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RESEARCH ARTICLE

Environmental performance, political connection, and financial performance: evidence from global oil and gas companies

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Abstract
Based on the natural resource-based view theory, firms with improved environmental performance will have higher financial performance. Conversely, the neo-classical economic theory argues that improved environmental performance leads to lower financial performance. We argue that these contradicting findings are due to the political connection and treat it as the moderating variable to strengthen the positive effect of environmental performance on financial performance. Using carbon emission, spill volume, and total environmental fines as the environmental performance proxy, we only find that spill volume has a positive relationship with oil and gas companies' financial performance, supporting the natural resource-based view theory. Our results also show the positive effect of political connection on financial performance, supporting the helping-hand theory. Meanwhile, the moderating effect of political connection is only significant in weakening the negative impact of spill volume on financial performance. Practically, government regulation that bans the involvement of politicians in the boards of the oil and gas companies may allow firms to internalize the cost of the environmental damage, and could improve the environmental performance of the firms.

Keywords Environmental performance · Political connections · Oil and gas · Political interventions · Financial performance · Resource-based view · The helping-hand view

Introduction

The oil and gas industry has contributed over two thirds of world carbon (CO) emissions by fuel (Fig. 1) due to the increasing household usage, the steady growth of non-renewable energy consumption, and the lack of green energy initiatives. The report from International Tanker Owners Pollution Federation (ITOPF 2020) revealed that this industry had polluted the ocean since the 1970s with 1.8 major incidents per year (24.5 incidents in the 1970s alone). As a response, the government has fined this industry, and environmental activists have aggressively rallied against the fuel-based process and products. Interestingly, this industry remains the most significant industry in the corporate world, where 154 out of 500 (31%) Fortune Global 500 companies are oil & gas companies

The anecdotal evidence above receives theoretical and empirical discussion about the relationship between environmental performance (EP) and financial performance (FP), yet, without any firm consensus. The proponents of neo-classical theory argue that EP can ensure the reputation and organizational growth through efficient management of organizational resources (Orlitzky et al. 2003), driving companies to achieve a competitive advantage (Voon-Hsien et al. 2015). On another side of the coin, EP leads to lower FP due to additional burden costs that would increase operating costs and directly exhaust the company's capital (Cna and Ifurueze. 2013). Meanwhile, a meta-analysis from Horváthová (2010) reveals that 15% of studies find a negative effect of EP on FP, about 30% find no effect, and 55% find a positive effect.

The reason for those mixed findings may be due to the non-market strategy activity, such as the political connections that firms have. Consistent with the helping-hand theory, which suggests that political connection

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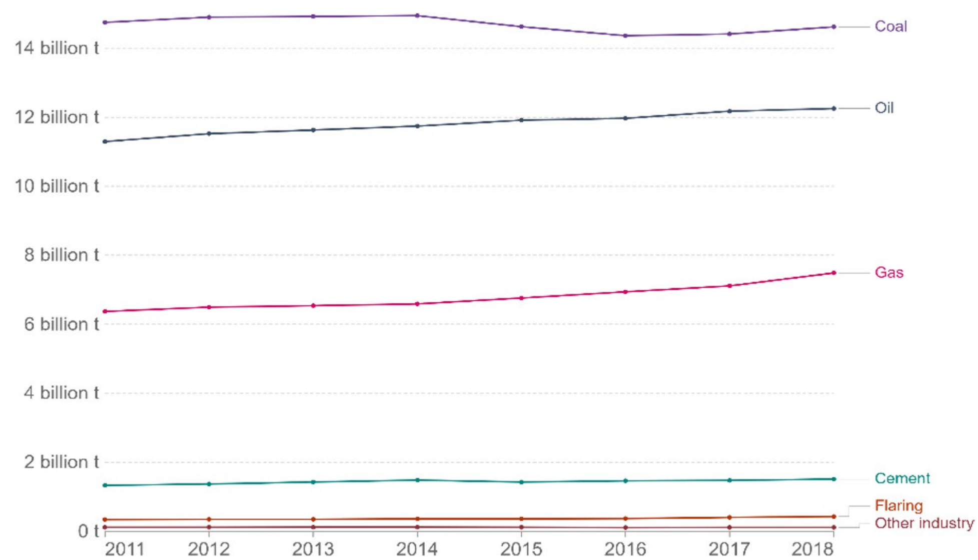

Fig. 1 World CO emission by fuel. Source: Global Carbon Project (OurWorldinData.org)

benefits companies (Yarahmadi and Higgins 2012), the impact of EP on FP likely depends on their political connection (POLCON). Given the importance of political connection to help the firm avoid decreasing financial performance during the bad environmental performance, a better understanding of how political connection influences the EP-FP relationship is critical to the strategic management literature. Based on a meta-analysis on EP and FP relationship from Horváthová (2010), the primary studies are dominated by the direct effect of EP on FP amid several attempts by introducing moderating factors such as technology (Brahmana and Kontesa 2021) or the firm's characteristics (King and Lenox 2001). This research aims to fill in the lacuna by proposing POLCON as the moderating thus, borrowing helping-hand theory in exploring the contention between institutional theory and neo-classical theory.

Addressing the effect of POLCON on the relationship between EP and FP is our focus. To do so, we capture these politically connected firms within the helping-hand framework (Chen et al. 2017a; Yu et al. 2020). A meta-analysis from Hadani et al. (2017) reports that companies with a higher political connection receive better FP than those with fewer or even without a political connection. The literature also finds support in the competitive advantages received by politically connected firms to perform better financially (Boubakri et al. 2012; Chen et al. 2017b; Tsai et al. 2019; Lin et al. 2021). Applying this logic to the EP on FP relationship allows us to exploit the Oil & Gas industry phenomenon, a major polluter yet a top financial achiever.

Specifically, this paper tried to answer whether oil and gas companies hired politicians as board members to weaken the negative impact of EP on FP. In other words: do politicians able to give more incentive to overcome company liability (the EP), which is consistent with helping-hand theory recommendations? Alternatively, when politicians become part of company board members, they may use rent-seeking and lobbying activities consistent with their offerings. As a result, more companies have used political strategies to maintain market survival and become more efficient in managing resources.

To answer these questions, we focus on the moderating effect of POLCON in weakening the negative impact of EP on FP rather than the direct effect of POLCON on FP. Indeed, throughout a political board tenure, they may use their affiliation, such as influence and supremacy, to support FP. It means politicians on board indicate a strategic resource for firms to ask a friend to help, aligning with the helping-hand theory.

This study's contribution is threefold. First, we enrich the finance and corporate governance literature by extending the understanding of the EP-FP relationship from the oil and gas industry context. Additionally, we advance the natural RBV theory and helping-hand theory by augmenting our understanding of the role of POLCON. A key proposition of the helping-hand theory is that politicians generally shape firm strategies and outcomes (Voon-Hsien et al. 2015). Finally, a series of follow-up studies have confirmed this proposition. Lastly, we further establish that political connection may play a significant role in determining the value of a firm concerning environmental performance.

The remainder of this paper is outlined as follows. The "Literature review" section elaborates on the theoretical arguments and the hypothesis development. The data and methodology are presented in the "Methods" section, whereas the subsequent section describes the results and analysis. Finally, the conclusion is given in the final section.