

-RESEARCH ARTICLE-

POLITICAL CONNECTION, TAX AGGRESSIVENESS, AND FIRM VALUE: EVIDENCE FROM INDONESIA

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—Abstract—

This research explores the influence of political affiliations on the valuation of firms operating within the industrial sector and listed on the Indonesia Stock Exchange (IDX) during the period from 2019 to 2021. The analytical approach adopted in this study involves panel data regression, conducted using Amos version 26. The research population comprises all manufacturing firms listed on the IDX, totalling 227 entities. The findings reveal a positive relationship between political connections and firm value, indicating that such affiliations may confer certain advantages that contribute to the enhancement of long-term corporate performance. Signals conveyed by politically affiliated board members, including commissioners and directors, appear to yield favourable outcomes. However, political ties are not aligned with practices of tax avoidance. This suggests that directors or commissioners with political affiliations do not necessarily provide complete protection from tax liabilities. Moreover, when political involvement influences corporate earnings in a manner that disadvantages investors—thereby prompting a lower firm valuation—no association is observed between aggressive tax practices and company value. Additionally, high taxation does

Citation (APA): Rohmiatun, E. T., Soewarno, T. (2025). Political Connection, Tax Aggressiveness, and Firm Value: Evidence from Indonesia. *International Journal of Economics and Finance Studies*, 17(01), 230-249. doi: 10.34109/ijefs.202517113

not serve as an effective mediating factor in the link between political connections and firm valuation.

Keywords: Tax Aggressiveness, Political Connections, Firm Value, SDGs.

INTRODUCTION

The principal aim of investors is to optimise their returns, necessitating a comprehensive evaluation of various factors prior to investment decisions. One such factor is the performance of a company, particularly its valuation, which reflects public confidence in its operations. When a firm's value increases, both managers and investors stand to gain by achieving their respective objectives. Investors appoint management teams to ensure the efficient execution of business operations and the realisation of strategic goals that contribute to sustainable corporate value. A company's capacity to distribute interest and dividends over the long term signals its financial stability (Bhattacharya, 1979; Ezirim et al., 2017; Ross, 1973).

Political dynamics influence business operations through multiple channels, including their impact on national regulatory systems. A political connection is often perceived as a mutually beneficial collaboration arising from the intersection of business and political interests. Political influence can shape public policies affecting both general society and corporate activity. In return, the corporate sector may provide financial support to political movements or figures, facilitating access to critical governmental resources such as bank financing, subsidies, and market protections (Goldman et al., 2009; Tang et al., 2018). Nonetheless, such advantages are frequently transitory (Abdul Wahab et al., 2017; Li et al., 2012; Yao, 2015).

In jurisdictions with strong legal institutions, political affiliations offer limited strategic benefit or market preference (Brockman et al., 2013; Faccio, 2006). However, through structures such as boards of commissioners and directors, political actors often engage with businesses in reciprocal relationships grounded in negotiation and mutual interest (Shleifer & Vishny, 1994). Political connections may also originate through university networks and personal affiliations (Do et al., 2015). This networked influence often leads to corporate funding of political parties and the crafting of legislation favourable to business interests. Such ties are particularly pervasive in developing countries where governance challenges, including corruption, are more prominent. Connections may be evidenced by the involvement of key corporate figures—such as principal directors or controlling shareholders—in political parties, legislative bodies, or state institutions. Other senior personnel may also maintain relationships with policymakers or civil servants (Chua et al., 2007). In the Indonesian context, firms are often deemed politically connected when individuals with strong governmental affiliations are appointed as commissioners or directors (Pranoto & Widagdo, 2016).

In emerging economies, political affiliations and corporate outcomes play a critical role. These relationships have demonstrable effects in shaping some of the world's largest and most influential markets. It has been observed, for instance, that the relationship between political ties and corporate valuation in Malaysia weakened in the aftermath of the Asian financial crisis, possibly due to increased oversight and valuation correction during capital recovery phases. Although political ties may offer strategic benefits, they can also expose firms to substantial risk (Iswari et al., 2019). Prior empirical research into political connections and firm valuation reveals a combination of beneficial and adverse effects. On the positive side, politically connected firms may capitalise on their affiliations to facilitate access to capital markets, secure bank financing, reduce tax obligations, and obtain government contracts (Charumilind et al., 2006). During election cycles, firms with political ties may also increase employment and expand production, particularly in politically sensitive regions, often at the expense of short-term profitability (Bertrand et al., 2007). On the negative side, state-owned enterprises or firms operating in environments with fiscal constraints and high unemployment may experience the detrimental impact of rent-seeking behaviour by state actors, undermining firm value through corrupt practices (Cheung et al., 2010). This suggests that political connections do not uniformly produce positive outcomes.

For example, by streamlining access to financial resources such as initial public offerings or credit facilities, political affiliations can elevate a firm's future value (Charumilind et al., 2006). However, concentrated ownership may introduce inefficiencies, including free-rider challenges and difficulties in managerial oversight (Shleifer & Vishny, 1994). Reduced free-riding and improved governance through decentralised ownership structures may enhance firm value, while excessive ownership concentration may exacerbate agency conflicts (Ajili & Khlif, 2020; Bertrand et al., 2007). Past studies also suggest that firms with significant institutional ownership often report stronger market valuations (Desai & Dharmapala, 2009). These findings indicate that aggressive tax strategies, conceptualised as the redirection of public funds to private entities, may reduce corporate value by creating agency problems between shareholders and managers. Companies with political affiliations may exploit their status to influence tax regulations or participate in lobbying activities aimed at reducing tax burdens (Richter et al., 2009). Politically connected entities often have advanced knowledge of upcoming tax policies (Werner, 2015; Zhang et al., 2016), and are typically better equipped to manage regulatory risk and avoid adverse tax consequences (Duchin & Sosyura, 2012), even under public and media scrutiny (Kim & Lee, 2022).

This study focuses on manufacturing companies listed on the IDX during the 2019–2021 period (Ang et al., 2013; Faccio, 2006; Harymawan & Nowland, 2016; Wu et al., 2012). Among the sectors represented on the IDX, the manufacturing sector is considered highly promising in terms of long-term growth potential. It also serves as a reliable proxy for gauging broader market responses. The sector comprises a significant portion of the IDX listings (Nawanir et al., 2013), and due to its high tax obligations

relative to other industries, it is theoretically more susceptible to tax avoidance practices. This study aims to enrich understanding of tax evasion by examining the interplay between political affiliations and corporate value both before and after the onset of the Covid-19 pandemic. It addresses unresolved questions, such as whether political affiliations deter tax evasion, whether political ties contribute positively to firm valuation, and whether tax evasion itself correlates with enhanced corporate value. The principal objective of this study is to investigate the relationship between political affiliations, tax evasion, and firm valuation. It is hypothesised that political connections may facilitate access to capital markets, whether through public offerings, loan approvals, or employment negotiations. When such affiliations are strategically utilised—for instance, to augment state revenue without contravening regulations—they are expected to enhance corporate valuation. By positioning tax aggressiveness as a mediating variable, this study seeks to advance scholarship in an area where empirical literature remains relatively limited (Kim & Lee, 2022; Leuz & Oberholzer-Gee, 2006).

This research links political connections and tax-related practices to firm valuation, building on and contrasting with prior findings. Firm valuation is crucial as it reflects external factors, particularly investor perceptions. Previous research has largely focused on internal attributes such as Return on Equity and Return on Assets (Ang et al., 2013; Ayers et al., 2009; Brockman et al., 2013; Desai & Dharmapala, 2009). The current study undertakes a three-stage analysis: first, it examines the direct relationship between political affiliations and firm value; second, it explores the association between political ties and tax evasion; and third, it investigates whether tax aggressiveness mediates the connection between political ties and firm valuation. The study targets manufacturing firms listed on the Indonesia Stock Exchange, given their lack of publicly traded foreign securities and the distortion of performance estimates that may arise if firms with foreign investments were included (Leuz & Oberholzer-Gee, 2006). Therefore, these firms were selected as the focus of the analysis.

LITERATURE REVIEW

Agency Theory

The evolution of corporate structures, particularly the separation of ownership and managerial control, has led to the emergence of principal-agent conflicts. This agency dynamic presents the inherent risk that managers (agents) may not always prioritise the interests of the shareholders (principals), as each party is driven by its own utility maximisation objectives. A key driver of this conflict is information asymmetry, which arises when managers possess superior access to operational and financial details due to their continuous involvement in the firm's activities. In contrast, shareholders remain relatively uninformed. One mechanism designed to mitigate this asymmetry is the implementation of transparent financial reporting systems, which serve as a monitoring tool to align the interests of both parties (Morris, 1987; TF Abuhijleh & AA Zaid, 2023).

Despite these mechanisms, financial reporting conducted by management remains vulnerable to distortions stemming from information imbalances. A significant concern is the incentive structure tied to post-tax profits, which may prompt managers to manipulate reported earnings or withhold adverse information. One such approach involves the deliberate understatement of tax liabilities—commonly referred to as tax evasion—as a means of managing post-tax earnings outcomes and shaping external perceptions (Crocker & Slemrod, 2005).

Relations of Political Connections to the Value of the Company

A strong presence of intellectual capital within a firm's human resources is considered a key contributor to enhancing corporate value (Jurczak, 2008; Murale et al., 2010). Several studies have emphasised the multifaceted benefits that firms may acquire by leveraging political connections to accumulate such capital (Khwaja & Mian, 2005). These advantages include preferential access to government protection, expedited loan approvals, reduced likelihood of tax audits, and other exclusive benefits. Even during times of financial distress, politically connected firms often find it easier to obtain government-backed loans. These privileges contribute positively to firm value by supporting long-term growth and financial resilience. However, the improper utilisation of such privileges can have detrimental consequences. Excessive borrowing, facilitated by political ties, may lead to unsustainable debt levels. Instead of distributing earnings as dividends, firms may be compelled to allocate substantial resources toward debt repayment, ultimately diminishing their market value and reducing their attractiveness to investors (Faccio, 2006).

In the Indonesian context, political affiliations of directors or commissioners may provide advantages by enhancing firm value and reinforcing managerial standing, which are particularly appealing to investors. Research indicates that politically connected investors can elevate a firm's value significantly, with a reported 33% increase attributed to affiliations with high-ranking officials such as the president. Nevertheless, political connections present a double-edged sword. While they can yield strategic benefits, excessive dependence on such ties may result in corruption, inefficient capital allocation, and misaligned managerial incentives. To ensure the protection of stakeholders, greater regulatory oversight is required from boards of commissioners, directors, and lawmakers (Ang et al., 2013). Directors frequently support political candidates financially, aiming to secure favourable conditions for the firm once those candidates assume office. Based on these considerations, the following hypothesis is proposed:

H1: *Political connection has a positive effect on Firm Value.*

Relations of Political Connections to Tax Aggressiveness

State-connected firms often benefit from preferential access to financial resources, including easier access to capital funding. The transparency of financial reporting in such firms is frequently influenced by their inclination toward aggressive tax planning, which is more prevalent in companies perceived to face minimal risk of tax audits. These practices, commonly categorised as tax avoidance, involve exploiting legal ambiguities or loopholes in existing tax frameworks to reduce tax liabilities (Khwaja & Mian, 2005). Political affiliations are deemed essential for enhancing the negotiating power and influence of firms with government agencies. This influence is exercised through mechanisms such as corporate structure, levels of institutional ownership, the role of external oversight, and direct political ties held by board members and executives (Bauer, 2016; Kubick & Lockhart, 2016). These affiliations often guide managerial decisions regarding the appropriateness and extent of aggressive tax strategies. Politically connected firms are typically better positioned to assess and navigate various risk factors, including early access to information on tax policy shifts, reduced accountability due to a lack of transparency, and the complexities of risk-based operational environments in anticipation of legislative changes or advanced tax structuring methods (Ajili & Khlif, 2020).

The boundary between legal tax planning and unlawful avoidance remains blurred (Ylönen & Laine, 2015). Evidence from Chinese firms between 2001 and 2009 suggests that tax avoidance may negatively influence firm value. Specifically, tax-related strategies were found to detract from overall corporate worth (Yee et al., 2018), who also observed that the presence of robust corporate governance mechanisms mitigates the adverse effects of tax evasion on firm performance. Firms often cultivate political relationships to secure advantages or avoid sanctions arising from poor governance or expropriation risks (Brennan et al., 2008; Khan et al., 2013). Politically connected entities have been shown to engage in tax avoidance more frequently than firms without such affiliations (Leuz & Oberholzer-Gee, 2006). This relationship between political ties and tax aggressiveness is posited to provide a protective shield, reducing the probability of regulatory scrutiny and litigation, while simultaneously offering avenues for investment and enhancing corporate social responsibility activities (Khwaja & Mian, 2005).

H2: *Political connection has a positive effect on tax aggressiveness.*

Aggressive Tax Relationship to Company Value

Numerous firms exhibit resistance to taxation, largely due to its compulsory nature. Aggressive tax planning is adopted as a mechanism to reduce tax liabilities, premised on the notion that tax expenses diminish profitability. Such fiscal aggression may manifest through either tax avoidance or evasion (Frank et al., 2009). Tax aggressiveness reflects both the intent and action to minimise tax obligations, employing lawful, unlawful, or a combination of strategies. Through effective tax planning, companies often succeed in reducing their effective tax rates (Hlaing, 2012;

Lanis & Richardson, 2011). However, this may have implications for future tax liabilities, thus necessitating a strategic approach to tax planning (Mgammal, 2020). The influence of tax evasion tactics on firm value may be either beneficial or detrimental. Although illegal, tax fraud is frequently viewed as a means of improving long-term profitability (Desai & Dharmapala, 2009). Positive investor sentiment, which often correlates with profit performance, may enhance the market valuation of such firms. In countries characterised by limited regulatory enforcement and oversight, tax evasion remains a common strategy to increase reported net income. Lower tax liabilities have been associated with an increase in firm value (Chasbiandani & Martani, 2012). Investors' assessments of a company's worth are often reflected in its stock price. As such, financial managers must make well-informed decisions concerning investments, capital structure, dividend policies, and working capital management in order to optimise the firm's market value (Anita, 2016). Accordingly, the third hypothesis is proposed as follows:

H3: *Aggressive taxes have a positive effect on Firm Value.*

Aggressive Tax Relationship as a Moderating Variable, Political Connections to Firm Value

As previously discussed, aggressive tax practices and avoidance strategies serve to reduce the formal tax liability and are often associated with enhanced firm value. There exists a linkage between corporate performance and the presence of political affiliations. These affiliations may be established through interactions between the board of commissioners, directors, and legislative actors (Shleifer & Vishny, 1994). Empirical evidence suggests that political connections are positively related to corporate valuation, with politicians frequently occupying roles within the organisational hierarchy as a result of such ties (Pranoto & Widagdo, 2016; Shleifer & Vishny, 1994). Through these relationships, firms may secure favourable treatment in terms of regulatory or fiscal advantages. Entities perceived as having a reduced likelihood of undergoing tax audits often adopt more assertive tax planning approaches, which can compromise the transparency and reliability of financial disclosures (Ying et al., 2017). Firms that maintain affiliations with ruling political figures tend to engage in tax evasion more extensively than their counterparts lacking such associations (Leuz & Oberholzer-Gee, 2006).

H4: *Tax Aggressiveness mediates the relationship between Political Connections and Firm Value.*

METHODOLOGY

Data Collection Procedures

This study utilised data drawn from the Indonesia Stock Exchange and Osiris databases, comprising 680 financial reports from Indonesian manufacturing firms over the 2019

to 2021 period. The analytical process was conducted using AMOS version 26. This statistical software facilitates robust structural equation modelling, thereby ensuring the reliability and validity of the results concerning the examined variables.

Variables and Measurements

The study incorporates four primary research variables: firm value, political connections, tax aggressiveness, and three control variables, namely firm age, firm size, and leverage. Table 1 outlines the operational definitions and measurement methods employed for each of these variables.

Table 1: Measurement of the Variables

Variable	Measurement	Data Source
Firm Value (F.V.)	Measurement using Tobin's Q (Margareta & Prasetyo, 2020) = $\alpha + \beta_1 (VAIC) + \beta_2 (ROA) + \beta_3 (SIZE) + \varepsilon$	Annual Report
Political Connections (P.C.)	Determination of companies with Political Connections using a dummy variable by giving a value of 1 for companies that meet the above indicators and criteria and 0 if they do not meet the criteria.	Annual Report
Tax Aggressiveness (T.A.)	$ETR = \frac{\text{Income Taxes Expense}}{\text{Income before Tax}}$ (Laguir et al., 2015)	Annual Report
Firm Age (F.A.)	F.A. = Research Period – Registered on the IDX (Amores-Salvadó et al., 2014)	Annual Report
Company Size (Size)	Size = Log Total Asset	Annual Report
Leverage (Lev)	$Lev = \frac{\text{Total Debt}}{\text{Total Asset}}$	Annual Report

The empirical framework employed in this study utilises the following model equations to test each of the proposed hypotheses:

$$TA_{i,t} = \alpha_0 + \beta_1 PC_{i,t} + e \quad (1)$$

$$FV_{i,t} = \alpha_0 + \beta_1 PC_{i,t} + e \quad (2)$$

$$FV_{i,t} = \alpha_0 + \beta_1 PC_{i,t} + \beta_2 TA_{i,t} + \beta_3 FA_{i,t} + \beta_4 Size_{i,t} + \beta_5 Lev_{i,t} + e \quad (3)$$

P.C. = Political Connections, T.A. = Tax Aggressiveness, F.A. = Firm Age, Size = Firm Size, and Lev = Leverage.

To assess the mediating role of tax aggressiveness in the relationship between political connections and firm value, the Sobel test (Sobel, 1982) was applied using Amos version 26. This test enables researchers to determine the significance and extent of the mediation effect. Specifically, the Z-test associated with the Sobel method was employed to evaluate the indirect effect of political connections on firm value through tax aggressiveness, based on the following formulation:

$$z = \frac{ab}{\sqrt{(b^2SE_a^2 + (a^2SE_\beta^2))}}$$

Where:

- a = Regression coefficient of the independent variable for the intervention variable.
- b = Regression coefficient of the intervening variable to the dependent variable.
- SEa = Standard error estimate of the independent effect on the intermediate variable.
- SEb = Standard error estimate of the direct effect of the intervening variable on the dependent variable.

In this study, tax aggressiveness is considered to mediate the relationship between political connections (X) and firm value (Y) when the Z-score derived from the Sobel test exceeds the critical threshold of 1.96, indicating statistical significance at the 5% level.

RESULTS AND DISCUSSION

Results of Descriptive Statistics

Political ties are measured using a dummy variable, where a value of 1 represents the presence of politically connected individuals among directors or commissioners, and 0 denotes the absence of such affiliations. Tax aggressiveness is assessed through the Effective Tax Rate (ETR), while firm value is proxied using Tobin's Q, following the approach adopted by (Laguir et al., 2015). Table 2 provides operational definitions for the constructs Political Connections, Tax Aggressiveness, and Firm Value.

Table 2: Descriptive Statistics

Variable Dummy	Directors		Commissioners	
	N	%	n	%
0	672	98,88	563	82,79
1	8	1,12	117	17,21
Total	680		680	

As outlined, a director or commissioner is considered politically connected if their appointment strengthens the company's association with political figures. Such appointments are strategically employed to sustain the firm's long-term position. In many instances, individuals with political affiliations serve on boards of commissioners rather than as directors, as their primary function is to provide oversight. Commissioners are tasked with ensuring a balance between the interests of majority and minority shareholders and those of broader stakeholders. Given the political commitments of these individuals, their role within the organisation typically requires less day-to-day involvement compared to executive directors.

Data Analysis

Table 3 presents the findings derived from path analysis, which was utilised to evaluate the relationships among the study variables. The results indicate that Political Connections exert a statistically significant influence on Firm Value. However, the analysis did not reveal a significant direct relationship between Tax Aggressiveness and Firm Value, nor between Political Connections and Tax Aggressiveness.

Table 3: Root Analysis

Variable	Path Coefficient (β)	C.R Value	Significance
Political Connections \rightarrow Firm Value	0.135	3.051	0.002
Political Connections \rightarrow Tax Aggressiveness	- 0.022	- 0.490	0.624
Tax Aggressiveness \rightarrow Firm Value	- 0.010	- 0.223	0.823

Regression Test Results and Discussion

Analysis conducted using AMOS reveals the effect of Political Connections (X) on Firm Value (Y) through Tax Aggressiveness (Z). According to Table 4, the path coefficient (β_1) for the direct relationship between Political Connections and Firm Value is 0.135, with a critical ratio of 3.051 and a significance level (p_1) of 0.002. Given that the path coefficient is positive and the significance value is less than 0.05, the null hypothesis is rejected, indicating that Political Connections have a positive and significant impact on Firm Value. In contrast, the path coefficient (β_2) for the relationship between Political Connections and Tax Aggressiveness is -0.022, with a critical ratio of -0.490 and a significance value (p_2) of 0.624. Since the coefficient is negative and the significance value exceeds 0.05, the null hypothesis is not rejected, suggesting that Political Connections have no significant effect on Tax Aggressiveness. Furthermore, the path coefficient (β_3) for the relationship between Tax Aggressiveness and Firm Value is -0.010, with a critical ratio of -0.325 and a significance level (p_3) of 0.823. Given these values, the null hypothesis is also not rejected, indicating that Tax Aggressiveness has a negative but statistically insignificant effect on Firm Value. The corresponding path analysis is illustrated in Figure 1.

Table 4: Regression Analysis of the Effect of Political Connections (X) on Firm Value (Y) via Tax Aggressiveness (Z)

Variable	Path Coefficient (β)	C.R Value	Significance
Political Connections \rightarrow Firm Value	0.135	3.051	0.002
Political Connections \rightarrow Tax Aggressiveness	- 0.022	- 0.490	0.624
Tax Aggressiveness \rightarrow Firm Value	- 0.010	- 0.223	0.823

Source: AMOS Output

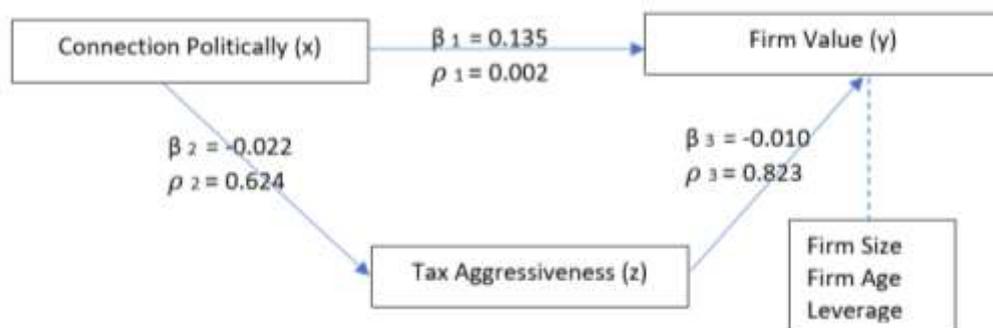


Figure 1: Path Analysis among Effect of Political Connections (X), Firm Value (Y) and Tax Aggressiveness (Z)

Hypothesis Test

As illustrated in Figure 1, the findings demonstrate that political connections (X) exert a statistically significant and positive influence on corporate value (Y). According to Table 4, the path coefficient (β_1) is recorded at 0.135 with a corresponding p-value (p_1) of 0.002. Given that the coefficient is positive and the p-value is below the 0.05 significance threshold, the hypothesis asserting a positive and significant effect of political ties on firm value is supported. This outcome is consistent with the argument that the involvement of political figures contributes favourably to the accumulation of intellectual capital. Such political affiliations may provide access to preferential financing, exemptions from tax scrutiny, and government support, which collectively enhance firm value. Nonetheless, these advantages must be efficiently managed. Failure to leverage such privileges may diminish firm value, particularly in instances where firms are unable to raise capital through debt or deliver returns to shareholders as expected.

The placement of politically affiliated individuals in executive and supervisory positions may elevate a company's market valuation; however, the reverse can occur if these individuals are removed from political office (Goldman et al., 2009). Declining stock prices in such cases indicate the fragility of value derived from political affiliations. Effective internal governance structures, established independently of political ties, can provide firms with a safeguard against adverse market conditions. Furthermore, the government expects politically linked companies to be more responsive to market dynamics and to produce higher-quality earnings (Harymawan & Nowland, 2016), thereby implying that internal governance mechanisms can serve as a buffer against political instability.

Turning to the association between political ties and tax-related behaviour, Table 4 reveals that the path coefficient (β_2) is -0.022 with a p-value (p_2) of 0.624. As this coefficient is negative and its significance exceeds the 0.05 threshold, the hypothesis proposing that political ties positively and significantly affect aggressive tax planning

is not supported. These findings align with those of [Abdul Wahab et al. \(2017\)](#), who observed that in Malaysia, political affiliations lead to lower effective tax rates due to policies that facilitate more strategic tax planning. In the Indonesian context, the prevalence of politically linked independent commissioners—who are intended to uphold shareholder interests and corporate integrity—further explains this outcome. According to Law No. 40 of 2007 of the Republic of Indonesia, the Board of Directors is responsible for achieving corporate objectives, while independent commissioners are expected to operate without affiliations to other board members, senior executives, or dominant shareholders.

Furthermore, [Table 4](#) presents the path coefficient (β_3) between aggressive tax strategies and firm value as -0.010 with a p-value (p_3) of 0.823. The negative coefficient and the insignificance of the result indicate that the hypothesis suggesting a negative and significant effect of aggressive tax planning on corporate value cannot be supported. These findings reinforce the perspective that aggressive tax strategies may not necessarily enhance value, particularly in firms with suboptimal performance. In contexts where such strategies are perceived as noncompliance with tax regulations, they increase corporate risk exposure. Indonesia's tax system, with a reported ratio of 10.97 percent, remains burdened by complex regulations and low levels of taxpayer awareness, contributing to widespread noncompliance. [Desai and Dharmapala \(2009\)](#) found that family-owned enterprises are especially cautious in employing aggressive tax tactics due to potential reputational risks and financial penalties associated with tax audits.

In evaluating the mediating role of tax aggressiveness, the Sobel test yielded a Z-value of 0.203, which falls below the critical value of 1.96 at the 5 percent level of significance. This outcome suggests that aggressive tax strategies do not mediate the relationship between political ties and corporate value. In other words, the presence of political connections directly influences firm value without any intervening effect from tax-related behaviour. The lack of mediation observed here may be attributed to personal or group motivations, such as the pursuit of wealth, influence, or social standing, which can result in the manipulation of financial reporting to serve individual interests rather than organisational objectives. In conclusion, the results derived from the Sobel test confirm that aggressive taxation does not function as an intervening variable between political affiliations and firm performance. While political connections exercised through board appointments do directly influence corporate value, tax-related conduct does not moderate or mediate this effect. As such, the influence of political ties on firm value appears to be independent of the firm's level of tax aggressiveness.

DISCUSSION

Consistent with prior empirical research ([Abdul Wahab et al., 2017](#)), the present study

confirms that affiliations with political actors significantly influence the market valuation of companies. However, such effects are primarily observed over the short term (Yao, 2015) and are more pronounced among privately owned firms than state-owned enterprises. Companies with established political affiliations may experience a modest increase in value, thus encouraging the cultivation of such ties within the domestic corporate sector. Nonetheless, realising sustained competitive advantage over the long term requires robust managerial competence and effective supervisory structures. In contexts marked by substantial external deficits, rising levels of short-term foreign debt, and instability within the banking system due to the proliferation of non-performing loans, poor governance frameworks tend to emerge (Charumilind et al., 2006). Political affiliations can enable companies to access government-backed protections, secure debt financing, reduce exposure to tax audits, and obtain additional privileges that may stimulate employment and conditional economic growth (Goldman et al., 2009). Additionally, such affiliations can offer protection from scrutiny and potential legal consequences (Ajili & Khlif, 2020). It is common for directors and supervisory board members to maintain connections with governmental bodies (Iswari et al., 2019; Pranoto & Widagdo, 2016).

According to Ang et al. (2013), firms with political links tend to demonstrate superior executive capability. Executives with political backgrounds can positively influence governance practices, reassuring investors that the organisation operates under effective oversight. Such conditions also expand the pool of eligible candidates to serve in independent supervisory roles, thereby contributing to improved governance standards and reducing corruption. This study particularly highlights how political influence, when aligned with privileges such as resource access or protection, can enhance corporate performance. Additionally, the findings reinforce the significance of stakeholder engagement in upholding regulatory frameworks and legislative integrity (Ang et al., 2013). The research further explores whether tax-related behaviour serves as an intermediary in the relationship between political affiliations and firm valuation. The presence of political ties may suppress aggressive tax practices, thereby influencing corporate value indirectly. Such suppression may result from weak governance structures. One explanatory factor is the intricacy of Indonesian tax legislation, which poses challenges for politically affiliated supervisory boards in interpreting legal obligations and minimising the firm's tax burden. Firms associated with political figures may also avoid aggressive tax conduct to preserve public perception and protect reputational integrity (Chaney et al., 2011).

Contrary to popular belief, tax officials may not treat politically linked enterprises more leniently. Rather, these officials, influenced by career concerns, might exercise increased caution with politically connected firms. To protect themselves from future accusations, government officers involved in politically motivated tax decisions may act conservatively, even in ambiguous situations (Duchin & Sosyura, 2012). In the United States, politically affiliated companies benefit from access to low-cost

government financing, yet they are also exposed to public scrutiny. For example, the involvement of the Internal Revenue Service in a politically sensitive case concerning a conservative profit-oriented organisation illustrates the susceptibility of tax institutions to political influence (Hunter & Nelson, 1995; Young et al., 2001). In Indonesia, the low ratio of cash-effective tax payments relative to profit before tax reflects this trend among manufacturing enterprises (Firmansyah & Bayuaji, 2019; Sudibyo & Jianfu, 2016).

Furthermore, the study's findings indicate that aggressive tax conduct may breach legal provisions, particularly those stipulated in Law No. 9 of 2017, Article 7, paragraph 3, of the Republic of Indonesia, which criminalises the submission of false declarations with penalties including imprisonment and substantial fines. These activities not only risk legal consequences but can erode investor confidence, suppress stock prices, and undermine corporate value (Abdul Wahab & Holland, 2012). The misalignment between executive and shareholder interests is exacerbated by a lack of information transparency and obscure tax strategies, both of which may mask the diversion of resources that would otherwise contribute to value creation (Mavlanova et al., 2012). Profits are manipulated to obscure actual performance, often by deferring or avoiding taxable income (Ayers et al., 2009). However, shareholders may resist such practices due to the potential for legal liabilities in the long term. In cases of extended collusion between executives and controlling shareholders, taxation and company value may both suffer.

High taxation can adversely impact company valuation by complicating operational decision-making and restricting cash flow management in both the short and long term. Transparency in information disclosure becomes essential under these conditions, not only to facilitate performance-based executive compensation but also to support accurate financial forecasting by market analysts (Wang, 2010). A transparent information environment enhances operational performance through better asset utilisation, more effective human resource practices, and reduced instances of minority shareholder wealth extraction (Bushman & Smith, 2003). However, these benefits are contingent on the broader institutional and environmental contexts in which the firm operates. For example, in the Chinese setting, weak corporate governance and extensive tax evasion do not necessarily contribute to higher corporate value.

This investigation addresses theoretical limitations in explaining the relationship between political affiliation and firm performance. The use of index-based assessments—such as those related to board structure, function, remuneration, and shareholder rights—can obscure underlying variables affecting firm valuation. Moreover, statistical challenges such as multicollinearity, heteroscedasticity, and autocorrelation must be carefully considered. The results of this study indicate that aggressive tax strategies do not moderate the association between political affiliations and corporate value. From an investor's perspective, such tax strategies represent a

transfer of public resources to private interests. Supervisory boards, particularly those that include politically linked independent commissioners, are perceived as structures meant to deter management from engaging in such transfers. Nevertheless, individuals within these governance structures may be motivated by personal or group ambitions, including the pursuit of influence, wealth, or status. Political affiliations may also be exploited to distort financial disclosures for partisan purposes, further complicating the relationship between governance, taxation, and corporate performance.

CONCLUSION

The relationship between aggressive tax strategies, political affiliations, and corporate valuation remains inconclusive. Political affiliations appear to constrain the use of aggressive tax planning, largely due to the pursuit of personal gain in the form of influence, prestige, and financial benefit. However, politics is not limited solely to self-interest; it also encompasses the processes of selecting policymakers, managing leadership structures, implementing governance strategies, and preserving traditional value systems. Consequently, appointing commissioners or directors with political ties does not inherently assure an increase in corporate value. Rather, effective tax minimisation requires a nuanced understanding of complex legal provisions and the strategic manipulation of regulatory frameworks. This study offers valuable insights for policymakers and regulatory bodies seeking to understand tax avoidance patterns and develop fair, effective tax systems. The finding that Indonesian firms engage in strategic tax planning underscores the potential negative implications for economic governance. While this research contributes to the literature by exploring how aggressive tax strategies influence firm value amid technological advancement, the empirical results—consistent with the Sobel test—indicate that tax aggressiveness does not mediate the relationship between political ties and firm value. The ambiguous legality of many tax avoidance practices likely diminishes their moderating effect. The study is limited to manufacturing firms listed on the Indonesia Stock Exchange, with political affiliations assessed through director and commissioner ties. However, reliance on content analysis may lead to interpretive inconsistencies. Future research should adopt more robust quantitative indicators, such as government ownership levels and the presence of politically affiliated or active board members, to better evaluate the impact of political relationships on corporate behaviour and performance.

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