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DO POLITICAL CONNECTIONS MODERATE GOVERNANCE EFFECTS ON FIRM VALUE?

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Abstract

This study examines whether political connections strengthen or substitute for effective corporate governance in enhancing firm value, drawing on agency theory, legitimacy theory, and political economy perspectives. The sample consists of 215 firm-year observations from mining companies listed on the Indonesia Stock Exchange during 2020–2024. The governance mechanisms analyzed include independent commissioners, board size, audit committees, institutional ownership, and managerial ownership, with political connections tested as a moderating variable. Using panel regression and moderated regression analysis, the results show that independent commissioners and board size have a significant positive effect on firm value, while CSR disclosure, institutional ownership, managerial ownership, and audit committees are not significant. Political connections also fail to moderate the relationship between governance mechanisms or CSR and firm value. The model demonstrates moderate explanatory power, indicating that internal governance explains a meaningful proportion of firm value variation. These findings challenge the political economy argument that political ties enhance firm value and reinforce the primacy of internal governance mechanisms. The study extends the literature on governance and political connections in emerging markets, particularly in highly regulated industries.

INTRODUCTION

Firm value reflects market assessments of a firm's capacity to generate sustainable cash flows while managing long-term risks. Within the frameworks of agency theory and corporate governance literature, firm value is expected to increase when internal monitoring mechanisms reduce managerial opportunism and improve transparency (Jensen & Meckling, 1976); Sheifer & Vishny, 1977). Similarly, legitimacy theory posits that Corporate Social Responsibility (CSR) enhances firm value by aligning corporate actions with societal expectations (Suchman, 1995). Empirical studies in Indonesia support this prediction. Fadrul & Asyik (2023) argue that firm value increases when governance structures mitigate agency conflicts and enhance investor confidence. However, this assumption implicitly presumes a relatively stable institutional environment in which external pressures can be effectively managed through internal corporate mechanisms.

In the context of the mining industry, this assumption becomes problematic. The



extractive nature of the industry, its high level of regulation, and its dependence on volatile global commodity prices mean that firm value creation is not fully under managerial control. Empirical evidence from the Indonesia Stock Exchange (IDX) during the 2021–2024 period shows sharp fluctuations in mining firms' stock prices, mirroring movements in global coal prices, which surged dramatically in 2022 before experiencing a significant correction in the following year. The fact that by the end of 2023 more firms experienced stock price declines than increases indicates that mining firm value is highly sensitive to external shocks. This condition challenges the universal claim that governance mechanisms and CSR consistently enhance firm value (Darnianty, et.al., 2023).

Beyond commodity price volatility, the Indonesian mining sector is also characterized by high policy uncertainty. The imposition and subsequent revocation of the coal export ban in January 2022, along with frequent changes in production-related policies, illustrate the strong role of the state and political processes in shaping market conditions. In such an environment, market logic does not operate in a purely mechanistic manner, as policy decisions are often influenced by political interests and industry lobbying. Consequently, internal corporate mechanisms, including GCG and CSR, operate within institutional boundaries shaped by political and regulatory dynamics.

Public legitimacy pressure further constitutes a critical issue for mining companies. The environmental and social impacts of extractive activities compel firms to adopt CSR practices as a means of securing social legitimacy. From a legitimacy theory perspective, CSR is viewed as an instrument for aligning corporate activities with societal expectations. However, empirical findings regarding the impact of CSR on firm value remain inconsistent. While some studies report a positive effect of CSR on firm value Ayu & Oviana (2023) & Prasetya et al., (2024), others find no significant relationship (Karundeng et al., 2017; Intihanah & Putri, 2023). This inconsistency suggests that CSR effectiveness may depend on broader institutional and political conditions rather than functioning as a universally value-enhancing mechanism.

A similar issue applies to GCG mechanisms. Within the agency theory framework, GCG is designed to reduce conflicts of interest between managers and shareholders and to enhance firm value through improved transparency and accountability. However, empirical evidence suggests that the effectiveness of GCG is not universal. While Tripathi et al (2024) & Sarker & Hossain (2023) find that boards of directors and managerial ownership can enhance firm value, Ika et al. (2021) demonstrate that GCG does not always have a significant impact. These findings indicate that the effectiveness of governance mechanisms is contingent upon the institutional context in which they operate.

It is within this context that political connections emerge as a key theoretical issue. Political economy literature conceptualizes political connections not merely as supplementary resources but as institutional mechanisms that reshape incentives, monitoring structures, and accountability logics within firms. Prior studies largely treat political connections as direct determinants of firm performance or as sources of preferential access to resources (Raymond. Fisman, 2001; Khwaja & Mian, 2005). However, limited research explains how political ties alter the effectiveness of governance and CSR mechanisms as institutional boundary conditions. The central research problem of this study is whether GCG and CSR remain value-relevant when firms operate under strong political and regulatory influence.

Although prior studies have examined the relationships among GCG, CSR, political connections, and firm value, most position political connections merely as statistical moderators without sufficient theoretical explanation of their role as institutional constraints (Tripathi et al, 2024; Sarker & Hossain, 2023). Moreover, limited research explicitly explains why GCG and CSR fail to create firm value in industries characterized by strong external pressures, strict regulation, and commodity price volatility (Ika et al, 2021; Amin & Cumming, 2023).

This reveals a conceptual gap concerning the limitations of agency and legitimacy

theories when confronted with political economy logic in extractive industries. This limitation is particularly critical in extractive industries such as mining, where firm performance is heavily shaped by state intervention, regulatory bargaining, and global commodity cycles. In such contexts, political access may substitute for formal governance effectiveness, and CSR initiatives may function more as regulatory compliance than as market-driven legitimacy strategies. Therefore, understanding whether governance and CSR remain value-relevant under these institutional conditions is essential not only for theoretical development but also for policymakers and investors operating in emerging markets. Accordingly, this reveals a significant conceptual gap concerning the limitations of agency and legitimacy theories when confronted with political economy logic in politically embedded and highly regulated industries.

Based on this gap, this study conceptualizes political connections not merely as an empirical moderator but as an institutional boundary condition that may constrain the value-creating capacity of governance and CSR. By integrating agency theory, legitimacy theory, and political economy perspectives within the Indonesian mining context, this study provides a more contextualized and theory-driven explanation of when and why governance mechanisms fail to translate into firm value in emerging markets.

HYPOTESIS DEVELOPMENT

This study is grounded in the synthesis of agency theory, legitimacy theory, and political economy logic to explain the relationship between corporate governance, social responsibility, and firm value in the mining industry. Jensen & Meckling, (1976), agency theory emphasizes that Good Corporate Governance (GCG) mechanisms function to reduce conflicts of interest between management and shareholders by strengthening monitoring and accountability. This theory is directly relevant to this study because GCG mechanisms such as independent commissioners and audit committees are designed to reduce opportunistic behavior and enhance firm performance.

In contrast, legitimacy theory views Corporate Social Responsibility (CSR) as a means for firms to obtain social legitimacy and sustain long-term operations. Argues that firms seek congruence between corporate actions and societal expectations to secure continued access to resources. CSR, therefore, serves as a strategic legitimacy tool that can enhance firm value by strengthening stakeholder trust (Labetubun et al., 2022).

However, political economy logic argues that in industries highly dependent on regulation and public policy, the relationship between internal corporate mechanisms and firm value is not universal but constrained by specific institutional contexts. In highly regulated industries such as mining, governance and CSR effectiveness may depend on political alignment rather than purely market-based mechanisms. Thus, political connections may reshape monitoring incentives, accountability structures, and legitimacy channels. This integration allows political connections to be conceptualized not merely as a moderator, but as an institutional boundary condition that may distort or weaken internal governance effectiveness. There are no political connections. This measurement only reflects the existence of political connections, not their intensity or strength. Therefore, the interpretation of the research results is limited to the effect of the existence of political connections, not the depth of the company's political influence.

The Effect of GCG on Firm Value

Conceptually, GCG mechanisms reflected in the effectiveness of independent commissioners, boards of directors, audit committees, and ownership structures should be understood as an integrated control system rather than a set of isolated mechanisms. An effective governance system is expected to enhance decision-making quality, reduce opportunistic behavior, and ultimately increase firm value.

Agency theory predicts that stronger governance mechanisms reduce agency costs and improve firm performance (Jensen & Meckling, 1976). Effective boards and monitoring



systems enhance transparency, constrain managerial opportunism, and improve strategic decision-making (Andrei Shleifer & Robert W. Vishny, 1997).

Empirical studies support this view. Tripathi et al. (2024) & Sarker and Hossain (2023) show that board effectiveness and ownership structure positively influence firm value.

In this study, GCG is conceptualized as a composite governance system comprising independent commissioners, board size, audit committees, institutional ownership, and managerial ownership. [Revised: justification for single GCG construct] These mechanisms operate collectively as an integrated monitoring architecture rather than in isolation. Although individual components may produce heterogeneous effects, the theoretical logic of agency theory assumes that the overall governance quality determines monitoring effectiveness.

In the mining industry, governance is particularly important due to high capital intensity, long-term contracts, and regulatory exposure. Strong governance may signal risk control and transparency to investors under uncertainty. [Revised: strengthened contextual argument]

H1: Good Corporate Governance has a positive effect on Firm Value

The Effect of CSR on Firm Value

Legitimacy theory suggests that CSR enhances corporate reputation and stakeholder trust, leading to improved firm value (Mark C. Suchman, 1995). CSR signals commitment to environmental and social responsibility, which is particularly relevant in extractive industries facing public scrutiny. Empirical evidence indicates that CSR positively affects firm value (Ayu et al., 2023; Prasetya et al., 2024). Internationally, CSR has been associated with improved market valuation due to enhanced stakeholder confidence and reduced reputational risk.

However, in mining industries, CSR may be perceived as regulatory compliance rather than strategic differentiation. Environmental damage, social conflicts, and high public expectations may limit the marginal value of CSR disclosure. Despite these constraints, legitimacy theory predicts that CSR should enhance firm value by mitigating legitimacy risk and securing social acceptance, particularly in environmentally sensitive industries.

H2: Corporate Social Responsibility has a positive Effects on Firm Value

Political Connections as a Boundary Condition

Political economy literature argues that firms embedded in political networks may obtain preferential access to financing, regulatory relief, and state resources (Raymond Fisman, 2001; Asim Ijaz Khwaja & Atif Mian, 2005).

However, political connections are inherently ambivalent. While they may reduce regulatory uncertainty, they may also weaken market discipline and internal monitoring effectiveness. Amin and Cumming (2023) find that politically connected firms exhibit higher opportunistic behavior and reduced governance effectiveness.

When firms rely on political access, governance mechanisms may become symbolic rather than functional, reducing their monitoring effectiveness. Political protection may substitute for formal accountability, thereby weakening the positive impact of GCG on firm value. Similarly, CSR initiatives may lose market relevance if legitimacy is secured through political alignment rather than stakeholder approval. In the mining sector where licenses, export policies, and production quotas are politically determined political embeddedness may distort governance incentives.

H3: Political Connections weaken the Effects of Good Corporate Governance on Firm Value

H4: Political Connections weaken the Effects of Corporate Social Responsibility on Firm Value

In a highly regulated industry such as mining, the dominance of political interests may

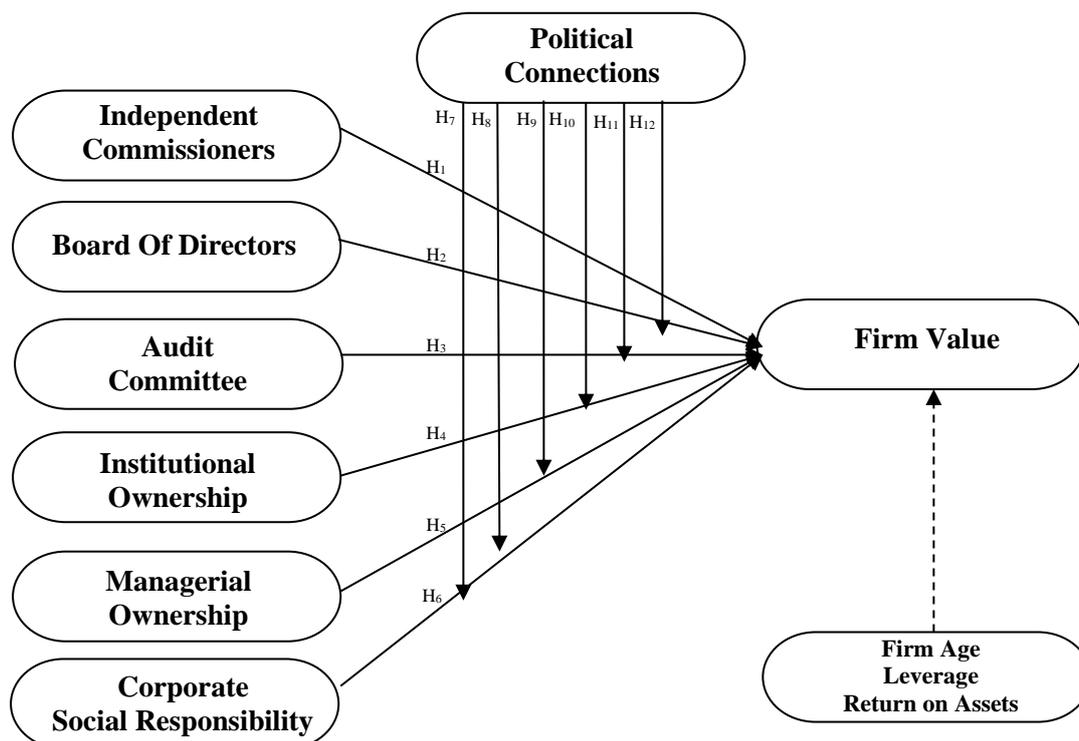
shift the role of formal governance and CSR from value-creating mechanisms to symbolic or administrative instruments. Therefore, the presence of political connections is expected to weaken the relationship between GCG and firm value, as well as between CSR and firm value.

RESEARCH METHODOLOGY

Research Design and Sample

This study adopts a quantitative explanatory research design to examine the causal relationships between Good Corporate Governance (GCG), Corporate Social Responsibility (CSR), and firm value, with political connections serving as a moderating variable. Panel data analysis is employed because it accommodates both cross-sectional variation across firms and time-series variation across periods, producing more efficient and robust estimates compared to pure cross-sectional models. The mining sector is deliberately selected because it represents a highly regulated extractive industry characterized by strong government intervention, licensing dependency, environmental scrutiny, and significant exposure to global commodity price volatility. These characteristics make mining firms an appropriate empirical setting to test the institutional constraints of GCG and CSR effectiveness.

The 2020–2024 period is chosen for three main reasons: (1) it captures the economic shock and regulatory adjustments following the COVID-19 pandemic; (2) it includes the global commodity supercycle (coal and nickel price surge in 2021–2022); and (3) it reflects the strengthening of downstream mining policies and resource nationalism in Indonesia. This period therefore provides substantial variation in external pressures, which is essential for examining the moderating role of political connections.



Picture 1.
 Research Model

The research population consists of all mining companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The mining sector is selected due to its strong exposure to government regulation, global commodity price volatility, and environmental pressure, making it a relevant context for testing the institutional limits of GCG and CSR in



enhancing firm value. The sample is selected using purposive sampling the following criteria :

1. Mining companies consistently listed on the IDX and not delisted during 2020–2024;
2. Companies publishing complete annual reports and sustainability reports during the observation period;
3. Firms with complete financial and governance data required for variable measurement; Firms reporting political connection information that can be objectively identified from board profiles.

After applying these criteria, the final sample consists of firms, resulting in balanced panel data over five years.

Table 1.
Recapitulation of Sample Collection

No.	Criteria	Amount
1.	Mining companies listed on the IDX and not delisted during the 2020–2024	49
2.	Mining companies delisted during the period from 2020 to 2024	(2)
3.	Mining companies do not have complete data related to the variables used in this study.	(4)
	Sample Size	43
	Observation Period	5 Year
	Total Observations	215

Sources: Processed Data, 2025

Type, Sources, and Collection Techniques

This study uses secondary data obtained from annual reports and sustainability reports of mining companies published during the 2020–2024 period. The data are collected from the official website of the Indonesia Stock Exchange (www.idx.co.id) and the respective corporate websites of the sampled firms. The use of secondary data ensures consistency, transparency, and replicability, in line with best practices in corporate governance and financial research published in reputable international journals.

Table 2.
Definition Operational of Variables and Their Measurement

No.	Variables	Definition	Measurement
1.	Firm Values (PBV)	Firm value is investors' perception of the success of managers in managing the company's resources entrusted to them, which is often linked to stock prices (Raharjo et al., 2025).	$PBV = \text{Market Price per Share} / \text{Book Value per Share}$ (Raharjo et al., 2025)
2.	Independent Commissioner (IC)	Anggota dewan komisaris yang independen dari manajemen dan pemegang saham pengendali (Sari, 2021).	$IC = \text{Number of Independent Commissioners} / \text{Number of Commissioners}$ (Sari, 2021)
3.	Dewan Direksi (BOD)	Members of the board of commissioners who are independent from management and controlling shareholders (Sari, 2021).	Number of directors in 1 company (Sari, 2021)
4.	Audit Committe (AC)	A committee that assists the board in overseeing financial reporting and compliance Badawi dan Hartati, (2024).	Total of Audit Committee Meetings in 1 company Lestari <i>et al.</i> , (2019)
5.	Institutional Ownership (INS)	Share ownership by institutional investors such as banks, insurance companies, pension funds, and others Lestari <i>et al.</i> , (2019).	Percentage of shares owned by institutional investors Lestari <i>et al.</i> , (2019)
6.	Managerial Ownership (MAN)	Management Share Ownership (Sari, 2021).	Proportion of shares owned by management (Sari, 2021)

No.	Variables	Definition	Measurement
7.	Corporate Social Responsibility (CSR)	Corporate social and environmental responsibility towards stakeholders. CSR is measured using a disclosure index based on the number of CSR items disclosed by companies in their sustainability reports and annual reports Fadrul et al., (2023).	$CSR_i = \frac{\sum x_{ij}}{n_j}$ <p>Note: $\sum x_{ij}$ = Total numbers of CSR items fulfilled by the company n_j = Total number of CSR disclosure items (Pradipta dan Supriyadi, 2015)</p> <p>The CSR variable measures the extent of formal CSR disclosure, not the quality or real impact of CSR activities. Thus, it reflects regulatory compliance and symbolic legitimacy rather than actual value creation. Non-significant results may indicate that CSR is primarily symbolic or compliance-driven, potentially suggesting greenwashing, which is common in highly regulated extractive industries.</p>
8.	Political Connection (PC)	The relationship between management and political or government officials..	<p>Political connections are measured using a dummy variable, coded 1 if the firm has at least one director or commissioner with political connections, and 0 otherwise. Criteria: A firm is classified as politically connected when at least one member of the board of directors or board of commissioners currently serves or has previously served as: Member of parliament, minister, government official, regional head, political party official, or has a military background (active or retired).</p>
9.	Company Age (AGE _i)	Age of company establishment	$Firm\ Age_i = Date_i\ of\ Firm\ Listed_i$
10.	Leverage (DAR)	The degree to which a company uses debt to finance its assets..	$\frac{Total\ Liability}{Total\ Assets}$
11.	Return On Assets (ROA)	The ability of a company to generate profits from its total assets.	$\frac{Net\ Profit}{Total\ Assets}$

Sources: Processed Data, 2025

Metode Analisis Data

Data analysis is conducted using STATA version 19. To address potential heteroskedasticity and autocorrelation in panel data, the regression models employ robust standard errors clustered at the firm level. This approach ensures consistent estimation even in the presence of within-firm serial correlation.

The baseline panel regression model is specified as follows:

$$PBV = \alpha + \beta_1 IC + \beta_2 BOD + \beta_3 AC + \beta_4 INS + \beta_5 MAN + \beta_6 CSR_i + \beta_7 AGE + \beta_8 DAR + \beta_9 ROA + \varepsilon \dots(1)$$

To test the moderating role of political connections, this study employs Moderated Regression Analysis (MRA). Prior to constructing interaction terms, all continuous independent variables are mean-centered to reduce potential multicollinearity between main and interaction effects. The moderation models are specified as follows:



$$PBV = \alpha + \beta_1 IC + \beta_2 POLCON + \beta_3 IC * PC + \beta_4 Age + \beta_5 DAR + \beta_6 ROA + \epsilon \dots (2)$$

$$PBV = \alpha + \beta_1 BOD + \beta_2 POLCON + \beta_3 BOD * PC + \beta_4 Age + \beta_5 DAR + \beta_6 ROA + \epsilon \dots (3)$$

$$PBV = \alpha + \beta_1 AC + \beta_2 POLCON + \beta_3 AC * PC + \beta_4 Usia + \beta_5 DAR + \beta_6 ROA + \epsilon \dots (4)$$

$$PBV = \alpha + \beta_1 INS + \beta_2 POLCON + \beta_3 INS * PC + \beta_4 Usia + \beta_5 DAR + \beta_6 ROA + \epsilon \dots (5)$$

$$PBV = \alpha + \beta_1 MAN + \beta_2 POLCON + \beta_3 MAN * PC + \beta_4 Age + \beta_5 DAR + \beta_6 ROA + \epsilon \dots (6)$$

$$PBV = \alpha + \beta_1 CSR + \beta_2 POLCON + \beta_3 CSR * PC + \beta_4 Age + \beta_5 DAR + \beta_6 ROA + \epsilon \dots (7)$$

Model selection is performed using the Chow test, Lagrange Multiplier test, and Hausman test. All regression tables report R-squared values (within, between, and overall), F-statistics, and corresponding probability values to ensure full transparency of model explanatory power and joint significance.

To ensure the validity and reliability of the estimation results, classical assumption tests are conducted, including multicollinearity testing using the Variance Inflation Factor (VIF < 10), autocorrelation testing using the Wooldridge test, and heteroskedasticity testing using the Modified Wald test. The results confirm that the regression models are free from major classical assumption violations.

Overall, the use of multi-year panel data combined with moderation analysis is specifically designed to identify the institutional boundaries of GCG and CSR effectiveness in enhancing firm value when political connections are present as a contextual factor. Accordingly, this methodological design positions non-significant findings not as empirical shortcomings but as theoretically meaningful evidence of the limitations of governance and legitimacy theories in highly regulated extractive industries within emerging markets.

RESULT AND DISCUSSION

Results

The results section begins with a presentation of data characteristics through descriptive statistical analysis to provide an overview of the conditions of mining companies examined in this study. Subsequently, panel data regression model selection and classical assumption tests are conducted to ensure that the estimated model produces efficient and consistent coefficients. Hypothesis testing is carried out using panel data regression and Moderated Regression Analysis (MRA) with the assistance of STATA version 19. The research data cover mining sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Therefore, the findings are expected to reflect the empirical dynamics of firm value in the mining industry during periods of commodity price fluctuations and in the run-up to the national election.

Descriptive Statistics Test

Descriptive statistical analysis is employed to identify the main patterns of the research data that are relevant to hypothesis testing. Table 3 presents the descriptive statistics of firm value, corporate governance mechanisms (Independent Commissioners, Board of Directors, Audit Committee, Institutional Ownership, and Managerial Ownership), Corporate Social Responsibility (CSR), political connections, firm age, leverage, and Return on Assets (ROA). The descriptive statistics of the variables used in this study are presented as follows.

Table 3
Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Deviation
Firm Value	215	-0,239097	2,879014	1,129841	0,648626
Independent Commissioners	215	0,250000	0,800000	0,448527	0,151382
Board of Directors	215	2,000000	15,00000	4,990698	2,142125
Audit Committe	215	3,000000	45,00000	8,916279	7,144207
Institutional Ownership	215	0,000000	0,981120	0,578325	0,239510
Managerial Ownership	215	0,000000	0,925164	0,079761	0,189391
CSR	215	0,450549	0,736263	0,585433	0,064255
Political Connection	215	0,000000	1,000000	0,525581	0,500510
Company Age	215	5,000000	57,00000	28,77209	13,69798
Leverage (DAR)	215	0,040610	1,368356	0,469647	0,247902
Return on Asset	215	-1,122196	0,616345	0,071221	0,169758

Sources: Secondary Data Processed Using STATA Version 19, 2025

Table 3 shows that firm value (PBV) exhibits relatively high variation, reflecting the volatility of market performance among mining companies during the observation period. Managerial ownership is relatively low, with an average value below 10 percent, indicating the limited role of the alignment-of-interest mechanism in this sector. In addition, more than half of the observations indicate the presence of political connections, illustrating the strong linkage between mining firms and the institutional and regulatory environment. These patterns provide an important contextual background for interpreting the regression results and the subsequent moderation analysis.

Model Selection Tests

The selection of the panel data estimation model is conducted through three sequential tests: the Chow test, the Lagrange Multiplier (LM) test, and the Hausman test. These tests are employed to determine the most appropriate estimation model among Pooled Ordinary Least Squares (OLS), Fixed Effects Model (FEM), and Random Effects Model (REM) for both the baseline panel regression and the six moderation regression models. The model selection procedure ensures that the chosen estimation approach is consistent with the underlying characteristics of the panel data and produces efficient and unbiased parameter estimates.

Table 4 .

Model Selection Test Results

Model	Chow Test		Lagrange Multiplier Test		Hausman Test		Result
	F	Prob	Statistik Chi-Square	Prob	Statistik Chi-Square	Prob	
Model 1	4,37	0,0000	39,04	0,0000	27,22	0,0013	FEM
Model 2	5,19	0,0000	68,14	0,0000	14,41	0,0254	FEM
Model 3	5,46	0,0000	62,07	0,0000	24,82	0,0004	FEM
Model 4	5,26	0,0000	66,20	0,0000	17,16	0,0087	FEM
Model 5	5,72	0,0000	71,33	0,0000	19,77	0,0030	FEM
Model 6	5,24	0,0000	65,05	0,0000	17,13	0,0088	FEM
Model 7	5,14	0,0000	61,25	0,0000	19,82	0,0030	FEM

Sources: Secondary Data Processed Using STATA Version 19, 2025

Table 4 presents the results of the model selection tests, showing that all models have Chow test and Hausman test probability values below the 5 percent significance level. Accordingly, the Fixed Effects Model (FEM) is selected as the most appropriate estimation model for all regression equations. This finding indicates that firm-specific characteristics play a crucial role in explaining variations in firm value and therefore need to be explicitly controlled for in the estimation model.



Classical Assumption Tests

Multicollinearity Test

The multicollinearity test is conducted to ensure that there is no strong correlation among the independent variables in the regression model. Multicollinearity may distort regression estimates by causing instability in the estimated coefficients. This test is performed using the Variance Inflation Factor (VIF) method, with a threshold value of $VIF < 10$. The results of the multicollinearity test are reported in Table 5.

Table 5
Multicollinearity Test Results

Model	Collinearity Statistics	
	VIF	1/VIF
Independent Commissioners	1,41	0,410334
Board of Directors	1,27	0,789048
Audit Committe	1,24	0,809484
Institutional Ownership	2,12	0,472336
Managerial Ownership	1,88	0,530521
CSR	1,13	0,882466
Political Connection	3,80	0,263448
Company Age	3,31	0,301975
Leverage (DAR)	1,44	0,695923

Sources: Secondary Data Processed Using STATA Version 19, 2025

Table 5 presents the results of the classical assumption tests, indicating that the regression model does not suffer from serious multicollinearity issues, as evidenced by the Variance Inflation Factor (VIF) values of all variables being below the accepted tolerance threshold. Therefore, it can be concluded that there are no indications of multicollinearity in the regression model, and all independent variables are appropriate for use in the panel regression analysis.

Autocorrelation Test

The autocorrelation test aims to examine whether there is a correlation between the error terms in period t and those in period $t-1$ (the previous period) in the linear regression model. The presence of autocorrelation may undermine the validity of regression results, particularly in time-series and panel data analyses.

Table 6.
Results of the Autocorrelation Test

	F	Prob
Wooldridge Test	6,641	0,0053

Sources: Secondary Data Processed Using STATA Version 19, 2025

Table 6 reports the results of the autocorrelation test conducted to determine whether serial correlation exists in the residuals of the panel data model. The test results show an F-statistic of 6.641 with a probability value of 0.0053. Since the probability value is lower than the 5 percent significance level, the null hypothesis (H_0), which states that there is no autocorrelation, is rejected. This finding indicates the presence of autocorrelation in the panel data regression model.

Heteroskedasticity Test

The heteroskedasticity test is performed to examine whether the variance of the residuals is constant across all observations in the regression model. A well-specified regression model is expected to be free from heteroskedasticity problems. In this study, heteroskedasticity

is tested using the *Modified Wald Test for Groupwise Heteroskedasticity*, which is commonly applied in panel data analysis employing the Fixed Effect Model (FEM).

Table 7.

Results of the Heteroskedasticity Test

	F	Prob
Modified Wald Test for Groupwise Heteroskedasticity	6,641	0,0053

Sources: Secondary Data Processed Using STATA Version 19, 2025

Table 7 presents the results of the heteroskedasticity test, showing a Chi-square value of 4,555.33 with a probability value of 0.0000. Since the probability value is lower than the 5 percent significance level, the null hypothesis (H_0), which states that there is no heteroskedasticity, is rejected. This indicates the presence of heteroskedasticity in the regression model. To address both autocorrelation and heteroskedasticity issues and to obtain efficient and unbiased estimates, subsequent regression analyses employ *robust standard errors* that are consistent in the presence of heteroskedasticity and serial correlation. This approach ensures that the estimation results remain valid and reliable despite violations of classical assumptions commonly encountered in firm-level panel data with high heterogeneity.

Hypothesis Testing Results and Discussion

Panel Data Regression Analysis

The panel data regression analysis is conducted using the *Fixed Effect Model (FEM)*, as selected based on the Chow and Hausman test results. Robust standard errors are applied to correct for heteroskedasticity and autocorrelation. Table 8 presents the regression results, which can be expressed in the following equation:

$$PBV = 0,7997 + 0,9757 IC_{it} + 0,0992 BOD_{it} - 0,0117 AC_{it} + 0,5917 INS_{it} + 0,4857 MAN_{it} - 0,6615 CSR_{it} + 0,0069 AGE_{it} + 0,3402 DAR_{it} - 0,4125 ROA_{it} + \varepsilon_{it}$$

Table 8.

Panel Data Regression Analysis Results

Variabel	Koefisien	Robust Standart Error	Prob
Independent Commissioners	0,975683	0,452756	0,037
Board of Directors	0,092277	0,566999	0,047
Audit Committee	-0,011721	0,019348	0,548
Institutional Ownership	0,591742	0,365455	0,113
Managerial Ownership	0,485709	0,448082	0,285
CSR	-0,661535	1,024452	0,522
Political Connection	0,006942	0,024079	0,775
Company Age	0,340219	0,351291	0,338
Leverage (DAR)	-0,4125 95	0,371894	0,274

Sources: Secondary Data Processed Using STATA Version 19, 2025

Overall, the estimation results indicate that not all corporate governance mechanisms and CSR significantly affect firm value. Non-significant relationships dominate the regression outcomes and constitute a key empirical characteristic of this study.

As shown in Table 8, *independent commissioners* exhibit a positive and statistically significant effect on firm value ($\beta = 0.9757$; $p < 0.05$). Similarly, the *board of directors* also demonstrates a positive and significant relationship with firm value ($\beta = 0.0923$; $p < 0.05$). In contrast, the audit committee, institutional ownership, managerial ownership, and CSR do not show statistically significant effects on firm value.

These findings suggest that internal corporate mechanisms do not always serve as primary determinants of firm value in mining companies, where valuation tends to be more strongly influenced by external factors such as commodity price fluctuations and regulatory



conditions. Accordingly, the non-significant results are positioned as a central finding of this study, reflecting the limited role of governance mechanisms and CSR in directly enhancing market value within the mining sector.

The control variables firm age, leverage, and return on assets also do not exhibit statistically significant effects on firm value at the 5 percent significance level.

Table 9.
Moderated Regression Analysis Results

Variable*	Primary Effect Model			Interaction Model		
	Coeffisien	Robust Standart Error	Prob	Coeffisien	Robust Standart Error	Prob
Interaction 1						
IC	1,655855	0,4294364	0,024	1,65585	0,44038	0,001
PC	0,18021	0,11567	0,127	0,20115	0,11807	0,096
IC*PC				-1,16492	0,70436	0,106
Interaction 2						
BOD	0,12532	0,04935	0,015	0,11303	0,09253	0,229
PC	0,24068	0,12519	0,061	0,23374	0,14420	0,113
BOD*PC				0,01557	0,09499	0,871
Interaction 3						
AC	-0,00987	0,01680	0,560	-0,00951	0,01574	0,549
PC	0,20841	0,13704	0,136	0,20770	0,14380	0,156
AC*PC				0,00057	0,02153	0,979
Interaction 4						
INS	0,64932	0,33693	0,061	0,60373	0,40046	0,139
PC	0,25240	0,15217	0,105	0,25302	0,14490	0,088
INS*PC				0,11370	0,36083	0,754
Interaction 5						
MAN	0,32037	0,51781	0,539	0,43851	0,72321	0,548
PC	0,21091	0,14007	0,140	0,21317	0,13924	0,133
MAN*PC				-0,16128	0,32807	0,626
Interaction 6						
CSR	-0,94781	0,08657	0,388	-1,9105	1,21513	0,123
PC	0,21510	0,14108	0,135	0,17068	0,12562	0,181
CSR*PC				1,70128	1,35940	0,218

*Control variable results are not displayed due to page adjustments.

Sources: Secondary Data Processed Using STATA Version 19, 2025

Table 9 reports the results of the Moderated Regression Analysis (MRA) examining the moderating role of political connections on the relationship between corporate governance mechanisms, CSR, and firm value. The interaction terms between political connections and each governance or CSR variable are not statistically significant across all six interaction models.

Specifically, the interaction effects between political connections and independent commissioners, board of directors, audit committee, institutional ownership, managerial ownership, and CSR do not reach conventional levels of statistical significance. These results indicate that political connections do not strengthen or weaken the relationship between corporate governance mechanisms or CSR and firm value.

This finding reinforces the interpretation that political connections function as a *boundary condition rather than a value-enhancing mechanism*. In the highly regulated and politically exposed mining industry, political ties do not substitute for effective internal governance nor amplify the market relevance of CSR activities. Instead, they appear to have limited value relevance, supporting the argument that formal governance structures particularly

board-related mechanisms play a more decisive role in shaping firm value than political affiliations or symbolic CSR practices.

Discussion

The Effect of GCG on Firm Value

The results indicate that independent commissioners have a positive and significant effect on firm value. This finding confirms that independent monitoring mechanisms remain relevant and valued by the market, even in industries heavily exposed to commodity price volatility and regulatory uncertainty such as mining. The presence of independent commissioners enhances monitoring credibility, reduces agency conflicts, and strengthens investor confidence in managerial decision-making quality.

Theoretically, this result reinforces agency theory, particularly the argument that independent monitoring mechanisms remain effective in constraining managerial opportunism. Consistent with Suastini et al. (2019) and Tripathi et al. (2024), this study extends prior evidence by demonstrating that the effectiveness of independent commissioners persists despite high external pressures faced by the mining industry.

Similarly, the board of directors shows a positive and significant impact on firm value. This result suggests that internal managerial capacity and strategic decision-making quality remain fundamental determinants of firm value in mining companies. A larger board is associated with greater diversity of expertise, stronger operational coordination, and more adaptive risk management in response to industry complexity. This finding aligns with Irvandy and Setyawan (2020), Sarker and Hossain (2023), and Tripathi et al. (2024).

A key contribution of this study lies in emphasizing that markets respond more strongly to substantive and operational governance mechanisms rather than formal or administrative structures.

In contrast, the audit committee does not have a significant effect on firm value. This suggests that the existence and activity intensity of audit committees do not necessarily reflect monitoring quality perceived as value-relevant by investors. Theoretically, this finding highlights the limitation of compliance-based governance, where governance mechanisms function primarily as regulatory fulfillment rather than value-creation instruments. This result is consistent with Fahmi and Haryanto (2020), Kusumawati and Riyanto (2018), and Rahmawati and Hidayati (2021).

Likewise, institutional ownership and managerial ownership do not significantly affect firm value. This indicates that ownership-based monitoring mechanisms are not universally effective in the mining sector. Institutional investors tend to adopt portfolio-oriented and passive strategies, while relatively low managerial ownership fails to generate meaningful interest alignment as predicted by agency theory. These findings provide empirical evidence of the contextual limitations of agency theory, particularly in industries highly sensitive to global market dynamics.

The Effect of CSR on Firm Value

The results show that CSR does not significantly affect firm value, and this non-significant relationship is positioned as one of the study's central findings. Theoretically, this suggests that CSR has not functioned as an economic value signal in the Indonesian mining sector. Investors appear to prioritize profitability prospects and financial performance driven by commodity price fluctuations over social disclosure.

This finding is consistent with Nguyen et al. (2023), while extending the literature by demonstrating that compliance-based and homogeneous CSR practices limit differentiation power as a value-creation mechanism. In this context, CSR primarily serves as a social legitimacy tool rather than an economic strategy, thereby failing to generate significant market



responses.

The Moderating Effect of Political Connections on the GCG–Firm Value Relationship

The results indicate that political connections do not moderate the relationship between all GCG mechanisms and firm value. This non-significant moderation effect constitutes a major theoretical contribution, as it directly challenges assumptions in political connection theory and resource dependence theory, which posit that political ties enhance governance effectiveness. In the highly regulated mining industry, firms are structurally dependent on government policies, making additional political connections unable to generate marginal advantages valued by the market. The non-significant interaction between independent commissioners and political connections suggests that political ties do not strengthen—and may even obscure the independence of monitoring functions.

Similarly, although the board of directors positively affects firm value, political connections do not enhance board effectiveness because the two operate in different domains: boards focus on internal management, whereas political connections provide external regulatory access. These findings reinforce the argument that political connections are neither substitutes nor complements to effective internal governance. This evidence supports Chen et al. (2024) and confirms that political connections have clear effectiveness boundaries, particularly in industries subject to strict regulatory oversight.

The Moderating Effect of Political Connections on the CSR–Firm Value Relationship

The findings also show that political connections do not moderate the relationship between CSR and firm value. This result confirms that political ties are unable to transform symbolic and compliance-driven CSR into a value-creating strategy. Despite higher public exposure among politically connected firms, CSR activities remain perceived as non-substantive by investors.

Theoretically, this indicates that CSR and political connections operate under different logics and do not reinforce each other. CSR functions as a social legitimacy mechanism, while political connections provide regulatory access. The absence of moderation effects strengthens the conclusion that firm value in mining companies is driven more by fundamental factors and internal governance effectiveness than by symbolic external mechanisms.

Overall, the empirical results demonstrate that the effectiveness of corporate governance mechanisms, CSR, and political connections in shaping firm value is highly context dependent. In commodity-based and highly regulated industries such as mining, most formal governance mechanisms and non-financial practices do not function as market value drivers. The dominant pattern of non-significant results should not be interpreted as hypothesis-testing failure, but rather as empirical evidence of structural boundaries in governance and political connection theories.

The primary novelty of this study lies in providing empirical evidence that challenges the dominant view in emerging market literature, which often assumes that political connections and CSR inherently enhance firm value. This study shows that in highly regulated extractive industries, political connections and CSR lose their differentiation power and fail to function as credible value signals. Accordingly, the study shifts the discourse from whether governance, CSR, and political connections matter to under what conditions and in which industries these mechanisms lose effectiveness.

CONCLUSION

This study aims to examine the effect of Good Corporate Governance (GCG) mechanisms and Corporate Social Responsibility (CSR) on firm value, with political connections as a moderating variable, using panel data from Indonesian mining companies

during the 2020–2024 period. Employing panel regression analysis and Moderated Regression Analysis (MRA), this study finds that only independent commissioners and the board of directors have a positive and significant effect on firm value. In contrast, audit committees, institutional ownership, managerial ownership, and CSR disclosure show no significant impact. Furthermore, political connections do not moderate the relationship between GCG mechanisms or CSR and firm value.

This study contributes to corporate governance and political economy literature by demonstrating that the effectiveness of governance mechanisms, CSR, and political connections is context-dependent rather than universal. The findings highlight the limitations of agency theory and legitimacy theory in highly regulated, commodity-based industries where external factors—such as commodity price volatility and regulatory intervention—may dominate firm valuation dynamics. By positioning political connections as institutional constraints rather than mere strategic assets, this study enriches the theoretical discussion on governance effectiveness in extractive sectors within emerging markets.

Methodologically, this study strengthens empirical research on governance by applying multi-year panel data analysis with firm-level clustered robust standard errors and moderation testing. The inclusion of robustness checks and alternative model specifications enhances the reliability of the findings. Additionally, by explicitly acknowledging the disclosure-based measurement of CSR and the dummy operationalization of political connections, this study provides greater transparency regarding measurement boundaries in governance research.

Practically, the results suggest that mining firms should prioritize strengthening governance mechanisms that demonstrably contribute to firm value, particularly the effectiveness of independent commissioners and boards of directors. Expanding symbolic CSR disclosures or relying on political ties does not appear to enhance market valuation. For regulators, the findings imply that improving governance quality, enforcement, and transparency of political affiliations may be more effective than merely increasing formal compliance requirements in extractive industries.

Future studies are encouraged to extend the observation period to capture different commodity cycles, employ quality-based and behavioral governance indicators, develop multidimensional measures of political connections (e.g., intensity, closeness, or resource access), and integrate institutional or political economy frameworks to better explain governance effectiveness. Comparative analysis across non-extractive sectors or cross-country settings may also help determine whether these findings are industry-specific or reflect broader structural characteristics of emerging market.

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