
CORPORATE POLITICAL STRATEGY AND MARKET VALUATION: DOES FAMILY GOVERNANCE MATTER IN THE ENERGY SECTOR?

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Abstract

This study examines the effect of political connection on the market performance of energy sector companies listed on the Indonesia Stock Exchange during the 2019–2024 period, with family ownership as a moderating variable. Market performance is proxied using Price-to-Book Value (PBV), reflecting investors' perception of firm value. Political connection is measured using a dummy variable indicating whether a company has directors, commissioners, major shareholders, or state ownership with political ties. Family ownership is measured by the proportion of shares owned by founding families. This research employs panel data regression analysis with control variables including firm size, leverage, and firm age. The results indicate that political connection significantly affects market performance. Furthermore, family ownership moderates the relationship between political connection and market performance. The findings support Agency Theory and Stewardship Theory in explaining how political ties and ownership structure influence firm valuation in highly regulated industries such as the energy sector. This study contributes to the literature by providing updated empirical evidence from Indonesian energy companies in the post-pandemic recovery period.

Keywords: Political Connection; Family Ownership; Market Performance; Energy Sector; PBV

INTRODUCTION

The energy sector plays a strategic role in national economic development due to its contribution to industrial productivity, state revenue, and public infrastructure sustainability. In emerging economies such as Indonesia, energy companies operate within a highly regulated environment, where government policies, licensing systems, and political dynamics significantly influence corporate performance. Market performance in this sector is therefore not solely determined by internal managerial efficiency, but also by external institutional and political factors.

Market performance reflects how investors perceive firm value, which is commonly measured through indicators such as Price to Book Value (PBV), Tobin's Q, and Price Earnings Ratio (PER). Under the Efficient Market Hypothesis, stock prices incorporate all relevant information, including financial performance and non-financial signals such as governance structure and political relationships. Consequently, any factor capable of influencing investor confidence may affect market valuation.

One such factor is political connection. Political connection refers to the existence of direct or indirect relationships between corporate



executives, board members, or controlling shareholders and government officials or political actors. Firms with political connections may benefit from preferential access to government contracts, regulatory advantages, tax incentives, or protection from adverse policies (Jamaludin et al., 2015a). In heavily regulated sectors such as energy, these advantages may translate into improved financial stability and enhanced investor perception, thereby increasing market performance.

However, the effect of political connection on firm value remains controversial. While some studies argue that political connections generate economic rents and enhance firm value, others suggest that such relationships may increase political risk and reduce transparency (Preuss & Königsgruber, 2021; Minh Ha et al., 2022). Politically connected firms may become vulnerable to regime changes, policy instability, or reputational risks, which may negatively affect investor trust. This dual perspective indicates that the relationship between political connection and market performance is context-dependent and requires further empirical investigation.

From the perspective of Agency Theory, the existence of political connections may intensify agency conflicts. Agency theory explains that conflicts arise when principals (shareholders) delegate authority to agents (managers), who may pursue personal interests rather than maximizing shareholder value. Managers with political affiliations may prioritize political agendas or personal networks over corporate objectives, potentially leading to

inefficiency or expropriation. Information asymmetry between management and shareholders may further complicate monitoring mechanisms.

On the other hand, Stewardship Theory offers an alternative explanation. This theory assumes that managers may act as stewards who align their actions with organizational goals and long-term sustainability. In certain contexts, political connections may serve as strategic resources that enhance firm legitimacy and reduce regulatory uncertainty. Moreover, in environments characterized by moderate to high political constraints (POLCON), regulatory stability may encourage long-term investment and improve financial performance (Alves et al., 2021). Therefore, political connection may either weaken or strengthen market performance depending on governance structure and ownership characteristics.

One important governance characteristic in emerging markets is family ownership. Family ownership refers to a situation in which a family or related group controls a significant portion of company shares, typically above 10%–20% (Abdullah & Ismail, 2016). Family ownership may influence corporate governance dynamics, monitoring effectiveness, and strategic decision-making.

The role of family ownership can be explained through two competing perspectives: entrenchment and alignment. The entrenchment view argues that controlling families may exploit minority shareholders by appointing relatives to managerial positions and engaging in opportunistic behavior, thereby

increasing agency costs and reducing firm value (Ung et al., 2018). Conversely, the alignment view suggests that concentrated family ownership enhances monitoring effectiveness, reduces agency conflict, and promotes long-term value creation (Wirawan & Diyanti, 2022). Under the alignment perspective, family firms may be more cautious in utilizing political connections and prioritize sustainable performance.

Given these theoretical considerations, family ownership may moderate the relationship between political connection and market performance. In family-controlled firms, political ties may be utilized strategically to support long-term growth rather than short-term opportunism. Alternatively, excessive political entanglement combined with concentrated control may exacerbate governance risks and reduce market valuation.

Despite the growing literature on political connection and corporate performance, several research gaps remain. First, prior studies often focus on financial performance indicators such as Return on Assets (ROA) or Return on Equity (ROE), while limited research examines market-based performance measures in the energy sector. Second, the moderating role of family ownership in the relationship between political connection and market performance has not been extensively explored in emerging markets. Third, the energy sector presents unique characteristics due to its regulatory dependence and capital intensity, making it a relevant context for examining political and ownership effects.

This study aims to analyze the effect of political connection on market performance of energy sector companies and to examine whether family ownership moderates this relationship. By integrating Agency Theory and Stewardship Theory, this research contributes to the literature by providing a more comprehensive explanation of how political and ownership structures interact in shaping firm market value.

Based on the theoretical framework and empirical gaps identified, the following hypotheses are proposed:

H1: Political connection affects the market performance of energy sector companies.

H2: Family ownership moderates the relationship between political connection and market performance.

METHOD

This study employs a quantitative explanatory approach using panel data regression to examine the effect of political connection on market performance, with family ownership as a moderating variable. The use of panel data allows the analysis to capture both cross-sectional variation across firms and time-series variation over the observation period. The research focuses on energy sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2024.

The population consists of all energy sector firms registered on the IDX. The sample is selected using purposive sampling based on several criteria: (1) companies consistently listed during the 2019–2024 period, (2) companies publishing complete annual

financial statements, (3) companies that do not report negative equity, and (4) companies that do not change their core business classification during the observation period. Companies meeting these criteria are included in the final sample.

This study uses secondary data obtained from annual reports and financial statements accessed through the official IDX website and respective company websites. Data on political connections and family ownership are collected from corporate governance disclosures, ownership structures, and information on boards of directors and commissioners.

Market performance is measured using Price to Book Value (PBV), which reflects investor perception of firm value relative to its book value. Political connection is measured using a dummy variable, where a value of 1 indicates that the company has political connections and 0 otherwise. A firm is classified as politically connected if at least one member of the board of directors, board of commissioners, or controlling shareholder has current or prior political affiliation, including government officials, members of parliament, military or police officials, or if the firm is state-owned or has significant government ownership. Family ownership is measured as the percentage of shares held by founding families or related family members, as identified through annual reports.

To control for firm characteristics that may influence market performance, this study includes firm size, leverage, and firm age as control variables. Firm size is measured using the natural logarithm

of total assets, leverage is measured as the ratio of total debt to total equity, and firm age is calculated as the number of years since the company's establishment.

The empirical model is estimated using panel data regression. Two models are employed: the first examines the direct effect of political connection on market performance, while the second includes the interaction term between political connection and family ownership to test the moderating effect. The moderating effect is supported if the interaction coefficient is statistically significant.

To determine the most appropriate panel regression model, the Common Effect Model, Fixed Effect Model, and Random Effect Model are compared using the Chow test, Hausman test, and Lagrange Multiplier test. The final model is selected based on statistical criteria and model suitability. Classical assumption tests are conducted to ensure the robustness of the estimation results, including tests for normality, multicollinearity, heteroskedasticity, and autocorrelation. If heteroskedasticity is detected, robust standard errors are applied to maintain the reliability of the regression estimates.

RESULTS

The empirical analysis was conducted using panel data regression to examine the effect of political connection on market performance and the moderating role of family ownership in energy sector companies listed on the Indonesia Stock Exchange during 2019–2024. Model selection procedures using the Chow test, Hausman test, and Lagrange Multiplier

test were performed to determine the most appropriate estimation approach. Based on the statistical criteria, the selected model provided consistent and

efficient estimators for hypothesis testing. The descriptive statistical distribution of all variables used in this study is presented in Table 1.

Table. 1. Descriptive statistics

	<i>Polcon</i>	<i>Famown</i>	<i>Lev</i>	<i>Size</i>	<i>USP</i>	<i>PBV</i>
<i>Mean</i>	0.316364	0.033659	0.839907	611.337.202.705	27.81818	0.749012
<i>Median</i>	0.000000	0.000000	0.784600	4.125.624.784.000	25.00000	0.780800
<i>Maximum</i>	1.000000	0.610600	1.888390	168.117.730.744.000	74.00000	1.330170
<i>Minimum</i>	0.000000	0.000000	0.153090	64.597.186.000	7.000000	0.212430
<i>Observations</i>	275	275	275	275	275	275

Table 1 presents the descriptive statistics of all variables used in this study, including political connection (*Polcon*), family ownership (*Famown*), leverage (*Lev*), firm size (*Size*), firm age (*USP*), and firm value measured by price-to-book value (*PBV*). The dataset consists of 275 firm–year observations.

The mean value of the political connection variable (*Polcon*) is 0.316 with a minimum of 0 and a maximum of 1. This indicates that approximately 31.6% of the sampled firms have political connections, while the remaining firms do not exhibit such connections. The median value of 0 suggests that more than half of the observations are firms without political connections.

Family ownership (*Famown*) shows a relatively low mean value of 0.033, with a maximum of 0.611 and a minimum of 0. The median value of 0 indicates that a large proportion of firms in the sample do not have significant family ownership structures, although some firms exhibit relatively high family ownership concentrations.

The leverage variable (*Lev*), which reflects the proportion of debt in the firm's capital structure, has a mean value of 0.839 and a median of 0.785, with values ranging from 0.153 to 1.888. This suggests that, on average, firms in the sample rely considerably on debt financing, and some firms even exhibit leverage levels exceeding one, indicating relatively high financial risk.

Firm size (*Size*), measured using total assets, shows substantial variation across

firms. The mean firm size is 611,337,202,705, while the median is 4,125,624,784,000, with a minimum value of **64,597,186,000** and a maximum of **168,117,730,744,000**. The wide range between the minimum and maximum values indicates significant heterogeneity in the scale of firms included in the sample.

The firm age variable (*USP*) has a mean value of 27.82 years and a median of 25 years, with the youngest firm being 7 years old and the oldest 74 years old. This suggests that most firms in the sample are relatively mature companies with considerable operational experience.

Finally, the firm value variable measured by price-to-book value (*PBV*) shows a mean of 0.749 and a median of 0.781, with values ranging from 0.212 to 1.330. These statistics indicate that, on average, the market valuation of the sampled firms is slightly below their book value, although some firms achieve higher market valuations.

Overall, the descriptive statistics reveal considerable variation across the variables, particularly in firm size and leverage, suggesting heterogeneous characteristics among firms in the energy sector included in the study

The regression results of the regression model are presented in table 2.

Table Hypohesis Testing Using Regression Analysis on Firm Performance

	Model 1	Model 2 (Moderated Regression)
Constant	1.468 (0.093)	1.474 (1.693)*
POLCON	0.101(3.322)***	0.094 (3.022)***
FAMOWN	0.072(0.692)	-0.115 (-0.462)
LEVERAGE	0.130(3.030)***	0.132 (3.065)***
Company Age	0.016 (1.88)*	0.017 (1.946)*
POLCON * FAMOWN	-	0.405 (1.06)
Leverage		
N	275	275
R squared	0,71	0.73

Note(s): *,** and *** significant at the 10, 5 and 1 % levels; (): t-statistics values

The regression results are presented in Table 2. Two models are estimated to examine the effect of political connections on firm performance. Model 1 reports the baseline regression results, while Model 2 incorporates the moderating effect of family ownership.

In Model 1, the coefficient of political connection (POLCON) is 0.101 and statistically significant at the 1% level ($t = 3.322$). This result indicates that firms with political connections tend to have higher market performance compared to firms without such connections.

The coefficient of family ownership (FAMOWN) is 0.072, but it is not statistically significant ($t = 0.692$), suggesting that family ownership does not have a significant direct effect on firm performance in the baseline model.

The leverage variable shows a positive and statistically significant effect on firm performance with a coefficient of 0.130 ($t = 3.030$), significant at the 1% level. This indicates that firms with higher leverage tend to have higher market valuation.

Similarly, company age has a positive and statistically significant coefficient of 0.016 ($t = 1.88$), significant at the 10% level, implying that older

firms tend to exhibit slightly higher firm performance.

Overall, the regression results indicate that political connections have a significant positive impact on firm performance, while family ownership does not significantly influence firm performance nor moderate the relationship between political connections and firm performance.

DISCUSSION

The findings of this study provide important insights into the role of political connection and family ownership in shaping market performance within Indonesia's energy sector. The empirical evidence confirms that political connection is a significant governance characteristic influencing how the market values firms operating in a highly regulated and strategic industry.

From the perspective of Resource-Based Theory, political connection can be interpreted as an intangible strategic asset. Firms with access to political networks may benefit from regulatory support, government contracts, and reduced policy uncertainty. However, the relationship between political connection and market performance cannot be fully

understood without considering Agency Theory. Political ties may also introduce agency problems if managerial decisions are influenced by political interests rather than shareholder value maximization. Ligita and Muazaroh (2020) highlight that political connection may generate both benefits and inefficiencies depending on governance mechanisms and institutional environments. Therefore, the significant relationship identified in this study reflects a complex balance between potential strategic advantages and governance risks.

The moderating role of family ownership further clarifies this governance dynamic. The interaction between political connection and family ownership suggests that ownership concentration shapes how political ties are perceived and utilized. Stewardship Theory provides a relevant explanation for this phenomenon. Family-controlled firms are typically characterized by long-term orientation, reputational concerns, and intergenerational wealth preservation motives. These characteristics may encourage more prudent and strategic use of political relationships, thereby aligning political resources with sustainable firm objectives.

At the same time, concentrated ownership may increase the potential for expropriation and information asymmetry. When political connection is combined with strong family control, investors may be concerned about the possibility of private benefit extraction. Therefore, the moderating effect identified in this study reflects the dual nature of family ownership in emerging markets, acting both as a

monitoring mechanism and as a potential source of governance risk. The results also reinforce prior findings that ownership structure plays a central role in corporate governance effectiveness in Indonesia (Pratiwi & Aligarf, 2021; Gharbi & Othmani, 2022). In strategic sectors such as energy, where government involvement is substantial, the interaction between political capital and ownership concentration becomes particularly significant in shaping investor perception.

Overall, this study contributes to the literature by demonstrating that political connection does not operate in isolation. Its impact on market performance depends on internal governance structures, particularly family ownership. The findings highlight the importance of examining political ties within the broader framework of corporate governance mechanisms in emerging markets.

CONCLUSION

This study aims to examine the effect of political connection on market performance in energy sector companies listed on the Indonesia Stock Exchange during 2019–2024, as well as to analyze the moderating role of family ownership in this relationship. Based on the empirical analysis, it can be concluded that political connection significantly influences market performance. This finding indicates that political ties are an important governance characteristic that shapes investor perception and firm valuation in Indonesia's energy sector.

Furthermore, the results confirm that family ownership moderates the relationship between political

connection and market performance. This implies that ownership structure plays a crucial role in determining how political resources are utilized and interpreted by the market. The presence of controlling families may either strengthen governance monitoring through long-term orientation or increase governance risk depending on how political ties are managed. Therefore, political connection cannot be evaluated independently from internal governance mechanisms.

The findings of this study contribute to the literature on corporate governance and political connection in emerging markets, particularly in strategic industries such as energy, where regulatory involvement is substantial. The study highlights the importance of integrating political and ownership dimensions when analyzing market-based firm performance.

Despite its contributions, this study has several limitations. First, the

measurement of political connection relies on observable affiliations disclosed in annual reports, which may not fully capture informal political networks. Second, the research focuses solely on the energy sector, limiting the generalizability of the findings to other industries.

Future research is recommended to expand the sample to other sectors and to compare results across different levels of government involvement. Further studies may also consider alternative measures of market performance, such as Tobin's Q or stock return, to provide a more comprehensive assessment of firm value. Additionally, qualitative approaches or mixed-method research could be employed to explore the mechanisms through which political connection and family ownership interact in influencing corporate strategy and governance outcomes.

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