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EFFECT OF WORKING CAPITAL, LIQUIDITY ON FINANCIAL PERFORMANCE WITH POLITICAL CONNECTION MODERATION

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Sejumlah perusahaan yang tercatat di Indeks Kompas 100 menghadapi tantangan dalam menjaga tingkat profitabilitas mereka. Data empiris mengungkapkan bahwa beberapa perusahaan yang tergabung dalam Indeks Kompas100 mengalami fluktuasi. Studi ini bertujuan untuk mempelajari bagaimana Modal Kerja dan Likuiditas mempengaruhi kinerja keuangan perusahaan yang terdaftar di Bursa Efek Indonesia Indeks Kompas100 selama periode 2019-2023, serta peran moderasi koneksi politik. Sampel penelitian terdiri dari 32 perusahaan dari 53 populasi yang dipilih melalui teknik *purposive sampling*, data sekunder yang digunakan berasal dari laporan keuangan perusahaan dan dianalisis menggunakan metode regresi data panel. Hasil penelitian menunjukkan bahwa modal kerja dan koneksi politik memengaruhi kinerja keuangan secara positif dan signifikan, sementara likuiditas tidak memengaruhi secara signifikan. Koneksi politik tidak memoderasi hubungan antara modal kerja dan kinerja keuangan, namun memoderasi secara negatif hubungan antara likuiditas dan kinerja keuangan. Temuan ini mengindikasikan bahwa pengelolaan modal kerja yang efisien dan koneksi politik dapat meningkatkan kinerja keuangan, tetapi koneksi politik dapat memperlemah pengaruh likuiditas, sehingga perusahaan perlu mempertimbangkan peran koneksi politik dalam strategi keuangan mereka.

Kata kunci: Kinerja Keuangan, Modal Kerja, Likuiditas, Koneksi Politik.

Abstract

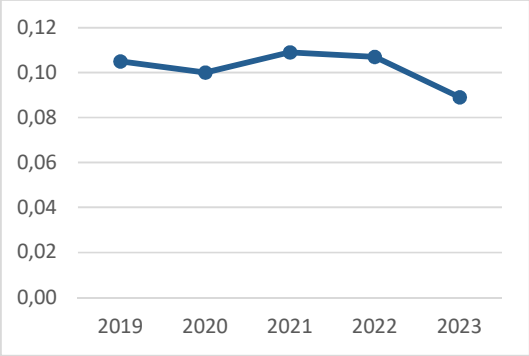
Several companies listed on the Kompas100 Index face challenges in maintaining their profitability levels. Empirical data reveals that several companies included in the Kompas100 Index experienced fluctuations. This study aims to examine how Working Capital and Liquidity affect the financial performance of companies listed on the Indonesia Stock Exchange Kompas100 Index during the 2019-2023 period, as well as the moderating role of Political Connections. The research sample consisted of 32 companies from 53 populations selected through purposive sampling techniques, secondary data used came from the company's financial statements and were analyzed using the panel data regression method. The results show that working capital and political connections affect financial performance positively and significantly, while liquidity does not affect it significantly. Political connections do not moderate the relationship between working capital and financial performance, but negatively moderate the relationship between liquidity and financial performance. These findings suggest that efficient working capital management and political connections can enhance financial performance, but political ties may weaken the impact of liquidity, requiring firms to carefully consider the role of political connections in their financial strategies.

Keywords: *Financial Performance, Working Capital, Liquidity, Political Connection.*

1. INTRODUCTION

In the corporate realm, the expansion of a corporation is essential for the viability of a company. Every business must have a goal to gain profit from every effort they make With more companies emerging, competition in the business world is increasing. Therefore, a company is expected to have a projection to grow and maintain its performance so that it can

achieve maximum profit. In recent years, companies who listed in the Kompas 100 Index have faced challenges in maintaining their profitability levels. Based on the data of Return on Assets (ROA) from 2019 to 2023, the average profitability level has shown a



fluctuating trend, indicating instability in financial performance across several firms. This can be seen in the following graph:

Source: Processed Data

Figure 1.1
Average ROA of Kompas 100 Index companies 2019-2023

This fluctuation indicates that the profitability of companies within the Kompas100 index remains unstable, highlighting the importance of examining factors that may influence financial performance, such as working capital, liquidity, and political connections.

Financial Performance is a picture of how healthy a company is. So, if a company has a good performance record, then the company's health is good as well (Yudha, 2021). Businesses that perform well will find it simpler to boost profits or benefits, which is the primary objective for a business's long-term viability. Analysis of profitability ratios, which are based on Return on Assets (ROA), can be used to assess financial performance. ROA, sometimes referred to as earning capacity, is a ratio that evaluates how well a business maximizes its assets to generate profits (Hamdani et al., 2022). The higher the ROA ratio, the better the company's performance.

Working capital is one of the factors that has the potential to affect financial performance. To achieve good profitability, optimal working capital is needed. The money used to support a business's operational activities is known as working capital. Working capital is considered good if it increases every year, where total current assets must exceed total current liabilities. (Kusumawati et al., 2022). Adequate working capital enables a company to run its business without experiencing difficulties and obstacles. (Kulsum & Muniarty, 2020). Therefore, every company must be able to manage its working capital appropriately and optimally so as to generate profits or gains that will contribute to achieving an optimal level of profitability for the company.

In addition, factors that influence financial performance are liquidity. According to (Kusumawati et al., 2022) Liquidity is the company's ability to fill all of the short-term financial obligations efficiently by using its current assets. This study uses the current ratio to measure the level of liquidity. The ability of the business to settle its short-term debts increases with the current ratio. Because of this circumstance, the business will be able to operate more easily, which will increase its profitability.

Besides internal factors, external factors such as political connections can also influence financial performance. According (Prasetiono & Arimamukti, 2019), companies that are politically connected to the government or politicians tend to take advantage of these connections to support business development, thereby improving the company's performance. Previous studies that use political connections as a moderating variable, such as research by (Alfianto et al., 2024), state that among companies that have transactions with special relationships, they have high political connections and ultimately improve company performance. Political Connection is a situation where there is a relationship between certain parties with political networks that are used to achieve various mutually beneficial goals (Diafitri & Helmy, 2023). Businesses with political ties typically receive government protection, especially regulations that are simplified and also tenders from the government can be transferred to companies that have political connections, this will make the company's operations run smoothly which will ultimately increase the company's income.

This research is a development and renewal of previous research, including research conducted by (Kristanti et al., 2022) which states that there is a positive influence between working capital and liquidity on financial performance, which is different from the results of research by (Septhasari & Surjadi, 2021) which shows the results that between working capital and liquidity have no effect on financial performance. This inconsistency indicates a research gap that needs to be further explored.

Therefore, this study modifies previous research models by introducing political connections as a moderating variable that may strengthen or weaken the link between working capital and liquidity on financial performance. The novelty of this study lies in the use of political connections as a moderating variable, which has not been widely examined in the context of enterprises included in the Kompas100 Index. In accordance with this, the formulation of the research problems are: (1) Do working capital, liquidity and political connection affect financial performance? (2) Can political connections moderate the linkage between working capital and financial performance as well as between liquidity and financial performance? Accordingly, the objective of this study aims to examine the influence of working capital, liquidity and political connection on financial performance and to evaluate the role of moderation of political connections in these relationships.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

After Jensen and Meckling's 1976 study, agency theory started to take shape. This theory emerged when two parties were involved in a contract, where the first party agreed to use the services of the other party.

Agency Theory explains the existence of a relationship of interest between the principal and the agent. The principal is the owner of capital who has the right to give instructions to the agent, while the agent is the company manager who is tasked with carrying out instructions from the principal (Marinda et al., 2021). In agency affiliation, problems often arise between the owner and the agent due to differences of opinion and conflicting interests. In carrying out its activities, management must follow the direction of the principal. However, managers often have personal goals to increase the value of the company, which can cause problems.

This approach is employed to examine and resolve issues stemming from disparities in interests and information between agents and principals. According to (Ulfa & Wahyu, 2020), In order for the agreement between the capital owner and the company manager to run smoothly, the capital owner gives trust to the manager in order to determine steps related to strategies that can maximize the company's performance. Therefore, in Agency Theory, it is important to ensure that there are incentives that motivate management so that the company's financial performance remains optimal and long-term goals are achieved as well as adequate supervision to safeguard the interests of shareholders.

Financial Performance

Financial performance is the outcome of a company's operational activity during a specific period, assessed using various financial ratios. By analyzing financial performance, information consumers can discern the efficacy of regarding the financial oversight of the company and evaluate the accomplishments attained (Alamsyah et al., 2022). Profitability serves as an indication for evaluating a company's financial performance. Profitability indicates the company's capacity to create income from its diverse assets (Zatira et al., 2020).

Working Capital

Working capital refers to the cash designated for financing a company's daily operational activities, particularly those having a short duration (Kasmir, 2019: 300). Working capital is defined as the total current assets possessed by the company or the differential between current assets and current liabilities. Based on Agency Theory, Shareholders entrust the company's capital to management to be managed, with the hope that management can optimize the use of working capital in order to achieve maximum financial performance. However, in practice, management often has different personal preferences. They tend to keep large amounts of working capital to reduce personal risk, although this is not always in line with the objectives of shareholders who want more efficient use of working capital to generate profits. The separation between capital owners and management has the potential to result in a conflict of interest, often referred to as the agency problem.

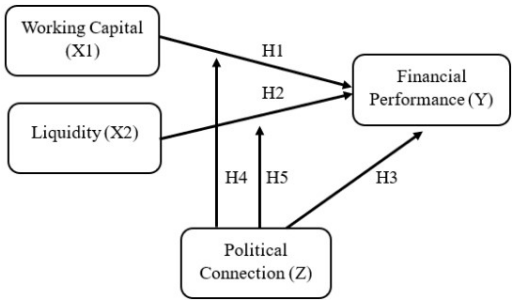
Liquidity

Liquidity refers to a company's capacity to promptly meet short-term obligations utilizing its available current assets. The company's short-term liabilities must be lower than its current assets to maintain liquidity

(Alamsyah & Aulia, 2021). Based on Agency Theory, Good Liquidity allows the company's ability to pay off its debts on time, which is very important to maintain operational stability and shareholder confidence. However, if management's ability to pay off problematic debts (debts that have matured but have not been paid off) decreases, this indicates a lack of effectiveness in managing financial obligations. This condition can trigger potential risks to the company's financial health, reduce shareholder confidence, and create tension in the relationship between principal and agent.

Political Connection

Political connection is a situation that forms a network between one party and individuals/groups involved in politics to achieve mutually beneficial goals for both (Prameisti & Laili, 2024). Based on Agency Theory, political connections can increase the potential for conflict between principal and agent. Managers who has political connections may focus more on maintaining their power or gaining personal benefits from political connections, rather than improving the company's financial performance. This can reduce transparency, increase risk, or lead to suboptimal decision making.



The conceptual framework employed in this study is depicted in the subsequent figure.

Figure 1
Conceptual Framework

In line with the conceptual framework, the hypotheses proposed are as follows:

Working Capital affects Financial Performance

Working capital is a crucial component in ensuring the continuity of a company's operations. According to (Dini et al., 2021) when working capital is sufficient, companies are able to meet their short-term needs effectively, which in turn supports smooth operational activities. Adequate working capital not only ensures business continuity but also contributes to improved financial performance.

Findings from the study carried out by Kristanti et al., (2022), Ratu et al., (2021), Dini et al., (2020), Saroh et al., (2023) states that working capital has an effect on profitability.

Liquidity affects Financial Performance

Liquidity measures a firm's effectiveness in managing and paying off its short-term responsibilities. According to Hantono & Jony (2021) the higher the level of liquidity, the better the company's financial performance, as the company is considered more capable of paying its obligations on time and managing its assets effectively.

Findings from the study carried out by (Purwanti, 2021), Trisnayanti & Wiagustini (2022), Laksmita et al., (2020) states that liquidity affects profitability.

Political Connection affects Financial Performance

Companies that have political connections with the government or politicians are often suspected of utilizing these relationships to gain business advantages. Alfianto et al., (2024) argue that companies with political connections often receive government protection and enjoy more convenient access to various opportunities, especially the regulation that is simplified and also tenders from the government can be transferred to corporations possessing political ties, this will make the company's operations run smoothly which will eventually boost the company's revenue. Thus, this will affect financial performance.

Findings from the study carried out by Sulistyowati et al., (2020), Asianti et al., (2023), Arisandi (2022) states that political connections have an impact on financial performance.

Political Connection is Able to Moderate the Effect of Working Capital on Financial Performance

Political connections can reinforce or undermine the association between working capital and financial performance. Firms that maintain political ties will find it easier to obtain tenders through government support, so

that with adequate working capital and also having political connections, the company can be more optimal in carrying out its activities which in turn can have a positive impact on financial performance. Therefore, this study assumes that political connections can strengthen the effectiveness of working capital in improving financial performance.

Political Connection is Able to Moderate the Effect of Liquidity on Financial Performance

Political connections can moderate the association between a company's liquidity and its financial performance. Companies with good liquidity are financially stable and capable of meeting short-term obligations. When combined with political connections, this condition creates a synergy that helps companies gain access to profitable government projects or regulatory advantages, ultimately improving financial performance. Therefore, this study assumes that political connections can reinforce the relationship between liquidity on financial performance.

3. RESEARCH METHODS

Research Approach

This study employed a quantitative approach, focusing on numerically measuring each variable and analyzing data through statistical methods (Putry & Ardini, 2023). The type of relationship between variables is associative causality (cause and effect) where the independent variable is influenced by the dependent variable.

Methods, Types and Data Sources

The annual reports of the companies listed on the Indonesia Stock Exchange (IDX) in the Kompas100 Index from 2019 to 2023 provide the secondary data used in this study. Information for this research came from the IDX official website www.idx.co.id as well as websites belonging to companies that were selected for the study.

Population and Sample

The study's population consisted of all businesses that were listed on the Indonesia Stock Exchange's Kompas100 Index between 2019-2023. The sample was selected using a purposive sampling technique with the following criteria: (1) companies that were consistently listed in the Kompas100 Index from 2019 to 2023, (2) companies that did not experience losses during the observation period, (3) companies with complete data related to the research variables, and (4) companies whose financial statements are presented in Indonesian Rupiah. Based on these criteria, 32 companies were selected and their data were ready to be processed and analyzed.

Data Analysis Techniques

Panel data regression, which integrates cross-sectional and time-series data, was used to analyze the data. Observations were made on a variety of variables during a specific time period. Data analysis was performed using EViews 12 software with hypothesis testing through the F test to assess the significance of the overall model, the t test to measure the influence of each variable, and the moderation test to identify the interaction between the independent and dependent variables.

Measurement of Variables

Dependent Variable, which is financial performance is an indicator of the success of company management during a certain time period when carrying out its responsibilities to optimize the management of company assets properly. (Lumopa et al., 2023). With the measurement indicator used, namely Return on Assets (ROA). This is the ROA formula:

$$\text{Return On Asset} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Independent Variable

Working Capital

Working capital, often referred to as net working capital, refers to the financial resources required to support a company's operational activities. It is calculated as the variance between current assets and liabilities due within the short term (Septiano et al., 2023). Here is the formula for Working Capital:

$$\text{NWC} = \text{Current Assets} - \text{Current Liabilities}$$

Liquidity

Current Ratio is used as an indicator of liquidity in this study. According to (Oktaviyana et al., 2023) The current ratio is a financial metric used to evaluate a company's

capability to fulfill its short-term obligations as they become due. The formula for the current ratio is as follows:

Moderating Variable
Political Connection
Political connections are a condition where a company has political relations or tries to build connections with political figures or government officials (Muda & Abubakar, 2020). . In this study, political connections were analyzed using a dummy variable, where a value of 1 is assigned if a company has political connection defined as having one or more members of the board of directors or commissioners affiliated with political parties or having held a political/governmental position and a value of 0 if no such connections exist.

4. RESEARCH RESULT AND DISCUSSION

In this research, the researcher conducted a descriptive analysis to describe the relevant results about the sample used. The outcomes of this descriptive statistical analysis were acquired by using Eviews, which are presented as follows:

Table 1
Descriptive Statistical Analysis

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
ROA	0.0826	0.0635	0.3580	0.0200	0.0658
MK	729e12	526e12	606e13	-226e13	127e13
CR	2.3310	1.8200	9.5300	0.1800	1.7192
PC	0.8125	1.0000	1.0000	0.0000	0.3915

Source: Eviews Output

Based on table 1 above, it shows data information from each research variable, which are:

1. The results of the descriptive statistical analysis indicate that the lowest ROA value is 0.0020, while the highest is 0.3580. The highest ROA was recorded by UNVR in 2019, whereas the lowest was recorded by PTPP in 2023. The average (mean) ROA is 0.0826, with a median of 0.0635 and a standard deviation of 0.0658.
2. The descriptive statistical analysis results indicate that the minimum working capital value is -22,590,000,000,000, while the maximum value is 60,620,000,000,000. The highest working capital was recorded by ASII in 2022, whereas the lowest was recorded by TLKM in 2020. The mean working capital is 7,289,394,889,866, with a median of 5,258,965,000,000 and a standard deviation of 12,659,007,078,556.
3. The results of the descriptive statistical analysis indicate that the minimum current ratio (CR) is 0.18, while the maximum is 9.53. The highest CR was recorded by LSIP in 2023, whereas the lowest was recorded by TOWR in the same year. The mean CR is 2.331, with a median of 1.82 and a standard deviation of 1.719276.
4. The descriptive statistical analysis results indicate that the minimum Political Connection (PC) value is 0, while the maximum is 1. The mean PC value is 0.8125, with a median of 1 and a standard deviation of 0.391538.

Panel Data Estimation Model Technique
Chow Test

Table 2
Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	21.920884	(31,125)	0.0000
Cross-section Chi-square	297.914581	31	0.0000

Source: Output Eviews, 2025

The calculation results indicate that the Fixed Effect Model (FEM) is more effective for estimating panel data regression compared to the Common Effect Model (CEM). This conclusion is supported by the Cross-section F Probability test result of 0.0000 and the Cross-section chi-square value of 0.0000, both of which are less than the significance level ($\alpha = 0.05$).

Hausman Test

Table 3
Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.866838	3	0.2762

Source: Eviews Output

The calculation results indicate that the Random Effect Model (REM) is more effective for estimating panel data regression compared to the Fixed Effect Model (FEM). This is supported by the random cross-section

probability test result of 0.2762, which is greater than the significance level (α = 0.05).

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

Lagrange Multiplier Test

Table 4
Lagrange Multiplier Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	197.8342 (0.0000)	1.148240 (0.2839)	198.9825 (0.0000)

Source: Eviews Output

The calculation results indicate that the Random Effect Model (REM) is more effective for estimating panel data regression compared to the Common Effect Model (CEM). This is evidenced by the Breusch-Pagan cross-section probability test result of 0.0000, which is less than the significance level (α = 0.05).

Based on these test results, the Random Effect Model (REM) is identified as the most optimal panel data regression model for this study.

Hypothesis Testing

Table 5
Estimation results of Equation

Variable	coefficient	Std. Error	t-Statistics	Prob.
C	0.049368	0.017521	2.817679	0.0055
MK	1.09e-15	5.30e-16	2.060587	0.0410
CR	-0.002371	0.003411	-0.695339	0.4879
PC	0.038030	0.014437	2.634184	0.0093
F stat			3.688314	0.0133
R-squared	0.066231			
Adj R-squared	0.048274			

Source: Eviews Output

Coefficient of Determination (R^2)

The coefficient of determination (R^2) is a statistical measure used to evaluate the extent to which a model explains the variation in the dependent variable. A higher R^2 value indicates a greater ability of the model to account for changes in the dependent variable.

The results from the Random Effects Model (REM) indicate an Adjusted R Squared of 0.048274, equivalent to 4.82%. This indicates that financial performance, as a dependent variable, is affected by the Working Capital, Liquidity, and Political Connection factors by 4.82%. Consequently, these variables exert a moderate impact on financial success. The remaining 95.18% is affected by factors not addressed in this study.

Simultaneous F Test

The F test evaluates the substantial impact of independent factors on dependent variables, conducted concurrently.

Based on the results of the F test above, the F-statistic value is 3.688314. While the F table with the level of α = 0.05, df1 (k-1) = 3-1 = 2, and df2 (n-k) = 160 - 3 = 157. So the F table value is 3.05. Thus, the calculated F is 3.688314> F table (3.05). And also obtained the Prob result (F count) of 0.0133 <0.05.

These findings suggest that working capital, liquidity, and political connection all have an impact on financial performance at the same time.

Partial t Test

The t-test is an assessment used to ascertain if the independent variable influences the dependent variable independently. The t-test results, as indicated in Table 5, demonstrate that the t-statistic for the Working Capital variable is 2.060587, exceeding the t-table value of 1.65462, while the probability value of 0.0410 is below the significance level of 0.05. Consequently, it can be inferred that Working Capital exerts a substantial partial influence on Financial Performance. The t-statistic for the Liquidity variable is -0.695339, which is below the t-table value of 1.65462, while the probability value of 0.04879 is less than 0.05. The data indicate that Liquidity does not significantly impact Financial Performance. Meanwhile, the t-statistic for the Political Connection variable is 2.634184, exceeding the t-table value of 1.65462, while the probability value of 0.0093 is below the significance level of 0.05. Consequently, it may be inferred that Political Connection exerts a large partial influence on Financial Performance.

Moderated Regression Analysis (MRA)

This study employs Moderated Regression Analysis (MRA) to investigate the moderating effect of Political Connection on

the relationship between Working Capital, Liquidity, and Financial Performance. The moderation interaction test was performed with the Panel EGLS (Cross-section random effects) methodology, examining data from the 2019-2023 timeframe with a total of 160 observations.

Table 6
Moderation Interaction Test Results for Equation 1

Variable	coefficient	Std. Error	t-Statistics	Prob.
C	0.058941	0.020843	2.827917	0.0053
MK	-4.91e-15	1.45e-15	-0.338238	0.7356
PC	0.024260	0.018664	1.299805	0.1956
MK*PC	1.57e-15	1.44e-15	1.088855	0.2779

Source: Eviews Output

The analysis results indicate that the interaction between Working Capital (MK) and Political Connection (PC) (MK × PC) does not notably affect the link between MK and Return on Assets (ROA). The t-statistic value for MK × PC is 1.088855, with a p-value of 0.2779, which exceeds the significance threshold of 0.05. Consequently, the moderating variable MK × PC does not moderate the relationship between MK and ROA in this model. This suggests that Political Connection does not enhance the influence of Working Capital on ROA.

Table 7
Moderation Interaction Test Results for Equation 2

Variable	coefficient	Std. Error	t-Statistics	Prob.
C	0.002812	0.027854	0.100946	0.9197
CR	0.018875	0.008975	2.103134	0.0371
PC	0.091672	0.027542	3.328488	0.0011
CR*PC	-0.20563	0.008939	-2300432	0.0227

Source: Eviews Output

The analysis results show that the interaction between the Current Ratio (CR) and Political Connection (PC) (CR × PC) significantly affects the relationship between CR and Return on Assets (ROA). The t-statistic value for CR × PC is -2.300432, with a p-value of 0.0227, which is below the significance threshold of 0.05. Therefore, the moderating variable CR × PC effectively moderates the relationship between CR and ROA in this model. This finding suggests that Political Connection weakens the impact of the Current Ratio on ROA, leading to a diminishing effect.

Discussion

The Effect of Working Capital on Financial Performance (ROA)

The test results indicate that the first hypothesis, which posits that Working Capital positively influences financial performance (ROA), is accepted. The study results demonstrate that the t-statistic for Working Capital is 2.060587, exceeding the t-table value of 1.65462, with a p-value of 0.0410, which is less than 0.05.

Consequently, working capital positively influences financial performance. A company with sufficient working capital can operate efficiently, meeting its operational needs, which in turn positively affects its financial outcomes. From the author's point of view, this finding emphasizes that having adequate working capital is crucial for financial success. However, excessive working capital may signal idle funds, and companies should focus on efficiently utilizing these resources to optimize profitability and avoid inefficiency.

These findings align with studies undertaken by (Kristanti et al., 2022), (Ratu et al., 2021) and (Saroh et al., 2023) which asserts that Working Capital influences profitability.

The Effect of Liquidity on Financial Performance (ROA)

The second hypothesis posits that liquidity exerts no influence on financial performance (ROA). The t-statistic for CR is -0.695339, significantly lower than the t-table value of 1.65462, with a p-value of 0.4879, which exceeds 0.05. Consequently, hypothesis H2 is dismissed.

While elevated liquidity levels are frequently regarded as a sign of a company's financial well-being, the findings of this analysis demonstrate that liquidity does not directly enhance ROA in this study. This may be due to various factors that are more dominant in influencing the company's financial performance. From the author's perspective, these results suggest that liquidity is not a stand-alone determinant of financial success. In fact, excessive liquidity can indicate the presence of idle funds that should be invested to generate greater profits but instead become less productive, which can negatively impact overall financial performance. Practically, companies should

aim to strike a balance, ensuring sufficient liquidity for operational needs while avoiding the accumulation of unproductive funds. This approach will help improve financial performance by directing excess funds into profitable investments, rather than letting them sit idle.

These findings align with studies undertaken by (Ratu et al., 2021), (Rosiyani & Anwar, 2022), and (Septhasari & Surjadi, 2021) It asserts that liquidity exerts no influence on profitability.

The Effect of Political Connection on Financial Performance (ROA)

The third hypothesis, which posits that Political Connection positively influences financial performance (ROA), is accepted. The analysis results demonstrate that the t-statistic for Political Connection is 2.634184, exceeding the t-table value of 1.65462, with a p-value of 0.0093, which is less than 0.05.

Consequently, Political Connection positively influences financial performance. This indicates that corporations with political affiliations are likely to receive governmental protection. Companies with political connections may receive various privileges, including simplified regulations and government contracts, facilitating smoother operations and ultimately enhancing the company's revenue.

These findings align with studies undertaken by (Sulistyowati et al., 2020b) and (Asianti et al., 2023) It asserts that political affiliations affect financial outcomes.

The Influence of Political Connection in Moderating Working Capital and Financial Performance

The fourth hypothesis suggests that Political Connection (PC) does not act as a moderating factor in the relationship between Working Capital and financial performance. The interaction test results show that the t-statistic for the MK × PC interaction is 1.088855, which is lower than the t-table value of 1.65462, with a p-value of 0.2779, exceeding the 0.05 significance level. Therefore, hypothesis H4 is rejected.

Consequently, while Working Capital positively influences financial performance, PC does not enhance or diminish the link under this model. In the author's view, this may result from various factors, particularly the greater significance of political connections in affecting access to external resources, such as funding or advantageous regulations, rather than directly impacting the company's internal working capital management. Additionally, firms with proficient working capital management may exhibit reduced reliance on external influences. Practically, companies should focus on optimizing their working capital management internally, rather than relying solely on political networks, to achieve sustainable financial performance.

The Influence of Political Connection in Moderating Liquidity and Financial Performance

The fifth hypothesis indicates that political connection (PC) considerably moderates the association between liquidity (CR) and financial performance (ROA), albeit in a negatively. The interaction test findings indicate that the t-statistic for the CR × PC interaction is -2.300432, which is less than the t-table value of 1.65462, and the p-value is 0.0227, which is below 0.05. Consequently, hypothesis H5 is affirmed.

Thus, although higher liquidity usually The presence of political links may diminish the good impact on ROA. This outcome may suggest that companies with political affiliations may have diminished efficiency in liquidity management or resource allocation, hence attenuating the beneficial effect of liquidity on profitability.

5. CONCLUSION

This study seeks to assess the impact of Working Capital and Liquidity on Financial Performance, with Political Connection serving as a moderating variable, for companies in the Kompas100 Index listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The study utilized a sample of 32 firms. This study's results lead to the conclusion that:

1. Working capital positively and significantly impacts financial performance. This finding supports financial management theory, which states that adequate working capital improves operational efficiency and facilitates increased sales and profits.

2. Liquidity does not significantly impact financial performance. This suggests that liquidity levels, whether high or low, may not directly determine financial success. It expands the theoretical perspective by indicating that other factors such as asset utilization or cost efficiency might play a more dominant role.
3. Political connections have a positive and significant influence on financial performance. This implies that the effect of working capital on financial performance occurs independently of whether the company has political ties.
4. Political connections do not moderate the linkage between working capital and a firm's financial performance. This implies that the effect of working capital on financial performance occurs independently of whether the company has political ties.
5. Political connections reduce the strength of the association between liquidity and financial performance. While liquidity is generally seen as a positive indicator, the existence of political ties may reduce the efficiency of liquidity use in generating profits, possibly due to inefficiencies or overreliance on political privilege.

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