

## THE EFFECT OF MANAGERIAL OWNERSHIP ON FINANCIAL PERFORMANCE WITH POLITICAL CONNECTIONS AS A MODERATING VARIABLE IN COMPANIES LISTED IN THE JAKARTA ISLAMIC INDEX (JII) PERIOD 2017 - 2023

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### ABSTRACT

The Jakarta Islamic Index (JII) serves as a Sharia-compliant stock index established by the Indonesian capital market in 2000, originally consisting of 30 Sharia stocks reviewed annually. Evaluations now occur semiannually in May and November. This research investigates the impact of managerial ownership and political connections, as well as the role of political ties in moderating the financial success of JII-listed firms between 2017 and 2023. The study focused on a population of 12 companies chosen through purposive sampling. Data processing involved the use of multiple linear regression and Moderated Regression Analysis (MRA). Findings indicate that managerial ownership and political ties both positively influence financial results, and political connections effectively moderate the link between managerial ownership and financial performance.

**Keywords:** Managerial Ownership, Political Connections

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### INTRODUCTION

The modern global industrial environment is currently undergoing rapid evolution that necessitates companies to leverage their full potential to compete effectively. Managing resources in an efficient and effective manner is vital for the smooth execution of operations and the successful attainment of corporate objectives. In the course of business, organizations naturally prioritize the generation of profits to benefit stakeholders and guarantee their long term survival. Generally, the success of a firm is evaluated through its financial performance, which serves as a metric for its economic

condition over a defined period. Because of this, companies are obligated to uphold and improve their financial results to attract greater interest from investors (Saragih & Sri, 2021).

The Jakarta Islamic Index (JII) was established as the primary sharia compliant stock index in Indonesia and has displayed robust performance as shown by its notable stock movements. As the first index of its kind, the JII inherently contains stocks that are both liquid and of high quality. Organizations that effectively manage their resources have the capacity to generate significant profits, which leads to better returns

on investment and higher share valuations. Furthermore, strong financial standing serves as evidence of the commitment of management and staff to maintaining consistent performance, which is an element investors evaluate before making investment decisions (Putra, Adiatna, et al., 2021).

One of the internal controls that impacts the financial results of a firm is managerial ownership, which is defined as a situation where managers hold shares in the company (Pratomo & Nuraulia, 2021). During the execution of corporate operations, the management team serves as an agent appointed by the shareholders or principals to oversee the business. Therefore, the management has a duty to operate the firm in a way that ensures the prosperity of its shareholders (A. Maulana & Wati, 2019). While shareholders seek wealth that is appropriate for the capital they have invested, managers also pursue their own personal wealth and prosperity. This divergence in goals often results in agency conflicts as each group attempts to satisfy its own specific interests through opportunistic behavior (Febria, 2020).

## METHODS

The current investigation is categorized as a quantitative study, which utilizes an objective research methodology centered on the gathering and examination of statistical information. This research examines financial reports that are publicly issued by the *Jakarta Islamic Index* (JII), meaning that the study does not involve a particular

physical research site. The formal research process was initiated in February 2024. The primary subject of this inquiry consists of firms the Jakarta Islamic Index (JII) featured the company among its listings throughout the 2017-2023 timeframe, which originally included 30 separate entities. By applying a purposive sampling technique, the study identified 12 specific samples from the broader research population..

Regarding the technical procedures for data evaluation, this study employs EViews 9 as the primary analytical tool. The analysis involves several techniques, including descriptive statistical testing, stationarity assessments, and multiple linear regression. Furthermore, the methodology incorporates classic assumption testing alongside moderating tests to ensure the validity of the results.

## RESULTS AND DISCUSSION

### Statistic Descriptive

The table above give information that the total number of observations is 84 which is explained as following:

Managerial ownership variable (X1) obtained an average value (mean) of 0.150003 with a standard deviation value of 0.023171. The X1 variable obtained the highest value (maximum) of 0.198970 and the lowest value (minimum) of 0.110236.

The financial performance variable (Y) obtained an average value (mean) of 0.229359 with a standard deviation value of 0.082253 . The highest financial performance value (maximum) was 0.441949.

**Table 1: Statistic Descriptive**

|              | Y        | X1       | Z          |
|--------------|----------|----------|------------|
| Mean         | 0.229359 | 0.150003 | 0.726190   |
| Median       | 0.221495 | 0.148875 | 1          |
| Maximum      | 0.441949 | 0.198970 | 1          |
| Minimum      | 0.024838 | 0.110236 | 0          |
| Std. Dev.    | 0.082253 | 0.023171 | 0.448591   |
| Skewness     | 0.101980 | 0.451594 | -1.014506  |
| Kurtosis     | 3.318850 | 2.133054 | 2.029223   |
| Jarque-Bera  | 0.501428 | 5.485711 | 17.70755   |
| Probability  | 0.778245 | 0.064386 | 0.000145   |
| Sum          | 19.26614 | 12.60022 | 61,000,000 |
| Sum Sq. Dev. | 0.561547 | 0.044563 | 16.70238   |
| Observation  | 84       | 84       | 84         |

with the lowest value (minimum) of 0.024838.

The political connection variable (Z) obtained an average value (mean) of 0.726190 with a standard deviation value of 0.448591. The maximum political connection value was 1.000000 with mark the lowest (minimum) amount is 0.000000.

### Hypothesis Testing

The results show R- squared and Adjusted R-squared values of 0.2410 and 0.2126, respectively. Consequently, the independent variables explain approximately

**Table 2: Regression Result**

| Variable             | Coefficient | Std. Error         | t-Statistic | Prob.  |
|----------------------|-------------|--------------------|-------------|--------|
| C                    | -0.242229   | 0.095322           | -2.541150   | 0.0130 |
| DX1                  | 2.866781    | 0.605727           | 4.732795    | 0.0000 |
| DZ                   | 0.481992    | 0.101301           | 4.758033    | 0.0000 |
| DX1Z                 | -2.956562   | 0.639436           | -4.623703   | 0.0000 |
| Root MSE             | 0.073477    | R-Squared          | 0.241078    |        |
| Mean Dependent Var.  | 0.348432    | Adjusted R-Squared | 0.212619    |        |
| SD Dependent Var.    | 0.171240    | SE of Regression   | 0.075291    |        |
| Sum Squared Residual | 0.453503    | F-Statistic        | 8.470915    |        |
| Durbin-Watson Stat   | 0.907097    | Prob (F-Statistic) | 0.000059    |        |

24% of the dependent variable's variance, while the remaining 76% is influenced by external factors not examined in this research.

The conducted regression analysis produced an F-statistic of 8.470915 with an associated probability value of 0.000059. Given that this probability is significantly lower than the 0.05 alpha threshold, it is concluded that the managerial ownership variable exerts an influence on financial performance.

Managerial ownership shows a coefficient of 2.866781 and a probability of 0.0000 in the t-test. With the probability being below the 0.05 threshold, it is verified that managerial ownership significantly affects financial performance metrics.

Additionally, the coefficient for the political connection variable is 0.481992 with a probability of 0.0000. Given that this probability is less than the 0.05 threshold, the variable is determined to significantly moderate the relationship affecting firm financial performance.

### DISCUSSION

This research found that the managerial ownership variable has a probability value of 0.0000, a figure that falls below the 0.05 significance threshold. A positive coefficient value of 2.866781 was also demonstrated by the variable. Therefore, managerial ownership is established to have a positive and statistically significant impact on financial performance. These outcomes are consistent with prior studies performed by Sari et al. (2020), Saragih and Sri (2021), and Hadyan (2021), all of which concluded that ownership by managers positively affects financial outcomes.

Regarding the influence of political connections, the research results yielded a probability value of 0.0000, below the 0.05 significance threshold. This variable recorded a positive coefficient of 0.481992. Consequently, the research determines that political connections have a positive and statistically significant effect on financial performance. These findings are in agreement with other research indicating that political ties affect financial success, specifically studies by Wang et al. (2018), Sulistiyowati and Prabowo (2020), Sirait (2021), and Artunc and Saleh (2021).

In analyzing the interaction effect between managerial ownership and political connections, the study found a probability value of 0.0000 and a negative coefficient of -2.956562. The probability value falls below the established alpha level of 0.05. Hence, it is concluded that political connections act as a moderator in the relationship between managerial ownership and finan-

cial performance.

The results of this investigation confirm that Hypothesis 3, which posits that political connections moderate the impact of managerial ownership on financial results, is accepted. This occurs because managers who hold equity in an organization will work diligently to maximize corporate earnings. Furthermore, the possession of shares by management influences the internal policies of the firm. Leadership will implement strategic policies that provide benefits to both the organization and themselves while aligning their personal goals with the company objective of maximizing profit

## CONCLUSIONS

Managerial ownership variables have an influence positive on variable Y, namely financial performance in companies listed on JII in 2017-2023. This due to internal influence is very important for performance finance something company. If stakeholders interest company like directors, commissioners and others own proportion share in his company, then party management can involved active in taking decisions in the company he leads. And of course party management is very aware condition company said, so that all decision that was taken will be highly considered in order to provide positive impact for company.

The political connection variable also has a positive effect on financial performance (Variable Y). Companies registered with JII in 2017-2023. Connection politics owned by a company will play a role active in manage profits. Companies with connec-

tion good politics tend can market product his with Good Because own good connection. This is will increase company market share From the activity sale the company will get good and certain profit will be very influential to profitability and performance finance something company.

For companies listed on the Jakarta Islamic Index (JII) between 2017 and 2023, political connections can moderate the effect of the managerial ownership relationship on financial performance. Parties management that has shares in the company will try full For contribute raise profit company. In addition, ownership shares by party management will influential to policies that will taken in company. Party management Of course will give policies that will profitable the company and also himself Alone as well as will align his interests with company that is as much as possible Possible increase profit company.

Apart from ownership management, connection politics will also have a big influence to steps and policies that will be taken. Connection politics owned by the company will give wide market share. The market share will beneficial For selling company in line with profitability companies that can increase if connection politics owned used company with Good.

Connection political can give profit financial and non- financial to companies that impact performance finance good company. This is due to connection politics and ownership managerial each other related and influencing One each other. Connection political would be very useful for give

access and protection security manager in choose and find good decision for Companies.

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