Investor reactions to political board appointments - An analysis of director specific attributes

Jan Witte

Dissertation written under the supervision of professor Omar el Nayal

Dissertation submitted in partial fulfilment of requirements for the MSc in International Management with Major in Corporate Finance, at the Universidade Católica Portuguesa, 31.05.2022.

Abstract

English: In recent years, companies have increased their CPA, but existing scholars are still indecisive whether it adds value to a firm and their shareholders, or not. This study investigates, using an event-study approach, whether political board appointments are perceived positively by investors. It further uses the underlying theory of human and social capital and tests, using multiple regressions, if such characteristics of former politician have an effect of a positive or negative investor reaction, focusing on political tenure, business experience and party majority. The study tests its predictions using a sample of 51 DAX companies over a period from 2004 to 2020. The results indicate that, on average, investors do perceive political board appointments positively by a CAR of 1.37 percent. However, this study finds no significant evidence that neither political tenure, business experience nor party majority influence such reactions on a significant level.

Portuguese: Nos últimos anos as empresas têm vindo a aumentar o seu CPA, contudo os académicos continuam indecisos se esta métrica acrescenta valor a uma empresa e aos seus accionistas, ou não. Este estudo investiga, utilizando uma abordagem de estudo de eventos, se as nomeações para os conselhos políticos são vistas positivamente pelos investidores. Utiliza ainda a teoria subjacente do capital humano e social e testes, utilizando várias regressões, se estas características de ex-político têm um efeito de reação positiva ou negativa do investidor, centrando-se na posse política, experiência empresarial e maioria partidária. O estudo testa as suas previsões utilizando uma amostra de 51 empresas DAX ao longo de um período de 2004 a 2020. Os resultados indicam que, em média, os investidores têm uma percepção positiva das nomeações no conselho político por um CAR de 1.37 por cento. Contudo, este estudo não encontra provas significativas de que nem o mandato político, nem a experiência empresarial, nem a maioria dos partidos influenciem tais reações a um nível significativo.

Key words: *corporate political activity, resource dependency theory, human and social capital, political board appointments, DAX, cumulative abnormal return, event study, corporate boards*

Acknowledgement

First, I want to thank my family for making this possible, giving me the support throughout my studies and the chance, to make my own choices. Secondly, I want to thank my friends who constantly supported me personally and academically. Last, but not least, I want to thank my supervisor Omar el Nayal for his excellent work, feedback, comments, and guidance throughout the process of my dissertation. Without any of you, this dissertation would not have been possible.

Table of Contents

List of Abbreviations

CPA	Corporate political activity
DAX	German equity index (Deutscher Aktien Leitindex)
RDT	Resource dependency theory
HSC	Human and social capital
CAR	Cumulative abnormal return
CPI	Corruption perceptions index

List of Tables

1. Introduction

In recent years, companies have increased their corporate political activities (CPA) and CPA is a crucial part of corporations today (Lux et al., 2012). Wilson (2009) adds, in public policy, it is highly important for corporations to communicate their views. While only 14 percent of large firms had a former government official on their corporate board in 1973, such number has grown to 53 percent by 1998 (Lester et al., 2008). Due to the extremely globalised trading and business landscape, companies must engage in CPA across borders which includes a growing number of actors in the political playing field, such as political organisations or institutional actors (Hillman et al., 2004). Further, Hillmann and Hitt (1999) describe that governments play an essential role in a firm's external dependence (Pfeffer & Salancik, 1978). To reduce such dependencies and the uncertain environment, firms engage in CPA and try to link themselves to the government (Selznick, 1949; Pfeffer, 1972). Appointing (former) politicians can be one of many strategies regarding CPA. A number of studies have been investigating CPA and found inconsistent effects on firm performance: while Claessens, Feijen, & Laeven (2008), Faccio (2006), Goldman et al. (2009), Hillman et al. (1999) and Jayachandran (2006) found a positive impact, Aggarwal et al. (2012), Faccio (2010), Hadani & Schuler (2013) Hersch et al. (2008) and Siegel (2007) only found an indifferent or negative effect.

To date, several studies in a variety of disciplines have investigated corporate boards (Adams et al., 2010). One of such disciplines focuses on the relationship between corporate boards, their performance, political connectiveness and CPA. Even though the number of scholars has grown in recent years, politicians who become board members is a rarely explored topic by management scholars today (Dahan et al., 2013). Further, most scholars focused on firm characteristics and performance rather than human and social capital (Hillmann, 2005, Pascual-Fuster and Crespí-Cladera, 2018), or investigated only North American firms (Sarkar & Sarkar, 2009; Perry & Shivdasani, 2005; Merendino & Melville, 2019). Corporate boards are extremely important when things turn the wrong way (Adams et al., 2010) and consequently, its composition is crucial to shareholders. Over the past years, CPA is subject to various research studies and thus, knowledge and information is growing.

Previous scholars such as (Sarkar & Sarkar, 2009; Perry & Shivdasani, 2005; Merendino & Melville, 2019) focused on political connections (or board appointments) and the effect on firm performance, often using a dataset of American firms. This study investigates the effect of political board appointments and human and social capital (HSC) in a highly developed (German) economy, whereas Germany has the fourth largest economy (Horowitz, 2021) and the second biggest parliament worldwide (Moody, 2019). In addition, Germany has a special, rather complicated political system including the Chancellor, the President and the President of the upper and lower house (Schiffer & Antachopoulos, 2009).

Because many studies focus rather on firm characteristics and performance than human and social capital, this study aims to explore the relationship between HSC and the perceived value of appointed politicians on corporate boards by investors, focusing on specific characteristics and skills of such appointed politicians: namely: political tenure, business experience and party majority. While most studies focus on the US, some studies have included Germany in their sample, but no study focused solely on Germany before. Since political relationships differ across countries (Faccio, 2006), this study aims to give an overview regarding the German CPA landscape.

This study investigated 51 firms listed in the DAX (Deutscher Aktien Leitindex) from 2004 until 2020, including 821 firm-year observations and analysing 1,952 board appointments. After thorough background checks for each appointment and controlling for confounding events, the sample consist of 44 events of politicians being appointed as directors on the board. Further, the researcher used an event study approach using cumulative abnormal returns (CAR) and a market adjusted model as corresponding risk model. Further, in the regression, the calculated CARs were used as the dependent variable while testing for three human and social capital related hypotheses. Supporting previous research, the study has found that investors, on average, react positively to newly appointed (former) politicians (avg. CAR = 1.37 percent). On the other hand, this study found no evidence that politicians' HSC – namely their political tenure, business experience or party majority have a significant effect on the corresponding investors response.

2. Literature Review

2.1. Resource dependency theory

All market players, especially larger firms, are highly dependent on governments and their regulations (Hillmann & Hitt, 1999) and therefore, firms try to shape government policy using CPA (Hillman et al., 2004). The resource dependence theory is one underlying concept that explains such a phenomenon. In their study regarding CPA and RDT, Hillmann and Hitt (1999) developed a model of approach, participation and strategy decisions and describe, that governments play an essential role in a firm's external dependence. They further point out that governments and their decisions impact a firm's performance, even though, in recent decades, reducing trade barriers, deregulation and privatization were major trends (Molitor, 1977). Public policy remains a major driver of external dependency for firms (Hillman & Hitt, 1999; Schuler et al., 2002).

Pfeffer and Salancik (1978) describe that if governments are an essential participant in the firm's environment, they will engage in shaping such an environment, primarily using CPA (Hillman et al., 2004). Both Pfeffer and Salancik's (1978) and Thompson's (1967) work heavily influenced RDT and describes why links between firms and the government exist. In 1949, Selznick showed that firms try to minimize uncertainty with linkages between themselves and politicians (or policy makers). If a firm, when proactively creating linkages with sources of external dependency, can reduce such uncertainty, it will further decrease transaction costs (Williamson, 1984). In their study regarding the death of organizations, Singh, et al. (1986) state that such actions further increase the chance of survival. Other previous scholars regarding RDT indicate that board appointments are a primary strategy to decrease environmental uncertainty for the firm (Hillmann et al., 2000; Pfeffer, 1972). Hillmann (2005) supports the theory in such way that firms in more regulated industries tend to have more politicians on their board.

2.2. CPA as a firm's strategy

Hillman et al. (2004) define CPA as "corporate attempts to shape government policy ". Handani et al. (2017) and Hersch et al. (2008) further contribute, that these activities are carried out through contributions to political campaigns, lobbying, participation in associations of trade or engagement in grass-roots mobilization efforts. They further conclude that CPA is on the rise and of increasing importance to corporations and firms. However, Handani et al. (2017) also found that CPA is not a one-way street towards higher firm success, but also question whether CPA should be allowed and how it could be potentially regulated. Today, scholars have found several factors why firms increase their CPA (Lawton et al., 2013; Lux et al., 2011), but are yet indecisive whether these CPAs deliver a positive return (Aggarwal, 2012; Cooper et al., 2010; Mellhai, 2015). Lux et al. (2011) further point out that the market strategy of a firm has an impact on the political landscape (non-market environment). In their work, Pigott and

Williamson (1979) investigate CPA and mention the increase of companies which push into CPA. According to Shepeleva (2020), companies invest into CPA to extend their influence on government decision making processes and regulations and points out, that especially firms in regulated industries try to engage in CPA. In addition, Shaffer et al. (2000) study empirically suggests the importance of CPA on firm performance.

However, CPA is not favourable for all firms and that the amount of CPA is depending on factors such as financial resources, firm size and their dependency on government (Hillman et al., 2004). According to Boddewyn and Brewer (1994), Keim and Baysinger (1988), and Masters and Keim (1985), firm size does matter, and larger firms are indeed more politically active. Wilson (2009) also found a modest positive relationship between large corporations and the engagement in CPA. While Meznar and Nigh (1995) and Blumentritt (2003) both establish two different types of CPA, proactive and reactive, "buffering" and "bridging" respectively. Hillman et al., (2004) however argue, that this relationship is two sided since both parties have the ability to influence each other.

In their study focusing on politician-directors and heavily regulated as well as less regulated industries, Hillmann & Hitt (2005) develop two different approaches to CPA: a) the relational approach, focusing on long-term relationships and b) the transactional approach, which focuses on immediate outcomes and is rather issue specific.

2.3. Politicians as board directors and boards as political strategies

Traditional scholars investigating corporate boards split the work of board member in three different categories: monitoring, resource provision and a strategy role (Fama & Jensen, 1983; Pfeffer & Salancik, 1978). The first category "monitoring", originated in the agency theory, refers to a board members ability to monitor and control the executive directors and management (Fama & Jensen, 1983). Further, "resource provision", connected to the RDT, refers to a board members' ability to provide rare resources to firm, e.g., social ties with external parties, building networks, reputation, and legitimacy (Pfeffer & Salancik, 1978). Resources of corporate boards relate significantly to firm performance (Hillmann, 2005), while legitimacy can be increased by corporate boards (Bazerman & Schoorman, 1983; Daily & Schwenk, 1996; Selznick, 1949) as well as having directors as advisors and counsellors improves firm performance (Westphal, 1999). Further, information obtained by board members are linked to performance as well (Haunschild & Beckman, 1998). Hillmann (2005) describes politicians

have crucial knowledge on government processes and regulations. Thirdly, the “strategy role” relates to the board members ability of decision-making, formulating a company’s strategy as well as setting and controlling a company’s strategic direction (Forbes & Milliken, 1999).
Keim & Baysinger’s (1988) study can be seen as a starting point regarding CPA and the implications of public policy decisions for firm strategy. Further, firms can play an active role in shaping public policies and interfere with the government through CPA (Salamon & Seigfried, 1977).

To exchange any information between firms and policy makers, the former have to engage in CPA. An appointment of a former politician to the board of directors can be one strategy to increase the information flow between corporations and policy makers (Hillmann, 2005), while other strategies of CPA include lobbying, supporting politicians or parties, or the payment of travel expenses (Hillmann & Hitt, 1999). Several scholars describe the concept of the political arena as a marketplace of exchange, including normal demand and supply theory (e.g., Hillman & Hitt, 1999; Hillman & Keim, 1995; Schuler et al., 2002*)*. Firms cannot only obtain information about ongoing political decisions, which are usually expensive to access (Hillmann et al., 1999), but can also, as mentioned earlier, influence such decisions and its processes (Hillmann, 2005, Pfeffer, 1972).

2.4. Human and social capital

Upper-echelon theory assumes that executives' prior experiences and interpersonal networks influence their current behaviour (Finkelstein & Hambrick, 1997; Hambrick & Mason,1984). Boyd (1990) describes that firms should appoint “resource rich directors”. Further, Hillman & Dalziel (2003) add that a board’s resource provision function relies on the human and social capital of board directors.

Human capital includes an individual’s expertise, their experience, knowledge, reputation as well as hard and soft skills (Coleman, 1998 & Becker, 1964), while social capital is described as “the sum of actual and potential resources embedded within, available through, and derived from, the network of relationships possessed by that individual” (Nahapiet & Ghoshal, 1998).
Skills and experiences by a board director are an essential part of their human capital as well (Johnson, et al., 2013). In their study, Johnson et al. (2013) constructed seven different categories of a board directors’ human capital: 1) industry experience, 2) experience as CEO,

3) venture capital experience, 4) financial expertise, 5) experience with specific activities, 6) human capital heterogeneity and 7) organizational tenure.
Kor and Sundaramurthy (2009) point out that previous industry working experience of board directors has an influence on information flows and can ultimately impact a firm's sales growth.

Burt (1997) defines social capital as the access to useful information and expertise through their internal and external network. Coleman (1988) adds that social capital is built upon resources the board director can reach through his personal relationships and networks, which corresponds to the study of Pfeffer & Salancik (1978), mentioning resource provision as one of the three major tasks for board directors. Government dependent firms are interested in recruiting outside directors who have a political link or are former politicians (El Nayal et al., 2019; Hillmann, 2005). Johnson et al, (2013) provide three different categories of social capital in their study regarding board composition: 1) ties to other firms[1], especially those, where they are currently employed, 2) personal relationships and affiliations, including buyer/supplier relationships or the state of "owning" something to somebody, which could compromise their independence and 3) social standing in the form of status, prestige or stigma of board directors. Westphal & Bednar (2005) even found that directors, who involved in friendship ties, have a higher ability to express their concerns with the strategic direction of the firm or its strategy. According to Carpenter and Westphal (2001), the social capital of a board director impacts the advice and counsel given to the firm, while Oh et al. (2006) add, that it also influences their ability to make decision and its underlying processes.

Lester et al. (2008) find evidence that of a positive relationship between a politician's tenure and their likelihood of following an appointment on a corporate board. According to their study, each additional year in government service increases the likelihood of joining a corporate board by 3.9 percent. Specifically, previous experience and networks of executives affect their current actions (Lester, et al. 2008 & Hambrick, 2007).

3. Hypotheses development

Although several scholars have posited that politician-directors are generally likely to help create value for the firms they are appointed to, the magnitude of such value-creation is likely

[1] Governments can act as employers as well. Politicians do enter corporate boards also during their political tenure.

to vary across appointments. Prior studies have focused on how different firms (e.g., regulated vs non-regulated) are likely to benefit differently from appointments, but less studied is how these benefits are also contingent on the characteristics of the specific politician being appointed.

Following prior research on human and social capital, this thesis predicts that politicians with higher levels of HSC are likely to bring greater benefits to firms and thus generate higher (perceived) value. While some researchers distinguish between human and social capital (e.g., Florin et al., 2003), this study follows previous scholars (Coleman, 1988; Nahapiet & Ghoshal, 1998; Lester et al., 2008) who noted that the two are difficult to separate theoretically and empirically. In the next section, three dimensions of politician-directors' human and social capital are hypothesized.

3.1. Political tenure

A firm gains a distinct set of skills and resources from outside directors (Kosnik, 1990). Lester et al., (2008) refer to the directors' depth of HSC, related to the magnitude of its expertise, skills and social networks their possess. Political tenure illustrates each former politician's network of contacts that, if appointed, he or she adds to the firm. It's a crucial component since the larger a former politician's network is, the more resources they can bring to service and link businesses with the outside world, as well as sharing information. Political tenure and knowledge about public policy, legitimacy, governmental and legislation decision making process as well as access to key decision makers appear to be positively related (Cannella and Paetzold, 2000). As Carroll & Hall (1987) mention, having a former politician or "government insider" appointed to the board can lower the transaction costs of obtaining political information and/or give greater access and/or influence with current government leaders. McEnrue (1988) and Mills (1958) argue, there is a link between an employee's overall duration of service and recruiting, retention, and promotion decisions. Individuals with the most expertise and influential networks are more beneficial to firms than individuals without these networks, according to a key principle of these studies. A higher number of years of service in the government (or being an elected politician) results in better knowledge of all government's regulation, processes, and systems, which ultimately influence the quality of advice and counsel given to the corporation (Hillmann, 2005).

Further, previous scholars found a positive link between legitimacy and firm performance (Bazerman & Schoorman, 1983, Daily & Schwenk, 1996), as well as advice and counsel and firm performance (Westphal, 1999). While appointing a (former) politician can have a performance incentive (Hillmann, 2005), it can also have a signalling effect towards external stakeholders, if such directors enjoy a certain level of reputation, respect and status (Certo, 2003).

Hypothesis 1. *Politician-directors' tenure in politics will be positively associated with investor reactions to their appointment on corporate boards.*

3.2. Business experience

Kor and Sudararmurthy (2009) found in their study that previous management experience can "have additive and interactive effects". They further explain why outside directors' business experience may shape their ability to monitor and advise management. Similar, other previous scholars suggest that an outside director's professional experience prior to a board appointment can be good indicators of their human capital (Bailey & Helfat, 2003; Carpenter & Westphal, 2001; Certo, 2003). In addition, social capital is also created by the previous and current professional experiences of outside directors (Certo, 2003; Hillmann & Dalziel, 2003). Beckman & Haunschild (2002) and Hillman & Dalziel (2003) further describe that multiple board memberships can increase their connectivity. Kor and Sudararmurthy (2009) add, that through business experience or several board memberships, directors develop a general director human capital, dealing with a variety of strategic and governance issues. Many companies appoint former, powerful CEOs to their board, followed by analysts, prominent financiers, economists, hedge fund manager or university professors (Sonnenfeld, 2002). While scholars are indecisive whether multiple board memberships benefit the company and its performance (Harris and Shimizu, 2004), previous business experience is constantly considered as valuable. Ferris et al. (2003) even suggest that the market for board members is linked to their prior performance as a director or executive.

Hypothesis 2. *Politician-directors' business experience will be positively associated with investor reactions to their appointment on corporate boards.*

3.3. Party majority

Lester et al. (2008) indicate in their study that the likelihood of a politician joining a board increases when his/her former party is currently holding the majority (or leading the coalition) in government. Because changes in the control of the government are often connected to policy changes, a politician's value can increase or decrease subsequently. A change of government can imply a new policy environment, focusing on new laws and regulations to shape their own agenda (Sissel, 2007). If a firm, through a former politician and board member, had access to specific information or expertise, such access is decreasing sharply after a governmental change. Lin (2001) argues that next to interpersonal relationships, resources derived from such relationship are also part of a person's network. If a former politician's party changes from being the leading one to the one with less power or even being in the opposition, the former politicians network decreases.

Hypothesis 3. *Politician-directors party majority will be positively associated with investor reactions to their appointment on corporate boards.*

4. Data & Methodology

To date, several studies in a variety of disciplines have investigated corporate boards (Adams et al., 2010). One such discipline focuses on the relationship between corporate boards, their performance and CPA or political connectiveness. This study investigates politicians who are appointed to the board and their corresponding human and social capital.

In order to investigate political board appointments and its investor reactions, reliable information regarding board composition, the actual time of each appointment and their curriculum vitae is needed. Each board member required a background check whether a political connection exists or was existing. Due to Germanys high disclosure requirements introduced by the BaFin, the required information regarding board composition was extracted through each company's annual reports. The study focused on the companies listed in the DAX, throughout the period from 2004 to 2020, to ensure a sufficient number of political events. Goldman et al. (2009) add, that having politicians as board members is more common in larger firms. In total, the sample consists of 51 firms, 821 firm year observations and 1,952 board appointments. The sample only includes companies listed at least one year in the DAX and two years on the stock market, which requires them to publish an annual report and as Paruchuri & Misangyi (2015) have highlighted, is an important factor for a successful event study.

After the data was gathered, background checks of each appointed board member were carried out, using *Bloomberg Businessweek, Frankfurter Allgemeine, WhoisWho, ReutersPeople* and company information.

In this study, former politicians were categorized between executive and legislative roles in three scopes: 1) supranational, 2) national and 3) local, while also taking senior civil servants into account (e.g., secretary of state).

4.1. Event Study

As this study follows an event study methodology, all political board appointments needed to be considered. As McWilliams and Siegel (1997) point out, a long event study window increases the difficulty for confounding events. This study uses a three-day event window (-1, +1). Depending on the type of event, the event window can range from one day to multiple days (MacKinlay, 1997). After checking for confounding events, this study found such events for 38 percent of the firms in the original sample (original sample: 71 events). This is in line with other scholars (Meznar et al., 1994). While other studies not always clearly indicate whether they did control for confounding events (McWilliams and Siegel, 1997), this study eliminated events when coinciding with ones such as earnings reports, debt issuance or repayments, dividends, or other possibly market moving board announcements. As McWilliams and Siegel (1997) mention, "the inference of significance relies on the following assumptions: (1) markets are efficient, (2) the event was unanticipated, and (3) there were no confounding effects during the event window". The efficient market hypothesis is addressed by various scholar, but Bromiley, Govekar, and Marcus (1988) provide a good overview of such area. Similar to McWilliams and Siegel (1997), this study used the market adjusted model (MAM) as the risk model, where abnormal returns are defined as the difference between a stock's daily return and its corresponding country market return, assuming $\beta = 1$.

4.2. Model construction and data analysis

To test the three political-level hypotheses, the researcher chose to construct a multiple linear regression model. The assessed dependent variable is cumulative abnormal return (CAR). Regarding the analyses, the researcher conducted multiple regression analysis using Stata. Hair Jr. et al. (2014) mention that many researchers have utilised a regression analysis for detecting correlations between multiple independent variables and a dependent variable. Because this study only uses one dependent variable, one distinct regression, including several models, was run.

4.3. Dependent variable

Scholars investigate corporate announcements and changes, such as director nominations to the board of directors, mergers, or acquisitions between two or more companies that affect corporate securities, at a magnitude that reflects investors' estimates of the economic value of the event (MacKinlay, 1997). Due to the lack of CPA measurements, previous scholars used event studies to investigate CPA activity (e.g., El Nayal et al., 2019; Hillman et al., 1999), such as political board appointments, because it is a method which reflects the direct response of investors (Arya & Zhang, 2009). Since the actual event date is crucial to the quality of this study, several actions were taken to find the correct date. After identifying all board members relevant for this study, LexusNexus was used to find the earliest announcement date. This was further verified by investigating relevant German and international newspaper (*Financial Times, Bloomberg, Süddeutsche Zeitung, die Welt, Frankfurter Allgemeine* etc.). As already mentioned in the chapter model construction and event study, this study excluded all appointments which coincided with confounding events in their event window, respectively. firms, which were less than two years publicly listed, were excluded from this study. Such companies do not have the same disclosure requirements and access to financial and firm specific information cannot be ensured.

4.4. Independent variables

4.4.1. Political Tenure

As described by Lester et al. (2008), the depth of politician directors' HSC in this study was measured by summing up the number of years each appointed board member served within the government, irrespective of the type of position (i.e., supranational, national, or local). The same sources for investigating the past of each politician were used to measure their political tenure. If a political break was existing, this period was excluded, while an overlap of positions was not counted as double. As per hypothesis 1, the expectation is that politicians with longer political tenure are more valued by investors than politicians with a shorter political tenure.

4.4.2. Business Experience

This study followed the same method as the ones used to examine the background of an appointed board director, searching for previous experience in management roles. This variable was operationalized as a dummy that took the value of '1' if the appointed board member had management experience (C or C-1 level) and '0' otherwise. As per hypothesis 2, the expectation is that politicians, who had prior business experience to their board appointment, are more valued by investors than politicians with no prior business experience.

4.4.3. Party majority

Hypothesis 3 states that if the appointed politician's party is currently not the one holding the majority, the politicians value decreases (Lester et al., 2008). To measure this effect, this study used a dummy variable of whether the political party of the appointed politician was in power at the time of the appointment or not. This study only used the leading party (or the party leading the coalition) at the time of the appointment. Although other research has focused on oppositions rather than the party majority, this study's H3 focuses on the investors' response in relationship to the strength of the politician's former party. As per hypothesis 3, the expectation is that politician-directors whose former party is currently the leading party in the government, are more valued by investors than politicians who are or were member of a party that is currently not the leading political party.

4.5. Control variables

According to Dang & Li (2018), a *firm's performance* is either measured using the Tobin's Q or the Return on Assets. Further, this study used the Tobin's Q as a proxy for performance, as suggest by different scholars (Bhagat & Bolton, 2009; Jackling & Johl, 2009; Yermack, 1996). Dang and Li (2018) mention in their study that out of 89 academic articles, 47 use total assets as a proxy for *firm size*, while only 20 use market capitalization. The study of Masters and Keim (1985) shows that *firm size* does matter, and larger firms are indeed more politically active, which is why this study added *firm size* as a control variable (logarithm of total assets). Dang & Li (2018) further indicate in their study, that *firm size* has a positive effect on outside directors, implying that larger firms tend to hire more outside directors than smaller ones. As mentioned by Dalton et al (1998) and Hillmann (2005), *firm size* is "used as a control variable due to its association with firm performance (and governance)".

Additionally, *board size* was included as a control variable to reflect the relative effect of politicians on the board (Edwards, 1994, Hillmann, 2005) and because previous scholars linked such variable to improved firm performance (Dalton et al., 1999). *Duration since office* reflects the time in years each government official is not active anymore. This is an important control variable since Lester et al. (2008) have found, that their value of human and social capital deteriorates over time, especially in the first year after leaving the office. Several studies have found differences in stock performance during the *financial crisis* compared to other years. To test for such an extraordinary event, the dummy variable *financial crisis* was included. The study used '1' if the appointment happened between mid 2007 and early 2009 and '0' otherwise.

Previous scholars illustrate that firms originated in different industries engage in different strategies of political board appointments. Hillmann (2005) found that companies from heavily regulated industries, on average, hire a higher number of ex-politicians than ones originated in less regulated industries and describes a difference between industries. Therefore, *industry* was used as a control variable, using the official two-digit SIC industry codes. El Nayal et al. (2019) found a relationship between a firm's CAR and financial dependence. To control for such firms, we included *Firm leverage* as a control variable (Pfeffer, 1972). *Firm leverage* was calculated by dividing a firm's total debt by a its total capital. State-owned companies may act differently when it comes to board appointments, while politicians can also be appointed as an owner's representative, because the state as a shareholder has the right to appoint (Vagliasindi, 2008). Therefore, *state ownership* was included as a control variable. A firm was considered state owned if the government was among the top 5 shareholders, using a dummy variable ('1' if state owned and '0' otherwise). Lastly, the study included control variables to see the effect of the politician's level of service (*Supranational*, *national*, and *senior civil servant*), where this study considered the highest position the politician-director was active in, again using a dummy variable ('1' if the politician had an appointment at such level, '0' otherwise).

5. Results

5.1. Descriptive statistics and correlation

The descriptive statistics and correlations are illustrated in Table 1.

Throughout the sample (N = 44), political board appointments at firms in 13 different industries happen. Both transportation equipment (SIC code: 37) and communication (SIC code: 48) were with 18 percent the largest industries in the sample, followed by electric, gas and sanitary services (SIC code: 49) with 11 percent.

The variance inflation factor (VIF) test is a widely accepted method to validate studies regarding multicollinearity (Craney & Surles, 2002; Menard 2001). Scholars are indecisive about a general cut-off point. While some mention ten as a reliable measurement (Meyers et al., 2017; Vittinghoff et al., 2017), others suggest five as the general cut-off point, stating that VIF-test scores above five are a cause for concern, while scores above 10 indicate a serious collinearity concern (James et al., 2017; Menard, 2001). The highest VIF scores obtained by this study were 3.89, 3.66 and 2.28, corresponding to the variables local, senior civil servant and board size respectively, indicating no issues regarding multicollinearity (Kutner et al., 2005; James et al, 2017; Menard, 2001).

Table 1: Descriptive Statistics and correlation matrix

Variable	*Mean*	*Std. Dev.*	*Min*	*Max*	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(1) CAR	0.01	0.04	-0.04	0.16	1.00															
(2) Political tenure	14.09	7.68	0.00	32.00	0.04	1.00														
(3) Business experience	0.52	0.51	0.00	1.00	-0.01	0.14	1.00													
(4) Party majority	0.32	0.47	0.00	1.00	0.08	0.14	0.26	1.00												
(5) Supranational politician	0.23	0.42	0.00	1.00	0.02	0.09	0.30	0.33	1.00											
(6) National politician	0.11	0.32	0.00	1.00	-0.09	0.43	0.20	-0.09	-0.19	1.00										
(7) Local politician	0.34	0.48	0.00	1.00	0.08	-0.17	-0.27	-0.08	-0.39	-0.26	1.00									
(8) Senior civil servant	0.32	0.47	0.00	1.00	-0.04	-0.21	-0.13	-0.15	-0.37	-0.25	-0.49	1.00								
(9) Duration since office	1.96	3.90	0.00	17.00	-0.13	0.02	0.34	0.10	0.09	0.19	-0.33	0.12	1.00							
(10) Industry	5.57	3.43	0.00	12.00	-0.03	0.10	0.20	0.20	0.36	0.11	-0.38	-0.01	0.21	1.00						
(11) Financial crisis	0.23	0.42	0.00	1.00	0.17	-0.01	-0.13	0.10	0.22	-0.02	-0.05	-0.14	0.04	-0.19	1.00					
(12) Firm performance	0.71	0.45	0.11	2.83	-0.19	-0.22	0.02	-0.05	0.08	-0.11	-0.05	0.06	0.03	-0.02	-0.12	1.00				
(13) Firm leverage	0.53	0.21	0.04	0.94	0.01	0.09	-0.04	-0.07	-0.11	0.17	-0.04	0.02	-0.22	0.34	-0.01	-0.28	1.00			
(14) Firm size	18.07	1.62	14.47	21.00	0.01	0.12	-0.17	0.04	-0.19	0.03	0.09	0.06	-0.11	0.14	0.09	-0.53	0.56	1.00		
(15) Board size	19.25	3.13	6.00	22.00	0.22	0.16	-0.31	-0.18	-0.31	-0.21	0.39	0.02	-0.46	-0.39	0.03	-0.20	0.18	0.24	1.00	
(16) State ownership	0.61	0.49	0.00	1.00	0.25	0.15	-0.29	0.04	-0.46	-0.16	0.28	0.24	-0.31	-0.17	-0.02	-0.20	0.24	0.24	0.55	1.00

Note: N = 44.

5.2. Regression results

Through the event study it became apparent that, on average, a political appointment generates a positive cumulative abnormal return (1.37 percent) and is statistically significant $p = 0.031$, ($p < 0.05$). Even though the discussion whether CPA is or is not beneficial to a firm remains ongoing, we expected a positive relationship between a (former) politician appointed to the board and the corresponding investors response. The results illustrate that investors, on average, react positively to political board appointments.

Table 2: Regression output

Variable	(1)	(2)	(3)	(4)	(5)
National politician	-0.01	-0.00	-0.01	-0.01	-0.00
	(0.02)	(0.03)	(0.02)	(0.02)	(0.02)
Local politician	-0.00	-0.01	0.00	-0.00	-0.00
	(0.03)	(0.02)	(0.03)	(0.02)	(0.03)
Senior civil servant	-0.01	-0.01	-0.00	-0.01	-0.01
	(0.02)	(0.03)	(0.03)	(0.02)	(0.02)
Duration since office	-0.00	-0.00	-0.00	-0.00	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Financial crisis	0.02	0.02	0.02	0.02	0.02
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Firm performance	-0.02	-0.02	-0.02	-0.02	-0.02
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Firm leverage	-0.01	-0.02	-0.02	-0.01	-0.02
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Firm size	-0.00	-0.00	-0.00	-0.00	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Board size	0.00	0.00	0.00	0.00	0.00 †
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
State ownership	0.02	0.02	0.02	0.02	0.02
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Political tenure		-0.00			-0.00
		(0.00)			(0.00)
Business experience			0.01		0.01
			(0.01)		(0.01)
Party majority				0.00	0.00
				(0.01)	(0.01)
Constant	0.06	0.06	0.05	0.06	0.05
	(0.09)	(0.09)	(0.10)	(0.09)	(0.11)
R^2	0.16	0.16	0.17	0.16	0.17

Note: Robust standard errors are in parentheses. N = 44. CARs (cumulative abnormal returns) calculated over a 3-day event window [-1, 0, +1]. Industry effects included but not reported.
*** p<0.001, ** p<0.01, * p<0.05, † p<0.10
Variable *supranational* was omitted due to multicollinearity.

As illustrated in table 2, **Hypothesis 1** (*political tenure*) which suggests that there is a positive relationship between the politician's tenure and investors response receives no support in this study. This study finds no significant evidence of such relationship, the model even suggests a slight (non-significant) negative impact of political tenure on the perceived value on investors ($\beta = -.0004$). Although both, models 1 and 4 show a slightly negative relationship between those two, there is no significant evidence to support hypothesis 1.

Hypothesis 2 (*business experience*) suggests that there is a positive relationship between a politician who has previous business experience and the corresponding investors response. This finding is consistent with previous scholars, indicating that previous business experience has a positive impact on investors (β = 0.0089), although being not significant in both, model 2 and 4.

Hypothesis 3 (*party majority*) suggests that there is positive relationship when the politician's former party is currently holding the majority in the government and the corresponding investors response. Consistent with expectations, this study found a slightly positive relationship between the politician's former party holding the majority and the investors response, while being statistically insignificant (β = .0013), supported in both, model 3 and 4.

Overall, the regression models show no evidence that neither political tenure, business experience nor party majority have a significant impact on the investor's response, disregarding a positive or negative effect. However, this study shows evidence that there is a trend towards a positive relationship between board size and the investors response (β = 0.0021, $p = 0.09$).

Even though this study chose a very narrow event study time frame and did control events for confounding events, various factors could influence the movement of each stock's price.

6. Discussion

Existing literature has documented conflicting findings regarding the impact of CPA (including political board appointments) on firm performance, with Hadani, Bonadi & Dahan (2017) arguing that CPA is not a one-way street. This study examined 44 political board appointment events by 51 DAX companies between 2004 until 2020, and found evidence that in Germany however, investors do appear to appreciate the appointment of politicians to corporate boards. On average, appointing a politician to a board generates a CAR of 1.37 percent with statistical significance of $p < 0.05$. This study's results confirms that there is positive value for investors appointing a former politician to the board, which supports previous scholars (e.g., Hillman, 2005 and Hillman et al., 1999). While Germany scores 80 out of 100 points on the corruption perceptions index (CPI) and ranks on the 10th place out of 180 countries, other studies have found a relationship between a country's CPI and the perceived value of a former politician (El Nayal et al., 2019). One unanticipated finding was that the CAR of 1.37 percent ranks higher than in a country with a lower CPI (Ouro, 2020). Although Germany has a comparably high

CPI, this study shows, there is a positive relationship between political board appointments and investors response, implying that investor's still value politicians as board members.

Contrary to expectations, this study did not find significant evidence that politician level attributes of human and social capital, i.e., politician's tenure, previous business experience or party majority, has an influence on the perceived value of investors.

With respect to **Hypothesis 1**, this study found a non-significant negative relationship between a politician's tenure and the corresponding investors response. While the mean of the sample shows a 14-year political tenure, 75 percent of all politicians in the sample ($n = 44$) were serving the government for ten or more years. On the other hand, only 10 percent of the sample have had a political tenure of three years or less. This number may explain the non-significant result since almost all appointed politicians have a relatively long political tenure. A possible explanation may be the type of position each politician held throughout his political career. A 20-year political tenure at a local position may not be considered the same value as a three-year political tenure at international or national level-and therefore, according to this study, political tenure is not a significant driver of the perceived value by investors. Another explanation could be the importance of the department the politician was serving in (ministry of finance vs. ministry of agriculture) and long political tenure can imply that the politician is a rather generalist than an expert in a field, while serving 10 (or more) years for the government. The variance ($v = 59$) and high standard deviation ($\sigma = 7.68$) may further explain why non-significant results were obtained in this study.

Additionally, such non-significant results may be explained using the agency theory. Previous scholars suggest that the most important function of corporate boards is protecting the interests of shareholders (principals) against the actions of a firm's management (agents) during their legislation (Bainbridge, 1993; Miller 1993). However, if politicians developed, throughout their political tenure, a strong societal welfare mindset, it could create agency-problems and investors may be uncertain on how to react to political board appointments. In addition, agency theory on CPA indicates that board members can behave opportunistically, pursuing their own interests and use a firm's resources for such actions (Marcus & Mackuen, 1993; Hutchings, 2011). El Nayal et al. (2019) assumes that investors value politicians as board members, but only if monitoring capabilities of the board do not deteriorate.

With respect to **Hypothesis 2**, this study's results indicate, on a non-significant level, that there may be a slight positive relationship between a politician's business experience and the investor's response. An explanation for such non-significance may be the importance of the industry in which the politician has his prior business experience, while this study only controlled for the industry from a firm's perspective. One could argue that overall management skills are valuable when being appointed as a board member, however, to monitor companies, industry knowledge is an important attribute when looking at board performance, which is ultimately perceived positively or negatively by the investors (Sonnenfeld, 2002). The study indicates that out of all politicians (n = 44), 23 do have business experience prior to joining the board. Therefore, the sample is close to being equally distributed.

Further, business experience may be more valued in the long run, when the politicians and their inside information become less valuable and actual governing skills become more valuable (Tahmincioglu and Wenger, 2019). Therefore, it might be interesting to track the performance in the long run, even though an event study might not be the ultimate method to do so. Since Germany has a relatively high CPI, one explanation when comparing this study to previous research could be the country difference, supported by Faccio (2006) who describes that political relationships differ between countries. Since most studies focus on other countries, especially the USA, further research must go into political board appointments in countries with a high CPI, testing different hypothesis. Another possible explanation for the non-significant results may be that specific business experience is valued by investors, depending on the diversity of experiences and backgrounds of the current board, but not general business experience. Bin Khidmat et al. (2020) describe in their study that board diversity has a positive, significant effect on firm performance.

Finally, with respect to **Hypothesis 3**, as in the previous discussions, results indicate a non-significant positive relationship between the politicians'' party majority at the time of appointment and investors response. As previously mentioned, several factors may influence this study and its result to be insignificant. This study finds no evidence that politician's former party, being the leading party, has influence on the corresponding investor response. Surprisingly, the study found that in the sample (n = 44), only 32 percent of the politicians appointed had their former party as the leading one. If we investigate further, it may become less surprising: SPD politicians, in our sample, account for 48 percent of all appointed politicians (Overall, democrats account for 59 percent of the sample). However, Angela Merkel and her party, the Christian-democrats (CDU), were the leading party throughout the period 2005 until 2021 (Hassel, 2021), which accounts for three quarters of the period (2004 – 2020), this study investigated. On the other hand, the social-democratic party (SPD), in this study, were only leading from 2004 until 2005 (Bitter, 2005).

It is somewhat surprising that (former) SPD politicians account for 48 percent of all board appointments, while their biggest "rival", the CDU, only accounts for 18 percent of all board appointments in this study. One may assume that conservative politicians have a higher likelihood joining corporate boards, because corporate lobbying expenditures (or CPA) increased during a republican/conservative presidency (Mehrens, 2020). Referring to **H3**, it is important to notice that 65 percent of all (former) politicians in this sample got appointed to a corporate board during their service or within the year their service was ending, while previous scholar focused on board appointment of former politicians (Hillmann, 2005). This result finds support by Lester et al. (2008), who found that the likelihood of the politician being appointed increases in the first year after their resignation but declines significantly after the first 12 months.

Further, the results indicate that board size does have a positive effect on the investors response. Khidmat et al. (2020) describe in their study that board diversity has a positive, significant effect on firm performance. As Handani et al. (2017) describe, CPA is not a one-way street towards higher firm success and question whether CPA should be allowed and how it could be regulated, especially if a large number of politicians join corporate boards during or within one year after their service.

Finally, even though several variables and their corresponding p-values were close to 0.1 (0.05), it is important to notice that this is no support for the research thesis (Hewitt et al. 2008), while p-values of 0.045 and 0.055 would indicate similar evidence (Gelman & Stern, 2006).
However, as the '*file drawer phenomenon*' indicates, studies with significant results will be published more often than ones with non-significant results (Miller-Halegoua, 2017), this study will have its important impact on the CPA research landscape and can be used as a starting point, especially in countries with a high CPI.

7. Future research and limitations

The results of this study presented regarding political board appointments and firm performance open several promising research directions. As this study found no evidence for positive or negative investor's response regarding a politician's tenure, previous business experience or party majority, future research could focus on different human and social capital attributes of political directors or expand the study on a larger scale, such as El Nayal et al. (2019). Limitations for future can be considered the access to data, since until now, no international database exists. Researchers have to gather the data manually for studies focusing on political board appointments, which is limiting such field due to the extensive time used for the research area.

While most of the existing scholars carried out quantitative studies, it would be further interesting to explore qualitative studies focusing on which factors are actually of value to investors. One method to carry out such an exploratory study could be through a survey sent to various investors or a large number of expert interviews, focusing on large asset management companies or hedge funds who control board seats at various companies, including different industries.

For being originally limited to only three months, this study investigated a large period (2004 – 2020) but lacks the international exposure since data collection in the field of political board appointments had to be done manually. The research choice was to only include publicly listed companies at the DAX. Faccio (2006) adds that political relationships differ between countries. Even though the focus on this study to develop a deeper understanding of the human and social capital of political directors regarding German investors' response, being limited to Germany makes these findings less generalisable, but opens for future research in the area of political board appointments. To significantly validate whether such factors (*political tenure, business experience* and *party majority*) have an effect, it will be beneficial to increase the sample size, suggesting expanding it to various countries. Further, investigating in a more heterogeneous political environment (regarding party majority) will be beneficial to the outcome of the study, since the political party "CDU" was elected the majority party from 2005 until 2020 (Hassel, 2021). Since investors are critical about a board members' monitoring or control skills, it might be interesting to see which (former) politicians have such skills and where those were developed.

Further, this study was limited to data from public companies only, while a lot of politicians join boards of smaller companies or those, who are not publicly listed. Especially national or local politicians join boards of regional companies, such as airports, trade affairs/Expos or regional banks, who all rely on government regulations and decisions (Scheer, 2013).

8. Conclusion

For decades, researcher have investigated CPA and political board appointments, their influencing factors and underlined the importance of such research area. Previous research findings are inconsistent regarding whether CPA adds value to a firm or not. Claessens et al. (2008), Faccio (2006), Goldman et al. (2009), Hillman et al. (1999) and Jayachandran (2006) find that CPA has a positive impact on firm performance, while Aggarwal et al. (2012), Faccio (2010), Hadani & Schuler (2013) Hersch et al. (2008) and Siegel (2007) find an indifferent or negative effect.

This study attempted to better understand if political board appointments are valued by investors and whether human and social capital (namely: political tenure, business experience and party majority) have a dominant effect on investor responses. For this purpose, this study analysed 51 companies, listed in the DAX, throughout a period from 2004 until 2020. After identifying all board appointments during this period, investigating each one's background, past experiences and checking for confounding events, the study found a final sample of 44 events including a dropout rate of 38 percent from the original sample size of 71 events. Further, an event study and a following multiple regression analysis provided valuable insights on the perceived value of political board appointments on investors. At first, the results indicate that, on average, political board appointments are perceived positively by investors (avg. CAR = 1.37 percent), but political tenure, business experience and party majority have no significant effect on such investor's reactions. It is important to note that board appointments of (former) politicians is only one of many CPA's a firm can engage in. The study however finds that board size does have a significant positive relationship towards firm performance.

To sum up, this study contributes to the existing literature, supporting previous studies indicating a positive relationship between political board appointments and investor's response. While scholars in the CPA research area are still indecisive regarding CPA and firm performance, this study finds, through its event study, a relatively high CAR in connection to political board appointments. However, the outcomes of this study indicate that factors influencing such responses are not yet sufficiently researched among CPA literature and need further investigation, while this study finds no significant effect for human and social capital factors *political tenure*, *business experience* and *party majority*. If such appointments effect firm performance in the long run remains a well discussed topic within the CPA literature.

9. Bibliography

Adams, R. B., Hermalin, B. E., & Weisbach, M. S. (2010). The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey. *Journal of Economic Literature*, *48*(1), 58–107. https://doi.org/https://dx.doi.org/10.2139/ssrn.1299212

Aggarwal, R. K., Meschke, F., & Wang, T. Y. (2012). Corporate Political Donations: Investment or Agency? *Business and Politics*, *14*(1), 1–38. https://doi.org/10.1515/1469-3569.1391

Aggarwal, V. K. (2001). Corporate Market and Nonmarket Strategies in Asia: A Conceptual Framework. *Business and Politics*, *3*(2), 89–108. https://doi.org/10.2202/1469-3569.1020

Arya, B., & Zhang, G. (2009). Institutional Reforms and Investor Reactions to CSR Announcements: Evidence from an Emerging Economy. *Journal of Management Studies*, *46*(7), 1089–1112. https://doi.org/10.1111/j.1467-6486.2009.00836.x

Bailey, E. E., & Helfat, C. E. (2003). External management succession, human capital, and firm performance: an integrative analysis. *Managerial and Decision Economics*, *24*(4), 347–369. https://doi.org/10.1002/mde.1119

Bainbridge, S. (1993). Independent directors and the ALI corporate governance project. *George Washington Law Review*, *61*, 1034–1083.

Bazerman, M. H., & Schoorman, F. D. (1983). A Limited Rationality Model of Interlocking Directorates. *The Academy of Management Review*, *8*(2), 206. https://doi.org/10.2307/257747

Becker, G. S. (1964). *Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education. Pp. xvi, 187. New York: National Bureau of Economic Research, 1964. $5.00*. University of Chicago Press. https://doi.org/10.1177/000271626536000153

Bhagat, S., & Bolton, B. (2008). Corporate governance and firm performance. *Journal of Corporate Finance*, *14*(3), 257–273. https://doi.org/10.1016/j.jcorpfin.2008.03.006

bin Khidmat, W., Khan, M. A., & Ullah, H. (2020). The Effect of Board Diversity on Firm Performance: Evidence from Chinese Listed Companies. *Indian Journal of Corporate Governance*, *13*(1), 9–33. https://doi.org/10.1177/0974686220923793

Bittner, J. (2005, September 14). Neuwahlen, Teil II. *Zeit Online*. https://www.zeit.de/online/2005/38/presseschau38

Blumentritt, T. P. (2003). Foreign Subsidiaries' Government Affairs Activities. *Business & Society*, *42*(2), 202–233. https://doi.org/10.1177/0007650303042002003

Boddewyn, J. J., & Brewer, T. L. (1994). International-Business Political Behavior: New Theoretical Directions. *The Academy of Management Review*, *19*(1), 119. https://doi.org/10.2307/258837

Bonardi, J.-P., Holburn, G. L. F., & vanden Bergh, R. G. (2006). Nonmarket Strategy Performance: Evidence from U.S. Electric Utilities. *Academy of Management Journal*, *49*(6), 1209–1228. https://doi.org/10.5465/amj.2006.23478676

Bromiley, P., Govekar, M., & Marcus, A. (1988). On using event-study methodology in strategic management research. *Technovation*, *8*(1–3), 25–42. https://doi.org/10.1016/0166-4972(88)90052-1

Burt, R. S. (1997). The Contingent Value of Social Capital. *Administrative Science Quarterly*, *42*(2), 339. https://doi.org/10.2307/2393923

Carpenter, M. A., & Westphal, J. D. (2001). The Strategic Context of External Network Ties: Examining the Impact of Director Appointments on Board Involvement in Strategic Decision Making. *Academy of Management Journal*, *44*(4), 639–660. https://doi.org/10.2307/3069408

Carroll, A., & Hall, J. (1987). *Strategic management processes for corporate social policy*. Reinhold.
Certo, S. T. (2003). Influencing Initial Public Offering Investors with Prestige: Signaling with Board Structures. *The Academy of Management Review*, *28*(3), 432. https://doi.org/10.2307/30040731
Claessens, S., Feijen, E., & Laeven, L. (2008). Political connections and preferential access to finance: The role of campaign contributions. *Journal of Financial Economics*, *88*(3), 554–580. https://doi.org/10.1016/j.jfineco.2006.11.003
Coleman, J. S. (1988). Social Capital in the Creation of Human Capital. *American Journal of Sociology*, *94*, S95–S120. https://doi.org/10.1086/228943
Cooper, M. J., Gulen, H., & Ovtchinnikov, A. v. (2008). Corporate Political Contributions and Stock Returns. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.940790
Craney, T. A., & Surles, J. G. (2002). Model-Dependent Variance Inflation Factor Cutoff Values. *Quality Engineering*, *14*(3), 391–403. https://doi.org/10.1081/QEN-120001878
Dahan, N. M., Hadani, M., & Schuler, D. A. (2013). The Governance Challenges of Corporate Political Activity. *Business & Society*, *52*(3), 365–387. https://doi.org/10.1177/0007650313491470
Daily, C., & Schwenk, C. (1996). Chief executive officers, top management teams, and boards of directors: Congruent or countervailing forces? *Journal of Management*, *22*(2), 185–208. https://doi.org/10.1016/S0149-2063(96)90046-X
Dalton, D. R., Daily, C. M., Ellstrand, A. E., & Johnson, J. L. (1998). Meta-analytic reviews of board composition, leadership structure, and financial performance. *Strategic Management Journal*, *19*(3), 269–290. https://doi.org/10.1002/(SICI)1097-0266(199803)19:3<269::AID-SMJ950>3.0.CO;2-K
Dang, C., & Li, Z. F. (2013). Measuring Firm Size in Empirical Corporate Finance. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.2345506
de Figueiredo, J. M., & Silverman, B. S. (2006). Academic Earmarks and the Returns to Lobbying. *The Journal of Law and Economics*, *49*(2), 597–625. https://doi.org/10.1086/508248
Edwards, J. R. (1994). The Study of Congruence in Organizational Behavior Research: Critique and a Proposed Alternative. *Organizational Behavior and Human Decision Processes*, *58*(1), 51–100. https://doi.org/10.1006/obhd.1994.1029
el Nayal, O., van Oosterhout, J. (Hans), & van Essen, M. (2021). Ties That Bind and Grind? Investor Reactions to Politician Appointments to Corporate Boards. *Journal of Management*, *47*(2), 456–487. https://doi.org/10.1177/0149206319869440
F. Hair Jr, J., Sarstedt, M., Hopkins, L., & G. Kuppelwieser, V. (2014). Partial least squares structural equation modeling (PLS-SEM). *European Business Review*, *26*(2), 106–121. https://doi.org/10.1108/EBR-10-2013-0128
Faccio, M. (2006). Politically Connected Firms. *American Economic Review*, *96*(1), 369–386. https://doi.org/10.1257/000282806776157704
Faccio, M. (2010). Differences between Politically Connected and Nonconnected Firms: A Cross-Country Analysis. *Financial Management*, *39*(3), 905–928. https://doi.org/10.1111/j.1755-053X.2010.01099.x
Fama, E. F., & Jensen, M. C. (1983). Separation of Ownership and Control. *The Journal of Law and Economics*, *26*(2), 301–325. https://doi.org/10.1086/467037
Ferris, S. P., Jagannathan, M., & Pritchard, A. C. (2003). Too Busy to Mind the Business? Monitoring by Directors with Multiple Board Appointments. *The Journal of Finance*, *58*(3), 1087–1111. https://doi.org/10.1111/1540-6261.00559

Florin, J., Lubatkin, M., & Schulze, W. (2003). A Social Capital Model of High-Growth Ventures. *Academy of Management Journal*, *46*(3), 374–384. https://doi.org/10.2307/30040630

Forbes, D. P., & Milliken, F. J. (1999). Cognition and Corporate Governance: Understanding Boards of Directors as Strategic Decision-Making Groups. *The Academy of Management Review*, *24*(3), 489. https://doi.org/10.2307/259138

Gelman, A., & Stern, H. (2006). The Difference Between “Significant” and “Not Significant” is not Itself Statistically Significant. *The American Statistician*, *60*(4), 328–331. https://doi.org/10.1198/000313006X152649

Goldman, E., Rocholl, J., & So, J. (2009). Do Politically Connected Boards Affect Firm Value? *Review of Financial Studies*, *22*(6), 2331–2360. https://doi.org/10.1093/rfs/hhn088

Greiner, M., & Lee, J. (2018). Why do Businesses Engage in Corporate Political Activity? An Agency Theory Perspective. *Academy of Management Proceedings*, *2018*(1), 17640. https://doi.org/10.5465/AMBPP.2018.17640abstract

Hadani, M., Bonardi, J.-P., & Dahan, N. M. (2017). Corporate political activity, public policy uncertainty, and firm outcomes: A meta-analysis. *Strategic Organization*, *15*(3), 338–366. https://doi.org/10.1177/1476127016651001

Hambrick, D. C. (2007). Upper Echelons Theory: An Update. *Academy of Management Review*, *32*(2), 334–343. https://doi.org/10.5465/amr.2007.24345254

Hambrick, D. C., & Mason, P. A. (1984). Upper Echelons: The Organization as a Reflection of Its Top Managers. *The Academy of Management Review*, *9*(2), 193. https://doi.org/10.2307/258434

Harris, I. C., & Shimizu, K. (2004). Too Busy To Serve? An Examination of the Influence of Overboarded Directors. *Journal of Management Studies*, *41*(5), 775–798. https://doi.org/10.1111/j.1467-6486.2004.00453.x

Hassel, T. (2021, September 14). *Machtmensch Merkel*. Tagesschau. https://www.tagesschau.de/inland/btw21/merkel-bilanz-103.html

Haunschild, P. R., & Beckman, C. M. (1998). When Do Interlocks Matter?: Alternate Sources of Information and Interlock Influence. *Administrative Science Quarterly*, *43*(4), 815. https://doi.org/10.2307/2393617

Hersch, P., Netter, J. M., & Pope, C. (2008). Do Campaign Contributions and Lobbying Expenditures by Firms Create “Political” Capital? *Atlantic Economic Journal*, *36*(4), 395–405. https://doi.org/10.1007/s11293-008-9125-y

Hewitt, C. E., Mitchell, N., & Torgerson, D. J. (2008). Listen to the data when results are not significant. *BMJ*, *336*(7634), 23–25. https://doi.org/10.1136/bmj.39379.359560.AD

Hillman, A. J. (2005). Politicians on the Board of Directors: Do Connections Affect the Bottom Line? *Journal of Management*, *31*(3), 464–481. https://doi.org/10.1177/0149206304272187

Hillman, A. J., Cannella, A. A., & Paetzold, R. L. (2000). The Resource Dependence Role of Corporate Directors: Strategic Adaptation of Board Composition in Response to Environmental Change. *Journal of Management Studies*, *37*(2), 235–256. https://doi.org/10.1111/1467-6486.00179

Hillman, A. J., & Dalziel, T. (2003). Boards of Directors and Firm Performance: Integrating Agency and Resource Dependence Perspectives. *The Academy of Management Review*, *28*(3), 383. https://doi.org/10.2307/30040728

Hillman, A. J., & Hitt, M. A. (1999). Corporate Political Strategy Formulation: A Model of Approach, Participation, and Strategy Decisions. *The Academy of Management Review*, *24*(4), 825. https://doi.org/10.2307/259357

Hillman, A. J., Keim, G. D., & Schuler, D. (2004). Corporate Political Activity: A Review and Research Agenda. *Journal of Management*, *30*(6), 837–857. https://doi.org/10.1016/j.jm.2004.06.003

Hillman, A. J., Zardkoohi, A., & Bierman, L. (1999). Corporate political strategies and firm performance: indications of firm-specific benefits from personal service in the U.S. government. *Strategic Management Journal*, *20*(1), 67–81. https://doi.org/10.1002/(SICI)1097-0266(199901)20:1<67::AID-SMJ22>3.0.CO;2-T

Horowitz, J. (2021, September 25). *Germany is the biggest economy in Europe. What if it shifts left?* CNN Business.

Hutchings, K. (2011). Dialogue between Whom? The Role of the West/ Non-West Distinction in Promoting Global Dialogue in IR. *Millennium: Journal of International Studies*, *39*(3), 639–647. https://doi.org/10.1177/0305829811401941

Jackling, B., & Johl, S. (2009). Board Structure and Firm Performance: Evidence from India's Top Companies. *Corporate Governance: An International Review*, *17*(4), 492–509. https://doi.org/10.1111/j.1467-8683.2009.00760.x

James, G., Witten, D., Hastie, T., & Tibshirani, R. (2017). *An Introduction to Statistical Learning* (Vol. 103). Springer New York. https://doi.org/10.1007/978-1-4614-7138-7

Jayachandran, S. (2006). Selling Labor Low: Wage Responses to Productivity Shocks in Developing Countries. *Journal of Political Economy*, *114*(3), 538–575. https://doi.org/10.1086/503579

Johnson, S. G., Schnatterly, K., & Hill, A. D. (2013). Board Composition Beyond Independence. *Journal of Management*, *39*(1), 232–262. https://doi.org/10.1177/0149206312463938

Keim, G., & Baysinger, B. (1988). The Efficacy of Business Political Activity: Competitive Considerations in a Principal-Agent Context. *Journal of Management*, *14*(2), 163–180. https://doi.org/10.1177/014920638801400203

Kor, Y. Y., & Sundaramurthy, C. (2009). Experience-Based Human Capital and Social Capital of Outside Directors. *Journal of Management*, *35*(4), 981–1006. https://doi.org/10.1177/0149206308321551

Kosnik, R. D. (1990). Effects of Board Demography and Directors' Incentives on Corporate Greenmail Decisions. *Academy of Management Journal*, *33*(1), 129–150. https://doi.org/10.2307/256355

Kutner, M. H., Nachtsheim, C. J., Neter, J., & Li, W. (2005). *Applied Linear Statistical Models* (5th ed.). McGraw-Hill.

Lawton, T., McGuire, S., & Rajwani, T. (2013). Corporate Political Activity: A Literature Review and Research Agenda. *International Journal of Management Reviews*, *15*(1), 86–105. https://doi.org/10.1111/j.1468-2370.2012.00337.x

Lester, R. H., Hillman, A., Zardkoohi, A., & Cannella, A. A. (2008). Former Government Officials as Outside Directors: The Role of Human and Social Capital. *Academy of Management Journal*, *51*(5), 999–1013. https://doi.org/10.5465/amj.2008.34789675

Lin, N. (2001). *Social Capital - A Theory of Social Structure and Action* . Cambridge University Press. https://doi.org/10.1017/CBO9780511815447

Lux, S., Crook, T. R., & Leap, T. (2012). Corporate political activity: The good, the bad, and the ugly. *Business Horizons*, *55*(3), 307–312. https://doi.org/10.1016/j.bushor.2012.01.008

Lux, S., Crook, T. R., & Woehr, D. J. (2011). Mixing Business With Politics: A Meta-Analysis of the Antecedents and Outcomes of Corporate Political Activity. *Journal of Management*, *37*(1), 223–247. https://doi.org/10.1177/0149206310392233

MacKinlay, C. A. (1997). Event Studies in Economics and Finance. *Journal of Economic Literature*, *35*(1), 13–39.

Marcus, G. E., & MacKuen, M. B. (1993). Anxiety, Enthusiasm, and the Vote: The Emotional Underpinnings of Learning and Involvement During Presidential Campaigns. *American Political Science Review*, *87*(3), 672–685. https://doi.org/10.2307/2938743

Masters, M. F., & Keim, G. D. (1985). Determinants of PAC Participation Among Large Corporations. *The Journal of Politics*, *47*(4), 1158–1173. https://doi.org/10.2307/2130811

McEnrue, M. P. (1988). Length of experience and the performance of managers in the establishment phase of their careers. *Academy of Management Journal*, *31*(1), 175–185. https://doi.org/10.2307/256504

McWilliams, A., & Siegel, D. (1997). Event Studies in Management Research: Theoretical and Empirical Issues. *Academy of Management Journal*, *40*(3), 626–657. https://doi.org/10.2307/257056

Mehrens, F. (2020). *Political Party Affiliation of the President and its Impact on Corporate Political Activity* [Master Thesis]. Universidade Catolica Portuguesa.

Mellahi, K., Frynas, J. G., Sun, P., & Siegel, D. (2016). A Review of the Nonmarket Strategy Literature. *Journal of Management*, *42*(1), 143–173. https://doi.org/10.1177/0149206315617241

Menard, S. (2002). *Applied Logistic Regression Analysis*. SAGE Publications, Inc. https://doi.org/10.4135/9781412983433

Merendino, A., & Melville, R. (2019). The board of directors and firm performance: empirical evidence from listed companies. *Corporate Governance: The International Journal of Business in Society*, *19*(3), 508–551. https://doi.org/10.1108/CG-06-2018-0211

Meyers, L. S., Gamst, G., & Guarino, A. J. (2013). *Applied multivariate research: Design and interpretation* (2nd ed.). Sage Publications.

Meznar, M. B., & Nigh, D. (1995). Buffer or Bridge? Environmental and Organizational Determinants of Public Affairs Activities in American Firms. *Academy of Management Journal*, *38*(4), 975–996. https://doi.org/10.2307/256617

Meznar, M. B., Nigh, D., & Kwok, C. C. Y. (1994). Effect of Announcements of Withdrawal from South Africa on Stockholder Wealth. *Academy of Management Journal*, *37*(6), 1633–1648. https://doi.org/10.5465/256803

Miller, H. (1993). Corporate governance in chapter 11: The fiduciary relationship between directors and stockholders of solvent and insolvent corporations. *Seton Hall Law Review*, *23*, 1467–1515.

Miller-Halegoua, S. M. (2017). Why null results do not mean no results: negative findings have implications for policy, practice, and research. *Translational Behavioral Medicine*, *7*(2), 137–137. https://doi.org/10.1007/s13142-017-0500-6

Mills, J. (1958). Changes in moral attitudes following temptation1. *Journal of Personality*, *26*(4), 517–531. https://doi.org/10.1111/j.1467-6494.1958.tb02349.x

Molitor, G. T. (1977). How to Anticipate Public-Policy Changes. *Advanced Management Journal*, *42*(3), 4–13.

Moody, O. (2019, December 17). German Bundestag set to be biggest parliament in world after China. *The Times*. https://www.thetimes.co.uk/article/german-bundestag-set-to-be-biggest-parliament-in-world-after-china-bn77g2ctj

Moran, T. (1985). *MNCs: The political economy of FDI*. Lexington Books.

Nahapiet, J., & Ghoshal, S. (1998). Social Capital, Intellectual Capital, and the Organizational Advantage. *The Academy of Management Review*, *23*(2), 242. https://doi.org/10.2307/259373

Oh, H., Labianca, G., & Chung, M.-H. (2006). A Multilevel Model of Group Social Capital. *Academy of Management Review*, *31*(3), 569–582. https://doi.org/10.5465/amr.2006.21318918

Ouro, F. (2020). *The relationship between the human and social capital of former politicians and their perceived value on corporate boards in Portugal – an investor's perspective* [Master Thesis]. Universidade Catolica Portuguesa.

Paruchuri, S., & Misangyi, V. F. (2015). Investor Perceptions of Financial Misconduct: The Heterogeneous Contamination of Bystander Firms. *Academy of Management Journal*, *58*(1), 169–194. https://doi.org/10.5465/amj.2012.0704

Pascual-Fuster, B., & Crespí-Cladera, R. (2018). Politicians in the boardroom: Is it a convenient burden? *Corporate Governance: An International Review*, *26*(6), 448–470. https://doi.org/10.1111/corg.12261

Perry, T., & Shivdasani, A. (2005). Do Boards Affect Performance? Evidence from Corporate Restructuring. *The Journal of Business*, *78*(4), 1403–1432. https://doi.org/10.1086/430864

Pfeffer, J. (1972). Size and Composition of Corporate Boards of Directors: The Organization and its Environment. *Administrative Science Quarterly*, *17*(2), 218. https://doi.org/10.2307/2393956

Pfeffer, J., & Salancik, G. (1978). *The External Control of Organizations: A Resource Dependence Perspective*. Harper & Row.

Pigott, R. J., & Williamson, R. S. (1979). Corporate Political Activity. *The Business Lawyer*, *34*, 913–919.

Reger, R. K., Finkelstein, S., & Hambrick, D. C. (1997). Strategic Leadership: Top Executives and Their Effects on Organizations. *The Academy of Management Review*, *22*(3), 802. https://doi.org/10.2307/259414

Salamon, L. M., & Siegfried, J. J. (1977). Economic Power and Political Influence: The Impact of Industry Structure on Public Policy. *American Political Science Review*, *71*(3), 1026–1043. https://doi.org/10.1017/S0003055400265222

Sarkar, J., & Sarkar, S. (2009). Multiple board appointments and firm performance in emerging economies: Evidence from India. *Pacific-Basin Finance Journal*, *17*(2), 271–293. https://doi.org/10.1016/j.pacfin.2008.02.002

Scheer, U. (2013, January 15). Politiker in Aufsichtsräten: Gefährliche Ämter-Überhäufung. *Frankfurter Allgemeine Zeitung*. https://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/politiker-in-aufsichtsraeten-gefaehrliche-aemter-ueberhaeufung-12026508.html

Schiffer, H., & Antachopoulos, D. (2009, February 11). Germany's political system: complicated but reliable. *Deutsche Welle*. https://www.dw.com/en/germanys-political-system-complicated-but-reliable/a-3871421

Schuler, D. A., Rehbein, K., & Cramer, R. D. (2002). Pursuing Strategic Advantage Through Political Means: A Multivariate Approach. *Academy of Management Journal*, *45*(4), 659–672. https://doi.org/10.2307/3069303

Selznick, P. (1949). *Tva and the grass roots, a study in the sociology of formal organization, by Philip Selznick.* University of California Press.

Shaffer, B., Quasney, T. J., & Grimm, C. M. (2000). Firm Level Performance Implications of Nonmarket Actions. *Business & Society*, *39*(2), 126–143. https://doi.org/10.1177/000765030003900202

Shepeleva. (2020). *Corporate Political Activity: EU practices*. School of Governance and Politics.

Siegel, J. (2007). Contingent Political Capital and International Alliances: Evidence from South Korea. *Administrative Science Quarterly*, *52*(4), 621–666. https://doi.org/10.2189/asqu.52.4.621

Singh, J. v., House, R. J., & Tucker, D. J. (1986). Organizational Change and Organizational Mortality. *Administrative Science Quarterly*, *31*(4), 587. https://doi.org/10.2307/2392965

Sissell, K. (2007). Industry braces for change in control of Congress. *Chemical Week*, *169*, 24.

Sonnenfeld, J. A. (2002). What makes great boards great. *Harvard Business Review*, *80*(9), 106–113, 126.

Tahmincioglu, E., & Wenger, B. (2019, December 10). *The Revolving Door From Government to the Boardroom*. Directors & Boards. https://www.directorsandboards.com/articles/singlerevolving-door-government-boardroom

Thompson, J. D. (1967). *Organizations in action: Social science bases of administrative theory*. McGraw-Hill.

Thompson, R. (1995). Chapter 29 Empirical methods of event studies in corporate finance. *Handbooks in Operations Research and Management Science*, *9*, 963–992. https://doi.org/10.1016/S0927-0507(05)80073-8

Vagliasindi, M. (2008). *The effectiveness of boards of directors of state owned enterprises in developing countries* (No. 4579; Policy Research Working Paper Series).

Vittinghoff, E., Glidden, D. v., Shiboski, S. C., & McCulloch, C. E. (2012). *Regression Methods in Biostatistics* (2nd ed.). Springer New York. https://doi.org/10.1007/978-1-4614-1353-0

Westphal, J. D. (1999). Collaboration in the Boardroom: Behavioral and Performance Consequences of CEO-Board Social Ties. *Academy of Management Journal*, *42*(1), 7–24. https://doi.org/10.2307/256871

Westphal, J. D., & Bednar, M. K. (2005). Pluralistic Ignorance in Corporate Boards and Firms' Strategic Persistence in Response to Low Firm Performance. *Administrative Science Quarterly*, *50*(2), 262–298. https://doi.org/10.2189/asqu.2005.50.2.262

Wilson, G. K. (1990). Corporate Political Strategies. *British Journal of Political Science*, *20*(2), 281–288. https://doi.org/10.1017/S0007123400005822

Yermack, D. (1996). Higher market valuation of companies with a small board of directors. *Journal of Financial Economics*, *40*(2), 185–211. https://doi.org/10.1016/0304-405X(95)00844-5