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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 emphasis 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.