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Cozy Politics on Environmental and Financial Performance: Evidence from Oil and Gas companies

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ABSTRACT

This is a conceptual paper of a future study based on the review of literatures related to environmental and firm performance. Political connections have been identified as a source of competitive advantage and a tool for resolving corporate environment and financial issues in various studies. Because the environment is extremely unpredictable, organisations go to great lengths to guarantee pollution is under control. As a result, several actions are being carried out to keep stakeholders satisfied and investors confident. However, more cost on environment will cause firm financial instability. Having politicians on the board aids company success and allows it to surpass other competitors. The objective of this study is to examine for imminent research whether political connections able moderate the relationship between environmental and firm financial performance among oil and gas companies extracted via Global Fortune 500 Companies. The paper went on to analyse the issues, concept and objectives for the forthcoming study through several literatures of various discipline. The result of this future research may provide information to companies on how political connections can assist companies in order to maintain environment and financial stake simultaneously. It will also be valuable to policy-makers to promote green environment and excellent corporate return. Given that many oil and gas companies have clear link to political ties, the environment and financial performance would prosper. This study is significant in that it suggests that political connections are associated with improved environmental performance and financial performance.

Contribution/Originality: The fundamental contribution of this research is to investigate the impact of corporate political connections, particularly in oil and gas corporations. Knowing that the activities of oil and gas corporations are fraught with peril and pollution, this article aims to show how these connections can balance environmental performance with outstanding corporate value and financial success.

1. Introduction

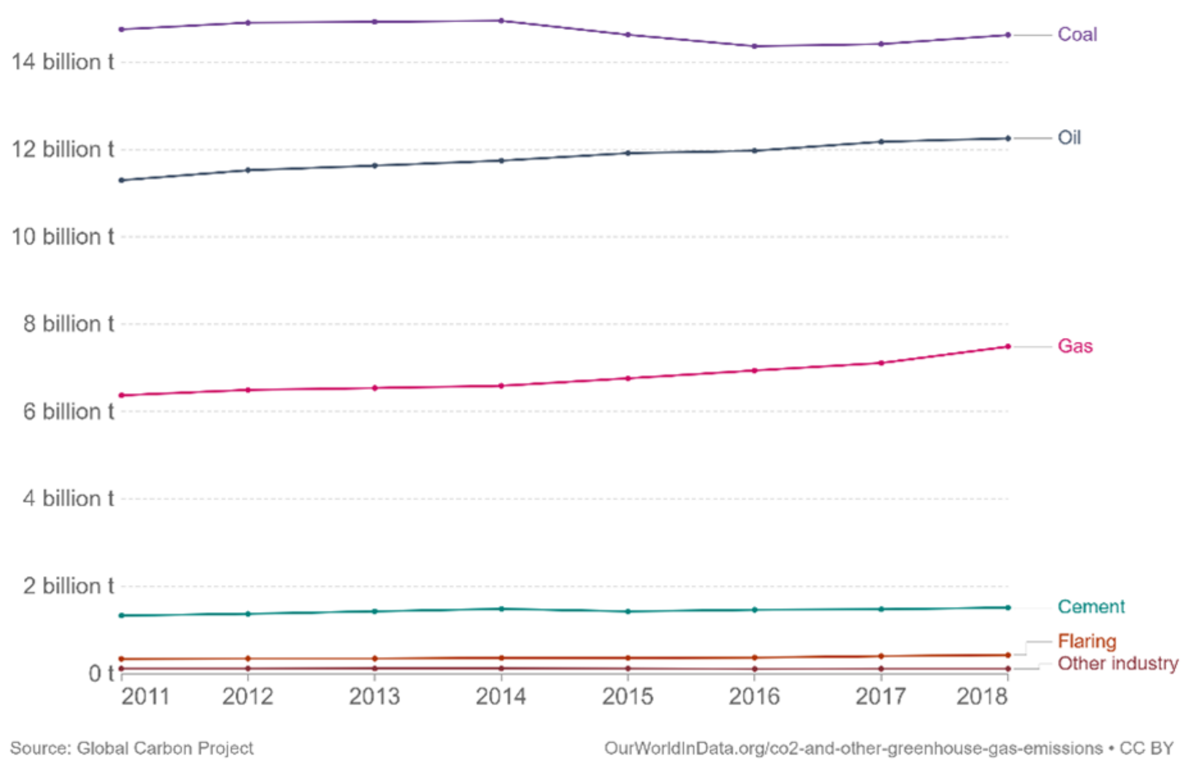
Turning to the twenty-first century, the growing awareness on environmental has becoming the central issues. Companies are pressured with tough demand from stakeholders regarding good environmental. Nevertheless, the struggling condition in the market have forced companies make some allocation for its environment custody. The drastic request is known to jeopardize firm profitability. The on-going preferences have pushed companies to change its business mantra and this highlights the essential of the third party as a source for competitive advantage (Barney, 1991). Politicians-business relationship are not a new marvel in company world. Companies find it easy to carry out business operations with a perfect source to runs everyday operations. Political connection (POLCON) is regarded as a corporate strategy to explain corporate performance and directions. Previous study certified politicians' involvement in businesses operations able to transform company direction efficiently (Ang et al., 2013) especially in terms of financial assistance, subsidies, regulations defense, good reputation and stakeholder confidence (Hong, 2010).

The concept of environmental performance has been construct by Ilinitch et al. (1998) which mention environmental performance is not an easy task despite a straight forward answer, the true meaning of environmental performance must have several research stream. Somehow, the single fit definition is still blurry that many scholars have put attempt to fill the definition gap. Trumpp et al. (2013) propose a set of definition which is equivalent to those established by the International Organization for Standardization (ISO) which defines environmental performance as a set of specific information on organization operations that may cause environmental change as a result of the organization activities. Other researchers, however, have trimmed the term due to inconsistencies in aligning the concept with their study area. The most widely agreed upon key in defining environmental performance by scholars were the term indicator and measurement which were utilised as the fundamental concept in establishing the actual meaning of environmental performance. One thing in common, corporate environmental performance usually focusses on the outcomes of management activities whether it is beneficial for the organization or otherwise. Therefore, many studies have challenged the direct relationship between environmental performance and firm performance. Among the scholars who have raised the concern on environmental and financial performance are Aggarwal (2013), Filbeck and Gorman (2004), Horváthová (2012) and Nakao et al. (2007).

Aggarwal (2013) analyzed 18 studies forecasting on corporate activities related to environmental sustainability affect firm performance concluded that corporate activities related to social and environmental responsibility improve firm long-term performance and becoming more competitive. On the other hand, Filbeck and Gorman (2004) finds different results that they do not find positive relationship between environmental performance and firm financial performance in electric utilities due to regulatory compliance in their research area. Next is the study from Horváthová (2012) investigates the temporal effect of environmental performance on firm performance in her study. Using full data from Czech Republic, the effect is negative in the first year of analysis but positive the following year depending on industrial activity. Finally, Nakao et al. (2007) discovered that environmental performance has a positive impact on financial performance in the scope Japanese companies. Although some corporations may face agency issues due to government involvement such as corruption and scandals, the helping hand from government also portrays a positive direction because these linkages may attract investor confidence and give a company a good reputation (Lukes, 1976; Viens & Fortier, 2018).

Our paper focuses on the effect of political connections towards environmental performance and firm performance in oil and gas companies. Oil and gas production are well-known for their extensive procedures. Compare to other industry, oil and gas firms are responsible for more than two-thirds of worldwide CO emissions from fuel, conferring to the International Tanker Owners Pollution Federation (ITOPF). According to the similar sources, this sector has been contaminating the ocean since 1970s, with accumulated 24.5 incidents with an average of 1.8 major accidents per year (Figure 1). Surprisingly, the emissions released by these oil and gas companies have little impact on their reputation, particularly on their financial performance. Despite the fact that this sector has polluted the environment, it is still one of the most economically important, with high demand for its products every year. Furthermore, the oil and gas industry has been identified as a high-profitability sector on the website of Fortune Global 500 corporations.

Figure 1: World CO Emission by Fuel



The interest to know more on what is happening has brought to the establishment of this study to know if there is any involvement from the third party. Surprisingly, based on our search, 75% of oil and gas corporations are owned by the government of the country. However, there are still oil companies that are privately owned that we found are yet to disclose their board composition doubly to established linked with political people or having any family or friends' relation with politicians (Table 1). Some scholars agreed (Aggarwal, 2013; Ang et al., 2013; Nakao et al., 2007; Peng et al., 2017; Tsai et al., 2019) that political interventions increase the likelihood of a corporate thriving. Additionally, a meta-analysis study on political-business activity concludes that those companies with the assistance from government or politicians are financially outperform than those that have no connection to government or politicians (Hadani et al., 2017; Sheng et al., 2011; Zhou, 2009).

Table 1: Government Controlled Companies (Oil and Gas)

Continent	Total Oil and Gas Companies	State/Government Controlled Companies
Asia Continent	40	40
Africa Continent	3	2
North America Continent	60	29
South America Continent	8	8
Europe Continent	34	34
Australia Continent	7	1
TOTAL	152	114

Similar to environmental performance, the definition on political connections also has some limitation. To date, no universally accepted definition has been developed to justify the meaning of political connections. Many scholars cited Faccio (2006) definition of political connection as an attachment between parties A and B in exchange for a special treatment from each other. The link refers to either the parties are connected by a common network, such as shared same school, university, alumni or workplace. It could also be in the context of family ties, friendship or a friendship alliance with either former or current government (Fan et al., 2008).

The literature also finds support that the connections increases competitive advantage (Boubakri et al., 2012), tax aggressiveness (Kim & Zhang, 2016), improve return (Lin et al., 2021), innovation (Tsai et al., 2019) and regulations (Bunkanwanicha & Wiwattanakantang, 2009). As a result, in this paper, we attempt combine the effect of political connections as a moderator of environmental and firm performance with the incumbent helping-hand theory, focusing on oil and gas companies as major polluters yet top financial achievers worldwide (Hopkin & Rodríguez-Pose, 2007; Wong & Hooy, 2018; Yu et al., 2020). Our focal concern of this study is to know can political connections (POLCON) can aid oil and gas organization? and is the level of political interference mark as factor in the environmental performance of oil and gas?

The following is a summary of the remainder of this paper. We begin by discussing the context of POLCON and the impact of environmental performance on the financial performance of oil and gas companies, as well as our research aims and questions. Following that, we discussed theoretical overview and we present the conceptual framework. Finally, we mention about our limits and draw some conclusions.

2. Problem Issues and Statement

There has been an increasing respond towards the environmental issues that gives impact to firm performance. With many arguments, scholars always find inconclusive findings on the two indicators. One reason for the indecisive findings between environmental performance and firm performance might be due to cronyism capitalism that is supported by the helping hand theory. So far, the generally accepted verdict between the two subject is reliant on different research areas and disciplines (Kassinis & Vafeas 2006; Trumpp et al. 2013). To add, there is lacking of exploration on the impact of political connections of the said direction and the use of oil and gas as sample study oil and gas industry which is known as a leading player for cronyism capitalism (Hong 2010) yet reputable (Dorian, 2006).

Hence, the above discussion entails that corporate environmental performance often reflect firm financial performance. With the assistance from politicians, company able to perform better and improved of their returns.

3. Purpose of Research and Research Questions

This paper is intended to identify the moderation effect of political connections on the relationship between environmental performance and firm financial performance of oil and gas companies listed on Global Fortune 500. As such, research question that will be addressed are:

i. How the moderating role through political connection affected environmental performance and organizational financial performance?
ii. What is the pattern of the relationship between environmental performance and financial performance for oil and gas companies?
iii. How does the political connection interfere in the financial performance of the firm?

4. Significance of the research

This article is significant as it will have substantial ramifications for organisations in terms of the role of politicians on boards of directors as a moderating effect on environmental and financial performance. Furthermore, the implication also refers to stakeholders and other potential investors that wish to track firm performance with the help from politicians. As a result of these connections, firms may be able to learn about the advantages of having a resourceful people on board, particularly in terms of company activities and returns, while also promoting inventive environmental activities. Last but not least, this conceptual paper can be used as a source of knowledge for scholars.

5. Delimitations and Limitations

This paper is delimited by insufficient readings of literature from multi-discipline as this paper only cater for oil and gas companies. Further, this paper has its investigative limitations. For instance, this paper is purely looking at the degree to which politicians can gives impact and are assume as helping hand to organization. Another limitation is that this study not fully cover the role of control and monitoring (Corporate governance, stewardship theory), reputation (signalling theory), and company survival (legitimacy theory) due to time constraints.

6. Theoretical Overview

6.1. The Resource Dependency Theory

To resolve the debate, this study hence propose The Resource Dependency Theory (RDT) in providing the clues to the inconclusive findings. The RDT pioneered by Salancik and Pfeffer (1978) focuses on how organisations deal with uncertainty in the external environment in order to make good decisions for the sake of their stakeholders and investors. To reduce interdependency, managers must deal with environmental complexity and match with organization's goals in order to assure survival and boost their own autonomy while maintaining corporate stability. As a result, a sound strategy is required for a manager to rely on business resources and competencies, such as environmental technology or authority, to pursue corporate goals. The exchange-based power via Emerson (1962), focuses on resource exchange between parties, is comparable to RDT's notion. Emerson went on to say that power over resources is considered limited and that it cannot be found elsewhere. However, RDT is noteworthy, according to Hillman et al. (2009), suggested that having a politician on the board of directors can be beneficial to some companies in terms of reducing dependency and providing needed resources, but also that politicians-board members are linked to industry resource interdependency. Furthermore, according to Lester and Texas (2008), the organization's unique resources are based on the process of hiring a qualified outside directors. A company that can co-opt key persons onto its board of directors can amass valuable resources and use their wealth of resources to help other companies. With this relationship, a corporation that created the climate by wielding political influence is more likely to gain market share and grow more powerful than one that is more reliant on government (Gropper et al., 2015). To summarise, the RDT sees power as something that supports an organization's survival, which varies through time in controlling scarce resources and gaining key influence through surroundings.

6.2. The helping hand Theory

Various scholars have explored the concept of helping hands in underlining the degree to which government presence in a firm, whether as a government shareholder or government associated directors that allows a company to prosper. This approach is not new to any government because companies may leverage this relationship for economic reasons as well as non-market strategies (Yu et al., 2020). In terms of financial possibilities and growth, this idea can also be used to characterise the behaviour of politicians in transition economies, particularly when they are being appointed as company's board of directors or as shareholders (Agrawal & Knoeber, 2001; Khwaja & Mian, 2005; Yan-Leung et al., 2009). With the cooperation from the authorities, a helping hand concept has strong links to indicate that company will continue to prosper and foster organisational progress. As a result, the existence of corporate political connections in assisting businesses to perform effectively is critical for both financial and strategic decision-making (Masciandaro & Quintyn, 2008). It is also an evident from Stiglitz (1993) who argued that political roles are to improve country welfare and to correct and avoid market imperfections caused by competitions. Thus, it is rational to appreciate the effort made by politicians to reform and align the decision-making structure (Lord, 2000). Fisman (2001) took another view to described the role of central government in providing assistance that could benefit companies in related to any transactions, such as grants and subsidies. According to Wong et al., (2002), the presence from politicians' direct companies to be more coordinated and continues to promote growth. This remark is concreted by a study via Boubakri et al. (2008) found between 1997 and 2001, at least 33% of publicly traded companies with political connection surpassed non-politically affiliated. Further, Boubakri et al. (2012), also discovered that at least 84 companies out of 254 had politicians as their board of directors to serve their preferred company.

7. Discussion of the Literature Review

7.1. Moderating effect of POLCON on environmental performance and financial performance

The motivation of this paper is to link POLCON impact on environmental and firm financial performance of oil and gas companies parallel to the helping hand concept. Based on many studies, POLCON have greatly influence the way organization response to culture, strategies, development and performance (Amenta, 2005; Bunkanwanicha & Wiwattanakantang, 2009; Fisman, 2001; Levy & Kolk, 2002; Saeed et al., 2019). Even so, the direct relationship between environmental performance and firm financial performance has also given meaningful interpretation, as companies that spend more on environmental activities such as proper waste management, recycling, and waste disposal waste management may receive positive feedback from stakeholders, thereby indirectly building confidence and reputation in the company, reflected in the company return (Palmer et al., 1995). The evolution of how businesses are operated in order to prevent environmental damage has become a prevalent notion that binds business and society together (Nishitani et al., 2017). The concept of environmental performance as an indicator of how well a company can change its process activity, such as reducing electric usage, consumption for company productions, carbon emissions reductions, water savings, and waste diversion, is all part of an attempt to lessen environmental impact. To back up this claim, a study by Ilinitch et al. (1998) found that increased environmental awareness has spread to the point where over 60% of the general public in America regard pollutant as a severe threat to their health. On the other side of the coin, there are also scholar who argue and try to stress on the well-being of the company in generating wealth and minimizing operational cost. The more company spend on environment the higher the cost that company need to cover and thus will resulting in corporate profit reduction (Porter & Linde, 1995).

It is acknowledged that the role of POLCON has been viewed as a pervasive phenomenon. Business-politics relations commonly presence especially in developing countries with lax regulations and pervasive corruption (Khwaja & Mian, 2005). With this opportunity both public (central or state-ownership) and private firms struggled to establish a relationship with the government in order to achieve their primary goal and remain marketable in the long run (Poon et al., 2012; Yao & Liang, 2014). Several studies use POLCON to support companies in acquiring easier access to external funding, policy, and resource efficiency, all of which improve company performance and provide it a competitive advantage over its competitors (Faccio, 2010; Fisman, 2001; Wu et al., 2012). In addition to performance analysis, the POLCON relationship demonstrates the ability to effectively manage organisational resources (see Boubakri et al., 2012; Claessens et al., 2008; Goldman et al., 2009; Johnson & Mitton, 2003) compared to non-connected firms. The most powerful political owners are said to get preferential treatment from state-controlled banks with long-term reputations (Faccio, 2006). When a POLCON link is established, it enables company to contribute higher financial leverage and greater use of long-term debt especially in developing countries (Boubakri et al., 2012; Brockman et al., 2013). Cheney et al. (2011) revealed a huge loss for any politically affiliated organisation, with a decrease in sales growth, operational efficiencies, corruption, and investor protection. Bertrand et al. (2007) also brings out bad impacts of political intervention on French firms. For example, in order to avoid environmental fines, corporations with political clout will fully report their environmental data, which they will be empowered to do because of the authority they wield (Qian, 2017). An interesting finding from Yao and Liang, (2016) polluting firms often establish political or government links to lessen the regulations and become a protective shield for the company.

Influencing work by Fisman (2001) investigates Indonesian firms that are connected to the Soeharto family shows excellent performance in return of shares but firms were instantaneously declined following the proclamation of deteriorating health of Suharto. Similarly, Li et al. (2008) investigated the performance of China's private-owned firm to observe the impacts of connections with the ruling Communist Party, where the political status is measure through party attachments and revealed the performance of membership is more outstanding than their non-member counterparts. In his research, Frank et al. (2000) discovered that there is a strong link between the environment and the government or ruling party of a country to safeguard the environment under stringent monitoring, particularly when it comes to pollution issues. In light of the foregoing findings, it can be deduced that, despite the widely held belief that every single political connection is intrinsically profitable to improve firm execution, and that the connection is seen as invaluable because firms can appreciate every advantage offered by the government, the connection is seen as intangible because firms can appreciate every advantage offered by the government (Khwaja & Mian, 2005). In the literature, little is understood about how and why political effect affects corporate performance. It is necessary to evaluate both firm-level and national-level political concerns at the same time.

Therefore, the testable hypotheses are as follows:

Hypothesis 1: With a high level of political involvement, the organization's environment and financial performance will improve.

7.2. Environmental performance and Firm Financial Performance

It is essential to comprehend environmental challenges and their scope. Literature confirmed that environmental destruction is considered as a quantity of waste produced by organization in the form of solids, liquids, and gasses throughout the output process (Dubey et al., 2015). The societal awareness of environmental safety and the significance of controlling and reducing pollution is what causes this element to explode (Ong et al. 2016). Organizations struggle to perform effectively in order to meet societal expectations (Schultze & Trommer, 2012), which eventually leads to improved organisational performance. Furthermore, a strong corporate image will bolster investor confidence and repute. Some of the early research endeavours were based on Ullmann (1985) who demonstrated the link between environmental performance and financial development. Hutchinson (1992) echoes this approach, using the organization's environment as an opportunity for growth and pursuing a strategy to attain optimum performance (Sharma, 2001). Thus, when discussing on environmental pollution, it is learned that pollution can have a negative impact on the natural environment and hinder business growth (Manrique & Martí-Ballester, 2017).

Countless studies have attempted to investigate various aspects of the value of environmental performance and financial stability in required to address their research objectives. The findings mostly indicated that green sustainability can be viewed as a cost of investment that can help the organization to achieve competitive advantage. Similarly, the company's sound financial performance will translate to exceptional environmental performance (Earnhart & Lizal, 2006). For instance, Waddock and Graves (1997) findings indicated a positive environmental performance link that is highly influenced by financial circumstances.

The next hypotheses are formally stated as follows:

Hypothesis 2: The positive relationship between environmental and corporate performance will be stronger when environmental practices are high.

7.3. Political Connection and Firm Performance

The organization's priorities must align with the interests of shareholders and other stakeholders (Schultze & Trommer, 2012). As a result, the purpose of this part is to review current theoretical and empirical studies on the phenomena of financial conclusions drawn by influencing the POLCON relationships. POLCON, in particular, is recognised as one of the most precious resources that is hard to imitate (Barney, 1991; Dicko & El Ibrami, 2013), and it serves as a medium of supervision, guidance, and solutions to facilitate the effective regain investor trust. POLCON sees itself as a key driver for organisational programmes and activities (Wang et al., 2008), particularly in terms of organisational success.

Furthermore, POLCON is thought to be a valuable source for organisations (Faccio, 2010) to gain concessions to gain privileges (Lin et al., 2015). Low-cost financing, favourable tax treatment, flexible borrowing rules, subsidies, and government contracts are just a few of the advantages that politicians provide to ensure that firms operate in beneficial ways (Bunkanwanicha & Wiwattanakantang, 2009; Faccio, 2006; Fisman, 2001; Goldman et al., 2009; Johnson & Mitton, 2003; Khwaja & Mian, 2005; Lin et al., 2015). For instance, by providing financial assistance to politicians during their electoral campaigns (Claessens et al., 2008). Indeed, some companies have deepened their rapport with politicians by making deals while also establishing businesses to raise funds for their political activities (Gomez, 2014). Alternatively, instead of inviting politicians to the board of directors, some corporate moguls have entered the political arena. The reason is to ensure that their business does not stagnate, as well as to ensure their competitive strength and economic well-being (Bunkanwanicha & Wiwattanakantang, 2009). Thaksin Shinawatra (Thailand), Rafiq Hariri (Lebanon), Donald J. Trump (United States), and Paul Martin (Canada) are just a few of the well-known business tycoons who have entered politics (Cheema et al., 2016; Detthamrong et al., 2017).

Research on private enterprise in China is another example from an Asian country. Most individual entrepreneurs are reported to strive to overcome institutional challenges by engaging in politics, believing that such meaningful connections will safeguard them in terms of regulatory methods and assist their long-term success (Bai et al., 2010). Indirectly, it is perceived as benefiting from political ties, and it will continue to enjoy support from those ties as long as the ruling party is in office until the next general election (Chen et al., 2013). Dicko and El Ibrami (2013) on the other hand, underline the positive influence of political involvement. Based on a random sample of Canadian enterprises where the relationship is favourable, the company may gain a competitive edge and monopolise the market, as well as be able to attract business prospects and boost firm value. A review of the Malaysian government's report that rescued and bailed out its favourite companies during the 1997 financial crisis provides another reassuring viewpoint (Gomez, 2014).

Some scholars consider these co-optations as a powerful link in securing protection and preferential treatment when faced with extreme competitive pressure (Jia, 2016). Because the government has the ability to influence and exploit the opportunities created by businesses, market biases are created (Faccio et al., 2006), resulting in corporate administration (Fan et al., 2013), taking advantage of government privileges, and maintaining the organization's primary goal of maximising corporate profit. As a result, connections are more important in companies where the fund's supply is limited or where the largest contribution to the nation may be made (Charumilind et al., 2006). Another tangible benefit of having a strong political connection in the organisation is that it serves as a resource for the company, working as an advisor to address externalities and steer in the best interests of the company, as opposed to non-connected firms (Yao & Liang, 2014). Albeit, a political intervention provides a great opportunity for the business sector to establish new opportunities (Leuz & Oberholzergee, 2006). Diversified businesses with a broad and complex hierarchy, for example, are more likely to form political alliances (Lenway & Rehbein, 1991). This statement discusses the importance of having a political connection in helping companies deal with financial distress or management chaos, and the above-mentioned political characteristics have demonstrated the importance of having a political connection in helping companies deal with financial distress or management (Bliss & Gul, 2012; Cheng et al., 2017; Johnson & Mitton, 2003; Li et al., 2008; Yu et al., 2020). The quantity and character of political ties between countries varies tremendously depending on their national development (Desai & Olofsgard, 2011). Few empirical studies have reasonably demonstrated that political links are likely to be detrimental to corporate value (Shleifer & Vishny, 1994; Timothy & Shleifer, 1996), and not all companies or industries are eager to form a strategic alliance with a political connection. Specifically, this research will look into the link between corporate political connections and organisational effectiveness, particularly in oil and gas industries. Politicians' assistance may enable the corporation to perform better and maintain a strategic edge, benefiting both sides.

From the critical discussions above, it leads to the following hypotheses:
Hypothesis 3: Firm with Political Connection has relatively higher financial performance compared to those without political connection.

8. Conceptual Model Development

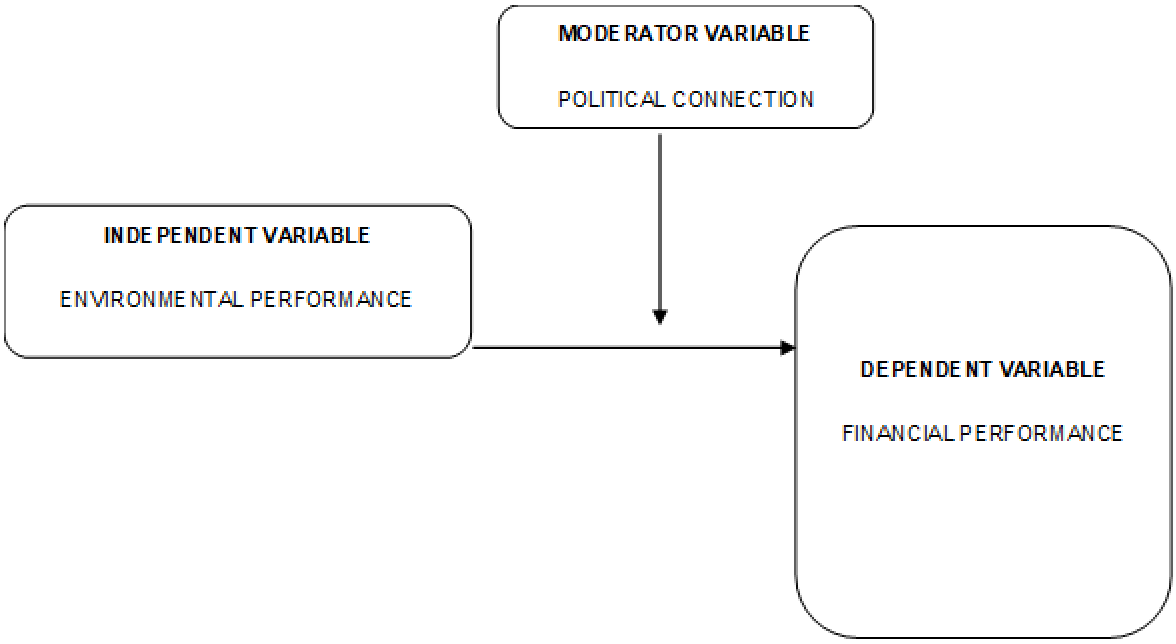
This paper attempts to determine the relationship between environmental performance and firm financial performance and being moderated by political connections. A study has been made on several theories. The conceptual model shown in Figure 2 is the combination study of Horváthová (2010) and Muhammad et al. (2015). Horváthová, (2010), provides a meta-analysis study which mention the importance of moderating variable in explaining the relationship between environmental performance and financial performance. While, Muhammad et al. (2015) determined the relationship between environmental performance and financial performance for Australia company during pre-financial crisis. Therefore, as shown in Figure 2, the study proposed:

H1: With a high level of political involvement, the organization's environment and financial performance will improve.

H2: The positive relationship between environmental and corporate performance will be stronger when environmental practices are high.

H3: Firm with Political Connection has relatively higher financial performance compared to those without political connection.

Figure 2: Proposed Research Model



9. Conclusion

The findings open the door to further research into the relationship between environmental performance and business financial performance, with political connections serving as a moderating variable in the context of oil and gas companies from of the Global Fortune 500. In order to conduct empirical research, a broader range of literatures must be examined in order to get meaningful information. Despite the fact that this is only a conceptual paper, it is hoped that the effort will help to supplement literatures for academic reference as well as have a significant impact on shareholders, board members, personnel, other stakeholders, and policy makers of oil and gas companies upon fully completion of the research.

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Conflict of Interests

The authors declare no conflict of interest in this study.

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