

THE EFFECT OF FOREIGN OWNERSHIP ON FIRM PERFORMANCE WITH POLITICAL CONNECTIONS AS A MODERATING VARIABLE: A STUDY OF INFRASTRUCTURE COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE DURING 2020–2024



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Abstract

This study examines the effect of foreign ownership on firm performance with political connections as a moderating variable in infrastructure companies listed on the Indonesia Stock Exchange during 2020–2024. Firm performance is measured using Return on Assets (ROA). This study employs a quantitative approach using panel data regression analysis with 207 unbalanced panel observations selected through purposive sampling. The Random Effect Model (REM) was selected as the best estimation model based on the Chow Test, Lagrange Multiplier Test, and Hausman Test. The results indicate that foreign ownership has a positive and significant effect on firm performance, suggesting that foreign investors contribute to improving corporate profitability. However, political connections do not significantly moderate the relationship between foreign ownership and firm performance. In addition, leverage negatively affects firm performance. These findings highlight the important role of foreign ownership and capital structure in determining firm performance in the Indonesian infrastructure sector.

Keywords: Foreign Ownership, Political Connections, Firm Performance, Infrastructure Companies, Panel Data Regression

INTRODUCTION

Companies need to continuously improve their performance in order to survive and compete in an increasingly globally integrated business environment. In the context of emerging markets, one of the strategies frequently employed to enhance performance is the utilization of external capital, including the entry of foreign investors through equity ownership (Al-Janadi, 2021; Iwasaki et al., 2022). Foreign ownership is often considered important because it has the potential to bring additional capital, access to international networks, and improvements in corporate governance quality through stricter managerial oversight (Iwasaki et al., 2022). Theoretically, foreign investors have incentives to maximize returns, thereby strengthening monitoring functions, reducing opportunistic behavior, and encouraging more disciplined governance practices, which may ultimately improve firm performance. The presence of foreign investors and cross-border investment flows is also frequently associated with the transfer of technology and managerial knowledge, which spreads not only at the firm level but also through spillover mechanisms such as supplier–customer relationships, competition, and the mobility of skilled labor—mechanisms that tend to have stronger impacts in emerging market contexts.

At the financing level, market openness to global investors and increasing foreign investor participation are often associated with lower financing costs (cost of capital/cost of debt) and improved access to financing, thereby creating opportunities for expansion and enhanced firm performance (Nofal, 2020). Through these various mechanisms, foreign ownership is generally expected to contribute positively to firm performance, although the magnitude of its effect may depend on each country's institutional context (Al-Janadi, 2021). Based on this background, many previous studies have hypothesized that foreign ownership positively affects firm performance. Cross-country empirical findings generally support this view, although with varying degrees of influence. A meta-analysis conducted by Iwasaki et al. (2022), which compiled results from more than 200 studies in Eastern Europe, Russia, and China, found that foreign ownership tends to have a positive impact on firm performance across different national contexts. Research by Al-Janadi (2021) in the Middle East provides additional insight, showing that in countries with high political instability, foreign and institutional ownership play an increasingly important role in controlling firms and improving performance. This suggests that the presence of foreign investors may serve as a balancing mechanism when market and legal institutions are weak.

Interestingly, Al-Janadi's meta-analysis also revealed that under general Middle Eastern conditions, the direct effect of foreign ownership on firm performance is insignificant or relatively small. One possible explanation is the restriction on foreign ownership in many countries, resulting in foreign investors holding only small ownership stakes (approximately 10%), which are insufficient to significantly influence corporate operations. These findings are consistent with several studies in Indonesia that report mixed results. (Ivan & Raharja, 2021) found no significant effect of foreign ownership on firm performance in manufacturing companies during 2016–2018. Firm performance was found to be more strongly influenced by institutional shareholders, while foreign investors appeared to play a limited role. According to Ivan and Raharja, one possible explanation is that foreign shareholders in Indonesian manufacturing firms generally act as minority portfolio investors, limiting their ability to exert pressure on management. Meanwhile, (Priyanto & Qibthiyyah, 2019)

identified a non-linear relationship in which foreign ownership improves performance up to a certain level, but excessive foreign ownership actually reduces performance (an inverted U-shaped relationship). They argue that overly dominant foreign ownership may reduce synergy with local partners, causing firm performance to decline after reaching an optimal point.

Studies conducted in Vietnam found that increases in foreign investment and foreign ownership are positively associated with firm performance in subsequent periods (Nguyen et al., 2024). Another study on listed Vietnamese companies also reported a positive effect of foreign ownership on firm performance, although the relationship may be non-linear, where the positive impact only exists up to a certain level of ownership (Nga DUONG et al., 2021). In the Indonesian context, Putri & Setiawan (2023) documented that foreign ownership has a significant positive effect on firm performance indicators. Cross-country evidence further suggests that foreign ownership can lead to “better performance” through increased sales growth and productivity, particularly in firms operating in developing countries (Pasali & Chaudhary, n.d.). Consistent with these findings, a study conducted on non-financial firms in Indonesia also reported a positive relationship between foreign ownership and firm performance (Nofal, 2020). Based on the theoretical arguments and empirical evidence above, the following hypothesis is proposed:

H1: Foreign ownership has a positive effect on firm performance.

Political connections refer to the special relationships maintained by firms or their shareholders/executives with political authorities. These relationships may take the form of appointing former politicians or bureaucrats to managerial positions, close ties between company owners and government officials, or a firm’s affiliation with political patronage networks. The literature suggests that political connections may influence firm performance through various channels. One of the most widely used perspectives is the helping hand versus grabbing hand analogy. The grabbing hand perspective argues that political connections may reduce firm performance by creating opportunities for rent-seeking behavior, collusion, and the expropriation of corporate resources, where firm value is diverted to benefit certain groups. In this context, political connections may weaken market discipline and reduce efficiency, thereby negatively affecting firm performance and/or market value. Khan (2025) provided evidence from listed companies in Pakistan showing that political connections are associated with the risk of corporate wealth exploitation by influential individuals, although such negative effects may be mitigated when strong corporate governance mechanisms are in place.

In Indonesia, Huang et al. (2024) in a study of highly regulated industries such as telecommunications and automotive sectors, found that the effects of political connections are not uniform. Their influence differs depending on whether firm performance is measured using ROA or Tobin’s Q, and also varies according to the type of political connection (government, military, politician, or parliament) and firm characteristics (family firms, state-owned enterprises, or non-family firms). These findings indicate that, in terms of market-based performance measures such as Tobin’s Q, political connections may be associated with negative investor perceptions under certain conditions. Meanwhile, studies on politically connected independent boards in Indonesia also suggest that political connections within supervisory bodies do not necessarily improve firm performance and may even weaken

monitoring functions when appointments are driven more by political affiliations than by professional competence.

From the helping hand perspective, political connections may enhance firm performance because firms gain better access to strategic resources, such as early regulatory information, licensing facilitation, financing access, and government project opportunities. Empirical evidence suggests that these positive effects tend to emerge when political connections function as a “bridge” to reduce institutional frictions and improve firms’ ability to adapt to market competition. Ngo & Ha (2024) demonstrated that political connections among Vietnamese SMEs can positively affect firm performance, particularly under certain competitive conditions, such as when market competition encourages firms to utilize political ties more productively. Furthermore, Almarayeh et al. (2024) found that politically connected firms in Jordan exhibit better performance than non-connected firms, and such firms are also more likely to appoint Big 4 auditors as a signal of higher reporting quality and corporate reputation.

Several empirical studies on Indonesian companies support the hypothesis that political connections strengthen the effect of ownership structure, including foreign ownership, on firm performance. (Yolenta, 2024) noted that political connections are commonly utilized by firms to obtain advantages in governmental affairs and economic access, thereby supporting firm performance through the provision of political capital that ultimately increases profitability and returns. (Supatmi et al., 2019) found that, in Indonesian banks, political connections strengthen the effect of related-party transactions on various performance indicators, including capability, profitability, efficiency, liquidity, and market value. Similar findings were reported by Dewiruna et al. (2020), who showed that political connections strengthen the relationship between R&D intensity and firm performance because such connections facilitate access to additional funding for innovation and development. In addition, Alfianto et al. (2024) found that CEO political connections significantly moderate and strengthen the positive effect of CEO share ownership on firm financial performance. These findings indicate that political capital at the executive level may enhance the benefits of ownership in improving firm performance. Based on the theoretical arguments and previous empirical findings, it can be concluded that political connections provide an amplifying effect on the relationship between foreign ownership and firm performance. In other words, the existence of political connections within a firm may strengthen the positive contribution of foreign investors in achieving superior firm performance. Therefore, the following hypothesis is proposed:

H2: Political connections strengthen the effect of foreign ownership on firm performance.

To clarify the relationships among the variables examined in this study, namely foreign ownership, political connections, and firm performance, the researcher developed a conceptual framework as illustrated in Figure 1 below:

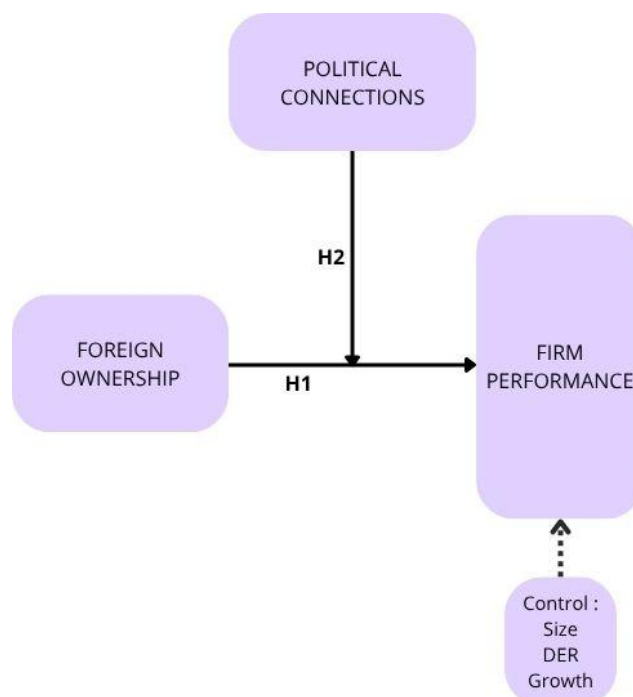


Figure 1.
Conceptual Framework

RESEARCH METHOD

This study employs a quantitative explanatory approach using an empirical study method based on secondary data. The research population consists of all infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Based on the IDX-IC classification, the infrastructure sector includes transportation subsectors (toll roads, airports, and seaports), telecommunications, energy, and utilities, comprising a total of 70 companies within the sector.

The sampling technique was conducted using purposive sampling, requiring firms to meet the following criteria: (1) listed as infrastructure sector companies on the IDX before 2020 and remaining listed through 2024, and (2) possessing the necessary ownership structure and political connection data. The use of purposive sampling is considered advantageous because it enables researchers to select the most informative cases (information-rich cases) to address the research problem more accurately and efficiently (Patton, 2001; Palinkas et al., 2015). Companies that were not consistently listed during the observation period or had incomplete financial reports were excluded from the sample. Based on these criteria, the final sample covered most of the population, excluding firms that conducted IPOs or were delisted during 2020–2024.

The study utilizes secondary data derived from companies' annual financial statements, annual reports, and other publicly available sources such as shareholder reports and board of commissioners/directors profiles. Financial data were obtained from the official IDX website and Bloomberg terminal services, while data on foreign ownership and political connections were collected from disclosures in annual reports and credible news sources.

Research Variables and Measurement

This study involves one main independent variable, one moderating variable, one dependent variable (firm performance indicator), and three control variables. The operational definitions and measurements of each variable are described as follows:

Foreign Ownership – Independent Variable (X)

Foreign ownership is measured using a dummy variable on a nominal scale, where a value of 1 is assigned to companies with foreign share ownership, and 0 is assigned to companies whose shares are entirely owned by domestic investors. This measurement aims to capture the presence of foreign investors within the company's ownership structure. The data were obtained from the list of major shareholders disclosed in annual reports or public share ownership reports.

Firm Performance – Dependent Variable (Y)

Firm performance in this study is measured using Return on Assets (ROA). ROA was selected because it reflects the company's internal financial performance, particularly the level of profitability generated from the utilization of total assets. ROA indicates the extent to which management effectively utilizes company assets to generate net income after tax. Operationally, ROA is calculated as the ratio of net income after tax to total assets. This measure is widely used in empirical studies because it is objective, easily comparable across firms and periods, and reflects actual operational performance without being directly influenced by the company's financing structure (Alfianto et al., 2024; Yolenta, 2024). In addition, ROA is one of the most commonly used accounting-based profitability indicators in firm performance research in Indonesia because it captures the overall effectiveness of asset utilization (Thalita et al., 2022).

Political Connections – Moderating Variable (Z)

Political connections are measured based on the existence of relationships between the company and political or governmental actors, using a dummy variable on a nominal scale. The variable is assigned a value of 1 if the company has political connections and 0 otherwise. A company is considered politically connected if at least one top executive (director or commissioner) is a former or current government official, member of parliament, military official, or an individual with direct family ties to political figures. Data on political connections were collected from company profiles in annual reports, executive background information, and credible media sources. This variable acts as a moderator that interacts with foreign ownership.

Firm Size (Size) – Control Variable

Firm size represents the scale of the company and is measured using the natural logarithm of total assets at the end of the year. Firm size is included as a control variable because larger firms tend to exhibit different performance characteristics due to economies of scale compared to smaller firms.

Leverage / Debt Policy (DER) – Control Variable

Leverage is measured using the Debt to Equity Ratio (DER), which represents the ratio of total liabilities to total equity. DER reflects the company's capital structure; a high level of leverage may negatively affect firm performance due to higher interest expenses,

although up to a certain point it may increase returns on equity. This variable is controlled because differences in capital structure may influence both ROA.

Firm Growth (Growth) – Control Variable

Firm growth is measured by the rate of revenue growth compared to the previous year. It is calculated using the following formula:

$$\text{Growth} = \frac{\text{Current Year Sales} - \text{Previous Year Sales}}{\text{Previous Year Sales}}$$

This study employs panel data regression analysis using EViews to examine the effect of foreign ownership on firm performance with political connections as a moderating variable. Panel data regression was selected because the study combines *cross-sectional* data (multiple firms) and *time-series* data (2020–2024 period), thereby providing more reliable estimates compared to ordinary regression methods. According to Gujarati and Porter (2009), panel data regression offers several advantages, including increasing the number of observations, reducing multicollinearity problems, and capturing heterogeneity across firms. The regression model in this study is formulated as follows:

$$\text{ROA}_{it} = \alpha + \beta_1 \text{For_Own}_{it} + \beta_2 \text{Pol_Con}_{it} + \beta_3 \text{For_Pol}_{it} + \beta_4 \text{Size}_{it} + \beta_5 \text{DER}_{it} + \beta_6 \text{Growth}_{it} + \varepsilon_{it},$$

ROA_{it} = Return on Assets of company *i* in period *t*

α = Constant

$\beta_1 - \beta_6$ = Regression coefficients

FOR_OWN = Foreign ownership

POL_CON = Political connections

FOR_POL = Interaction between foreign ownership and political connections

SIZE = Firm size

DER = Debt to Equity Ratio

GROWTH = Firm growth

E = Error term

Theoretically, coefficient β_1 is expected to have a positive value because the presence of foreign investors is assumed to improve corporate governance quality, operational efficiency, and access to capital and technology, which ultimately enhance firm performance. Coefficient β_2 is used to measure the direct effect of political connections on firm performance, while coefficient β_3 is employed to examine the moderating role of political connections in strengthening or weakening the relationship between foreign ownership and firm performance. The control variable SIZE is included because larger firms generally possess better resources and operational capabilities. The DER variable is used to control the effect of capital structure on firm profitability, while GROWTH is included to control for company growth that may influence firm performance.

In panel data regression analysis, there are three commonly used estimation approaches, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The selection of the best model is conducted through the Chow Test, Lagrange Multiplier Test, and Hausman Test. Furthermore, prior to hypothesis testing, the model is evaluated using classical assumption tests consisting of normality, multicollinearity, heteroscedasticity, and autocorrelation tests to ensure that the regression model satisfies the BLUE (*Best Linear Unbiased Estimator*) assumptions. All statistical tests in this study are conducted using a 5% significance level.

RESULTS AND DISCUSSION

This study uses infrastructure sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period as the research population. After collecting the data and applying the sample selection criteria, the sample selection process is presented in Table 1 below. Based on the sample selection process, this study obtained 207 firm-year observations from infrastructure companies listed on the Indonesia Stock Exchange that met the research criteria. A total of 143 observations were excluded because the companies did not provide complete financial reports or the required research data during the 2020–2024 period.

Table 1.
Sample Selection Process

Criteria	Total
Infrastructure sector firm-year observations listed on the IDX during 2020–2024	350
Observations excluded due to incomplete financial reports and unavailable research data	(143)
Final research observations	207

Source: Data processed (2026)

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Descriptive Statistical Analysis

Descriptive statistical analysis was conducted to provide a general overview of the characteristics of the research data used in the panel regression model. The descriptive statistics in this study include the minimum, maximum, mean, median, and standard deviation values of each research variable, namely Return on Assets (ROA), firm size (SIZE), Debt to Equity Ratio (DER), political connections (POL_CON), foreign ownership (FOR_OWN), firm growth (GROWTH), and the interaction between foreign ownership and political connections (FOR_POL). The results of the descriptive statistical analysis are presented in Table 2 below.

Table 2.
Descriptive Statistics of Research Variables

	ROA	SIZE	DER	POL_CON	FOR_OWN	GROWTH	FOR_POL
Mean	- 0.070611	28.39429	1.032410	0.520000	0.273469	0.143436	0.184739
Median	0.023500	28.40650	0.461600	1.000000	0.000000	0.061381	0.000000
Maximum	1.092700	33.33372	50.63570	1.000000	1.000000	10.96456	1.000000
Minimum	- 14.91420	21.90683	0.000000	0.000000	0.000000	-1.000000	0.000000
Std. Dev.	0.946082	2.458445	3.039835	0.500714	0.446652	0.955956	0.388867
Skewness	- 13.14942	- 0.146379	13.64796	-0.080064	1.016426	7.568193	1.624698
Kurtosis	193.4045	2.325372	220.0487	1.006410	2.033121	76.85076	3.639644

Jarque-Bera Probability	512619.0 0.000000	7.684288 0.021448	648039.0 0.000000	37.50039 0.000000	51.72908 0.000000	78615.46 0.000000	113.7901 0.000000
Sum	- 23.51350	9682.454	335.5331	117.0000	67.00000	47.62075	46.00000
Sum Sq. Dev.	297.1635	2054.943	2993.954	56.16000	48.67755	302.4849	37.50201
Observations	333	341	325	225	245	332	249

Source: Data processed (2026)

Based on Table 2, the ROA variable has an average value of -0.070611, indicating that several companies experienced losses during the observation period, with a relatively high level of profitability variation. The SIZE variable has an average value of 28.39429, indicating variation in firm size among the sample companies. Meanwhile, the DER variable has an average value of 1.032410 with a relatively high maximum value, suggesting that some companies have very high leverage levels. Furthermore, the POL_CON variable has an average value of 0.520000, indicating that approximately 52% of the companies have political connections, while the FOR_OWN variable has an average value of 0.273469, showing that around 27.3% of the companies have foreign ownership. The GROWTH variable has an average value of 0.143436 or 14.34%, indicating that companies generally experienced growth during the study period, although with relatively high fluctuations. Meanwhile, the FOR_POL variable has an average value of 0.184739, indicating that the proportion of companies possessing both foreign ownership and political connections is relatively smaller. Overall, the descriptive statistics indicate variations in the characteristics of infrastructure companies included in this study.

Panel Data Regression Model Selection

The selection of the panel data regression model was conducted to determine the most appropriate estimation model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The model selection process involved three tests, namely the Chow Test, Lagrange Multiplier (LM) Test, and Hausman Test. The results of these tests were used to determine the most suitable panel regression model for this study. First, the Chow Test was performed to determine the best model between the Common Effect Model and the Fixed Effect Model. The test results showed that the probability value of the Cross-section F was 0.0000, which is lower than the significance level of 0.05. Therefore, H₀ was rejected and H₁ was accepted, indicating that the Fixed Effect Model (FEM) was more appropriate than the Common Effect Model (CEM).

Table 3.
Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.767452	(41,159)	0.0000

Cross-section Chi-square	188.609998	41	0.0000
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Source: Data processed (2026)

The Lagrange Multiplier (LM) Test was conducted to determine the most appropriate model between the Common Effect Model (CEM) and the Random Effect Model (REM). Based on the Breusch–Pagan test results, the probability value was 0.0000, which is lower than the significance level of 0.05. Therefore, H0 was rejected and H1 was accepted, indicating that the Random Effect Model (REM) is more appropriate than the Common Effect Model (CEM).

Table 4.
Lagrange Multiplier Test Results

Test	Cross-section	Time	Both
Breusch-Pagan	85.68226	1.493563	87.17582
Prob.	0.0000	0.2217	0.0000

Source: Data processed (2026)

The Hausman Test was conducted to determine the most appropriate model between the Fixed Effect Model (FEM) and the Random Effect Model (REM). The test results showed a probability value of 0.7900, which is higher than the significance level of 0.05. Therefore, H0 was accepted and H1 was rejected, indicating that the Random Effect Model (REM) is the most appropriate model for this study.

Table 5.
Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.148257	6	0.7900

Source: Data processed (2026)

Based on the results of the three tests, the panel regression model used in this study is the Random Effect Model (REM). The selection of the REM was based on the Hausman Test results, which indicated that the Random Effect Model is more appropriate than the Fixed Effect Model in estimating the relationship between foreign ownership, political connections, and firm performance.

Classical Assumption Tests

Classical assumption tests were conducted to ensure that the panel regression model satisfies the BLUE (*Best Linear Unbiased Estimator*) assumptions. The tests performed in this study include normality, multicollinearity, heteroscedasticity, and autocorrelation tests.

Table 6.
Classical Assumption Test Results

Test Type	Indicator	Results	Conclusion
Normality	Prob. Jarque-Bera	0.0000	Residuals are not normally distributed
Multicollinearity	Centered VIF	< 10	No multicollinearity problem
Heteroscedasticity	Prob. F-statistic	0.1097	No heteroscedasticity problem
Autocorrelation	Prob. Wooldridge Test	0.0034	Autocorrelation exist

Source: Data processed (2026)

Based on the test results, the research model does not satisfy the normality assumption because the Jarque–Bera probability value is lower than 0.05. However, this condition can still be tolerated because the number of observations in this study exceeds 30 observations. Gujarati and Porter (2009) stated that, based on the *Central Limit Theorem*, large samples tend to follow a normal distribution. Furthermore, the multicollinearity test results indicate that all variables have Centered VIF values below 10, suggesting that no multicollinearity problem exists. The heteroscedasticity test also shows a probability value greater than 0.05, indicating that the model is free from heteroscedasticity problems. Meanwhile, the Wooldridge Test results indicate the presence of autocorrelation; therefore, this study employs robust standard errors to obtain more consistent estimation results.

Panel Data Regression Analysis

Based on the panel regression model selection tests, the Random Effect Model (REM) was identified as the most appropriate model for this study. The panel regression estimation results indicate that foreign ownership (FOR_OWN) and Debt to Equity Ratio (DER) have significant effects on firm performance (ROA). Meanwhile, political connections (POL_CON), the interaction between foreign ownership and political connections (FOR_POL), firm size (SIZE), and firm growth (GROWTH) do not have significant effects at the 5% significance level.

Table 7.
Random Effect Model Panel Regression Results

Variabel	Koefisien	t-Statistic	Probability	Information
FOR_OWN	0.060139	3.386936	0.0276	Significant (+)
POL_CON	0.017543	1.421691	0.2282	Not Significant
FOR_POL	-0.051390	-1.984797	0.1182	Not Significant
SIZE	0.009031	1.968515	0.1204	Not Significant
DER	-0.004514	-8.549255	0.0010	Significant (-)
GROWTH	0.010690	2.344774	0.0790	Not Significant
C	-0.266562	-1.893332	0.1312	Not Significant

Source: Data processed (2026)

Based on Table 7, the foreign ownership variable (FOR_OWN) has a positive coefficient of 0.060139 with a probability value of $0.0276 < 0.05$, indicating that foreign ownership has a positive and significant effect on firm performance. The DER variable has a negative coefficient of -0.004514 with a probability value of $0.0010 < 0.05$, indicating that leverage has a negative and significant effect on ROA. Meanwhile, the variables of political connections, the interaction between foreign ownership and political connections, firm size, and firm growth do not show significant effects on firm performance.

The Effect of Foreign Ownership on Firm Performance

The results of the first hypothesis test indicate that the foreign ownership variable has a positive coefficient of 0.060139 with a probability value of $0.0276 < 0.05$. These findings indicate that foreign ownership has a positive and significant effect on firm performance; therefore, the first hypothesis (H1) is accepted. This finding suggests that the higher the level of foreign ownership in infrastructure companies, the higher the firm performance as measured by Return on Assets (ROA).

Theoretically, these results are consistent with agency theory, which states that foreign investors possess better monitoring capabilities over corporate management, thereby reducing opportunistic behavior and improving firm efficiency. Foreign investors also tend to introduce better corporate governance practices, technology, access to international markets, and managerial expertise, which may improve the effectiveness of asset management.

The findings support previous studies conducted by Iwasaki et al. (2022), which found that foreign ownership positively affects firm performance in emerging economies. In addition, this study is consistent with the findings of Putri & Setiawan (2023), who reported that foreign ownership improves firm performance through stronger corporate governance and operational efficiency. In the context of Indonesian infrastructure companies, the presence of foreign investors may help firms obtain broader access to financing and enhance corporate credibility in the market. Therefore, this study strengthens the argument that foreign ownership is an important factor in improving firm profitability.

The Effect of Political Connections on Firm Performance

The test results show that the political connection variable has a probability value of $0.2282 > 0.05$, indicating that political connections do not significantly affect firm performance. Thus, political connections are not directly associated with either an increase or a decrease in the ROA of infrastructure companies.

These findings suggest that the presence of individuals with political ties within a company does not necessarily improve operational effectiveness or corporate profitability. This condition may occur because political connections are not always accompanied by improved managerial efficiency or direct economic benefits.

The findings are consistent with the study conducted by Huang et al. (2024), which found that the effect of political connections on firm performance tends to be inconsistent and depends on industry characteristics and the performance indicators used. Furthermore, Junus et al. (2022) also showed that political connections within corporate boards do not necessarily improve monitoring functions or firm performance. In the context of Indonesian infrastructure companies, political connections are more likely to be utilized to gain

regulatory access or government projects, but they do not directly contribute to firm profitability.

The Moderating Role of Political Connections on the Relationship between Foreign Ownership and Firm Performance

The results of the interaction variable between foreign ownership and political connections (FOR_POL) show a probability value of $0.1182 > 0.05$. This indicates that political connections are unable to moderate the effect of foreign ownership on firm performance. Therefore, the second hypothesis (H2) is rejected.

These findings indicate that the existence of political connections does not strengthen the relationship between foreign ownership and firm performance. Foreign investors appear to rely more on corporate governance quality, operational efficiency, and company fundamentals rather than political proximity.

These findings are inconsistent with studies conducted by Supatmi et al. (2019) and Alfianto et al. (2024) which found that political connections strengthen the effect of ownership variables on firm performance. However, this study suggests that, within the Indonesian infrastructure sector, political connections do not necessarily amplify the benefits of foreign investor involvement. This may be attributed to increasing regulatory oversight and greater transparency in corporate governance, which reduce the influence of political connections on the effectiveness of foreign investment.

The Effect of Control

The firm size variable (SIZE) shows a positive but insignificant effect on ROA. This indicates that larger total assets do not necessarily improve firm profitability directly. Meanwhile, the leverage variable, measured by the Debt to Equity Ratio (DER), has a negative and significant effect on ROA with a probability value of $0.0010 < 0.05$. These findings indicate that higher corporate debt levels tend to reduce profitability due to increasing interest expenses and financial risk.

These results are consistent with capital structure theory, which suggests that excessive use of debt may reduce corporate efficiency and increase financial risk. Meanwhile, the firm growth variable (GROWTH) shows a positive but insignificant effect at the 5% significance level, indicating that increased firm growth has not consistently improved the profitability of infrastructure companies.

CONCLUSION

This study finds that foreign ownership consistently improves firm profitability, while leverage (DER) exerts a significant negative effect on ROA. Meanwhile, the other variables—domestic/foreign political connections, firm size, and asset growth—show weaker or insignificant effects. These findings support the view that foreign capital and the corporate governance practices associated with it enhance the efficiency of asset utilization, whereas excessive debt usage reduces asset effectiveness. This study contributes to the local literature by providing empirical evidence from panel data of listed companies during the 2020–2024 period, reinforcing the important role of foreign ownership and capital structure in determining corporate financial performance in Indonesia.

Based on the findings of this study, company management is encouraged to attract foreign investors and increase openness to international ownership, as foreign ownership has been shown to positively influence firm profitability. At the same time, companies should maintain prudent debt policies and avoid excessive leverage (DER), since high debt levels may weaken financial performance. Regulators and corporate management are also expected to promote a balanced capital structure between equity and debt while ensuring the implementation of good corporate governance practices, particularly in firms with foreign ownership. This study is limited to the 2020–2024 observation period and infrastructure sector companies; therefore, future research is recommended to use a longer observation period and broader samples across different sectors. Future studies may also incorporate additional variables, such as corporate governance quality, macroeconomic conditions, or operational efficiency, to provide a more comprehensive analysis. Furthermore, alternative analytical methods, such as dynamic panel analysis using the Generalized Method of Moments (GMM), may be employed to test the robustness of the findings and address potential endogeneity issues.

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