



Uploaded : May 2025

Accepted : October 2025

Published : November 2025

UNVEILING THE EFFECTS OF FINANCIAL DISTRESS, TAX AVOIDANCE, AND POLITICAL CONNECTIONS ON FIRM VALUE

Rina Nurjanah^{1*}, Adibah Yahya², Taufik Hidayat³, Meli Andriyani⁴

¹rinanurjanah16@pelitabangsa.ac.id, ²adibah.yahya@pelitabangsa.ac.id,

³taufik.hidayat@pelitabangsa.ac.id, ⁴my_odah@yahoo.com

^{1,2,3}Universitas Pelita Bangsa, Indonesia

⁴Universitas IPWIJA, Indonesia

*corresponding author

Abstract

This study examines the interplay between political connections, financial distress, Tax Avoidance, and a company's firm value. The primary objective is to analyze how these factors influence firm value, particularly focusing on the effects of political connections on financial distress and Tax Avoidance. The research was conducted on 33 companies listed on the Jakarta Islamic Index (JII70) from 2022 to 2024, utilizing e-Views as the analytical tool. The findings reveal that political connections do not significantly impact firm value or Tax Avoidance; however, they do have a negative effect on financial distress. Conversely, financial distress negatively affects both firm value and Tax Avoidance, while Tax Avoidance does not influence firm value. These results suggest that a company's fundamental factors and internal conditions play a more critical role in determining its value than political connections. Consequently, the study highlights the importance for companies to prioritize robust financial performance and effective business strategies over reliance on transient political connections.

Keywords: Financial Distress; Firm Value; Political Connection; Tax Avoidance.

Abstrak

Penelitian ini menguji interaksi antara koneksi politik, kesulitan keuangan, penghindaran pajak, dan nilai perusahaan. Tujuan utamanya adalah untuk menganalisis bagaimana faktor-faktor tersebut mempengaruhi nilai perusahaan, khususnya berfokus pada pengaruh koneksi politik terhadap financial distress dan Penghindaran Pajak. Penelitian ini dilakukan terhadap 33 perusahaan yang terdaftar di Jakarta Islamic Index (JII70) dari tahun 2022 hingga 2024, dengan menggunakan e-Views sebagai alat analisis. Temuan menunjukkan bahwa koneksi politik tidak berdampak signifikan terhadap nilai perusahaan atau penghindaran pajak, namun berpengaruh negatif terhadap financial distress. Sebaliknya, financial distress berpengaruh negatif terhadap nilai perusahaan dan penghindaran pajak, sedangkan Penghindaran Pajak tidak berpengaruh terhadap nilai perusahaan. Hasil ini menunjukkan bahwa faktor fundamental dan kondisi internal perusahaan memainkan peran yang lebih penting dalam menentukan nilai perusahaan dibandingkan dengan koneksi politik. Oleh karena itu, penelitian ini menyoroti pentingnya bagi perusahaan untuk memprioritaskan kinerja keuangan yang kuat dan strategi bisnis yang efektif daripada ketergantungan pada koneksi politik yang bersifat sementara.

Kata Kunci: Kesulitan keuangan; nilai perusahaan; koneksi politik; penghindaran pajak.



Cited this as: Nurjanah, R., Yahya, A., Hidayat, T., & Andriyani, M., 2025. Unveiling The Effects of Financial Distress, Tax Avoidance, and Political Connections on Firm Value. *Equity*, 28(2), 157-173. doi.org/10.34209/equ.v28i2.11049

INTRODUCTION

In a competitive business world, company value is one of the main indicators that reflect the health and sustainability of an entity. Company value is not only influenced by good financial performance, but also by various external and internal factors that can affect investor perceptions (Hidayat *et al.*, 2023). Good share management is characterised by high firm value. In addition, investing in high-value companies is usually more attractive to investors (Delima and Linawati, 2023).

Investment is the time value of money invested with the objective of making money in the future. There's risk associated with all investments, of course, though the risks associated with investments are of differing degrees, some higher and others lower risk. For compliance with financial management, higher risk is normally directly proportional to higher returns, and vice versa. Investment valuation Analyses from company value can be observed. The number of firm value are very important for a company. The shareholders' welfare is higher when the company value is high. The more its stock price and the higher the company's value (Hidayat *et al.*, 2022).

The interaction between investors and capital owners, in the financial world, generally takes place in the capital market or through cooperation mechanisms such as profit-sharing schemes. Investment in the Islamic stock capital market is experiencing a significant increase, with positive growth between 2021 and 2023, which is influenced by changes in lifestyle and increased awareness of Indonesian people towards Sharia principles in investing. This can be seen in Figure 1, on the development of the Indonesian Sharia Stock Index (ISSI) and the Jakarta Islamic Index (JII70).

All Islamic stock indices in Figure 1 saw a decrease from the prior year-end period, as seen in Figure 1. When compared to the end of 2022, the ISSI index closed at 212.64, down -2.33%. At the end of 2023, the JII70 index was 183.06, down -8.02% from 199.02 at the end of 2022 (Siregar *et al.*, 2024). The ups and downs of stock prices certainly affect the value of the company (Agustina and Malau, 2023).

The rise and fall of a company's value is influenced by its political connections. Political connection is a common strategy used in companies to meet their objectives. A company is considered politically connected if its leaders, shareholders, or their relatives are involved in politics (Fitriana and Muslim, 2022). Companies with political ties often gain trust and recognition from the government, allowing them to secure better subsidy rates or create more opportunities for subsidies in the future. This strategy proves very effective for companies with political connections (Xu and Liu, 2020).

Political connections involve individuals, like directors, commissioners, or shareholders, who also hold or have held government positions. Additionally, companies owned by the government or those with direct government ownership, like State-Owned Enterprises (BUMN), are also seen as politically connected (Tangke, 2020).

These connections are expected to boost a company's value since they can help secure advantages in business opportunities (Idris *et al.*, 2020). Firms with political connections are likely to see increased value. Those with strong political ties are viewed as positively impacting the company's worth (Brown and Huang, 2020).

Companies with government ties may benefit from preferential treatment. Furthermore, a positive relationship exists between political connections and a company's value (Changwatchai and Dheera-aumpon, 2024).

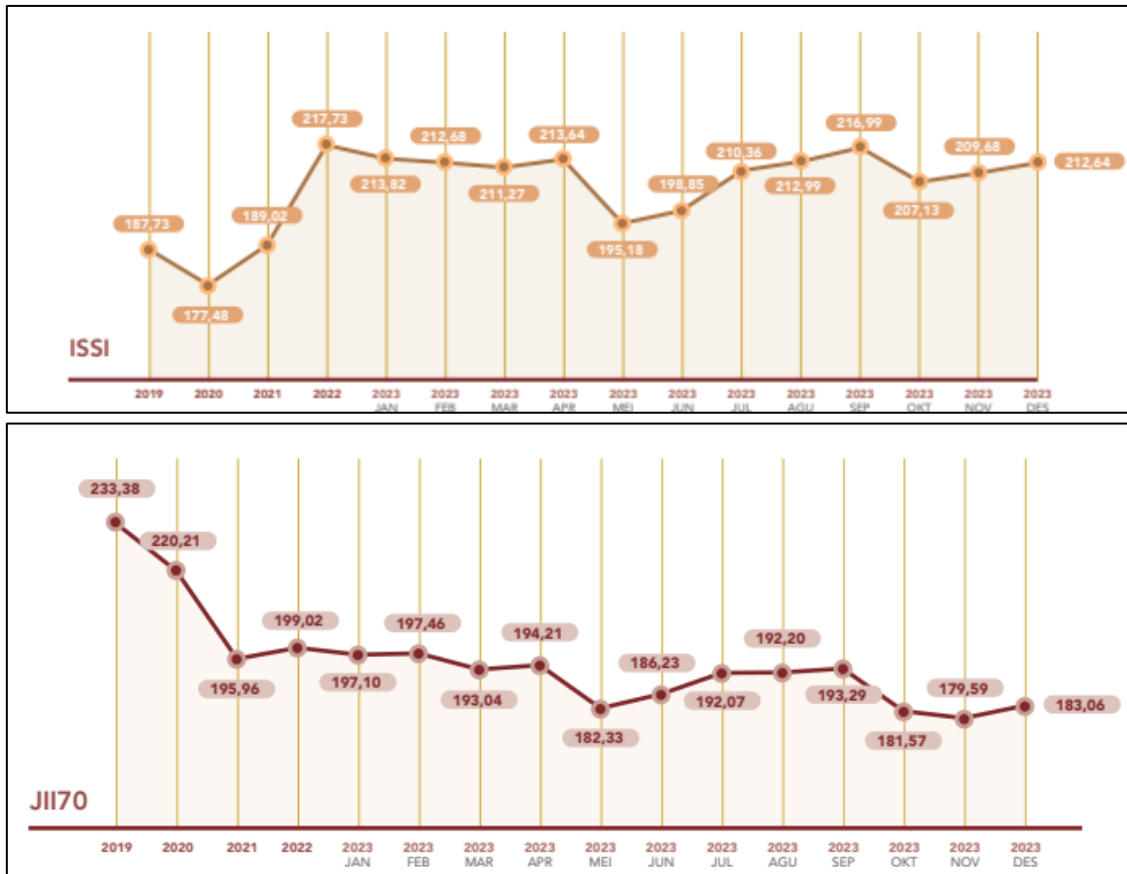


Figure 1. Development of ISSI and JII70 Stock Indices in 2019 – 2023

Source: <https://www.ojk.go.id>, 2024

A politically connected board of directors or commissioners should provide clear and consistent information in the company's annual report, as this is part of their decision-making role. However, many companies still lack transparency in their financial statements. Political connections influence firm value (Chen *et al.*, 2017), though Haryati *et al.* (2021) argue that they do not have an impact.

Aside from affecting firm value, political connections can also influence financial distress (Anggriani and Rahim, 2021). Political connections can help companies navigate these financial difficulties (Nuswantara *et al.*, 2023). The relationship is negative; companies with political ties generally do not experience financial distress (Saudicha and Kautsar, 2024). Although politically connected firms find it easier to secure bank financing, receive tax breaks, and win government contracts, research has shown that these connections don't always protect them from financial issues (Kalbuana *et al.*, 2022; Noviana and Wijaya, 2022).

Financial distress, a sign of potential bankruptcy, is another factor that impacts firm value. It involves challenges like difficulty paying debts (liquidity) and managing debt levels (leverage) (Anggraini *et al.*, 2020). The onset of financial distress causes a drop in firm value (Sulistiowati and Devinaya, 2021). Financial

distress significantly affects firm value in a positive manner (Saputra and Kustina, 2018; Valencia and Khairani, 2019). However, contrary to research by Anggraini *et al.* (2020), financial distress can negatively impact a firm's value.

Tax avoidance also has implications for firm value and is supported by organizational capital (Hasan *et al.*, 2021). Tax avoidance, as part of tax planning, can increase firm value (Hidayat and Yuliah, 2018). Moreover, studies show that tax avoidance can positively influence firm value (Risna and Haryono, 2023). However, other research suggests that tax avoidance may negatively affect a company's value (Vu and Le, 2021). Studies involving A-share listed companies in Shanghai and Shenzhen reveal that tax avoidance reduces firm value; yet strong internal controls and a higher percentage of independent directors can mitigate this negative effect (Lv *et al.*, 2025). Similarly, a study of Vietnamese firms found tax avoidance negatively impacts firm value (Minh Ha *et al.*, 2021).

On the other hand, companies in stable financial conditions can leverage high-value resources to hire experienced professionals for legal tax optimization, without violating laws (Yanti and Yasa, 2022). Conversely, firms facing financial distress often take on more risks with tax avoidance strategies, worsening their financial situation and hindering stability (Yudawirawan *et al.*, 2022). Firms under financial pressure tend to rely more on tax avoidance without exploring other cost-cutting options. This financial pressure encourages aggressive tax strategies to maintain cash flow and business survival (Sadjiarto *et al.*, 2020).

Research shows varied outcomes regarding political connections and financial distress. Companies with political ties often face a higher likelihood of financial distress (Kalbuana *et al.*, 2022). Such companies generally experience financial difficulties (Ramly *et al.*, 2019; Wardhana *et al.*, 2022). However, Noviana and Wijaya (2022) state that political connections do not impact companies facing financial distress. In China, political connections don't significantly influence whether a company first experiences financial distress. Yet, they play a crucial role in facilitating recovery when a company is already struggling. Financially distressed firms with political ties are more likely to secure debt financing and recover (He *et al.*, 2019).

This study aims to clarify past inconsistencies in understanding the impact of political connections, financial distress, and tax avoidance on firm value. Previous research on these topics can often be inconsistent due to the complex relationships among the different factors. Additionally, studies are frequently limited to specific situations, leading to findings that might not be broadly applicable. Furthermore, this research seeks to analyze the state of financial distress and tax strategies to enhance firm value.

LITERATURE REVIEW

Agency Theory

Agency theory explores issues that arise when one party, the agent, acts in another party's interest, the principal (Mitnick, 2015). Agents can face challenges when carrying out tasks for principals, while principals need to ensure that agents' actions align with their goals (Kovermann and Velte, 2019). Thus, agency theory explains not only agent behavior but also two sides of this relationship: the

challenges agents face in meeting expectations and the efforts principals exert to guide and correct agents' actions to stay aligned with their objectives (Yahya *et al.*, 2024). Agency theory helps us understand how political connections can impact a firm's value by focusing on the relationship between shareholders and managers. When firms have political ties, these connections can change the way managers make decisions, sometimes prioritizing personal interests over shareholder value. This shift can lead to different agency dynamics, ultimately affecting the firm's performance and its overall worth in the market.

Firm Value

Signalling theory posits that only those companies that excel at distinguishing themselves from their competitors can effectively send signals (Rudyanto and Pirzada, 2020). The value of a firm reflects investors' views on the company's likelihood of success, which is closely tied to its stock price (Yahya, Hidayat, *et al.*, 2023). An increase in share price reflects a high enterprise value, which indicates a bright prospect for the company (Hidayat *et al.*, 2023).

Political Connections

Companies are increasingly using political connections as a key part of their strategies to build relationships with governments and politicians (Tao *et al.*, 2017). Companies with political ties often see their value increase because the government gives them preferential treatment. This can include things like lower taxes, better access to loans, subsidies, and government contracts (Arifin *et al.*, 2022). A company is politically connected if it has a relationship with a family member or friend of the president (Indarti *et al.*, 2024). Public resources and authority can be leveraged to enhance the economic standing of various groups, including industries and professions, which he refers to as the need for regulation (Sudibyo and Jianfu, 2016).

Financial Distress

Financial distress marks a period of financial decline for a company before bankruptcy or liquidation (Permatasari, Yahya and Rahmadaini, 2024). A company's inability to pay short-term debts signifies financial distress (Nurjanah *et al.*, 2024). Financial struggles can significantly impact the economy, causing considerable losses for creditors and investors. In response, managers may attempt to hide underperformance by using accounting methods to inflate revenues and obscure financial problems through earnings management (Permatasari, Yahya and Fatonah, 2024).

Tax Avoidance

Corporate tax avoidance is an important part of a firm's capital management strategy (Richardson *et al.*, 2015). Tax avoidance enables companies to reduce the taxes owed to the government, serving as a form of corporate tax planning (Yahya, Nurjanah, *et al.*, 2023). These tax savings are temporarily used as capital for the company to finance its business and increase investment opportunities to increase company value. Tax avoidance offers benefits from multiple perspectives, such as shareholders receiving dividends, and the company having more funds to pay off debts and increase working capital (Minh Ha *et al.*, 2021).

Hypothesis Development

According to agency theory, conflicts can arise between shareholders (principals) and managers (agents). In firms with political connections, agency costs

could increase as management may focus on personal gains from these ties rather than maximizing shareholder value (Arifin *et al.*, 2022). The political connections within the board are expected to help the company improve its value (Broadstock *et al.*, 2020). Evidence shows many companies benefit from their connections with governments, indicating a strong positive correlation between political ties and firm value (Brown and Huang, 2020). Political connections can provide support to companies during tough times (Do *et al.*, 2012; Putri and Hardiningsih, 2023; Yuliana and Agus Munandar, 2023).

H1: Political connections have a positive effect on firm value

Companies experiencing financial difficulties tend to have lower stock prices, indicating a decline in their value (Hidayat *et al.*, 2023). Financial distress results in decreased firm value (Goetz, 2020). An increase in financial distress consistently leads to lower company values and vice versa (Selvia and Virna Sulfitri, 2023). Financial distress reduces firm value directly. For instance, in the logistics sector, higher financial risk and business risk are linked to lower firm value (Chalid *et al.*, 2022).

H2: Financial distress has a negative impact on firm value

Companies approach tax avoidance in two ways: through responsible or irresponsible tax management (Rudyanto and Pirzada, 2020). Responsible tax management involves making genuine decisions to optimize taxes (Atwood *et al.*, 2012). Tax avoidance is a legal strategy within tax management (Yahya, Asiah, *et al.*, 2023). Using tax avoidance can positively impact a company's value (Yoon *et al.*, 2024). For example, research on Vietnamese non-financial firms found that tax avoidance strategies can increase firm value, particularly when the board effectively supervises management (Oanh and Gan, 2022).

H3: Tax Avoidance has a positive effect on firm value

Political connections usually correlate positively with tax avoidance (Alsmady, 2023). Companies with political ties often use tax avoidance strategies to lower their effective tax rates (Putra and Suhardianto, 2020; Silvera *et al.*, 2022). Politically connected families managing companies may face higher tax burdens (Bona-Sánchez *et al.*, 2020). For example, political connections in Indonesia and Jordan enable companies to pay lower corporate taxes compared to those without such ties (Sudibyo and Jianfu, 2016).

H4: Political connection has a positive effect on tax avoidance

When a company encounters serious financial issues, it's a warning sign of potential bankruptcy or liquidation. This period marks financial decline before total failure (Yahya, Asiah, *et al.*, 2023). According to the Theory of Planned Behavior, subjective norms influence an individual's intention based on beliefs and attitudes. When motivated to behave a certain way, individuals may feel social pressure to act accordingly. In the context of financially troubled companies, this pressure may encourage efforts to cut costs to minimize losses (Ariff *et al.*, 2023; Yanti and Yasa, 2022). Firms facing financial challenges are more likely to avoid taxes because the potential benefits outweigh the risks (Dang and Tran, 2021; Richardson *et al.*, 2015). Similarly, a study of Vietnamese companies from 2008 to 2020 indicated that distressed firms were more inclined towards tax avoidance, especially smaller companies and those with significant discrepancies between their accounting and tax records (Dang and Tran, 2021). Companies under financial distress may reduce

aggressive tax avoidance, although some might engage in such strategies during financial stress (Bayar *et al.*, 2018).

H₅: Financial distress has a negative effect on tax avoidance

Firms with political connections enjoy various benefits, such as easy bank financing, tax breaks, market power, and government contracts (Ramly *et al.*, 2019). However, these advantages can lead to higher corporate debt (He *et al.*, 2019), which may increase the risk of financial distress (Saudicha and Kautsar, 2024). Politically connected companies often exhibit lower financial reporting quality compared to those without such ties (Wati *et al.*, 2020). A stronger relationship between politics and finance is tied to fewer financial difficulties for a company (Kharis and Nugrahanti, 2022).

H₆: Political connection has a negative effect on financial distress

Based on the hypothesis formation that has been described, the research model can be arranged as follows:

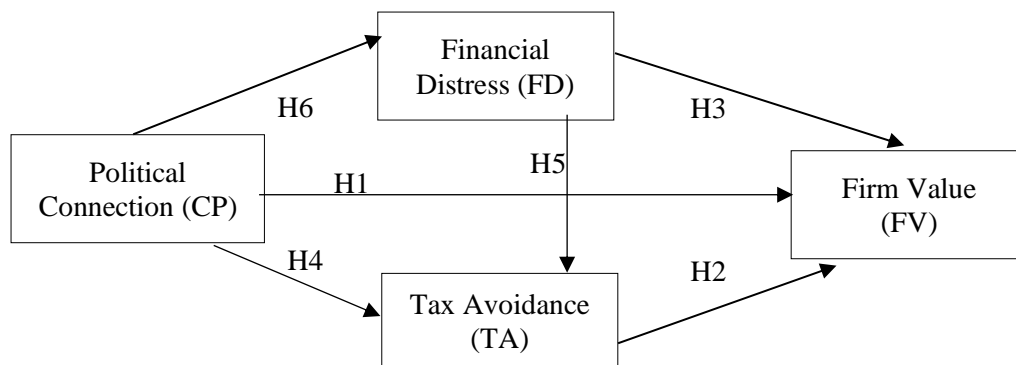


Figure 2. Research Model

RESEARCH METHODOLOGY

This study uses a quantitative approach to measure the cause-and-effect relationship between the variables. The data consists of numbers that we collected and analyzed with suitable analytical tools. The research population includes companies listed on the Jakarta Islamic Index 70 (JII70) from 2022 to 2024. This period highlights the impact of macroeconomic factors, such as inflation, on the movement of the index.

To select our sample, we used a purposive sampling method. This means we chose companies based on specific criteria. The companies had to meet the following conditions: (1) Be listed on the JII70 index for the entire study period; (2) Submit complete financial reports in rupiah; and (3) Report profits during the research period. With this approach, we obtained a sample of 33 companies over three years, resulting in a total of 99 data samples.

The data source is secondary data from the annual financial statements of JII70 companies obtained from www.idx.co.id. The measurement of research variables includes firm value, political connections, financial distress, and tax avoidance as follows:

Table 1. Operational definition of variables

Variable	Measurement	Scale
Firm Value (Vu and Le, 2021)	Tobin's Q = $\frac{(TA-EQ)+MV}{Total Asset}$ TA is total assets, EQ is book equity, and MV is the market value of equity.	Ratio
Political Connections (Sudibyo and Jianfu, 2016)	Political Connection is assessed using a dummy variable, dummy value of 1 if the company fulfils the criteria as a company with political connections and a dummy value of 0 for companies that do not have political connections.	Dummy
Financial Distress (Yahya, Asiah, et al., 2023)	Z' = 1,2 X1+ 1.4 X2 + 3.3 X3 + 0.6 X4 + 1 X5 Z = Financial Distress indeks; X1 = net working capital / total assets X2 = retained earnings/total assets; X3 = earnings before interest and taxes/total assets; X4 = book value of equity/book value of debt; X5 = sales/total assets	Ratio
Tax Avoidance (Yahya et al., 2021)	Cash ETR = $\frac{Cash Tax Paid}{Pretax Income}$ Cash ETR = Effective Tax Rates is a way to measure tax avoidance; Cash Tax Paid is the tax expense the company actually paid, which you can find in the consolidated cash flow statement; Pretax Income is the company's profit before taxes, which is listed on the consolidated comprehensive income statement	Ratio

Source: Data processed 2025

Data processing and analysis methods use quantitative approaches. To help with data analysis, researchers use the e-Views program. While testing data with e-Views, several stages are conducted. These include testing the research model, the classical assumption test, and the multiple linear regression test.

RESULT AND DISCUSSIONS

The sample data from purposive sampling of 33 companies between 2022 and 2024 consists of 99 research samples. Here's a breakdown of the data analysis we conducted. We began with descriptive statistical tests, then proceeded to classical assumption tests and multiple linear regression tests. Here are the results:

Table 2. Descriptive Statistical Test Results

	FV	TA	FD	CP
Mean	0.774045	0.502617	3.204426	0.636364
Median	0.262780	0.479940	2.964200	1.000000
Maximum	9.827000	1.710030	7.179950	1.000000
Minimum	0.006680	0.134240	0.634350	0.000000
Std. Dev.	1.571825	0.256900	1.597157	0.483494
Observations	99	99	99	99

Source: e-Views output, data processed 2025

Table 2 presents the average, median, highest, lowest values, and standard deviation for the data. A standard deviation smaller than the mean suggests that the research data is less varied, more consistent, and has less spread.

For the panel data test, we conducted a classic assumption test. The normality test, based on the Jarque-Bera test, returned a probability value of 0.102, which is greater than 0.05, indicating that it passed the normality test. Our tests indicate that the data is free from multicollinearity and heteroscedasticity. The Variance Inflation Factor (VIF) value was less than 10, showing no multicollinearity problems. The Breusch-Pagan test for heteroscedasticity indicated a probability value of 0.7283. Since this is higher than 0.05, we can confirm there is no heteroscedasticity in the model.

Hypothesis Test

Hypothesis testing in this study includes three regression model structures. Model 1 looks at how political connections, financial distress, and tax avoidance affect firm value (hypotheses 1-3). Model 2 investigates how political connections and financial distress influence tax avoidance (hypotheses 4 and 5). Model 3 assesses the effect of political connections on financial distress (hypothesis 6).

Table 3. Model Structure 1: The Effect of Political Connection, Financial Distress, and Tax Avoidance on Firm Value

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.793353	0.064802	12.24267	0.0000
CP	0.007016	0.046238	0.151737	0.8797
FD	-0.091777	0.014382	-6.381165	0.0000
TA	-0.001432	0.014576	-0.098274	0.9219
R-squared	0.325920	F-statistic		15.31095
Adjusted R-squared	0.304633	Prob(F-statistic)		0.000000

Source: e-Views output, data processed 2025

Table 3 shows that political connections and tax avoidance do not affect firm value since the probability value is above 0.05. In contrast, financial distress has a negative effect with a probability of 0.000, which is below 0.05. The coefficient of determination of 30.46% indicates that these three variables account for firm value, while 69.54% is explained by other factors. The goodness of fit is met with an F test probability value of 0.000.

Table 4. Model Structure 2: The Effect of Political Connection and Financial Distress on Tax Avoidance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.335001	0.432807	3.084519	0.0027
CP	0.454281	0.320423	1.417754	0.1595
FD	-0.265272	0.096999	-2.734794	0.0074
R-squared	0.107874	F-statistic		5.804054
Adjusted R-squared	0.089288	Prob(F-statistic)		0.004173

Source: e-Views output, data processed 2025

Table 4 shows that political connections do not impact Tax Avoidance (probability > 0.05). However, Financial Distress negatively affects it with a probability of 0.0074 (< 0.05). The coefficient of determination is 8.92%, meaning these two variables explain Tax Avoidance, while 91.08% is affected by other variables. The goodness of fit is confirmed with an F test probability value of 0.0041 (< 0.05).

Table 5. Structure of Model 3: The Effect of Political Connection on Financial Distress

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.642312	0.261692	13.91830	0.0000
CP	-0.688106	0.328049	-2.097573	0.0385
R-squared	0.043391	F-statistic		4.399812
Adjusted R-squared	0.033529	Prob(F-statistic)		0.038543

Source: e-Views output, data processed 2025

Table 5 shows that political connection negatively affects Financial Distress with a probability of 0.0385, which is less than 0.05. The coefficient of determination of 3.35% means that political connections account for Financial Distress, while 96.65% is due to other variables. The goodness of fit is met with an F test probability value of 0.038543, which is less than 0.05.

Table 6. Hypothesis Conclusion

	T-Statistic	Prob.	Description
CP → FV	0.151737	0.8797	H ₁ rejected
FD → FV	-6.381165	0.0000	H ₂ Accepted
TA → FV	-0.098274	0.9219	H ₃ rejected
CP → TA	1.417754	0.1595	H ₄ rejected
FD → TA	-2.734794	0.0074	H ₅ Accepted
CP → FD	-2.097573	0.0385	H ₆ Accepted

Source: Data processed, 2025

Discussion

The results showed that political connections do not influence firm value. Instead, fundamental factors and internal conditions hold greater sway. Investors focus more on financial performance and business strategy than on political connections. Relying on political ties can be risky. If policies change or a political scandal arises, a company's reputation and overall value can suffer (Haryati *et al.*, 2021). Thus, while political connections may offer some advantages, they are not always key in determining firm value.

Financial distress has a negative impact on a company's value. When a company faces financial trouble, its inability to pay debts and interest diminishes its worth (Hidayat *et al.*, 2023). Failing to meet financial obligations shakes investors', creditors', and stakeholders' confidence. This loss of trust can lead to a drop in the company's stock value (Selvia and Virna Sulfitri, 2023). Financial distress creates an unstable and risky environment, making the company less attractive to investors and stakeholders, which in turn lowers its overall value (Chalid *et al.*, 2022).

The results indicate that tax avoidance does not affect firm value. Although it is a legal practice for reducing tax burdens, if executed properly, this strategy can enhance cash flow and net income, potentially boosting firm value (Oanh and Gan, 2022). If tax avoidance leads to increased earnings and cash flow, it may have a greater influence on firm value than the reputational risks associated with it (Yoon *et al.*, 2024).

According to the study's findings, political connections do not impact tax avoidance. While such connections may provide access to helpful information, an effective tax avoidance strategy relies on a solid understanding of tax regulations and financial frameworks, rather than on political ties. Previous research suggests that companies with political connections generally pay less in taxes compared to those without (Sudibyo and Jianfu, 2016; Tjahyadi and Carolina, 2024). Companies linked to political figures are often better at avoiding taxes and concealing complex financial activities (Alsmady, 2023). Even though other studies present different conclusions, these findings reinforce the idea that political connections do not influence tax avoidance, which coincides with some prior research (Ajili and Khelif, 2020; Yudawirawan *et al.*, 2022).

The results indicate that companies experiencing financial distress tend to reduce their tax avoidance efforts. The success of tax avoidance during such times depends on corporate governance. Firms with strong governance can lessen the negative effects of tax avoidance (Alsmady, 2023). Companies focus more on stabilizing their finances to prevent distress while also steering clear of tax violations (Yudawirawan *et al.*, 2022). Policymakers should keep an eye on companies in financial trouble, especially during economic downturns, to ensure fair tax practices and to encourage the reduction of aggressive tax avoidance (Ariff *et al.*, 2023).

Political connections may actually harm a company's financial health. This suggests that management might be using these connections for personal gain, which often leads to poor decisions detrimental to the company. The findings align with those presented by Saudicha and Kautsar (2024). The negative effects stem from the ease with which companies can obtain bank loans, tax incentives, market power, and government contracts. Due to the benefits that come with political connections, companies that have them are more prone to take larger risks, increasing their likelihood of facing financial distress (Nguyen *et al.*, 2023).

CONCLUSION

Our study found that a firm's value is not greatly affected by its political connections or tax avoidance strategies. Instead, financial distress has a negative impact on firm value. Political connections do not influence tax avoidance, but they do hurt a company's financial health. We also discovered that financial distress negatively impacts tax avoidance. This indicates that a company's internal conditions and factors are more crucial in determining its value than any political connections it may have. The practical takeaway from this research is that companies should prioritize corporate strategy and performance over temporary political connections. This study has limitations, including a sample limited to companies on the Jakarta Islamic Index (JII70) during a specific time, which may limit broader application. It also does not consider other factors that affect the

relationship between political connections, financial distress, and firm value. Future research should broaden the sample to include other indices like LQ45 and ISSI for comparison and examine macroeconomic variables, good corporate governance, and market anomalies for deeper insights.

REFERENCES

- Agustina, E. and Malau, M. (2023), "Financial Distress, Earnings Management, and Leverage Effect on Firm Value with Firm Size as a Moderation Variable", *International Journal of Social Service and Research*, Vol. 3 No. 3, pp. 856–868, doi: 10.46799/ijssr.v3i3.295.
- Ajili, H. and Khelif, H. (2020), "Political connections, joint audit and tax avoidance: evidence from Islamic banking industry", *Journal of Financial Crime*, Vol. 27 No. 1, pp. 155–171, doi: 10.1108/JFC-01-2019-0015.
- Alsmady, A.A. (2023), "the Effect of Political Connection on Corporate Tax Avoidance: the Moderating Role of Accounting Information Quality", *Journal of Governance and Regulation*, Vol. 12 No. 1 Special Issue, pp. 333–347, doi: 10.22495/jgrv12i1siart12.
- Anggraini, F., Seprijon, Y.P. and Rahmi, S. (2020), "Pengaruh Intellectual Capital Terhadap Nilai Perusahaan Dengan Financial Distress Sebagai Variabel Intervening", *Jurnal Informasi, Perpajakan, Akuntansi, Dan Keuangan Publik*, Vol. 15 No. 2, pp. 169–190, doi: 10.25105/jipak.v15i2.6263.
- Anggriani, P. and Rahim, R. (2021), "Pengaruh Mekanisme Tata Kelola Perusahaan Dan Political Connection Terhadap Financial Distress (The Influence Of Corporate Governance Mechanism And Political Connection On Financial Distress)", *Jurnal Penelitian Ilmu Manajemen*, Vol. 6 No. 1, pp. 64–77.
- Ariff, A., Wan Ismail, W.A., Kamarudin, K.A. and Mohd Suffian, M.T. (2023), "Financial distress and tax avoidance: the moderating effect of the COVID-19 pandemic", *Asian Journal of Accounting Research*, Vol. 8 No. 3, pp. 279–292, doi: 10.1108/AJAR-10-2022-0347.
- Arifin, T., Kabir, R., Marthon, K. and Sutaryo, S. (2022), "Are transactional political connections more valuable to firms than relational political connections?", *Economic and Political Studies*, Vol. 10 No. 3, pp. 266–278, doi: 10.1080/20954816.2022.2098595.
- Atwood, T.J., Drake, M.S., Myers, J.N. and Myers, L.A. (2012), "Home country tax system characteristics and corporate tax avoidance: International evidence", *Accounting Review*, Vol. 87 No. 6, pp. 1831–1860, doi: 10.2308/accr-50222.
- Bayar, O., Huseynov, F. and Sardarli, S. (2018), "Corporate Governance, Tax Avoidance, and Financial Constraints", *Financial Management*, Vol. 47 No. 3, pp. 651–677, doi: 10.1111/fima.12208.
- Bona-Sánchez, C., Pérez-Alemán, J. and Santana Martín, D.J. (2020), "Political ties and corporate tax burden in Spain", *Revista Espanola de Financiacion y Contabilidad*, Vol. 49 No. 1, pp. 74–93, doi: 10.1080/02102412.2019.1573049.
- Broadstock, D., Chen, X., Agnes Cheng, C.S. and Huang, W. (2020), "The value of implicit political connections", *Journal of International Accounting Research*, Vol. 19 No. 2, pp. 1–18, doi: 10.2308/jiar-18-604.
- Brown, J.R. and Huang, J. (2020), "All the president's friends: Political access and firm

- value", *Journal of Financial Economics*, Elsevier B.V., Vol. 138 No. 2, pp. 415–431, doi: 10.1016/j.jfineco.2020.05.004.
- Chalid, L., Kalsum, U. and Pelu, M.F.A. (2022), "Efek Profitabilitas, Financial Leverage dan Likuiditas terhadap Nilai Perusahaan dengan Financial Distress dan Earning Management sebagai Variabel Intervening", *Journal of Management & Busines*, Vol. 5 No. 1, pp. 282–295, doi: 10.37531/sejaman.v5i1.1623.
- Changwatchai, P. and Dheera-aumpon, S. (2024), "Political Connections and Stock Returns: the Case of 2019 Thai General Election", *ABAC Journal*, Vol. 44 No. 1, pp. 145–159, doi: 10.59865/abacj.2024.6.
- Chen, C.R., Li, Y., Luo, D. and Zhang, T. (2017), "Helping hands or grabbing hands? An analysis of political connections and firm value", *Journal of Banking and Finance*, Elsevier B.V., Vol. 80, pp. 71–89, doi: 10.1016/j.jbankfin.2017.03.015.
- Dang, V.C. and Tran, X.H. (2021), "The impact of financial distress on tax avoidance: An empirical analysis of the Vietnamese listed companies", *Cogent Business and Management*, Cogent, Vol. 8 No. 1, doi: 10.1080/23311975.2021.1953678.
- Delima, A. and Linawati. (2023), "The Effect of Accounting Conservatism, Free Cash Flow and Financial Distress on Company Value", *Sinergi International Journal of Economics*, Vol. 1 No. 2, pp. 100–110, doi: 10.61194/economics.v1i2.78.
- Do, Q.-A., Lee, Y.T. and Nguyen, B.D. (2012), "Political Connections and Firm Value: Evidence from the Regression Discontinuity Design of Close Gubernatorial Elections", *SSRN Electronic Journal*, doi: 10.2139/ssrn.2190372.
- Fitriana, M. and Muslim, A.I. (2022), "The Effect of Good Corporate Governance and Political Connection on Firm Value", *Jurnal Ilmiah Akuntansi*, Vol. 20 No. 2, pp. 215–228.
- Goetz, S. (2020), "Is Financial Distress Value Relevant? - Implications for Multiple-Based Valuation", *Journal of Business Valuation and Economic Loss Analysis*, Vol. 15 No. 1, doi: 10.1515/jbvela-2019-0015.
- Haryati, P.D.G., Rustiatini, N.W.G. and Dewi, N.P.S. (2021), "Pengaruh Corporate Governance dan Koneksi Politik Terhadap Nilai Perusahaan", *Jurnal Kharisma*, Vol. 3 No. 1, pp. 279–289.
- Hasan, M.M., Lobo, G.J. and Qiu, B. (2021), "Organizational capital, corporate tax avoidance, and firm value", *Journal of Corporate Finance*, Vol. 70, doi: 10.1016/j.jcorpfin.2021.102050.
- He, Y., Xu, L. and McIver, R.P. (2019), "How does political connection affect firm financial distress and resolution in China?", *Applied Economics*, Vol. 51 No. 26, pp. 2770–2792, doi: 10.1080/00036846.2018.1558358.
- Hidayat, A. and Yuliah, N. (2018), "the Effect of Good Corporate Governance and Tax Planning on Company Value", *Eaj (Economics and Accounting Journal)*, Vol. 1 No. 3, p. 234, doi: 10.32493/eaj.v1i3.y2018.p234-241.
- Hidayat, T., Yahya, A., Hardiyanti, P. and Permatasari, M.D. (2022), "Kebijakan Dividen dan Hutang Serta Keputusan Investasi Dalam Mempengaruhi Nilai Perusahaan (The Influence Of Divident Policies, Debt Policies, and Investment Decisions on Company Value) Abstrak", *Ekomabis: Jurnal Ekonomi Manajemen Bisnis*, Vol. 3 No. 01, pp. 57–68, doi: <https://doi.org/10.37366/ekomabis.v3i01.438>.
- Hidayat, T., Yahya, A. and Permatasari, M.D. (2023), "Pengaruh Financial Distress, Inflasi, dan Nilai Tukar Terhadap Keputusan Investasi serta Implikasinya Pada

- Nilai Perusahaan”, *Jurnal Akuntansi Bisnis Pelita Bangsa*, Vol. 8 No. 1, pp. 1–14, doi: <https://doi.org/10.37366/akubis.v8i01.744>.
- Idris, F., Buchdadi, A.D., Muttaqien, M.R. and Hariguna, T. (2020), “The role of the board of director with political connection for increasing the firm value”, *Accounting*, Vol. 6 No. 7, pp. 1285–1290, doi: 10.5267/j.ac.2020.8.023.
- Indarti, M.G.K., Widiatmoko, J. and Badjuri, A. (2024), *Political Connection Konsep, Model Pengukuran Dan Peliang Riset*, CV Eureka Media Aksara, 1st ed., CV Eureka Media Aksara, Purbalingga.
- Kalbuana, N., Taqi, M., Uzliawati, L. and Ramdhani, D. (2022), “The Effect of Profitability, Board Size, Woman on Boards, and Political Connection on Financial Distress Conditions”, *Cogent Business and Management*, Vol. 9 No. 1, doi: 10.1080/23311975.2022.2142997.
- Kharis, J.B. and Nugrahanti, Y.W. (2022), “Board Diversity, Koneksi Politik dan Financial Distress”, *E-Jurnal Akuntansi*, Vol. 32 No. 8, p. 1987, doi: 10.24843/eja.2022.v32.i08.p03.
- Kovermann, J. and Velte, P. (2019), “The impact of corporate governance on corporate tax avoidance—A literature review”, *Journal of International Accounting, Auditing and Taxation*, Elsevier Inc., Vol. 36, p. 100270, doi: 10.1016/j.intaccudtax.2019.100270.
- Lv, W., Meng, Q., Cao, Y. and Liu, J. (2025), “Impact and moderating mechanism of corporate tax avoidance on firm value from the perspective of corporate governance”, *International Review of Financial Analysis*, Vol. 99, doi: 10.1016/j.irfa.2025.103926.
- Minh Ha, N.M., Tuan Anh, P., Yue, X.G. and Hoang Phi Nam, N. (2021), “The impact of tax avoidance on the value of listed firms in Vietnam”, *Cogent Business and Management*, Cogent, Vol. 8 No. 1, doi: 10.1080/23311975.2021.1930870.
- Mitnick, B.M. (2015), “Agency Theory”, *Wiley Encyclopedia of Management*, pp. 1–6, doi: 10.1002/9781118785317.weom020097.
- Nguyen, T.X., Hoang, K., Nguyen, C.C. and Bach, T.N. (2023), “Do different political connections affect firms’ distress risk differently?”, *International Journal of Emerging Markets*, Vol. 18 No. 2, pp. 376–398, doi: 10.1108/IJOEM-08-2020-0874.
- Noviana, E.D. and Wijaya, A.L. (2022), “Pengaruh Political Connection, Woman on Board dan Capital Structure Terhadap Financial Distress”, *Seminar Inovasi Manajemen Bisnis Dan Akuntansi*, Vol. 6 No. September.
- Nurjanah, R., Yahya, A. and Wulandari, A. (2024), “Company Size and Price-Earnings Ratio as A Signal in Influencing Firm Value Moderated by Investment Decisions”, *Jurnal Ekonomi Syariah Pelita Bangsa*, Vol. 09 No. 02, pp. 436–446, doi: 10.37366/jespb.v9i02.1922.
- Nuswantara, D.A., Fachruzzaman, D.A., Prameswari, R.D., Suyanto, R.D., Rusdiyanto, R. and Hendrati, I.M. (2023), “The role of political connection to moderate board size, woman on boards on financial distress”, *Cogent Business and Management*, Cogent, Vol. 10 No. 1, doi: 10.1080/23311975.2022.2156704.
- Oanh, H.K. and Gan, C. (2022), “Corporate Tax Avoidance: Evidence from Vietnamese Firms”, *Review of Pacific Basin Financial Markets and Policies*, Vol. 25 No. 1, doi: 10.1142/S0219091522500023.
- Permatasari, M.D., Yahya, A. and Fatolah, T.N. (2024), “Earnings management: How

- Financial Distress, Sales Growth and Audit Committees Interact”, *AKUBIS: Jurnal Akuntansi Bisnis Pelita Bangsa*, Vol. 9 No. 2, pp. 142–153.
- Permatasari, M.D., Yahya, A. and Rahmadaini, A. (2024), “Accounting Conservatism : Firm Size and Financial Distress”, *Owner: Riset & Jurnal Akuntansi*, Vol. 8 No. 3, pp. 2406–2416.
- Putra, Z.K.P. and Suhardianto, N. (2020), “The Influence of Political Connection on Tax Avoidance”, *Jurnal Akuntansi Dan Keuangan*, Vol. 22 No. 2, pp. 82–90, doi: 10.9744/jak.22.2.82-90.
- Putri, M. and Hardiningsih, P. (2023), “Apakah sustainability report dan political connection mempengaruhi nilai perusahaan”, *Fair Value: Jurnal Ilmiah Akuntansi Dan ...*, Vol. 5 No. 6, pp. 2788–2794.
- Ramly, R., Haerani, S., Rura, Y. and Rasyid, S. (2019), “Predicting Financial Distress and Financial Performance Using Political Connection”, *ICAME*, doi: 10.4108/eai.25-10-2019.2295391.
- Richardson, G., Taylor, G. and Lanis, R. (2015), “The impact of financial distress on corporate tax avoidance spanning the global financial crisis: Evidence from Australia”, *Economic Modelling*, Elsevier B.V., Vol. 44, pp. 44–53, doi: 10.1016/j.econmod.2014.09.015.
- Risna, F.A. and Haryono, S. (2023), “Pengaruh Tax Planning & Tax Avoidance Terhadap Nilai Perusahaan Dengan Transparansi Perusahaan Sebagai Variabel Moderasi”, *Jurnal Akuntansi Trisakti*, Vol. 10 No. 2, pp. 305–318, doi: 10.25105/jat.v10i2.17104.
- Rudyanto, A. and Pirzada, K. (2020), “The role of sustainability reporting in shareholder perception of tax avoidance”, *Social Responsibility Journal*, Vol. 17 No. 5, pp. 669–685, doi: 10.1108/SRJ-01-2020-0022.
- Sadjiarto, A., Hartanto, S., . N. and Octaviana, S. (2020), “Analysis of the Effect of Business Strategy and Financial Distress on Tax Avoidance”, *Journal of Economics and Business*, Vol. 3 No. 1, doi: 10.31014/aior.1992.03.01.193.
- Saputra, E. and Kustina, T. (2018), “Analisis Pengaruh Financial Distress, Debt Default, Kualitas Auditor, Auditor Client Tenure, Opinion Shopping dan Disclosure Terhadap Penerimaan Opini Audit Going Concern Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia”, *Kumpulan Riset Akuntansi*, Vol. 10 No. 1, pp. 1–10.
- Saudicha, M.S. and Kautsar, A. (2024), “The Effect of Liquidity, Leverage, Firm Size, Ceo Duality, Political Connection on Financial Distress with Profitability as a Moderating Variable in Property & Real Estate Sector Companies Listed on the Indonesian Stock Exchange for the Period 2018-2022.”, *Journal of Business and Management Review*, Vol. 5 No. 3, pp. 215–233, doi: 10.47153/jbmr53.9312024.
- Selvya, S.M. and Virna Sulfitri. (2023), “Pengaruh Green Accounting, Corporate Social Responsibility Dan Financial Distress Terhadap Nilai Perusahaan Pada Perusahaan Manufaktur Sektor Consumer Goods Yang Terdaftar Di Bei 2019-2021”, *Jurnal Ekonomi Trisakti*, Vol. 3 No. 2, pp. 3035–3048, doi: 10.25105/jet.v3i2.17999.
- Silvera, D.L., Hizazi, A., Syurya Hidayat, M. and Rahayu, S. (2022), “Financial constraints and corporate governance as moderating variables for the determinants of tax avoidance”, *Investment Management and Financial*

- Innovations*, Vol. 19 No. 1, pp. 274–286, doi: 10.21511/imfi.19(1).2022.21.
- Siregar, M., Mirza, A., Rae, D.E., Inarno, D., Prastomiyono, O., Agusman, Hasan, F., *et al.* (2024), *Laporan Perkembangan Keuangan Syariah Indonesia*, Jakarta.
- Sudibyo, Y.A. and Jianfu, S. (2016), "Political connections, state owned enterprises and tax avoidance: An evidence from Indonesia", *Corporate Ownership and Control*, Vol. 13 No. 3continued2, pp. 279–283, doi: 10.22495/cocv13i3c2p2.
- Sulistiyowati, L.N. and Devinaya, D.R. (2021), "Financial Distress Pengaruhnya Terhadap Nilai Perusahaan Asuransi Yang Terdaftar Di Bursa Efek Indonesia", Vol. 07 No. 02, pp. 45–61.
- Tao, Q., Sun, Y., Zhu, Y. and Yang, X. (2017), "Political Connections and Government Subsidies: Evidence from Financially Distressed Firms in China", *Emerging Markets Finance and Trade*, Vol. 53 No. 8, pp. 1854–1868, doi: 10.1080/1540496X.2017.1332592.
- Tjahyadi, S. and Carolina, V. (2024), "Political Connections and Tax Avoidance", *Jurnal Akuntansi*, Vol. 16 No. 1, pp. 158–167.
- Valencia, K. and Khairani, S. (2019), "Pengaruh Profitabilitas, Financial Distress, Dewan Komisaris Independen Dan Komite Audit Terhadap Nilai Perusahaan Dimediasi Oleh Tax Avoidance (Studi Empiris Pada Perusahaan Sektor Industri Barang Konsumsi Yang Terdaftar Di Bursa Efek Indonesia Periode 2", *Jurnal Akuntansi*, Vol. 9 No. 1, pp. 47–64, doi: 10.33369/j.akuntansi.9.1.47-64.
- Vu, T.A.T. and Le, V.H. (2021), "The Effect of Tax Planning on Firm Value: A Case Study in Vietnam", *Journal of Asian Finance, Economics and Business*, Vol. 8 No. 2, pp. 973–979, doi: 10.13106/jafeb.2021.vol8.no2.0973.
- Wardhana, R., Anshori, M. and Tjaraka, H. (2022), "Determinants Moderators of Financial Distress: An Evidence Affiliation Group and Political Connection", *AKRUAL: Jurnal Akuntansi*, Vol. 14 No. 1, pp. 132–147, doi: 10.26740/jaj.v14n1.p132-147.
- Wati, L.N., Ramdany and Momon. (2020), "Benefits and Costs of Political Connection , Evidence in Indonesia", *Widya Cipta: Jurnal Sekretari Dan Manajemen*, Vol. 4 No. 2, pp. 191–196, doi: 10.31294/widyacipta.v4i2.9632.
- Xu, S. and Liu, D. (2020), "Political connections and corporate social responsibility: Political incentives in China", *Business Ethics*, Vol. 29 No. 4, pp. 664–693, doi: 10.1111/beer.12308.
- Yahya, A., Affandi, A., Herwani, A., Hermawan, A. and Suteja, J. (2024), "Herd Behavior in the Sharia Capital Market on Investment Decisions", *Jrak*, Vol. 16 No. 1, pp. 107–118, doi: 10.23969/jrak.v16i1.12172.
- Yahya, A., Asiah, N. and Nurjanah, R. (2023), "Tax Avoidance in Relationship on Capital Intensity, Growth Opportunities, Financial Distress and Accounting Conservatism", *Journal of Business Management and Economic Development*, Vol. 1 No. 02, pp. 154–165, doi: 10.21070/acopen.8.2023.3643.
- Yahya, A., Hidayat, T., Nurjanah, R. and Pratama, N.D. (2023), "The dynamic impact of intellectual capital on firm value: evidence from Indonesia", *Asian Journal of Management Entrepreneurship and Social Science*, Vol. 8 No. 3, pp. 742–756, doi: 10.1080/13504851.2017.1290769.
- Yahya, A., Nurjanah, R. and Kustina, L. (2023), "Net Profit Margin Sebagai Moderator Tax Planning Dan Corporate Social Responsibility Pada Manajemen Laba", *Journal Ecogen*, Vol. 6 No. 3, pp. 329–337, doi:

<http://dx.doi.org/10.24036/jmpe.v6i3.14632>.

- Yahya, A., Permatasari, M.D., Hidayat, T., Fahrurroji, M., Bangsa, U.P. and Akuntansi, P.S. (2021), "Tax Avoidance : Good Corporate Governance dan Kualitas Audit", *Jurnal Pelita Ilmu*, Vol. 15 No. 02, pp. 95–105, doi: 10.37366/jpi.v15i02.926.
- Yanti, I.A.P.W. and Yasa, I.N.P. (2022), "Pengaruh Intensitas Aset Tetap, Financial Distress, dan Profitabilitas Terhadap Tax Avoidance", *Jurnal Akuntansi Profesi*, Vol. 13 No. 3, pp. 818–826.
- Yoon, S., Xin, J. and Cui, Y. (2024), "Effects of agency costs on the relationship between tax avoidance and firm value: A case of Chinese companies", *Journal of Social Economics Research*, Vol. 11 No. 1, pp. 12–22, doi: 10.18488/35.v11i1.3606.
- Yudawirawan, M.Y., Yanuar, Y. and Hamdy, S. (2022), "Pengaruh Financial Distress, Koneksi Politik Dan Foreign Activity Terhadap Tax Avoidance", *SCIENTIFIC JOURNAL OF REFLECTION : Economic, Accounting, Management and Business*, Vol. 5 No. 1, pp. 103–113, doi: 10.37481/sjr.v5i1.430.
- Yuliana and Agus Munandar. (2023), "Debt Covenant, Political Cost, Political Connection, And Bank Connections Towards Company Value", *Jurnal Akuntansi*, Vol. 27 No. 3, pp. 465–484, doi: 10.24912/ja.v27i3.1510.