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Financial Leverage, Political Connection, Profitability and Firm Value during Global Crisis Era: A Moderated Mediation Analysis

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ABSTRACT

The purpose of this study is to look at the role of profitability as a mediator and political connections as moderators in the link between financial leverage and business value during the previous fifteen years of the global crisis. The study included 240 observations across 16 property and real estate businesses between 2008 and 2022. The investigation began in 2008, following Indonesia's substantial crisis caused by the fall of Lehman Brothers. The pick of the property and real estate industry was based on current events, such as the bankruptcy of China's largest corporation, Evergrande. The research data were analyzed using the Process Macro SPSS Hayes Model 7. The findings of this study align with signaling theory. This research has investigated how, whether, and when political connections to financial leverage influence profitability and firm value. Additional tests in this study utilized six models. The results from these six models demonstrate that the research model remains robust and consistent, and is not dependent on specific models and assumptions. The sample consisted only of publicly listed companies in the property and real estate industries. The novelty of this study stems from the research approach, namely the utilization of profitability as a mediator and political connection as a moderator. The research phenomenon is related to the collapse of Evergrande in China and the global crisis era faced by Indonesia since 2008.

INTRODUCTION

The stock price of a publicly listed firm on the stock market may be used as an appraisal tool for investors. The stock market price indicates a firm's worth, therefore the long-term purpose of a corporation is to grow its value. A continually increasing company value instills confidence in the public to invest, which is beneficial for the company. Financial leverage is one aspect that might impact a company's value.

Leverage is critical for a company since it is utilized to strengthen the firm's profitability throughout the business cycle. Leverage indicates the extent to which a company employs capital derived from debt to finance its expansion and operational activities. Corporate finance theory also identifies equity and debt financing as primary sources of external financing (Cheng & Tzeng, 2011).

The Pecking Order Theory promotes a hierarchy of funding sources, where corporations tend to employ internal money first, followed by debt, and then equity. Consequently, companies considered more profitable are characterized by their low financial leverage (Harasheh & Vincenzo, 2023). The company's debt policy will affect its worth since the stock price rises in proportion to the amount of debt (Komara et al., 2020). Financial decision-making considers the influence of debt and profitability on the value of a firm. Companies can choose between internal and external financing. Internal funding reduces the cash reserves, while external funding increases the debt risk. Leverage and profitability are evaluated as contributing factors to influence the company's stock. When accompanied by debt issuance, excess cash flow can give the market a signal that boosts the value of a company (Komara et al., 2020). As a result, this study's purpose is to use signal theory to evaluate the influence of financial leverage, profitability, and political ties on a company's value.

The signaling theory is often associated with the works of Spence (1973) and Stiglitz (2002), who investigated the effects of information asymmetry in a variety of marketplaces. According to the signaling theory, "insiders" collect and send knowledge in the form of signals, both deliberately and subconsciously, to external parties who seek information. The signals received by external parties are used to infer the intent and quality of information provided by the signal sender or insider (Tao-schuchardt et al., 2023). The strength or weakness of signals is determined by several factors: A) How frequently signals are transmitted (Janney & Folta, 2003), B) The degree to which they are not excessively warped by the signaling environment, C) The consistency of signals with one another (Gao et al., 2008). Providing information that aligns with the intent and quality expected by external parties is considered a reliable signal.

The signaling theory perspective is widely used in similar research. However, when it comes to this issue, studies on the influence of leverage, profitability, and political connections on business value in various nations continue to offer conflicting conclusions. Fosu et al. (2016) examined how information asymmetry impacts business value and how this connection varies with the company's debt level. Their results indicate that leverage has a detrimental influence on business value. Kanoujiya et al. (2023) also discovered that leverage negatively affects firm value. This arises when leverage provides more tax benefits than debt. When the cost of debt outweighs the advantages, the company's value falls as investors see more risk in their investments. As a result, the value of the firm rises till a particular point before falling. On the other hand, Harasheh & Vincenzo (2023) found that leverage has an advantageous effect on corporate value. Meanwhile, Komara et al. (2020) discovered that leverage did not have a substantial influence on business value.

Ahmad et al. (2015) discovered that leverage has a detrimental influence on profitability. Dalci (2018) discovered a U-shaped relationship between profitability and leverage. The positive effect of financial leverage on profitability in this U-shaped relationship may be ascribed to tax benefits, while the negative effect may be linked to the costs of bankruptcy, financial hardship, major agency challenges, and information asymmetry encountered by the chosen businesses. On the other hand, Munawar (2019) discovered a strong favourable effect of leverage on profitability. Komara et al. (2020) demonstrated that profitability does not have a substantial influence on business value. On the other hand, Sumani & Suryaningsih (2022) observed that corporate profitability has a significant beneficial influence on firm value. According to the fundamental idea explaining the relationship between profitability and firm value, financial statements and disclosures are essential instruments used by management to communicate corporate governance and performance to stakeholders. Large profitability demonstrates the company's capacity to generate significant returns to shareholders. However, Fatima et al. (2023) discovered that when capital structure interacts with profitability as a moderating element, company value is negatively impacted.

Because the author believes that the impacts of political ties on profitability might change based on the political and economic context, political connection is used as a moderating variable. Possible ways in which political connections may moderate the effect of leverage on profitability include: A) Political connections can provide greater access to fiscal incentives and tax reductions that may not be available to companies without political connections. In this case, companies can reduce their tax burdens, ultimately enhancing profitability. B) Political connections can help companies secure strategic contracts and projects that can increase revenue and profitability. This can help offset the interest expenses from debt, thereby reducing the impact of leverage on profitability. C) Companies with political connections may be more capable of influencing regulatory policies that govern their industries. They can attempt to influence regulations that favor them or reduce regulations that may hinder profitability. This can affect a company's profitability by reducing regulatory burdens that restrict operations or growth. D) Political connections can provide protection against political risks that could harm the company. In this situation, companies may feel more secure in taking on higher leverage because they believe they are shielded from adverse policy changes or government actions. E) Political connections can help companies negotiate more favorable terms in subsidies, loans, or financial contracts with the government or government-related institutions. This can help companies reduce their financial costs, which can have a positive impact on profitability. Political connections can potentially add value to a company. For instance, in Indonesia, 85.6% of management is connected to controlling owners, making many corporate managers the country's greatest stockholders (Ang et al., 2013). Previous research indicates that political ties to the president are valued by investors, adding one-fourth to the company's valuation and raising it by 33% (Ang et al., 2013).

Indonesia has faced various global financial crises over the years. The first significant global crisis to impact Indonesia was the monetary crisis that hit the country in 1997. The crisis in Indonesia at that time was not solely caused by the monetary crisis but was exacerbated by a series of national calamities amid economic difficulties. These disasters included agricultural failures, insect outbreaks, large fires in the forests in Kalimantan, and rioting that spread across numerous towns in mid-May 1998 and beyond (Tarmidi, 1998). Lehman Brothers' 2008 bankruptcy was the second case that had an effect on Indonesia, as it negatively impacted the global banking industry as a whole (Alamsyah et al., 2022). The primary cause of Lehman Brothers' collapse was the extensive investment in subprime mortgages. Lehman Brothers had extended these mortgages to subprime borrowers, who were often low-income or unstable earners, posing a significant risk of defaulting on their payments. In 2004, The Federal Reserve began raising benchmark interest rates to control inflation, affecting mortgage interest rates. This, in turn, led to a decrease in property prices in the United States. The downfall of Lehman Brothers triggered a global financial crisis and resulted in changes in the banking and financial systems worldwide, including in Indonesia (Tirto.id, 2008).

The COVID-19 pandemic is the third case that has caused global disruption. The COVID-19 virus spread rapidly in at least 21 countries and had an extraordinarily negative impact on all countries, affecting their economies, societies, welfare, and health (Kementerian Keuangan Republik Indonesia, 2021). The fourth case affecting the global economy is the Russia-Ukraine war, which escalated in 2022. While this conflict did not have a severe impact on the Asian economy, it did affect several international sectors, including energy prices, disruptions in the supply chain, armed conflicts, and the long-term impacts of the COVID-19 pandemic. These factors created a perfect storm for the world to reach a crisis (kabar24, 2022). The Russia-Ukraine war also had repercussions on Indonesia, including surging oil and fuel prices, fluctuations in the rupiah’s exchange rate, volatility in the Indonesia Stock Exchange (IHSG), and disruptions in import-export trade (CNN Indonesia, 2022). The fifth case is the bankruptcy of Silicon Valley Bank and Signature Bank, which became the biggest financial shock in the United States since 2008. While the bankruptcy of Silicon Valley Bank and Signature Bank did not have a significant impact on Indonesia, it did create negative sentiment in the Indonesian stock market (katadata, 2023). The last hot case is the collapse of Evergrande. Evergrande is a giant Chinese real estate company that experienced a default of $340 billion or approximately Rp. 4,400 trillion in 2021 (CNBC Indonesia, 2023). Given the significance of the Evergrande collapse in China, researchers are interested in studying the property sector in Indonesia with a research period spanning from 2008 to 2022.

1. LITERATURE REVIEW

Signalling Theory

The information asymmetry that frequently characterizes strategic choices between a corporation and its stakeholders makes the signaling theory extremely promising for study in strategic management (Bergh et al., 2014). Signals are broadly defined in various signaling literature. Signals are seen as something that contains valuable information for assessing potential employee productivity, conveying product quality, or representing reputation and price competition (Bergh et al., 2014). The signaling theory states that companies with favorable prospects will obtain new capital through debt financing, while companies with unfavorable prospects will secure new capital through equity financing (Cheng & Tzeng, 2011).

Financial Leverage and Firm Value

The increase in corporate borrowing will boost the return on equity, thereby allowing the company to earn greater profits compared to the expenses paid using borrowed funds. While companies can utilize higher levels of debt in their capital structure, there are limits to the amount of debt that a company can employ in its financing (Akhtar M et al., 2016). This is consistent with signaling theory, where the rise in return on equity resulting from increased corporate borrowing signals positively to investors. Investors anticipate a positive return on their investments in the form of dividends, reflected in the increase in stock prices. Akhtar M et al. (2016) found that financial leverage has a positive effect on firm value.
H1: Financial leverage positively influences firm value.

The Mediating Role of Profitability

Profitability in this study acts as a mediator between financial leverage and firm value. Dalci (2018) suggests that the capital structure theory states that profitability is influenced by financial leverage due to tax effects, financial distress, agency costs, bankruptcy costs, and information asymmetry (Hax & Maljuf, 1984). Meanwhile, the tradeoff theory states that a company's profitability can be increased with foreign debt because the interest paid on debt can be deducted from taxes. Pecking order theory states that foreign debt is preferred over equity because the information costs are lower. In contrast, agency theory suggests that a company's performance can be improved with the use of more debt because it will compel managers to use the company's cash flow to pay off debt rather than pursuing their own goals (Dalci, 2018).

H2: Profitability plays a mediating role in the relationship between financial leverage and firm value

The Moderating Role of Political Connection

Close relationships between companies and the government are considered political connections. The government in question here could be members of the council, members of political parties, political figures, or the company itself being a government-elected company. Political connections are valuable because they make companies treated specially, starting from being given ease in obtaining loans to low tax audit risks (Thalita et al., 2022). Government support makes it easier for companies to obtain loans to manage their businesses, thereby increasing the profitability of the company.

H3: Political connection plays a moderating role in the relationship between financial leverage and profitability such that the relationship is stronger when companies utilize political connections in conducting their business operations. Based on the analysis above, we propose a moderated mediation model, namely, where political connection moderates the indirect effect of financial leverage on firm value via profitability.

H4: Political connection plays a moderating role in the indirect effect of financial leverage on financial leverage on firm value via profitability such that the indirect effect is stronger when profitability is high compared to when it is low.

Based on the theoretical framework above, the model of this study focuses on the relationship between financial leverage, profitability, political connection, and firm value as depicted in the framework model in Figure 1.

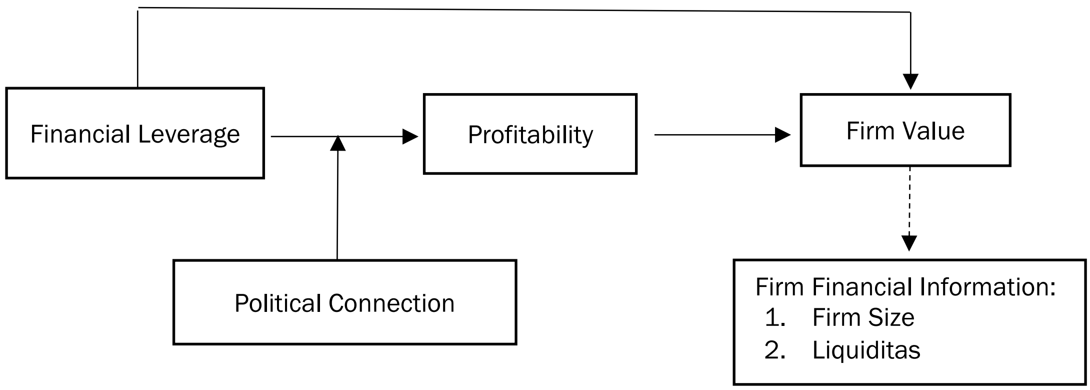

Figure 1. Moderated Mediation Analysis – Model 7 Research Framework

Moderated mediation, known as conditional indirect effect, occurs when the influence of the financial leverage variable on the firm value variable through the profitability variable varies depending on different levels of the moderator political connection. The effect of the X variable, financial leverage, on the Y variable, firm value, and/or the effect of the Y variable, firm value, on the M variable, profitability, depends on the level of the moderator W variable, political connection. Therefore, how is this moderation effect manifested? To find out, we analyze the level of firm value in relation to the use or non-use of political connection in managing the company. To test the hypothesis of moderated mediation, we use the Macro Process SPSS Hayes Model 7. Where firm value is the independent variable (Y), financial leverage is the dependent variable (X), profitability is the mediator variable (M), and political connection is the moderator variable (W).

2. RESEARCH METHODOLOGY

This study is a moderated mediation research examined using the popular Hayes Process Macro model 7 (Hayes, 2022). The research model is presented as follows:

Equation 1:

$$PBV_{it} = \beta_0 + \beta_1 FINLEV_{it} + \beta_2 \mathrm{PROFIT}_{it} + \beta_3 FIRMSIZE_{it} + \beta_4 LIQUID_{it} + \mathcal{E}_{it}$$

Equation 2:

$$PROFIT_{it} = \beta_0 + \beta_1 FINLEV_{it} + \beta_2 \mathrm{POLCON}_{it} + \beta_3 \mathrm{FINLEV} * \mathrm{POLCON}_{it} + \mathcal{E}_{it}$$

2.1 Operational Definitions and Measurement of Variable

Dependent Variable

Firm value, the dependent variable in this study, was evaluated using Price to Book Value (PBV). Additionally, the study tested the robustness of the model by measuring firm value with TobinsQ. PBV, representing the firm's value, provides information to external parties about how the company manages its operations transparently (Mahirun et al., 2023). Mahirun et al. (2023) also stated that a higher PBV enhances investor evaluations because a high PBV indicates an increase in the company's returns. In other words, PBV signals to investors. PBV is measured using the following formula (Indupurnahayu et al., 2023):

$$\text{PBV} = \frac{Market\ Price\ per\ Share}{Book\ Value\ per\ Share}$$

TobinsQ, another measurement of firm value, was calculated using the following formula (Evans & Gentry, 2003):

$$\text{TobinsQ} = \frac{Market\ Value\ of\ The\ Firm}{Book\ Value\ of\ The\ Firm}$$

Independent Variable

The Debt to Equity Ratio was used for measuring financial leverage as an independent variable in this research, as shown in the following formula (Indupurnahayu et al., 2023):

DER = $\frac{Total\ Debt}{Equity}$

Mediating Variable

Profitability in this study was a mediating variable and is measured using Return on Equity (ROE), as demonstrated in the following formula (Kijewska, 2016):

ROE = $\frac{Net\ Income}{Shareholder\ Equity}$

Moderating Variable

This study included a dummy variable as a moderating variable to measure political connection; it is set to 1 if a firm has political ties and 0 otherwise (Ammari, 2022). Based on the literature, A firm is seen to have political links if any of its members, such as the CEO, chairman, or other board members, fits the following criteria:

- Is a member of a political party
- Holds a prominent position in the government
- Has direct familial ties to politicians (Ammari, 2022).

Control Variable

The study employed firm size and liquidity as control variables. Firm size was measured using the following formula (Indupurnahayu et al., 2023): Ln (Total Assets). Meanwhile, liquidity was measured using the formula as follows (Saleem & Rehman, 2011):

Liquidity = $\frac{total\ assets}{total\ liability}$

The measurement of all variables is summarized in Table 1.

Table 1. Operational Definitions and Measurement of Variables

Variable Type	*Variable Name*	*Measurement*	*Reference*	*Sources*
Dependent Variable	Firm Value	PBV = $\frac{Market\ Price\ per\ Share}{Book\ Value\ per\ Share}$	(Indupurnahayu et al., 2023)	Annual Report, Indonesia Stock Exchange Website
		TobinsQ = $\frac{Market\ Value\ of\ The\ Firm}{Book\ Value\ of\ The\ Firm}$ (Additional Test)	Evans & Gentry, 2003)	OSIRIS database
Independent Variable	Financial Leverage	DER = $\frac{Total\ Debt}{Equity}$	(Indupurnahayu et al., 2023)	Annual Report, Indonesia Stock Exchange Website
Mediating Variable	Profitability	ROE = $\frac{Net\ Income}{Shareholder\ Equity}$	(Kijewska, 2016)	Annual Report, Indonesia Stock Exchange Website
Moderating Variable	Political Connection	dummy variable. 1= A company has political connections. 0 = A company does not have political connections.	(Ammari, 2022)	OSIRIS database
Control Variable	Firm Size	Ln (Total Assets)	(Indupurnahayu et al., 2023)	Annual Report, Indonesia Stock Exchange Website

	Liquidity	$\frac{total\ assets}{total\ liabilitas}$	(Saleem & Rehman, 2011)	Annual Report, Indonesia Stock Exchange Website

2.2 Sample and data collection

The research's sample comprised 81 firm in real estate and property sector listed on the three trading boards of the Indonesia Stock Exchange, namely 37 companies on the Main Board, 43 companies on the Development Board, and 1 company on the Acceleration Board. The Main Board is occupied by large-sized issuers with a good track record. The Development Board is for companies that do not yet meet the Main Board requirements but have good prospects for the future. Meanwhile, the Acceleration Board is for small to medium-sized enterprises or startups seeking funding in the capital market (stockbit.com, 2022).. This study only focused on companies listed on the Main Board, as they were considered to have better prospects during the observation period and were expected to have more complete data.

The sample obtained consists of 37 companies with a observation period of 15 years from 2008 to 2022. This study utilizes observations from 2008 due to the monetary crisis that occurred in Indonesia triggered by the collapse of Lehman Brothers. Hence, the total number of observations used is 555. However, during data collection, there were several challenges, particularly the incompleteness of data which affected the sample size. As a result, the final sample size used after eliminating companies with incomplete data is 16 companies with a observation period of 15 years from 2008 to 2022. The total number of observations in this study is 240 companies in a balanced panel dataset.

3. RESULT AND DISCUSSION

3.1 Descriptive statistic

The research data were obtained from 16 companies observed between 2008 and 2022, resulting in a total of 240 observations. The results of descriptive statistical analysis are presented in Table 2. Financial leverage shows a mean value of 0.94, which is higher than its standard deviation, indicating that the data is homogeneous. Firm value has a mean of 0.66 with a difference range between 0.11 and 12.77, indicating a considerable variation in the data. Profitability and political connection exhibit heterogeneous data as their mean values are lower than their standard deviations. Table 3 shows that only 37.5% of companies in Indonesia utilize political connections in their business operations.

Table 2. Descriptive Summary Statistic

Descriptive Statistics					
	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Firm Value (PBV)	240	.11	12.77	1.34	1.44
Firm Value (Tobin's Q)	240	.04	3.75	0.66	0.56
Financial Leverage (DER)	240	.03	3.83	0.94	0.62
Profitabilitas (ROE)	240	-41.85	71.05	8.79	12.32
Political Connection	240	0	1	0.37	0.48
Control Variable Firm Size	240	18.58	24.90	22.42	1.48
Control Variable Liquidity	240	.14	21.09	2.47	2.27
Valid N (listwise)	240				

Table 3. Frequency of Political Connection

Code	Frequency	Percentage (%)
0	150	62,5%
1	90	37,5%
Total	240	100%

3.2 Correlation Matrix

The correlation between variables is shown in Table 4. Table 4 reveals the relationships between Tobin's Q and PBV (0.913**), financial leverage and PBV (0.421**), profitability to PBV (0.369**) and Tobin's Q (0.446**), firm size to financial leverage (0.329**) and political connection (0.206**), liquidity and political connection (0.233**) are significantly positive at the 1 percent level. Meanwhile, the relationship between liquidity and PBV, Tobin's Q, financial leverage, profitability, and firm size is significantly negative at the 1 percent level. The correlation test results in Table 4 show the relationship between financial leverage and Tobin's Q (0.164*), firm size to PBV and Tobin's Q (0.155*) are significantly positive at the 5 percent level. Non-significant results are indicated by the influence of profitability and financial leverage, political connection on all variables, and firm size on profitability. The range of VIF values in Table 4 ranges from 1.036 to 1.326, which is smaller than 10, so it is concluded that there is no multicollinearity.

Table 4. Pairwise Correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) Firm Value (PBV)	1						
(2) Firm Value (Tobins Q)	.913**	1					
(3) Financial Leverage	.421**	.164*	1				
(4) Profitability	.369**	.446**	.007	1			
(5) Political Connection	.103	.125	-.027	-.053	1		
(6) Firm Size	.155*	.155*	.329**	.055	.206**	1	
(7) Liquidity	-.250**	-.233**	-.382**	-.172**	.233**	-.234**	1
VIF			1.267	1.036	1.145	1.288	1.326

Note: **p<0,01, *p<0,05

3.3 Hypothesis testing

This study utilized SPSS 27 software with the additional Hayes Process Macro program and analyzed using model 7. The results of the regression tests are shown in Table 5. Table 5 displays models 1 through 6, where models 1, 3, and 5 do not include control variables, while models 2, 4, and 6 include control variables. The analysis results for models 1 and 2 indicate that financial leverage has a negative but non-significant effect, both when including control variables and not. The interaction effect of political connection and financial leverage does not moderate profitability, thus hypothesis 3 is rejected. Models 3 and 4 show that financial leverage has a significant positive effect on firm value measured by PBV, thus hypothesis 1 is accepted. Models 5 and 6 present additional tests by replacing the measurement of firm value with Tobin's Q. The results are the same as when firm value is measured by PBV, indicating that the research model is considered robust.

Table 5. Result of regression analisys

	Profitability		*PBV*		*TobinsQ*	
Variables	*Model 1*	*Model 2*	*Model 3*	*Model 4*	*Model 5*	*Model 6*
Independent variables						
Financial leverage	-0,1360	-1,3958	7,7563***	6,6884***	2,7579**	2,2144*
Mediator						
Profitability			6,7818***	6,5412***	8,1128***	7,3201***
Moderator						
Political connection	-0,8112	-0,3279				
Interaction term						
Financial leverage x political connection	0,4107	0,8779				
Control variable						

Firm size		0,8068		-0,1148		0,8818
Liquidity		-2,6073		-0,5705		0,1805
R^2	0,0600	0,1954	0,5575	0,5584	0,4882	0,4908
R-sq	0,0036	0,0382	0,3109	0,3118	0,2383	0,2409
F	0,2847	1,8570	53,4529	26,6199	37,0799	18,6427
Note(s): N=	240	240	240	240	240	240
*p < 0,05; **p < 0,01; ***p < 0,001						

Source: own

Table 6 presents the bootstrap result for the conditional indirect effects. The test results for the indirect effect of financial leverage on firm value with a 95% confidence interval show values ranging from -0.3002 to 0.0383 and -0.2378 to 0.2143. The values presented include zero, thus it is concluded that profitability is unable to mediate the influence of financial leverage on firm value, hence H2 is rejected. The impact of the mediator variable profitability on the relationship between financial leverage and firm value varies depending on the utilization of political connections in managing the company. Table 6 demonstrates an increase in the effect from -0.1019 to 0.0110 when companies use political connections in managing their businesses. The political connections used will enhance the impact of the mediator variable profitability on the relationship between financial leverage and firm value.

Table 6. Bootstrap result for the conditional indirect effects

PolConn	*Effect*	*BootSE*	*Boot Lower Limit 95% Confidence Interval*	*Boot Upper Limit 95% Confidence Interval*
0	-0,1019	0,0843	-0,3002	0,0383
1	0,0110	0,1132	-0,2378	0,2143
Note(s): N= 240				
Bootstrap sample size = 5.000				

Table 7 shows the results of moderated mediation with a 95% confidence interval, indicating a lowest value of -0.1732 and a highest value of 0.4122. The values presented include zero, thus it is concluded that H4 is rejected.

Table 7. Index of moderated mediation (difference between conditional indirect effects)

	Index	*BootSE*	*BootLLCI*	*BootULCI*
PolConn	0,1130	0,1461	-0,1732	0,4122

4. DISCUSSION

4.1 Financial Leverage and Firm Value

The first finding indicates that financial leverage has a significant positive effect on firm value. This means that using more debt will send a positive signal to investors. During crises, property and real estate prices may experience significant declines. However, companies with high levels of financial leverage tend to use less of their own capital and more borrowed capital to finance their operations and investments. When property and real estate prices recover after the crisis, companies with higher leverage may experience an increase in PBV due to the profits gained from the relatively small use of borrowed funds compared to the increase in asset value funded by borrowed funds. Therefore, PBV may increase because the company's stock prices may be valued higher than their book value. Banks and financial institutions may be more willing to restructure debt or provide better loan conditions during crises, which can help property and real estate companies survive and grow. These research findings are consistent with Akhtar M et al. (2016).

4.2 Financial Leverage, Profitability, and Firm Value

The second finding indicates that profitability does not mediate the relationship between financial leverage and firm value. This occurs because the 2008 financial crisis had a significant impact on the property and real estate sector. The unstable market conditions and declining property prices can lead to changes in the relationship between financial leverage and firm value, regardless of the company's profitability level. Companies may also change their financial strategies without focusing on profit levels at that time, so profitability may not always be a consistent mediator in the relationship between financial leverage and firm value.

4.3 Financial Leverage, Political Connection, and Profitability

The third finding indicates that political connection is unable to moderate the effect of financial leverage on firm value. While political connections may provide access to resources and certain advantages, their influence may not always significantly affect a company's financial decisions, especially in the property and real estate sector, which are highly influenced by economic and market factors. Investors and the market are more concerned about a company's credibility and business performance rather than its political connections. In this case in Indonesia, it can be concluded that political connections do not have a significant impact on the market's assessment of the company's value. However, looking at Table 6, companies that use political connections in managing their businesses have a positive impact on financial leverage and profitability but still not significant.

The fourth finding in Table 7 indicates that political connection positively moderates, albeit insignificantly, by profitability. This reveals that the indirect impact of financial leverage on firm value through profitability is stronger in companies capable of generating profits compared to those that are not. Property and real estate companies that are able to generate profits tend to have better access to additional capital sources. With optimal financial leverage, they can utilize additional debt to finance profitable projects and expand their operations, which in turn can enhance profitability and firm value. Companies capable of generating profits are typically valued higher by the financial market than those that do not. They have greater credibility in obtaining loans from financial institutions or issuing bonds, which can provide them with access to additional funding at lower costs.

CONCLUSION

This research examines the property and real estate sector over a period of 15 years from 2008 to 2022. The year 2008 is chosen because it marks the first time Indonesia faced a significant monetary crisis triggered by the collapse of Lehman Brothers. The property and real estate sector is selected for this study considering the case of the collapse of China's largest property and real estate company, Evergrande, in 2021 due to serious financial issues. Therefore, the researcher is interested in examining the property and real estate sector in Indonesia during the global crisis era. The research data are analyzed using the Process Macro SPSS Hayes Model 7. The findings of this study are consistent with signaling theory. This research has investigated how, whether, and when political connections to financial leverage influence profitability and firm value. We believe that the findings of this research contribute to a better understanding, although not perfect, and still require further exploration of related variables.

The research model on the influence of financial leverage on firm value with profitability as a mediating variable and political connection as a moderating variable is relatively new and is expected to fill the gaps in previous research. This study contributes to the research model by using political connection as a moderating variable. Another contribution is providing additional reference for future research and for companies to pay attention to the use of debt. We hope this research will inspire future researchers.

One limitation of this research lied in the sample used. The sample consisted solely of businesses in the property and real estate sectors that were publicly listed.

Future study may seek to connect with current events and investigate comparable subjects. Future researchers looking into the same industry are urged to look at samples from firms on the development and acceleration boards. In the future, researchers will have the opportunity to investigate how financial leverage impacts the value of businesses on several boards.

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