

## EFFECT OF POLITICAL CONNECTIONS AND CORRUPTION ON CORPORATE ECONOMIC PERFORMANCE UNDER THE FOREIGN CORRUPT PRACTICES ACT

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### ABSTRACT

**Objective:** To investigate the effect of political connections and corruption on corporate economic performance in firms convicted of corruption by the Securities and Exchange Commission under the Foreign Corrupt Practices Act (FCPA). **Method:** The sample consisted of 131 firms, with 138 convictions received between the passage of the FCPA in 1978 and 2019. The collected data were submitted to descriptive statistics, comparison of means and multiple linear regression. **Main Results:** Corporate economic performance was positively explained by a combination of political connections and corruption. Performance was observed to rise over time in firms engaged in such practices, with the highest performance in the year of the conviction. **Relevance / Originality:** Our study fills a gap in the literature by correlating, in integrated manner, political connections and corruption with corporate economic performance, and by providing a longitudinal analysis of economic performance in demonstrably corrupt firms. **Theoretical / Methodological Contributions:** The study contributes to the literature by harmonizing the constructs of political connections and corruption with Resource Dependence Theory. Our results are relevant to organizations, the State and stakeholders in general and may subsidize decisions and policies for the control of corruption and maintenance of covenants. Nevertheless, they also point to socioeconomic dysfunction as these practices are detrimental to the economy at organizational level and, hence, cannot be legitimized, regardless of the desired ends.

### INTRODUCTION

According to the Organisation for Economic Co-operation and Development [OECD] (2016), the fight against corruption is one of the greatest challenges of the 21<sup>st</sup> century. In this study, we focus on political connections and corruption within the corporate sphere, but do not extend the scope to fraud *per se*, which is conceptually more comprehensive.

Political connections in the corporate setting refer to investments in political relationships, whether or not they are employed for illegitimate or promiscuous dealings. We adopt the definition of Wong and Hooy (2018), who describe such connections as direct or indirect alliances, relationships and partnerships between corporate entities and the government, politicians and/or individuals with a political background.

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As for corruption, we use the definition given in the US Foreign Corrupt Practices Act (FCPA): to offer, pay, or promise to pay money or anything of value to any foreign official for the purpose of obtaining or retaining business. The FCPA was passed in 1977 in order to monitor and punish firms and executives for international acts of corruption. The law views corruption as a transnational phenomenon directly related to the political sphere (Oliveira & Nascimento, 2021).

Acknowledging the existence of shared interests between businesses, and between businesses and the State, justified by the finite nature of resources involved in negotiations and decisions, the phenomenon may be approached in the corporate setting using as a framework the Resource Dependence Theory (RDT). According to Pfeffer and Salancik (2003), the relationship between the corporate and political spheres constitutes a wide and complex network of cooperation, creating a resource interdependence between corporate entities (business/business) and between corporate entities and the government (business/State).

The literature is divided over whether corruption greases or sands the wheels of economic growth (Aidt, Dutta, & Sena, 2008; Shleifer & Vishny, 1993). Pan and Tian (2020) believe corruption can be used as a token of exchange to obtain governmental protection and better services, while Seck (2019) points out the heterogeneous effects of this practice.

The influence of political connections forged by corruption is an empirical matter since corruption is a global phenomenon prevalent in the establishment of such connections (Pan & Tian, 2020). In other words, corporate corruption and political connections may be regarded as complementary constructs. As shown by Goel and Saunoris (2017), this relationship becomes even stronger when political uncertainty compromises existing contracts, intensifying corruption in different forms and periods as a means of strengthening old alliances and/or making new ones.

The interplay between corporate corruption and political connections is a mixed bag, with many questions to be explored with regard to corporate economic performance. An in-depth investigation

of the economic consequences of a conviction by the Securities and Exchange Commission (SEC) for FCPA violations can therefore help understand the direction and force of these relationships.

This raises the following question: How do political connections and corruption impact the economic performance of firms convicted by the SEC for corruption? To answer this question we compared the economic performance of convicted firms in three consecutive periods: the year immediately before the beginning of the corrupt practice; the period in which corruption was secretly practiced; and the year of the conviction by the SEC for FCPA violations.

Our main purpose was to investigate the repercussions of political connections and corruption on the economic performance of firms convicted by the SEC for FCPA violations. The study also reveals variations in the economic performance of convicted firms immediately before, during and after the corrupt practice, to the extent it is possible to rely on the dates informed by the SEC.

The topic of corruption has been extensively explored by academics, among other things to identify its motivations, interactions and consequences (Lopatta, Jaeschke, Tchikov, & Lodhia, 2017), but the field is challenging due to the complexity and secrecy of corrupt practices and collusions (Goel, Budak & Rajh, 2015), as anticipated by anthropological theories (Graycar & Jancsics, 2017). Despite the relevance and timeliness of the subject, most international studies on corruption focus on the recipients of the bribes and neglect the agents offering them (Oliveira & Nascimento, 2021). Goel, Budak and Rajh (2015) believe bribery is even more concealed in the private than in the public sector, and that, due to the lack of reliable data, hardly any formal research of the causes of this type of felony in the private sector (or of the policies adopted to prevent them) has been carried out.

To our knowledge, no previous study on corruption (Cuervo-Cazurra, 2016; Lima, Rufino, & Machado, 2019; Lopatta *et al.*, 2017; Lourenço, Rathke, Santana, & Branco, 2018; Yi, Teng, & Meng, 2018) has attempted a temporal analysis of the effects of corruption in the corporate setting,

leaving a gap in the literature which the present study may help to fill.

Likewise, little is known about the effect of the combination of political connections and corruption in the corporate setting. In light of the RDT, our study makes empirical inferences about the interdependence of the political and corporate dimensions based on the possible consequences for business performance (Pfeffer & Salancik, 2003).

By exploring factors commonly impacting corporate, political, economic and social activities, the study's practical contribution is relevant to the market as a whole and to any stakeholder looking to minimize the effect of corruption on organizations. Theoretically speaking, the RDT provides the tenets required to understand the main study constructs and provides arguments to expand current knowledge based on the observation of the effect of the interplay between political connections and corruption and its economic repercussions.

## 1. THEORETICAL FRAMEWORK

### 1.1. Political connections and corporate corruption in light of the Resource Dependence Theory

The RDT is an adequate explanation for the origin of corrupt practices as it sheds light on the relationship between private firms and the government (Cuervo-Cazurra, 2016). According to the RDT, firms are restricted and impacted by the environment which they in turn attempt to shape to fit their needs and minimize their dependence on external resources (Pfeffer & Salancik, 2003).

According to Hu, Stewart and Tan (2017), the RDT assigns importance to political connections because of their ability to increase a firm's chances of securing advantages and maximizing its negotiation power for a variety of ends, such as accessing new markets, reducing risks, obtaining strategic information, and lobbying for favorable regulations.

Having observed the trends revealed by studies on the relationship between corruption and the international political sphere, Bahoo, Alon and Paltrinieri (2020) concluded that the RDT can help clarify how business managers secure the support of civil servants by way of bribery, increasing

their negotiation power. Indeed, Oliveira and Nascimento (2021) observed that civil servants (and their relatives) whose capacities bring them into contact with corporate parties are more likely to take bribes.

Pedersen (2016) explains how managers, civil servants, politicians, businesspeople and others are often tempted to engage in corruption to increase their personal wealth or provide illegal funds to political parties to the detriment of the organizations from which the resources are drained, keeping in mind the potential conflict of interest between managers and shareholders.

Political connections, though not illicit *per se*, are often seen by executives as a possible shortcut to government support, power or authority (Wong & Hooy, 2018) and faster access to valuable external funding and contracts (Pan & Tian, 2020).

Corruption takes on different forms, whether direct and aggressive through bribery and extortion (Persons, 2019) or indirect and secretive (Biswas, 2017), making detection more difficult.

As pointed out by Lopatta *et al.* (2017), corruption in the corporate setting has become a central issue for regulatory bodies worldwide, leading to the introduction of stricter anticorruption laws. For example, in the US the FCPA (1977) made it easier to inspect and punish corrupt practices of firms engaging in business abroad.

In the present study, we analyze the effect of corruption and political connections by either combining the constructs or integrating them as an interdependent phenomenon, considering the many ways in which firms adapt to corrupt environments.

### 1.2. Empirical studies and hypotheses

In a study on the consequences of the presence of enablers of corporate corruption in India, Biswas (2017) found that employing middlemen to deal with regulatory restrictions increases the incidence of bribery and violations of companies' rules of governance.

Covering the period from 2009 to 2016, Amaral and Santos (2017) investigated whether share prices were affected by the disclosure of convictions by the SEC for FCPA violations, but found no significant effect in their sample of 64 national and foreign

firms. However, a strong negative adjustment of abnormal returns was observed on the day of the conviction and also on the day after the amount of the fine was announced, indicating a negative reaction on part of the market.

Based on a sample of Vietnamese firms, Vu, Tran, Nguyen and Lim (2018) concluded that financial performance was not correlated with the incidence of bribery, but with its intensity and form.

Masud, Kaium, Bae, Manzanares and Kim (2019) used data from financial firms in Bangladesh to explore the association between the presence of external legal experts on the board and corporate corruption disclosure in the years 2012–2016. The moderating effect of political connections on the relationship between experts and disclosure was found to be negative and significant due to their higher political influences, implying a reduction in corruption.

In an investigation of how bribery by firms in four Latin American countries (Argentina, Bolivia, Paraguay and Peru) affected development, Wu (2019) found bribery had a significant and negative impact on companies' growth, capacity for innovation and productivity.

Imam, Jamasb and Llorca (2019) looked into the influence of corruption on economic performance in the electricity sector of 47 Sub-Saharan countries from 2002 to 2013. Their results suggest that sector reforms, when well designed, not only directly enhance sector performance but indirectly reduce the negative effects of institutional deficiencies like corruption on performance indicators.

Khelif and Amara (2019) explored the association between political connections and tax evasion in 35 countries and tested whether it was affected by the level of corruption. The authors found political connections to be positively associated with tax evasion and concluded the association was stronger in highly corrupt environments.

It would therefore seem that corporate corruption cannot be dissociated from political connections in firms making corporate decisions about private ventures that depend on the granting of government-controlled resources or on political arrangements.

For the sake of our analysis, we assumed that firms performed economically better in the period

between the start of the concealed corrupt practice and the conviction (based on information disclosed by the SEC) than in the period immediately preceding the corrupt practice. Thus, we formulated the following hypothesis:

$H_1$ : The mean economic performance of the sampled firms was higher during the period of the corrupt practice than during the period immediately preceding it.

Moreover, in order to test whether the combination of corruption and political connections was sufficient to maximize the results of firms convicted by the SEC for FCPA violations, we formulated a second hypothesis:

$H_2$ : The economic performance of the sampled firms was positively associated with investment in political connections, in the presence of corruption.

The present investigation contributes to the line of research using as main source SEC disclosure of cases of corruption convicted for FCPA violations, as in the studies by Amaral and Santos (2017), Jaeschke, Lopatta and Yi (2018), Persons (2019), and Silvers (2016).

## 2. METHODS

The study population includes all cases ( $n=174$ ) of convictions for corruption disclosed by the SEC between 1978 and 2019. The FCPA prohibits paying bribes to foreign authorities with the purpose of obtaining or retaining business, and sanctions may be applied anywhere in the world (SEC, 2019). The FCPA came into effect in 1978, and 2019 was the year before the study was initiated. The sampled cases are published on the website of the SEC ('Enforcement Actions: FCPA Cases'). We also retrieved information from the database of the Foreign Corrupt Practices Act Clearinghouse (FCPAC) managed by Stanford Law School, and from the firms' annual financial reports available on the website of the SEC (Edgar database).

In view of the limited availability of and access to public data, we restricted our sample to convicted firms listed on the New York Stock Exchange (NYSE) and/or the Nasdaq Stock Market (Nasdaq) in the year immediately preceding the start of the corrupt practice and which remained listed at least until the

year of the conviction. According to the World Federation of Exchange [WFE] (2020), NYSE and Nasdaq are the largest stock markets in the world with regard to market capitalization.

The period considered for each case spanned from the year immediately before the year in which the corrupt practice started (as informed by the SEC) to the year in which the firm was convicted. Abiding by these criteria, a final sample of 131 firms (138 convictions) was defined, representing 75% of the study population.

Economic performance was compared for three consecutive periods surrounding the corrupt practice: the year immediately before the year in which the corrupt practice started; the year(s) during which the corrupt practice was secretly engaged in; and the year in which the firm was convicted. It should be kept in mind that in some cases corruption may have been practiced before the date informed by the SEC and that it was not possible to determine if or when the corrupt practice was discontinued.

The construct 'corporate corruption' was defined according to the variables and proxies shown in Table 1.

To quantify political connections, we searched official databases for information on lobbying payments and campaign donations by the sampled firms within the US market. Firms operating on the US market use these means to influence regulatory bodies. The main source consulted was 'OpenSecrets.org- Center for Responsive Politics', which informs the amounts paid by firms for the purpose of lobbying and electoral campaigns in the US.

We also used annual financial reports published by the sampled firms and available in the SEC/Edgar database in order to verify the presence of incumbent or former politicians on the board of directors and executive management, and the presence of governmental shareholders, regardless of the country.

'Political connections' were defined according to the variables and proxies shown in Table 2.

In addition, a set of control variables were adopted, as shown in Table 3.

Economic performance was proxied by Ebitda (earnings before interest, taxes, depreciation, and amortization), calculated using published accounting data. According to Dadkhah, Heydari and Dadkhah (2020), Ebitda expresses operating

**Table 1.** Variables and proxies for corporate corruption.

Name	Description	Measure	Source	Literature
Fine (fine)	Amount of fine applied by the SEC	Numerical variable (amount of fine)	SEC	Amaral and Santos (2017); Jaeschke <i>et al.</i> (2018); Persons (2019); Vu <i>et al.</i> (2018)
Intensity of corruption (intcorr)	Impact of fine on revenues	Numerical variable (ration between amount of fine and net revenues in the period)	SEC and annual reports	Vu <i>et al.</i> (2018)
Objective of corruption (objcorr)	Number of objectives related to the case of corruption	Numerical variable (number of listed objectives related to the case of corruption)	SEC	Seck (2019); Vu <i>et al.</i> (2018)
Impacted countries (cntrimpac)	Number of countries impacted/involved (a measure of the internationalization of corruption)	Numerical variable (number of countries involved in the case of corruption)	SEC	Escresa and Picci (2017); Zysman-Quirós (2020)

**Table 2.** Variables and proxies for political connections.

Name	Description	Measure	Source	Literature
Lobbying (lobby)	If the firm engages in lobbying	Dummy variable: Yes= 1 No= 0	Open Secrets	Kong, Radhakrishnan and Tsang (2017)
Intensity of lobbying (intlobb)	Proportion (%) of annual spending on lobbying in relation to the firm's market value	Numerical variable of the ratio between annual spending on lobbying and the firm's market value	Open Secrets Nyse Nasdaq	Kong <i>et al.</i> (2017)
Campaign contributions (contrib)	If the firm makes donations to political campaigns	Dummy variable: Yes= 1 No= 0	Open Secrets	Faccio (2010); Lawton, McGuire and Rajwani (2013)
Intensity of campaign contributions (intcontrib)	Proportion (%) of annual spending on campaigns in relation to the firm's market value	Numerical variable of the ratio between annual spending on campaigns and the firm's market value	Open Secrets Nyse Nasdaq	Kong <i>et al.</i> (2017)
Current or former politician among directors (polboard)	Participation of current or former politicians in the board, top management or audit committee	Dummy variable: Yes= 1 No= 0	Annual reports (20-F and 10-K forms)	Khelif and Amara (2019); Wong and Hooy (2018)
State capital (statecap)	Participation of the government in the ownership structure	Dummy variable: Yes= 1 No= 0	Annual reports (20-F e 10-K forms)	Khelif and Amara (2019); Wu (2019)

**Table 3.** Control variables.

Name	Description	Measure	Source	Literature
Size (size)	Size of firm based on total assets	Numerical variable corresponding to total assets	Compustat database	Camilo, Marcon and Bandeira-de-Mello (2012)
Sector (sector)	Class of economic sector	Qualitative/categorical variable representing the main sector of activity (segmented into commerce, services, industry and financial)	Compustat database	Fan, Rui and Zhao (2008); Mendes-da-Silva, Rossoni, Martin and Martelanc (2008)
Earnings per share (eps)	Indicates capacity for generating shareholder wealth	Numerical variable indicating the ratio between net revenues in the period and the number of shares in the capital stock	Compustat database	Liu and Ying (2019); Xu and Li (2018)

income and is reflected in the market value of the firm. Other authors have used Ebitda as a proxy of economic performance when investigating corruption; e.g., Tella and MacCulloch (2006), who found countries with high levels of corruption to have firms with elevated Ebitda, indicating a positive correlation between Ebitda and the level of corruption. In a review of the literature, Ghani, Tarmezi, Said and Yuliansyah (2016) observed a preference for Ebitda as a metric of operating income in studies on corporate risk management. Smith (2016) used Ebitda as a measure of performance in a study on the repercussions of corruption and found that firms reduced liquidity to limit expropriation by corrupt local officials.

Thus, using Ebitda we compared the three periods surrounding the corrupt practice with regard to economic performance: Ebitda of the year immediately preceding the year in which the corrupt practice started (Ebitda-pre), mean annual Ebitda of the period in which the corrupt practice was secretly engaged in (Ebitda-intra), and Ebitda of the year in which the firm was convicted (Ebitda-convic).

Information on corruption retrieved from SEC reports and FCPAC reports (Stanford Law School) was then classified, quantified and tabulated, and information on different forms of political connections collected from annual corporate reports (SEC/Edgar database) was identified and categorized.

Considering that our study is based on the RDT, which accounts for the existence of relationships and shared interests between the private and public sectors and the protracted resource interdependence between these actors (Pfeffer & Salancik, 2003), we chose to investigate these relationships initially by performing a temporal analysis capable of detecting changes in the economic performance of firms with promiscuous relations with the State and any of several forms of political involvement around the time of the corrupt practice. Proceeding within the framework of the RDT, and in order to make our results more robust, we ventured to determine whether corrupt practices and political connections produce an effect on economic performance and, if any, whether it is positive or negative.

Initially, the data were analyzed quantitatively with descriptive statistics. Differences in economic performance between the three periods around the corrupt practice were identified by calculating the differences between means (Student's *t* test). Multiple linear regression models were employed in the explanatory investigation of the effect of corporate corruption practices and political connections on economic performance.

To fit the regression models we relied on the time of the conviction of each firm when information on the size of the fine was made public. Two models were used to evaluate the effect of corruption and political connections on performance. In the first model we added all the variables and proxies (Equation 1):

$$\text{EconPerf} = \alpha + \beta_1(\text{fine}) + \beta_2(\text{intcorr}) + \beta_3(\text{objcorr}) + \beta_4(\text{cntrimpac}) + \beta_5(\text{lobby}) + \beta_6(\text{intlobb}) + \beta_7(\text{contrib}) + \beta_8(\text{intcontrib}) + \beta_9(\text{polboard}) + \beta_{10}(\text{statecap}) + \beta_{11}(\text{size}) + \beta_{12}(\text{eps}) + \beta_{13}(\text{sector}) + \varepsilon \quad (1)$$

We then formulated another equation based on the 'corruption-connections index' (CCI), a new variable which integrates the variables and proxies related to corruption (fines) and political connections (lobbying and campaign contributions) into a single numerical variable. The CCI represents all the variables of which it is composed and is expressed as the ratio between, on one hand, the sum of the fines, lobbying and campaign contributions in the year of the conviction minus the mean of the sum, and, on the other, the standard deviation of the sum (Equation 2).

$$\text{CCI} = \frac{\text{Sum}_{(\text{fine, lobbying and campaign contributions})} - \text{Mean}_{(\text{fine, lobbying and campaign contributions})}}{\text{Standard deviation}_{(\text{fine, lobbying and campaign contributions})}} \quad (2)$$

Thus, the third equation was fitted with the calculated CCI, representing the integration of corruption and political connections, and with the usual control variables.

$$\text{EconPerf} = \alpha + \beta_1(\text{CCI}) + \beta_2(\text{size}) + \beta_3(\text{eps}) + \beta_4(\text{sector}) + \varepsilon \quad (3)$$

It should be pointed out that CCI uses all the information available exclusively in the three numerical variables 'fines', 'lobbying' and 'campaign

contributions'. In the models, we replaced the variables with standardized beta coefficients in order to allow for future comparisons.

### 3. RESULTS AND DISCUSSION

Although the FCPA was enacted in 1978, no firm was convicted until 1986. Seven firms had been convicted more than once by 2019. Convictions peaked in 2016 (22 cases), followed by 2010 (13 cases), 2018 and 2019 (12 cases each).

Table 4 shows the measures of descriptive statistics related to the amounts of fines applied and the amounts invested in lobbying and campaign contributions during the study period. It should be noted that not all cases resulted in fines since the FCPA also applies non-pecuniary sanctions. Thus, in five of the 138 cases (131 firms) no fine was applied; instead, the convicted firms received warnings and administrative sanctions, including restrictions of their activities. In the descriptive statistics we only considered the 133 cases (observations) in which fines were applied.

The years 2016 and 2019 saw the greatest number of convictions, totaling over USD 1 billion in fines. But the average amount per fine was highest in 2019, with emphasis on the case involving Mobile Telesystems fined to the tune of USD 950 million. The second-largest total was observed in 2018 and included the case of Petrobras (USD 2.6 billion). The third place, in 2016, featured another Brazilian firm, Braskem, sentenced to pay USD 1.3 billion.

As for political connections, most firms ( $n=107$ ; 82%) invested in lobbying—a growing practice throughout the study period. The practice peak-

ed in 2016 (14.4% of 111 cases), followed by 2019 (9.0%) and 2018 (8.1%).

Likewise, many firms ( $n=67$ ; 51%) made donations to political campaigns throughout the study period. However, this figure is likely underestimated because data on contributions was only available for the year 2000 onwards, and only for every other year, reflecting the election cycle in the US. Contributions peaked in 2014, corresponding to 22.7% of the total period, followed by 2016 (15.2%). Overall, campaign contributions tended to increase up until 2014, after which a decline was observed.

Fifteen firms (11.4%) had incumbent politicians or persons with a political background among their top executives or directors, while only four firms (3.1%) had government bodies among their shareholders. Two (Embraer and Eni S. A.) had both these forms of political connections.

Table 5 shows descriptive statistics of economic performance for the sample of convicted firms at three points in time: the year before the corrupt practice (Ebitda-pre), during the concealed corrupt practice (Ebitda-intra), and the year of the conviction (Ebitda-convic). As for the intermediate period, we considered the mean annual Ebitda of the entire period in which the corrupt practice persisted.

The descriptive measures of performance revealed no significant discrepancies between the three periods. The observed values were used as a basis for the comparisons between means. As shown in Table 5, the Ebitda values increased over time, with the smallest values registered before the start of the corrupt practice and the highest values registered in the year of the conviction.

Table 6 shows descriptive measures of numerical variables related to corruption and political

**Table 4.** Descriptive statistics of amounts of fines and spending on lobbying and campaign contributions (amounts in USD).

Description	Observ	Mean	Std. Dev.	Minimum	Maximum
Fines	133	99,001,095	295,870,556	150,000	2,639,873,797
Lobbying	107	2,111,092	4,492,445	2,000	39,300,000
Campaign contributions	67	403,409	589,308	598	2,889,312



connections and the control variables used in the statistical models.

The sampled firms varied in size, and the largest fine applied was USD 2.6 billion (Petrobras) while the mean value per fine was USD 2.5 million.

Dispersion and amplitude were greater for the values of intensity of corruption than for the values of intensity of lobbying and contributions, which reflect a firm's monetary allocations to the maintenance of political connections.

Over half the sampled firms (54.2%) engaged in lobbying, while less than one fourth donated money to political campaigns. The capital stock was almost entirely privately held, with few firms featuring government bodies among their shareholders. On the other hand, just over 10% had current or former politicians among their directors, indicating a connection with the government, even if only indirectly.

Table 7 shows the results of the tests (Student's *t* test) of differences between mean Ebitda values

**Table 5.** Descriptive statistics of economic performance (Ebitda) in the three consecutive periods surrounding the corrupt practice (USD million).

Variable	Mean	Std. Dev.	Minimum	Maximum
Ebitda-pre	3,276.36	7,070.59	-102.62	48,207.66
Ebitda-intra	4,622.75	8,585.33	-953.50	49,322.00
Ebitda-convic	5,754.38	10,893.22	-89.1	56,690.00

**Table 6.** Descriptive statistics of numerical variables of corporate corruption, political connections and control.

Variable	Mean	Std. Dev.	Minimum	Maximum
Size (USD million)	96.01	306.07	0.07	2,490.97
Earnings per share	1.79	3.47	-17.71	13.64
Fine (USD million)	99.58	306.08	0.00	2,639.87
Number of objectives	1.43	0.90	0.00	5.00
Number of impacted countries	2.18	2.23	0.00	16.00
Intensity of corruption	13.72	51.67	0.00	537.76
Intensity of lobbying	0.55	2.05	0.00	21.48
Intensity of contributions	0.03	0.11	0.00	0.85

**Table 7.** Comparison of economic performance in the three periods surrounding the corrupt practice (Student's *t* test).

Comparison	Mean	Std. Dev.	<i>t</i>	Significance
Ebitda-pre vs Ebitda-intra	-1,320.98	5,852.09	-2.56	0.012*
Ebitda-pre vs Ebitda-convic	-2,478.01	8,297.79	-3.40	0.001***
Ebitda-intra vs Ebitda-convic	-1,171.97	5,632.26	-2.36	0.020*

\*Level of statistical significance: 0.05; \*\*level of statistical significance: 0.01; \*\*\*level of statistical significance: 0.001.

(paired samples) for each of the three periods surrounding the corrupt practice.

The difference between the three periods with regard to Ebitda was significant, especially when comparing the first period (prior to the corrupt practice) to the third period (the year of the conviction).

The observed statistically significant increase in performance (Ebitda) from the first to the last period suggests corruption is an economically advantageous strategy in the short run, confirming our first study hypothesis ( $H_1$ ).

In short, performance was lowest in the first period, before the corrupt practice was initiated (Ebitda-pre), intermediate in the second period, during which the corrupt practice was sustained (Ebitda-intra), and highest in the third period, coinciding with the year of the conviction (Ebitda-convic).

As for the effect on the market, Amaral and Santos (2017) observed a strong negative adjustment in the convicted firm's abnormal returns on the day of the conviction and on the day after the disclosure of the amount of the fine, indicating an unfavorable reaction on part of the market players. However, while the reaction of the market is immediate, the effect on the firm's performance depends on the publication of financial reports.

Two models were used to analyze the combined effect of political connections and corruption on economic performance: Equation 1, which includes all the independent proxies representing corruption and political connections (Tables 1 and 2), and Equation 3, which uses the calculated CCI (a single variable integrating all the independent proxies).

To proceed with the regression analysis (Tables 8 and 9), it was necessary to make a small adjustment in the sample. As explained above, information on donations to political campaigns was not made available until the year 2000. Up until this time, only two firms had been convicted for FCPA violations: one in 1986 (Ashland Global Holdings Inc) with no fine applied, and one in 1997 (Triton Energy Ltd) with a fine of USD 385,000. To correct this distortion in the sample while preserving the time series required by the study, we excluded

from the regression analysis these two firms. The convictions prior to 2000 (with no public data on campaign contributions) represented negligible amounts in fines (< 0.4%) compared to the sample mean. Thus, only 129 firms were considered in this analysis.

Table 8 shows the results of the model (complete set) represented by Equation 1.

Since three quarters of the sampled firms (74.8%) belonged to the industrial sector, in both models this sector was set as default and inserted in the constant. The remaining sectors were adjusted for by adding dummies to the set of control variables.

The results of the model show that not all the independent variables had a significant effect on performance. Among the significant variables were the fine applied (a proxy of corruption), the intensity of campaign contributions and the presence of current or former politicians on the board of directors (proxies of political connections), in addition to the control variables 'size', 'earnings per share' and 'financial sector'. The model in Equation 1 was significant ( $p= 0.000$ ), with an adjusted explanatory power of 53% for variation in economic performance. In other words, the model indicates that both corruption and political connections contributed to the short-term increase in performance (Ebitda) of the sampled firms.

To make our analysis more robust, we employed a second (reduced) model, represented by Equation 3, using the integrated variable CCI while maintaining all the control variables (Table 9).

In the second model, the commercial sector and the services sector were the only nonsignificant variables. CCI was significant below the level of 5%, indicating a positive contribution to the observed variation in Ebitda. Thus, the model was significant ( $p= 0.000$ ), with an adjusted explanatory power of 46% for variation in performance, and a standardized coefficient multiplication factor of 0.153 of Ebitda for each unit of calculated CCI. In short, corruption and political connections conjointly contributed to increasing performance (Ebitda) in the sampled firms.

The fact that both models testing the effect of variables of corruption and political connections,

**Table 8.** Combined effect of corruption and political connections on economic performance.

Model	<b>ebitda = fine + objcorr + intcorr + cntrimpac + lobby + intlob + contrib + intcon- trib + polboard + statecap + size + eps + sectorcom + sectorfinan + sectorserv</b>				
Variables	Standardized beta coeff.	Std. error	<i>t</i>	Significance	
Fine	0.172	26.29	2.31	0.023	*
Number of objectives	-0.045	825.17	-0.66	0.510	
Intensity of corruption	0.031	16.54	0.40	0.691	
Number of impacted countries	0.008	324.86	0.13	0.898	
Lobbying	-0.018	1,489.60	-0.27	0.789	
Intensity of lobbying	0.043	579.04	0.40	0.691	
Campaign contributions	-0.037	1,984.27	-0.48	0.630	
Intensity of contributions	0.223	11,462.41	1.85	0.067	.
Politicians among directors	0.173	2,243.88	2.55	0.012	*
State capital	0.044	4,412.51	0.61	0.540	
Size	0.713	0.01	6.82	0.000	***
Earnings per share	0.251	220.95	3.54	0.001	***
Commercial sector	-0.029	3,514.31	-0.45	0.653	
Financial sector	-0.283	5,072.25	-2.60	0.011	*
Service sector	-0.071	1,876.34	-1.08	0.282	
<i>R</i> <sup>2</sup>	0.59	Adjusted <i>R</i> <sup>2</sup>		0.53	
<i>F</i> statistic	9.78	<i>p</i> -value		0.000	

\*Level of statistical significance: 0.05; \*\*level of statistical significance: 0.01; \*\*\*level of statistical significance: 0.001.

**Table 9.** Combined effect of corruption and political connections (CCI) on economic performance.

Model	<b>ebitda = CCI + size + eps + sectorcom + sectorfinan + sectorserv</b>				
Variables	Standardized beta coeff.	Std. error	<i>t</i>	Significance	
CCI	0.153	707,644	2.28	0.025	*
Size	0.786	0.003	8.47	0.000	***
Earnings per share	0.189	215,943	2.73	0.007	**
Commercial sector	-0.045	3,690,198	-0.66	0.508	
Financial sector	-0.337	4,317,244	-3.64	0.000	***
Service sector	-0.077	1,962,885	-1.13	0.260	
<i>R</i> <sup>2</sup>	0.49	Adjusted <i>R</i> <sup>2</sup>		0.46	
<i>F</i> statistic	18.49	<i>p</i> -value		0.000	

\*Level of statistical significance: 0.05; \*\*level of statistical significance: 0.01; \*\*\*level of statistical significance: 0.001.

whether independently or integrated, revealed an increase in economic performance over time allows us to confirm our second study hypothesis ( $H_2$ ). It may be inferred that corruption, even if resulting in severe monetary sanctions, can generate short-term economic advantages for organizations, especially when leveraged by consistent political connections.

Our results are supported by Pan and Tian (2020), according to whom corruption can benefit firms economically through government protection or better government services, and investments become more efficient in corrupt firms with political partnerships. They are also compatible with the findings of Wong and Hooy (2018) who concluded that promiscuous relationships with government bodies favor economic performance. Such relationships can provide firms with competitive advantages (political capital) and minimize exposure to market risks (Shirodkar & Mohr, 2015).

## CONCLUSION

Informed by the RDT, the present study revealed a joint effect of corruption and political connections on corporate economic performance by comparing three consecutive periods surrounding corrupt practices resulting in SEC convictions.

Performance was positively affected whether the variables of corruption and political connections were tested independently or integrated into a single variable. It must therefore be concluded that corruption did in fact 'grease the wheels' of the firms in our sample (Pan & Tian, 2020; Seck, 2019; Shirodkar & Mohr, 2015; Wong & Hooy, 2018).

On the other hand, our results should not be interpreted as an endorsement of corruption or an acknowledgment of its benefits to firms or the economy. In fact, in our view, the claim that corruption per definition favors the economy reflects a socioeconomic dysfunction. Even if practiced with the aim of boosting earnings, corruption and its illicit advantages can have consequences in the short and long run very different from stakeholders' expectations. In addition, corruption is a delicate subject with profound ethical and mor-

al implications which are understood to cause damage both locally and globally. For example, Oliveira and Nascimento (2021) believe corruption has devastating effects on the legitimacy of countries and, hence, on the prospects of political equality. And generalized corruption impacts the overall economy negatively by making the country less attractive for investors (Pessegueiro, Ferreira, Reis, & Pinto, 2018).

The study contributes to the literature by relating the central themes directly to a theory that explains their relationship. In practical terms, we hint at the systemic risk organizations run when adopting illegitimate practices such as corruption subject to large pecuniary sanctions and loss of credibility, image and market reputation, and ability to operate and negotiate. The immediate gain obtained by corrupt practices may, in the medium and long run, turn into significant losses.

Our findings are relevant to organizations, the government and stakeholders in general and may subsidize decision making on strategy, investments and policies related to the control of corruption, the maintenance of political-corporate alliances and investments.

It should be noted, however, that our results are limited to the data available for the study period. It was not possible to ascertain whether the date given by the SEC for the start of the corrupt practice is correct in each case, nor whether the corrupt practice was discontinued after the conviction. Our analysis did not include the years following the conviction and so did not allow for inferences regarding variations in performance in the medium and long run. Also, we did not adjust the results for the natural and potential growth of the economy due to the complexity of the many variables (quantitative and qualitative, endogenous and exogenous, direct and indirect) which impact corporate economy over time for better or for worse, including the global economic crises which occur from time to time. Future investigations might consider widening and updating the database, including more recent cases, and extending the analysis to the years following the conviction for a more accurate appreciation of the lasting effects of corruption.

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## **EFEITO DAS CONEXÕES POLÍTICAS E DA CORRUPÇÃO NO DESEMPENHO ECONÔMICO EMPRESARIAL NO ÂMBITO DA LEI FOREIGN CORRUPT PRACTICES ACT**

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### DETALHES DO ARTIGO

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### RESUMO

**Objetivo:** Investigar os reflexos das práticas de conexões políticas e de corrupção no desempenho econômico de empresas condenadas por corrupção pela Securities and Exchange Commission por violarem a Lei Foreign Corrupt Practices Act (FCPA). **Método:** A amostra reúne 131 companhias, responsáveis por 138 casos, desde o início da vigência da FCPA, em 1978, até 2019. Aplicaram-se técnicas de estatística descritiva, comparação de médias e regressão linear múltipla. **Principais Resultados:** O desempenho econômico das empresas foi explicado positivamente por práticas integradas de conexões políticas e corrupção. Verificou-se um movimento crescente no desempenho dessas empresas na extensão temporal das práticas, registrando-se o maior desempenho no ano da condenação. **Relevância / Originalidade:** O estudo supre lacunas na literatura, ao envolver, de forma integrada, as práticas de corrupção corporativa e conexões políticas no desempenho econômico empresarial, assim como a análise desse desempenho na extensão do tempo, em torno da prática de corrupção. **Contribuições Teóricas / Metodológicas:** Contribuiu-se para a literatura ao relacionar os construtos à teoria da dependência de recursos. Os resultados alcançam as organizações, o Estado e os *stakeholders* em geral, que servirão para subsidiar decisões e políticas que digam respeito ao controle da corrupção e à manutenção de alianças. No entanto, o resultado pode representar uma disfunção socioeconômica, já que tais práticas não são benéficas para a economia no contexto organizacional, não podendo ser legitimadas independentemente dos fins desejados.

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