

Political Connection and Compensation: The Moderating Role of Corporate Governance and Ownership Type

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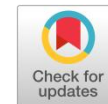
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Abstract

This study examines the effect of political connections on executive compensation, with corporate governance and ownership type as moderating variables. Drawing on agency and political economic theories, political connections may distort compensation-setting processes by increasing executives' bargaining power and reducing alignment with shareholder interests. Using a quantitative approach, this research analyzed 2,977 firm-year observations from state-owned and non-state-owned enterprises listed on the Indonesian Stock Exchange between 2018 and 2023. A random-effects panel-data regression model was employed. The results revealed that political connections increased executive compensation, as hypothesized. The effect was more pronounced in organizations exhibiting superior corporate governance, as indicated by the independence of the Board of Commissioners (BoC). Meanwhile, the independence of BoC might not adequately reflect substantive independence in politically embedded corporate contexts. Theoretically, this study enriches the literature on emerging markets by highlighting how corporate governance legitimizes the utilization of political connections within a fragile institutional context. As the findings indicate that political connections can elevate executive compensation even under ostensibly strong governance structures, this study provides practical implications of strengthening substantive board independence and enhancing transparency in compensation-setting.



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Introduction

Executive compensation has become an ongoing public debate in Indonesia, particularly over whether directors' pay levels reflect their actual performance. While directors hold significant responsibilities in strategic decision-making, many argue that their compensation is often disproportionate to corporate outcomes, raising concerns about fairness and accountability (Adhie & Supatmi, 2022; Maharani & Utami, 2019). According to agency theory, compensation should align managerial incentives with shareholders' interests (Jensen & Meckling, 1976). Nevertheless, in practice, executive compensation may also be influenced by factors beyond performance, including political connections and ownership structure.

Political connections are highly pervasive in Indonesia, where political actors and business elites frequently intersect. A firm is considered politically connected when its board members or major shareholders maintain ties to political parties, government officials, or high-ranking public institutions (Faccio, 2006). The Indonesian business landscape reflects this situation: 82.37% of commissioners in state-owned enterprises (SOEs) are appointed for political reasons rather than professional qualifications (Transparency International, 2021). Reports also indicate increasing involvement of businesspeople in

national politics, with 60.6% of legislators in the 2024–2029 period having direct or indirect business affiliations (Indonesia Corruption, 2024; Kompas, 2024). These conditions raise concerns about potential conflicts of interest, political influence in corporate decisions, and possible distortions in compensation policies.

In such an environment, corporate governance is a crucial mechanism for safeguarding transparency and fairness in determining compensation. Independent commissioners are expected to minimize opportunistic behavior and ensure that compensation aligns with performance rather than political leverage (Harymawan et al., 2020). However, empirical findings remain inconsistent. Some studies document a positive relationship between political connections and compensation, suggesting that politically connected executives extract higher rewards due to their strategic value (Fang et al., 2022; Kholid et al., 2023; Wu et al., 2018). Conversely, other studies find negative or insignificant relationships, particularly in contexts where political oversight constrains financial discretion (Liu et al., 2014; Zhang et al., 2024). These mixed results highlight the need for further investigation, particularly in emerging economies where political–business entanglement is strong.

To address these inconclusive findings, this study posits that the influence of political connections on executives' compensation depends on the quality of governance and the ownership structure. We contend that in emerging economies characterized by significant social ties (Chen et al., 2026), including political-business interdependence, the efficacy of political connections is contingent upon the robustness of internal governance mechanisms. This study provides a theoretical explanation for the inconsistent findings in previous research by integrating governance quality and ownership type as moderating variables.

Governance mechanisms, particularly the presence of independent commissioners, are expected to enhance monitoring and ensure that compensation decisions align with firm performance rather than political influence. Prior research indicates that effective governance mitigates agency problems and restricts managerial discretion in compensation-setting processes (Ding et al., 2015). However, in politically connected firms, governance assumes a more complex role because political ties may increase executives' bargaining power and affect internal decision-making processes (Amara & Khelif, 2020; Faccio, 2006). Therefore, the extent to which political connections result in higher executive compensation likely depends on the robustness of governance mechanisms that oversee managerial actions and uphold accountability.

Beyond governance mechanisms, the effectiveness of political connections in shaping executive compensation may also depend on the ownership type. This variable may further shape the dynamics between political connections and compensation. In SOEs, compensation is heavily regulated and monitored by the government, often limiting excessive pay. In contrast, non-SOEs operate under more market-oriented mechanisms, allowing politically connected executives greater flexibility to influence compensation arrangements (Amanah et al., 2022; Victoravich et al., 2012). Despite its importance, the moderating role of ownership type remains underexplored in the Indonesian context.

Additionally, the COVID-19 pandemic brought substantial disruptions to business operations, financial performance, and compensation structures. Several studies note that politically connected firms experienced greater stability and benefited from government support during the crisis, enabling them to maintain or even increase executive compensation relative to non-connected firms (Carter et al., 2024; Van Oeckel et al., 2020). This context emphasizes the importance of incorporating the pandemic period as a control variable to better understand how compensation dynamics evolved under economic shocks.

This study offers three key contributions. First, it enriches agency theory by demonstrating how political connections may alter incentive alignment in a market where politics and business interests are deeply intertwined. Second, it provides empirical evidence on the moderating roles of corporate governance and ownership structure, which remain underexamined in previous studies. Third, the findings offer practical implications for regulators, investors, and corporate boards to strengthen governance practices and reduce the potential misuse of political power in compensation decisions.

Literature Review

Theoretical Background

Several theoretical frameworks can be used to explain the interrelationship between political connections, executive compensation, corporate governance, and ownership type in Indonesian firms. These theoretical perspectives include agency theory, resource dependence theory, political economy theory, and corporate governance theory, each of which provides insights into how political connections shape managerial incentives and compensation outcomes.

Agency theory (Jensen & Meckling, 1976) explains that the separation between owners and managers creates agency conflicts arising from differing objectives, information asymmetry, and risk preferences. Managers often possess superior information on internal corporate conditions, allowing them to behave opportunistically, including influencing compensation schemes that do not necessarily reflect actual performance (Lesmono & Siregar, 2021; Z. Li et al., 2024; Lubis et al., 2023). Agency theory emphasizes the importance of designing compensation systems and governance mechanisms to align managerial actions with shareholder interests and reduce agency conflicts. In the context of political connections, agency theory suggests that executives or board members with political connections may hold greater bargaining power. Strong governance mechanisms are required to align managerial behavior with shareholder interests (Raharjo, 2007). Empirical evidence indicates that effective corporate governance reduces agency problems and leads to more reasonable compensation that reflects performance (Cieślak, 2018; Reddy et al., 2015). However, weak monitoring may allow managers to manipulate compensation for personal gain (Lubis et al., 2023).

From the perspective of resource dependence theory, political connections serve as valuable external resources, providing firms with access to government financing, regulatory support, protection from competition, and privileged information (Ahmed & Hussainey, 2023; Najaf & Najaf, 2021). Politically connected executives, therefore, possess strategic value, thereby increasing their bargaining power in determining compensation. Empirical studies show that political connections enhance firms' ability to obtain loans, regulatory protection, and business opportunities (Faccio, 2006; Johnson & Mitton, 2003; Li et al., 2008).

Political economy theory highlights the influence of institutional arrangements on economic activities, particularly in environments where political and business interests are closely intertwined. Political connections themselves refer to ties between firms and political actors, whether through board members, shareholders, or executives affiliated with political parties or governmental institutions (Faccio, 2006). In Indonesia, political influence often permeates corporate decision-making, including board appointments and compensation policies. Empirical evidence shows that politically embedded firms tend to appoint less qualified directors, engage in earnings management, and exhibit lower reporting quality (Boubakri et al., 2012; Chaney et al., 2011; Preuss & Königgruber, 2021).

Corporate governance encompasses mechanisms that ensure accountability, fairness, and transparency in organizational management (Darwis, 2009). Strong governance systems help mitigate agency conflicts and limit managerial discretion, including in compensation policies. Independent commissioners serve a critical monitoring function by evaluating managerial decisions and overseeing compensation practices (Nazhila & Amin, 2024). Prior studies show that good governance can reduce the influence of political connections on remuneration decisions, ensuring compensation reflects performance rather than political influence (Kholid et al., 2023). While political connections may provide benefits such as financing, regulatory privileges, and crisis support (Kim & Zhang, 2016), they are also associated with higher earnings management and weaker transparency (Chaney et al., 2011; Preuss & Königgruber, 2021). These conditions can distort internal decision-making processes, particularly the determination of executive compensation.

Compensation structures also differ across ownership types. SOEs must comply with strict government regulations that limit excessive pay and tie compensation to performance and organizational scale (Li et al., 2024). In contrast, non-SOEs have greater flexibility, enabling them to offer higher

compensation, particularly to politically connected executives (Fang et al., 2022; Puruhita & Isnalita, 2020; Tan et al., 2022). The ownership structure constitutes another important factor influencing compensation dynamics. SOEs operate under strict oversight regarding transparency, accountability, and executive remuneration (Zhang, 2023). Government involvement helps limit excessive compensation and curb political influence in determining remuneration. Conversely, non-SOEs possess greater autonomy in compensation design and may reward politically connected executives more highly due to the perceived strategic benefits of political networks (Ding et al., 2015). These distinctions indicate that ownership type shapes the strength of the relationship between political connections and executive compensation.

In this study, executive compensation refers to the total remuneration received by top-level governing bodies, including both the board of directors and the board of commissioners. This measurement reflects the two-tier governance structure adopted in Indonesia, where managerial and supervisory functions are formally separated. While the board of directors is responsible for day-to-day management, the board of commissioners performs supervisory and strategic oversight roles and participates in key decisions, including the approval of remuneration policies. Consequently, the compensation of directors and commissioners collectively defines the firm's overall incentive structure at the highest decision-making level. Prior studies on Indonesian corporate governance similarly treat the remuneration of both boards as part of top management compensation, as both bodies influence strategic decisions and corporate policies (Adhie & Supatmi, 2022; Susilawati & Harymawan, 2023). Therefore, this study measures executive compensation as the natural logarithm of total compensation received by the board of directors and the board of commissioners.

Political Connection and Executive Compensation

Building on the agency theory perspective, countries with a two-tier governance framework, such as Indonesia, conflicts may arise not only between managers and shareholders but also between the board of commissioners and investors (Susilawati & Harymawan, 2023). The board of commissioners (BoC) is responsible for monitoring management. However, agency conflicts arise when commissioners do not act fully in the best interests of shareholders, and their compensation is linked to managerial pay, which in turn undermines board independence and weakens monitoring effectiveness (Bebchuk & Fried, 2003; Core et al., 1999; Fama & Jensen, 1983).

Politically connected commissioners may exhibit lower independence and tend to approve compensation decisions that benefit politically connected executives (Pucheta-Martínez & Chiva-Ortells, 2020). Political connections provide firms with strategic advantages such as regulatory support, access to financing, and broader business networks. Given these benefits, firms tend to award higher compensation to politically connected executives, as such individuals are perceived to enhance firm value and secure preferential access to resources (Amara & Khlif, 2020; Fang et al., 2022). Empirical evidence consistently shows that politically connected firms offer higher remuneration than non-connected firms (Kholid et al., 2023; Wu et al., 2018). Political connections strengthen managerial bargaining power, enabling executives to influence compensation-setting processes. Thus, political connections are expected to positively influence executive compensation.

H1: Political connection has a positive effect on executive compensation.

Political Connection and Executive Compensation: The Moderating Effect of Corporate Governance

Corporate governance functions are a monitoring mechanism that ensures compensation decisions are made objectively, transparently, and based on performance rather than political influence. Governance mechanisms such as independent commissioners, audit committees, and board oversight play a critical role in mitigating the extent to which political linkages lead to excessive CEO remuneration (Almashhadani, 2021). In numerous emerging and developed countries, executives with political

affiliations frequently receive higher remuneration than their non-affiliated counterparts. This occurs because political affiliations can confer advantages such as enhanced access to resources, advantageous rules, or preferential treatment—benefits that companies may reciprocate with elevated compensation packages (Li & Wang, 2024). Their research in China indicates that politically connected CFOs receive remuneration premiums and enjoy employment benefits that are not fully aligned with company performance incentives, highlighting a potential conflict between political capital and shareholder interests.

Corporate governance moderates this relationship by restricting the ability of political connections to influence compensation outcomes. When governance mechanisms impose stricter monitoring, demand transparent justification for compensation increases, and reduce managerial discretion (Almashhadani, 2021; Nazhila & Amin, 2024). Another study demonstrates that strong corporate governance can weaken the influence of political connections on compensation outcomes by enforcing stricter evaluation standards and enhancing accountability (Ding et al., 2015; Saraswati & Albab, 2024). Hence, corporate governance is expected to moderate the relationship between political connection and executive compensation.

H2: Corporate governance decreases the influence of political connections on executive compensation.

Political Connection and Executive Compensation: The Moderating Effect of Ownership Type

Ownership type determines the extent of regulatory control and flexibility available in compensation-setting processes. In state-owned enterprises (SOEs), government oversight restricts managerial discretion and limits the influence of political connections on compensation arrangements (Owusu & Sarpong, 2022; Winata, 2022). Conversely, non-SOEs have greater autonomy and tend to reward politically connected executives more generously due to the strategic value of political networks (Li & Xia, 2013).

In SOEs, strong governmental control, salary caps, and public accountability reduce the extent to which politically connected executives can leverage their networks for personal gain (Owusu & Sarpong, 2022; Winata, 2022). These institutional constraints weaken the pathway through which political connections affect compensation. Conversely, non-SOEs operate with greater managerial autonomy and market-driven incentives. In this environment, political connections become economically valuable assets that provide access to resources, regulatory support, and business opportunities (Harymawan et al., 2019; Li & Xia, 2013). The benefits of political connections may be more apparent in non-SOEs firms. Such companies sometimes depend more on their contacts outside the corporation to navigate regulations and find new business opportunities than SOEs do. In this case, executives who keep in touch with legislators may be able to help businesses secure loans, navigate regulatory issues, or meet with lawmakers more effectively. Companies may be more likely to pay executives higher compensation if they have relationships that can help the company in tangible ways (Faccio, 2006; Li et al., 2008). Thus, ownership type moderates the relationship by strengthening the impact of political connection on compensation in non-SOEs but weakening it in SOEs.

H3: The effect of political connection on executive compensation is stronger in non-SOEs than in SOEs.

Research Method

This study employed a quantitative research approach to examine the influence of political connections on executive compensation and to evaluate the moderating roles of corporate governance and ownership type. The data were collected from annual reports and audited financial statements of companies listed on the Indonesia Stock Exchange (IDX) for the 2018–2023 period. A purposive sampling technique was used to ensure that only firms with complete reporting, consistent executive compensation disclosure, availability of board governance information, and uniformity of financial currency were included. Winsorizing was applied to a small proportion of the data (<5%). The final sample comprised 2,977 firm-year observations, covering both state-owned enterprises (SOEs) and non-SOEs. Table 1 summarizes the measurement for each variable in the research model.

Table 1. Measurement of Variables

Variable	Measurement
Executive Compensation (COMP)	Natural logarithm of total compensation for directors and commissioners
Political Connections (KP)	Number of politically connected board members / total board members
Corporate Governance (TK)	Independent commissioners / total commissioners
Ownership Type (TKP)	Dummy: 1 = SOE; 0 = non-SOE
Firm Size (SIZE)	Natural logarithm of total assets
Sales Growth (GROWTH)	Ratio of Sales Revenue _t – Sales Revenue _{t-1} / Sales Revenue _{t-1}
Profitability (PROF)	Ratio of Return on Assets (ROA)
Leverage (LEV)	Natural logarithm of total leverage
COVID-19 Period (COVID)	Dummy: 1 = during COVID-19 (2020–2021); 0 = other years

In this research, executive compensation is operationalized as the total remuneration granted to members of both the board of directors and the board of commissioners. This measurement reflects the institutional characteristics of Indonesia’s two-tier governance structure, in which managerial and supervisory boards together constitute the firm’s highest governing body and participate in key strategic decisions, including approval of remuneration. From a practical perspective, many Indonesian listed companies report compensation for these two boards in aggregate rather than providing separate disclosures. Consequently, using total board remuneration provides a reasonable representation of the incentive structure at the top level of corporate policies (Adhie & Supatmi, 2022; Susilawati & Harymawan, 2023). In contrast, political connection is measured by the proportion of directors who possess political affiliations. Directors play a central role in managing the firm’s operations and maintaining relationships with external stakeholders, including political institutions. Previous studies suggest that executives with political ties may facilitate firms’ access to regulatory benefits, government-related resources, and strategic networks, which can ultimately shape corporate policies and compensation arrangements (Amara & Khlif, 2020; Faccio, 2006; Wu et al., 2018).

The study used panel data regression with a random effects model. Mean-centering was employed to address multicollinearity between the political connections variable and its interaction with corporate governance, and White robust standard errors were utilized to account for heteroscedasticity. Robustness checks were conducted to assess the stability and consistency of the empirical results by examining structural variations across split-sample regressions by ownership type. The regression equations are provided in Equations 1 and 2.

$$COMP = \beta_0 + \beta_1 KP + \beta_2 TK + \beta_3 TKP + \beta_4 SIZE + \beta_5 GROWTH + \beta_6 PROF + \beta_7 LEV + \beta_8 COVID + e \quad \dots\dots\dots (1)$$

$$COMP = \delta_0 + \delta_1 KP + \delta_2 TK + \delta_3 TKP + \delta_4 (KP \times TK) + \delta_5 (KP \times TKP) + \delta_6 SIZE + \delta_7 GROWTH + \delta_8 PROF + \delta_9 LEV + \delta_{10} COVID + e \quad \dots\dots\dots (2)$$

Results and Discussion

Table 2 presents the descriptive statistics for all variables used in this study, including executive compensation, political connections, corporate governance, ownership type, firm size, sales growth, profitability, leverage, and the COVID-19 period. The mean compensation was 22.844 (IDR8.3 billion), with the five corporations contributing the greatest compensation originating from the banking industry (BBRI, MMNI, BMRI, BBCA, BNNI). This statistic corresponds with firm size, indicating that larger firms offer greater remuneration to management.

Furthermore, corporate governance, as assessed by board of commissioner independence, averaged 43%, suggesting conformity with legislation requiring a minimum of 30% independent commissioners. However, nine companies (19 observation firms) had less than 30% independent board commissioners (POJK No. 33/POJK.04/2014). In this regard, the Indonesia Stock Exchange imposed only tiered

sanctions, ranging from administrative warnings to fines, special monitoring status, and limits on company activity. Sales growth and performance (measured by ROA) exhibited negative values, signifying a decline in revenue that adversely affected corporate profits, resulting in losses. The most significant decrease was during the COVID-19 period (2020), including 303 observed firms.

Table 2. Descriptive Statistics

Variables	Min	Max	Mean	Std. Dev
Continuous variables:				
Compensation	18.514	27.593	22844	1.555
Corporate Governance	0.250	0.833	0.438	0.103
Firm Size	18.667	39.246	28.747	2.472
Sales Growth	-9.059	17.840	0.154	0.919
Profitability	-7,884	8,302	0,002	0.355
Leverage	1.299	35.174	27.260	2.452
Politically Connected	0.000	0.670	0.053	0.104
Dummy variables:				
Ownership Type				
State-Owned Enterprises (SOEs)	81	observation firm	(2,721%)	
Non-SOEs	2,896	observation firm	(97,279%)	
COVID-19 Period				
Before and After COVID-19	1,977	observation firm	(66.409%)	
During COVID-19	1,000	observation firm	(33.591%)	
N	2,977			

Source: Secondary data processed (2025)

As shown in Table 3, Model (1) suggests that politically connected firms have a significant positive influence on executive compensation, thus supporting H1. Upon incorporating the interaction term in Model (2), the influence of political connections diminishes and becomes contingent on corporate governance conditions, albeit in the opposite direction. Consequently, H2, which posits that corporate governance decreases the influence of political connections on executive compensation, is not supported.

Table 3. Panel Regression Results

Variables	Model (1)		Model (2)	
	Coefficient	t-value	Coefficient	t-value
Constants	-9.595***	-10.624	-9.637***	-10.698
Political Connection	0.768**	1.990	0.692*	1.846
Corporate Governance	-0.113	-0.444	-0.173	-0.683
Ownership Type	0.028	0.116	-0.080	-0.230
PC*CG			5.783***	2.616
PC*OT			0.620	0.454
Firm Size	0.325***	10.334	0.326***	10.403
Sales Growth	-0.048	-1.460	-0.049	-1.478
Profitability	-0.092	-1.114	-0.096	-1.178
Leverage	0.147***	5.977	0.148***	5.992
COVID-19 Period	0.305***	6.700	0.305***	6.728
F-Statistic	163.748***		132.151***	
Adj.R ²	0.304		0.306	
N	2,977		2,977	

Notes: ***, **, and * denote the significance at 1%, 5%, and 10%, respectively.

Source: Secondary data processed (2025)

The interaction term between political connections and ownership type is not significant, suggesting there is no difference in the relationship between political connections and executive compensation between SOEs and non-SOEs; hence, H3 is not supported. The size of the company, leverage, and the COVID-19 period consistently exert a positive influence on executive compensation in both models. These conclusions are pertinent to Indonesia, a nation characterized by institutional absence, where political connections can generate value only when supported by sufficient governance mechanisms.

The Effect of Political Connections on Executive Compensation

Political connections are found to positively affect executive compensation, supporting H1. This implies that a higher presence of politically affiliated individuals within the board structure leads to higher compensation received by executives. From an agency theory perspective (Jensen & Meckling, 1976), it indicates that board members with political connections may strengthen managerial bargaining power, enabling executives to influence compensation decisions more effectively. Board members with political connections are seen as a significant strategic asset for companies, as indicated by resource dependence theory (Pfeffer & Salancik, 1978). Political connections are often used as a strategic tool to gain privileged access to government projects, regulatory benefits, or strategic resources, which ultimately reinforces executives' ability to negotiate compensation packages (Amara & Khelif, 2020).

This study supports the assertion that political connections enhance executives' negotiating power by offering firms both economic and non-economic advantages, including improved access to funding, regulatory safeguards, and relationships with officials. Consequently, firms offer increased remuneration as a gesture of gratitude for the strategic advantages conferred by executives with political connections (Faccio, 2006; Fang et al., 2022; Johnson & Mitton, 2003). The research findings reveal that executive compensation is influenced not only by company size, performance, and macroeconomic variables (such as COVID-19) but also by institutional factors, including political connections, which can affect organizational decision-making dynamics.

The Moderating Role of Corporate Governance

The regression results indicate that political connections positively influence executive compensation prior to the inclusion of the governance interaction variable (Model 1). Upon evaluating the moderating influence of governance, the main effect of political connections becomes insignificant, albeit contingent on the degree of corporate governance. The findings suggest that corporate governance enhances, rather than diminishes, the impact of political connection on executive compensation; therefore, hypothesis H2 lacks empirical support. These results offer significant contributions to the discourse on governance as a regulatory tool. Contrary to the prevailing literature, which posits that corporate governance mitigates political influence in compensation decisions (Almashhadani, 2021; Ding et al., 2015; Nazhila & Amin, 2024), stronger governance in Indonesia may instead serve as a legitimizing mechanism for granting executives with political connections elevated compensation. Formal oversight mechanisms, including independent commissioners and audit committees, can render compensation decisions for politically connected individuals as rational, transparent, and accountable strategic choices, particularly when such connections are viewed as advantageous to the company.

Agency theory posits that efficient corporate governance functions as a monitoring mechanism to ensure that managerial decisions, including compensation, correspond with shareholder interests rather than personal gain (Jensen & Meckling, 1976). In this study, governance is proxied by the proportion of independent commissioners, who play a critical role in enforcing oversight and maintaining objectivity in decision-making. This approach is pertinent within the framework of a two-tier government structure, such as Indonesia's. In this structure, the BoC not only exercises oversight but also significantly contributes to strategic decision-making, including approving remuneration policies and participating in the company's external interactions. This is also evident in the practices of numerous Indonesian

corporations, especially SOEs, which link the remuneration of the BoC to that of the Board of Directors (BoD). Numerous prior studies have employed a comprehensive approach to top management and board remuneration, contending that such compensation embodies the overarching incentive framework at the apex of organizational decision-making (Adhie & Supatmi, 2022; Amanah et al.; Kholid et al., 2023; Ulupui & Dwija, 2017). Therefore, the compensation package of the Board of Commissioners, particularly for those with political connections, reflects the economic incentives embedded in their supervisory and strategic responsibilities.

Differences in the Effect of Political Connections on Compensation between SOEs and non-SOEs

The results in Table 3 show no difference in the influence of political connections on executive remuneration between SOEs and non-SOEs. Consequently, H3, which posits that the influence of political connections on executive remuneration is more pronounced in SOEs than in non-SOEs, lacks empirical validation. This conclusion contradicts numerous prior studies indicating that non-state-owned enterprises typically offer greater compensation to politically connected leaders, attributable to enhanced managerial freedom and market-driven incentives (Harymawan et al., 2019; Li & Xia, 2013; Wang, 2015). The negligible moderating effect of ownership type suggests that the company's ownership structure does not solely determine the economic advantages of political connections in influencing remuneration.

According to corporate governance theory, supervisory and regulatory systems are essential in constraining executive discretion, particularly regarding remuneration practices (Fama & Jensen, 1983). In theoretical terms, SOEs are anticipated to exhibit diminished political connection influence owing to governmental oversight, compensation constraints, and increased public accountability requirements (Owusu & Sarpong, 2022; Winata, 2022). In contrast, non-SOEs exhibit increased flexibility in compensation structures and generally offer greater benefits to executives possessing strategic value, such as political connections (Harymawan et al., 2019; Li & Xia, 2013). Nevertheless, the findings of this study suggest that variations in ownership-based governance are insufficient to differentiate the impact of political connections on executive remuneration.

This conclusion suggests that, across Indonesian public businesses, governance processes and compensation determination are becoming increasingly uniform due to capital market laws, GCG principles, and external stakeholder supervision. As a result, both SOEs and non-SOEs enterprises encounter comparable constraints in leveraging political connections to affect compensation policy. Access to regulators, lawmakers, and key political networks is crucial for all categories of organizations; thus, the impact of political connections on executive salaries is not just more pronounced in non-SOEs. These findings provide empirical evidence that the prevailing notion of the disparate roles of political linkages between SOEs and non-SOEs is not generally valid, particularly for publicly traded corporations in developing nations such as Indonesia.

Additional Analysis: Split-Sample Analysis of SOEs vs non-SOEs

To further examine ownership-related differences, the sample was divided into SOEs and non-SOEs. Table 4 presents the regression results for each group and its comparison. Although the coefficient of political connections appears larger in non-SOEs and statistically insignificant in SOEs, this difference cannot be interpreted as evidence of structural variation between the two ownership groups. To formally assess whether the relationship between political connections and executive compensation differs across ownership types, a Chow test was conducted to compare the regression models estimated for SOEs and non-SOEs. The test examines whether the estimated coefficients across the two subsamples are statistically distinguishable.

Table 4. Regression Results for SOEs and non-SOEs

	SOE		non-SOEs	
	Coefficient	t-value	Coefficient	t-value
Constants	-6.930***	-3.169	-9.595***	-29.746
Political Connection	1.909	1.448	0.775***	2.617
Corporate Governance	1.480	1.050	-0.113	-0.468
Firm Size	0.239***	3.467	0.325***	28.927
Sales Growth	-0.105	-0.379	-0.049*	-1.785
Profitability	0.145	0.058	-0.091	-1.202
Leverage	0.0445	0.382	0.147***	9.769
COVID-19 Period	0.5259	1.533	0.305***	6.273
F-Statistic	2.961***		187.245***	
Adj.R ²	0.146		0.305	
N	81		2,977	
F-Statistik (Chow-test)	1.4583			

Notes: ***, **, and * denote the significance at 1%, 5%, and 10%, respectively.

Source: Secondary data processed (2025)

As reported in Table 4, the Chow test produces an F-statistic of 1.4583, which is not statistically significant. This result indicates that the coefficients across the two models are not significantly different, suggesting that the influence of political connections on executive compensation does not vary systematically between SOEs and non-SOEs. This data supports the prior hypothesis (H3) that governance tools, particularly board independence, did not serve as an effective deterrent to the influence of political connections, irrespective of corporate ownership status. Both SOEs and non-SOEs encounter analogous governance dynamics in compensation settings, where political linkages persist as significant economic and institutional factors. In the Indonesian context, this result may be attributed to the alignment of governance standards between SOEs and non-SOEs, driven by regulatory pressures, OJK compliance requirements, and public investor expectations. This convergence may diminish significant disparities in board oversight roles, rendering ownership structure an inconsequential factor in executive remuneration practices.

Conclusion

This study investigates the influence of political connections on executive compensation in Indonesia by incorporating corporate governance and ownership type as moderating variables, utilizing 2,977 firm-year observations of SOEs and non-SOEs listed on the Indonesia Stock Exchange from 2018 to 2023. The findings indicate that political connections positively influence executive compensation, suggesting that politically connected leaders are regarded as strategic assets by the company and exert significant bargaining leverage. Contrary to the theory, corporate governance enhances the impact of political connections on executive compensation. This finding suggests that, within Indonesian public companies, corporate governance may not consistently serve as a restriction on political influence; instead, it may function as a legitimizing mechanism that institutionalizes the significance of political connections in compensation policies. The results of the study also indicate that the distinction between SOEs and non-SOEs does not consistently differentiate the impact of political connections on compensation policies, highlighting the growing standardization of governance practices and compensation regulations in Indonesian public companies.

These findings suggest that corporate governance can have a dual function—as both a regulatory and legitimizing mechanism—in overseeing the interplay between politics and executive compensation practices in emerging nations. The independence and the BoC may inadequately reflect substantive independence within politically embedded corporate contexts. In the context of Indonesian companies, this is highly feasible due to a policy that ties BoC compensation to the number of BoCs. The study also

reinforces the importance of ownership characteristics as a distinguishing institutional factor in understanding compensation outcomes.

This study enhances the literature on political connections and executive compensation by analyzing how internal governance and ownership attributes influence this relationship in emerging markets such as Indonesia. In particular, it addresses the role of independent commissioners as an instrument to govern how different institutions pay their executives. The study also suggests that political connections stayed strong during a time of economic crisis by including the COVID-19 period in the analysis. The findings provide further understanding of how political connections and governance structures interact to determine executive compensation in countries with a two-tier corporate governance system.

Despite these contributions, several limitations should be acknowledged. First, some observations were excluded due to incomplete compensation disclosures or the presentation of compensation using foreign currencies. Second, the assessment of executive remuneration includes the total compensation of both the BoD and BoC. This methodology corresponds with Indonesia's dual-tier system; nonetheless, it fails to facilitate a more precise delineation of the impact of political affiliations on the executive. This study measures corporate governance using the independence of the BoC. Despite its frequent use, structural measurability of independence does not inherently imply substantive independence in practice, especially in a business context closely intertwined with political influence. This may prevent governance variables from accurately reflecting the efficacy of genuine oversight. Future research could

The findings have practical and policy implications. Firms are encouraged to ensure that compensation decisions prioritize performance and professional merit rather than political affiliation. Shareholders may enhance monitoring mechanisms to safeguard transparency and accountability in remuneration policies. Regulators and policymakers should consider ownership structure and governance characteristics when issuing guidelines on executive compensation, as the relationship between political connections and compensation differs substantially between SOEs and non-SOEs. Strengthening governance standards may help ensure a fair, transparent, and performance-oriented compensation system in the Indonesian corporate sector.

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