The influence of politician appointments to corporate boards on the financial performance of firms in Portugal

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ABSTRACT ENGLISH

Title: The influence of politician appointments to corporate boards on the financial performance of a firm in Portugal

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Keywords: Corporate political activities, politicians on corporate boards, financial performance, Portuguese economy

Although several studies suggest that a corporate political activity such as the appointment of politicians enhances firm performance, the literature on this field is still conflicting and inconclusive. A study in the Portuguese economy may add some enlightening insights to the literature, helping to clarify this relationship. Therefore, drawing on the resource dependence theory which emphasizes how important it is for firms to minimize uncertainty and interdependence, I argue that politicians benefit firms by mitigating risks due to their knowledge and political influence. This thesis aims to evaluate the extent to which this relationship is true in the Portuguese context. Furthermore, this dissertation also compares firms from less and heavily regulated industries to better understand the impact of this moderator. Predictions were tested using a dataset of the 44 firms in the Euronext Lisbon Stock for the focal period of 2010 to 2018 to create a panel data with performance indicators and control variables. The results suggest a non-significant relationship between politicians and performance which might be associated with the double-effect a politician has by adding and destroying value at the same time. Nevertheless, a post hoc analysis demonstrates a strong effect of local politicians on performance, proving how valuable and powerful they are at a regional level. Moreover, I found robust evidence of a positive relationship between international politicians and performance under different levels of regulation which demonstrates the importance of reputation and legitimacy for a firm.

ABSTRACT PORTUGUESE

Título: Influência da nomeação de políticos para os conselhos de administração na performance financeira das empresas em Portugal

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Palavras-chave: Atividades políticas corporativas, políticos no conselho de administração, performance financeira, economia portuguesa

Embora vários estudos sugiram que uma atividade política corporativa, como a nomeação de políticos, melhore o desempenho da empresa, a literatura sobre esse campo ainda é conflituosa e inconclusiva. Um estudo na economia portuguesa pode acrescentar algumas informações esclarecedoras à literatura, ajudando a esclarecer essa relação. Portanto, com base na teoria da dependência de recursos, que enfatiza a importância de as empresas minimizarem a incerteza e a interdependência, argumento que os políticos beneficiam as empresas mitigando os riscos devido ao seu conhecimento e influência política. Esta tese tem como objetivo avaliar até que ponto essa relação é verdadeira no contexto português. Além disso, esta dissertação também compara empresas de setores menos e fortemente regulados para entender melhor o impacto desse moderador. As previsões foram testadas usando um conjunto de dados das 44 empresas da Euronext Lisbon Stock para o período focal de 2010 a 2018 com o intuito de criar um painel de dados com indicadores de desempenho e variáveis de controle. Os resultados sugerem uma relação não significativa entre políticos e desempenho, que pode estar associada ao duplo efeito de um político, que podem adicionar e destruir valor ao mesmo tempo. No entanto, uma análise post hoc demonstra um forte efeito dos políticos locais no desempenho, provando o quão são valiosos e poderosos são, ao nível da cidade. Além disso, encontrei evidências robustas de uma relação positiva entre políticos internacionais e desempenho sob diferentes níveis de regulação, o que demonstra a importância da reputação e legitimidade para uma empresa.

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LIST OF ABBREVIATIONS

CPA – Corporate Political Activities

CPI – Corruption Perceptions Index

CPT – Corporate Political Ties

GICS – Global Industry Classification Standard

RDT – Resource Dependence Theory

ROE – Return on Equity

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INTRODUCTION

Firms usually aim for profit maximization, and for a long time, pursuing a market strategy was the most prominent action for a firm. Strategy used to be focused on the production and delivery of products and services which would drive a company to lead the industry in terms of convenience, price, customer loyalty and therefore profitability. However, as the times changed, this strategic behavior was no longer enough to reach the firms' outstanding goals of a sustainable position in the market. Due to firms' dependency on the external environment which includes a relationship with the government, companies started to incorporate social and political actions into their strategy in order to influence and shape policies for their own benefit and profitability. These two actors are indeed linked since a social action such as a sponsorship of a community center may lead to easier access to local politicians, for instance, creating an advantageous political network. As a result, social activities can somehow be seen as part of corporate political activities (CPA).

Firms started to engage in nonmarket strategies, and specifically in CPA, such as the practice of lobbying, make donations to political parties and the appointment of politicians to the board of directors, to enhance the overall firm's financial performance (Hillman, Keim, & Schuler, 2004). Some firms actually believe that using a relational approach to political strategy in order to build relationships across issues and over time, instead of being involved in an issue-by-issue basis (Hillman, Hitt, 1999), would be even more beneficial to the firm since necessary resources to influence public policies were already in place, preventing political risks. Building on this knowledge, creating a link between the government and a company through the appointment of politicians to the corporate board of directors seemed to be an intuitive step for firms. Some scholars actually agree that having a political decision-maker on the corporate board may provide crucial information about political processes and public policies, information that otherwise would be inaccessible (Hillman, Hitt, 1999). Also, adding important political bodies to the organization enable firms to open a channel of communications among political decision-makers and therefore enjoying an inter-organizational influence (Pfeffer, 1972). Taking all these benefits mentioned above into consideration, scholars have been arguing that appointing a politician to the corporate board of directors can, indeed, improve the overall performance of the firm.

Further research implies that firm dependence on government is a significant variable to predict the level of engagement in corporate political activities (Hillman et al., 2004) and the relevance of adding politicians to the corporate board. As the resource dependence theory

explains, organizations desire to minimize ambiguity, reduce environmental interdependence or gain resources. To do that, hiring political decision-makers to corporate boards is one of the most illustrious strategies (Hillman, Withers, Collins, 2009). That said, firms with regulatory costs and constraints, perceive heavy regulation as an opportunity to engage in CPA, meaning that the more constraining and costly it is for a firm, the more likely the firm will try to manage the heavy regulation through nonmarket strategies (Hillman, 2005).

To date, several empirical studies with focus on the US (e.g., Agrawal, Knoeber, 2001; Hillman, 2005; Goldman, Rocholl, & So, 2009; Hadani, Schuler, 2012; Bonardi, Holburn, & Bergh, 2006; Werner, 2017) and China (Luo, 2001), found contradictory evidence. Faccio (2006) conducted a study where 47 countries were examined and concluded that political connections differ across countries. In fact, political relationships are more common in countries with higher levels of corruption and less common on countries with regulations concerning political conflict of interests. Nevertheless, the study's results indicate a non-significant relationship between the appointment of a politician and firm performance.

Portugal is the focus of this study because it has a higher percentage of politically connected firms than usual when compared to multiple studies (El Nayal, Oosterhout, Essen, 2019; Faccio, 2006). Moreover, Portugal has some legal restrictions regarding politically connected firms, for instance, the law of incompatibilities which prohibits the attribution of public contracts only to family members of ministers; and restrictions on board membership by members of the parliament (MPs) which completely forbids MPs to sit on a board (Faccio, 2006). This empirical dissertation tests the relationship between politician's appointment and firm financial performance, and the same relationship under different levels of regulation in Portugal in order to reconcile the uncertainty surrounding the actual valuation of appointing a political body to the firm. Because, even though politicians as directors are in positions of power where they can take advantage of their political capital and resources to enhance firm's performance (Hillman, 2005), they may not have their interests aligned with the shareholders' interests or there can be a scenario where they cannot serve the firm the way they were expected to. With this in mind, although it is expectable a positive relationship between both variables, it depends on the firm's environmental dependencies and the specific set of skills of the politician-director (Hillman, 2005). In sum, it is possible to state that the relation between politician's appointment and financial performance is not completely understood and it is quite complex.

To test this model, I collected a comprehensive dataset of the board composition using the reports and accounting from 2010 to 2018 of the 44 companies in the Euronext Lisbon

Stock. After a complete background check for every single director through data available in Reuters (People News Headlines), Bloomberg Businessweek, national and regional Portuguese journals, curriculums, companies' websites, Wikipedia and annual reports and accounts, I identified 72 people with a political background at different levels of the government. Also, performance indicators such as Return on Equity and Market Capitalization were collected from the Thomson Reuters database. Afterward, with the R Studio statistic program, a panel data regression analysis was performed based on the data previously collected.

This thesis is organized as follows. In the next chapter, there is the literature review where the main theories about corporate political activities are covered as well as relevant studies to better understand the research questions which focus on the appointment of politicians to the board of directors. Then, in the third chapter, the methodology used throughout this dissertation to collect the necessary data as well as the benefits of the method and obstacles encountered along the process is presented. The data previously collected will be analyzed in the 4th chapter where the major results will be presented. Finally, in the last section, I will be presenting the main findings of this study. After reflecting on the major conclusions, I will comment on the limitations and make my recommendations for future research made in this subject.

LITERATURE REVIEW

Market Domain vs Nonmarket Domain

In a constantly changing environment, firms struggle to sustain their current position and succeed financially. The dilemma in business is how to make profit and prosper, but still, ensure the satisfaction of all stakeholders involved. Consequently, firms engage in both market and nonmarket strategies. The market domain contains suppliers, customers, employees, competitors and owners, on the other hand, the nonmarket environment consists of government and society which include regulatory policies and social activists as agents that could affect business. These strategies complement each other. Firstly, at a market level, firms use corporate and business strategies to grow, by identifying and analyzing new opportunities, threats, potential future problems and competition, leading to the overall business success. Secondly, at a nonmarket level, firms engage in social actions to enhance their reputation and restore legitimacy, and develop important corporate political ties (CPT) which if well exploited can represent a great competitive advantage to the firm since their competitors cannot easily imitate that connection (Sun, Mellahi, Wright, 2011).

Government as a Nonmarket Actor

Researchers have shown that business-government linkages can serve as leverage, playing an imperative role in the firm's performance and profitability (Hillman, Keim, & Schuler, 2004). This is due to the fact that politicians can influence business through regulatory policies, government contracts, taxes and international trading restrictions. Actually, the government plays various important roles in society. Firstly, it can be an important economic actor, since it owns properties, manages a huge amount of financial resources and makes transactions with many organizations (Okhmatocshiy, 2010). Secondly, it plays the role of regulator of the business world. It is public knowledge that Governments' responsibilities fall into the formulation, enforcement and judgment over laws that take control of multiple features of the business environment. This procedure, called regulation, aims to stimulate market efficiency and promote fair competition in order to benefit end-consumers. Nevertheless, it also limits firms' behavior and controls their market strategies. Through economic regulation, the government regulates prices of certain products and controls the entry in particular markets; and through social regulation, the government intervenes in health, environmental and safety issues as well as tax and tariff policies (Joskow & Ros, 1987). All restrictions previously mentioned are limiting a firms' strategy. As a result, there is an incentive for firms to engage in corporate political activities to ensure that public policies are shaped and written favorably to the firm.

Resource Dependence Theory and CPA

As mentioned before, there is a dependence on the government. The resource dependence theory (RDT) explains this underlying theoretical concept by stating that firms with higher dependency on the government tend to engage more in CPA, because they see it as the most logical solution and strategy to decrease uncertainty and manage ambiguity (Hillman, Withers, Collins, 2009). In fact, many firms are being affected by government policies that regulate their competitive environment, consequently, firms are spreading their influence through corporate political activities to somehow try to manipulate government decisions (Hillman, Hitt, 1999) over time, taking leverage of the political ties in position. This is the reason why scholars argue that dependent firms are usually the ones that prefer to engage in a long-term relationship with the government, called a relational approach to CPA (Hillman, Hitt, 1999). This approach to political action follows a relational strategy, a proactive procedure that

allows firms to build political relationships and take advantage of them when new government policies arise (Hillman, Hitt, 1999).

Researchers have been studying the relationship between government and business for a long time (Hillman et al., 2004). Accordingly, they found that this relationship is two-sided in the sense that both have the ability to influence each other. Although the government has power over resources such as public policies, procurement contracts and taxes; corporations can offer information, financing and votes for re-election (Hillman, Hitt, 1999). Consequently, public policymaking becomes a political marketplace where there are both suppliers and demanders. As the resource dependence theory explains, because of this interdependency, companies with more dependence on the government for resources (contracts and regulations) may try to offset the risk by reducing the dependence or aligning their interests, which may be accomplished by several different corporate political activities such as practicing lobbying which stands for the power of persuade and influence legislators or members of regulatory agencies; financing a campaign for a political party expecting a quid pro quo in the future; and also, for instance, hiring politicians to the board of directors.

However, it is important to bear in mind that not all firms consider it valuable to engage in corporate political activities. Few scholars argue that the attempt to shape government policies is only favorable to the firm in some cases, depending on particular factors such as firm size, financial resources and how dependent on government contracts a firm is (Hillman, Keim, Schuler, 2004).

To conclude, political opportunities may vary. Policy supply and demand are the determinants of success or failure of political activity. Firms, as demanders, seek to exchange their political resources such as money, information or votes (Hillman, Hitt, 1999), for favorable policy changes and contracts provided by the government, as the supplier. In an institutional analysis, government regulation is the antecedent that probably most leads firms to approach CPA, because the costs and revenues of a company are intrinsically linked to the regulation in place.

Politicians on the Board of Directors

Until recently, theoretical literature focused on the role of the corporate board of directors as a monitor or advisor to the firm, however over the years this role has been changing and several empirical studies have highlighted that the personal connections of each director of a firm may enhance financial performance, reinforcing the shareholders' interests (Hillman &

Dalziel, 2003). Firms manifest their political ties in many forms but appointing a politician to the corporate board of directors may be the most relational strategic approach (Hillman, Hitt, 1999), allowing companies to absorb political and regulatory knowledge, embracing a position of power. Researchers have considered corporate boards as a system to deal with the organization's external environment, handling problems of dependency and uncertainty. However, the efficiency of the board of directors is also determined by its size and composition. Early research done in this field found evidence that firms that deviate from the optimal structure of the board tend to be less profitable (Pfeffer, 1972). It has been argued that board composition is now a management tool used efficiently to help firms achieve success. Nevertheless, the organization must have its internal structural characteristics aligned with the environmental demands.

Regarding the composition of the board, researchers have been argued that the background of corporate directors is also a determinant of a firm's success. A board composed of people with political experience can indeed reinforce the company's knowledge of government actions, helping to predict future procedures and laws that may have an impact on the future of the firm (Agrawal, Knoeber, 2001). When hiring a politician to the corporate board of directors, firstly, firms leverage from a vast knowledge about government's policies that otherwise would be almost impossible to acquire or too expensive (Hillman, Hitt, 1999). Secondly, they benefit from a linkage between political decision-makers and the government that may influence and shape public policies for the firm's own benefit, and, lastly, they enhance their legitimacy (Hillman, 2005). In addition, through this behavior, companies may increase their market size, by taking advantage of their insights. This position to influence government policies reduces the threat of new entrants (high entry barriers) and substitutes, therefore, enhancing their bargaining power over both customers and suppliers (Hillman, Hitt, 1999).

Some empirical studies have already been conducted in order to understand the relationship between adding political bodies to the corporate board of directors and the financial performance of the company. However, the evidence so far about the effect of politician's appointment is mixed. Hillman (2005) has found evidence that suggests that the composition of a board is positively related to the overall performance of a firm. In addition, Goldman, Rocholl and So (2013) also developed a study that established a positive relationship between firms with politically connected boards of directors and the allocation of procurement contracts. Nevertheless, there are still some studies with contradictory findings. Hadani & Schuler (2012) found evidence that political investment is negatively associated with market and accounting

performance. Building knowledge on the agency theory, it means that different opinions among the agents (both shareholders and managers) or conflicting interests may indeed destroy value for the company. In fact, some senior managers may pursue risky projects, thinking that the firm's political connections will cover up any drawback or even allocate too many financial resources to political activities, lacking focus on more profitable market strategies. When managers are CPA-driven instead of profit-driven, it may result in a negative relationship between CPA and financial performance (Hadani, Schuler, 2012). However, in regulated industries, several studies prove that there is, indeed, a positive correlation between both variables. Additionally, there are still studies that have found non-significant results of political connections on firm performance (Tihanyi et al., 2019).

In sum, CPA usually leads to higher organizational performance (Hillman, 2005; Goldman, Rocholl, & So, 2009). Nonetheless few scholars have found conflicting evidence under similar conditions (Hadani, Schuler, 2012). These conflicting conclusions on different empirical studies demonstrate that the existing knowledge in this field is not enough to confidently answer this dissertation's research questions, implying that there is a gap in the research done so far. Therefore, a study on a Portuguese context may help to clarify some important questions and add multiple insights to the debate, since political relationships differ across countries (Faccio, 2006).

HYPOTHESES DEVELOPMENT

The government is a huge source of dependence for organizations (Hillman, Hitt, 1999) despite the current tendency towards privatization and deregulation. Therefore, drawing on the resource dependence theory, a firm-level predictor which states that organizations desire to mitigate uncertainty and external dependency in order to manage the risk (Hillman, Withers, Collins, 2009), escaping from a vulnerable economic position. One can expect firms to use different types of nonmarket strategies to accomplish it. Hence, a type of linkage such as hiring a politician to the board of directors can be a reliable solution to influence government policies and processes in ways favorable to the organization, reducing ambiguity and volatility. As a result, these political connections can safeguard firms from economic fluctuations, increasing financial performance (Hillman, 2005). When hiring a politician to the corporate board of directors, organizations perceive various benefits which include a vast knowledge about public policies that otherwise would be hard to obtain or too expensive to acquire (Hillman, Hitt, 1999), a pathway that connects political decision-makers to firms and maybe influence them in order to benefit the organization, and lastly legitimacy (Hillman, 2005). Political bodies may

have the power to influence not just public policies, but also the allocation of government contracts such as defense or construction contracts (Goldman Rocholl, & So, 2013), protectionist policies that safeguard domestic firms from foreign competition by increasing entry barriers or tariffs (Lux, Crook, Woehr, 2011), and international trade constraints. Moreover, politicians may have the ability to open foreign markets. For the reasons provided, it is likely that inviting politicians to the board will indeed improve performance.

Furthermore, it is expected that the level of corruption of a country influences the impact that a politician-director may have on the financial performance of a company. The effect of politicians on the board depends on the society's position on potential abuse of power and personal gain. In case of an environment where the exchange of favors is well accepted, there is an incentive for politicians-directors to leverage from their existent connections becoming a more effective asset for the company. Consequently, countries with a higher level of corruption are expected to benefit more from political ties (El Nayal, Oosterhout, Essen, 2019; Faccio, 2006; Cingano and Pinotti, 2013). According to Transparency International's Corruption Perceptions Index (CPI) 2018, Portugal is ranked 30/180 on the scale of less corrupted firms in the world with a score of 64/100. 100 is a clean and corruption-free environment.

Taking into consideration that previous studies have already found a positive relationship between these politicians on the corporate board and performance (Hillman, 2005; Goldman, Rocholl, & So, 2013). And that some of the studies considered countries with similar corruption levels as well as economic and cultural conditions as Portugal such as Italy (Infante & Piazza, 2014), Spain (García-Canal, E., & Guillén, 2008) and France (Albino-Pimentel, 2017) which might imply that the effect of politicians-directors on the firm performance may be the same.

Hypothesis #1

The appointment of politicians is positively correlated with the firm financial performance in Portugal.

Building on existing theory, it is expected that the level of regulation in a country is positively related to the engagement in CPA, since the more constraining the public policies in place are, the more firms try to manage and control the current situation. Firm dependency on government is one of the strongest antecedents of corporate political activity. Early work on this field has determined two different focus on this variable. On one hand, a firm can depend

on the government in terms of contracts and consequently, the firms' sales are directly affected by the relation with the federal government as a client. On the other hand, the firms' costs may increase due to the heavy regulation imposed by the government (Hillman, Keim, Schuler, 2004). Accordingly, the resource dependence theory suggests that the higher the dependence on the government, the more likely it is for a firm to engage in CPA in order to mitigate the risk and uncertainty. Hence, the ability to leverage from the network created during their period on the government is what makes politicians-directors an essential asset to the firm.

In fact, heavily regulated firms usually perceive the appointment of politicians to the board of directors as a competitive advantage, because as former politicians, they have the connections, knowledge and legitimacy to shape the future public policies in a beneficial way for the current company they direct. Nevertheless, although ties to the government seem to be beneficial for all firms, many scholars argue that the effect politicians-directors on performance is stronger when the organization is more dependent on the government, this suggests that firms under high regulation will profit more from political connections than those firms under low regulation (Goldman, Rocholl, & So, 2009; Hillman, 2005).

Moreover, a study for Spain revealed a positive relationship between politicians-directors and firm performance under heavily regulated firms (García-Canal, E., & Guillén, 2008). Hence, taking into account the similarities between Portugal and Spain regarding both cultural environment and country position towards corruption, I argue that in Portugal the same might occur.

Hypothesis #2

In Portugal, the effect of having politicians on the board of directors on the firm financial performance will be stronger in heavily regulated industries than in less regulated industries.

RESEARCH METHODOLOGY

Data & Sample

To analyze if there is any relationship between having a politician on the board of directors and firm financial performance, at first it is required to find reliable information on the board composition and do a background check to every single member of the board in order to find if there is any political relation. This data was collected from the analysis of the annual reports and accounts from every firm from 2010 to 2018. This dataset includes all the 45 firms

on the Euronext Lisbon, however only 44 will be part of the final sample since these are the ones with available financial data for the 9 years period necessary to run the linear regressions.

Measures

Dependent Variables

Two distinct measures of performance are going to be analyzed because different indicators may represent different outcomes when coded as dependent variables. Drawing on several researchers' findings, one can assume that accounting-based and market measures of performance are two dimensions with possible divergent results (Keats, 1988). This contrast is due to the fact that market-based indicators reflect the expectations for the future, whereas accounting-based measures reveal the previous success. On account of this discussion, I considered Market Capitalization and Return on Equity as indicators of market-based and accounting-based performance respectively, and consequently as dependent variables. Market Capitalization expresses the company size and how much is it worth (determined by the stock market). Return on Equity indicates the financial performance and it is calculated by dividing the net income by shareholders' equity. ROE is considered a measure that reflects how effectively management is using a firm's assets to create profits. Moreover, a good or bad ROE will depend on what's normal for the industry or firm peers. This data was found on Thomson Reuters.

Independent Variables

Different variables are used to measure the directors on the board with political experience. Among them, there are a count variable, a percentage of political-directors variable and a dummy variable. The dummy variable *Politicians* was the chosen measure for the core analysis and represents the fact that there is at least one politician on the board of directors. Both count and percentage variables are going to be used to test the robustness of the results. The board of directors of all 44 firms was investigated for the number of former politicians who served within different branches of government (executive and legislative) and jurisdiction scope (regional, national, international level). This framework consists of what defines a politician by taking into consideration government experience and degrees of influence (El Nayal, Oosterhout, Essen, 2019).

For executive politicians with an international jurisdiction scope, I considered EU commissioners, ambassadors plus foreign politicians. For executive politicians at the national level, I acknowledge ministers and secretaries of state. For executive politicians at the regional

level I looked at mayors. For legislative politicians with an international jurisdiction scope, members of the European Parliament and foreign politicians were examined; at the national level, all members of the parliament were considered and finally, at the regional level, I took into account members of the regional assembly.

Table 1 provides a summary of the classification I used. It is important to note that informal political connections were not taken into consideration since social relationships with politicians are difficult to find reliable data for and verify. Nevertheless, I predict that the model I used for formal political connections is a trustworthy measure to compare to performance.

Table 1 – Definition of Politician

	Executive	**Legislative**
International	EU Commissioners Ambassadors Foreign Politicians	Members of European Parliament Foreign Politicians
National	Ministers Secretaries of State	Members of the Parliament
Regional	Mayors	Members of the Regional Assembly

The year of measurement is lagged. I took into consideration the year prior to the performance in order to avoid causality concerns. Since this is a causal study, I am interested in proving whether hiring politicians to the corporate board causes an increase in performance. Causality is the relation between two events: a first event (independent and control variables), the cause, and a second event (performance measures), the effect. The performance is a consequence of adding politicians to the board.

Regulated. A dummy variable was used as a moderator to measure regulation in order to differentiate industries under low and high regulation. Based on different papers I considered that regulated industries include utilities (Russo, 2001; Bonardi, Holdburn, Vanden Bergh, 2006), telecommunications (de Figueiredo and Tiller, 2001), transportation, energy, banking,

oil, insurance (Grier, Munger, and Roberts, 1994), manufacturing (King and Lennox, 2000), airlines (Shaffer et al., 2000) and gambling (Hillman, 2005; Werner, 2017). To match several companies with their industry group, I used the Global Industry Classification Standard (GICS) since standardized industry definitions are applied to firms globally. GICS structure reflects the prevailing state of industries in global investment markets. The year of measurement is lagged for causality concerns.

Control Variables

When analyzing the effect of an independent variable on a dependent variable it is important to include control variables, since its lack of awareness affects the regressions leading to faulty results. The control variables are related to the dependent variable, therefore I added them to the regressions in order to remove their effects from the equation, avoiding biased estimates. Besides, for all control variables, the year of measurement is lagged for causality concerns.

Total Board Size. Scholars have already found a link between board size (total number of directors) and financial performance (Dalton, 1999) therefore it is been proven its relevance as a control variable. Moreover, controlling for this variable allows a straightforward interpretation of the coefficient firm size, since larger firms are more likely to have more directors (larger boards). Taking it into account, the risk of a false positive relation between firm size and politicians on the board is eliminated (Agrawal, Knoeber, 2001). Besides, the *Total Board Size* variable enables me to code for the percentage of politicians on the board of directors, without the necessity to interpret ratio variables.

Firm Size. Literature suggests that in smaller firms it is easier for the board to counsel, implement change and adopt different operational strategies. Due to the fact that usually smaller firms are less complex, the board has a greater ability to control and affect financial performance (Dalton, Daily, Ellstrand, & Johnson, 1998). For this control variable, the values are in millions, therefore, I considered the log of the firm's assets.

Leverage. To evaluate the firm's financial leverage, the Debt-to-Equity ratio was calculated. This ratio measures the degree to which a firm is financing its operations through debt versus equity (wholly owned funds), in short, it expresses the ability of the shareholder equity to cover

all outstanding debt in case of a business crisis. Moreover, the higher the ratio the higher the risk to shareholders, nevertheless it is difficult to compare this across industries since the ideal amount of debt varies.

State Ownership. Research suggests that firms connected indirectly to the government through ties with state-owned companies benefit from this relationship, by avoiding costs related to the government and by getting access to resources owned by the state. This implies that firms partially owned by the state or state-owned companies will enhance their financial performance (Okhmatovskiy, 2009). Hence, I find it useful to consider *State Ownership* as a control variable in this study, representing the percentage of state ownership.

Data Analysis

The final panel dataset includes 396 firm-year observations and 16 variables. Since there is missing data in some of the years due to the fact that the companies were not on the Euronext Lisbon Stock yet, I have an unbalanced panel dataset which means that the models performed will automatically exclude some observations due to the lack of data for some years for specific companies. In order to test Hypothesis I, I will conduct two different analyses. At first, I will run a regression model using *Market Capitalization* as the dependent variable and afterward, I will perform the same method considering *Return on Equity* as the dependent variable as well. The independent variable for both models is the *Politicians*, a dummy variable that allows us to acknowledge that there are indeed politicians on the board of directors. To test Hypothesis II, I will use a similar model as the above described, but now I will be using regulation as a moderator, an independent variable that will measure if the impact on firm performance is more obvious on heavily regulated companies than in less regulated firms.

Hypothesis I:

$$\text{Market Capitalization or ROE} = \beta 0 + \beta \text{Politicians} + \beta \text{Year} + \beta \text{Firm_Size} + \beta \text{State_Ownership} + \beta \text{Board_Size} + \beta \text{Leverage} + u$$

Hypothesis II:

$$\text{Market Capitalization or ROE} = \beta 0 + \beta \text{Politicians*Regulated} + \beta \text{Year} + \beta \text{Firm_Size} + \beta \text{State_Ownership} + \beta \text{Board_Size} + \beta \text{Leverage} + u$$

Since I have a panel data where longitudinal observations exist for the same firm, I used fixed effects estimator for the analysis. Also known as "within" estimator, it is used to refer to an estimator for the coefficients in the regression model including those fixed effects. It works because within each unit of analysis, in this case, the firm, it subtracts the firm-level mean of each variable to the observed values of that variable in each time period (from 2010 to 2018). In addition, the argument effect = "twoways" was set for inclusion of ID (company) and year dummies.

Furthermore, since the same unit of analysis (same company) shows up multiple times in our data because I am analyzing a 9-year period, there is a possibility of them to be correlated over time, in other words, there might be serial correlation. To test this presence, I will perform a test by regressing the regression residuals on the residuals from the previous period: plm(u ~ lag(u)). In case of serial correlation, I will correct standard errors robust to serial correlation (and heteroskedasticity) by running a *Coeftest*. Solving the existing problem of serial correlation that could result in underestimated standard errors, inflated t-statistics and an increase of Type-I error (false positive, where we reject the null hypothesis incorrectly), in case of positive serial correlation, and the opposite effects in case of negative serial correlation.

Table 2 – Descriptive Statistics and Correlation Matrix

Variable	Mean	ST. Dev.	BoardSize	Politicians	FirmSize	turnOnEqu	MKTCap	Leverage	Executive	Legislative	International	National	Regional	StateOwnership
BoardSize	8.479	4.480												
Politicians	0.444	0.497	0.37*											
FirmSize	3.697	4.153	0.40*	0.30*										
ReturnOnEquity	0.052	0.729	0.01	0.01	0.01									
MKTCap	1.342	2.652	0.42*	0.39*	0.45*	0.05								
Leverage	6.115	53.332	0.03	0.05	0.04	0.08	0.03							
Executive	0.32	0.467	0.43*	0.76*	0.36*	0.00	0.47*	0.03						
Legislative	0.253	0.436	0.27*	0.65*	0.21*	0.02	0.12	0.03	0.23*					
International	0.113	0.317	0.36*	0.40*	0.16*	0.01	0.45*	0.03	0.42*	0.38*				
National	0.344	0.476	0.39*	0.80*	0.37*	0.02	0.38*	0.02	0.65*	0.48*	0.11			
Regional	0.085	0.280	0.13	0.34*	0.22*	0.05	0.09	0.02	0.26*	0.30*	0.11	0.02		
StateOwnership	0.005	0.020	0.20*	0.25*	0.06	0.00	0.33*	0.02	0.33*	0.03	0.22*	0.31*	0.07	
Regulated	0.455	0.499	0.39*	0.50*	0.31*	0.07	0.24*	0.04	0.53*	0.26*	0.20*	0.48*	0.13	0.26*

Note: Variable FirmSize is logged MKTCap is in billions *p<0.1; **p<0.05; ***p<0.01

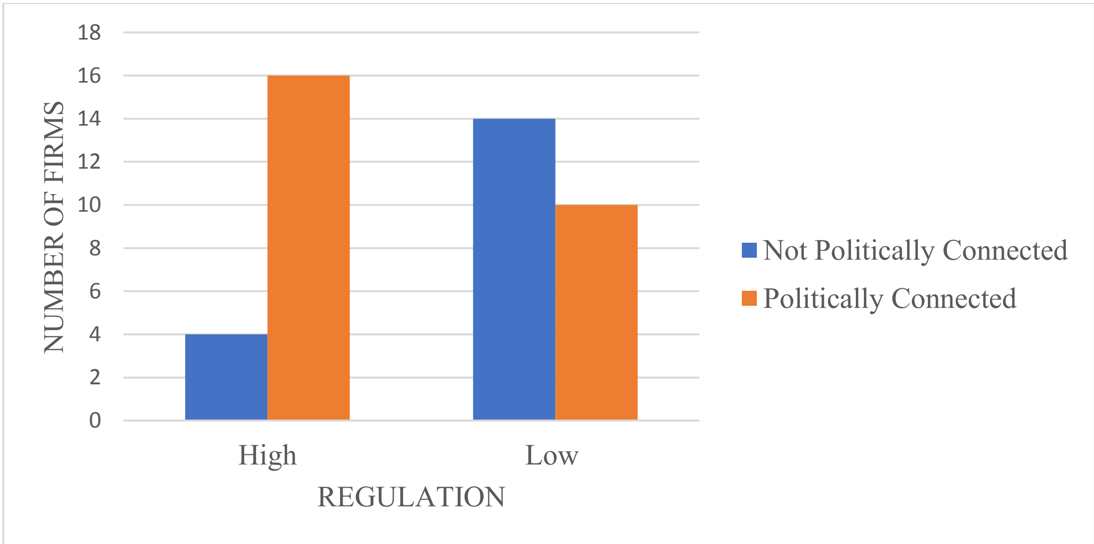
RESULTS

Table 2 provides the descriptive statistics for all variables above described. It reports means, standard deviations as well as the correlation between the different variables. Control variables of board size, firm size and ownership present a significant correlation with all independent variables of Politicians, Executive, Legislative, International, National, Regional and Regulated, suggesting the appropriateness of adding them to the several models as control variables.

Furthermore, I find it interesting to mention the mean of the variable Politicians due to its figure of 0.444 which suggests that 44.4% of firm-year observations have at least one politician on the board of directors.

Figure 1

Number of Firms Politically Connected and Not Connected Under Different Regulation



Up until now, there was limited knowledge of the number of firms politically connected in Portugal. After analyzing the information collected which is reflected on Figure 1, I found that 26 out of the 44 Portuguese firms had at least one politician on the board over the focal period, which represents 59.1% of the total number of firms. This figure seems to be higher than usual when compared with past studies (El Nayal, Oosterhout, Essen, 2019; Faccio, 2006). The results also suggest that 48.9% of the firms never had a politician-director from 2010 to 2018. These values suggest an interesting distribution for the Portuguese context. Additionally, as theory predicts, firms under heavily regulation hired more politicians to the board of directors during this 9-year period than those under low levels of regulation.

For each of the two dependent variables (*Market Capitalization* and *Return on Equity*), I firstly run two control models, secondly two different models for Hypothesis I, and then two additional models for Hypothesis II. All models include the same variables of control (*Firm Size*, *Board Size*, *Leverage*, *State Ownership* and *Year*). That said, note that model (1) and model (4) are the control models. In addition, for Hypothesis I there are (2) a model with Politicians with Market Capitalization; (5) a model with Politicians with Return on Equity as measure of performance; For Hypothesis II was regressed the following models: (3) and (6) a model with an interaction between Politicians and Regulated for Market Capitalization and Return on Equity, respectively.

Table 3

Results of Multiple Regression Models Using MKT Cap and Return on Equity as the Dependent Variables – Hypothesis I & Hypothesis II

	Dependent variable:					
	MKT Cap			Return on Equity		
	1	2	3	4	5	6
Politicians		0.114	-0.047		0.212	0.340
		(0.140)	(0.323)		(0.17)	(0.227)
Politicians*Regulated			0.446			-0.371
			(324)			(0.322)
Board Size	0.055***	0.052***	0.053*	0.011	0.009	0.009
	(0.023)	(0.024)	(0.025)	(0.01)	(0.01)	(0.009)
Firm Size	0.262***	0.242**	0.203*	0.311**	0.278*	0.311*
	(0.132)	(0.132)	(128)	(0.12)	(0.11)	(0.141)
Leverage	0.00005	0.0001	-0.0001	-0.0002	-0.0002	-0.0001
	(0.00025)	(0.00026)	(0.26)	(0.001)	(0.001)	(0.001)
State Ownership	-18.216***	-18.264***	-18.343***	1.685*	1.485	1.690*
	(0.926)	(0.911)	(0.928)	(0.78)	(0.83)	(0.896)
Observations	308	308	308	318	318	318
R2	0.146	0.148	0.155	0.039	0.043	0.047
Adjusted R2	-0.029	-0.031	-0.025	-0.154	-0.153	-0.153
F Statistic (df = 5; 252)	10.872***	8.804***	7.739***	2.658**	2.387**	2.149**
	(df = 5; 253)	(df = 5; 252)	(df = 5; 251)	(df = 5; 264)	(df = 5; 263)	(df = 5; 262)
Note:					*p<0.1; **p<0.05; ***p<0.01	

In Table 3 are presented the results for the hypothesis that concerns the relationship between Politicians and Firm Performance. Based on previous research, it was expected a positive relationship between these two variables and therefore the Hypothesis I predicts that effect, however, I find that the variable Politicians, although is positive as anticipated, is not statistically significant (Table 3. Model 2: β =0.114, $p > 0.1$). For Return on Equity, the effect observed also contradicts Hypothesis I, despite a positive relationship, there is no statistically

significance (Table 3. Model 4: β =0.212, $p > 0.1$). In addition, table 3 also presents the results for the hypothesis II which states that "In Portugal, the effect of having politicians on the board of directors on the firm financial performance will be stronger in heavily regulated industries than in less regulated industries", taking into account both Market Capitalization and Return on Equity. Literature predicts that having a politician on the board of directors would have a stronger effect on performance under heavily regulation, however, the results I encountered do not support this theory either for Market Capitalization (Table 3. Model 3: β = 0.446, $p > 0.1$) or Return on Equity (Table 3. Model 6: β =-0.371, $p > 0.1$).

Robustness Checks

Table 4

Results of Multiple Regression Models Using MKT Cap as the Dependent Variable – Robustness Checks

	Dependent variable:			
	MKT Cap			
	1	2	3	4
PoliticiansCount	-0.039		0.065	
	(0.165)		(0.073)	
PoliticiansPercentage		0.335		0.655
		(0.878)		(0.389)
PoliticiansCount*Regulated			-0.132	
			(0.218)	
PoliticiansPercentage*Regulated				-0.869
				(0.238)
Board Size	0.061	0.054*	0.065	0.056*
	(0.033)	(0.023)	(0.037)	(0.023)
Firm Size	0.259*	0.260*	0.262	0.264
	(0.132)	(0.131)	(0.135)	(0.138)
Leverage	0.00003	0.0001	0.0001	0.0002
	(0.0003)	(0.0003)	(0.0003)	(0.0003)
State Ownership	-18.113***	-18.243***	-17.948***	-18.078***
	(1.063)	(0.919)	(1.233)	(1.119)
Observations	308	308	308	308
R2	0.147	0.147	0.150	0.149
Adjusted R2	-0.032	-0.032	-0.032	-0.032
F Statistic	8.771***	8.748***	7.452***	7.363***
	(df = 5; 254)	(df = 5; 254)	(df = 5; 253)	(df = 5; 253)
Note:		*p<0.1; **p<0.05; ***p<0.01		

To test the strength of the results, I ran robustness checks using both PoliticiansCount variable and PoliticiansPercentage variable for Market Capitalization for both hypotheses I and II. The results reinforce the previous outcomes of lack of significance, failing to support what theory predicted. As shown in Table 4, both PoliticiansCount and PoliticiansPercentage variables present a non-significant value (Table 4. Model 1: $\beta = -0.039$, $p > 0.1$; Table 4. Model 2: $\beta = 0.335$, $p > 0.1$) respectively, therefore hypothesis I is rejected. For hypothesis II, I regressed the interaction between PoliticiansCount and the dummy variable Regulated, as well as the interaction between PoliticiansPercentage and Regulated. Both coefficients are non-significant showing the same conclusion above presented (Table 4. Model 3: $\beta = -0.132$, $p > 0.1$; Table 4. Model 4: $\beta = -0.869$, $p > 0.1$).

Post Hoc Analyses

Although not part of the hypotheses developed above, the analysis I conducted led to a potentially compelling post hoc analysis. Hence, I considered distinctive independent variables in order to evaluate not just the relation between having a politician on the board and firm performance, but also if belonging to different branches of the government or distinct jurisdiction scope has a direct impact on the dependent variable. In spite of not being formally hypothesized, after gathering the data I argue that there might be a causal relationship those dummy variables and performance.

Therefore, to understand if there is any correlation between the different branches of government of a politician and performance, I run a regression model for each of those independent variables. Table 5 addresses the results of the regressions analyses performed for both Market Capitalization and Return on Equity. Consequently, (1) a model with a dummy variable “Executive” which means that a firm has at least one executive politician on the board; (2) a model with a dummy variable “Legislative” which represents that a firm has at least one legislative politician on the corporate board, for MKT Cap and (3) a model with Executive; (4) a model with Legislative for Return on Equity.

Table 5

Results of Different Government Branches' Regression Models Using MKT Cap and Return on Equity as the Dependent Variables

	Dependent variable:			
	MKT Cap		Return on Equity	
	1	2	3	4
Executive	0.168		0.141	
	(0.177)		(0.19)	
Legislative		0.015		0.086
		(0.149)		(0.1)
Board Size	0.052***	0.054***	0.009	0.009
	(0.024)	(0.025)	(0.01)	(0.01)
Firm Size	0.242**	0.261***	0.295**	0.304*
	(0.125)	(0.137)	(0.11)	(0.12)
Leverage	0.0001	0.0001	-0.0002	-0.0002
	(0.00024)	(0.00026)	(0.001)	(0.001)
State Ownership	-18.319***	-18.227***	1.642*	1.620*
	(0.934)	(0.904)	(0.79)	(0.81)
Observations	308	308	318	318
R2	0.150	0.146	0.041	0.040
Adjusted R2	-0.028	-0.033	-0.156	-0.158
F Statistic	8.953***	8.666***	2.229*	2.168*
	(df = 5; 252)	(df = 5; 252)	(df = 5; 263)	(df = 5; 263)
Note:			*p<0.1; **p<0.05; ***p<0.01	

I do not find support for the relationship between the different branches of government and firm performance. There is indeed a positive effect, however, it is not significant for both the Executive variable (Table 5. Model 1: β =0.168, $p > 0.1$) and Legislative variable (Table 5. Model 2: β =0.015, $p > 0.1$) for Market Capitalization. I encounter the same lack of support for these variables for Return on Equity. Executive is positively associated with Return on Equity, but it not statistically significant (Table 5. Model 3: β =0.141, $p > 0.1$), similarly to Legislative (Table 5. Model 4: β =0.086, $p > 0.1$).

Moreover, I also failed to find significant results when interacting both independent variables with the variable "regulated". In general, there is lack of support to sustain the theory that different branches of government have an effect on firm performance.

To complete the analysis, three more regressions were performed in order to analyze if the jurisdiction scope of a politician in a certain position affects financial performance. Accordingly, table 6 reflects the results for (1) a model with International; (2) a model with National; and lastly (3) a model with Regional for MKT Cap and (4) a model with International; (5) a model with National; and lastly (6) a model with Regional for Return on Equity.

Table 6

Regression Analysis of Different Jurisdiction Scopes for MKT Cap and Return on Equity as the Dependent Variables

	Dependent variable:					
	MKT Cap			Return on Equity		
	1	2	3	4	5	6
International	0.641			-0.062		
	(0.578)			(0.16)		
National		-0.118			0.163	
		(0.166)			(0.16)	
Regional			0.338*			0.074
			(0.111)			(0.09)
Board Size	0.044**	0.056***	0.048***	0.012	0.009	0.010
	(0.022)	(0.024)	(0.021)	(0.01)	(0.01)	(0.01)
Firm Size	0.198**	0.274***	0.277***	0.317**	0.294*	0.315**
	(0.114)	(0.149)	(0.135)	(0.12)	(0.11)	(0.12)
Leverage	0.0001	-0.00003	0.0002	-0.0002	-0.0002	-0.0002
	(0.00026)	(0.00029)	(0.00025)	(0.001)	(0.001)	(0.001)
State Ownership	-18.493***	-18.090***	-18.110***	1.711*	1.504	1.707 *
	(0.904)	(0.917)	(0.904)	(0.79)	(0.82)	(0.78)
Observations	308	308	308	318	318	318
R2	0.172	0.148	0.158	0.039	0.042	0.039
Adjusted R2	-0.002	-0.031	-0.018	-0.158	-0.155	-0.158
F Statistic	10.552***	8.816***	9.549***	2.127*	2.283**	2.141*
	(df = 5; 254)	(df = 5; 254)	(df = 5; 254)	(df = 5; 263)	(df = 5; 263)	(df = 5; 263)
Note:						*p<0.1; **p<0.05; ***p<0.01

Regarding to different jurisdiction scope, I found that for both international and national level the results are not significant for Market Capitalization (Table 6. Model 1: *ß* =0.641, $p > 0.1$; Table 6. Model 2: *ß* =-0.118, $p > 0.1$) correspondently. Nor it is significant for Return on Equity (Table 7. Model 4: *ß* =-0.062, $p > 0.1$; Table 6. Model 5: *ß* =0.163, $p > 0.1$). For the regional jurisdiction scope, I found significant support for the theory of a positive relationship between being a local politician and increase of Market Capitalization (Table 6. Model 3: *ß* = 0.338, $p < 0.05$), nevertheless this significance does not hold for Return on Equity (Table 6. Model 6: *ß* =-0.074, $p > 0.1$).

Lastly, I tested the scope of different jurisdictions under heavily regulation in order to contribute to the analysis of hypothesis II. Therefore, table 7 reports the results for (1) a model with an interaction between International and Regulated; (2) a model with an interaction between National and Regulated; and lastly (3) a model with an interaction between Regional and Regulated for MKT Cap and also (4) a model with an interaction between International and Regulated; (5) a model with an interaction between National and Regulated; and (5) a model with an interaction between Regional and Regulated for Return on Equity.

Table 7

Regression Analysis of Different Jurisdiction Scope for MKT Cap and Return on Equity as the Dependent Variables and Regulation as Moderator

	Dependent variable:					
	MKT Cap			Return on Equity		
	1	2	3	4	5	6
International	-0.738*			-0.242*		
	(0.296)			(0.095)		
National		-0.237			0.414	
		(0.144)			(0.260)	
Regional			0.273**			0.020
			(0.102)			(0.141)
International*Regulated	2.323***			0.301		
	(0.380)			(0.222)		
National*Regulated		0.239			-0.525	
		(0.315)			(0.311)	
Regional*Regulated			0.134			0.112
			(0.225)			(0.156)
Board Size	0.026	0.056*	0.046*	0.010	0.010	0.009
	(0.019)	(0.024)	(0.022)	(0.011)	(0.009)	(0.01)
Firm Size	0.142	0.260	0.277*	0.310**	0.321*	0.315**
	(0.078)	(0.153)	(0.136)	(0.116)	(0.132)	(0.121)
Leverage	0.0001	-0.0001	0.0001	-0.0002	-0.0001	-0.0002
	(0.00028)	(0.00028)	(0.00024)	(0.001)	(0.001)	(0.001)
State Ownership	-18.349***	-18.227***	-18.144***	1.731*	1.807*	1.679*
	(0.877)	(0.938)	(0.909)	(0.792)	(0.884)	(0.789)
Observations	308	308	308	318	318	318
R2	0.257	0.150	0.159	0.040	0.049	0.039
Adjusted R2	-0.099	-0.031	-0.021	-0.162	-0.150	-0.162
F Statistic	14.616***	7.449***	7.957***	1.811*	2.257**	1.789
	(df = 6; 253)	(df = 6; 253)	(df = 6; 253)	(df = 5; 262)	(df = 5; 262)	(df = 5; 262)
Note:					*p<0.1; **p<0.05; ***p<0.01	

Concerning the scope of different jurisdictions, I found a positive significant relationship between the interaction term of international and regulation for Market Capitalization (Table 7. Model 1: β =2.323, p < 0.01). This interaction means that for heavily regulated firms with at least one international politician on the board, the market capitalization changed 2.323 billion more when comparing with firms with no presence of international politicians on the board. However, the significance does not hold for Return on Equity (Table

7. Model 4: β =0.301, $p > 0.1$). For a national jurisdiction scope, the results are non-significant for both Market Capitalization (Table 7. Model 2: β = 0.239, $p > 0.1$) and Return on Equity (Table 7. Model 2: β =-0.525, $p > 0.1$), failing to support the literature. Lastly, for a regional scope, what theory predicted does not hold either for Market Capitalization (Table 7. Model 3: β = 0.134, $p > 0.1$) or Return on Equity (Table 7. Model 6: β =0.112, $p > 0.1$).

In order to have a more complete analysis of the relationship between having an international politician on the board of directors and firm performance, taking into consideration regulation as moderator, the graph bellow was plotted. The x-axis represents the presence (or lack of it) of at least one international politician on the board. The y-axis uses the mean of Market Capitalization in billions as a representation of firm performance.

Figure 2

MKT Capitalization for International Politicians and Regulation

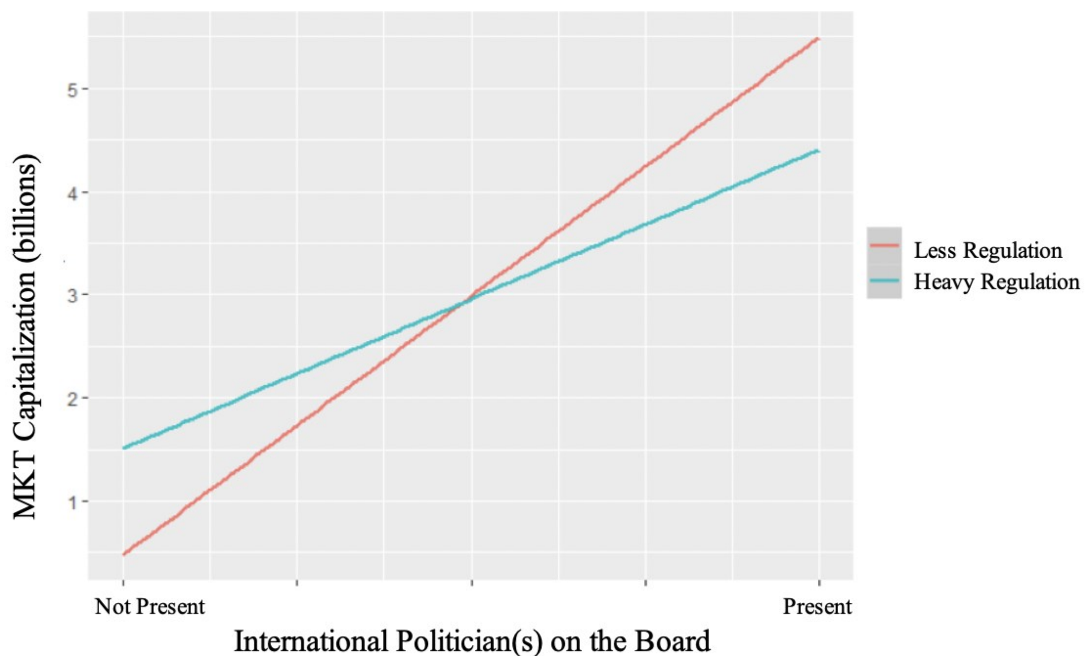


Figure 2 suggests that international politicians is positively associated with firm performance (market capitalization) for both regulated and unregulated firms, hence both lines have positive slopes. Additionally, when the slopes are compared, the line, for less regulated firms, is actually more slanted than for firms under heavy regulation, indicating that international politicians may be more valuable in less regulated industries.

DISCUSSION

Scholars have been trying to answer the question of whether or not political connections influence firm performance. The theme is intriguing in the sense that even after several conducted studies there is still an unclear conclusion regarding this subject. I ran multiple regressions hoping to uncover some insights about politically connected firms and performance on the Portuguese context. Although most results reveal a non-significant relationship that suggests an inconclusive effect, I found significance for two different levels of jurisdiction. The findings show a positive effect of a regional politician on firm performance and also a positive relationship between international politicians on the board and firm performance when regulation is considered as moderator. Nevertheless, the results demonstrate mix support for these predictions since the effects are significant for market-based measures (MKT Cap), but not for accounting-based measures. This might be explained by the limitations of Return on Equity. This ratio alone may not be a viable measure since it can be manipulated by accounting practices.

In this thesis, it was formally hypothesized that including former politicians to the board of directors would increase firm performance in Portugal, and the same causal effect was expected with regulation as moderator. After analyzing the results, I did not find support for these theories in the Portuguese context. The Resource Dependence Theory suggests that a firm may be influenced by external factors and environment, therefore firms act by hiring politicians-directors in order to reduce uncertainty and dependence, mitigating the risk. Nevertheless, for this strategy to be successful, the firm needs to ensure that the politicians in place can deliver the resources the firm needs. Based on the literature of RDT, it was created a taxonomy of directors where each type of directors e.g. "business experts," "support specialists," and "community influentials,", can provide specific types of resources (Hillman, Cannella, and Paetzold, 2000). Without this ability to match resources with the firms' needs, this engagement in CPA might not be as effective as expected (Pfeffer, 1972). Hence, since I found a non-significant relationship between politicians and performance, I argue that the type of director hired by the firms did not bring to the board the resources that the firm needed to reduce the volatility of the external environment. Another explanation for the lack of resources provided by politicians-directors might be the fact that Portugal's perceived level of corruption is not high enough. The Portuguese culture may not be as permissive and tolerant as expected when it comes to corruption which may deter politicians from favoring politically connected firms in fear of being attacked by the media, transparency agencies and public opinion,

damaging their reputation. Consequently, politicians cannot fulfill their role of resource provisionary (El Nayal, Oosterhout, Essen, 2019). However, there is still the possibility of politicians having a double effect on the firm by adding and destroying value at the same time, canceling out the benefits they provide. Drawing on the agency theory where conflicting interests between stakeholders may lead to problems, causing inefficiencies and ultimately, financial losses. Firstly, I argue that politically connected firms may undertake unnecessary risky projects due to their overconfidence on the government's support in case of financial distress. Secondly, a firm starts to engage in CPA as a substitute for market strategies instead of a complement, reallocating internal resources from potentially successful market activities to nonmarket strategies (Hadani, Schuler, 2012). Lastly, senior managers pursue corporate political activities for their own personal gain. These behaviors entail an amount of social and economic costs that translate into inefficiencies which consequently destroys values for the firms. To conclude, firms that hire politicians that bring both benefits and downsides to the table may neutralize the expected positive effects that literature predicts, resulting in a non-significant relationship between former politicians on the board of directors and performance.

This study also entails relevant implications for the literature on the relationship between politically connected firms and performance. By making a distinction between different types of politicians taking into consideration their branch of the government and their jurisdiction scope, I am analyzing the discrepancy in influence a politician may have depending on the government role they play.

Although not formally hypothesized, the *post hoc analysis* suggested compelling results. I did not find significance for the relationship between the different branches of government (Executive and Legislative) and performance. On the contrary, the relationship between distinct jurisdiction scope and performance was indeed interesting. Revealing a positively significant relationship between regional politicians and performance and well as international politicians and performance under different levels of regulation.

Building on existing literature, one may state that politicians with a regional jurisdiction scope are a valuable asset to firms. In fact, several past studies demonstrate how beneficial a local politician can be (Infante & Piazza, 2014; Amore, Bennedsen, 2013; Cingano, Pinotti, 2013). Intuitively, one may think that national or international politicians are more powerful than local politicians, nevertheless, the political network at a regional level can be a stronger and more effective nonmarket strategy than at other levels of jurisdiction scope. This is because, in Western democracies, decentralization prevails and fosters both local democracy and socioeconomic well-being. As a result, the government allocates local budgets (e.g. Lisbon City

Hall has a budget of 1300 millions for 2020), which constitutes a significant fraction of the total public expenditures of a country, and local politicians have control of that money. Furthermore, they have the power to determine which firms get licenses, permits for construction as well as public contracts at the regional level. Therefore, local politicians can direct financial resources and public demand only (or mostly) towards the firms they are connected to, explicitly giving them better treatment. For instance, they favor politically connected firms in procurement contracts (Goldman, Rocholl, and So, 2008). Following this reasoning, one may state that politically connected firms can leverage from their position to gain rent from the public sector through the government's outsourcing activities (Amore, Bennedsen, 2013). Additionally, studies found robust evidence that firms with ties to the government benefit from lower rates when this connection is at a local level, and the effect is even stronger when firms borrow from politically connected banks (Infante & Piazza, 2014). Besides, firms with politicians on the board also find it easier to access to bank credit. These benefits point to the importance a local politician has at the local level, and after rationally evaluating the advantages, one may state that local politicians are a valuable and influential asset to a firm. This statement appears to be true to the Portuguese context, accordingly to this dissertation's findings which reveal a positively significant relationship between regional politicians and performance.

My results also indicate that international politicians add value to firms under both regulated and unregulated industries. The engagement in corporate political activities is highly expected in firms under regulation due to its dependency on the government. As previously argued, based on the resource dependence theory, firms that depend on external factors to sustain their business need to minimize uncertainty to mitigate the risks associated with the external environment. Although, to the extent of my knowledge, there are no studies that found robust evidence on the positive relationship between international politicians and performance, I argue a number of reasons why an international politician might be an asset. Firstly, firms may use the reputation of former international politicians as a strategy to restore or protect its legitimacy. In fact, in western societies, firms with greater legitimacy are more likely to obtain resources and external support, therefore, legitimacy is linked to firms' survival and prosperity (Chen & Cao, 2016). Secondly, a firm with the intention to internationalize might see as an advantage a politician with international experience that can ease the process and facilitate the due diligence needed to proceed with the internationalization. However, this is a particularly specific advantage that may not illustrate most cases. To conclude, the results of a positively significant relationship between international politicians and performance under heavy regulation are hardly expected. Since firms hire politicians to influence public policies, it would

be expectable for firms to hire national or regional politicians because of their knowledge and network, instead of international politicians. Due to their internationalization, this type of politicians may not be as familiar with the current and past regulations or be as politically connected at the national level as the other types of politicians. On the contrary, this relationship between international politicians and performance, for less regulated industries, is more intuitive. Nevertheless, it was not tested who is, indeed, creating value for the firm, if foreign politicians or Portuguese politicians with international experience. Therefore, I would recommend a distinction for future research.

CONCLUSION

In this dissertation, I contributed to the literature by analyzing 44 firms, in the Portuguese context, listed in the Euronext Stock. Overall, I found 26 politically connected firms which I defined as a firm with at least one politician on the board of directors during the focal period. As expected, 80% of firms from industries under heavily regulation are politically connected against 42% of politically connected firms under low regulation. However, for the hypotheses that I formally developed, I did not find a significant relationship to performance. These results are consistent with the theory that suggests that politicians may extract rents from the firms they manage (Faccio, 2006), cancelling out the benefits they may bring to the firm. It is also coherent with the argument that the level of corruption of Portugal does not allow politicians to leverage their connections in their firm's favor, therefore they cannot fulfill their role of resource provider (El Nayal, Oosterhout, Essen, 2019). Moreover, I added to the literature by showing how different levels of government and jurisdiction scope have different effects on performance if analyzed separately. I found robust evidence that local politicians are a valuable asset to firms. These finding are aligned with several different studies (Infante & Piazza, 2014; Amore, Bennedsen, 2013; Cingano, Pinotti, 2013) that argue that a local politician, at a regional level, has great influence over which firms receive licenses, permits and contracts, in other words, to which firms are transferred rent from the public sector. Additionally, this dissertation also suggests that international politicians have a positively significant relationship with performance, under different levels of regulation. Although there are no studies with these findings, to the best of my knowledge, I argue that this effect is due to the legitimacy that a politician with international experience may bring to the firm, increasing their reputation and enhance future prosperity.

LIMITATIONS AND FUTURE RESEARCH

As several other empirical studies, this dissertation also has its limitations that encourage future research on this field. First, informal political connections were not considered in the sample due to its difficulty to prove, therefore future research may extend this sample in case high-quality data and reliable sources become available. Furthermore, the creation of a framework that defines informal political connections may be a valuable insight to add to the theoretical literature. Second, this study shows that international politicians have a positive significant relationship with the performance of firms in industries under different levels of regulation. Nevertheless, since I grouped together both foreign politicians and Portuguese politicians with international experience, I cannot demonstrate who is creating value for the firm. Hence, for future research, I recommend separate them into two different variables to better analyze the effect. Lastly, my findings point to a non-significant relationship between politicians on the board and firm performance. However, it is not clear the reason behind this result. Consequently, a promising step for future research is to test the heterogeneity among politicians, unbundling the different types of politicians-directors, by using a taxonomy of directors (Hillman, Cannella, and Paetzold, 2000) which distinguish politicians according to the benefits/resources they bring to the firm. By applying this approach, future research in the Portuguese context may lead to different performance outcomes.

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