The Indonesian Accounting Review Vol. 15, No. 2, July – December 2025, page 159-170

The Mediation Effect of Corporate Social Responsibility on the Relationship Between Political Connections and Firm Value

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ARTICLE INFO

Article history:
Received August 3, 2025
Revised October 12, 2025
Accepted October 22, 2025

JEL Classification:

Key words:
Political Connections, Corporate Social Responsibilities, Firm Value

DOI:
10.14414/tiar.v15i2.5320

ABSTRACT

This investigation explores CSR's potential mediating function in the political connection-firm value relationship. The analysis utilizes 437 annual reports from Indonesia Stock Exchange-listed financial sector corporations spanning 2014-2021. Data analysis reveals that CSR successfully mediates the political connection-firm value relationship. Additional findings demonstrate that political connections exert positive and significant effects on firm value, while CSR spending patterns differ significantly between politically connected and non-connected organizations. Robustness testing employing identical variables with alternative indicators maintains result consistency. The findings provide important implications for multiple stakeholders. Companies should strategically leverage CSR as a value-enhancement mechanism rather than treating it as mere regulatory compliance, particularly in emerging markets where political connections remain prevalent. Investors should incorporate both political connection assessments and CSR evaluation frameworks when making investment decisions in developing economies. Policymakers and regulators should establish comprehensive CSR guidelines that ensure transparency while encouraging ethical political engagement that promotes sustainable economic development.

ABSTRAK

Studi ini mengkaji kemampuan CSR dalam memediasi relasi antara koneksi politik dan valuasi perusahaan. Sampel penelitian mencakup 437 laporan tahunan dari perusahaan sektor keuangan yang terdaftar di Bursa Efek Indonesia periode 2014-2021. Analisis data mengonfirmasi bahwa CSR berhasil memediasi hubungan koneksi politik dengan nilai perusahaan. Temuan tambahan menunjukkan bahwa koneksi politik memberikan dampak positif dan signifikan terhadap nilai perusahaan, serta mengungkap disparitas alokasi dana CSR antara perusahaan yang memiliki koneksi politik dengan yang tidak memiliki koneksi politik. Uji robustitas menggunakan variabel identik namun dengan indikator alternatif tetap mempertahankan konsistensi hasil. Temuan ini memberikan implikasi penting bagi berbagai pemangku kepentingan. Perusahaan harus secara strategis memanfaatkan CSR sebagai mekanisme peningkatan nilai, alih-alih menganggapnya hanya sebagai kepatuhan regulasi, terutama di pasar negara berkembang di mana koneksi politik masih dominan. Investor harus mempertimbangkan penilaian koneksi politik dan kerangka evaluasi CSR ketika membuat keputusan investasi di negara berkembang. Para pembuat kebijakan dan regulator harus menetapkan pedoman CSR yang komprehensif yang menjamin transparansi sekaligus mendorong keterlibatan politik yang etis dan mendorong pembangunan ekonomi berkelanjutan.

INTRODUCTION

Political relationships between corporations and government entities are predominantly observed in nations characterized by inadequate investor legal safeguards and elevated corruption indices (Saeed et al., 2016). Such corporate-political alliances are particularly concentrated in environments where legal frameworks remain underdeveloped and corrupt practices are widespread, with Indonesia ranking among the countries with the highest

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prevalence of these connections (Saeed et al., 2016).

The proliferation of corruption scandals involving governmental bodies, corporations, and political entities has become increasingly visible in public discourse, highlighting the strategic motivations behind corporate political alliance formation. Indonesia's multi-party political landscape creates opportunities for numerous enterprises to establish connections with various political organizations, as party affiliates often occupy influential positions within corporate structures. These arrangements allow political figures and government officials to maintain corporate interests while securing reciprocal advantages for their political supporters (Khelil, 2023).

Despite extensive research on political connections and firm value, significant gaps remain in understanding the mechanisms through which these relationships create value. Previous studies have predominantly focused on direct effects of political connections on firm performance, with limited investigation into mediating variables that explain how and why these effects occur (Ngo & Ha, 2024; Saeed et al., 2016). While some research has examined CSR's role in corporate strategy, the specific mediating function of CSR in political connection-firm value relationships remains underexplored, particularly in emerging market contexts.

Furthermore, existing literature presents conflicting evidence regarding the value implications of political connections. While some studies demonstrate positive effects (Hogrebe & Lutz, 2024; Do et al., 2015), others report negative or insignificant relationships (Deng et al., 2017; Gray et al., 2014). This inconsistency suggests that intermediary mechanisms may explain when and how political connections create value, highlighting the need for mediation analysis.

The Indonesian context presents a particularly compelling case for investigation due to its unique institutional characteristics, including mandatory CSR requirements and pervasive political-business relationships. However, limited research has specifically examined how CSR mediates political connection effects within Indonesia's financial sector, which faces heightened regulatory scrutiny and political influence. This study addresses these gaps by investigating CSR's mediating role in the political connection-firm value relationship within Indonesia's financial industry.

Market reactions during Indonesia's 2009 and 2014 electoral cycles demonstrated the financial benefits of political alliances, with share prices of connected companies experiencing notable increases. Conglomerates affiliated with victorious parties and presidential candidates, particularly major corporations and state enterprises, witnessed substantial market capitalization growth following election outcomes (Maulana & Wati, 2019). These stock price movements reflect the continued belief among business leaders in developing economies that political networks serve as facilitators for achieving corporate objectives, prompting substantial investments in cultivating such relationships as valuable organizational resources (Wati et al., 2016; Deng et al., 2017).

To strengthen these political relationships, companies employ various mechanisms, with Corporate Social Responsibility (CSR) serving as a prominent tool. Originally conceptualized as voluntary corporate initiatives aimed at environmental stewardship and social welfare enhancement (Dewi & Dewi, 2017; Harjoto et al., 2015; Wang & Sarkis, 2017), CSR in Indonesia has evolved into a regulatory requirement. Law Number 236 of 2003 mandates state-owned enterprises to dedicate 1-3% of net profits to social initiatives, while Law Number 40 of 2007 requires all natural resource companies to implement CSR programs.

Despite regulatory frameworks established through Law Number 40 of 2007 and Government Regulation Number 47 of 2012, specific CSR funding requirements remain undefined. Companies must independently determine appropriate CSR allocations based on fairness principles outlined in Law 40/2007 article 47 paragraph 2, with non-compliance penalties enforced. The Financial Services Authority has reinforced these requirements through Regulation No. 51/POJK.03/2017, mandating annual sustainability report disclosures by all issuers.

Political controversies surrounding CSR have emerged, particularly regarding alleged fund misappropriation for campaign purposes during the 2014 and 2019 elections. The PPATK chairman's 2013 statement to Kontan media highlighted concerns about state enterprise CSR fund misuse for political party benefits, identifying the banking sector as particularly vulnerable to such practices.

The interconnection between CSR initiatives, political networks, and corporate valuation has gained prominence in contemporary economic analysis. While robust CSR practices can enhance corporate reputation and stakeholder confidence, political influences may compromise these efforts. Ethical political connections can provide competitive advantages through resource access and business opportunities, yet controversial alliances may damage reputation and diminish firm value. Successful long-term value creation requires companies to balance strong CSR implementation with ethical political engagement while effectively managing associated risks.

This research investigates CSR's potential mediating function in the political connection-firm value relationship within Indonesia's financial sector. If CSR effectively mediates this relationship, political connections should positively influence CSR implementation, subsequently enhancing firm value. The financial sector was selected due to its unique characteristics and particular vulnerability to political influence and CSR-related controversies.

THEORETICAL FRAMEWORK AND HYPOTHESES

Resource Dependence Theory

Resource Dependence Theory (RDT) was written and developed by Pfeffer and Salancik in 1978. The basic assumption of RDT is that dependence on "critical" and important resources affects organizational actions and that organizational decisions and actions can be explained depending on specific dependency situations. RDT helps organizations understand how organizations manage their dependencies on external resources, identify associated risks, and develop appropriate strategies to achieve long-term success (Pfeffer & Salancik, 1978).

Political Context in Indonesia

Indonesia's political landscape presents unique characteristics that significantly influence business operations and corporate behavior. Since the fall of the New Order regime in 1998, Indonesia has undergone democratic transition while maintaining complex relationships between political elites and business entities. The country's political system features a multi-party democracy where coalition governments are common, creating multiple avenues for corporate political engagement (Aspinall & Mietzner, 2019).

The Indonesian context is particularly relevant for understanding political connections due to several factors. First, Indonesia's institutional framework remains in development, with regulatory enforcement varying across sectors and regions (Lurusati & Torenvlied, 2023).

This institutional uncertainty incentivizes firms to cultivate political relationships as risk mitigation strategies. Second, the legacy of crony capitalism from the Suharto era continues to influence business practices, where personal networks and political patronage remain important for accessing resources and opportunities (Layyina et al. (2024).

Indonesia's financial sector operates under heightened political influence due to state ownership of major banks and the government's active role in economic policy implementation. The Financial Services Authority (OJK) and Bank Indonesia maintain significant regulatory power, making political relationships particularly valuable for financial institutions seeking favorable treatment or regulatory clarity (Wardhana, 2016). Additionally, Indonesia's decentralized governance structure creates multiple levels of political engagement opportunities, from national to regional levels, further emphasizing the importance of political connections in business strategy.

Political Connections

Recent studies continue to demonstrate mixed evidence regarding political connections and firm value. Saeed et al. (2016) provide evidence from developing countries showing positive effects of political connections on firm performance, while Liu et al. (2020) demonstrate that CEO political connections enhance firm performance through improved access to resources and reduced regulatory constraints. However, the relationship remains context-dependent, with institutional factors playing crucial mediating roles (Pfeffer & Salancik, 1978).

Contemporary research emphasizes the importance of understanding mechanisms through which political connections create value. Harjoto et al. (2015) demonstrate that board diversity influences corporate social responsibility practices, while Wang & Sarkis (2017) show that CSR governance significantly affects financial performance outcomes. These findings suggest that CSR may serve as a critical mediating mechanism in political connection-firm value relationships, particularly in emerging markets where institutional frameworks continue developing.

Corporate Social Responsibilities

CSR can be defined as a set of company values in the form of voluntary activities that attempt to manage negative externalities by focusing on the harmony of social and economic responsibilities and not merely philanthropic activities (Freeman & Dmytriyev, 2017).

Additional Theoretical Perspectives

While Resource Dependence Theory provides the primary framework for this study, additional theoretical perspectives enhance understanding of the political connection-CSR-firm value relationship. **Agency Theory** suggests that political connections may create agency costs when politically connected managers pursue political objectives that may not align with shareholder interests (Jensen & Meckling, 1976). However, these connections may also reduce other agency costs by providing access to information and resources that benefit firm performance.

Legitimacy Theory offers another lens through which CSR's mediating role can be understood. According to this theory, organizations seek to operate within societal expectations and norms to maintain legitimacy (Suchman, 1995). Politically connected firms face heightened scrutiny regarding their social responsibilities, making CSR activities crucial for maintaining legitimacy and social license to operate. The theory suggests that CSR serves as a legitimacy management tool, particularly important for politically connected firms navigating public expectations.

Stakeholder Theory complements these perspectives by emphasizing the importance of managing relationships with various stakeholder groups (Freeman, 1984). For politically connected firms, effective stakeholder management through CSR becomes essential for balancing competing interests between political allies, shareholders, customers, and society at large.

Political Connections and Firm Value

Existing literature demonstrates that corporate political affiliations can affect organizational valuation relative to non-connected entities (Ngo & Ha, 2024). Abnormal stock returns observed when companies with politically affiliated board members are announced as legislative candidates indicate a positive correlation between political networks and corporate value (Ngo & Ha, 2024). Enhanced firm valuation has also been documented among organizations maintaining connections with successful gubernatorial candidates (Do et al., 2015). Conversely, research examining China's market context reveals that corporations led by CEOs with governmental political ties actually exhibit diminished firm value (Deng et al., 2017).

Studies from developed economies continue to yield mixed findings. Politically connected American corporations demonstrate reduced probability of SEC enforcement involvement and face lower penalties during regulatory disputes (Hodder & Sheneman, 2022). These advantages are reinforced by evidence showing that connected companies in the United States typically secure greater governmental assistance during financial distress (Acemoglu et al., 2016). However, the selection of politically affiliated directors in Australian companies generates adverse market responses (Gray et al., 2014). Singapore-based research provides evidence that politically connected organizations achieve superior managerial performance compared to unconnected counterparts, though these companies face heightened governance vulnerabilities that can be mitigated through politically connected board representation (Hogrebe & Lutz, 2024).

Indonesia's 2014 presidential campaign revealed contrasting firm valuations based on connections with competing coalitions. Corporate affiliations with the Indonesia Hebat Coalition demonstrated positive valuation effects, while connections to the Merah Putih Coalition produced negative impacts on firm value. Political networks significantly influence the valuation of non-financial companies listed on the Indonesia Stock Exchange, with government-connected firms experiencing increased valuations (Revelino, 2015). Additional research confirms that companies affiliated with President Joko Widodo generated positive cumulative abnormal returns (Pratama & Doddy, 2019). Politically connected organizations typically receive preferential treatment including government contracts, tax advantages, regulatory benefits, and similar privileges. These advantages position companies competitively ahead of rivals and should theoretically enhance firm value from investor perspectives. However, Indonesian political connection research has yet to reach consensus regarding the influence of political networks on firm valuation. These conflicting research outcomes motivate the formulation of the initial hypothesis:

H_1: *Political connections have a positive effect on firm value in Indonesia*

Political Connections, Corporate Social Responsibilities and Firm Value

Transitional economic systems arise from governmental involvement (Wade, 2018) and generate elevated transaction costs through various mechanisms including unpredictable taxation, restricted financial access, and obstructed market penetration (Deng et al., 2017). These circumstances motivate enterprises to establish governmental political relationships to secure multiple advantages including reduced taxation rates (Liu et al., 2020), preferential debt financing access through state-controlled banking institutions (Deng et al.), and diminished regulatory scrutiny (Saeed et al., 2016; Liu et al., 2020). From a theoretical perspective, CSR implementation can serve long-term organizational objectives, particularly those involving political CSR demand and supply dynamics (Ha et al., 2021).

Widespread governmental involvement creates integrated public administration systems that generate political pressure for corporate management to adopt CSR initiatives. Governments approach corporations seeking additional resources due to their inability to deliver sufficient public services (Friedman et al., 2000). Conversely, companies provide financial support through CSR mechanisms to cultivate closer governmental relationships. Research findings demonstrate connections between CSR activities and corporate valuation. Utilizing CSR for political relationship building enhances shareholder value and promotes social welfare through its philanthropic characteristics. However, long-term reliance on political networks for abnormal returns ultimately damages social welfare by fostering unhealthy competitive environments (Lin et al., 2015).

Politically connected organizations encounter environmental governance pressures and public scrutiny regarding social responsibility obligations. Consequently, corporate executives often develop heightened social responsibility awareness, which translates into strategic decisions and operational activities, ultimately strengthening external stakeholder relationships with positive firm value implications. CSR serves as an appealing equilibrium mechanism within political connection-firm value relationships. Stakeholder theory positions CSR as a sustainable development approach that balances diverse entity interests effectively. CSR represents an optimal mutually beneficial framework for harmonizing corporate and stakeholder concerns. Through CSR implementation, politically connected companies can establish positive reputations and enhance governmental satisfaction, generating favorable public perception and long-term advantages. This approach strengthens risk mitigation capabilities within competitive environments, thereby increasing firm value.

CSR also functions as a crucial mediator between political relationships and corporate valuation through long-term impact generation. When organizations implement innovative and effective CSR practices, they create sustained positive societal and environmental effects. This can produce more stable and enduring political connections while enhancing long-term firm value. Political relationships leveraging CSR enable companies to reinforce stakeholder connections and establish robust foundations for business sustainability. Therefore, the following hypothesis is proposed:

H_2: *CSR can mediate the influence of political connections on firm value*

RESEARCH METHOD

This study employs a quantitative methodology utilizing a case study framework. The investigation focuses on Indonesia through examination of annual reports from financial sector corporations traded on the Indonesia Stock Exchange. The analysis covers a seven-year timeframe spanning 2014 to 2021. Corporate financial information from Indonesia Stock Exchange-listed financial companies was gathered through direct access to their official websites.

Data collection encompasses two distinct components: quantitative financial information extraction from annual reports and content analysis for identifying corporate political affiliations. The financial information gathered includes ratio calculations and biographical details of executive leadership and supervisory board members. Sample determination followed specific criteria based on complete information availability required for the analysis. Following the selection process, 437 samples were deemed suitable for comprehensive analysis.

This research develops the following research model:

$$FVal\_it = a_0 + \beta_1 PCon\_it + \beta_2 Size\_it + \beta_3 Age\_it + \varepsilon\_it$$

$$FVal\_it = a_0 + \beta_1 PCon\_it + \beta_2 CSR\_it + \beta_3 Size\_it + \beta_4 Age\_it + \varepsilon\_it$$

Where:
Fval = Firm Value
PCon = Political Connections
Size = Firm Size
Age = Firm Age
CSR = Corporate Social Responsibilities

The measurement indicators for the research variables are as follows:

Table 1. Operational Definition and Indicators

Variable	Indicator
Firm Value	Q = (MVS + D)/TA Where: Q = Tobin's q score MVS = *Outstanding Shares* × *Stock Price* D = (AVCL - AVCA) + AVLTD AVCL = Short Term Debt + Taxes Payable AVLTD = Accounting value of the firm's Long Term Debt

Variable	Indicator
	AVCA = Cash + Account Receivable + Inventories TA = Total Assets
Political Connections	PC = (Number of directors and commissioners with political connections)/(Total number of board and commissioners members)
CSR	CSR_index = (CSR_it - MinCSR_jt)/(MaxCSR_jt - MinCSR_jt)
Size	Firm Size = Log Natural (Total Assets)
Age	Firm Age = Research Year - IPO Year

Research Limitations and Methodological Considerations

This study acknowledges several methodological limitations that may affect result interpretation and generalizability. CSR Measurement Complexity arises from CSR's multidimensional nature, where financial expenditure may not fully capture CSR effectiveness or impact. The current measurement approach focuses on CSR spending patterns rather than comprehensive assessment of environmental impact, employee relations, and community involvement dimensions.

Temporal Relationship Challenges represent another limitation, as this study cannot definitively establish whether CSR initiatives precede or follow political connection formation. Cross-sectional analysis within each year limits observation of clear causal mechanisms and temporal sequences between variables.

Political Connection Measurement Scope through board composition analysis may overlook informal relationships, indirect influences, and network effects that could significantly impact firm behavior and performance. Alternative measurement approaches considering broader network relationships warrant future investigation.

Sample Representativeness may be affected by data accessibility limitations, particularly incomplete annual report disclosures, potentially reducing the comprehensiveness of the research sample and affecting result generalizability.

DATA ANALYSIS AND DISCUSSION

Data Analysis

Based on company sample selection from 2014 to 2021, it is known that the total sample of banking annual reports is 297, insurance 48 annual reports, financing 62 annual reports, securities 14 annual reports, and other subsectors 16 annual reports.

This research uses panel data regression analysis and panel data estimation model determination is used to choose one of three models considered more suitable and having more efficient estimation. The results of estimation model testing through Chow Test and Hausman test show that the fixed effect model is better than the common effect model and random effect model in estimating panel data model equations used. Therefore, this research uses the fixed effect model. Classical assumption test results show that there are no heteroscedasticity, multicollinearity, and autocorrelation problems.

Table 2. Research Sample Determination

Description	Observations
Banking	297
Insurance	48
Financing	62
Securities	14
Others	16
Total Observations	437

This research uses 5 variables consisting of 1 independent variable namely political connections (PC), 1 mediation variable namely CSR, 1 dependent variable namely firm value (FV), and 2 control variables namely Age and Size. Descriptive statistics to explain these variables are as follows:

Table 3. Research Variable Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
age	14.771	9.561	0	39
pc	.107	.133	0	.667
fv	5.303	58	-69.817	1026.795
csrindeks	.054	.144	0	1
size	30.532	2.144	22.549	35.927

Based on 437 samples, it is obtained that in the financial sector, the average company age is 14.77 years. The youngest company age is still 0 years or just listed in 2021 with the oldest company age being 39 years. Standard deviation of 9.561 shows that data is normally distributed.

Companies listed in the financial sector that have the highest political connections are 66.7% and some have no political connections. On average, companies implementing political connections are 10.7% of 437 samples. Standard deviation of 0.133 shows that data is still normally distributed. Political connections are measured by summing board of commissioners and directors who have political connections divided by the total number of board of commissioners and directors.

Firm value in the financial sector measured by Tobin's Q produces an average of 5.303 with minimum value of -69.817 and highest 1026.795. Average firm value is 5.303. Standard deviation of 58 shows diverse firm value positions because they are in positive and negative ranges.

CSR index is in the range 0 and 1 with average score of 0.054. This shows that companies in the financial sector have implemented CSR. Standard deviation value of 0.144 shows diverse amounts for CSR expenditures. This score is obtained by subtracting company's annual CSR expenditure costs with minimum CSR expenditure of financial sector companies divided by the difference between maximum and minimum CSR expenditure of financial sector companies for 1 year.

The size of companies sampled in this research is in the range 22.549 to 35.927 with an average of 30.532. Standard deviation for company size is 2.144. This shows that research data is normally distributed. Statistical data processing results show that data is generally normally distributed.

Table 4. Results of Political Connections Effect Test on Firm Value

Variable	Firm Value	Description
pc	79.980***	Positive and significant effect
	(0.0000)	
size	-7.960***	Negative and significant effect
	(0.0000)	
age	0.5140	No effect
	(0.1180)	
others	17.3831	No effect
	(0.3040)	
financing	18.2590	No effect
	(0.1200)	
banking	33.9550***	Positive and significant effect
	(0.0030)	
securities	11.4491	No effect
	(0.5123)	
constant	205.5256***	
	(0.0000)	
Number of Observations	437	
Prob > F	0.0010***	Positive and significant effect
R Squared	0.0551	

***p<.01, **p<.05, *p<.1 Values in parentheses are p-values*

Hypothesis testing results show that political connections can positively and significantly influence firm value. Company size (size) has negative and significant influence, while company age (age) does not affect firm value. Joint testing between political connection variables and age and size variables toward political connection variables shows significant influence on firm value. These research results support previous research results stating that political connections can influence firm value (Hogrebe & Lutz, 2024; Chen et al., 2017; Chen et al., 2016; Ngo & Ha, 2024; Deng et al., 2017; Sojli & Tham, 2017; Tang et al., 2016).

The next model test is to determine whether CSR can mediate the relationship between political connections and firm value. To ensure whether CSR can mediate the relationship between political connections and firm value, the Sobel test is conducted first. The test results are as follows:

Table 5. Sobel Goodman Mediation Test Results

Test Tool	z	P>[z]	Description
Sobel	4.720	0.000	Significant
Aroian	4.694	0.000	Significant
Goodman	4.747	0.000	Significant

CSR mediation test results show that CSR can mediate the relationship between Political Connections and Firm Value. This is proven by Sobel calculation results showing p-value of 0.0000. This calculation is also strengthened by Aroian and Goodman p-values both providing p-values of 0.000.

Table 6. CSR Mediation Effect on Political Connections and Firm Value Relationship

Effect	Standard Error	z	P value	Conclusion
PC → CSR (a)	0.045	6.907	0.000	Significant
CSR → FV (b)	22.637	6.465	0.000	Significant
indirect effect (a x b)	9.688	4.72	0.000	Significant
PC → FV (c')	22.358	1.532	0.125	Not significant
Total Effect (c)	22.195	3.603	0.000	Significant

In the context of mediation analysis, mediation effect refers to how a mediator variable (intermediate) explains or carries out the relationship between independent variable and dependent variable. Mediation occurs when the mediator variable can influence the relationship between independent and dependent variables. To ensure this, the next step is testing direct and indirect effects.

Referring to Baron & Kenny (1986), a variable can be said to be a mediator if data processing results are as follows:

1. Path-c: significant
2. Path-a: significant
3. Path-b: significant
4. Path-c': not significant

Based on these criteria, CSR is said to be able to become a mediator in the relationship between political connections and firm value. This is seen from p-values of paths a, b, and c showing significant values and path c' showing non-significant values. These results strengthen the hypothesis stating that political connections can mediate the relationship between political connections and firm value.

The next proof that researchers want to obtain is whether there are differences in CSR implementation by politically connected companies and those without political connections. Test results show significant differences between politically connected companies and those not related to CSR. The results are presented in the following table:

Table 7. Differences in CSR Expenditures Between Politically Connected and Non-Politically Connected Companies

Description	dif	p value
pc dummy - csrindex	.477	0.000

***p<.01, **p<.05, *p<.1*

These research results show significant differences in CSR implementation between politically connected companies. Financial sector companies with political connections spend larger CSR costs than companies without political connections. These results support research results (Ananzeh et al., 2023; Huang & Zhao, 2016; Nainggolan et al., 2021).

Discussion

From the Resource Dependence Theory (RDT) perspective, there are arguments connecting political connections with firm value (Pfeffer & Salancik, 1978). According to RDT, organizations depend on external resources to meet their needs. Political connections can provide greater access to important resources, such as market access, political information, or protection from unfair competition. By leveraging political connections, companies can obtain resources that can improve their operational performance and contribute to firm value (Faccio, 2006; Ngo & Ha, 2024).

Positive political connections can help build company reputation and legitimacy in the eyes of stakeholders. In RDT, reputation and legitimacy are considered important for increasing firm value. Through positive political connections, companies can gain support or recognition from government or influential political entities, which can strengthen reputation and trust in the company. This can positively impact firm value by increasing investor and other stakeholder confidence (Hogrebe & Lutz, 2024; Deng et al., 2017).

These research results also show that political connections owned by banking can influence banking firm value. This influence is not apparent in other financial subsector companies. This finding is consistent with previous research by Acemoglu et al. (2016) and Hodder and Sheneman (2022) who found that politically connected firms in the financial sector receive more government support and face fewer regulatory enforcement actions. Referring to RDT, there are several reasons causing this condition. Banking with political connections will provide easy access for banking to important resources such as capital, liquidity, or government funds (Deng et al., 2017). Good relationships will provide many opportunities for banking to obtain cheap funding or access to beneficial policy support.

Political connections owned by the banking sector also provide opportunities for banking companies to participate in determining banking regulations while finding loopholes to reduce regulatory obstacles that harm them. Relationships built with government will cause security in investor eyes because government intervention and other support tend to prioritize politically connected banking (Saeed et al., 2016; Liu et al., 2020). Government support, for example by appointing certain banks as government partners in large infrastructure projects or other government programs. Long-term positive effects include improved stakeholder image, competitive advantages, and trust.

CSR mediation test results show that CSR can mediate the relationship between Political Connections and Firm Value. This finding supports the work of Lin et al. (2015) who demonstrated that CSR can serve as a mechanism to balance political connections and firm value. From the RDT perspective, politically connected companies can rely on their political connections to gain access to external resources, such as permits, government contracts, or market protection (Deng et al., 2017). However, being too dependent on these political connections can have risks, such as related to political policy changes or political uncertainty. In this context, by implementing effective CSR, companies can reduce their dependence on political connections by creating alternative access to external resources through support and relationships built with society, consumers, and other stakeholders.

CSR can play a role in improving company relationships with stakeholders, including society, advocacy groups, or social institutions. If politically connected companies receive criticism or controversy related to their political relationships, then through CSR, companies can attempt to improve their reputation by focusing on initiatives that help society or solve social problems (Freeman & Dmytriyev, 2017; Dewi & Dewi, 2017; Harjoto et al., 2015; Wang & Sarkis, 2017). By doing this, companies can mediate tensions or conflicts that may occur due to their political connections, and conversely, build better relationships with stakeholders, thus increasing firm value.

Additional proof that researchers want to obtain is whether there are differences in CSR expenditures by politically connected companies and those without political connections. In previous testing, results show significant differences between politically connected companies and non-politically connected companies in CSR expenditures. This finding is consistent with recent studies by Ananzeh et al. (2023), Huang & Zhao (2016), and Nainggolan et al. (2021) who found similar patterns in different emerging markets. From the RDT perspective, politically connected companies may have broader or easier access to external resources, such as funds, permits, government contracts, or political support (Wade, 2018). This can provide them advantages in CSR implementation because they have sufficient resources to allocate and support social and environmental initiatives. Conversely, companies without political connections may face limited resource access, which can affect their CSR implementation.

Politically connected companies may have motivation or political pressure to implement certain CSR initiatives that align with government policies or certain political agendas (Friedman et al., 2000). They may be expected to allocate their resources and efforts to meet political expectations, which may differ from CSR focus chosen by non-politically connected companies. Therefore, differences in political agendas can influence differences in CSR implementation. Additionally, politically connected companies may have conflicts of interest between business profits and social responsibility. They may use their political connections to protect their economic interests and avoid greater social responsibility (Ha et al., 2021). Conversely, non-politically connected companies may be more independent in determining their CSR initiatives without political pressure or interference.

The results of this study are consistent with stakeholder theory, which suggests that CSR is a sustainable development strategy and plays an important role in balancing the interests of various entities. CSR is the best mutually beneficial mechanism to balance company interests and other stakeholders. Through CSR, companies with political connections can build a good image and increase government satisfaction, bringing positive reputation and long-term benefits (Do et al., 2015; Ngo & Ha, 2024). This way, they can improve their risk prevention capabilities in fierce competition so as to be able to increase firm value.

Furthermore, the findings support the argument that political connections in emerging economies like Indonesia, where institutional frameworks are still developing, provide significant value to firms (Faccio, 2006). The positive effect of political connections on firm value, particularly in the banking sector, reflects the importance of government relationships in accessing resources and navigating regulatory environments (Chen et al., 2016; Rahman et al., 2019). However, the mediating role of CSR suggests that these connections work best when channeled through socially responsible activities that can enhance legitimacy and stakeholder trust (Wu et al., 2012).

CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

This study investigates CSR's mediating role in the political connection-firm value relationship. Initial findings demonstrate that political connections significantly impact firm value, with company size showing negative effects while age remains insignificant. Joint analysis confirms political connections' substantial influence on firm value. Notably, this research includes financial sector companies, revealing that banking institutions' political connections particularly enhance firm value, though this effect is less pronounced in other financial subsectors.

The second model confirms CSR's mediating function between political connections and firm value. According to Resource Dependence Theory, political connections require reinforcement mechanisms, with CSR serving as a logical choice. CSR represents a comprehensive business strategy addressing social, environmental, and economic operational impacts. Ethically connected companies utilize CSR to advance sustainable development through governmental partnerships, contributing to policy formation and social problem resolution, ultimately creating favorable business environments and long-term value.

Analysis reveals significantly higher CSR expenditures among politically connected financial firms compared to non-connected counterparts. These companies invest more in CSR to strengthen governmental relationships, gain political stakeholder influence, and enhance legitimacy. Political connections facilitate broader network access, resource acquisition, and policy influence opportunities. CSR serves as a relationship maintenance tool while meeting governmental expectations and preserving public image.

The findings yield important stakeholder implications. Companies should treat CSR as a strategic value-enhancement tool rather than mere compliance, particularly banking institutions leveraging ethical political connections. Investors should evaluate both political connections and CSR practices when assessing emerging market financial firms. Regulators must develop comprehensive CSR guidelines ensuring transparency and effectiveness while encouraging ethical political connections that promote sustainable development.

This research advances theoretical understanding by applying Resource Dependence Theory to political connection-CSR relationships and contributes empirically to emerging market literature through financial sector focus.

Future research should adopt longitudinal approaches to better understand temporal relationships and causal mechanisms. Cross-country comparative studies would determine findings' generalizability beyond Indonesia's institutional context. Alternative mediation mechanisms including communication channels, reputation effects, and industry-specific factors warrant investigation. Broader CSR dimensions encompassing environmental impact, employee relations, and community involvement should be examined. Establishing clearer temporal sequences between political connections and CSR implementation would enhance understanding of mediating processes. Sector-specific analyses could reveal industry-particular dynamics given varying effects across financial subsectors.

The methodological limitations extend beyond those initially identified. CSR measurement complexity significantly affects result validity due to the multidimensional nature of corporate social responsibility, where financial metrics may inadequately capture comprehensive CSR impact across environmental, social, and governance dimensions. Omitted variable bias represents a critical concern, as unmeasured factors such as firm culture, leadership characteristics, or industry-specific dynamics may influence the relationships under investigation.

Data accessibility constraints, particularly incomplete annual report disclosures, compromise sample representativeness and may systematically exclude certain firm types or characteristics. The temporal relationship ambiguity between political connections and CSR implementation limits definitive causal inference and mediation effect observation. Geographic and sectoral focus on Indonesia's financial sector restricts generalizability to different institutional contexts and industry sectors.

Political connection measurement through board composition analysis overlooks informal networks, indirect influences, and relationship quality variations that may significantly impact firm behavior and performance outcomes.

Nevertheless, this research provides valuable insights into the complex interplay between political connections, CSR, and firm value within emerging market financial sectors, offering both theoretical contributions and practical implications for similar institutional environments.

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