heavily reliant on external environmental factors and cannot operate in isolation from inter-organizational relationships. Companies depend on various external organizations, requiring them to take strategic actions to address this dependency ([Hillman et al. 2009](#)). Appointing board members and directors from outside the company is one approach to mitigating external dependency ([Krissanti & Setiadi Tjahjono, 2024](#)). These external board members can help minimize the company's reliance on critical resources or enhance the resources available to the organization ([Ng & Khodakarami 2022](#); [Pfeffer & Salancik 2003](#)).

### Agency Theory

Agency theory posits that a company is a nexus of contracts between management and the owners of the firm ([Jensen & Meckling 1976](#)). These contracts give rise to agency problems, including information asymmetry and conflicts of interest between management and the owners. Corporate governance mechanisms serve as a key approach to mitigating the adverse effects of agency relationships by aligning the interests of management and shareholders.

### Hypothesis Development

Firms establish political connections to reduce uncertainties in their external environment and enhance their resources. This aligns with resource dependence theory, which

posits that firms rely on external resources to sustain their operations ([Hillman et al. 2009](#)). One strategy to address these challenges is the appointment of politically connected members to the Board of Directors (BOD) and Board of Commissioners (BOC), which can help bridge resource gaps and simultaneously enhance firm value. Research has demonstrated various benefits of political connections, such as reducing the cost of equity capital ([Boubakri et al. 2012](#)), where lower capital costs improve operational efficiency and contribute to higher firm value. Additional advantages include reduced borrowing costs, favorable government contracts, and access to government bailouts, all of which have been shown to enhance firm value ([Faccio 2006](#); [Goldman et al. 2009](#); [Prasetyo & Nasution 2022](#)).

While political connections provide various benefits to firms, they also bring negative consequences, such as a tendency for politically connected Boards of Commissioners (BOC) and Boards of Directors (BOD) to engage in expropriation, demonstrate poor accounting performance, lack professionalism, and exhibit strong bureaucratic tendencies ([Berkman et al. 2010](#); [Cassar 2009](#); [Fan et al. 2007](#)). Board expertise, reflected in professionalism, experience, and personal capacity, plays a critical role in shaping the effectiveness of the BOC and BOD in performing their duties. According to upper echelon theory, the values, experiences, education, and personality of BOC and BOD members influence the strategic decisions they make, ultimately impacting firm performance ([Hambrick & Mason 1984](#)).

Previous studies on board expertise indicate that the expertise of the Board of Commissioners (BOC) and Board of Directors (BOD) positively influences market performance

and firm value and contributes to better risk management ([Apergis 2019](#); [Dass et al. 2014](#)). Research by [Wang et al. \(2015\)](#) demonstrates that industry experience possessed by independent directors enhances their monitoring capabilities. Additionally, boards with greater experience tend to receive more favorable market responses compared to boards with less experience ([Gray & Nowland 2013](#)).

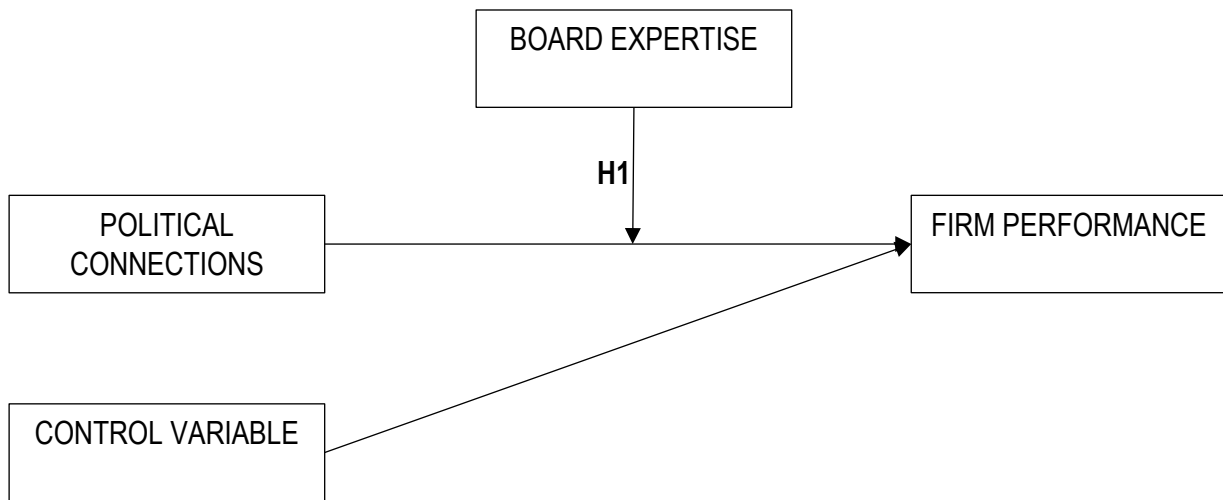
While prior studies have extensively examined the direct relationship between political connections and firm performance, this study focuses specifically on the moderating role of board expertise in this relationship. Given that the link between political connections and firm performance has been widely explored in previous research, we do not retest this direct relationship. Instead, we contribute to the literature by examining whether board expertise strengthens or weakens the relationship between political connections and firm performance. This approach provides a deeper understanding of how variations in board expertise influence the effectiveness of political connections. Based on this, we propose the following hypothesis:

**H<sub>1</sub>: Board expertise moderates the relationship between political connections and corporate performance.**

## METHOD

### Samples and Data

The sample used in this study consists of all firms listed on the Indonesia Stock Exchange (IDX) during the period 2016–2018, excluding banking and financial firms. The 2016–2018 period was selected to avoid the potential distortions caused by the COVID-19 pandemic. The final sample includes 489 firms



**Figure 1. Conceptual Framework**

year. The data for this study were collected using two methods: first, political connections and board expertise data were hand-collected from annual reports and company websites; second, financial data were obtained from DataStream. We handle outliers by applying the winsorizing technique at the 1th and 99th percentiles.

This study tests the hypotheses using panel data regression. To determine whether to apply the random effects or fixed effects model, we conduct a Hausman test to compare the two approaches and select the most appropriate model. Additionally, to ensure the robustness of the results, we perform robustness tests. Figure 1 presents the conceptual framework of this study, where corporate political connections serve as the independent variable, board expertise as the moderator, firm performance as the dependent variable, and several control variables are included.

We use two models in this study: Model 1 shows the direct relationship of the independent variables, while Model 2 includes the interaction between variables. We test the hypotheses through moderating variables in the

second model. The models used in this study are as follows:

$$PBV = \alpha_1 + \beta_1 PC_{ti} + \beta_2 EDU_{ti} + \beta_3 IND_{ti} + \beta_4 EXBOARD_{ti} + \beta_5 SIZE_{ti} + \beta_6 LEV_{ti} + \beta_7 CAPEX_{ti} + \beta_8 GROWTH_{ti} + e \dots \dots \dots (1)$$

$$PBV = \alpha_1 + \beta_1 PC\_GOV_{ti} + \beta_2 PC\_NONGOV_{ti} + \beta_3 MIL_{ti} + \beta_4 EXPERT_{ti} + \beta_5 PCD_{ti} * EDU_{ti} + \beta_6 PCD_{ti} * EXBOARD_{ti} + \beta_7 PCD_{ti} * INDS_{ti} + \beta_8 SIZE_{ti} + \beta_9 CAPEX_{ti} + \beta_{10} LEV_{ti} + \beta_{11} GROWTH_{ti} + e$$

**Variable Description:**

- PBV : Price to book value
- PC : Politically connected board
- EDU : Board member with an educational background in finance or law
- IND : Board members with experience serving as board members in the same industry
- EXBOARD : Board member with experience serving as board members across various industries

PCXEDU :	Interaction term: Political connections (PC) and educational background (EDU)
PCXINDS :	Interaction term: Political connections (PC) and industry experience (IND)
PCXBORD :	Interaction term: Political connections (PC) and cross-industry board experience (EXBOARD)
SIZE :	Firm Size
CAPEX :	Capital expenditures
GROWTH :	Firm growth

### Variable Measurement

#### *Variable Dependent*

The dependent variable in this study is performance (PBV), measured using market-based performance, specifically the price-to-book value (PBV) ratio.

#### *Variabel Independent*

The independent variable in this study is political connections and board expertise. Political connections (PC) following [Murti et al. \(2025\)](#) refers to members of the executive and supervisory boards who have significant political or governmental ties. This includes individuals who:

1. Have served as members of parliament.
2. Are current or former military or police leaders, such as generals.
3. Have held high-ranking government positions, such as presidents, prime ministers, ministers, or senior officials in government offices or ministries.
4. Have family relationships with high-ranking government officials or political party leaders.

Board Expertise is categorized into two dimensions: education and work experience, following the framework of [Jeanjean & Stolowy \(2009\)](#). Work experience is further divided into two types: experience serving as a board member within the same industry and experience serving as a board member across multiple industries. This classification is based on [Wang et al. \(2015\)](#), who found that industry-specific experience has a distinct impact on the board's monitoring capabilities.

#### *Measurement*

In this study, political connections and expertise are measured using dummy variables. For political connections, a score of 1 is assigned if the firm has politically connected board members, and 0 otherwise. The measurement of expertise follows the classification by [Jeanjean & Stolowy \(2009\)](#), which divides expertise into educational background, board experience, and adds industry experience. Each variable is measured as a dummy:

1. EXBOARD: Assigned a value of 1 if board members have experience serving as directors or commissioners across various industries, and 0 otherwise.
2. EDU: Assigned a value of 1 if board members have an educational background in economics, business, accounting, management, or law, and 0 for other fields.
3. IND: Assigned a value of 1 if board members have at least five years of experience in the same industry, and 0 otherwise.

**Table 1. Descriptive statistics**

Variable	Obs	Mean	Std. Dev	Min	Max
PBV	489	1.434	1.115	12	5.76
PCD	489	.358	.48	0	1
EDU	489	.202	.402	0	1
INDS	489	.157	.365	0	1
EXBORD	489	.207	.405	0	1
SIZE	489	21.889	1.574	18.516	26.393
LEV	489	.323	.204	.01	.994
CAPEX	489	.046	.052	0	.39
ROA	489	.104	.081	-.213	.729

**Notes:** PBV: price to book ratio (market-based performance); PC: political connections dummy; EDU: board that has a background in finance and law education; EXBORD: board that previously held a board position; INDS: boards that have previously worked in the same industry; SIZE: The natural logarithm of total assets; LEV: the ratio of total debt to total assets; CAPEX: capital expenditure divided by total assets; ROA: Ebit divided by total assets.

### *Control Variables*

The control variables used in this study include the following: Firm size (SIZE) is expected to have a positive effect on firm performance, as larger firms often have more resources and capabilities. Capital expenditures (CAPEX) represent investments in acquiring assets and are predicted to improve firm performance by increasing production capacity and contributing directly to operational efficiency. Firm growth (GROWTH) is also expected to influence firm performance positively. Older firms with a longer operational history are presumed to have better experience and expertise in managing their operations, leading to higher firm value compared to younger firms.

## **RESULTS**

### **Descriptive Statistics**

Table 1 presents the descriptive statistics for the variables used in this study. The descriptive analysis shows that the market-

based performance of firms, measured by Price to Book Value (PBV), has an average value of 1.434. Approximately 35.8% of firms have political connections on their boards (PCD). Regarding expertise, 20.2% of board members have an educational background in finance or law (EDU). Prior experience as board members (EXBORD) accounts for 20.7%, while experience in the same industry (IND) is 15%, reflecting a generally low level of expertise. Firm size (SIZE) has an average value of 21.889. Leverage (LEV) averages 32.3%, while capital expenditures (CAPEX) represent an average of 4.6% of total assets. These results provide an overview of the key characteristics of the sample firms and their boards.

Table 2 shows the results of Pearson correlations at a 5% significance level. The correlation analysis indicates that PBV is positively and significantly associated with PCD, EDU, CAPEX, and ROA. These findings suggest that political connections, educational background in finance or law, capital

expenditures, and profitability positively contribute to firms' market performance. However, the relationships between PBV and other variables, such as INDS, EXBORD, SIZE, and LEV, are not significant, indicating that these factors do not exhibit a strong linear relationship with market performance within this sample.

**Panel Regression**

The panel regression analysis results presented in Table 3 demonstrate the relationship between political connections, board characteristics, and financial factors with market performance, measured by Price to Book Value (PBV). Model 1 examines the direct relationship between the independent variables and PBV, while Model 2 incorporates interactions between political connections and board characteristics to explore potential moderating effects. This study employs panel regression using the random effects (RE) model. The random effects model was selected based on the results of the Hausman Test, which yielded a probability value greater than 0.05, indicating that the random effects model is more

appropriate than the fixed effects model for this analysis. In the panel regression using the random effects (RE) model, we applied data centering to address multicollinearity issues.

In model 1, the political connections dummy (PCD) exhibits a positive and statistically significant relationship with PBV at the 5% significance level, with a coefficient of 0.209. This suggests that firms with politically connected directors tend to have higher market valuations. Similarly, board education background in finance or law (EDU) is positively associated with PBV, with a coefficient of 0.623, also significant at the 5% level. This finding implies that financial and legal expertise among board members enhances investor confidence and firm valuation.

Model 2 introduces interaction terms between political connections and board characteristics. The interaction between political connections and board members with a background in finance or law (PCXEDU) significantly enhances PBV, as indicated by a coefficient of 0.745, significant at the 5% level.

**Table 2. Pearson Correlation**

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) PBV	1.000								
(2) PCD	0.241*	1.000							
(3) EDU	0.157*	0.516*	1.000						
(4) INDS	0.013	0.392*	0.634*	1.000					
(5) EXBORD	0.053	0.483*	0.724*	0.806*	1.000				
(6) SIZE	0.139*	0.054	-0.022	-0.086	0.000	1.000			
(7) LEV	-0.048	-0.068	-0.009	-0.027	-0.045	0.250*	1.000		
(8) CAPEX	0.251*	0.127*	0.104*	0.114*	0.150*	-0.019	-0.010	1.000	
(9) ROA	0.355*	0.103*	-0.023	-0.032	0.002	0.106*	-0.035	0.211*	1.000

**Notes:** PBV: price to book ratio (market-based performance); PC: *political connections* dummy; EDU: board that has a background in finance and law education; EXBORD: board that previously held a board position; INDS: boards that have



previously worked in the same industry; SIZE: The natural logarithm of total assets; LEV: the ratio of total debt to total assets; CAPEX: *capital expenditure* divided by total assets; ROA: Ebit divided by total assets.\* p<0.05

**Table 3. Panel Regressions**

VARIABLES	(1) PBV	(2) PBV
PCD	0.209** (0.106)	0.227** (0.109)
EDU	0.623** (0.250)	0.248 (0.283)
INDS	-0.0861 (0.307)	0.486 (0.407)
EXBORD	-0.421 (0.325)	-0.563 (0.407)
PCXEDU		0.745** (0.312)
PCXINDS		-1.036** (0.484)
PCXEXBORD		0.0155 (0.483)
SIZE	0.0748 (0.0461)	0.0802* (0.0457)
LEV	-0.375 (0.285)	-0.347 (0.283)
CAPEX	3.379*** (0.772)	3.549*** (0.774)
ROA	2.063*** (0.529)	1.994*** (0.525)
CONSTANT	-0.415 (0.989)	-0.513 (0.980)
Observations	489	489
Number of id	186	186
Overall R-sq	0.219	0.229
Prob > Chi2	0.000	0.000

**Notes:** PBV: price to book ratio (market-based performance); PC: *political connections* dummy; EDU: board that has a background in finance and law education; EXBORD: board that previously held a board position; INDS: boards that have previously worked in the same industry; PCXEDU: interaction between political connections (dummy) and board members with a background in finance or law; PCXINDS: interaction between political connections (dummy) and board members with industry-specific experience; PCXEXBORD: interaction between political connections (dummy) and board members with prior

board experience; SIZE: The natural logarithm of total assets; LEV: the ratio of total debt to total assets; CAPEX: *capital expenditure* divided by total assets; ROA: Ebit divided by total assets. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**Table 4. Panel Regression**

VARIABLES	(1) PBV	(2) PBV
PCP	0.711** (0.317)	0.545* (0.328)
EDU	0.645*** (0.249)	0.667** (0.300)
INDS	-0.175 (0.309)	0.261 (0.410)
EXBORD	-0.339 (0.326)	-0.836** (0.399)
PCPXEDU		-0.0131 (0.867)
PCPXINDS		-2.312* (1.254)
PCPXEXBORD		2.694** (1.201)
SIZE	0.0625 (0.0466)	0.0616 (0.0467)
LEV	-0.323 (0.286)	-0.329 (0.286)
CAPEX	3.400*** (0.768)	3.480*** (0.769)
ROA	2.081*** (0.527)	2.171*** (0.530)
Constant	-0.231 (0.997)	-0.215 (0.998)
Observations	489	489
Number of groups	186	186
Overall R-sq	0.212	0.221
Prob > Chi2	0.000	0.000

**Notes:** PBV: price to book ratio (market-based performance); PCP: proportion of politically connected board members; PCPXEDU: interaction between the proportion of political connections and board members with a background in finance or law. PCPXIND: interaction between the proportion of political connections and board members with industry-specific experience. PCPXEXBORD: interaction between the proportion of political connections and board members with prior board experience. SIZE: The natural logarithm of total assets; LEV : the ratio of total debt to total assets; CAPEX: capital expenditure

divided by total assets; ROA: Ebit divided by total assets; EDU: board that has a background in finance and law education; EXBORD: board that previously held a board position; INDS: boards that have previously worked in the same industry. Standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

This suggests that the combination of political connections and specialized expertise in finance or law strengthens the firm's market valuation. This result aligns with upper-echelon theory, which highlights the importance of top management team (TMT) characteristics in shaping firm strategies and decisions, ultimately influencing its overall performance ([Hambrick & Mason 1984](#)). These insights shed light on the nuanced ways in which political connections and board characteristics influence market perceptions of firms.

Interestingly, the interaction between political connections and board members with industry-specific experience (PCXINDS) shows a negative and highly significant relationship with PBV, with a coefficient of -1.036 at the 5% significance level. This suggests that while industry experience may provide valuable knowledge, its combination with political connections could signal overreliance on niche networks or specialized practices that limit strategic flexibility. This finding invites further investigation into whether such combinations may inadvertently constrain firms' adaptability in broader market contexts.

The interaction between political connections and cross-industry board experience (PCXEXBORD) is not statistically significant, indicating that prior board experience across multiple industries does not significantly alter the relationship between political connections and PBV. This result implies that the benefits of political connections may not necessarily depend on the diversity of board members' professional experiences.

Control variables in both models yield consistent results. CAPEX and ROA maintain a strong positive and significant relationship with PBV, highlighting the importance of capital investment and profitability in driving market valuation. Leverage (LEV) remains insignificant across both models, suggesting that debt levels do not play a critical role in determining PBV in this sample. Board characteristics such as prior board experience (EXBORD) also remain insignificant, implying that general board experience does not significantly influence market valuation.

These findings provide empirical support for both resource dependence and upper echelon theories. The significant role of political connections highlights their value in enhancing market performance through external resource acquisition. However, the moderating role of board characteristics demonstrate the nuanced ways in which these connections operate. Educational background in finance or law amplifies the positive impact of political connections, while industry-specific experience appears to constrain their benefits. The results of this study also support previous research highlighting the importance of board characteristics in shaping corporate strategy and firm performance ([Adnindya & Restuti 2024](#); [Gray & Nowland 2013](#); [Gray & Nowlan 2017](#); [Jurnali & Manurung 2023](#)).

### **Robustness Test**

This study conducts robustness tests to ensure the reliability of the results. The robustness test is performed by modifying the measurement of political connections. Instead of

using a dummy variable to indicate the presence of political connections, the robustness test employs the proportion of politically connected board members as an alternative measure. This approach allows for a more nuanced assessment of the extent to which political ties within the board influence market performance.

The results of the robustness tests are presented in Table 4. The results remain consistent with the main findings. Political connections (PCP) continue to show a positive and significant relationship with PBV, with stronger effects than in the main regression. Board education background (EDU) also maintains a significant positive effect, reinforcing its role in enhancing firm valuation.

Unlike the main regression, where the interaction between political connections and board education background (PCPXEDU) was significantly positive, the robustness test shows that this interaction is not significant. The interaction between political connections and industry-specific board experience (PCPXIND) remains negative and significant, suggesting that such experience may limit the benefits of political ties. Meanwhile, the interaction with cross-industry board experience (PCPXEXBORD) becomes significantly positive, unlike in the main analysis, indicating that broader boardroom exposure enhances the value of political connections. These results confirm the robustness of the findings, indicating that political connections significantly influence firm valuation, and their effects are shaped by board characteristics.

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## CONCLUSION

This study examines the relationship between political connections, board expertise, and financial factors on firms' market performance, measured through Price to Book Value (PBV).

The analysis reveals that political connections are significantly associated with PBV, particularly when interacted with board expertise. Boards with an educational background in finance or law strengthen the positive relationship between political connections and PBV, while experience in the same industry tends to weaken this relationship. Overall, these findings highlight the strategic role of political connections and board expertise in shaping market perceptions of firms. The presence of board members with specific competencies can enhance or even positively contribute to firms' market performance.

Based on these findings, firms should not rely solely on political connections within their boards but ensure the inclusion of board members with relevant educational backgrounds and expertise, particularly in finance or law, to strengthen market perceptions. Regulators should promote governance policies that emphasize the importance of board competence to support transparency and accountability. Future research could explore deeper mechanisms involving the interaction between political connections, board characteristics, and other performance indicator.

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