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Political Connections, Board Size, and Firm Performance: Evidence from Indonesian Listed State-Owned Enterprises

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Abstract: Political connections and board size are central corporate governance issues in publicly listed state-owned enterprises (SOEs), where government ownership and political involvement may shape corporate decision-making. Prior studies report inconsistent findings on how political connections and board size relate to firm performance, and evidence focusing on Indonesian listed SOEs remains limited. This study therefore examines the effects of political connections and board size on the firm performance of publicly listed SOEs in Indonesia during 2020–2024. Using secondary data from the Indonesia Stock Exchange and company annual reports, and purposive sampling, it analyzes 40 firm-year observations from eight non-financial listed SOEs. Firm performance is measured by return on assets (ROA), political connections by a dummy variable indicating at least one politically connected commissioner, and board size by the number of commissioners. The data are analyzed using descriptive statistics, classical assumption tests, and multiple linear regression. The results show that political connections and board size both have positive and significant effects on firm performance, and the model explains 37.3% of the variation in ROA (adjusted $R^2 = 0.373$). The findings contribute to Agency Theory and Resource Dependence Theory by showing that political connections and board size can function as strategic resources in Indonesian listed SOEs. Practically, they underline the importance of managing political connections transparently and maintaining an effective board size. Given the small sample, the results should be interpreted with caution.

Keywords: Political Connections; Board Size; Firm Performance; Return on Assets; State-Owned Enterprises.

Introduction

State-owned enterprises (SOEs) occupy a distinctive position in the Indonesian economy. Beyond generating profits, they serve as instruments of national development and as providers of public goods and services, so that commercial and public-policy mandates are closely intertwined. As publicly listed companies, SOEs are also expected to remain accountable and to sustain their performance for shareholders and other stakeholders. Firm performance is therefore a key indicator of managerial effectiveness and of a firm's ability to generate returns from the resources it controls (Herianti et al, 2020).

The governance of SOEs unfolds in an institutional environment that differs from that of privately controlled firms, because the government acts simultaneously as controlling owner, regulator, and policymaker. Under Indonesia's two-tier governance system, the board of commissioners performs the supervisory function, which makes its composition and structure especially consequential for how SOEs are monitored and how they obtain government-related resources. Two board-level characteristics are particularly salient in this regard: the political connections of commissioners and the size of the board. Both may affect firm performance, yet the direction of their effects remains theoretically ambiguous and empirically unsettled.

Political connections refer to relationships between a firm and political actors or government officials, and competing theoretical perspectives interpret them differently. From an Agency Theory perspective, as formulated by Jensen & Meckling (1976), political connections may intensify conflicts of interest between management and shareholders. In contrast, Resource Dependence Theory, as articulated by Pfeffer & Salancik (1978), implies that political connections can provide firms with access to strategic resources and government-related opportunities. Consistent with this theoretical tension, the empirical evidence is inconclusive. Several studies report a positive effect of political connections on firm performance (Cahyono & Ardianto, 2024; Latif et al., 2024; Putri & Mirayani, 2025), whereas others find negative or insignificant effects (Fadio et al., 2024; Rahmawati et al., 2022).

Board size is the second governance characteristic examined in this study. Following Melania (2022), board size is defined as the number of members serving on the board of commissioners, including independent commissioners. From a monitoring perspective, a larger board may strengthen supervision and improve corporate governance, which can contribute to better firm performance (Abdullah & Inawati, 2024; Sakinah & Rambe, 2024). However, an

excessively large board may also create coordination problems and reduce the effectiveness of decision-making, thereby weakening firm performance, as discussed by Kurniawati & Setiawan (2022). Board size thus involves a trade-off between the monitoring and resource benefits of additional members and the coordination costs they may generate.

Taken together, the inconsistent evidence on both characteristics points to several gaps in the literature. First, the divergent findings suggest that the effects of political connections and board size depend on institutional context rather than being uniformly positive or negative. Second, prior studies have generally focused on specific sectors, such as manufacturing, banking, or non-financial firms, whereas research specifically examining publicly listed SOEs in Indonesia remains limited, despite the distinctive characteristics arising from government ownership and potential political involvement in corporate governance. Third, political connections and board size are often examined separately, even though both operate through the same board of commissioners and invoke the same competing monitoring and resource-provision logics. Whether these characteristics function as strategic resources or as sources of agency and coordination costs in listed SOEs therefore remains an open empirical question.

This study addresses these gaps by examining the effects of political connections and board size on the performance of publicly listed SOEs in Indonesia during the 2020–2024 period. Specifically, it asks two research questions: (1) Do political connections influence the financial performance of publicly listed SOEs? and (2) Does board size enhance or constrain firm performance in the institutional context of Indonesian SOEs? Drawing on Agency Theory and Resource Dependence Theory, the analysis uses 40 firm-year observations from eight publicly listed SOEs. Firm performance is measured by return on assets (ROA), political connections by a dummy variable, and board size by the number of commissioners, and the data are analyzed using multiple linear regression. The results show that both political connections and board size have positive and significant effects on firm performance.

This study makes two contributions. Theoretically, it contributes to Agency Theory and Resource Dependence Theory by providing evidence that political connections and board size can function as strategic resources in the context of Indonesian listed SOEs. Practically, the findings highlight the importance for SOE shareholders, boards, and regulators of managing political connections transparently and maintaining an effective board size to support firm performance. The remainder of the paper is organized as follows: the next section reviews the

relevant literature, followed by the research methodology, results, discussion, research implications, and conclusion.

Literature Review

Agency Theory and Resource Dependence Theory: Competing Perspectives

Agency Theory conceptualizes the relationship between shareholders (principals) and managers (agents) who are entrusted with managing corporate resources. Jensen & Meckling, (1976) explain that the separation of ownership and control creates potential conflicts of interest, because managers may pursue objectives that are not always aligned with shareholders' interests. These conflicts generate agency costs, particularly when shareholders have limited capacity to monitor managerial decisions. Corporate governance mechanisms are therefore needed to monitor management, reduce information asymmetry, and protect shareholders' interests.

Fama & Jensen (1983) further explain that separating decision management from decision control can reduce agency problems by assigning monitoring responsibilities to appropriate governance mechanisms. In this context, the board of commissioners plays a central role in supervising management and ensuring that managerial decisions remain consistent with organizational objectives.

In contrast, Resource Dependence Theory (RDT) views organizations as entities that depend on resources controlled by external actors. Pfeffer & Salancik (1978) argue that organizations develop relationships with external stakeholders to reduce uncertainty, secure critical resources, and manage environmental dependence. The board can therefore perform not only a monitoring function but also a resource-provision function by supplying expertise, information, legitimacy, and external networks.

Recent corporate governance research further supports the integration of Agency Theory and RDT. Bakri et al., (2024), for example, explicitly combine the two perspectives and argue that a larger board may improve monitoring while simultaneously increasing access to expertise, skills, and external relationships. Singh (2025) similarly demonstrates that governance effectiveness in emerging markets can depend on board networks and on the firm's ability to access financial, institutional, and knowledge resources.

These two theories thus offer competing yet complementary explanations for the effects of political connections and board size. From an Agency Theory perspective, political connections may create additional agency costs when political interests interfere with corporate objectives,

undermine board independence, or encourage decisions that are not aligned with shareholders' interests. Conversely, RDT suggests that political connections can provide access to government information, institutional networks, regulatory knowledge, and strategic resources.

A similar theoretical tension applies to board size. Agency Theory suggests that a larger board may strengthen monitoring because more commissioners can participate in supervision and provide broader oversight of management, although an excessively large board may aggravate communication and coordination problems. RDT, in turn, emphasizes the benefits of a larger board, since additional members can contribute broader expertise, professional experience, networks, and access to external stakeholders.

Consequently, the effects of political connections and board size on firm performance cannot be understood from a single theoretical perspective. The central question is whether the resource and monitoring benefits outweigh the potential agency, coordination, and political-intervention costs. This trade-off is particularly salient in Indonesian SOEs, where government ownership and political influence are closely intertwined with the firm's institutional environment.

The Institutional Context of Indonesian State-Owned Enterprises

Indonesian SOEs operate in an institutional environment that differs from that of privately controlled firms. The government simultaneously acts as owner, regulator, policymaker, and an important provider of strategic resources. Consequently, SOEs may pursue commercial objectives while also bearing broader economic and public-policy responsibilities.

The relationship between government ownership and firm performance is neither uniformly negative nor uniformly positive. Aguilera et al (2021) show, using international meta-analytic evidence, that the relationship between state ownership and firm performance varies substantially across national contexts and depends partly on political ideology and institutional conditions. More recently, Håpnes et al (2025) argue that state ownership can offer an alternative source of access to resources in environments where markets and institutions are less developed. Together, these findings indicate that the consequences of state ownership depend on the institutional environment in which SOEs operate.

In Indonesia, the political dimension of SOE governance is particularly relevant. Apriliyanti & Randøy (2019) demonstrate that boardroom decision-making in Indonesian SOEs

can be shaped by board members' motivations, the distribution of power, and political interference. Such interference may affect the quality of board decisions, which implies that SOE governance cannot be fully separated from the political environment.

Recent Indonesian research also stresses the importance of governance for SOE performance. N. J. Jahja et al. (2024) examine corporate governance and the performance of Indonesian state-owned companies from agency and institutional perspectives, whereas Jahja et al (2026) provide qualitative evidence that Indonesian SOEs may treat governance mechanisms largely as instruments of compliance and legitimacy rather than purely as tools for improving performance.

This institutional environment creates a theoretical tension. From the RDT perspective, government relationships may facilitate access to information, networks, financing, regulatory support, and other strategic resources. From the Agency Theory perspective, the same political influence may generate conflicts among commercial objectives, government objectives, and the interests of minority shareholders.

Political connections in Indonesian SOEs should therefore not be regarded automatically as either beneficial or harmful. Their effect depends on whether the resource and institutional benefits obtained through political relationships exceed the associated agency and political-intervention costs.

Political Connections

Political connections refer to relationships between firms and political or governmental actors that may provide access to political influence, institutional information, networks, or government-related resources. Faccio (2006) provides one of the most widely used definitions of politically connected firms, identifying them as firms whose important corporate actors have relationships with politicians or political institutions.

Political connections can take several forms, including political positions, government positions, legislative positions, political party affiliations, and other relationships with political or governmental institutions. Their consequences, however, may differ depending on the type of connection and the position held by the connected individual.

This study focuses on political connections involving members of the board of commissioners, including independent commissioners. This focus is consistent with Indonesia's two-tier corporate governance system, in which the board of commissioners performs supervisory functions while the board of directors is responsible for managing the company.

Political connections are identified from the political or governmental backgrounds of members of the board of commissioners, including government officials, members of legislative institutions, individuals affiliated with political parties, senior bureaucrats, military and police officers, and individuals holding other significant political or governmental positions.

A company is classified as politically connected when at least one commissioner or independent commissioner has a political or governmental background, such as a government position, a legislative position, a political party affiliation, or another significant political or governmental role. The variable is operationalized as a dummy variable, coded 1 if the firm has at least one politically connected commissioner or independent commissioner and 0 otherwise.

The focus on supervisory boards is supported by Joni et al (2020), who separately examine political connections involving supervisory boards and boards of directors in Indonesian listed firms. Their results indicate that political connections involving supervisory boards are more strongly associated with firm performance than those involving boards of directors.

Recent Indonesian evidence provides further support for examining independent supervisory boards. Dharmawan et al (2024) find a positive and significant relationship between political connections involving independent supervisory boards and firm performance among Indonesian listed companies. Putriani et al (2024) likewise find that politically connected commissioners are associated with higher ROA in Indonesian banking firms.

Examining political connections through commissioners and independent commissioners is therefore theoretically relevant, because these individuals operate primarily within the supervisory function of the Indonesian two-tier governance system.

Political Connections and Firm Performance

Political connections can affect firm performance through both resource-related benefits and governance-related costs. From the Resource Dependence perspective, politically connected commissioners may provide access to government information, institutional networks, regulatory knowledge, and strategic resources, which can help firms reduce environmental uncertainty and respond to changes in government policy.

Political connections may also confer institutional legitimacy. This mechanism is particularly relevant for SOEs because their activities are closely tied to government policies and regulations. In highly regulated or strategically important industries, knowledge of government policy and access to institutional networks may help firms manage regulatory uncertainty.

Evidence from emerging markets supports this resource-access argument. Dinh et al. (2022) demonstrate that political connections can influence firm performance in transition economies, although the effect depends on the institutional environment and organizational characteristics. Bai et al. (2024) further show that political ties can contribute to firm performance when firms are able to effectively utilize the social capital embedded in those relationships.

Agency Theory, however, offers an alternative explanation. Political connections may increase agency costs when politically connected individuals pursue political or social objectives that are not aligned with firm value. Political intervention may also weaken board independence and create opportunities for rent-seeking.

Habib et al. (2018) emphasize that the empirical literature on political connections is inconclusive and that differences in definitions, measurement, and institutional environments are important sources of variation. Prasetyo & Nasution, (2021), through a meta-analysis, find an overall positive association between political connections and firm performance, while also showing that the relationship varies with the type of political connection and the performance measure.

Evidence from Indonesia is similarly mixed. Faisal et al. (2021) find a positive relationship between political connections and firm performance and identify sustainability disclosure as a mediating mechanism. Supatmi, (2022), however, shows that the effect of political connections depends on leverage, while Cahyono & Ardianto, (2024) demonstrate that political connections can also act as a moderating factor in the relationship between intellectual capital and firm performance.

Other recent research suggests that political connections may have adverse consequences. Lee et al. (2026) find that political connections can exacerbate agency problems in related-party transactions, particularly when such transactions are associated with value-destroying activities. These differences indicate that political connections cannot be treated as universally beneficial or harmful. Their consequences depend on the institutional context, ownership structure, type of

political connection, position of the connected individual, governance mechanisms, industry characteristics, and the measurement of firm performance.

This distinction is especially important for Indonesian SOEs. Political connections in privately controlled firms may operate differently from those in SOEs, because in SOEs the government is already the controlling shareholder and a major institutional actor. In such an environment, political connections through commissioners may provide institutional knowledge and access to government networks that are particularly valuable for managing regulatory and political uncertainty. Accordingly, this study expects the resource-access mechanism predicted by RDT to dominate potential agency costs in the context of Indonesian listed SOEs.

The Potential Non-Linear Relationship Between Political Connections and Firm Performance

The relationship between political connections and firm performance may not be linear. At relatively low levels of political connection, additional ties may provide access to valuable information, government resources, institutional networks, and regulatory support. When political involvement becomes excessive, however, the marginal benefits may decline while political intervention, rent-seeking, and agency costs increase.

The Indonesian evidence of Joni et al. (2020) is particularly relevant. Their study explicitly estimates a quadratic relationship and finds that political connections involving supervisory boards are not monotonically related to firm performance: political connections may initially generate benefits, but the relationship declines beyond a certain level.

The possibility of non-linearity also helps explain why previous studies report conflicting findings. Firms with different levels, forms, and types of political connections may experience different balances between resource benefits and political costs. The recent meta-analysis by Prasetyo & Nasution, (2021) similarly shows that the effects of political connections vary across connection types and performance measures.

The present study, however, does not test a non-linear model. The non-linear discussion is included as a theoretical boundary condition and as an explanation for the inconsistent findings in the prior literature. The empirical model focuses on the linear effect of the presence of political connections among commissioners and independent commissioners on firm performance.

Board Size and Firm Performance: A Trade-Off Perspective

Board size refers to the number of members serving on the board of commissioners. In this study, board size includes all members of the board of commissioners, including independent

commissioners. From an Agency Theory perspective, a larger board can strengthen monitoring capacity because more commissioners can participate in supervision and provide broader oversight of management. Additional commissioners may also reduce information asymmetry and strengthen scrutiny of managerial decisions.

From the Resource Dependence perspective, a larger board can provide broader expertise, professional experience, external networks, institutional knowledge, and relationships with external stakeholders. The board can thus function as a reservoir of organizational resources rather than merely as a monitoring mechanism. Recent literature emphasizes that board size should be understood through this trade-off. Ahrens et al. (2026), in a meta-analysis of 346 studies across 110 countries, argue that larger boards simultaneously provide additional resources and generate greater coordination demands. Their findings indicate that the effect of board size is context dependent rather than universally positive or negative.

Bakri et al. (2024) similarly integrate Agency Theory and RDT and argue that larger boards can improve monitoring while providing additional skills and expertise. Shabbir et al. (2024) find that stronger board structures are associated with greater firm efficiency in emerging Asian markets. Nevertheless, larger boards can create communication and coordination costs. A board with too many members may struggle to reach consensus, make decisions more slowly, and dilute individual accountability. Venkatesh et al. (2025) demonstrate that board members' external commitments can also reduce monitoring effectiveness once a threshold is exceeded, which illustrates the broader importance of board capacity and coordination. Board size therefore represents a trade-off between the benefits of additional monitoring, expertise, diversity, and external resources and the costs of communication, coordination, and slower decision-making.

Empirical Evidence on Board Size and Firm Performance

Empirical evidence on board size remains mixed. Yasser et al. (2017) find a positive relationship between board size and firm performance in an emerging-market setting, suggesting that additional board members can contribute to monitoring and corporate decision-making. In Indonesia and Malaysia, Fajarwati & Witiastuti (2022) find that board size has a significant positive effect on the performance of manufacturing companies listed on the Indonesia Stock Exchange and Bursa Malaysia, suggesting that larger boards can contribute to broader monitoring and decision-making capacity.

Not all evidence, however, supports a positive relationship. Pratiwi & Chariri (2021) find that board size has a negative effect on ROA among Indonesian manufacturing firms. A similar negative relationship between board size and firm performance has been reported for East African frontier markets (Fajarwati & Witiastuti, 2022). International evidence also yields different results. Al-Faryan (2021) emphasizes that board composition and independence can influence performance in emerging markets. Al-Saidi (2021) finds that board size can be associated with firm performance in Kuwait, whereas Johani & Atm (2022) find that board size has no statistically significant effect on corporate financial performance in British manufacturing firms.

Miao et al. (2023) further demonstrate that the effects of board characteristics on firm performance vary across governance mechanisms and sectors. Jiang et al (2024) show that board structure may affect ROA through mechanisms such as cash holdings, and Khatib et al (2024) also finds that the effects of board characteristics on performance differ depending on the firm's capital structure.

These findings demonstrate that board size cannot be evaluated independently of institutional context. The same number of board members may produce different outcomes depending on ownership structure, industry complexity, the regulatory environment, board expertise, and governance quality. For Indonesian SOEs, the complexity of operations and the number of stakeholders involved may increase the value of additional supervisory capacity. SOEs must balance commercial objectives with government and public interests and often operate in strategically important industries. A broader board may therefore provide additional expertise and institutional networks that help firms respond to complex organizational and regulatory environments. Consequently, although larger boards may create coordination costs, this study expects the benefits of additional monitoring capacity, expertise, and external resources to outweigh those costs in Indonesian listed SOEs.

Firm Performance

Firm performance reflects the extent to which a company uses its resources effectively and efficiently to achieve its financial objectives. It is an important indicator of managerial effectiveness and of the consequences of corporate governance mechanisms. Performance can be measured using accounting-based and market-based indicators. Accounting measures include return on assets (ROA) and return on equity (ROE), whereas market-based measures include

Tobin's Q and stock returns. The choice of performance measure can influence empirical results, as demonstrated by Prasetyo & Nasution (2021).

This study uses return on assets (ROA) as the measure of firm performance. ROA captures a firm's ability to generate net income from the total assets it controls and therefore indicates how effectively the company uses its asset base to generate economic returns.

ROA is calculated as follows:

$$\text{ROA} = (\text{Net Income} / \text{Total Assets}) \times 100\%$$

A higher ROA indicates more effective use of assets to generate profit, whereas a lower or negative ROA indicates weaker asset utilization and financial performance. ROA is particularly appropriate for this study because the sampled SOEs operate in different industries with different capital structures. By evaluating profitability relative to the asset base, ROA provides an accounting-based indicator that is comparable across firms. Recent research on Indonesian companies, including studies of political connections, corporate governance, and SOEs, also continues to use ROA as an important accounting-based measure of firm performance.

Political Connections and Firm Performance: Hypothesis Development

Agency Theory predicts that political connections may negatively influence firm performance, because political involvement can increase agency costs, create conflicts of interest, and reduce the independence of corporate decision-making. Political connections may be used to pursue political or social objectives rather than to maximize shareholder value.

Resource Dependence Theory, in contrast, predicts that political connections can improve performance by providing access to external resources, government information, institutional networks, regulatory knowledge, and political support. These resources may help firms reduce uncertainty and strengthen their position within the institutional environment.

The RDT mechanism is particularly relevant to Indonesian SOEs. The government is not only the controlling shareholder but also a regulator, policymaker, and provider of strategic resources. Commissioners with political or governmental backgrounds may therefore supply institutional knowledge and networks that help SOEs manage their dependence on government-related resources.

The empirical evidence also supports the positive resource-access mechanism. Joni et al (2020) show that political connections involving supervisory boards are significantly associated with firm performance in Indonesia, and Dharmawan et al (2024) similarly find a positive

relationship between politically connected independent supervisory boards and firm performance.

The meta-analysis of Prasetyo & Nasution (2021) provides broader support by showing an overall positive association between political connections and firm performance, although the effect varies with the type of political connection and the performance measure.

Given the institutional characteristics of Indonesian SOEs and the expectation that resource benefits will dominate potential agency costs, the first hypothesis is formulated as follows:

H1: Political connections have a positive and significant effect on the financial performance of publicly listed state-owned enterprises in Indonesia.

Board Size and Firm Performance: Hypothesis Development

Board size can influence firm performance through monitoring capacity, expertise, diversity, and access to external resources. Agency Theory suggests that a larger board can improve monitoring and reduce information asymmetry, whereas Resource Dependence Theory suggests that additional commissioners can provide broader expertise, networks, and institutional resources.

The recent meta-analysis by Ahrens et al (2026) demonstrates that the relationship between board size and firm performance is context dependent, because larger boards simultaneously increase resource availability and coordination demands. A positive relationship therefore cannot be assumed merely because a board is larger.

For Indonesian SOEs, however, the benefits of a larger board are expected to be relatively important. SOEs operate in complex institutional environments and interact with numerous stakeholders, including government institutions, regulators, investors, employees, customers, and the broader public.

A larger board may provide greater supervisory capacity and a broader range of professional expertise, and commissioners with different professional backgrounds can contribute different perspectives and external networks. These advantages are expected to improve the board's ability to monitor management and respond to complex institutional conditions. Although larger boards may increase coordination costs, this study expects the benefits of monitoring capacity, expertise, and external resource access to outweigh these costs in Indonesian listed SOEs.

Accordingly, the second hypothesis is formulated as follows:

H2: Board size has a positive and significant effect on the financial performance of publicly listed state-owned enterprises in Indonesia.

Conceptual Framework

Drawing on Agency Theory and Resource Dependence Theory, this study proposes that political connections and board size influence the financial performance of publicly listed SOEs in Indonesia. Political connections may influence firm performance through access to government resources, institutional networks, regulatory information, and political support, whereas board size may influence performance through monitoring capacity, expertise, professional diversity, and external networks.

Accordingly, the conceptual framework is formulated as follows:

Political Connections (X1) → Firm Performance (Y)

Board Size (X2) → Firm Performance (Y)

Where:

X1 = Political Connections, measured using a dummy variable based on the existence of at least one politically connected commissioner or independent commissioner.

X2 = Board Size, measured by the total number of members of the board of commissioners, including independent commissioners.

Y = Firm Performance, measured using Return on Assets (ROA).

Research Methodology

This study employs a quantitative, explanatory research design to examine the effects of political connections and board size on the financial performance of publicly listed state-owned enterprises (SOEs) in Indonesia. A quantitative approach was adopted because the study analyzes numerical data and empirically tests the hypothesized relationships between the independent and dependent variables. The data are secondary and were obtained from the Indonesia Stock Exchange (IDX) and the official annual reports of the sampled companies for the 2020–2024 period.

The population comprises all SOEs listed on the Indonesia Stock Exchange during the 2020–2024 observation period. The sample was selected through purposive sampling based on four criteria: (1) the company is an SOE listed on the Indonesia Stock Exchange throughout the

2020–2024 period; (2) the company consistently published annual reports during the observation period; (3) the company provided complete information on its board of commissioners, their political backgrounds, and its financial performance; and (4) the company operates in a non-financial sector. These criteria yielded eight companies. With a five-year observation period, the final dataset comprises 40 firm-year observations.

Variables were operationalized as follows to ensure consistent measurement. The dependent variable, financial performance, is proxied by return on assets (ROA), which reflects a company's ability to generate net income from its total assets and is calculated as net income divided by total assets, multiplied by 100%.

Political connection, the first independent variable, is measured as a dummy variable. A company is coded 1 if at least one member of its board of commissioners has a political or governmental connection and 0 otherwise. Political connections are identified from the backgrounds of board members, including individuals who have served or currently serve as government officials, members of legislative institutions, political party affiliates, senior bureaucrats, or military and police officers.

Board size, the second independent variable, is measured by the total number of members of the board of commissioners, including independent commissioners. Board size reflects the capacity of a company's supervisory structure and may influence the effectiveness of monitoring, strategic decision-making, and corporate governance.

Data were collected through documentation, using annual reports, financial statements, and corporate governance reports published by the sampled companies and the Indonesia Stock Exchange. Information on political connections and board size was obtained from the profiles and composition of the boards of commissioners, while financial data were taken from the companies' annual financial statements.

The data were analyzed using multiple linear regression in the Statistical Package for the Social Sciences (SPSS). Descriptive statistics were first computed to characterize the data. Classical assumption tests, namely normality, multicollinearity, and heteroscedasticity tests, were then conducted to verify that the regression model satisfied the required assumptions.

The hypotheses were tested using partial significance tests (t-tests) to assess the individual effects of political connections and board size on financial performance, and the adjusted coefficient of determination (adjusted R^2) was used to assess the proportion of variation in

financial performance explained by the model. The multiple linear regression model is specified as follows:

$$ROA = \alpha + \beta_1PC + \beta_2BS + e$$

where ROA denotes financial performance, α the constant, PC political connection, BS board size, β_1 and β_2 the regression coefficients, and e the error term.

Results

Descriptive Statistics

Descriptive statistics for the 40 observations from eight publicly listed SOEs in Indonesia over the 2020–2024 period are presented in Table 1. The dependent variable, financial performance, is measured by ROA, which has a mean of 5.6543%, a maximum of 27.71%, and a minimum of −3.96%. The standard deviation of 6.76440 exceeds the mean, indicating considerable variation in the financial performance of the sampled companies during the observation period.

Political connection ranges from 0 to 1, with a mean of 0.8250 and a standard deviation of 0.38481. Because this variable is binary, the mean indicates that most firm-year observations (82.5%) involve companies with at least one commissioner who has a political or governmental background. Board size ranges from 5 to 10 members, with a mean of 6.5750 and a standard deviation of 1.17424, indicating differences in the number of commissioners among the sampled SOEs.

Table 1. Descriptive statistics (N = 40)

Variable	N	Minimum	Maximum	Mean	Std. deviation
ROA (%)	40	−3.96	27.71	5.6543	6.76440
Political connection (PC)	40	0	1	0.8250	0.38481
Board size (BS)	40	5	10	6.5750	1.17424

Note: ROA = return on assets; PC = dummy variable (1 = at least one politically connected commissioner); BS = number of commissioners.

Classical Assumption Tests

Prior to hypothesis testing, classical assumption tests were conducted to verify the suitability of the multiple linear regression model. The Kolmogorov–Smirnov normality test yields a significance value of 0.200, which exceeds the 0.05 threshold, indicating that the data are normally distributed. The multicollinearity test shows tolerance values of 0.919 and variance inflation factor (VIF) values of 1.089 for both political connection and board size. Because

tolerance exceeds 0.10 and VIF is below 10, the regression model is free from multicollinearity. The heteroscedasticity test yields significance values of 0.598 for political connection and 0.508 for board size. Because both values exceed 0.05, there is no evidence of heteroscedasticity in the regression model. The data therefore satisfy the classical assumptions required for multiple linear regression analysis.

Hypothesis Testing Results

The regression results, reported in Table 2, indicate that political connection has a positive and significant effect on financial performance (coefficient = 7.679, $t = 3.140$, $p = 0.003 < 0.05$). Companies with political connections thus tend to exhibit higher financial performance as measured by ROA, and the first hypothesis (H1) is supported. Board size also has a positive and significant effect on financial performance (coefficient = 1.637, $t = 2.043$, $p = 0.048 < 0.05$). An increase in the number of commissioners is therefore associated with higher financial performance, and the second hypothesis (H2) is supported.

Table 2. Multiple linear regression results

Variable	Coefficient	t-value	Sig.	Hypothesis
Constant	-11.442	-	-	-
Political connection (PC)	7.679	3.140	0.003	H1 supported
Board size (BS)	1.637	2.043	0.048	H2 supported

Note: Dependent variable = ROA; adjusted $R^2 = 0.373$; $N = 40$. “-” = not reported.

The estimated multiple linear regression equation is expressed as follows:

$$\text{ROA} = -11.442 + 7.679\text{PC} + 1.637\text{BS} + e$$

The adjusted R^2 is 0.373, indicating that political connection and board size jointly explain 37.3% of the variation in financial performance, while the remaining 62.7% is attributable to factors not included in the research model.

Discussion

The Effect of Political Connections on Firm Performance

The results show that political connections have a positive and significant effect on firm performance, as measured by return on assets (ROA). This supports H1 and suggests that political connections can provide strategic advantages to publicly listed SOEs. This finding is consistent with the resource-access logic of Resource Dependence Theory, under which political connections give firms access to information, government support, and strategic resources that help them

operate more effectively. It also accords with studies reporting a positive relationship between political connections and firm performance (Cahyono & Ardianto, 2024;Latif et al., 2024;Putri & Mirayani, 2025), including Indonesian evidence on politically connected supervisory boards from Joni et al (2020) and Dharmawan et al (2024), and with the overall positive association identified in the meta-analysis of Prasetyo & Nasution (2021).

The literature, however, is not unanimous. Negative or insignificant effects have been reported in other settings (Fadio et al., 2024; (Rahmawati et al., 2022), and Lee et al. (2026) show that political connections can exacerbate agency problems in related-party transactions. Joni et al. (2020) further find that the relationship between political connections and performance is not monotonic. These differences suggest that the performance consequences of political connections depend on the institutional context, the type of connection, and the governance environment.

In Indonesian SOEs, where the government is simultaneously the controlling shareholder, regulator, and policymaker, politically connected commissioners may be particularly well placed to supply the institutional knowledge and network access needed to manage regulatory and political uncertainty. This interpretation is in line with the argument of Håpnes et al (2025) that state ownership can provide access to resources in environments where markets and institutions are less developed. It should not, however, be read as ruling out the agency costs emphasized by Agency Theory: Apriliyanti & Randøy (2019) show that political interference can shape boardroom decision-making in Indonesian SOEs. Because political connection is measured here as a binary indicator, the analysis cannot distinguish between types or intensities of connection, which may differ in their consequences.

The Effect of Board Size on Firm Performance

Board size also has a positive and significant effect on firm performance, which supports H2 and indicates that a larger board of commissioners is associated with higher ROA among the sampled SOEs. The significance of this effect is modest ($p = 0.048$), however, and the result should therefore be interpreted with caution. This finding is consistent with Agency Theory, which suggests that a larger board can strengthen the monitoring of management and reduce potential conflicts of interest, and with RDT, which suggests that a larger board provides more diverse knowledge, experience, and external networks, in line with the integrated perspective of Bakri et al. (2024). It also agrees with the positive relationships reported by Yasser et al. (2017) and

Fajarwati & Witiastuti (2022), and with studies linking larger boards to better financial performance (Abdullah & Inawati, 2024; Sakinah & Rambe, 2024).

Board size, however, does not have a uniformly positive effect. Negative or non-significant relationships have been reported by Pratiwi & Chariri (2021) and Johani & Atm (2022), and the meta-analysis of Ahrens et al. (2026) indicates that the effect is context dependent because larger boards both add resources and increase coordination demands. The positive effect found here may therefore reflect features of the sampled SOEs, namely their operational complexity and the many stakeholders they must serve, which can increase the value of additional supervisory capacity, whereas an excessively large board may give rise to coordination problems, as discussed by Kurniawati & Setiawan (2022). Moreover, because board size in the sample ranges only from 5 to 10 members, the results should not be extrapolated to substantially larger boards.

Research Implications

This study offers theoretical implications for Agency Theory and Resource Dependence Theory. The positive effect of political connections suggests that, among listed Indonesian SOEs, political relationships can function as strategic resources that provide access to information, government support, and external networks. The positive effect of board size indicates that a larger board can strengthen monitoring and supply diverse knowledge and expertise. Taken together, the findings are consistent with both the monitoring logic of Agency Theory and the resource-provision logic of RDT, suggesting that the two perspectives are complementary rather than mutually exclusive in explaining SOE performance, although the study does not test these mechanisms directly.

The findings also have practical implications for SOEs and policymakers. Companies should manage political connections professionally and transparently so that they support corporate objectives and avoid conflicts of interest, and they should maintain a board size that enables effective supervision and decision-making. For policymakers, the findings highlight the importance of sound corporate governance practices so that political connections and board structures contribute positively to firm performance.

Conclusion

This study examined the effects of political connections and board size on the financial performance of publicly listed SOEs in Indonesia during the 2020–2024 period. Using 40 firm-

year observations from eight SOEs, the results show that both political connections and board size have positive and significant effects on firm performance, as measured by return on assets (ROA). Political connections can function as strategic resources that provide access to information, government support, and external networks, while an adequate board size can strengthen monitoring and provide the diverse knowledge and expertise that support effective decision-making. The study contributes to Agency Theory and Resource Dependence Theory by providing empirical evidence on the roles of political connections and board size in the performance of publicly listed Indonesian SOEs. Practically, the findings highlight the importance of managing political connections transparently and maintaining an effective board structure to support firm performance.

Limitations of the Study

This study has several limitations. First, the sample comprises only eight publicly listed SOEs observed over the 2020–2024 period, which yields 40 firm-year observations; the findings should therefore be interpreted with caution and may not generalize to other firms or sectors. Second, the model includes only political connections and board size as determinants of firm performance and contains no control variables, such as firm size or leverage, so the estimated effects may be affected by omitted-variable bias and should be read as associations rather than causal effects. Third, political connection is measured as a binary indicator, which does not capture the type, intensity, or duration of political ties. Finally, firm performance is measured solely by ROA, which may not fully represent overall firm performance.

Recommendations for Future Research

Future studies could extend the sample beyond publicly listed SOEs to include firms from other sectors listed on the Indonesia Stock Exchange, and could lengthen the observation period to capture the long-term relationship between political connections, board size, and firm performance. Future research may also incorporate additional variables that potentially influence firm performance, such as institutional ownership, board independence, leverage, firm size, and other corporate governance mechanisms. Researchers could further employ panel-data estimators and alternative performance measures, including market-based indicators, as robustness checks; distinguish the type and intensity of political connections, including potential

non-linear effects; and consider moderating or mediating variables to better understand the mechanisms involved.

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