

# The Effect of Leverage and Political Connections on the Performance of State-Owned Enterprises

Performance of State-Owned Enterprises

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## ABSTRACT

This study aims to examine the influence of leverage and political connections on the performance of state-owned enterprises (SOEs) with good corporate governance (GCG) as a moderating variable. The research uses a quantitative approach, with the population consisting of SOEs listed on the Indonesia Stock Exchange (IDX). The sample was selected using purposive sampling, resulting in 13 companies being chosen as the study's subjects. The results of the study indicate that leverage negatively affects company performance, meaning that the higher a company's debt, the lower its performance. Conversely, political connections have a positive impact on performance, suggesting that political involvement can provide advantages in enhancing a company's performance. Additionally, good corporate governance is found to positively influence company performance, reinforcing the importance of sound governance in supporting operational success. Good corporate governance also acts as a moderating variable. GCG weakens the negative relationship between leverage and company performance, while strengthening the positive impact of political connections on performance. This indicates that strong governance practices can help mitigate the adverse effects of high leverage and maximize the benefits of political connections that the company may have.

**Keywords:** Leverage, Political Connection, Corporate Governance, Company Performance

## ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh leverage dan koneksi politik terhadap kinerja perusahaan BUMN dengan good corporate governance (GCG) sebagai variabel moderasi. Penelitian menggunakan pendekatan kuantitatif dengan populasi perusahaan Badan Usaha Milik Negara (BUMN) yang terdaftar di Bursa Efek Indonesia (BEI). Sampel dipilih menggunakan metode purposive sampling, menghasilkan 13 perusahaan sebagai objek penelitian. Hasil penelitian menunjukkan bahwa leverage berpengaruh negatif terhadap kinerja perusahaan, yang berarti semakin tinggi utang perusahaan, semakin rendah kinerjanya. Sebaliknya, koneksi politik memiliki pengaruh positif terhadap kinerja, menunjukkan bahwa keterlibatan politik dapat memberikan keuntungan dalam meningkatkan performa perusahaan. Selain itu, good corporate governance ditemukan memiliki pengaruh positif terhadap kinerja perusahaan, menegaskan pentingnya tata kelola yang baik dalam mendukung keberhasilan operasional. Good corporate governance juga berperan sebagai variabel moderasi. GCG memperlemah hubungan negatif antara leverage dan kinerja perusahaan, serta memperkuat pengaruh positif koneksi politik terhadap kinerja. Ini menunjukkan bahwa praktik tata kelola yang baik dapat membantu mengurangi dampak buruk dari leverage tinggi dan memaksimalkan manfaat dari koneksi politik yang dimiliki perusahaan.

**Kata kunci:** Manfaat, Koneksi Politik, Tata Kelola Perusahaan, Kinerja Perusahaan

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## **INTRODUCTION**

It is stated in the Decree of the Minister of SOEs Number: KEP-100/MBU/2002 that the performance of SOEs can be assessed from three aspects, namely operational performance, administrative performance, and financial performance. As a state-owned company, SOEs are expected to improve their financial performance, especially in terms of generating profits. This is because the profits generated by SOEs will be a source of state revenue included in Non-Tax State Revenue. However, currently the problem is the performance of SOEs, especially their ability to generate profits. Several SOEs listed on the Indonesia Stock Exchange, such as PT Indofarma Tbk., PT Wijaya Karya (Persero) Tbk., PT Garuda Indonesia., PT Waskita Beton Precast Tbk., PT Krakatau Steel (Persero) Tbk., PT Waskita Karya (Persero) Tbk., were recorded as experiencing losses during the first semester of 2023. By the end of 2023, the Ministry of SOEs has closed 7 of the 22 problematic or sick SOEs handled by PT Perusahaan Pengelola Aset (PPA). The seven SOEs are PT Iglas, PT Industri Sandang Nusantara, PT Istaka Karya, PT Kertas Kraft Aceh, PT Kertas Lece, PT Merpati Nusantara Airlines, and PT Pembiayaan Armada Niaga Nasional (PANN).

Financial performance assessment can be seen from the company's ability to generate profits (Gue, 2015). Company performance in relation to profit can be reflected in a company's profitability level. One of the profitability ratios that is often used to measure a company's ability to generate profits is Return on Assets (ROA). This ratio shows the productivity of all company funds, both loan capital and equity. The smaller this ratio, the worse it is and vice versa, meaning that this ratio is used to measure the effectiveness of the company's overall operations. In general, a good return on assets (ROA) is 5% or more and above 20% is very good (Yuniarti et al., 2023). The data in shows that the average ROA of public State-owned Enterprises in the last five years is below 5%, meaning that its financial performance is not good. Only PT Telkom Indonesia (Persero) Tbk. has good financial performance or has an ROA value above 5% since 2018-2022 and PT Garuda Indonesia (Persero) Tbk. posted a profit of USD 3.73 billion in 2022, resulting in a significant increase in ROA with an ROA value of 60% compared to the previous four years which posted losses so that ROA was negative.

Return on Asset (ROA) or the rate of return on assets is an indicator that measures how well a company utilizes its assets to generate profits. ROA is included in one of the profit ratios, and the higher the ROA value of a company, the better the company's performance in generating net profit. Usually, ROA is used as part of fundamental analysis and considerations in making investment decisions. ROA is a profitability ratio that is often used by investors to assess how profitable a company is (Yuniarti et al., 2023). SOEs are often in the spotlight because they are considered inefficient, full of corruption, and have low profitability. In comparison, Petronas Malaysia in 2022 recorded a net profit of IDR 348.7 trillion, far surpassing all Indonesian SOEs (Kompas.com, 2023). External factors such as the global economy and politics, as well as internal factors such as poor management, also cause losses to SOEs. Ownership of SOEs by many parties also complicates coordination, coupled with political intervention that hinders corporate policies. The weak implementation of good corporate governance (GCG) is also a major problem.

The increase in State-owned Enterprises debt since 2016 which is not comparable to performance, until the end of 2023, State-owned Enterprises debt reached IDR 1,640 trillion, increasing the company's financial risk (Annual Report, Ministry of State-owned Enterprises). The leverage generated by the Company affects financial performance. leverage can be interpreted as the high or low risk involved in the company. Leverage needs to be managed properly, because too much debt can affect financial performance. Leverage has a negative effect on State-owned Enterprises market performance, meaning that the higher the debt ratio (leverage) of a State-owned Enterprises, the lower its stock market performance. Leverage has a significant negative

effect on financial performance, meaning that the higher the leverage, the lower the financial performance. Companies obtained from loans contained in the company's debt value, the higher the agency conflict that occurs and has an impact on the decline in the company's financial performance. Political connections or relationships have become common in Indonesia. Especially in state-owned companies, which often involve the company's organizational structure with people who have close ties to the government, both commissioners and directors (Sutrisno & Fella, 2020). Political power even causes a decline for Regionally owned enterprise in Riau Province, Indonesia (Sauqi & Albintani, 2013). In contrast to other studies, research by Pratiwi & Aligarh (2021), found that political connections will improve company performance and with political connections the company gets lower funding costs. Research by Joseline et al. (2021), also stated that politically connected companies have better performance than non-politically connected companies. Given the inconsistency of the results of previous studies, further analysis is needed.

This study adds a moderating variable in the form of Good Corporate Governance (GCG) to see the effect of leverage and political connections on the performance of State-owned Enterprises companies. According to Frazier et al. (2004), relevant moderating variables are used when the relationship between the independent and dependent variables is inconsistent, depending on certain conditions. Based on agency theory, shareholders as principals expect a return on investment, so that high leverage can encourage principals to pressure management to improve performance and reduce the debt ratio. This pressure forces management to implement GCG better (Puspaningsih & Pratiwi, 2017). Corporate governance plays an important role in directing and controlling the organization, as well as preventing fraud that can harm BUMN. Political relations that arise from hidden interests can also cause leaders to be non-independent in managing the company (Marbun et al., 2021). With good GCG implementation, the potential for manipulation by management can be minimized, improving company performance (Ramadhani & Agustin, 2021). This study replicates the study of Zhou et al. (2021) which examined the quality of GCG and leverage in China. Although there have been many studies on the impact of leverage and political connections on financial performance with GCG as a moderation, studies on GCG as a mediator between leverage and financial performance in Indonesia are still limited.

## **LITERATURE REVIEW**

Agency theory is one of the theories related to Good Corporate Governance (GCG). According to Jensen & Meckling (1976), agency theory views company management as an agent of shareholders will act with full awareness of their interests, not as a wise and fair party towards shareholders. Agency theory describes the relationship between principals and agents. Principals are those who hand over the mandate to agents to act on behalf of the principal. At the same time, the agent is the party who receives the mandate to act on behalf of the principal. Therefore, the agent must be responsible to the principal for every action taken (Jensen & Meckling, 1976). Company performance is the result of the company's achievements as measured by financial ratios. Company performance describes the company's success in implementing the company's goals, namely maximizing shareholder profits (Wahyuni et al., 2022). Company performance is an indicator needed by management to measure the effectiveness of company performance (Safitri & Yulianto, 2015). Company performance is the work achievement that has been achieved by the company in a certain period and is stated in the company's financial report (Rahmawati & Khoiruddin, 2017). Company performance is a reflection of the company's ability to utilize its resources. The good or bad financial condition of the company can be used as a reflection of the company's performance in a certain period (Alipour, 2013).

The leverage ratio measures the extent to which a company is financed by debt and indicates the level of security for creditors. High leverage risks endangering the company because it can fall into the category of "extreme leverage," where large debts are difficult

to pay off. Although leverage can increase profitability, the risk of loss also increases when conditions worsen. Leverage describes the level of assets financed by debt, by comparing total debt to total assets. According to Horn (2009), leverage is the use of fixed costs to increase profitability, but can also increase losses (Tjandra, 2015). Political connections occur when a company has a relationship with a party involved in politics for mutual benefit, including taxation (Purwanti & Sugiyarti, 2017). This connection involves company officials such as the board of commissioners, key management, or shareholders who have closeness or positions with the government (Hidayati & Diyanty, 2018). A company is politically connected if the president commissioner, board members, or directors are involved in political parties, have served in parliament, ministries, police, or military, both domestically and abroad (Sutrisno & Fella, 2020). Good Corporate Governance (GCG) is a set of rules that govern the relationship between shareholders, managers, creditors, government, employees, and other stakeholders to direct and control the company (FCGI, 2003). According to the Decree of the Minister of SOEs, GCG increases business success by considering stakeholder interests (Masitoh, 2017).

Debt affects a company's financial performance. Leverage is measured by dividing total liabilities by total assets, where the higher the leverage, the higher the risk of agency conflicts and decreased financial performance (Puspitasari & Ernawati, 2010). Leverage is used to increase long-term investment, but large debt increases interest expenses, which can reduce financial performance if not managed properly. Research by Zhou et al. (2021) shows a negative effect of leverage on a company's financial performance.

**H1:** Leverage has a positive effect on company performance

Pratiwi & Aligarh (2021), explains that political connections will improve company performance and with political connections the company gets lower funding costs. Research by Joseline et al. (2021), also states that politically connected companies have better performance than companies that are not politically connected. Political connections can benefit companies in several ways such as: obtaining contracts and subsidies from the government, better tax treatment, easier access to funding, less stringent supervision and even higher IPO prices. These benefits can ultimately lead to better performance than other companies that do not have political connections.

**H2:** Political connections has a positive effect on company performance

Good corporate governance through the Audit Committee is expected to be able to oversee financial reports, external audits, and internal control systems (Decree of the Minister of SOEs No. 117/M-MBU/2002). The audit committee has a positive relationship with company performance, including increasing ROA. The t-test shows that the Audit Committee has a dominant effect on ROA, in line with research by Masitoh (2017), which found that the audit committee and managerial ownership significantly affect the company's financial performance partially, especially through increasing Return on Assets (ROA).

**H3:** Good corporate governance has a positive effect on company performance

Leverage can increase company profits, but also risks causing major losses if the results are not as expected. Profitable leverage occurs when the company's income is higher than its fixed costs (Horn, 2009; Tjandra, 2015). According to Anis et al. (2022), good corporate governance can reduce the negative impact of leverage on performance. Zhou et al. (2021) research also found that good governance can offset the negative impact of leverage, ensuring adequate returns for investors.

**H4:** Good corporate governance weakens the relationship between leverage and company performance

Good corporate governance (GCG) fosters accountability between the Board of Commissioners, Directors, and shareholders, enhancing company performance. A larger audit committee improves financial reporting quality, aiding oversight by the Board of Commissioners and Directors (Masitoh, 2017). Independent commissioners play a vital role in ensuring management aligns with shareholder interests and reduces fraud risks. GCG also strengthens the relationship between political connections and company performance, as independent commissioners with political ties enhance oversight, leading to increased company value and better overall performance.

**H5:** Good corporate governance strengthens the relationship the effect of political connections on company performance

## **METHODS**

This study uses a quantitative approach with a descriptive research type. The study population consists of all companies listed on the Indonesia Stock Exchange (IDX) until December 2022, with a total of 825 companies. The sample was selected using a purposive sampling technique, which resulted in 13 state-owned companies as samples. The data used is secondary data obtained from the financial statements and annual reports of state-owned companies listed on the IDX during the 2018-2022 period. Company performance is measured using Return on Assets (ROA), which is considered to better reflect the effectiveness of the company's strategy and internal control (Puspita, 2018). ROA is calculated based on the profitability ratio according to Bank Indonesia Circular Letter 3/30/DPNP, by measuring profit against the company's total assets. Leverage is measured by the Debt to Asset Ratio (DAR), which calculates the extent to which the company's total assets are financed by debt. High leverage indicates a solvency risk, which makes investors more cautious in investing (Horn, 2009). DAR is calculated by dividing total debt by the company's total assets. Political connections refer to the relationship between company officials and political actors, which can benefit both parties. A company is considered to have political connections if its board of directors or commissioners are involved in political parties or have held positions in government (Sutrisno & Fella, 2020). Political connections are proxied by a dummy variable, where a value of 1 is given if connected, and 0 if not. The Good Corporate Governance (GCG) mechanism is measured through the audit committee, which is tasked with overseeing financial reports and external audits. The number of audit committee members is used as an indicator to measure GCG (Masitoh, 2017).

## **RESULTS**

The research data is said to be normally distributed or meets the normality test if the Asymp.Sig (2-tailed) value of the residual variable is above 0.05. Conversely, if the Asymp.Sig (2-tailed) value of the residual variable is below 0.05, then the data is not normally distributed or the data does not meet the normality test (Ghozali, 2016). The results of the residual analysis obtained from SPSS data processing state that the significance value of the regression function of the Leverage, Political connection and Good corporate governance variables is 0.830. This value is greater than 0.05. It can be concluded that the regression function of the three variables is normally distributed.

The presence of multicollinearity can be seen from the tolerance value or Variance Infection Factor (VIF) value. The tolerance value limit is below 1 and the Variance Infection Factor (VIF) value is not more than 10, then the model is free from multicollinearity. Based on the data obtained from SPSS processing, the tolerance value of the three independent variables Leverage, Political Connection and Good corporate governance and the moderation variable good corporate governance produce tolerance  $>_{0.1}$ , which is 0.463, 0.461 and 0.983 and VIF value  $<10$ , which is 2.159, 2.168 and

1.018. So, it can be concluded that in this regression model there is no multicollinearity problem. The Run Test method is used for autocorrelation testing, the decision-making method for autocorrelation testing using the Run Test method is if the Asymp. Sig (2-tailed) value is less than 0.05 then there is an autocorrelation problem. If the Asymp. Sig (2-tailed) value is greater than 0.05, then there is no autocorrelation problem. Based on the results of the autocorrelation test using the Run Test method, the results of the Asymp. Sig (2-tailed) are 0.783. The value is greater than 0.05 ( $0.783 > 0.05$ ) so it can be concluded that the regression model does not have an autocorrelation problem. The Heteroscedasticity Test aims to test whether in the regression model there is inequality of variance from the residual of one observation to another.

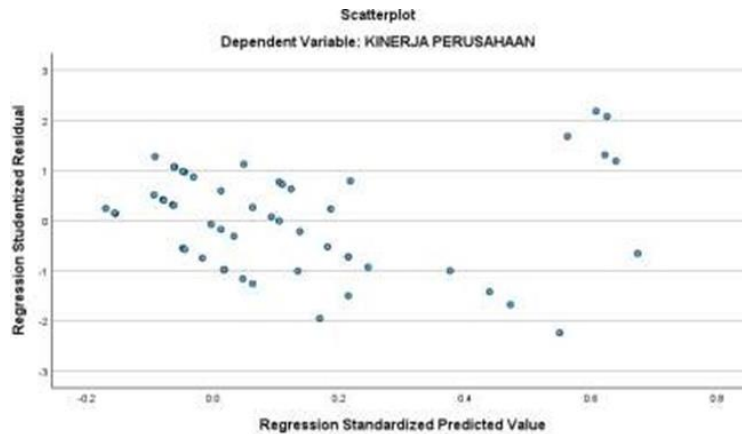


Figure 1. Heteroscedasticity Test

The scatterplot graph between the predicted value (ZPRED) and the residual (SRESID) in the image above, it can be seen that the points are spread randomly and are spread both above and below the number 0 on the Y axis, the points are also spread randomly, so it can be concluded that there is no heteroscedasticity in this regression model.

The first step is to test the independent variables in the form of leverage (X1), political connection (X2), good corporate governance against the dependent variable Company Performance (Y) with a direct relationship technique (multiple regression analysis). In the second step, testing is carried out on the same independent variables, but with the addition of testing the interaction between leverage and political connection on company performance with the moderation variable good corporate governance. The test uses a moderation technique in the form of moderate regression analysis (MRA). The basis for consideration in deciding the results of the analysis of each variable is to use the significance value (Sig.). The results of data processing from each variable can be seen in Table 1:

Table 1. Results of Regression Analysis

Model	B	Std. Error	T	Sig.
(Constant)	-0.356	0.027	-13.059	<0.001
Leverage	-0.132	0.013	-10.236	<0.001
Political connection	0.451	0.020	22.830	<0.001
GCG	0.005	0.001	4.124	<0.001
Leverage*GCG	-0.042	0.008	-5.186	<0.001
Political connection*GCG	0.037	0.006	5.946	<0.001

The results of the analysis found that the three variables together have a significant influence on company performance. Leverage shows a positive relationship, where increasing leverage within reasonable limits can improve company performance through optimizing the use of loan funds. Meanwhile, political connections play a significant role in facilitating access to resources and regulations, which support improved

performance. Good corporate governance has also been shown to have a significant influence, where the implementation of the principles of transparency, accountability, and responsibility strengthens the stability and reputation of the company, which ultimately improves performance. The results of this study confirm that the three factors interact with each other and play an important role in influencing company performance simultaneously.

Table 2. F Test (Simultaneous Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.376	3	0.125	709.145	<.001b
Residual	0.009	50	0.000		
Total	0.385	53			

Based on the results of the Table 2, the calculated F value is 709.145 while the significance level is <0.001, smaller than the significance level of 0.05. Thus, simultaneously Leverage, Political connection and Good corporate governance affect the Company Performance variable. If Leverage, Political connection and Good corporate governance increase, the Company's performance will also increase. The coefficient of determination (R2) measures how far the model's ability to explain the variation of the dependent model. The value of the coefficient of determination is zero and one. A small R2 value means that the ability of the independent variables to explain the variation of the dependent variable is limited.

Table 3. Coefficient of Determination (R2)

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.988 <sup>a</sup>	0.977	0.976	0.01330

Based on the Table 3, the estimation results obtained the adjusted determination coefficient Adjusted R Square of 0.976, thus the dependent variable of company performance is influenced by the Leverage variable (X1), Political connection (X2) and Good corporate governance by 97.6%. While the rest (100% - 97.6% = 2.4%) is influenced by other variables outside the study.

DISCUSSION

The first hypothesis states that leverage has a negative effect on company performance. The test results show that leverage has a significant negative effect, where a 1% increase in debt reduces the company's profit by -0.132 or 13.2%. This illustrates that high debt has a detrimental impact on company performance because it increases financial risk and agency costs. PT Waskita Karya (Persero) Tbk. and PT Wijaya Karya (Persero) Tbk. experienced the impact of a large debt burden, causing both to be suspended by the Indonesia Stock Exchange for failing to pay the principal and interest due.

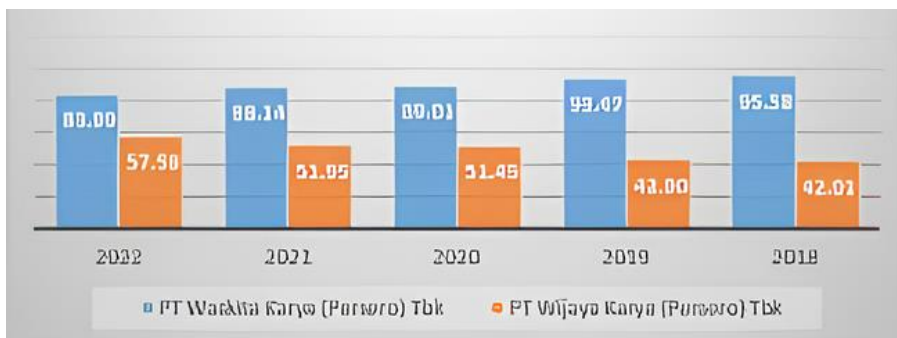


Figure 2. Development of Debt of PT Waskita Karya and PT Wijaya Karya

The reason for the suspension of the shares of these two BUMNs was the delay in payment of obligations to investors, namely bonds and sukuk that were due (mediaindonesia.com, accessed March 13, 2024). The large debt burden caused financial difficulties for PT Waskita Karya (Persero) Tbk. and PT Wijaya Karya (Persero) Tbk., which at the end of 2022 recorded losses of IDR 1.89 trillion and IDR 59.59 billion, respectively. The use of leverage can increase profits but also risks causing major losses if results are not as expected. According to Horn (2009), unfavorable leverage occurs when results are not enough to cover fixed financing costs (Tjandra, 2015; Liputan6.com, 2024). This means that the company is unable to manage its funding properly, which has a negative impact on its financial performance. Differens from the results of Amalia & Khuzaini (2021), which state that leverage has a significant positive effect on the company's financial performance.

The second hypothesis states that political connections have a positive effect on company performance. The test results show that the political connection variable has a significant effect with a positive coefficient, which means that the more politically connected, the higher the company's performance. Political connections make it easier for companies to obtain government projects and access to debt financing due to the presence of politicians on the board of directors (Sari, 2019). In addition, companies with political connections often receive preferential treatment, such as tax discounts, access to loans, and government contracts (Dharmayuni & Suryati, 2014). SOEs benefit greatly from national strategic projects, with 81 projects supported by SOEs worth more than IDR 711 trillion in the second quarter of 2022 (www.bumn.go.id). These strategic projects have the potential to improve SOEs' financial performance.

**Table 4.** Total of National Strategic Projects managed by State-owned Enterprises

BUMN / Subsidiary	Total of PSN
PT Pertamina (Persero)	14
PT Waskita Karya (Persero) Tbk	9
PT Hutama Karya (Persero)	8
PT Pelabuhan Indonesia (Persero)	8
PT Indonesia Asahan Aluminium (Persero)	8
PT Jasa Marga (Persero) Tbk	6
PT Perusahaan Perdagangan Indonesia	5
PT Perusahaan Listrik Negara (Persero)	4
PT Pembangunan Perumahan (Persero) Tbk.	4
PT Kereta Api Indonesia (Persero)	2
PT Adhi Karya (Persero) Tbk	2
PT Danareksa (Persero)	2
PT Aviasi Pariwisata Indonesia (Persero)	2
PT ASDP Indonesia Ferry (Persero)	1
PT Wijaya Karya (Persero) Tbk	1
PT Pupuk Indonesia (Persero)	1
PT Rajawali Nusantara Indonesia (Persero)	1
PT Perkebunan Nusantara III (Persero)	1
PT Industri Kereta Api	1
LKBN Antara	1
<b>Total</b>	<b>81</b>

With this political connection, State-owned Enterprises has special privileges that BUMN is prioritized in government projects compared to non-State-owned Enterprises companies. In addition to funding sources that mostly come from the government, State-owned Enterprises also operates in important sectors such as water, electricity, and telecommunications, with a large number of customers, even monopolizing several business sectors without competition from non- State-owned Enterprises (Efori, 2017). The political connection variable has a significant positive effect on State-owned Enterprises performance. Sutopo et al. (2017) explained that political connections can reduce funding costs and improve company performance. Boubakri et al. (2012) also stated that politically connected companies perform better than those that are not

politically connected, because they get contracts, subsidies, better tax treatment, and easier access to funding. However, Maaloul (2018) found that politically connected companies actually have lower performance than companies that are not politically connected, showing differences in research results.

The third hypothesis states that good corporate governance (GCG) has a positive effect on company performance, and the results of the study showed a significant influence. A positive coefficient indicates that the better the GCG, the higher the company's performance. This is due to increased supervision by the audit committee, where the optimal number of committees improves the quality of financial reports. The audit committee also provides input to the board of commissioners and directors regarding management. Effective supervision can help companies control the behavior of top executives, protecting the interests of shareholders. Based on the Decree of the Minister of SOEs Number: 117 / M-MBU / 2002, the audit committee is responsible for overseeing financial reports, external audits, and internal control systems, and must have competence in finance. This study is in line with Masitoh (2017), who found that the audit committee affects the financial performance of manufacturing companies in Indonesia. Sarafina & Saifi's (2017) also supports this finding, showing that the audit committee has a dominant influence on the return on assets (ROA) of SOEs. However, these results differ from Septiana & Aris (2023), who stated that GCG has no effect on financial performance.

The fourth hypothesis states that Good Corporate Governance (GCG) can weaken the relationship between leverage and company performance. The test results show that the GCG variable does weaken this relationship. According to Agency Theory, shareholders as principals expect a return on their investment. A high debt ratio can trigger pressure from the principal on management as an agent to improve company performance in order to reduce the debt ratio. This pressure encourages management to implement GCG principles better, so that it is expected to increase the company's GCG score and assessment (Puspaningsih & Pratiwi, 2017). Based on Article 71 Paragraph (1) of Law Number 19 of 2003 concerning State-owned Enterprises, an audit committee is formed to assist the board of commissioners and supervisors in assessing audit activities and results. The audit committee provides recommendations for improving the management control system, as well as ensuring that information that requires the attention of the board of commissioners has been handled. Thus, the audit committee plays an important role in encouraging management to carry out healthy business management, and becomes a liaison between management and the board of commissioners.

Increasing the number of audit committees will have an impact on better supervision, thereby improving the quality of financial reports. It also provides input to the board of commissioners regarding leverage policies that impact the company's operational financing. Although the use of leverage can increase profits, there is also a risk of equivalent losses if not managed properly. Therefore, the optimal number of audit committees in a company has the potential to increase supervision and control, which leads to improved company performance (Masitoh, 2017). Research on the effect of leverage on company performance with GCG as a moderating variable is still limited. However, the results of this study support the study of Anis et al. (2022) which shows that the corporate governance index can reduce the negative effect of leverage on company performance, as well as the findings of Zhou et al. (2021) which states that governance quality has a significant and negative effect on leverage. Good governance quality can guarantee adequate returns for investors.

The Fifth Hypothesis states that good corporate governance (GCG) strengthens the relationship between political connections and company performance. The test results show that GCG is proven to strengthen this relationship, with a positive coefficient value, which means that the better the implementation of GCG and the stronger the political connections, the higher the company's performance will be. This is due to the government's evaluation of the president director of State-owned Enterprises, where tax

payments, dividends, and PNBP are important considerations in the evaluation. State-owned Enterprises companies strive to pay high taxes to contribute to the country, which can affect the sustainability of the president director's position or promotion opportunities (Pranoto & Widagdo, 2016). Since the era of President Susilo Bambang Yudhoyono (2004-2014), filling State-owned Enterprises commissioners who have political connections with the government has become a common practice, which continues in the administration of President Joko Widodo. However, the selection of directors and commissioners also considers competence and expertise, and goes through a feasibility test process. This reflects the government's interest in ensuring that State-owned Enterprises contribute positively through taxes, dividends, and PNBP.

The implementation of GCG aims to create effective and efficient corporate governance. The audit committee plays an important role in the implementation of GCG by assisting the board of commissioners in supervision. The quality of the audit committee is expected to reduce the opportunistic nature of management and improve the quality of internal supervision, as well as optimize the checks and balances mechanism, providing protection to shareholders (Makhrus, 2013). Research on the effect of political connections on company performance with GCG as a moderating variable is still limited. The results of this study support the study of Budiarto (2023), which states that GCG can strengthen the relationship between political connections and company performance, as well as the findings of Sormin & Chaya (2024) which show that GCG strengthens the positive relationship between independent commissioners who have political connections with company value.

## CONCLUSION

Based on the results of the first hypothesis test, it shows that partially the leverage variable has a significant effect on the company's performance variable. With a negative relationship direction. A negative influence indicates a relationship in the opposite direction, meaning that the greater the leverage, the lower the company's performance. Based on the results of the second hypothesis test, it shows that partially the political connection variable has a significant effect on the company's performance variable. With a positive relationship direction. A positive influence indicates a unidirectional relationship, meaning that if political connections increase, the company's performance also increases. Based on the results of the third hypothesis test, it shows that partially the good corporate governance variable has a significant effect on the company's performance variable. With a positive relationship direction. A positive influence indicates a unidirectional relationship, meaning that if the implementation of good corporate governance increases, the company's performance also increases. Based on the results of the fourth hypothesis test, it shows that partially the good corporate governance variable is able to moderate the relationship between leverage and company performance, with a coefficient value showing a negative number, meaning that good corporate governance is able to weaken the relationship between leverage and company performance. Based on the results of the fifth hypothesis test, it shows that partially the good corporate governance variable is able to moderate the relationship between political connections and company performance, with a coefficient value showing a positive number, meaning that good corporate governance is able to strengthen the influence of political connections on company performance.

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