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## Article

# The Impact of Political Connections on Firm Performance: Evidence from Upstream Oil and Gas Companies

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**Abstract:** The purpose of this research is to emphasize the business and political linkages that are associated with performance. The inclusion of a politician or government official on the board is thought to vibrantly regard the firm as a resource value that leads to a competitive advantage. The engagement of these powerful figures verbally leads to the belief that a company with a resourceful person is very prominent in high-performing and high-risk industries that are economically advantageous to the country. The traditional perspective highlights that political involvement is particularly harmful for the firm due to control and ownership difficulties. The rhetorical engagement of these powerful people leads to the assumption that they are normally involved in high-performing and high-risk industries that are economically beneficial to the country. Contrary to the conventional view, some scholars suggest that political participation will continue to explore positive benefits for businesses such as profitability, subsidy, reputation, and investor trust for a long-term company strategy as proposed by the stakeholder theory and the helping hand theory. This paper examines the corporate performance in relation to political participation using 1218 datasets from Fortune Global 500 corporations, focusing mostly on oil and gas upstream activities from 2012 to 2017. All in all, our relationship hypothesis suggests that firms with strong political foundations are more likely to have an outsized impact on business performance and to be more market-sustained.

**Keywords:** political connections; high-performing industries; upstream oil and gas companies; firm performance; stakeholder theory; the helping hand theory



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**Contribution/Originality:** The primary contribution of this study is to evaluate the impact of corporate political connections on company performance, particularly in upstream oil and gas businesses around the world. Knowing that upstream oil and gas activity poses a significant risk, but the involvement is valuable to the country's economy, the purpose of this paper is to explain how these links might contribute to business performance.

## 1. Introduction

Why are some companies stronger than others? This preliminary question has piqued the curiosity of economists and other researchers for quite some time. Is it because of a company's size? Or was it because of the profit they made, or simply because politicians or the government were involved? The most significant executives in a corporation, according to (Baysinger and Butler 1984), are the board of directors who have the authority to appoint, fire, and compensate management teams and risk bearers. Even the laws have provided for a board of directors to oversee corporate matters in order to improve the firms. Having a competent director gives a company a promising future; hence, some corporations have used political influence strategy by requesting these important people to be directors in order to maintain their status quo (Pruzan 2001). One of the reasons why firms have attempted to co-opt with the government or politicians is due to the uncertainties in government regulations (Hillman et al. 2009), which come in the form of politicians or other prominent individuals who have access to government procedures that companies subsequently absorb.

Since then, numerous studies have been proposed to see the effectiveness of political figures on board with company performance. However, the findings ended with no apparent conclusion in sight, with much research yielding inconclusive results. In Asia, for example, many corporations consider political support acceptable, such as in China, Malaysia, Indonesia, or even Singapore (Ang et al. 2013; Cheng et al. 2017; Fisman 2001). Furthermore, many European oil and gas companies have developed strong bonds with specific politicians. For example, the Chairman of Total Energies in France is a state minister, highlighting the importance of these individuals in a corporation (Faccio 2010). Some published studies have revealed that corporate political impacts (CPIs) have a greater impact on business performance, but how do CPIs affect corporations? It could be due to their system, their actions, their decisions, or their point of view. According to prior findings, several studies have argued that engagement and stable ties with CPIs will result in a financially competitive return for a firm (Sheng et al. 2011; Wong and Hooy 2018). Additionally, having the political connection of board members strengthens the company's reputation, value creation, and increases investor trust as an institution since they are powerful with a competent resource (Amenta 2005). The analysis of CPIs is linkable to the stakeholder theory (Freeman et al. 1984) and the resource-based view theory (RBV) (Barney 1991). In this study, we shed light on performance weightage using evidence from oil and gas businesses listed on the Fortune Global 500 website, in order to understand subjects such as the involvement of CPIs and their outcomes.

According to Freeman, stakeholder theory refers to, "those groups without whose support the organization would cease to exist". These groups would include customers, employees, suppliers, political action groups, environmental groups, local communities, the media, financial institutions, governmental groups, and more. This connectivity includes all existing businesses in order to create a benefit for all stakeholders, not just shareholders. Another definition of stakeholder theory is a network of people who collaborate to accomplish the overall purpose of the organization. Appointing a political individual to the board, on the other hand, can provide constant understanding for both parties (Arosa et al. 2013). Someone with power and influence enables the collaboration to benefit the company. The stakeholder theory is similarly analogous to the RBV theory in that corporations seek to have a relationship and a strong community connection as well as a preferential profile for their own interest. Prior research has indeed proven to be a favorable effect on CPIs' involvement, which includes specific finance benefits and resource coverage, subsidies and minimum bank loans, and access to government contacts and secure information, particularly on regulations (Azmi et al. 2020; Houston et al. 2014; Sapienza 2004; Tsai et al. 2019). On the other perspective, there are studies that oppose politicians' engagement over long-term firm financial performance, especially when it comes to company leverage and diverse shareholder desires (Amara 2020; Cheney et al. 2011; Hashmi et al. 2018)

The goal of this study is to analyze the impact of political ramification in the upstream oil and gas industry obtained from the Fortune Global 500 from the years 2012 to 2018. We also wish to explore the performance level of politically connected firms compared to other non-CPIs, especially in the context of oil and gas companies. We find that among our sample of 500 oil and gas companies, only 203 upstream companies have actively disclosed their sales and profit activities and match our study condition. Companies who have no records of their performance and provide insufficient information in their annual report are eliminated. We discovered from the samples that the majority of upstream oil and gas corporations are owned by the central government or state, implying that political linkages indeed exist in this industry. According to Faccio (2006), political connections are those that have a direct link to a current or former government bureaucrat, or they themselves are currently a minister or hold a position in a government and a member of the company board, or they have any relation with a politician or government or minister from another country or state. In brief, political relationships are considered as a bond formed between two parties in exchange for preferential treatment (firms appoint politicians). This relationship could be in the context of family ties, friendship, or a friendship alliance

with either former or present government officials, or it could be in the context of a common network, such as sharing the same school, university, alumni, or employment (Ahmad Tarmizi and Brahmana 2022; Fan et al. 2008).

Our paper reconciles positive findings indicating that CPIs carry an affluent step, particularly in upstream oil and gas companies, that is consistent with stakeholders and the resource-based value (RBV) theory. Thus, we propose a novel hypothesis positing that (1) CPIs do well financially as a result of government subsidies, state loans, or even government regulations; (2) CPIs are more than likely to prevent financial troubles due to strong political interference, even though some research explicitly found that CPIs sometimes resulted in a substantial financial state and other serious consequences; and (3) CPIs can enhance firm value.

The body of this paper is organized as follows. Section 2 explains the institutional context and theory. Section 3 provides data and descriptive evidence on the significant relationships between political ties and corporate performance. Section 4 describes the empirical findings. Finally, Section 5 comprises the study results and discussions.

## 2. Institutional Background and Hypothesis

### 2.1. Institutional Background

Oil and gas firms attempt a complex process from raw materials to finished products. This industry has three core working phases: the upstream, the middle stream, and the downstream operations, and all of these activities contribute hugely to a country's economy, trade, and development. Any countries possessing these non-renewable resources are considered as oil blessings as this commodity is able to generate income. However, the wrong move could lead to an oil turmoil that curtails the country's economy, also known as a "curse resource", which refers to a conundrum in which a country underperforms economically despite possessing scarce natural resources, which are economically useful for production and consumption. Less developing countries with a poor legal framework and flexible regulations are more likely to face resource curse problems. According to Ross (2012), governments with abundant natural resources spend a lot of money on military force and corruption.

On the other side, in most industrialized countries, a well-functioning judicial system is not anticipated to receive preferential treatment from another political individual. However, the presence of these individuals on the company's board of directors cannot be contested and can be an asset to the corporation. The research by (Goldman et al. 2009) discovered the presence of political individuals on boards across the United States (U.S.) S&P 500 companies in the year 2000, with a particular concentration of Republican or Democratic companies across Fama-French thirty industries, demonstrated that political intervention has a pervasive influence on the value of public companies.

Other research has found that this perplexing relationship improves corporate financial and stock performance, competitive advantage, taxation, and subsidies. Furthermore, CPIs may act as a buffer for businesses, reducing market frictions or impediments to competitiveness, capturing attractive returns, and balancing the gap between investment and production (Agrawal and Knoeber 2001; Boubakri et al. 2012; Bunkanwanicha and Wiwattanakantang 2009; Kim and Zhang 2016; Tsai et al. 2019).

We chose upstream oil and gas as our data source since the upstream portion of the oil and gas industry includes exploration activities such as creating geological surveys and obtaining land rights, as well as production activities including onshore and offshore drilling. Upstream production is one of the most capital-intensive businesses, necessitating costly equipment and highly specialized staff. Thus, the purpose of this research is to look into how CPIs can help oil and gas companies improve their production, sales, and returns, as well as pollution regulations for the company's economic and environmental security. As a sample, we utilize a completed company reporting the activities of upstream oil and gas on the Fortune Global 500 list. Based on our initial assumptions, upstream oil companies should have at least 73% political engagement on board, which is consistent

with Hillman et al. (2004), which implies that CPI involvement is pronounced on larger companies and any firms that improve a country's well-being.

## 2.2. Hypothesis Development

Strong CPIs have been observed to have a positive financial impact, driving high revenue, lowering poverty rates, enhancing living standards, and creating job chances. Companies may profit financially from political presence. As a result, the pertinent hypothesis is as follows:

### Performance Hypothesis

There is a relationship between CPIs in upstream oil and gas firms and performance.

## 3. Data and Descriptive Evidence

### 3.1. Data

Our sample included the upstream oil and gas companies listed in the Fortune Global 500; the selection was based on corporate board association to any political party or government individuals. The Fortune Global 500 website is the preferred option based on firm yearly revenues. We started our inquiry in 2012 and will continue for another 6 years to examine what transpired after the global financial crisis and recession hit in 2008, particularly on the corporate financial situation of national or state-owned firms. Despite the fact that demand for this commodity is increasing, we would like to observe whether public or private enterprises have taken the initiative to engage with political figures to secure strong stability, or if they have been treated as appropriately as other national or state companies. This study conducted a comprehensive analysis in finding board connections using the company's annual report and supplemented it with another credible Internet website called Relationship Science (RelSci) to observe and describe individual relationships to assure content validity.

Before we generated the datasets on political-board association, we manually collected data on the company ownership information: whether the company was public, private, a joint venture, or belonged to state or national. Then, we identified how many directors were in the company and checked whether the CEO, Chairman, or directors had an association with any political or government individual. We found 203 upstream companies with 73% firms showing connections with politicians. This result suggests that politicians are aware of the impact and practices from this connectedness. In line with the existing theory regarding the stakeholder theory, firms always have a conflict on value creation and trade strategy. So, we adopted a resource-based theory, as having a powerful and resourceful person on board made the firm more concentrated (Wahba 2008). The size of the companies featured in the study most likely contributed to their reliance on political relationships to assist them in overcoming business challenges. The proportions of companies represented in terms of firm ownership were as follows: 47% state-owned enterprises, 40.2% limited companies, and 13% private companies. We measured firm performance using company financial metrics (e.g., return on assets and return on equity) predicated on the Thomson Reuters ASSET4 ESG DataStream. We exclusively selected upstream firms from the Global Fortune 500 list, which covered all oil and gas companies. We opted for the Global Fortune 500 because the website claims to comprise only high performers (leading corporations) listed by total revenues for their respective fiscal years, and due to its top standard and reputable position making it more appropriate for capturing productive oil and gas corporations globally.

Our sample consisted of 203 upstream oil and gas companies that met the data requirements of our hypothesis test. To minimize the impact of outliers, we started all scaled variables at the top and bottom 1% of each distribution. The number and percentage of oil and gas firms by ownership are shown in Table 1. Asia had 59 upstream corporations in 50 nations (the most), Europe had 56 in 46 countries, and North America had 55 in 25 countries, assuming that one country had numerous oil plants and operations. Africa

had 16 firms, while South America had 12 companies. Oceania had the fewest companies, with only 7. We organized the companies by continent with separate ownership. Asia had the most state- and government-owned enterprises, followed by Europe, Africa, South America, and North America. We also discovered that Oceania had no government or state-controlled corporation, followed by Europe and North America.

We assessed political support for all types of ownership in Table 2. Asia had 14 public firms in total, 12 of which had exhibited solid political board involvement, followed by North America with 17 companies with significant political board involvement, Europe with 25 companies, and others with fewer than three companies per country. To summarize, 61.22% of public corporations had direct or indirect relationships with political individuals or parties. Private companies had a ratio of roughly 58%, demonstrating that political participation benefits from this type of ownership as well. While the amount of government and state-owned enterprises was consistent across all regions, ministers, government, or state authority controlled more than half of the companies. In Table 3, we compared the number of upstream oil firms that are politically engaged to those that are not. The table reveals that political participation prevails, and only a small percentage (27%) of corporations are not linked to any government or politicians on company boards.

**Table 1.** Continents and company type/ownership.

Continent (S)	Type/Ownership			Total	
	Public	Private	Government/State-Owned	N	%
Asia (59)	14	9	37	59	29
Africa (16)	3	2	11	16	8
North America (55)	45	6	4	55	27
South America (12)	1	1	9	11	5
Europe (56)	30	14	9	56	28
Oceania (6)	5	1	-	6	3
Total	98	33	70	149	100

**Table 2.** Political on board.

Continent (S)	Political on Board			Total	
	Public	Private	Government/State-Owned	N	%
Asia (59)	12	4	37	53	29
Africa (16)	2	-	11	13	8
North America (55)	17	3	4	24	27
South America (11)	1	1	9	11	5
Europe (56)	25	11	9	45	28
Oceania (6)	3	-	-	3	3
TOTAL	60	19	70	149	100

**Table 3.** CPI companies and non-CPI companies.

Continent	Oil and Gas Companies		CPIs Companies		Non-CPIs Companies	
	N	%	N	%	N	%
Asia	59	29	53	36	6	11.11
Africa	16	8	13	9	3	5.55
North America	55	27	24	16	31	57.4
South America	11	5	11	7	-	-
Europe	56	28	45	30	11	20.37
Australia	6	3	3	2	3	5.55
TOTAL	203	100	149	100	54	100

### 3.2. Measurement Procedures

We included three variables in this paper: the dependent variable, the experimental variable, and the control variable. Table 4 summarizes the metrics measurement and information sources relevant to our study. All variables are defined and described in the following manner:

*Dependent Variable:* Consistent with prior studies that use the firm's performance indicator, this study also tested firm performance using a financial performance parameter such as ROA and ROE to determine how efficiently the company was able to generate profit. We did not use Tobins' Q because some companies are not listed in any stocks market.

*Independent Variable:* The Corporate Political Involvements (CPIs) with the definition follows Faccio (2006); Fan et al. (2008); Hashmi et al. (2018); Ahmad Tarmizi and Brahmana (2022) who defined political connections as an attachment between two parties in exchange for preferential treatment (stakeholder–politicians goals) in the context of the company board as a chairman, Chief Executive Officer (CEO) or executive director, president, prime minister, minister with portfolio, family ties, friendship, or a friendship alliance with either a former or current government. We used a dummy variable 1 for CPIs and 0 for non-CPIs.

*Control Variables:* This study introduced three control variables. We used leverage (LEV) measured by total equity based on a previous study by Fraser et al. (2006) that depicted high leverage for government-controlled companies and lower leverage for non-controlled companies, firm size (SIZE) measured by the natural log of total assets, and capital intensity (CAPINT) measured by total assets by sales (by percentage).

**Table 4.** Summary of measurement procedures.

Variables	Definition	Sources
<i>Dependent Variables</i>		
ROA	Net profit before tax over total assets	DataStream
ROE	Net profit before tax over total equity	DataStream
<i>Experimental Variable</i>		
CPIs	An indicator variable, 1 for corporate–political involvement firm and 0 otherwise	Annual Report/RelSci
<i>Control Variable</i>		
Firm Size	Natural log of total assets	DataStream
Leverage	Total debt to total equity	DataStream
Capital Intensity	Total assets by total revenue	DataStream

### 3.3. Descriptive Evidence on the Relations between Political Connections on Firm Performance

We began our analysis by examining the relationship between individual politicians on corporate boards and firm performance. The oil and gas industry is a high-risk organization that is considered crucial for country development. Due to the inevitable prominence of the oil industry, we presumed that it has strong support, particularly from the government, along with a high level of political engagement in corporate board positions such as Chairman, CEO, and other directors. We used the study by Hu and Leung (2011), which adopted a binary variable to denote corporations' political connectedness. If a firm's Chairman, CEO, or directors were current or former government bureaucrats, it was considered as politically connected and had a value of one; for non-politically connected firms, it had a value of zero.

### 3.4. Baseline Regression Models

According to the performance hypothesis, CPIs firms outperformed non-CPIs firms in upstream oil and gas companies. To put this prediction to the test, we utilized profitability measurements (return on assets and return on equity) derived from the Thomson Reuters database of company prospectuses (annual reports), which typically spans six years (2012–2017). To regress the performance measure, we converted CPIs into dummy variables

that interacted with other controllable variables including leverage, firm size, and capital intensity. All control variables were described and measured in the following order:

$$FP_{i,t} = \beta_0 + \beta_1 CPI_{i,t} + \beta_2 FP * CPI_{i,t} + \beta_3 LEVERAGE_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 CAPINTENS_{i,t} + \sum_{j=0}^{j-1} \gamma_{203j} COUNTRY_{i,t} + \sum_{j=0}^{T-1} \gamma_{6t} YEAR_{i,t} + \epsilon_{i,t}$$

$FP_{i,t}$  refers to the financial performance of firm  $i$  at year  $t$  with financial performance measured from two variables: the ROA and ROE towards  $CPI_{i,t}$ . We were interested in testing the coefficient on firm performance  $\times$   $CPIs$  ( $\beta_2$ ) which captures the effect among  $CPIs$  compared to other non- $CPIs$   $\beta_1$  especially in the oil and gas industry. Specifically,  $\beta_2$  equals the relationship effect on firm performance which uses ROA and ROE among  $CPIs$  ( $\beta_1 + \beta_2$ ). Thus, our hypothesis predicts  $\beta_2$  to be positive.

### 3.5. Estimation Model

We found several instruments that were correlated with the endogenous variable that were likely to satisfy these criteria: (1) leverage, (2) firm size, and (3) capital intensity. The following regression model was developed using all of the sample firms in this study:

$$ROA = \beta_0 + \beta_1 LEV + \beta_2 SIZE + \beta_3 CAPINT + \epsilon \tag{1}$$

$$ROE = \beta_0 + \beta_1 LEV + \beta_2 SIZE + \beta_3 CAPINT + \epsilon \tag{2}$$

where

ROA = Return on assets

ROE = Return on equity

LEV = Leverage

SIZE = Firm size

CAPINT = Capital intensity

$\beta_0$  = Constant

$\beta_1, \beta_2, \beta_3$  = Parameters to be estimated

$\epsilon$  = Error or disturbance term

## 4. Empirical Results

Table 5 presents the descriptive statistics and Pearson correlation matrix for all variables used in this study.

**Table 5.** Descriptive statistic (2012–2017, n = 1218).

	Mean	Median	Minimum	Maximum	Std. Dev.
Panel A: Dependent Variable					
Return on Assets (ROA)	2.25	2.21	−112.57	82.82	9.56
Return on Equity (ROE)	0.33	0.29	−42.52	33.32	2.59
Panel B: Political Connection					
CPIs	3.58	0.00	0.00	100.00	10.33
CPIs (Dummy)	0.25	0.15	0	1	0.25
Panel C: Controlled Variables					
Leverage	0.130	0.012	0.00	99	0.20
Firm Size (LN)	1.829	1.792	3.69	11.15	0.26
Capital Intensity Ratio	0.505	0.497	0.00	45.1	0.29

### 4.1. Test of Performance Hypothesis

The study utilized a descriptive statistic in line with the procedure described by Chatterjee and Hadi (2006) (Table 5). The results show the variable CPI was significantly and positively related to firm, with the mean of 2.25 for ROA, thus supporting the performance hypothesis. The result indicates that the oil and gas companies recorded moderate performance during the six years from 2012 to 2018 concerning ROE. Prior studies by



Foo et al. (2015) and Prado-Lorenzo et al. (2009) have made concrete the justification that the range for mean value was moderate in the oil and gas scope of the study.

#### 4.1.1. Descriptive Statistics

In Panel B, the independent variable for CPIs indicated a positive mean of around 25% of firms that appeared to be politically connected. Finally, the mean value of CPIs was 3.6%, inferring at least 4 out of 100 board members were politicians, on average. This value was lower than the reported value from the Kogan and Salganik (2015) research, who reported a mean value of 11.4% in the oil and gas industry. The control variables in Panel C, with firm characteristics such as leverage (LEV) showed a minimum number of 0.00 and maximum of 99. Then, the minimum number of firm size (Size) was 3.69 and maximum was 11.15.

As shown in Table 6, we found political-connected firms for upstream oil and gas companies had a bigger firm size depending on their shale and plant base. This reveals that upstream companies also had a bigger board with a centralized power. Further, the upstream oil and gas companies recorded a high leverage and intense capital due to the complicated process during exploration and production activities.

**Table 6.** Differences between corporate political involvement and non-political involvement 2012–2017 (N = 1218).

	CPIs = 1 (149)	Non-CPIs = 0 (38)	Coef.	T-Value
Dependent Variable				
Return on Assets (ROA)	0.040	0.031	0.018	0.027
Return on Equity (ROE)	0.035	0.028	0.010	0.986
Controlled Variables				
Leverage	0.360	0.337	0.020	0.43
Firm Size (LN)	10.064	10.773	0.607	4.03
Capital Intensity Ratio	0.073	0.083	0.004	0.758

#### 4.1.2. Cross-Tabulation

Table 7 shows a cross-tabulation of the independent variables (CPIs) and company profitability. CPIs outpaced non-CPI enterprises in terms of profitability, with 73.8 (ROA) percent and 78.8 (ROE) percent, respectively. Only a few companies using CPIs were profitable due to certain linkages. According to our findings, firms with relational links had low profitability, whereas firms with transactional relationships had great profitability (Arifin et al. 2020; Wong and Hooy 2018). Unfortunately, our present data collection was limited in distinguishing between a relational and a transactional relationship because several countries were unable to uncover a connection of board members and their affiliations to politicians.

**Table 7.** Cross-tabulation.

	LOW ROA	HIGH ROA	LOW ROE	HIGH ROE
CPCs	26.3%	73.8%	21.3%	78.8%
Non-CPCs	56.2%	43.8%	57.4%	42.6%

Meanwhile, it was hypothesized that if no connections to politicians or the government were revealed, the non-CPI performance of the oil and gas businesses was almost comparable. For example, 56.2 percent of this group had a poor ROA, whereas 43.8 percent had a high ROA. In other words, corporations with no political ties were just half as profitable. This implies that corporations can leverage political ties and political power to improve their performance.

#### 4.1.3. Correlation Matrix

Table 8 presents the correlation matrix for the variables in the estimation model. The correlations between the explanatory variables and performance provided a preliminary view of their univariate relationship. All the control variables had the expected signs. Leverage and capital intensity positively impacted performance. Meanwhile, size is also positively correlated with political involvement, which indicates political presence in big and high-risk companies especially in upstream oil and gas companies. Additionally, the reported VIF scores were lower than five, implying no multicollinearity issue.

**Table 8.** Correlation matrix.

	ROA	ROE	CPI	LEV.	SIZE	CAPINT
ROA	1					
ROE	0.84	1				
CPI	0.10	0.09	1			
LEVERAGE	0.04	0.10	0.13	1		
SIZE	0.22	0.21	0.24	−0.05	1	
CAP. INTENS	−0.16	−0.20	−0.15	0.00	0.00	1

#### 4.1.4. Panel Regression Result

Table 9 exhibits the panel regression results. Following the suggestions from Petersen (2011), we accounted for the possibility of within-cluster correlation and heteroscedasticity by estimating all regression using White heteroscedastic-robust firm-clustered and double-clustered standards errors. Finally, we reported and interpreted the statistical inferences based on a White-cluster correlation.

**Table 9.** Regression result.

	ROA	ROE
CPIs	0.054 ** (0.024)	0.108 * (0.062)
Leverage	−0.022 (0.032)	0.125 (0.083)
Firm Size	1.764 ** (0.818)	3.888 * (1.982)
Capital Intensity	−0.297 (0.186)	−1.215 *** (0.406)
Constant	−8.913 (9.744)	−26.068 (16.995)
N	203	203
F	11.172	18.226
r2	0.100	0.095

Note: This table presents the effects of political connections on firm's performance in Upstream oil and gas companies. The dependent variables are firm's average return on assets and return on equity, respectively. Note: *p*-values reported in the parentheses are adjusted for heteroskedasticity and firm clustering. \*\*\*, \*\* and \* indicate 1%, 5%, and 10% significant levels, respectively.

We reported a positive relationship between CPIs and firm performance for the performance hypothesis. In all estimation models, our findings showed that CPIs had a positive relationship with firm performance. The performance of CPIs and non-CPIs differed statistically and significantly. Furthermore, it showed that CPIs outperform those with no political ties, lending credence to the stakeholder theory and RBV theory. The result was consistent with the findings from Yu et al. (2020) and Wong and Hooy (2018).

It implies that most oil and gas companies have a connection with politicians, and the findings show that this relationship has a positive impact on firm performance, particularly profitability. In other words, if a company is having economic troubles, the politicians

on board may lend a helping hand to help the company out of difficulty by whatever opportunities or power they have. In order to avoid financial disaster, these firms seek the assistance of politicians, resulting in relatively better performance than other non-politically connected firms.

## 5. Conclusions

Prior studies have proven an inconclusive relationship between firms with political connections and firm performance. In this study, we aimed to investigate the impact of the relationship between CPIs and firm performance dedicated to only upstream oil and gas companies. This study was conducted on 1218 firm-year observation, which represents 203 oil and gas companies that appeared in the Fortune Global 500 companies from 2012 to 2018. Leverage, firm size, and capital intensity are used as control variables in this study, which represent the firm's characteristics between the test of dependent and independent variables. We find that connected firms positively associate to firm performance with a high leverage to assist company activities, providing good capital support, and this tie is good for those big companies to build investor trust due to these linkages. Uniquely, most oil and gas companies are under the government's administration and some companies are state-owned companies. Even so, we realize that some privately and public-held oil and gas companies also appointed politicians as their board members in order to strategize business operation. This result is also found in the increase in ROA on firms when non-politically experienced personnel are replaced with someone with political ties (Bertrand et al. 2007; Ding et al. 2014). To add, this result is consistent with a previous study that also found the firm performance using the ROE as an indicator shows a tremendous result with strong government participation (Guerra Pérez et al. 2015; Hashmi et al. 2018; Hong 2010; Najaf 2021). Politicians may be able to assist in terms of policy and law implementation, allowing for faster decision-making, and are capable of strategic action to adapt for economic conditions.

The findings of this paper are also consistent with the RBV theory, revealing that politicians can bring valuable resources and execute power to direct and guide the companies' direction while maintaining their reputation. Concomitantly, it is acknowledged that a company may struggle without political assistance or changes (Fisman 2001; Li et al. 2008). This confirms our belief that CPIs can successfully influence performance, particularly for upstream oil and gas enterprises. The stakeholder theory also complements our research, particularly in strategic decision-making owing to strong resources and equipped business in creating value compared to other non-connected firms.

While our study provides a new perspective on the effect of CPIs on firm performance in oil and gas companies, it does have limitations. Due to data availability, we do not measure all indicators on corporate governance such as political experience, networking, qualification, or even transactional or relational connection variables. Instead, we only select politicians who have served the government or have an informal relationship with the government. We also attempt the content analysis by selecting the other possible variables from the annual report at random. However, a company's annual report does not always provide the same variables we require. Furthermore, our findings do not imply that the corporate board should be made up entirely of politicians due to the positive impact. While we examine how these connections would benefit firms, future research can look at the combination or quadratic relationship of politicians on a board.

While this may be due to a general variable, we argue that it is difficult to find other variables to enrich this literature. Therefore, this study can be considered as a revelation to increase studies on the relationship between political involvement and firm performance. Future research should try to examine other indicators.

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