The relationship between the human and social capital of former politicians and their perceived value on corporate boards in Portugal – an investor's perspective

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ABSTRACT ENGLISH

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The appointment of politicians to the boards of directors of companies remains a highly used corporate strategy nowadays. However, the empirical studies carried out so far remain inconclusive on whether, and to what extent, these appointments create or destroy value for companies. Based on the resource dependency theory, we argue that it is likely that the ability of appointed politicians to bring valuable resources to companies will be related to the human and social capital of these politicians. This dissertation aims to assess the veracity of this statement through the value that investors attribute to each appointment. The forecasts were tested in the Portuguese context, through the study of a group of 44 EuroNext Lisbon Stock companies, between 2010 and 2018, in which 334 director appointments were registered. Our results not only demonstrate that hiring politicians are considered beneficial by investors in Portugal but also suggest that there is a negative relationship between the number of political positions that each politician held and the reactions of investors to his appointment. This adverse reaction can be explained by several factors, such as the preference of investors for specialist directors instead of generalists, or the distrust of frequent changes in position by investors, or even by the Corruption Index that Portugal has.

ABSTRACT PORTUGUESE

Título: A relação entre o capital social e humano dos ex-políticos e o seu valor percebido nos conselhos de administração em Portugal - uma perspetiva dos investidores

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Palavras-chave: Atividades políticas corporativas, políticos no conselho de administração, capital social e humano, economia portuguesa, EuroNext Lisbon Stock

A nomeação de políticos para os conselhos de administração de empresas continua a ser uma estratégia corporativa altamente utilizada nos dias de hoje. Contudo, os estudos empíricos realizados até ao momento continuam inconclusivos sobre se e em que medida estas nomeações criam ou destroem valor às empresas. Com base na teoria de dependência de recursos argumentamos que é provável que a capacidade dos políticos apontados trazerem recursos valiosos para as empresas, esteja relacionada com o capital social e humano desses políticos. Esta tese tem como objetivo avaliar a veracidade desta premissa através do valor que os investidores atribuem a cada nomeação. As previsões foram testadas dentro do contexto português, através do estudo de um conjunto de 44 empresas da EuroNext Lisbon Stock, entre o período de 2010 e 2018, no qual foram registadas 334 nomeações. Os nossos resultados não só demonstram que a contratação de políticos é considerada benéfica pelos investidores em Portugal, como sugerem ainda que existe uma relação negativa entre o número de posições políticas que cada político ocupou e as reações dos investidores à sua nomeação. Esta reação negativa pode ser explicada através de vários fatores, como a preferência dos investidores por diretores especialistas em vez de generalistas, ou pela desconfiança das frequentes mudanças de posição por parte dos investidores, ou ainda pelo Índice de Corrupção que Portugal apresenta.

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TABLE OF CONTENTS

LIST OF ABBREVIATIONS

CPA – Corporate Political Activity

CPI – Corporate Perceptions Index

RDT – Resource Dependence Theory

LIST OF TABLES

INTRODUCTION

According to resource dependence theory, corporations operate in an open system, dependent on external players, such as competitors and governments (Hillman, 2005). The government policies and regulations have a significant impact on the firm's performance (Hillman & Hitt, 1999; Boddewyn, 1988), which increases their level of interdependence (Pfeffer & Salancik, 1978) and consequently generates uncertainty among many firms (Selznick, 1949). To reduce this dependence, it is crucial for organizations to build political strategies (Baron, 1995) that create bridges with the government (Selznick, 1949; Pfeffer, 1972), in order to reach beneficial public policies for the firm's survival (Abelson & Baysinger, 1984; Lester, Hillman, Zardkoohi & Cannella, 2008). The appointment of politicians to corporate boards is one of the most common strategies to develop this political approach (Hillman & Hitt, 1999).

Several scholars have described the appointment of politicians over time and tried to theorize the reasons, and the pros and cons of this strategy (Hillman and Hit, 1999; Govekar, 1990; Pfeffer, 1972; Galaskiewicz & Wasserman, 1989). However, there is still a disagreement inside the corporate political activity studies on how investors evaluate those appointments as value-adding (Faccio, 2006). Therefore, instead of analyzing if politicians add or not value to the companies, this dissertation aims to understand the characteristics of human and social capital that investors value the most in former politicians that are appointed to the firms' board of directors. We intend to understand the real value of the politicians' appointment to investors by attributing the specific benefits of the resource provision to the breadth, depth, and deterioration of human and social capital (Hillman & Dalziel, 2003; Lester, Hillman, Zardkoohi & Cannella, 2008).

According to the corporate governance literature, directors on corporate boards serve for two purposes. The first one is the governance role, since the directors are responsible for ratifying the managers' decisions and coordinating their implementation (Baysinger & Butler, 1985). Nevertheless, besides that, they are also responsible for raising resources for organizations, such as information, communication with external stakeholders, access to the political arena, and legitimacy (Pfeffer & Salancik, 1978). This thesis focuses on this second role of directors as resource providers. Specifically, we predict there to be a relationship between appointed politicians' access to resources and the combination of the politicians' human and social capital.

Following the resource dependence perspective (Pfeffer and Salancik, 1978), we expect that our empirical findings show a positive reaction by the investors to politicians' appointment, in the sense that the resources they provide are useful and needed by the organization (El Nayal, Oosterhout & Essen, 2019). Therefore, we believe that the higher the breadth (the number of years of experience), and the depth (the number of different positions held by former politicians) (Lester, Hillman, Zardkoohi & Cannella, 2008), the higher the director's success in the resources' pursuit and, consequently, the higher the value the director brings to the company. On the other hand, we consider that the lower the deterioration of a former politician (the period between the last position held as a politician and the appointment to the company), the higher the value added by him as a director.

We decided to study this topic because human and social capital has never been related to the value that investors attach to the appointment of former politicians. Carrying out this study allows us to get out of the usual paradigm of knowing whether or not politicians bring value to the company in general, and to understand what are the benefits that they can bring, and how they can be related to the social and human capital of each former politician. On the other hand, the Portuguese case has never been studied or accounted for in terms of former politicians' appointments, and we think it can be a useful contribution for the area to have Portuguese numbers and data.

In order to test the theoretical model presented, we analyzed 334 director appointments made by the 44 companies of the Lisbon Stock Exchange throughout 2010 and 2018. After identifying all those directors who have played a political role at different levels of government, we obtained a sample of 24 cases, and we developed an event study methodology to perceive the investors' reactions regarding these appointments. By using the cumulative abnormal returns (CARs) as the dependent variable in our linear regressions, we discover that investors react positively to politician appointments in general, but also that investors have an adverse reaction to the appointment of politicians who have greater human and social capital breadth (as measured by the number of political positions they have served prior to their appointment to the firm). We conclude by arguing that these findings can contribute to the existing corporate political activity (CPA) literature.

LITERATURE REVIEW

Market Domain vs. Nonmarket Domain: Government as a Nonmarket Actor

Nowadays, due to the rapid changes in the competitive environment, companies struggle daily in a quest to improve their financial performance and consequently consolidate their market positions. Strategic management scholars have demonstrated over the last years that it is necessary to look both inside and outside of the firm to achieve these results (Baron, 1995). The business environment is composed of market and nonmarket elements, and any strategy formulation must consider both approaches (Doh, Lawton & Rabjwani, 2012). The market domain embraces the relationships between companies and other parties that are intermediated by markets and private agreements, such as suppliers, customers, employees, competitors, and owners (Porter, 1988). In contrast, firms' interactions intermediated through stakeholders, governments, pressure groups, media, and public institutions are characteristics of the nonmarket environment (Baron, 1995). Therefore, companies need to develop both market and nonmarket strategies, which are complementary in order to survive in the business market. The market strategies are a set of actions taken at a market level in order to create more value for the company by analyzing and identifying strengths, weaknesses, new opportunities, and threats related to competition (Helms & Nixon, 2010). The nonmarket strategies aim to shape the firm's external environment and make it favorable for them. In that sense, firms engage in social actions and develop significant corporate political ties (CPT), to be better to generate more valuable resources and capabilities, which can give them a tremendous competitive advantage over the remaining rivals (Sun, Mellahi, Wright, 2012).

The business influence on public policy is a global phenomenon (Hillman, 2004), and much research has demonstrated that the government, due to its policy, regulation, and enforcement, is the organization that has the most significant influence over firms' performance and profitability (Shaffer, 1995).

Resource Dependence Theory and CPA: a bridge with the government

The resource dependence theory (RDT), designed by Pfeffer and Salancik (1978), domains the CPA literature (Hillman, 2005) and tries to help us understand the firm's relationships and dynamics with external organizations (Cyril Bouquet & Julian Birkinshaw, 2008). According to the resource dependence perspective, firms require a set of resources to survive in the business market (Lester, Hillman, Zard Koohi & Cannella, 2008). However, firms are open systems that are dependent and influenced by external actors, making it impossible to control all the necessary resources. The external dependence increases the risk and uncertainty inside the firms (Pfeffer, 1972), which could seriously affect their performance. In order to reduce this uncertainty and gain more control over the business environment, firms need to create linkages with essential sources of external dependency (Hillman, 2005).

As it was mentioned above, the government is still the primary source of external dependence for firms (Hillman & Hitt, 1999; Schuler, Rehibein, & Cramer, 2002). The effect of its legislative power has a significant impact on firms' competitive positioning and performance (Hillman and Hitt, 1999; Mahon & Murray, 1981). It can modify the companies' market size (rivals, entrants, substitute products, buyers, and suppliers), establish entry and exit barriers, provide favorable subsidies to the firms and change the employment, safety, or environmental regulation (Shaffer, 1995).

Due to all this uncertainty carried out by the government, many industries have been developing corporate political strategies, defined as proactive actions (Abelson & Baysinger, 1984). These strategies serve not only to anticipate changes in public policies but also to play an active role in shaping government decisions (Molitor, 2001) in order to create a policy environment favorable to them (Lester, Hillman, Zardkoohi & Cannella, 2008). More specifically, through these mechanisms, firms were able to bolster their economic positions, to hinder their competitors' progress and ability to compete, and to have a voice in government affairs (Keim & Zeithaml, 1986; Wood, 1986). Selznick (1949) described this process as a kind of government power cooptation, in which firms intended to create linkages with the politicians and influential members of the community. In their study, Hillman & Hitt (1999) presented a set of possible tactics that companies could adopt, according to the strategies initially defined. Among them, the most common are lobbying, contributions to politicians or parties, paid travels, grassroots mobilization of employees, suppliers, customers, and the appointment of directors with political experience to the board of the companies.

The role of directors on Corporate Boards

When we refer to the directors on the board of a firm, there are two leading roles that they are expected to fulfill: the governance role and the resource-provisionary role (Hillman & Dalziel, 2003; Hillman, Cannella & Paetzold, 2000). The governance role of directors is related to the regular tasks that a director of a company has to perform in order to serve the interests of shareholders (Jensen & Meckling, 1976). Therefore, it is necessary that a director ensures the excellent management of the company and to ratify and implement the shareholders' decisions (Hillman, Cannella & Paetzold, 2000; El Nayal, Oosterhout & Essen, 2019; Baysinger & Butler, 1985). For example, it is important for any company to have directors with experience as CEO, as they will benefit from their executive knowledge on the board of directors, much more focused on the governance role than on the provision of resources.

On the other hand the resource-provisionary role, directly linked with the RDT, is related to the firm's need of several primary resources and the ability of the board of directors to provide and control them, in order to ensure the safety and well-being of the company (Pfeffer & Salancik, 1978). For example, company 1 has a director who is simultaneously on the board of directors of company 2 (which controls valuable resources for company 1). It is important for company 1 to have him has a director, once he is ensuring the provision of essential resources (Johnson, Schnatterly & Hill, 2013). Another example are the companies that operate in highly regulated sectors. These companies are much more vulnerable to changes in public policies enacted by the state since a simple change in regulation can have significant impacts on their performance (Hillman, Wither & Collins, 2009). Thus, it will be necessary for these companies to have directors with secure connections to policymakers, capable of influencing their decisions on behalf of the company. Or at least, having access to privileged information so that the companies can adapt to the new policies in advance. In this sense, directors are responsible for advice and counsel, communication and information between the firm and external organizations, access to crucial constituents, and legitimacy (Pfeffer & Salancik, 1978; Hillman, 2005; Gales & Kesner, 1994).

In the board of directors' literature, many studies have been carried out in order to understand what are the factors that determine the motivation and ability of directors to perform their roles (S. G. Johnson, Schnatterly, & Hill, 2013). In this study, we believe that politicians are appointed to the firms' boards because of the resource-provisionary role, and not because of their governance capabilities and that their ability to bring valuable resources to the companies is linked to their human and social capital.

Politicians on the board

Several RDT authors consider that the use of the board of directors is one of the first approaches of absorbing key elements to reduce uncertainty inside the firms (Hillman, Cannella & Paetzold, 2000), especially when it comes to managing government dependency (Lester, Hillman, Zardkoohi & Cannella, 2008). In general terms, and according to a resource dependence perspective, when a company hires former politicians to their boards, it can expect two primary resources brought by them. First of all, these politicians bring with them the ability to communicate and exchange information with members of the government (Pfeffer, 1972). This resource allows companies to have access to the formulation and application of policies, with the advantage of having an element able to pressure the government and that tries to avoid policies that harm the company's well-being (Hadani, Doh, & Scheneider, 2016). Besides, they also provide access to key contingents, such as resources controlled by the state, tax exemptions, and public contracts that benefit companies (Goldman, Rocholl & So, 2013). Second, as we know, government processes are quite complex and challenging to interpret. In that sense, former politicians appointed to the board of directors provide an advice and counsel service, based on the valuable knowledge of all the rules and mechanisms of the government (Hillman, 2005). All these advantages allow companies to acquire information and assistance, which would otherwise be impossible or too expensive (Hillman & Hitt, 1999).

On the other hand, several studies point that in the opposite direction, arguing that hiring former politicians is something that can be harmful to companies. Chaney, Faccio & Parsley (2011) demonstrated in their paper that hiring former politicians has a very high cost for the companies and that in some instances, it can even affect their performance. Hadani & Schuler (2012) also found empirical evidence that investment in political activity is negatively associated with financial performance. Also, Andonoy, Hochberg & Rauh (2018) added that it is not possible to prove that the set of skills held by former politicians is exactly the same necessary to monitor and manage a company. In addition to studies that indicate that hiring former politicians is positive or negative, some have found non-significant results of CPA on firms' performance (Tihanyi, Aguilera, Heugens, et al., 2019).

In sum, all these divergent conclusions demonstrate that currently there is no consensus on the CPA literature, about the true value of hiring former politicians. Some authors expect that the appointments of politicians increase the real value of the company, once they contribute to the control and management of essential resources, which reduce external dependence and consequently increase the security of the company. On the other hand, others have the idea that politicians do not have the necessary skills to manage and monitor a company and may even harm the shareholders' interests. These differences prove that the knowledge inside the CPA literature is still not vast and deep enough to answer all questions within this area.

Since there is still existing uncertainty about the actual value of former politicians on the board of directors, instead of focusing on whether hiring former politicians is suitable for the firms or not, we will look at what they are good at, and what benefits they can bring to the companies that other types of directors cannot.

Human and Social Capital

In 1978, Pfeffer and Salancik discovered that the board is a fundamental mechanism to access resources from the external environment. This resource dependence view was defended by a meta-analysis that demonstrated that board size (number of links that board with the external environment), had a positive correlation with firm performance (Dalton, Daily, Johnson, & Ellstrand, 1999). These directors' links are directly related to their cognitive frames, experiences, skills, relationships, personal attributes, and other characteristics, more precisely with the directors' human and social capital (Johnson, Schnatterly & Hill, 2013).

Human capital is defined by a set of skills, experiences, expertise, and knowledge acquired by a specific individual (Coleman, 1988). Johnson, Schnatterly & Hill (2013) also describe it as the skills and experiences that each director brings to the board of the firm. Therefore, human capital is a concept that covers a wide range of possibilities, from experience as CEO of a company to the knowledge acquired in a small or large industry, to experience in the banking sector or the financial area. For example, a director with previous experience as a CEO will bring executive knowledge to the company's board (Rosenstien, Bruno, Bygrave, & Taylor, 1993). While a director who has had experience in a specific industry can influence how information is processed and has an impact on the company's sales (Kor & Sundaramurthy, 2009).

Alternatively, social capital refers to the allocation of resources, available through relationships and networks, which facilitate actions (Coleman, 1988; Nahapiet & Ghoshal, 1998). The director's social capital influences the firms' advice and counsel (Carpenter & Westphal, 2001) and also the decision-making process (Oh, Labianca & Chung, 2006). Director's ties to other firms, personal relationships with firm managers, and social standing are three possible categories of differentiation of social capital (Johnson, Schnatterly & Hill, 2013). For example, an external director who has connections to external institutions will have a more exceptional facility of managing resource dependence, than an internal director who has a much less comprehensive network of contacts. Social position is also an essential factor. A director with high status and reputation, such as a former politician, will be a sign of confidence and credibility for external stakeholders (Certo, 2003; Johnson, Schnatterly, Bolton, & Tuggle, 2011).

In that sense, we believe that what makes any former politician capable of fulfilling his role as a corporate director is the combination of his human and social capital. Although many authors separate and differentiate the two concepts, we follow the Lester, Hillman, Zardkoohi & Cannella (2008) perspective, admitting that the concepts complement each other so that we will deal with human and social capital as one only concept. In their study, these authors proposed three distinct dimensions of former politician's human and social capital: depth, breadth, and deterioration, in order to understand what makes some directors more attractive to firms in need of outside directors for their boards.

In our study, we will take the three dimensions used by them, not to study what are the characteristics that make them more attractive for companies, but rather to understand which characteristics those investors value the most.

HYPOTHESES DEVELOPMENT

Depth of human and social capital

Lester, Hillman, Zardkoohi, and Cannella (2008) defined the depth of human and social capital of each director as the magnitude of its expertise, skills, and social networks. Each outside director brings the organization a different set of resources and linkages to the board of the company (Kesner, 1988), based on their experience and technical attributes (Baysinger & Butler, 1985).

In this study, in order to quantify and measure the depth of human and social capital of each politician appointed, we use the number of years in government service at regional, national, and international levels (see Table 1). We decided to establish the number of years as a good depth indicator for three main reasons.

First of all, it reflects the network of contacts that each politician brings to the company. It is a critical factor because the largest the politician's network, the higher the attributes and resources brought by them to serve and connect the companies with the external environment. Those resources will contribute to reduce the firm's uncertainty and consequently increase its performance (Hillman, Cannella, & Paetzold, 2000; Pfeffer & Salancik, 1978). For example, as it was already mentioned, the government is one of the non-market actors with the most considerable influence on the welfare of companies (Hillman & Hitt, 1999; Schueler, Rehibein, & Cramer, 2002). The strength of its legislative power is crucial for companies' well-being since it is capable of modifying the market size, establishing entry and exit barriers, providing favorable subsidies to companies and changing labor and safety laws and regulations, which can result in a massive increase in costs for firms. Under this context, former politicians with an extensive network of contacts within the government may be able to acquire privileged information or even pressure and manipulate political decision-makers in order to benefit the companies (Pfeffer, 1972). Furthermore, it will facilitate access to critical contingents controlled by the state, such as tax exemptions and public contracts (Goldman, Rocholl & So, 2013).

Second, the number of years as a politician is synonymous with experience and knowledge about the public policy legislation process, government decision process, and legitimacy (Hillman, Cannella & Paetzold, 2000). So, the higher the number of years of experience as a politician, the better will be the advice and counsel service provided to the company, based on the valuable knowledge of all the rules and mechanisms of the government (Hillman, 2005). This knowledge brings enormous advantages to companies, such as the reduction of transaction costs, which otherwise would be impossible or very expensive to obtain (Hillman, 2005).

Finally, Hillman, Cannella, & Paetzold (2000) highlighted former politicians as influencers of the community, since they can influence non-business organizations. At the same time, directors with status, prestige, and a high reputation indirectly become an information signal about the organization for external stakeholders (Certo, 2003). In that sense, we can admit that the longer the number of years of government service, the higher will be the credibility and the exposure of a director, and consequently, a better image of the company will be passed on to external stakeholders.

Therefore:

Hypothesis #1

The longer a politician has served in government, the higher the perceived value of their appointment to the firm is for investors.

Breadth of human and social capital

While the depth of the human and social capital is related to the magnitude, the breadth refers to the diversity of the expertise, skills, and social networks that each director holds (Lester, Hillman, Zardkoohi, and Cannella, 2008). To quantify the diversity of human and social capital of each former politician, we decided to use the number of different positions that each of them held in the government (for example, mayor, deputy, minister, ambassador). As well as the number of years in the government, the number of positions is hugely valued by investors, once it can provide valuable business and non-business perspectives (Hillman, 2005).

First, the higher the number of positions held by each former politician, the more extensive the politician's network with relevant external organizations. As we mentioned earlier, the politician's network will be very relevant for firms, since they will serve as a means of cooptation (Pfeffer and Salancik, 1978), leading to a minimization of companies' external dependence and greater control of vital external resources (Pfeffer, 1972; Provan, 1980). For example, a politician who has been a Minister of Justice, Secretary of State for Energy and Member of the Parliament, will be much more valuable for an Energy company, than a politician who has only been a Member of the Parliament. This politician will have more contacts within the Justice Ministry, essential to know information about laws, essential resources, and to put pressure on policymakers. He will also have more contacts with organizations and firms related to the energy industry, making it easier to obtain critical resources and obtain information about the competition and also, with several members of the Assembly of the Republic, essential to know if the laws will go to parliament and if they will be passed.

Second, a politician with a higher number of positions held will have more value for investors due to the knowledge and experience acquired in a wide range of areas, allowing for broader advice and counsel service to companies. In their paper, Hillman, Cannella & Paetzold (2000) have differentiated, within the different types of directors, the Support Specialist Directors, those who have experiences and linkages in specific areas that are related to the company's strategy. Therefore, the higher the number of positions that a politician has held, the higher will be his knowledge in areas that require specific experience and consequently, the broader will be the provision of support to the companies. Using the example of the previous paragraph, a politician who was Minister of Justice, Secretary of State for Energy and Member of Parliament, will have more specific knowledge, in law and energy, than a politician who was only a Member of Parliament.

Finally, the higher the number of positions held by a former politician, the lower the costs that the company will have to bear. If a company needs specialists in law and energy, it will be financially better for it to hire a person who is experienced in both, that one experienced in law and another in the energy field.

Therefore:

Hypothesis #2

The greater the number of political positions held by a politician over their career, the higher the perceived value of their appointment to the firm is for investors.

Deterioration of human and social capital

According to the theory presented by Lester, Hillman, Zardkoohi, and Cannella (2008), the depth and the breadth of human and social capital of a director, make him more capable of providing essential resources and, consequently, improving his performance as a director. However, what is typical and expected is that the value of human and social capital will be lost over time, once it ceases to regenerate.

When someone is part of government service or any other organization, it builds a network of official contacts and knowledge over the years of work, and the different positions held (Kotter & Heskett, 2011). This network is made up of compelling and essential people, and its construction is vital for efficient performance in any government position (Granovetter, 1973).

However, when a former politician leaves the government definitively, he ceases to be present daily in government functions, and there is no regeneration and updating of his network of knowledge and contacts. This deterioration happens because, over time, the influential people who were part of his network, ended up leaving the government and being replaced by new politicians. This natural process ends up depreciating the human and social capital that each government official has accumulated throughout his years of work. Likewise, all the knowledge about the internal functioning of the government, acquired by former politicians, ends up deteriorating, as new public policies appear and the functions of the government changes (Lester, Hillman, Zardkoohi, & Cannella, 2008). In this way, it is possible to conclude that the human and social capital of each politician is more valuable right after they leave the government and that it will deteriorate over time.

Hypothesis #3

The longer the time interval between leaving government and being appointed to a firm, the lower the perceived value of a politician's appointment is for investors.

RESEARCH METHODOLOGY

Data and Sample

To study the investor reactions to politicians' appointments, regarding the depth, breadth and deterioration in Portugal, it was necessary to collect information about firms' board composition, the exact date of director appointment, and a background check of each appointed director in order to find any political connection. To study this topic, we collected information from all the annual reports of the 45 firms present on the EuroNext Lisbon Stock, over the period 2010 to 2018. However, only 44 firms were part of the final sample, since only these had financial data about the 9 years period necessary to carry out the linear regressions. Within these 44 firms and during the defined period, we verified the existence of 334 appointments of directors to the companies' boards.

To ascertain which appointed directors had political connections research about the professional background was done across all the directors in our sample. The primary research sources used were Portuguese news agencies and newspapers such as: *Expresso*, *Público*, *Diário de Notícias* and *Reuters*. Additionally, annual reports were used for bibliographical information on the directors.

In this study we considered former politicians all those who served in different government areas (executive and legislative) and jurisdiction scope (regional, national and international level), considering the government's experience and degrees of influence (El Nayal, Oosterhout, Essen, 2019). Regarding executive politicians with international jurisdiction scope, were considered all the European Union commissioners, foreign politicians and ambassadors. At the national level, they were treated as executive politicians, all those who were ministers and state secretaries. For executive politicians at the regional level we acknowledge only mayors. In the legislative branch at the international level, members of the European Parliament, as well as foreign politicians were included. Finally, at the national level, all members of parliament were considered, as well as the regional level, where all members of regional assemblies were considered. Taking into account all these restrictions that characterize a politician, we were left with a sample of 28 directors who corresponded to the indicated standards.

Below is Table 1 which provides a schematic summary of the classification described above and used in this work.

Table 1 – Definition of Politician

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

Measures

Dependent Variable: CARs

To create the dependent variable of this study, we needed to develop an event study of all the politicians appointed to the board of directors in our firms' sample. In an event study, scholars analyze the company announcements and changes, such as director appointments to the board, mergers or acquisitions between two business entities, that cause an impact on firms' securities, with a magnitude that reflect the estimate of investors on the economic value of this event (MacKinlay, 1997). Since it is quite tricky and complex to understand the impact of corporate political activity, event studies are widely used by CPA researchers due to their clarifying ability to translate reactions to firms' political activity strategies, into statistical data (e.g., Hillman, ZardKoohi, & Bierman, 1999; El Nayal, Oosterhout & Essen, 2019).

To develop this event study, we had to find out the exact date of the public announcement of the appointment of these politicians for the boards of directors. To do that, we used mainly in the Portuguese newspapers mentioned above, as well as the announcements made by the firms. It is relevant to mention that in cases where there were two appointment dates, the oldest one was always considered.

In order to isolate all these events from other market reactions, observations that coincided with mergers and acquisitions, earnings, or dividends announcements or other firms' actions with some magnitude were not selected (McWilliams & Siegel, 1997). Additionally, were excluded two appointments that occurred in the first year of the firm's linting on EuroNext Lisbon Stock, since to conduct an event study, a previous period of regular exchange activity is required (Paruchuri & Misangyi, 2015). By removing these two observations, our sample was reduced to 26 director appointments.

For the CARs calculation, we use the standard market model, correlating the Portugal reference index (PSI20) and the stock price of each company during a fixed pre-event estimation period of 255 trading days. The event window was based on previous studies (e.g., El Nayal, Oosterhout & Essen, 2019) selecting a 3-day window including the day of the event, the day before, and the day after [–1/+1]. The use of a short window is more advantageous in events studies of this type because it reduces the likelihood of contamination effects, while simultaneously, it covers leaks of information, as well as the possibility of the announcements made out of stock market operation hours (Brown & Warner, 1985).

Analytical Strategy

In order to understand the relationship between the human and social capital of former politicians, and their perceived value on the boards of directors in Portugal we did a linear regression, in which CARs were the dependent variable and the depth, a breadth, and the deterioration of human and social capital were the independent variables.

Independent Variables

Depth of human and social capital. For testing the Hypothesis 1, we measure the depth of human and social capital of each politician director through the number of years of government service, regardless of the number of different positions held (Lester, Hillman, Zardkoohi & Cannella, 2008). The data that we used were obtained through the biographies of each government official, present in the annual reports of their firms. In the calculation of the service duration, it was accounted any time in government service at the regional, national, or international levels. In cases where there was some overlap of positions, the years were not counted in duplicate.

Breadth of human and social capital. To test hypothesis 2, it was considered the number of different political positions that each political director held, in order to measure his breadth of human and social capital. To calculate breadth, the number of years that each politician held each post was not counted and were taken into account for all positions at regional, national, and international levels. All the data collected about the breadth of each politician was obtained from the same sources as the depth.

Deterioration of human and social capital. Hypothesis 3 suggests that the human and social capital of each former government official deteriorates over time, losing its value (Lester, Hillman, Zardkoohi & Cannella, 2008). To measure the deterioration effectiveness of each directors' human and social capital, we define a time interval (in years), from the moment that politicians left the government until the company appointed him. Although the chronological age variable could also influence the deterioration, its impact was not taken into account.

Control Variables

When studying the effect of independent variables (depth, breadth, and deterioration) on a dependent variable (CARs), it is essential to include control variables that could affect firms' return around the appointment date. In that sense, several variables were controlled at directors' and firms' level. At the directors' level, it was included the *Politician age at the year of appointment*, since it is one of the parameters of deterioration of human and social capital (Lester, Hillman, Zardkoohi & Cannella, 2008); the *Right-wing Politician*, a dummy variable equal to 1 if it is a right-wing politician and 0 if is not a right-wing politician, because right-wing politicians are less in favor of state intervention in the economy and are more pro-business (Dunlap, Xiao, and McCright, 2001; Neumayer, 2003); the *International politician,* where 1 means international and 0 national, because as we are studying the Portuguese stock market it is normal for firms to be interested in politicians who recently operate in the national territory, once they have much more comprehensive knowledge about all the internal procedures and bureaucracies, and also because their network of contacts will be much more focused on Portuguese institutions; lastly we chose to put the *Executive politician* as a control variable a dummy variable equal to 1 if it is an executive politician and 0 if is a legislative politician because we believe that executive politicians (Ministers and Secretaries of State), although supervised by the Assembly of the Republic, have a greater power of manipulation and control over the applied laws and norms.

Once company variables can also affect cumulative abnormal returns, we included some firm control variables such as *Firm Size, Total Board Size, Firm Leverage, and Firm Performance. State Ownership* was not considered as a control variable since none of the firms included has a percentage held by the state. Companies with a larger scale and who may be better positioned in the market in which they operate, have a more significant number of means and a more excellent facility in managing external dependency, making the value of any political strategy challenging to identify in CARs (El Nayal, Oosterhout & Essen, 2019). For this reason, we decided to include *Firm Size* as a control variable, measured as the natural log of total assets. The *Total Board Size* was also used as a control variable because of the effect of an additional director's appointment on the firm, maybe much more abundant in smaller boards (Hillman, Wither & Collins, 2009). *Firm Leverage* was calculated through the Debt-to-Equity ratio and expressed the shareholders' equity capacity to cover all outstanding debt in case of a crisis. Finally, the *Firm Performance* was also considered as a control variable, measured through the ROE (Net income/Equity).

After considering all these control variables, at directors and firm level, two observations were dropped from our sample, as a result of missing information. Therefore, the results of our linear regression comprised a total of 24 politicians appointed events.

Table 2
Descriptive Statistics and Correlations

	1	2	3	4	5	6	7	8	9	10	11	12	*M*	*SD*	*Min*	*Max*
1. CARs													0,010	0,021	-0,019	0,052
2. Political experience in years	0,058												10,170	7,637	1	26
3. Number of political positions	-0,135	0,799											2,830	1,971	1	7
4. Politician's deterioration	-0,008	-0,359	-0,073										7,380	8,303	0	25
5. Politician's age	0,042	0,263	0,552	0,268									60,830	8,928	41	76
6. Right-wing politician	0,539	-0,067	-0,259	0,190	-0,057								0,500	0,511	0	1
7. International politician	-0,209	0,145	0,198	-0,436	0,442	-0,275							0,290	0,464	0	1
8. Executive politician	-0,125	-0,126	-0,061	0,000	-0,175	0,000	0,065						0,670	0,482	0	1
9. Board size	-0,147	-0,161	-0,113	0,186	0,213	0,203	0,034	0,091					17,330	4,613	7,00	22,00
10. Firm size	0,274	-0,121	0,026	0,170	0,402	0,387	0,153	0,136	0,666				22,664	1,711	19,170	25,220
11. Firm leverage	0,241	-0,015	0,010	-0,017	0,086	0,173	-0,063	0,169	0,264	0,421			0,750	0,194	0,235	1,156
12. Firm performance	-0,251	0,119	0,091	0,013	-0,179	-0,392	0,079	-0,161	-0,589	-0,669	-0,505		0,003	0,152	-0,305	0,232

Note: $N = 24$. Firms size are in millions of Euros. CAR = cumulative abnormal return. Correlations greater than |0.10| are significant (at $p < .05$)

Table 3
Linear Regression Results Using CARs as the Dependent Variable

	Model 0	Model 1	Model 2	Model 3	Model 4
Political experience in years (H1)		0,000 *p*=0,771 (0,001)			0,001 *p*=0,227 (0,001)
Number of political positions (H2)			-0,002 *p*=0,502 (0,003)		-0,009 *p*=0,086 * (0,005)
Politician's deterioration (H3)				-0,001 *p*=0,388 (0,001)	-0,001 *p*=0,472 (0,001)
Politician's age	0,000 *p*=0,935 (0,001)	0,000 *p*=0,993 (0,001)	0,000 *p*=0,654 (0,001)	0,000 *p*=0,550 (0,001)	0,001 *p*=0,185 (0,001)
Right-wing politician	0,016 *p*=0,088 * (0,009)	0,016 *p*=0,103 (0,009)	0,015 *p*=0,132 (0,009)	0,017 *p*=0,076 (0,009)	0,009 *p*=0,412 (0,010)
International politician	-0,006 *p*=0,565 (0,010)	-0,006 *p*=0,568 (0,010)	-0,007 *p*=0,504 (0,010)	-0,015 *p*=0,314 (0,014)	-0,022 *p*=0,172 (0,015)
Executive politician	-0,007 *p*=0,435 (0,008)	-0,007 *p*=0,456 (0,009)	-0,006 *p*=0,489 (0,009)	-0,004 *p*=0,620 (0,009)	0,000 *p*=0,961 (0,009)
Board size	-0,003 *p*=0,001 *** (0,034)	-0,003 *p*=0,042 ** (0,004)	-0,003 *p*=0,032 ** (0,001)	-0,002 *p*=0,062 ** (0,001)	-0,003 *p*=0,029 ** (0,001)
Firm size	0,005 *p*=0,205 (0,004)	0,009 *p*=0,698 (0,023)	0,005 *p*=0,214 (0,004)	0,006 *p*=0,176 (0,004)	0,007 *p*=0,082 * (0,004)
Firm leverage	0,011 *p*=0,625 (0,023)	0,011 *p*=0,656 (0,024)	0,012 *p*=0,607 (0,023)	0,010 *p*=0,681 (0,023)	0,008 *p*=0,710 (0,022)
Firm performance	-0,017 *p*=0,038 * (0,671)	-0,017 *p*=0,677 (0,039)	-0,015 *p*=0,707 (0,039)	0,000 *p*=0,994 (0,042)	0,007 *p*=0,881 (0,043)

Note: $N = 24$ at the event level. CARs (cumulative abnormal returns) calculated over a 3-day event window [-1, 0, +1]. Standard errors are shown in parentheses.

RESULTS

First of all, it is essential to mention that the average CARs generated by politician appointments are positive (1.03%) and statistically significant (p = .023). These results are interpreted as evidence that, in Portugal, the appointments of former politicians to company boards are positively perceived by investors.

Table 2 provides descriptive statistics for all the variables used in the linear regression analysis. It reports the means, standard deviation, and the correlations between the different variables. It is also possible to see that the correlation between *Political experience in years* and *Number of political positions* has a really high value and significance (r = 0.799, p = 0.007). These values suggest that the variables can be too similar between them, which could represent a major problem for this study. In order to solve it, multicollinearity was checked by conducting a variance inflation factor test after running an OLS regression with the full range of variables. The maximum value was 6.306, which is under the recommended maximum value of 10, suggesting that multicollinearity is not an issue (Meyers, Gamst, & Guarino, 2017).

Main Results

Table 3 provides the linear regression results using CARs as the dependent variable. Hypothesis 1, which predicts a positive relationship between the directors' political experience in years and investor reactions to politicians' appointments, does not receive support. Although in Model 1 and 4, the coefficient for political experience in years is positive, it is still statistically insignificant. On the other hand, the coefficient for the number of political positions is negative and marginally significant in Model 4 (β = - 0.009, p = 0.086). These results not just demonstrate that hypothesis 2 is not supported, but it also suggests that there exists a negative relationship between the number of political positions that each politician held and the investor reactions to their appointment. Hypothesis 3, which predicts that the longer the period between leaving the government and being appointed to the board of directors of a company, the higher the deterioration of human and social capital, is not supported. The coefficient for politician's deterioration is negative but statistically insignificant in both Models.

DISCUSSION

Nowadays, the appointment of former politicians for the firm's board of directors is a strategy used worldwide. Social science scholars have not yet been able to determine with certainty whether these appointments have effectively contributed to the increase, decrease, or have had no impact on the value of companies. Mainly it is fundamental to study which are the conditions and factors that make politicians suitable for each company. In this study, we start from the premise that political connections can be positive by bringing benefits to the firms. We also believe that one of the main factors that most differentiates politicians, among them, making some better than others as directors, is their human and social capital.

In this study, we use the perspective of investors, to understand the value that each politician can provide to the company-the value of politicians as resource providers. Since we believe that these characteristics are directly linked with the human and social capital of each director, we study the depth, breadth, and deterioration of human and social capital of each former politician appointed. We used a sample of 24 former politicians, from 44 EuroNext Lisbon Stock companies, over 8 years (2010-2018).

Within this topic, we discovered that in Portugal, the appointment of former politicians to company boards is seen by the investors as something beneficial and as an added value for firms. Our findings are in line with prior studies documenting the positive value of politician appointments in other countries, presumably owing to these directors' access to political resources (e.g. Hillman, 2005). We also note that prior studies have found that the level of perception of corruption in a country condition the expected value of politician appointments (El Nayal, Oosterhout & Essen, 2019). In that regard, perceived corruption in Portugal may be a driver behind these positive findings. Although in 2019, in the corruption perception index (CPI), Portugal obtained 62 points on a scale of 0 to 100, occupying the 30th position among 180 countries, it is below the Western European average (66 points) and the average of the European Union (64 points) (Transparency International Portugal, 2019). This position suggests that the level of perceived corruption is still high, according to the European standards, and for this reason, investors could consider political appointments to Portuguese firms to be particularly effective solutions for managing regulatory and governmental dependencies.

Regarding the human and social capital, we discover that contrary to what we thought initially in hypothesis 2, investors react negatively to the appointment of politicians with a vast breadth. This result means that investors do not appreciate the variety of positions and the human and social capital gained through them. In our analysis, there are three different explanations for this phenomenon, which can coincide. The first explanation is that investors value more specialists in one area than generalists in several areas, which may sometimes not be as deep. In this way, politicians with a great depth of experience in the same position will be more valued since this may reflect more excellent knowledge and, consequently, better advice and counsel service for the company. The second explanation is the fact that they are changing positions frequently. These changes can mean that they are mainly concerned with their well-being and personal gains, conveying the idea that the interests of corporate shareholders will be put on the back burner. The last explanation has to do, again, with the corruption perception index. Even though Portugal is below the European average in the CPI, there was an apparent decrease in the perception of corruption levels between 2010 and 2018. This decrease may mean that although appointing politicians is still seen as a solution in terms of regulation and the provision of resources for the company, corruption is becoming less and less tolerated and normalized by the control bodies, the media, and public opinion in general. For these reasons, politicians with a higher breadth will be more notorious, leading to greater public scrutiny and attention from society and the media, making it more difficult, according to RDT, to provide resources for companies.

Regarding the deterioration of human and social capital, the results obtained in this study, although pointing to its confirmation, were not significant. Even so, we found that 50% of the sample was hired in the period between 0 and 3 years after leaving the government, 16.67% between 4 and 7 years, and the remaining 29.13% after 8 or more years. These results are very similar to those obtained by Lester, Hillman, Zardkoohi, & Cannella (2008) in their work. Besides, of the 50% who were hired between the period of 0 to 3 years, 66.67% were hired for companies in the energy industry, and the banking sector, areas with high levels of regulation (Grier, Munger, & Roberts, 1994). On one hand, after 2 years, human and social capital related to the provision of resources begins to deteriorate dramatically (Lester, Hillman, Zardkoohi, & Cannella, 2008), and from there, we observed a large percentage of hires between the 0 and the 3 years. Even so, there are still hires, albeit less frequently, after these 3 years, which may be evidence that there is an appreciation of human and social capital related to governance functions in some politicians.

Finally, regarding the human and social capital depth, tested in hypothesis 1, although the results obtained were positive, they were not significant in either Model 1 or Model 4. We believe that these results may not have been significant due to the small size of our sample. However, it may be possible that the investors consider that the number of years of experience is not fundamental for the provision of more and better resources to the company. Therefore, investors may consider that the fact of having held a political position or not is the only factor that differentiates a better provision of resources.

Due to all these reasons, we can conclude that this work had several essential contributions. First, it differs from most other traditional CPA studies, as it does not just contribute to the classic debate of demonstrating whether politicians increase, decrease, or add no value to firms. In addition to this contribution, we also intended to understand whether human and social capital is an important factor in the attribution of value, not treating all politicians as a homogeneous variable, but rather heterogeneously, differentiating their depth, breadth and deterioration.

Secondly, this study relates to the perspective of investors with human and social capital, something that had never been done before. In this way, we can see that human social and capital, more precisely, the years of experience, the number of positions held, and the deterioration, have an impact on the perception of investors and that there are specific characteristics of the directors that are more valid than others. Although it is an investor perspective, it can be used as a starting point to help realize that former politicians can bring more benefits to companies.

Finally, this study also contributed with some new knowledge to the area of CPA and politicians on the board of directors with Portugal's example since it had never been studied before. Although it is impossible to generalize its results to the other countries of the European Union, due to its different size and economic situation, the coverage of a more significant number of countries may facilitate the study of these areas in the future.

LIMITATIONS AND FUTURE RESEARCH

Like all other empirical studies, this dissertation has some limitations that may be taken into account for future research. Firstly, the sample of this research is a little reduced, and it may have conditioned the results and their proof. We believe that if the sample was bigger, the results would be more significant, and could have a more exceptional contribution to this research. Secondly, this study was carried out only in Portugal, making a generalization common to other countries impossible, not only due to cultural factors but also legislative ones. It would be essential to broaden the range of countries analyzed in order to understand whether these results are typical in other countries. Thirdly, although the characteristics of social and human capital are used, it is difficult for our results to record precisely the benefits that each director represents since the results spread investors' reflections, based only on their perceptions of value. Fourthly, it is also important to realize that the appointment of politicians to firm boards is not the only political strategy used by companies. Since the appointments are quite visible, there may be more hidden strategies that are not noticeable and make study in this area impossible. Fifthly, the deterioration of human and social capital, could have been measured in weeks or days, giving us a set of more specific results that could have influenced the final linear regression. Finally, in this study, only companies listed on the EuroNext Lisbon Stock exchange were analyzed in order to be able to carry out the event study. However, we understand that it is necessary to take into account that private firms and non-profit organizations also resort to appointing former politicians for their staff.

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