

INFLUENCE OF POLITICAL CONNECTIONS AND EFFICIENCY ON FINANCIAL PERFORMANCE AND ITS IMPLICATIONS ON FIRM VALUE

Raihan Hazim¹ 
Elis Mediawati^{2*} 

^{1,2} Universitas Pendidikan Indonesia, Bandung, Indonesia

ABSTRACT

This research aims to determine the influence of political connections and efficiency on financial performance and their implications for stock value. The research design employed in this study is quantitative research. The population of this study consists of 66 companies in the mining sector listed on the IDX Sector Energy. The sampling technique used in this research is purposive sampling. The data used are secondary data obtained from www.idx.co.id. Hypothesis testing is conducted using Partial Least Square analysis. The results of this study indicate that 1) Political connections have a non-significant positive influence on financial performance; 2) Efficiency has a significant favorable influence on financial performance; 3) Financial performance has a significant favorable influence on company value; 4) Financial performance has a non-significant positive mediating effect on the relationship between political connections and company value; 5) Financial performance has a significant positive mediating effect on the relationship between efficiency and company value.

Keywords: Political Connections, Efficiency, Financial Performance, Company Value, Mining Sector Companies

JEL: P0; G14; Q49

To cite this document: Hazim, R. & Mediawati, E. (2023). Influence of Political Connections and Efficiency on Financial Performance and Its Implications on Firm Value. *JDE (Journal of Developing Economies)*, 8(2), 412-430. <https://doi.org/10.20473/jde.v8i2.47848>

Introduction

The mining industry's significance in Indonesia lies in its pivotal contribution to exports and the stimulation of economic expansion. Substantial financial resources are essential for mining progress, prompting numerous enterprises to use the capital market to fortify their fiscal standing and entice investment. Easy access to the capital market enhances economic growth in the real sector, including agriculture. Intense competition necessitates appropriate strategies for investor benefits (Rahmawati & Amanah, 2023).

Investors prioritize assessing the company's value, which is intricately linked to its stock price. A high stock price indicates a positive outlook and potential for high profits. Reducing the stock price can lead to a decrease in the company's overall worth, and a substantial company valuation can also have an impact on future selling prices. Therefore, companies must understand factors that affect value, such as financial performance, to increase market confidence (Angele et al., 2022).

ARTICLE INFO

Received: July 21st, 2023
Revised: September 2nd, 2023
Accepted: October 5th, 2023
Online: December 3rd, 2023

*Correspondence:
Elis Mediawati
E-mail:
elis.mediawati@upi.edu

The valuation of the company is mirrored by its stock prices. A rise in the stock price enhances the company’s overall worth and delivers advantages to its investors. As the stock price increases, it augments the prosperity enjoyed by shareholders (Ramdhonah et al., 2019).

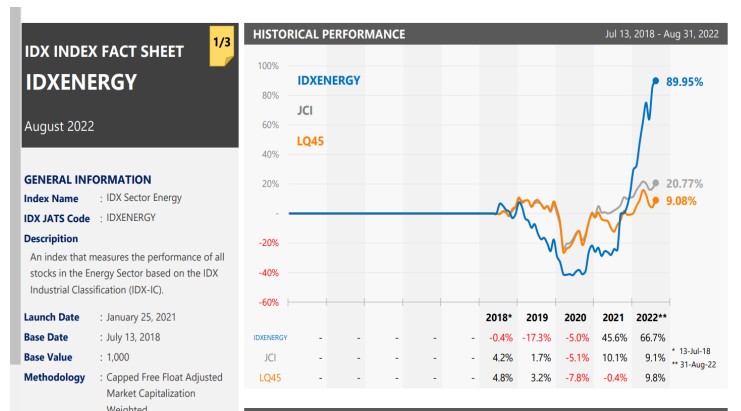


Figure 1: Historical Performance of IDXENERGY Stock Price Index

The mining sector attracted attention in the Jakarta Composite Index (JCI) and IDX Energy Classification 2021-2022. During the period from January 2021 to August 2022, mining experienced a significant increase of up to 89.95%, especially in coal and nickel commodities, influenced by global prices. The performance of this sector was impacted by both the COVID-19 pandemic and governmental measures, but foreign investments continue to rise, indicating potential growth in the future. This sector is fundamental to Indonesia’s economy and has the potential to make a significant contribution to the country’s GDP.

Harningsih et al. (2019) stated that financial performance is one of the influential factors on a company’s value. Financial performance is a critical factor considered by investors in determining stock investments. Therefore, mining companies must continuously evaluate and improve their financial performance to remain competitive and thrive.

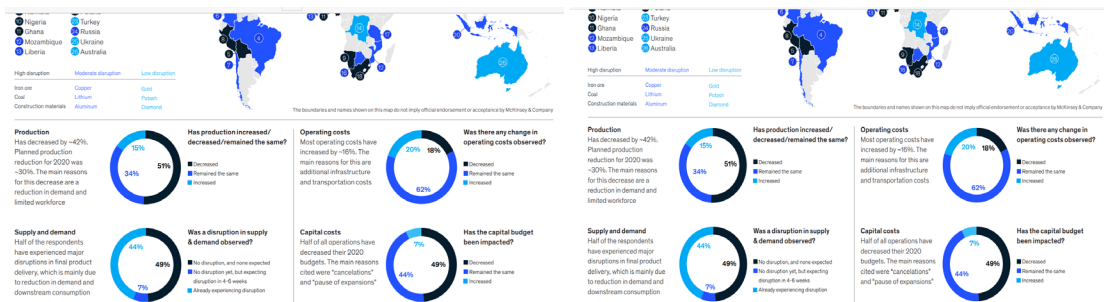


Figure 2: Survey of production decline in the Mining sector

Source: (McKinsey & Company, 2020)

Since 2020, the worldwide mining sector has encountered numerous transformations and novel difficulties stemming from the impact of the COVID-19 pandemic; as indicated in a study published by McKinsey & Company (2020), the pandemic has altered consumer behavior and markets, forcing mining companies to adjust their strategies and operations. The survey found that average production experienced a decrease of approximately 42%, attributed to reduced demand and workforce limitations. The pandemic also affected the supply and demand of minerals and metals, impacting the prices and revenues of mining companies.

In Indonesia, the COVID-19 pandemic also affected the growth of the mining industry and the financial performance of mining companies, especially in terms of investment and

expansion. A report by Umah (2020) noted a 13% decline in mining production in the second quarter of 2020 due to operational restrictions and workforce reductions. The prices of mining commodities such as coal, nickel, and copper also experienced sharp declines due to decreased global demand during the pandemic. The financial performance of mining companies was also affected, especially in 2020.

In 2021, the Performance Report of the Ministry of Energy and Mineral Resources (ESDM) showed that the target for Renewable Energy and Energy Conservation (EBTKE) investments was not achieved due to several factors. The COVID-19 pandemic affected nearly 40% of the Rantau Dedap Geothermal Power Plant employees, and the Sokoria Geothermal PPA amendment's completion slowed down investment achievements. Technical issues and land settlement processes also contributed to the delay, as did the low interest from national banks due to high risks and inadequately mortgaged developer assets. Domestic financing sources offered loans with high-interest rates and short tenors. EBT project developers also faced challenges in negotiating land prices with landowners.

Political factors are essential considerations for a company's success. According to Dwilestari (2019), political connections influence many aspects of a company. This connection is measured by the presence of politics within the company, where state officials, politicians, or party members hold positions or significant shares in the company. Political connections are expected to benefit both the company and political members through reciprocal ethical systems.

Another phenomenon occurs in the mining sector, where the Coordinating Minister for Maritime Affairs, Luhut Binsar Pandjaitan, is one of the shareholders of PT Toba Sejahtera, and some relatives have political connections. These political ties are utilized in the company's operational locations to gain more power over the managed natural resources. In this case, mining permits experience a significant increase due to political connections, and the policies of granting permits and the financial performance of coal mining companies are influenced by the relevant and applicable laws (JATAM, 2019).

Studies examining the relationship between financial performance and corporate value within the mining sector have yielded diverse outcomes. In a study conducted by Arum et al. (2022), it was observed that factors such as Return On Asset (ROA), Return On Equity (ROE), Current Ratio, and Debt to Equity Ratio (DER) were not found to exert a substantial influence on company value. Conversely, Rahmawati & Amanah (2023) reported a significant impact of profitability on corporate value, while liquidity was deemed to lack a notable effect.

The limitations of these studies may be due to other factors influencing company value beyond the variables studied. As much as 83.7% of other variables are believed to influence company value besides those mentioned (Arum et al., 2022). Therefore, other variables that may affect company value must be considered to strengthen the relationship between company performance and value.

Trinita & Dewi (2019) explain that company performance is related to operational efficiency—the more effective a company's operations, the more positive the organizational performance. Research on the impact of corporate governance, liquidity ratios, and efficiency levels on company value found that efficiency levels positively and significantly affect company value (Wardani et al., 2019).

Environmental factors, including political factors, can also influence a company's success (Dwilestari, 2019). According to JATAM (2019), political connections can be an advantage for a company to gain access to crucial resources and networks needed to achieve success. This has been demonstrated in research conducted by Sukarmanto, E. (2023), which showed that political connections positively and significantly affect company performance because they help management run the company with preferential treatment and several advantages. Moreover, based on the statement by Maaloul et al. (2018), bureaucrats or politicians utilize

resources from state-owned companies listed on the stock exchange to maximize company value.

Therefore, this study aims to analyze the relationship between company value based on efficiency and political connections mediated by company performance in mining companies listed on the Indonesia Stock Exchange during the period 2020-2022. This research will provide essential information for company management to evaluate their financial performance during and after the COVID-19 pandemic period.

Literature Review

Agency theory

Agency theory elucidates the contractual connection between a principal and an agent. [Jensen & Meckling \(1976:308\)](#) posit that this relationship emerges when a principal collaborates with an agent, furnishing resources and entrusting authority and policy decision-making to the agent.

[Aljifri \(2007\)](#) echoes this sentiment, emphasizing agency theory's focus on the interaction between management and shareholders. [Jensen & Meckling \(1976\)](#) highlight the components of agency costs, encompassing the principal's monitoring costs, the agent's contracting costs, and political expenses.

Signaling Theory

Signaling Theory is a conceptual framework that elucidates the concept of signals within an organization. These signals are pieces of information regarding the state of a company. This information can indicate whether a company performs better or worse than others ([Sugiarti & Widyawati, 2020](#)).

Signaling theory aims to prevent information asymmetry between companies and investors. A company's profitability provides a positive signal, which can lead to an increase in product prices. This theory is crucial because it offers insights into a company's profile, future prospects, and accurate numerical data for investor analysis before making decisions. Failure to convey signals effectively can disrupt the company's value ([Indrayani et al., 2021](#)). Signaling theory is also a preventive measure against information asymmetry ([Dayanty & Setyawati, 2020](#)).

Resource Based Theory (RBT)

Resource-based theory (RBT) states that optimal financial performance of a company occurs when it possesses a competitive advantage that is difficult for other companies to imitate. This advantage stems from heterogeneous or non-homogeneous resources that allow the company to create unique, unreplicable value. By implementing appropriate strategies, the company can achieve and sustain a competitive advantage, thereby increasing the company's value ([Barney, 1991](#)).

This approach emphasizes the importance of physical capital (financial resources) and intellectual potential in creating added value in a knowledge-based economy ([Pulic, 1998](#)). Based on the Resource-Based Theory approach, it can be inferred that a company's financial performance is significantly impacted by its resources, ultimately resulting in a higher company valuation.

Data and Research Methods

This study's researched objects are political connections, financial efficiency, financial performance, and firm value. The independent variables in this study are political connections, financial efficiency, and financial performance, while the dependent variable is the firm value.

The research will focus on examining corporations operating within the mining industry. Specifically, those publicly traded on the Indonesia Stock Exchange (BEI) from 2020 to 2022.

This research utilizes the population of the mining sector within the IDX Sector Energy, which includes the sub-sectors of Oil & Gas, Coal, Oil, Gas and coal Supports, and Alternative Energy for the years 2020 to 2022, comprising a total of 66 companies. The population for this study consists of 196 entities. The sample was obtained using purposive sampling based on specific criteria, resulting in 33 selected companies observed over 3 periods, yielding a total of 99 data observations. The data used in this study were collected from the source www.idx.co.id.

Based on the type of data above and the number of samples, the data will be processed using the Partial Least Square analysis technique. Partial Least Squares (PLS) is a variance-based structural equation analysis (SEM) that can simultaneously conduct measurement model testing and structural model testing (Abdillah & Hartono, 2015). Therefore, this method is suitable for research in which there is an analysis of mediating variable relationships. According to Ghozali & Latan (2015), PLS is conducted through two tests: the inner test, which determines how to measure latent variables, and the outer test, which aims to predict the relationships between latent variables.

Finding and Discussion

Descriptive statistics

The variables in this research include political connection, efficiency (DEA), financial performance (ROA and ROE), and firm value (Tobins' Q).

Table 1: Results of Descriptive Statistics for All Research Variables

Variable	N	Mean	Median	Min	Max	Standard Deviation
Tobins'Q	99	1.218	0.94	0.16	17.99	1.78
ROA	99	0.085	0.05	-0.45	0.96	0.19
ROE	99	0.084	0.09	-2.54	1.09	0.392
Political Connection	99	0.424	0	0	1	0.494
Efficiency (DEA)	99	0.545	0.422	0.034	1	0.357

By the data presented in Table 1, the descriptive statistics for the dependent variable, specifically Company Value represented by Tobin's Q score, reveal a mean value of 1.218, accompanied by a standard deviation of 1.78. Notably, the standard deviation for Tobin's Q exceeds its mean value, indicating substantial heterogeneity in the data, characterized by significant variation or pronounced deviation from the mean. Consequently, the mean value must be revised to represent the entire dataset.

Moving on to Profitability, which gauges a company's ability to generate profits through the Return on Asset (ROA) ratio, Table 1's descriptive statistics illustrate that companies, on average, possess the capacity to generate a profit of 0.085 from their total assets. The standard deviation for the profitability variable (ROA) stands at 0.19. The elevated standard deviation relative to the mean value for the financial performance variable (ROA) signifies data heterogeneity, characterized by varying data distribution or substantial deviation from the mean. Therefore, it becomes apparent that this variable's mean value needs to encapsulate the entire data more adequately.

The Return On Equity (ROE) ratio, which measures the relationship between net profit and company equity, also undergoes analysis based on Table 1's descriptive statistics. On average, companies can profit 0.084 from their total capital, with the profitability variable's

standard deviation at 0.392. The standard deviation for financial performance (ROE) surpasses the average value, indicating a variable data distribution or, more succinctly, a substantial deviation from the average. Consequently, it is safe to conclude that the mean value in this variable does not offer a comprehensive representation of the overall dataset.

The variable of Political Connection, utilized as an independent variable, employs binary data in the form of a dummy variable, with values ranging from 0 to 1. A value of 0 signifies the absence of political connections, a characteristic observed in 99 samples of companies. Table 1 reflects that this variable holds a mean value of 0.424 and a standard deviation of 0.494. Much like the previous cases, the standard deviation for political connection exceeds its average value, indicating a variable data spread, or in simpler terms, significant deviation from the mean. Consequently, it is reasonable to conclude that this variable's mean value must comprehensively portray the entire dataset.

Finally, the efficiency variable is estimated through Data Envelopment Analysis (DEA), utilizing a production approach involving input and output variables. The input variables encompass fixed assets, personnel expenses, and operating expenses, while revenue is the output variable, focusing on the mining sector as the research sample. Table 1 reveals a mean value of 0.545 for this variable, alongside a standard deviation of 0.357. Notably, the standard deviation for efficiency surpasses the average value, signifying that efficiency is a suitable mean representation for the overall data, as it exhibits a limited data distribution or, in simpler terms, minimal deviation from the mean.

Efficiency measurement is conducted by inputting the inputs and outputs into DEA (Data Envelopment Analysis) software to process them into efficiency values. A company is considered efficient when it achieves 100% or a value of 1. The following is the data processed by DEA using DEAP 2.1 for mining sector companies in the years 2020-2022:

Table 2: Efficiency Calculation Based on DEA Method 2020-2022

No	DMU (Decision Making Unit)	Year		
		2020	2021	2022
1	ADRO	0.971	1	1
2	APEX	0.116	0.067	0.078
3	ARII	0.211	0.231	0.286
4	BBRM	1	1	1
5	BIPI	0.141	0.073	0.034
6	BSSR	1	1	1
7	BUMI	0.613	0.568	0.628
8	BYAN	1	1	1
9	DEWA	0.656	0.331	0.308
10	DOID	0.887	0.464	0.614
11	DSSA	1	1	1
12	ENRG	0.504	1	0.355
13	HITS	0.265	0.116	0.125
14	HRUM	0.319	0.201	0.382
15	INDY	1	1	0.914
16	ITMA	1	1	1
17	ITMG	1	1	1
18	KKGI	0.454	0.422	0.718
19	LEAD	0.142	0.084	0.055

No	DMU (Decision Making Unit)	Year		
		2020	2021	2022
20	MBAP	0.831	0.803	1
21	MBSS	0.166	0.133	0.188
22	MEDC	0.443	0.332	0.365
23	MYOH	1	1	1
24	PGAS	1	0.788	0.586
25	PSSI	0.373	0.246	0.219
26	PTIS	1	1	0.488
27	PTRO	0.586	0.398	0.312
28	RAJA	0.388	0.133	0.118
29	SHIP	0.376	0.194	0.13
30	SOCI	0.378	0.228	0.207
31	TOBA	0.352	0.358	0.348
32	TPMA	0.422	0.161	0.178
33	WINS	0.198	0.099	0.093

Partial Least Square (PLS) Test

Partial Least Squares (PLS) analysis aims to test the influence among the variables of Political Connection (X1), Efficiency (X2), Company Value (Y), and Financial Performance (Z). Path coefficients indicate the strength of the relationship or influence of latent constructs, determined through bootstrapping procedures.

Intervening variables are theoretically assumed to indirectly affect the relationship between independent and dependent variables. This research sets the significance level at 5%. Therefore, hypothesis testing is based on decision-making, where the basis for decision-making involves comparing the p-value with the alpha level (significance level) of 5% or 0.05. The p-value is obtained from data processing output using SmartPLS.

Evaluation of the Measurement Model (Outer Model)

This model explicitly explains the causality or relationship between endogenous and exogenous latent variables, with indicators or measurements within the existing variables.

In measuring formative indicators, the outer model is observed through the values of outer weights to assess the significance level and Outer Variance Inflation. Factor (Outer VIF) to examine the level of collinearity among indicators. When conducting the test for convergent validity, researchers need to pay attention to the loading factor values of each indicator and the Average Variance Extracted (AVE) value.

According to [Schumacker & Lomaz, R.G. \(2004\)](#), the loading factor value should exceed 0.7 for a construct to be considered valid and ideal, while the minimum value for Average Variance Extracted (AVE) is 0.5. The outer model and loading factor in this study can be seen in the following table:

Table 3: Outer Loading

Indicator	Political Connection (X1)	Efficiency (X2)	Financial Performance (Z)	Firm Value (Y)	Test Results
Skor	1.000				Valid
DEA		1.000			Valid
ROA			0.974		Valid

ROE	0.782	Valid
Tobins'Q	1.000	Valid

Table 3 shows that all indicators have loading factors above 0.7, so there is no need for deletion (dropping). In the Financial Performance variable, indicators that meet the loading factor criteria are ROA (0.974) and ROE (0.782), which means the constructs can be considered valid and ideal. Below are the AVE values. The results of the outer loading can be described as follows:

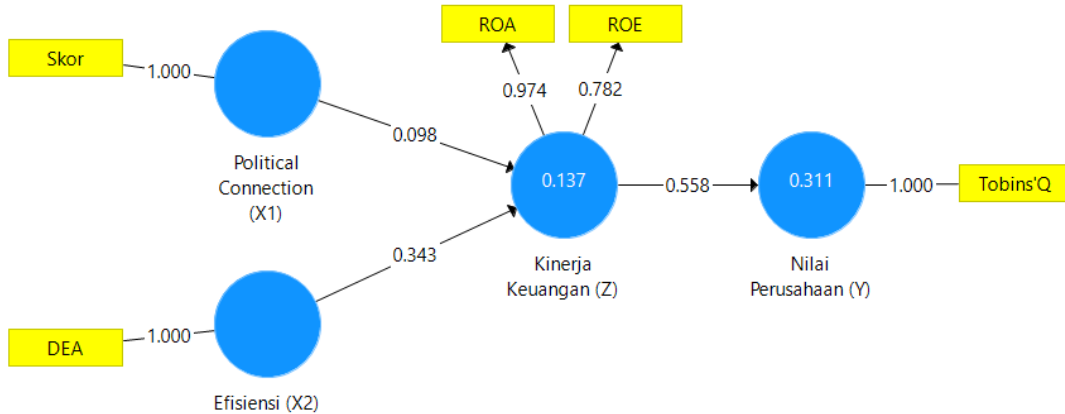


Figure 3: Outer model and loading factor

Table 4: Average Variable Extracted (AVE) Value

Variable	Average Variance Extracted (AVE)	Result
Political Connection (X1)	1.00	Valid
Efficiency (X2)	1.00	Valid
Financial Performance (Z)	0.78	Valid
Firm Value (Y)	1.00	Valid

According to the data presented in Table 4, it is evident that the Average Variable Extracted (AVE) values about Financial Performance surpass the threshold of 0.5, signifying that the construct's ability to explain variance exceeds that attributed to measurement errors. This observation supports the notion of a well-fitting model.

The subsequent step involves the examination of cross-loading values for each indicator, a process essential for assessing discriminant validity. This test aims to ascertain the degree to which an indicator accurately represents its underlying latent variable. This assessment hinges on the calculation of inter-variable values and the identification of cross-loading values > 0.7.

Furthermore, the loading values of indicators with their respective latent variables must surpass those associated with other variables. Detailed calculations for creating the Fornell-Lacker matrix are provided in Table 5, while cross-loading values can be found in Table 6.

Table 5: Fornell Lacker Creation Values

Variable	Political Connection (X1)	Efficiency (X2)	Financial Performance (Z)	Firm Value (Y)
Political Connection (X1)	1.000			
Efficiency (X2)	0.149	1.000		

Financial Performance (Z)	0.149	0.357	0.883	
Firm Value (Y)	0.164	0.227	0.558	1.000

The results of cross-loading calculations in Table 6 indicate that political connection, efficiency, financial performance, and firm value have higher loading factor values for each latent variable that has been calculated. The cross-loading results show that each indicator already reflects its latent variable because they have higher values than other construct measures.

Table 6: Cross Loading Value

Indicator	Political Connection (X1)	Efficiency (X2)	Financial Performance (Z)	Firm Value (Y)	Test Results
Skor	1.000	0.149	0.149	0.164	Valid
DEA	0.149	1.000	0.357	0.227	Valid
ROA	0.173	0.383	0.974	0.628	Valid
ROE	0.042	0.183	0.782	0.206	Valid
Tobins'Q	0.164	0.227	0.558	1.000	Valid

The next phase in assessing the external model involves the administration of reliability assessments, employing Cronbach's Alpha and Composite Reliability metrics. A model is deemed dependable when it attains a Cronbach's Alpha score of 0.6 or higher and exhibits a Composite Reliability value exceeding 0.7. Details regarding the Cronbach's Alpha and Composite Reliability values for this study are available in Table 7.

Table 7: Cronbach's Alpha and Composite Reliability Values

Variable	Cronbach's Alpha	Composite Reliability
Political Connection (X1)	1.000	1.000
Efficiency (X2)	1.000	1.000
Financial Performance (Z)	0.766	0.875
Firm Value (Y)	1.000	1.000

The information from the table provided demonstrates that all research variables exhibit Cronbach's alpha and composite reliability values > 0.60. Consequently, the variables employed in the research are dependable and consistent.

Inner Model Testing (Structural Model)

The R-squared statistic serves as a metric to quantify the extent to which the independent variables account for the variability observed in the dependent variable. This metric is valuable for assessing the model's quality. An R-squared value of 0.75 signifies a substantial (good) model fit for the latent endogenous variable, while 0.50 suggests a moderate (fair) fit, and 0.25 indicates a weak (poor) fit. The R-squared values obtained from the data analysis conducted using the smartPLS 3 software are presented in the subsequent table:

Table 8: Coefficient of Determination

Variable	R Square	R Square Adjusted
Financial Performance (Z)	0.137	0.119
Firm Value (Y)	0.311	0.304

The R-Square financial performance analysis indicates that the Adjusted R-Square for the path model employing intervening variables stands at 0.119. This implies that the factors

‘political connection’ and ‘efficiency’ about the company’s value account for only 11.9% of the variation in financial performance. This suggests a limited model strength, with the majority, 88.1%, of the variance being influenced by other factors.

In a parallel examination, the R-Square assessment of the company’s value reveals an Adjusted R-Square of 0.304 for the path model using intervening variables. This suggests that environmental performance variables can explain 30.4% of the variation in the company’s value, signifying a relatively weak model. In comparison, 69.6% of the variation remains unexplained and is likely influenced by other variables.

Hypothesis test

This test was performed to ascertain the path coefficients within the structural model, with the primary purpose being to assess the significance of various relationships and hypotheses. The hypothesis assessment in this study is categorized into direct and indirect impacts. Utilizing SmartPLS 3 for data analysis, the diagram illustrating the outcomes of hypothesis evaluation for both direct and indirect impacts can be observed in the subsequent path coefficient diagram:

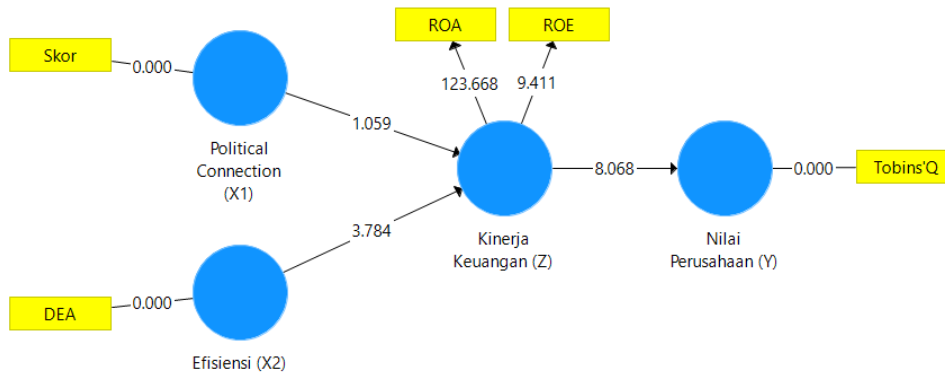


Figure 4: Path Coefficient

Hypothesis Testing of Direct Effect

A direct effect analysis aims to examine the proposition regarding the immediate impact of an external factor on an internal factor. Presented below are the outcomes derived from calculating the partial effects of the autonomous variable on the intermediary factor and the intermediary factor on the ultimate factor.

Table 9: Results of Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Political Connection (X1) -> Financial Performance (Z)	0.098	0.102	0.093	1.059	0.290
Efficiency (X2) -> Financial Performance (Z)	0.343	0.344	0.091	3.784	0.000
Financial Performance (Z) -> Firm Value (Y)	0.558	0.598	0.069	8.068	0.000

Here is a further description of the hypothesis in this research:

Hypothesis 1: The Influence of Political Connection on Financial Performance

Based on the table of research hypothesis results, it can be analyzed and explained as follows:

a. Formulating Hypotheses

H_{01} : Political connection has no significant influence on financial performance.

H_{a1} : Political connection has a positive influence on financial performance.

b. Basis for Decision-Making

If the p-value ≥ 0.05 then H_0 is accepted

If the p-value is < 0.05 , then H_0 is refuted

c. Conclusion

Based on the data presented in Table 9, it is established that the independent variable exerts a coefficient of 0.098 on its dependent variable, suggesting a favorable impact of political connections on financial performance. Nevertheless, it is crucial to note that the p-value stands at 0.290, exceeding the conventional significance threshold of 0.05. Consequently, the statistical insignificance of the relationship between political connections and financial performance is evident. As a result, in this study, H_{01} is accepted, and H_{a1} is **rejected**.

Hypothesis 2: The Influence of Efficiency on Financial Performance

Based on the table of research hypothesis results, it can be analyzed and explained as follows:

a. Formulating Hypotheses

H_{02} : Efficiency does not have a significant effect on financial performance.

H_{a2} : Efficiency has a positive influence on financial performance.

b. Basis of Decision Making

If the p-value ≥ 0.05 then H_0 is accepted

If the p-value is < 0.05 , then H_0 is refuted

c. Conclusion

The data presented in Table 9 shows that the independent variable's coefficient positively affects its associated dependent variable, with a value of 0.343. This suggests a favorable impact of efficiency on financial performance. Moreover, the associated p-value is below the conventional significance threshold of 0.05, precisely measuring 0.000. Hence, it demonstrates the significant influence of efficiency on financial performance. Consequently, H_{02} is rejected in this study, and H_{a2} is **accepted**.

Hypothesis 3: The Influence of Financial Performance on Company Value

a. Formulating Hypotheses

H_{03} : Financial performance does not have a significant effect on company value.

H_{a3} : Financial performance has a positive influence on company value.

b. Basis for Decision-Making

If the p-value ≥ 0.05 then H_0 is accepted

If the p-value is < 0.05 , then H_0 is refuted

c. Conclusion

The data presented in Table 9 shows that the independent variable's coefficient affecting the dependent variable stands at 0.558. This result suggests a favorable correlation between financial performance and company value. Additionally, the associated p-value registers at 0.000, indicating statistical significance below the conventional threshold of 0.05. Consequently, financial performance exerts a notable impact on company value. Hence, H_{03} is rejected in this study, and H_{a3} is **accepted**.

Indirect Effect Testing (Indirect Effect)

Indirect effect analysis is employed to examine the concept of an indirect impact on

an exogenous variable (the predictor) on an endogenous variable (the outcome) facilitated by an intermediary variable (an intervening variable). The computation of the independent variable’s impact on the dependent variable via the intervening variable proceeds as follows:

Table 10: Indirect Effect Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Political Connection (X1) -> Financial Performance (Z) -> Firm Value (Y)	0.055	0.062	0.055	0.989	0.323
Efficiency (X2) -> Financial Performance (Z) -> Firm Value (Y)	0.191	0.206	0.060	3.171	0.002

Here is a further description of the hypothesis in this research:

Hypothesis 4: The Influence of Financial Performance Mediation on the Influence of Political Connection toward Firm Value

Based on the table of research hypothesis results, it can be analyzed and explained as follows:

a. Formulating Hypotheses

H_{04} : Financial performance does not mediate the influence of political connection on firm value.0

H_{a4} : Financial performance positively influences the relationship between political connection and firm value.

b. Decision Basis

If the p-value \geq 0.05 then H_0 is accepted

If the p-value is $<$ 0.05, then H_0 is refuted

c. Conclusion

Based on the data presented in Table 10, it is evident that the mediation variable’s impact on the connection between the independent and dependent variables is characterized by a coefficient of 0.055. This observation suggests a positive association between financial performance and its role as a mediator between political connections and firm value. Nevertheless, it is essential to note that the associated p-value stands at 0.323, exceeding the significance threshold 0.05. This outcome implies that financial performance must effectively mediate the influence of political connections on firm value. Therefore, H_{04} is accepted in this study, and H_{a4} is **rejected**.

Hypothesis 5: The Influence of Financial Performance on the Effect of Efficiency on Firm Value

Based on the table of research hypothesis results, it can be analyzed and explained as follows:

a. Formulating Hypotheses

H_{05} : Financial performance does not mediate the effect of efficiency on firm value.

H_{a5} : Financial performance has a positive mediating effect on efficiency and firm value.

b. Decision Basis

If the p-value \geq 0.05 then H_0 is accepted

If the p-value is $<$ 0.05, then H_0 is refuted

c. Conclusion

The data presented in Table 10 establishes that the mediation variable significantly impacts the connection between the independent and dependent variables, with a coefficient of 0.191. This suggests a positive association between financial performance and its role in mediating the influence of efficiency on firm value. Notably, the p-value associated with this mediation effect is 0.002, less than the conventional significance level of 0.05. Therefore, H_{05} is rejected in this study, and H_{a5} is **accepted**.

Discussion

The Influence of Political Connection on Financial Performance

This study investigates the initial hypothesis that political affiliations favorably impact the financial performance of mining enterprises listed on the Indonesia Stock Exchange (BEI) during the timeframe of 2020-2022. Nevertheless, the outcomes obtained from the analysis employing the SmartPLS 3 software reveal that political connections indeed have a positive influence but one that lacks statistical significance concerning the financial performance of these firms.

These findings align with earlier research conducted by [Azizah & Al Amin \(2020\)](#), which similarly observed that political associations fail to positively affect the financial performance of mining companies listed on BEI. In concurrence, [Kristanto \(2019\)](#) also bolsters this conclusion by indicating that political ties neither positively nor negatively impact the performance of mining enterprises.

However, it is essential to note that these research conclusions diverge from the studies by [Sharma et al. \(2020\)](#) and [Li & Jin \(2021\)](#), which propose a positive correlation between political affiliations and financial performance. The disparity in outcomes can be attributed to the common practice of utilizing political connections in mining companies to facilitate expansion in the licensing sector. This, in turn, leads to substantial expenses and detrimental effects on the company's profitability.

Furthermore, these research results do not align with the Resource-Based Theory, which posits that a firm's internal resources can establish a competitive advantage and enhance financial performance. The variable of political connections should enhance a company's performance. However, this study establishes that while political connections have a positive impact, they could be more statistically significant, primarily due to the elevated costs associated with securing licensing ease, ultimately curtailing the firm's potential for profit from managed assets and capital.

The Influence of Efficiency on Financial Performance

The second hypothesis of this research asserts that between 2020 and 2022, efficiency positively impacts the financial performance of mining sector companies listed on the Indonesia Stock Exchange (BEI). Examining the hypothesis through the SmartPLS 3 application on the research sample yields results that strongly indicate the significant and positive influence of efficiency on the financial performance of these companies.

These findings align with earlier studies by [Putri & Affandi \(2018\)](#), [Wardani et al. \(2019\)](#), [Fatmawati et al. \(2019\)](#), and [Mustofa \(2023\)](#), which similarly highlight the favorable effect of efficiency on financial performance. This suggests that a company's financial performance can be gauged by its ability to operate efficiently and effectively, resulting in profit generation through operational activities, as evidenced in financial data analysis present in financial reports ([Lesmana, 2014](#)).

The outcomes of this study also conform to agency theory, which posits that shareholders provide capital and resources to the company. At the same time, management is tasked with

managing these assets on behalf of shareholders. Agents (management) are obligated to regularly furnish reports to principals (shareholders) detailing the company's performance under their stewardship (Aljifri, 2007). Operational efficiency can serve as a reflection of a company's overall performance (Lesmana, 2014). Hence, companies can augment their operational efficiency to demonstrate a robust performance to their shareholders in pursuing enhanced financial performance.

The Influence of Financial Performance on Company Value

The third hypothesis examined in this study suggests that a positive relationship exists between financial performance and the valuation of a company. Through hypothesis testing conducted using the SmartPLS 3 software on a dataset comprising companies operating within the mining sector and listed on the Indonesia Stock Exchange for the period spanning from 2020 to 2022, it was ascertained that financial performance indeed exerts a statistically significant positive impact on a company's value.

These research findings corroborate previous investigations by Mudjijah et al. (2019), Wardani et al. (2019), and Handayani, R. (2020), all of which similarly established that company performance has a favorable influence on company value. In simpler terms, superior financial performance corresponds to a higher company valuation. This underscores the direct and pivotal role of financial performance, particularly within the mining sector of the Indonesia Stock Exchange, in shaping a company's value.

It should be noted that if a company's financial performance experiences instability, it is highly likely that its valuation will decrease. Such a decline in company value can discourage investor interest in making investments. Therefore, maintaining stable financial performance is critical for augmenting a company's value. Financial performance emerges as the primary yardstick for attaining a favorable company valuation in this context.

These findings align harmoniously with Signaling Theory, which postulates that the failure of a company to convey positive signals regarding its value can result in a mismatch between the actual company value and its perceived worth (Indrayani et al., 2021). Consequently, companies can optimize their management of assets and capital to enhance company value to generate profits or earnings.

The Influence of Financial Performance Mediation on the Influence of Political Connection towards Firm Value

In this research, the fourth hypothesis explores the role of financial performance as a mediator in the relationship between political connections and firm value. The empirical analysis was conducted using the SmartPLS 3 application on a sample of mining sector companies listed on the Indonesia Stock Exchange (BEI) for 2020-2022. The findings indicate that while there is a positive association, financial performance does not exert a statistically significant mediating effect on the relationship between political connections and firm value.

This outcome aligns with the findings of Ligita & Muazaroh (2020), who similarly observed that financial performance does not mediate the connection between political ties and market performance. The results suggest that contemporary investors rely more on technical analysis than fundamental analysis when evaluating a company's growth prospects. Technical analysis assumes that market prices incorporate all available information, leading investors to believe that solid market performance reflects promising prospects.

Another reason for the lack of mediation by financial performance in the relationship between political connections and market performance is the susceptibility of financial reports to manipulation by companies. For instance, companies may inflate sales figures to artificially boost profitability ratios, such as ROA (Ligita & Muazaroh, 2020). Furthermore, Ligita and Muazaroh (2020) research reveals that investors tend to gauge a company's performance through short-term analysis, focusing on predicting stock price movements to assess future

potential.

These findings corroborate earlier research by [Sejati \(2019\)](#) and the results of the initial hypothesis, which affirmed that political connections significantly impact firm value. Additionally, the initial hypothesis testing indicated that political connections do not significantly influence financial performance, as measured by ROA and ROE.

The study's results do not support the agency theory, which posits that principals assess their agents' performance primarily through financial reports. This is evident from the first hypothesis, where political connections were not found to impact firm performance significantly.

The Influence of Financial Performance Mediation on the Impact of Efficiency on Firm Value

The fifth hypothesis examined in this study focuses on the role of financial performance as a mediator in the connection between efficiency and firm value. The research employed SmartPLS 3 to test this hypothesis using a sample from mining companies listed on the Indonesian Stock Exchange (BEI) between 2020 and 2022. The analysis revealed a statistically significant and positive relationship, indicating that financial performance mediates the impact of efficiency on firm value.

These findings align with a recent study by [Mustofa, I. A. \(2023\)](#), which similarly demonstrated a positive influence of bank efficiency on firm value. According to Mustofa's research, higher efficiency, as measured using the Data Envelopment Analysis (DEA) method, corresponds to better overall firm performance. This is consistent with the conclusions drawn in the study by [Putri & Affandi \(2018\)](#), which established a positive link between efficiency, profitability, and firm value.

The study's results further suggest that changes in the percentage of DEA efficiency values correlate positively with stock price increases. This implies that efficiency improvements, measured through DEA inputs and outputs, indirectly enhance firm value.

These findings align with the principles of Signaling Theory, which posits that an increase in sales leads to higher profits, subsequently sending a favorable signal to shareholders. The study considered various inputs, such as fixed assets, personnel, and operating expenses, contributing to revenue generation.

Conclusion

In light of the findings from data analysis and the discussion results, the following key points can be deduced:

1. Political affiliations do not exert a substantial positive impact on the financial performance of mining firms. In simpler terms, the presence of political connections does not influence the company's financial performance, either positively or negatively.
2. On the other hand, efficiency significantly boosts the financial performance of mining companies. Companies that demonstrate effectiveness in profit generation tend to achieve better financial results.
3. Financial performance undeniably contributes positively and significantly to the overall value of mining companies listed on the Indonesia Stock Exchange (BEI) between 2020 and 2022. More excellent financial performance, as evidenced by metrics like ROA and ROE, is correlated with higher firm value, as indicated by Tobin's Q.
4. Financial performance does not serve as a significant mediator for the impact of political connections on firm value in mining companies. This implies that while solid

financial performance can positively influence firm value, political connections do not substantially affect the connection between financial performance and firm value.

5. Financial performance plays a meaningful mediating role in the influence of efficiency on firm value in mining companies. This outcome suggests that companies achieving high levels of efficiency experience an enhancement in financial performance, consequently leading to an increase in firm value. Therefore, mining companies should prioritize operational efficiency and the maintenance of solid financial performance to elevate their firm value.

Declarations

I declare that this article include Conflict of Interests, Availability of Data and Materials, Author's Contribution, Funding Sources, and Acknowledgements.

Conflict of Interests

There is no conflict of interest

Availability of Data and Materials

Data on request

Authors' Contribution

Raihan Hazim: Design and plan experiments, collect and analyze research data, write most of the contents of the paper, contribute to statistical analysis and interpretation of results, revise and improve the manuscript. Lis Mediawati: Assist in designing experiments, provide critical input and suggestions during the writing process, correcting and editing the manuscript.

Funding Sources

Independent funding

Acknowledgments

Supervisor and UPI (Universitas Pendidikan Indonesia)

References

- Abdillah, W., & Hartono, J. (2015). *Partial Least Square (PLS): alternatif structural equation modeling (SEM) dalam penelitian bisnis [Partial Least Square (PLS): an alternative to structural equation modeling (SEM) in business research]*. Yogyakarta: Penerbit Andi.
- Aljifri, K. (2007). Measurement and motivations of earnings management: A critical perspective. *Journal of Accounting-Business and Management*, 14, 75–95.
- Angele, T. F., Pardede, S. L. A., & Wongsosudono, C. (2022). Pengaruh Tax Planning, Ukuran Perusahaan Dan Profitabilitas Terhadap Nilai Perusahaan [The Influence of Tax Planning, Company Size and Profitability on Company Value]. *Jurnal Ilmiah Kohesi*, 6(1), 79-87.
- Arum, F. L., Mus, A. R., & Umar, N. A. (2022). Pengaruh Kinerja Keuangan Terhadap Nilai Perusahaan Pada Perusahaan Tambang Sub Sektor Mental dan Mineral yang Terdaftar di Bursa Efek Indonesia Periode 2016-2020 [The Influence of Financial Performance on Company Value in Mining Companies in the Mental and Mineral Sub Sectors Listed on the Indonesian Stock Exchange for the 2016-2020 Period]. *Journal of Management Science (JMS)*, 3(2), 208–222.
- Azizah, F., & Al Amin, M. (2020). Pengaruh Koneksi Politik Terhadap Kinerja Perusahaan (Studi

- Empiris pada Perusahaan Sektor Pertambangan yang terdaftar di BEI tahun 2014-2018). *Indonesian Journal of Accounting and Governance*, 4(1), 1-17. <https://doi.org/10.36766/ijag.v4i1.38>
- Bagetoft, P., & Otto, L. (2011). *Benchmarking with DEA, SFA, and R*. Berlin: Springer Science & Business Media.
- Barney. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17(1), 99–120. <https://doi.org/10.1177/014920639101700108>
- Dayanty, A., dan W. Setyowati. (2020). Pengaruh Kinerja Keuangan dan Struktur Modal terhadap Nilai Perusahaan yang Dimoderasi Variabel Ukuran Perusahaan (Studi Empiris Perusahaan Sektor Perdagangan, Jasa dan Investasi yang Terdaftar Di Bursa Efek Indonesia Tahun 2016-2018) [The Effect of Financial Performance and Capital Structure on Company Value Moderated by Company Size Variables (Empirical Study of Trade, Services and Investment Sector Companies Listed on the Indonesian Stock Exchange 2016-2018)]. *Jurnal Magisma*, 8(2), 77-87. <https://doi.org/10.35829/magisma.v8i2.85>
- Dwilestari, N. K. N. (2019). Pengaruh tax avoidance, koneksi politik, dan kinerja keuangan terhadap nilai perusahaan [The influence of tax avoidance, political connections, and financial performance on company value]. *Bachelor's Thesis-2019*. Universitas Trisakti.
- Fatmawati, E., Utari, A. R., & Irwansyah, I. (2019). Analisis efisiensi modal kerja terhadap profitabilitas dan nilai perusahaan pada perusahaan jasa konstruksi yang terdaftar di bursa efek Indonesia [Analysis of working capital efficiency on profitability and company value in construction services companies listed on the Indonesian stock exchange]. *Jurnal Ilmu Manajemen Mulawarman (JIMM)*, 4(2). <https://doi.org/10.29264/jimm.v4i2.4046>
- Ghozali, I., & Latan, H. (2015). Partial least squares konsep, teknik dan aplikasi menggunakan program smartpls 3.0 untuk penelitian empiris [Partial least squares concepts, techniques and applications using the smartpls 3.0 program for empirical research]. *Semarang: Badan Penerbit UNDIP*.
- Handayani, R. (2020). Effects of tax avoidance and financial performance on firm value. *International Journal of Management Studies and Social Science Research*, 2(5), 159-168.
- Harningsih, S., Agustin, H., & Setiawan, M. A. (2019). Pengaruh kinerja keuangan terhadap nilai perusahaan dengan pengungkapan csr dan kebijakan dividen sebagai variabel moderasi [The influence of financial performance on company value with CSR disclosure and dividend policy as moderating variables]. *Ranah Research: Journal of Multidisciplinary Research and Development*, 1(2), 199-209.
- IDX Energy. (2022). *IDX Energy Riset: Pertumbuhan Energi Bersih Indonesia [Indonesia's Clean Energy Growth]*. IDX Insights. Retrieved from <https://idx.co.id/Media/20221000/fs-idxenergy-2022-08.pdf>
- Indrayani, N. K., I. D. M. Endiana, dan I. G. A. A. Pramesti. 2021. Pengaruh Ukuran Perusahaan, Profitabilitas, Kebijakan Dividen, Akuntansi Lingkungan, Leverage dan Likuiditas terhadap Nilai Perusahaan [The Influence of Company Size, Profitability, Dividend Policy, Environmental Accounting, Leverage and Liquidity on Company Value]. *Jurnal Kharisma*, 3(1): 52-62.
- JATAM. (2019). *Coalruption Elite Politik Dalam Pusaran Bisnis Batu Bara*. Retrieved from www.jatam.com

jatam.org on March 13rd, 2019.

- Jensen & Meckling. (1976). The Theory of The Firm: Managerial Behavior, AgencyCost, and Ownership Structure. *Journal of Financial Economics*, 3(4), 305–360.
- Kementerian Energi dan Sumber Daya Mineral. (2021). *Laporan Tahunan 2021 [Annual Report 2021]*. Jakarta: Kementerian ESDM.
- Kristanto, A. T. (2019). Pengaruh Political Connections Terhadap Kinerja Perusahaan [The Influence of Political Connections on Company Performance]. *Exero Journal Of Research In Business And Economic*, 2(1), 1-21. doi.org/10.24071/exero.2019.02.01.01
- Lesmana, Y. (2014). Pengaruh Sustainability Reporting Terhadap Kinerja Keuangan Perusahaan Publik dari Sisi Asset Management Ratios [The Influence of Sustainability Reporting on the Financial Performance of Public Companies in terms of Asset Management Ratios]. *Business Accounting Review*, 2(1), 101–110.
- Li, X., & Jin, Y. (2021). Do political connections improve corporate performance? Evidence from Chinese listed companies. *Finance Research Letters*, 41, 101871. <https://doi.org/10.1016/J.FRL.2020.101871>
- Ligita, E. C., & Muazaroh, M. (2020). Koneksi politik, kinerja keuangan, dan kinerja pasar pada perusahaan di bursa efek Indonesia (periode 2014-2017) [Political connections, financial performance and market performance of companies on the Indonesian stock exchange (2014-2017 period)]. *Journal of Business and Banking*, 9(2), 309-322.
- Maaloul, A., Chakroun, R., & Yahyaoui, S. (2018). The effect of political connections on companies' performance and value: Evidence from Tunisian companies after the revolution. *Journal of Accounting in Emerging Economies*, 8(2), 185–204. <https://doi.org/10.1108/JAEE-12-2016-0105/FULL/PDF>
- McKinsey & Company. (2020). MineLens survey confirms the significant impact of COVID-19 on mining operations. <https://www.mckinsey.com/industries/metals-and-mining/our-insights/minelens-survey-confirms-the-significant-impact-of-covid-19-on-mining-operations>
- Mudjijah, S., Khalid, Z., & Astuti, D. A. S. (2019). Pengaruh kinerja keuangan dan struktur modal terhadap nilai perusahaan yang dimoderasi variabel ukuran perusahaan [The influence of financial performance and capital structure on company value which is moderated by the company size variable]. *Jurnal Akuntansi Dan Keuangan*, 8(1), 41-56. <http://dx.doi.org/10.36080/jak.v8i1.839>
- Mustofa, I. A. (2023). Faktor-faktor Internal yang Berpengaruh terhadap Nilai Perusahaan: Studi Empiris pada Bank BUKU IV [Internal Factors that Influence Company Value: Empirical Study of BUKU IV Banks]. *Jurnal Pendidikan Tambusai*, 7(1), 1506-1513. <https://doi.org/10.31004/jptam.v7i1.5451>
- Pulic, A. (1998). *Measuring the Performance of Intellectual Potential (IP) in Knowledge Economy*. In C. Tiffany, & S. Jennifer (Eds.), 19th Annual National Business Conference. DeGroote School of Business.
- Putri, U. I., & Affandi, A. (2018). Rasio kepemilikan dan rasio efisiensi terhadap profitabilitas dampaknya pada nilai perusahaan [The ownership ratio and efficiency to profitability ratio have an impact on company value]. *Jurnal riset bisnis dan manajemen*, 11(1), 40-43.

- Rahmawati, A. P., & Amanah, L. (2023). Pengaruh Kinerja Keuangan, Ukuran Perusahaan Terhadap Nilai Perusahaan (Studi pada Perusahaan Manufaktur Sektor Tambang yang Terdaftar di BEI Periode 2017-2020) [The Influence of Financial Performance, Company Size on Company Value (Study of Mining Sector Manufacturing Companies Listed on the IDX for the 2017-2020 Period)]. *Jurnal Ilmu dan Riset Akuntansi (JIRA)*, 12(2).
- Ramdhonah, Z., Solikin, I., & Sari, M. (2019). Pengaruh Struktur Modal, Ukuran Perusahaan, Pertumbuhan Perusahaan, Dan Profitabilitas Terhadap Nilai Perusahaan (Studi Empiris Pada Perusahaan Sektor Pertambangan Yang Terdaftar Di Bursa Efek Indonesia Tahun 2011-2017) [The Influence of Capital Structure, Company Size, Company Growth, and Profitability on Company Value (Empirical Study of Mining Sector Companies Listed on the Indonesian Stock Exchange 2011-2017)]. *Jurnal Riset Akuntansi Dan Keuangan*, 7(1), 67-82. <https://doi.org/10.17509/jrak.v7i1.15117>
- Schumacker, R.E., Lomaz, R.G. (2004). *A Beginner's Guide to Structural Equation Modeling (2nd Edition)*. London, GB: Lawrence Erlbaum Associates, Inc.
- Sejati, R. S. (2019). Pengaruh Political Connection Terhadap Nilai Perusahaan (Perusahaan yang Listing di Bursa Efek Indonesia Tahun 2014) [The Influence of Political Connection on Company Value (Companies Listed on the Indonesian Stock Exchange in 2014)]. Bachelor's Thesis, Universitas Islam Indonesia.
- Sharma, P., Cheng, L. T., & Leung, T. Y. (2020). Impact of political connections on Chinese export firms' performance—Lessons for other emerging markets. *Journal of Business Research*, 106, 24-34.
- Sugiarti, D. L., dan D. Widyawati. (2020). Pengaruh Good Corporate Governance dan Ukuran Perusahaan terhadap Nilai Perusahaan dimoderasi Profitabilitas [The influence of Good Corporate Governance and Company Size on Company Value is moderated by Profitability]. *Jurnal Ilmu Dan Riset Akuntansi*, 9(2), 1-20.
- Sukarmanto, E. (2023). Pengaruh Earnings Management, Political Connection dan Foreign Ownership terhadap Kinerja Perusahaan [The Influence of Earnings Management, Political Connection and Foreign Ownership on Company Performance]. *Bandung Conference Series: Accountancy*, 3(1), 284-292. <https://doi.org/10.29313/bcsa.v3i1.6297>
- Trinita, O., & Dewi, S. P. (2019). Faktor-Faktor Yang Mempengaruhi Kinerja Perusahaan Manufaktur Yang Terdaftar Di BEI [Factors that influence the performance of manufacturing companies listed on the IDX]. *Jurnal Paradigma Akuntansi*, 1(3), 748-756.
- Umah, A. (2020, November 11). Sektor Tambang Babak Belur Dihantam Pandemi, Ini Buktinya. <https://www.cnbcindonesia.com/news/20201111080022-4-200907/sektor-tambang-babak-belur-dihantam-pandemi-ini-buktinya>
- Wardani, B.M., Priyawan, S., & Riyadi, S. (2019). Pengaruh Penerapan Tata Kelola, Rasio Likuiditas, Dan Tingkat Efisiensi Terhadap Nilai Perusahaan Dengan Kinerja Keuangan Sebagai Variabel Intervening Pada Perusahaan Perbankan Di Bei [The Influence of the Implementation of Governance, Liquidity Ratios, and Efficiency Levels on Company Value with Financial Performance as an Intervening Variable in Banking Companies in Indonesia stock exchange]. *Jurnal Manajerial*, 6(2), 21-29. <http://dx.doi.org/10.30587/jurnalmanajerial.v6i2.966>.