

The Effect of Tax Aggressiveness and Cost of Debt on Company Performance with Political Connections as a Moderator

Alvina Putri Nur Anisa ¹, Arniati ²

Business Management, Batam State Polytechnic, Batam City, Indonesia ¹²
alvinaputri1801@gmail.com, arni@polibatam.ac.id

Abstract. This study aims to identify how tax aggressiveness and cost of debt impact company performance during the 2019-2023 period, considering the moderation of political connections in the energy sector listed on the Indonesia Stock Exchange. This study is a quantitative study with secondary data using a sample of 120. Descriptive analysis is utilized in this study, applying panel data regression verified by the Chow and Hausman tests, and conducts hypothesis testing through T-tests and F-tests within the random effects model framework. The research findings indicate that tax aggressiveness affects company performance, while the cost of debt does not have a significant impact. Political connections that moderate tax aggressiveness and cost of debt also do not affect company performance.

Keywords: Tax Aggressiveness, Cost of Debt, Company Performance, Political Connections.

1 Introduction

Indonesia has abundant natural resources for energy production, making the energy sector a key pillar of the national economy. Energy demand is expected to increase by up to 80%, with electricity consumption potentially tripling by 2030 [1]. However, dependence on non-renewable fossil fuels can lead to economic instability [2].

Economic instability in developing countries like Indonesia faces a number of issues, including tax evasion, debt costs, and political interference, which negatively impact company performance [3]. In a climate of intense competition between companies, every company is required to survive and compete. One strategy that can be implemented to maintain business continuity is financial analysis. This analysis helps companies understand their financial condition, which can be measured through an evaluation of profits and debt burdens from year to year. A company's inability to generate profits and manage debt burdens can result in the company being eliminated from the competitive global economy [4].

Companies often choose debt financing, which has consequences directly related to the company's profitability [5]. Companies are subject to stricter regulatory oversight and can damage their reputation when engaging in aggressive tax practices. These adverse effects elevate the level of risk faced by investors, creditors, and shareholders.

In 2023, PT Antam optimized its performance and achieved a profit of Rp 3.08 trillion. In terms of financial position, ANTAM successfully strengthened its financial structure in 2023 by reducing the level of consolidated interest-bearing debt. This success was driven by a strategy to optimize idle cash and efficiency efforts to reduce loan interest expenses. Furthermore, the implementation of effective operational strategies, particularly in the management of accounts receivable, contributed to increased company profitability [6].

One of Indonesia's largest coal companies, PT Bumi Resources, has faced serious accusations from Indonesia Corruption Watch (ICW). In its report, ICW revealed two allegations: the company allegedly failed to pay its obligations amounting to USD 751.35 million and total unpaid taxes allegedly reaching USD 477.29 million. Although it managed to pay off its debts, the company's reputation is still overshadowed by past controversies. Even large companies can experience financial difficulties if they are not wise in managing their funds [7].

Another factor that can influence a company's success is the influence of the political environment. Political connections in the corporate world are generally reflected in the involvement of high-ranking state officials or members of political parties who serve as company leaders or hold significant shares. These relationships are often expected to provide mutual benefits through ethical reciprocity practices, for both the company and the political parties involved [8].

Tax aggressiveness negatively impacts a company's performance, just as an increase in debt costs leads to a decline in firm performance. These findings suggest that political connections serve as a moderating variable, reducing the negative effects of tax aggressiveness and debt expenses on a firm's performance. Conversely, political connections have a favorable impact on firm performance and serve as a moderating factor that strengthens the positive relationship between tax aggressiveness, debt costs, and company performance [9].

This study builds upon and replicates the research conducted by [3], differing in terms of sample size and the period of analysis. This study focuses on energy sector companies listed on the Indonesia Stock Exchange (IDX), in deviation from prior research that analyzed companies from the non-financial sector trading on the Pakistan Stock Exchange. Furthermore, this study uses the most recent data, covering the period 2019-2023, while previous studies used the period 2015-2019.

Previous research used data recorded on the Pakistan Stock Exchange, so the researcher was encouraged to conduct additional research entitled "The Effect of Tax Aggressiveness and Debt Costs on Company Performance with Political Connections as Moderation" using annual report data on the IDX and company websites.

2 Theoretical Background, Review of Literature and Hypothesis Development

2.1 Theoretical Background

According to Jensen & Meckling (1976), Agency Theory explains the separation of functions between the owner of an organization (principal) and its manager (agent). Because the organization is managed by a party other than the owner, differences in interests, goals, and preferences often arise between the principal and the agent. This difference is known as the agency problem. To ensure that the agent behaves in accordance with the principal's goals, monitoring costs such as audits by public accountants, providing appropriate compensation and incentives, and implementing an effective information control system are required to encourage agents to work honestly and responsibly.

Hadi (2011) stated that social legitimacy is a crucial strategic factor for companies in their efforts to develop their business in the future. This legitimacy can be used as a basis for formulating corporate strategy, particularly to align the company's position within the ever-changing dynamics of society. Therefore, legitimacy serves as a crucial resource supporting the company's survival (going concern). Legitimacy is also defined as a corporate management system that emphasizes concern for society, government, and various individuals and social groups (Gray et al., 1996). Therefore, as a system that prioritizes social aspects, a company's operational activities need to align with societal expectations.

According to [10], Tax aggressiveness is the practice by which firms seek to lower their tax obligations, often through strategic financial planning or exploitation of tax regulations. This practice is currently under public scrutiny because it is considered contrary to public expectations and detrimental to the government. Corporate tax payments are of particular concern when they are considered merely an operational expense, thus sparking controversy regarding their impact on the broader public interest.

Debt costs are the costs a company incurs when taking out debt or loans, usually in the form of interest that must be paid on the loan. Debt has a fairly large role for companies, not only functioning as a source of financing for business development, but also as a mechanism to suppress agency conflicts [11].

Company performance according to the Decree of the Minister of Finance of the Republic of Indonesia No. 740/KMK.00/1989 dated June 28, 1989, is defined as the company's achievements in a certain period that indicates the company's health level. Performance measurement is carried out with the aim of knowing how well the business performance and management's ability to achieve company goals. This process is complex because it includes assessing the effectiveness of capital use and operational efficiency, which are closely related to value creation and the company's ability to face various demands and risks. This study assesses company performance from two perspectives, namely financial performance and non-financial performance.

An entity can be categorized as having political connections if it has close ties with the government or parties with close ties to politics to achieve something that can

be profitable. Generally, the treatment of political connections in Indonesia will place individuals with connections in the world of politics or government to occupy exclusive structures within an entity, such as the board of commissioners or directors [12].

2.1 Hypothesis Development

Agency theory highlights the potential conflicts that may arise between contracting parties, specifically between principals and agents. It emphasizes the importance of governance and oversight mechanisms in curbing agents' opportunistic behavior and misaligned interests within contractual arrangements. Previous studies, such as [3], indicate that tax aggressiveness has an impact on firm performance. This concept pertains to intentional strategies used by firms to minimize their tax liabilities by applying particular accounting methods. Within the framework of agency theory, such actions may reflect agents exploiting tax strategies for personal benefit. The study by [3] confirms that tax aggressiveness impacts company performance.

H1: Tax aggressiveness impacts company performance.

The agreement between the two parties falls under agency theory due to the existence of contracting parties. According to research by [11], higher debt costs can potentially impair a company's overall performance. Consistent with the matching principle, companies utilize debt to finance expenditures such as operational expenses. Therefore, increasing debt will increase working capital, which aims to increase company productivity [11].

H2: The cost of debt impacts company performance.

The role of political connections and tax aggressiveness on corporate performance can be analyzed based on agency theory and legitimacy theory. Agency theory suggests that politicians might appropriate wealth from minority shareholders and pursue personal or political agendas that may conflict with the objective of maximizing firm value. Legitimacy theory posits that a company's alignment with society and government allows for the establishment of political connections within the company. Previous research shows that political connections influence companies operating in developing countries. Firms possessing political ties are more likely to achieve better performance, owing to their privileged access to intangible resources and governmental assistance. Su et al.'s (2014) study hypothesizes an impact of political connections and tax aggressiveness on corporate performance.

H3: Tax aggressiveness, moderated by political connections, affects corporate performance.

Agency theory suggests that politicians might take advantage of minority shareholders' interests and pursue objectives that do not always align with maximizing the firm's value. Legitimacy theory also posits that a company's alignment with society and government allows for the establishment of political connections within the company. Companies require substantial funds to finance their capital expenditures. Funding is obtained from two sources: internally through retained earnings, and externally through debt or stock issuance on the capital market. While using debt can increase company value, it also carries additional risks. If a company using debt fails to meet its obligations, its liquidity can be threatened [5]. The results of the study

indicate that the cost of debt affects company performance. This suggests that agency problems can lead to high debt policies, which in turn result in lower performance. Legitimacy theory also links political connections to debt policies. Therefore, this study can be concluded that the cost of debt influences company performance.

H4: Cost of debt, moderated by political connections, affects company performance.

3. Method

This study focuses on secondary data with a quantitative approach. This study utilizes secondary data comprising annual financial statements of energy sector firms listed on the Indonesia Stock Exchange (IDX), information from company websites, and the Osiris database from 2019 to 2023. This data was processed using Eviews 12 and Microsoft Excel. The variables used include two independent variables, one dependent variable, and one moderating variable, as shown in the following table:

Table 1. Operational and Measurement Variables

Variables	Parameter
Independent Variables	
Tax Aggressiveness	ETR = Total Tax Expense / Pre-Tax Income [17]
Cost of Debt	COD = Interest Expense / Total Debt [16]
Dependent Variable	
Company performance	ROA = Net Income / Total Assets [5]
Moderating Variables	
Political Connections	Measurements were made using dummy variables, where companies with political connections were given a value of 1, while those without connections were given a value of 0. The criteria for determining political connections are based on political conditions in Indonesia and refer to research conducted by Fisman, Raymond (2001), namely: 1. If there is one or more directors or commissioners who also serve as members of the DPR, members of the executive cabinet, officials in one of the government institutions including the military, or members of a political party. 2. If there is one or more directors or commissioners who have served as former members of the DPR, former members of the executive cabinet, former officials in a government institution including the military, or former members of a political party. 3. If one or more owners or shareholders with ownership of more than 10% are members of a political party, have connections with high-level politicians, or are current or former government officials, including military officials.

Source: data I processed myself, 2025

The analysis techniques used include descriptive statistical analysis, which provides an overview of the variables used. Hypothesis testing in panel data regression analysis using t-tests and f-tests can verify the validity of the influence between variables.

4. Results and Interpretation

a. Sample Size Determination

The population found was 24 companies and it was necessary to take samples according to the predetermined criteria, the results are shown in the following table:

Table 2. Research Sample

Sample Criteria	Amount
1. Energy sector companies listed on the IDX for the 2019-2023 period	89
2. Companies that do not publish complete financial reports for the 2019-2023 period	-35
3. Companies that do not have profit before tax	-30
Research Sample	24
Total Sample	120

Source: data processed by myself, 2025

Table 2 shows 24 companies in the energy industry whose shares are listed on the Indonesia Stock Exchange, 35 companies did not release annual financial statements covering the years 2019 to 2023, while 30 companies failed to disclose their pre-tax profit. Therefore, 24 of these companies meet the sample size criteria. The resulting sample size, 120, will be used as a reference for researchers to test the proposed hypotheses and generate analytical results.

b. Descriptive Statistical Analysis

Descriptive statistics present a summary of the data and describe the characteristics of the observed data. The following table illustrates the measurements of each variable used in the study, including the mean, maximum, minimum, and standard deviation:

Table 3. Results of Descriptive Statistical Analysis

	Mean	Median	Maximum	Minimum	Std. Dev.
ETR	0.233768	0.225273	0.775238	-0.193037	0.164990
COD	0.101419	0.076017	1,419,540	9.51E-05	0.149475
ROA	0.106095	0.059554	0.602586	0.000182	0.125698
PC	0.566667	1,000,000	1,000,000	0.000000	0.497613

Source: data processed with *Eviews* 12, 2025

Based on the test results in the table above, the tax aggressiveness variable has

a minimum value of -0.193 and a maximum value of 0.7752. The standard deviation of the tax aggressiveness variable is 0.1649 and the average value is 0.2337. The cost of debt variable ranges from a minimum value of 1.419 to a maximum of 9.51. Meanwhile, the resulting standard deviation is 0.1494 and the average value is 0.1014.

The minimum value for the company performance variable is 0.0001, while the maximum value is 0.6025. The firm performance variable has an average value of 0.106 and a standard deviation of 0.1256. Furthermore, the moderating variable, political connections with a range spanning from 0.00 to 1.00, the data has an average (mean) of 0.566. The standard deviation is 0.4976, indicating a notable spread in the values.

c. Selection of Regression Model

Chow Test

To determine the most appropriate model for the data, the Chow test is conducted for model comparison between the Common Effect Model and the Fixed Effect Model. [13]. The decision is based on the p-value of the Cross-Section F test. The Common Effect Model (CEM) is preferred if the p-value surpasses the 0.05 significance level. Alternatively, a p-value below 0.05 indicates that the Fixed Effects Model (FEM) should be selected.

Table 4. Chow Test Results

Effects Test	Statistics	df	Prob
Cross-section F	4.725632	(53,213)	0.0000
Cross-section Chi-square	209.904660	53	0.0000

Source: data processed with *Eviews 12*, 2025

According to the results presented in the Chow test table, the cross-section F-probability value is smaller than the 0.05 level of significance. Therefore, these results indicate that the best model is the Fixed Effect Model. However, further data testing using the Hausman Test is required.

Hausman test

Hausman test was conducted after the Chow test to determine the best model between Fixed Effect Model and Random Effect Model [13]. Decisions are made based on the probability value (p) of the Random Cross-Section. When the p-value exceeds 0.05, the Random Effects Model is preferred. Alternatively, If the p-value falls below 0.05, the Fixed Effects Model (FEM) is chosen.

Table 5. Hausman Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. df	Prob.
Random cross-section	3.390558	3	0.3352

Source: data processed with Eviews 12, 2025

Hausman test results presented above, the probability value for Cross-section Random is $p = 0.3352 > 0.05$. This indicates the presence of random effects, and Aa model based on the random effects method is considered the best choice.

d. Classical Assumption Test

The model selection results in this study indicated the use of a random effects model, eliminating the need to perform multicollinearity, heteroscedasticity, and autocorrelation test. According to Kosmaryati et al. (2019), who reference Gujarati & Porter (2009), the random effect model is an estimation method for panel data that uses the generalized least squares (GLS) method and the GLS approach does not require tests for multicollinearity and heteroscedasticity. Because the autocorrelation test is based on time series data, only a normality test was performed to evaluate if the data conform to a normal distribution.

e. Normality Test

If the p-value exceeds the 0.05 significance level, the data are assumed to follow a normal distribution. The results of the normality test regarding the tax aggressiveness and cost of debt variables and their relationship with firm performance, are depicted in the following figure:

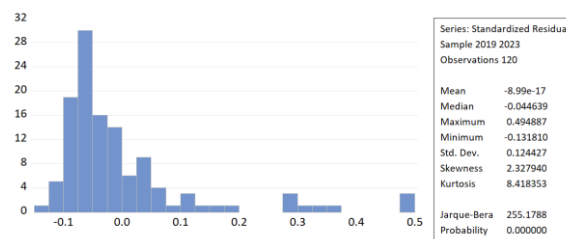


Figure 1. Testing the Normality Assumption for the Tax Aggressiveness, Cost of Debt, and Company Performance Variables

Source: data processed with Eviews 12, 2025

The normality test results indicate a probability value of less than 0.05, suggesting that the data are not normally distributed. However, given that the sample size exceeds 30, the data are still considered approximately normal. This aligns with the central limit theorem, which states that data with sufficiently large sample sizes, particularly those with $n > 30$, tend to follow a normal distribution [14].

f. Hypothesis Testing

T-test

The decision to accept or reject a hypothesis is made using a t-test, which can determine the effect of the independent variable on the dependent variable. If the p-value is <0.05, the hypothesis is accepted. The following is a breakdown of the t-test or hypothesis test:

Table 6. T-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.441576	0.338140	-10.17795	0.0000
Tax Aggressiveness	-0.353739	0.102070	-3.465655	0.0007
Cost of Debt	0.031031	0.080750	0.384293	0.7015

Source: data processed with Eviews 12, 2025

As shown in Table 6, the tax aggressiveness variable yielded a t-statistic of -3.465 and a p-value of 0.0007, which is statistically significant at the 5% level ($p < 0.05$), implying that tax aggressiveness significantly affects company performance. Conversely, a t-statistic of 0.384 and a p-value of 0.7015 were obtained for the cost of debt variable which suggests that the variable is not statistically significant, suggesting it does not significantly impact firm performance. Based on these findings, The regression model can be represented by the following equation:

$$Y = -3.44157573403 - 0.353739454148 * X1 + 0.0310314584042 * X2 + [CX=R]$$

F test

Table 7. Results of the F Test and the Coefficient of Determination

Root MSE	0.736852	R-squared	0.088949
Mean dependent var	-0.865335	Adjusted R-squared	0.073104
SD dependent var	0.772762	E of regression	0.746401
Sum squared residual	64.06822	F-statistic	5.613886
Durbin-Watson stat	1.758797	Prob(F-statistic)	0.004718

Source: data processed with Eviews 12, 2025

According to Table 7, the F-statistic is 5.613 with a corresponding p-value of 0.004 (<0.05), so it can be concluded that the independent variable has a significant simultaneous effect on the dependent variable .

g. Analysis of the Coefficient of Determination

Adjusted R Square value based on Table 7, which is 0.073, indicates that the tax aggressiveness and cost of debt variables together contribute 7.3% to the company's performance variable. The following coefficient of determination test is very small, allowing for the inclusion of other control variables. However, other control variables were not tested in this study because this study focuses on the primary variable.

h. Moderated Regression Analysis (MRA)

T-test

Table 8. T-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.128012	0.047601	2.689279	0.0082
Tax	-0.259230	0.122214	-2.121116	0.0361
Aggressiveness				
Cost of Debt	0.479892	0.403582	1.189081	0.2369
Political	0.002303	0.052137	0.044171	0.9648
Connections				
X1 Interaction	0.138555	0.135342	1.023743	0.3081
X2 Interaction	-0.449803	0.406467	-1.106616	0.2708

Source: data processed with Eviews 12, 2025

Table 8 reveals that the interaction term for tax aggressiveness the variable is not statistically significant, as indicated by a t-statistic of 1.023 and a p-value of 0.308 ($p > 0.05$), suggesting that political connections have no significant moderating effect on an analysis of how tax aggressiveness influences a company's financial results. Similarly, the interaction effect of the cost of debt yields the variable is not statistically significant, as shown by a t-statistic of -1.106 and a p-value of 0.2708 ($p > 0.05$), indicating that political connections do not significantly influence the impact of a company's cost of debt on its overall financial health. Based on these findings, The following represents the regression equation model:

$$Y = 0.12801222479 - 0.25923012909 * X1 + 0.479891936462 * X2 + 0.00230296506442 * Z + 0.13855500094 * X1Z - 0.449803481993 * X2Z + [CX=R]$$

F test

Table 9. Results of the F Test and the Coefficient of Determination

Root MSE	0.086908	R-squared	0.053533
Mean dependent var	0.040894	Adjusted R-squared	0.012022
SD dependent var	0.089707	SE of regression	0.089166
Sum squared residual	0.906369	F-statistic	1.289593
Durbin-Watson stat	1.390238	Prob(F-statistic)	0.273285

Source: data processed with Eviews 12, 2025

According to Table 9, the F-statistic value of 1.289 with a p-value of 0.273 (>0.05) indicates the interaction variable does not have a notable influence on the dependent variable (Y).

i. Analysis of the Coefficient of Determination

Adjusted R Square value based on Table 9 is 0.012, this indicates that tax aggressiveness, cost of debt, and their respective interaction terms collectively explain 1.2% of the variation in company performance. The following determination coefficient test is very small, allowing for other control variables. However, other control variables were not tested in this study because this study focuses on the main variable.

j. Hypothesis Testing Through Data Analysis

According to the findings from the hypothesis testing performed, the results can be summarized in the table below:

Table 10. Summary of Test Results

	Hypothesis	Coef.	Sig.	Results
H1	Tax aggressiveness affects company performance	-3,465	0.0007	Accepted
H2	<i>Cost of Debt</i> affects company performance	0.384	0.701	Rejected
H3	Moderation of political connections affects tax aggressiveness on corporate performance	1,023	0.308	Rejected
H4	Moderation of political connections affects <i>the cost of debt</i> on company performance	-1.106	0.270	Rejected

Source: data processed by myself, 2025

Tax Aggressiveness Affects Corporate Performance

Findings from the data processing support the acceptance of the first hypothesis. 120 financial report observations and testing with Eviews 12 yielded a probability value of 0.0007. This indicates that a one-unit increase in tax aggressiveness leads to a 0.0007 decrease in company performance.

This is inversely proportional, as higher tax aggressiveness in a company will reduce its performance. This is in line with agency theory, where both managers and owners need to incur costs to maintain good performance control .

The results of this hypothesis test are also supported by research by [10] and [15]. Companies with high levels of profitability tend to be more effective in managing their resources, thereby reducing the tax burden they must pay. Although the variables in this study were measured in contrasting ways, the findings still demonstrate that tax aggressiveness significantly impacts company performance, as there is a meaningful relationship between the two variables. The greater the company's profit, the higher the tax it must pay, so the level of tax aggressiveness tends to decrease.

Debt costs affect company performance

Based on the results of the hypothesis testing, the second hypothesis, namely that the cost of debt has no effect on company performance, was rejected. Therefore, the researchers revisited the cost of debt *variable* and concluded that not all corporate debt affects company performance.

This could be attributed to the fact that our sample comprises firms with minimal debt financing, resulting in their performance being largely unaffected by fluctuations in the cost of debt. This finding aligns with the results of [3], who reported no significant relationship between debt costs and firm performance.

Political Connections Moderate Tax Aggressiveness Affecting Corporate Performance

The hypothesis test results indicate that political connections do not significantly moderate the impact of tax aggressiveness on company performance, leading to the rejection of this hypothesis. This is in line with research findings [3] which state that political connections within companies have no effect on tax aggressiveness, considering that companies are part of the government itself. Because Indonesia is a developing country, political connections do not have a significant influence.

Political Connections Moderate Debt Costs Affecting Firm Performance

The hypothesis testing results indicate that political connections positively affect company performance do not significantly moderate the relationship between the cost of debt and firm performance. This finding aligns with the results of study [8], which states that political ties, when moderating the cost of debt, have no discernible impact whether positive or negative on firm performance. This suggests that firms facing high debt costs, even when possessing strong political affiliations, do not necessarily experience a moderated effect of debt costs on their performance.

5 Conclusions

This study examined each company performance variable that could be influenced through the influence of tax aggressiveness and debt costs on energy companies registered with the Indonesia Stock Exchange. The study findings show that tax aggressiveness affects firm performance, whereas the cost of debt does not have a significant impact. Additionally, political connections, as moderating variables for tax aggressiveness and debt costs, were determined to have no significant impact on company performance.

This study's results can provide firms with a clearer understanding of their performance growth. Companies should utilize more tax aggressiveness to improve their performance. This means that the lower the tax aggressiveness, the higher the company's performance. Therefore, if a company succeeds in increasing and maintaining its profitability, it is highly likely to move in a positive direction in the future.

The findings of this study can also serve as input for investors in making decisions regarding stock investments, particularly in energy sector companies listed on the IDX.

This research is limited by a conceptual framework that only addresses selected variables, potentially overlooking other factors that could impact the dependent variable.

Based on the results and analysis that have been carried out, here are some suggestions that can be given:

1. Further research is expected to examine companies in other sectors or sub-sectors, because each company has different company performance characteristics.
2. This research is also expected to be able to examine company performance in a cross-country context.
3. Future researchers are advised to use different data analysis methods to be able to compare test results in the future.

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