



UNIVERSIDADE CATÓLICA PORTUGUESA

The Influence of Political Connections over the Portuguese Stock Index

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Abstract

This thesis explores whether political connections are a relevant issue in the corporate environment in Portugal. We use a hand-collected data set of executive boards of listed firms from EuroNext Lisbon Stock Exchange to identify the companies that appointed former politicians for their top corporate positions. The analysis shows that these politically connected firms have significantly easier access to financing at better conditions, as well as significantly more aggressive hiring policies. We also confirm a decrease in Market Capitalization of political connected firms, a year after the entrance of a former politician, in accordance to Cabo (2012) who first identified this decrease in a small window event study. We explored several characteristics among the political connections to get a finer description of the links between the political and the corporate world in Portugal.

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1. Introduction

The relevance of political connections in the business world is a reality which may benefit both sides. In Portugal, there is anecdotal evidence of these particular connections, regarding the entrance of former politicians in private and listed companies. Last October, former State Secretary of Public Works, Paulo Campos, gave an interview to *Sábado* magazine which, after the exit from the Government, he confirmed that companies, that negotiated public-private partnerships with his office, invited him to relevant positions in the board despite of his denial for the solicitations.

This case is an independent event in which the political connection was not run until the end, although it does not mean that all the cases have the same end as this particular one. Indeed, a company would benefit from the influence of such people in several areas of its business strategy and the former politician would benefit from being employed for the board of a relevant firm in the national context.

There are still pertinent questions raised by this topic, regarding the conflict of interests of the two sides and consequential reputational effects fueled by the media. This question is, perhaps, one of the more polemic issues of this theme. As Choi and Thum (2007) frame it: Are politically connected firms a boon or a burden from a welfare perspective?

The adjacent reasons for a company to employ a former politician are related with institutional arrangements which favor the clientelism and lobbyism in the past; or, on the other hand, is the former politician being hired for the future benefits that could derive from the political connections and influences in the society as well as his knowledge and experience as professional?

Regarding this subject in the Portuguese context, Cabo (2012) shows the market penalizes a political appointment to top corporate positions, implying that the benefits conceded by the former politician were granted in the past. We used the same data prepared by Cabo (2012) in order to take into account political appointments of Portuguese firms listed in the EuroNext Lisbon Index, which are reported to the market regulator, Comissão de Mercados de Valores Mobiliários (CMVM).

Cabo (2012) had a sample of 402 appointments from 46 different listed firms over a period of 12 years between 2001 and 2012. 93 of the observations corresponded to political appointments. In our case, as we are taking into account the variation of several items with a period of 1 year, we had to drop the last nominations relative to 2012, and

we further removed the bank industry from the sample. We were left with a universe of 327 observations of which 70 are political nominations, representing almost 21% of the total number of appointments. The data for the variables on the firms used in this empirical study was taken from Bloomberg.

The observations are taken from the CMVM database of relevant events concerning listed firms, with the indication of the time stamp of the record. Each appointment usually involves more than one executive, ranging from cases where one single person is named to some cases in which more than 20 executives are being nominated. The 327 observations hence involve 1721 individual appointments (including repeated appointments over several years and/or over several firms) and 60 different former politicians (who occasionally are appointed to consecutive executive terms or in different corporations).

We define as political nomination the appointment of a former Prime Minister, or a former Minister or a former State Secretary, in any of the Constitutional Governments in Portugal since 1976 (from the 6th Provisional Government in 1976 until the 18th Constitutional Government, which is the Cabinet that precedes the current Government).

It is important to indicate that we are not considering many other politically connected executives. There are numerous appointees that may be affiliated with political parties, they may have taken political and public offices in the past, but if they were never central governmental officials at the three top levels mentioned, then they will not be regarded as politicians in our sample.¹

We made several distinctions, regarding the types of nominations in our sample. First of all, we created a dummy to identify a political nomination, when the appointment included a former cabinet member. Next, we distinguished the politicians between center-left and center-right parties, depending on the Government to which the political appointee belonged. In Portugal, we can distinguish between center-left or center-right governments, depending on the government being dominated either by the Socialist Party (center-left) or the Social Democratic Party (center-right), even when these governments were coalition cabinets. Further, in each observation, we distinguish between appointments that have former politicians from one or both parties. Cabo (2012) evidenced that the market reacts differently to political nominations when both

¹ This may lead us to disregard people that have strong political ties, some of which still active during the corporate tenure. We are also disregarding as politicians executives that may have held positions at the local and regional government levels.

political families are represented. We also considered the potential link between the governmental experience and the industry to which the former politician is now being appointed to. Another characteristic of the political nominations takes into account the coincidence between the political family of the appointee and the ruling party at the time of the appointment. Finally, we analyzed appointments in firms, in which the Portuguese Government still had equity shares at the time of the appointment.

The empirical study of this area in Portugal is still very recent, despite the attention given by media to political nominations in private corporations. Through the reported political and non-political nominations to CMVM, we are looking for the possible impacts that former politicians could have inside a company, one year after his nomination. Foremost, we want to identify the benefits that a presence of a political connection might have in two specific aspects: easier access to long-term and short-term debt and tax benefits reliefs. Over the issue of access to financing, we found evidence that political connections facilitate borrowing and reduce interest rates. On the issue of political connections carrying tax advantages to the firms, we found no evidence to sustain such hypothesis.

Then, we measure the performance of the firms which recruited former politicians. For this particular subject, we tested two variables: market capitalization and dividend per share (DPS) after the entrance of the political connections. The results on market capitalization evidence a negative impact of political ties in the firm, with a decrease of around 32 to 39%. These results validate and expand to the medium term the conclusions from Cabo (2012), confirming that in Portugal we do not observe the same behavior as the one predicted by the literature regarding other markets (Faccio, 2002; Fisman, 2001; Johnson and Mitton, 2003). Concerning DPS, the results show significance in two characteristics: The coincidence of the cabinet occupied by the former politician in the Government and the industry group of the politically connected firm affects negatively the DPS and the decrease is stronger and significantly higher when we focus on political connections from the left wing.

The admission of former politicians with relevant professional experience and substantial networking opportunities will benefit the hiring companies (Faccio, 2002). As such, we expect the risk of these corporations to decrease. We measured this risk using Altman's Z-score, and assessed if this measurement changed after the appointment of former politicians. However, when the political nomination is from the center-left wing, not only do we reject the hypothesis of a lower risk, but we find

significant evidence that Altman Z-score's decrease by more than 0.96, which it is an indication that a company's perceived risk increases when a center-left politician comes on board.

Finally, we also addressed the possibility of the firms who hire former politicians having different investment decisions from the other companies. We did this using at first capital expenditures, but we found no evidence of differences between politically connected firms and the other firms in this variable. Where we found significant differences is in the change in employees' number, indicating that politically connected hire substantially more employees than the other firms. This is consistent with previous empirical studies (Faccio, 2002; Shleifer and Vishny, 1994), which claim that former politicians are moved by political motivations in order to earn votes for future elections. In general, this effect is present in firms with appointments of former politicians from the center-right, but not in appointments from the center-left. However, when we restricted ourselves to measuring this effect on political appointments coinciding with the ruling party, we found evidence in either political family. It is pertinent that such situation actually happens and it could point to the fact that former politicians try to assist his fellows by having an expansionist behavior, with a higher number of employees than the firm actually needs.

In summary we present extensive evidence that, in Portugal, there are strong connections between the corporate and the political worlds. That evidence indicates that the market does not acknowledge former politicians as a value adding proposition to the companies. Instead, even potential benefits of hiring former politicians arising at the financing level, are largely engulfed by additional costs, such aggressive employment policies with no visible explanation on the investment growth.

The rest of this study is organized as follows: Section 2 reviews the existing literature; Section 3 describes the data we use to perform this study; Section 4 presents in detail the variables we computed; Section 5 describes the methodology as well as the hypotheses; Section 6 presents the empirical analysis and the main results of this study and Section 7 concludes.

2. Literature Review

The relationship between ex-politicians and private companies is a field with a variety of studies in several countries. The constant looking for maximization of the profit and enlargement of value added to the shareholder, lead firms to squeeze the nexus with former politicians, hiring them for relevant positions inside the company where they would have a relevant role in the decision making of the company's strategy. But the main question is: Will this particular person add new value and benefits for the company or, on the other hand, the value was collected in the past, when this person was in the Government?

Before we examine the conditions and terms of debt financing in political-connected firms, it is important to refer the influence exerted by Governments in the banking sector and the existent literature. The relevance of banks' ownership by Government potentiates domestic markets with lower interest rates than the ones offered by the private sector, and benefits are higher when the firms are larger or if the political party has stronger dominance (Sapienza, 2003). Dinç (2004) found Government-owned banks enhance their borrowing operations in election years relatively to private banks, and often times government-owned banks are used as an instrument to earn votes, losing their efficiency and objective, which could motivate large losses and, therefore, higher indirect costs for the taxpayers. The impact by Government actions in the private sector could be perverse and harmful, creating an appurtenant pressure in the banking system. In Malaysia, political interests influenced government interventions in failing banks and politicians use banking regulation to indulge their supports and smite who oppose (Brown and Dinç, 2005). An accomplished example was the bank consolidation adopted in that country, which enforced banks to fuse and become six large banks. Jayasankaran (1999) defended that the banks owned by followers of then-Prime Minister were benefited and they got the leadership of the new-found merged banks, for as much as the owners of the banks who stood against the Prime Minister, received adverse conditions in the deal. La Porta, Lopez-de-Silanes and Shleifer (2002) displayed that Government ownership of banks is related with slower financial and economic development and it is consequently related with lower growth of per capita income and, therefore, overall productivity. The pressures in the banking system can be relevant and they are driven by political motivations, to earn more votes or to succor affiliates from a particular party. The Economist on April 4, 1994 published "*Credit Lyonnais, the giant*

French state bank, lost billions of dollars making dubious loans to the friends of socialist party” pointing out that this conduct is not unusual in developed countries and firms’ financing can be facilitated by political pressures on behalf of private interests.

From these three particular topics, private interests, political pressures and banking sector, raise a higher subject: financing of politically connected firms. Regarding the relationship between banks and governments, the deliberation begins when the politics integrate the board of a private company with particular interests and needs, different from the ones shared by the government, which can be satisfied by the influence of the political connection in a particular area: debt financing. Indeed, Khwanja and Miari (2002) found evidence that politically connected firms borrow 45% more than non-connected firms, exclusively in government banks, and firms with “stronger” politicians, figured as the number of votes obtained by the politician or the political party, are able to gather even higher preferential access.

The paper that more closely relates this current work is probably Faccio (2002). It showed that politically connected firms had, indeed, higher leverage ratios and this evidence is even stronger when the particular former politician is also shareholder of the firm. Leuz and Oberholzer-Gee (2006) support that firms politically connected are less dependent from market to issue debt and even realign its financing strategy in comparison with non-connected firms. Charumilind, Kali and Wiwattanakantang (2009) test whether political connections are a good predictor to access to long-term debt, prior to the Asian crisis of 1997-98 and politically connected firms are required fewer collateral for the long-term borrowings despite of short term borrowing decrease. This particular study not only points out as political connections the most important factor to set out the access to long term but also indicates that the connections might surpass firms’ characteristics. An event study by Faccio and Parsley (2007), that tested what was the effect in connected firms when its connection suddenly died, found evidence that there is a significant drop in the access to debt by such firms and, in market values, there is a market adjustment by -1,7%. Adding to the empirical studies, there are anecdotal events which pointing out that President Suharto, former President of Indonesia, tried to protect firms with needs of raising capital. The Texmaco group issued loans in excess of 1 Billion dollars from Bank Negara Indonesia, one of the biggest state banks. The loans far surpass the bank’s legal limit and, instead, they were accredited by the President *“as a mean to prop up the conglomerate after the Asian*

financial crisis.” Founder of the company was known as one of the closest friends to Suharto (Solomon, 1999).

The effects of political connections can also be calculated by market’s reaction to the presence of a politically connected person to a particular firm. Faccio (2002) revealed that, in a study with more than 40 countries, politically connected firms have a higher market capitalization and it is significantly higher when the connection is also shareholder. In 1998 in Malaysia, during the Asian crisis, with the imposition of capital controls, from the estimated \$5 Billion earnings, 32% were calculated as attributed to the increase in value of connections, induced by the increase of subsidies to the firms linked to Prime Minister (Johnson and Mitton, 2003).

Regarding the only known study in Portugal in this particular theme, Cabo (2012) found out, through an event study, that political appointments to the board of Portuguese listed companies are perceived by the market as harmful in the company’s strategy, the only exception occurs when the appointment is balanced with center-right and center-left former politicians. On the contrary, Fisman (2001) found evidence that political connections are very relevant in the Indonesian economy and rumors about President Suharto’s health had a substantial impact in stock market returns of firms politically connected, which were significantly lower. Contrarily to Cabo (2012), an event study regarding the 2000’s elections in USA, Goldman, Rocholl and So (2006) found the nominations which involve firms linked to Republican party increase in value while announcements of the nomination of Democratic Party had a decrease in value.

Despite the several reactions from the market to the entrance of politically connected individuals, how do firms behave with such connections on their boards afterwards? Leuz and Oberholzer-Gee (2006) found evidence in Indonesia that firms with political connections have a better performance if the political connection is related to the party in the Government, otherwise they could have a worst performance than non-connected firms. After the transparency law which forced all members from the Bundestag to open information about the additional income from other activities, it was found that politically connected firms have a better performance, in rubrics as ROE, earnings, sales or total assets, over non-connected firms and the effect is higher if the compensation to the former politician increases (Niessen and Ruenzi, 2007). A better performance in politically connected firms does not depend on either the market is developed or emerging: an empirical study covering several countries and industries also found evidence that performance can be significantly higher in firms with political ties

(Husson, Malatesta and Parrino, 2004). On the other hand, it has been found that the influence of politicians in listed firms might be negative when they are misled with political motivations which could prompt firms to have unnecessary costs (Boubakri, Cosset and Saffar, 2008; Faccio, 2002; Faccio, Masulis and McConnell, 2005; Shleifer and Vishny, 1994). Political connections do have control over firms and banks with the view to yield employment, subsidies and other benefits, who respond the boon with votes (Shleifer and Vishny, 1994). The fluctuation of firm's performance also could depend on the number of subsidies the Government are able to provide to these firms (Johnson and Mitton, 2003).

The benefits to politically connected companies could be even higher if the ranking perceived in the Corruption Perception Index is higher and the protection of property rights is considerably lower (Faccio, 2002). The forecasted earnings of a company politically connected, from equity analysts and investment banks, are harder to predict and to accurate, causing adverse conditions for equity researchers, and the information asymmetry could be deeper, between managers and investors, when the corruption is higher, although anti-corruption measures could repeal this effect on the corporate information environment (Chan, Ding and Kim, 2010). The reason for a lower quality of information of the accounting reports might be related to a lower dependency of the markets (Channey, Faccio and Parsley, 2011) in consistent with the possibility of possessing privileged access to loans from banks.

The risk could be higher, specifically, in cash concerns, since political connections have a negative impact in cash holdings, indicating that they may extract private benefits since connected firms exhibit a tendency of hoard more cash than non-connected peers and the effect is higher in countries with weak legal protection of investors (Kusnadi and Wei, 2011). Politically connected firms may also have legal concessions regarding the taxes they have to settle to the Government (Faccio, 2002). A good example of tax allowances was the event, in 1996, when the Russian President Yeltsin signed a decree which allowed tax breaks and other kind of aid for some particular firms (Faccio, 2009). The effects of political connections in private and listed companies are tested in plenty of areas, in spite of still remaining many issues and countries to study. Our challenge is to test some variables over the Portuguese listed companies and understand whether these effects are also reflected in this particular market.

3. Data Description

The study comprises the 47 listed companies in EuroNext Lisbon Stock Exchange, and we used the same database prepared in Cabo (2012).

Each observation in our study will be a single appointment reported by the Portuguese financial markets regulator (CMVM) from 2001 to 2011. Cabo (2012), who was running a short window event study further used the 2012 announcements, which we had to drop, since our study concerns yearly changes.

Each appointment may have one or more people being nominated for top corporate positions inside the listed company. These positions range from CEO, Chairman or President until non-executive members of the governing bodies. The governance structure of these companies and composition of the governing bodies varies significantly from company to company. We will get back to this point when we detail the characteristics of the appointments.

We will complement the data on the appointments from Cabo (2012) with corporate information on the particular firms taken from Bloomberg's corporate database for the Portuguese stock exchange.

In addition to dropping the 2012 appointments, we also excluded the banking industry from our, because these have particular characteristics in many of the financing decisions and performance and risk measurements. This left us with 327 appointments from 41 different firms², involving 1721 individual appointments. Note that these individual appointments do not refer to 1721 different individuals, as there is a substantial number of repeated appointments and accumulation of roles in different companies. We identified however 60 different former politicians and carefully revised their curriculums. Of the 327 appointments, 70 include at least one of these former politicians and occur in 26 different firms. This means that only 15 firms in our sample did not hire former politicians as we define them.

[TABLE 1 HERE]

Over the entrance for the board of political nominations, we did not distinguish between the several positions it is possible to occupy in the top board. We treat all the appointments as the same despite of the different roles they might have inside the organization. We defend that, in the top corporate positions, the influence over some

² There was no data on Portucel-Soporcel appointments, which lead us to eliminate this firm from the sample as well.

areas as well as the political network far exceed the position in the firm. We are aware that these assumptions will affect some of our results, but for the most part, this should artificially decrease and not increase the significance of our results. As such, we believe that this simplification is actually an argument in favor of the statistical robustness of the results we find.

From the study of Cabo (2012) the concept of a political appointment is described as *“political when within the set of executives appointed there is at least one executive that at any time before the day of the appointment held a position such as Prime-Minister, Minister or Junior Minister during one of the Portuguese Constitutional Governments”*. Indeed, despite the number of people appointed in a single nomination, one former politician is enough to consider a nomination as political.

The data contains former politicians since the 6th Provisional Government in September 1976, until the 18th Constitutional Government. It is predictable that our used data hardly includes all the former Portuguese politicians hired by listed companies for 2 main reasons: First, there are other types of former politicians, as former mayors, members of Parliament, political parties’ officials, among other positions in local, regional or central politics, which are not included in the sample as former politicians. The second reason the possibility of former politicians being hired to occupy non-top positions in the company, which are not reported to CMVM. We will not be able to trace these former politicians as well. Just as a curiosity, we did not detect any female former politicians in our sample, which explain why we refer to former politicians always as “he” or “him”.

We distinguished the individual politicians between “center-left” and “center-right” depending on which Governments they belonged to. In Portugal, since 1976, there were 20 different governments, starting with the last provisional government after the 1974 Carnation Revolution until the current 19th Constitutional Government. Almost all of these governments³ were lead by prime-ministers that can somehow be affiliated to one of the two largest political parties, the Socialist Party (center-left) or the Social Democratic Party (center-right), even when these governments were coalition cabinets. We used the affiliation of the prime-ministers to label the politicians in our sample as right or left. These labels will be transferred to the appointments depending on the former politicians appointed. As such, the nominations can be of only one side party, or

³ There are 2 Prime Ministers that had no political affiliation in two cabinets appointed directly by the President. These two governments have no relevance in our sample.

both parties included and we have 16 nominations with both parties, 18 with only left-wing politicians involved and 36 with former members of right-wing governments. Following the previous idea, we estimated regressions where we distinguished left and right wing appointee, with two dummies.

We also took into consideration the coincidence between the functional area of the cabinet position (for example, Ministries of Finance, Industry, Energy, Economy, Health, Environment, Defense) and the hiring firm's industry. Indeed, this coincidence should provide greater benefits to the company since the former politician's experience is larger. On the hand, these links may also hint at the connections between the politician and the hiring firm pre-dating the appointment. Table 2, in the appendix, shows how we allocated each area of the Government to the industry group of the politically connected firms for the cases arising in our sample. It is important to refer that we regarded the positions of Prime Minister⁴ and Deputy Minister of Prime Minister to be coincident with all industries.

[TABLE 2 HERE]

Then, we separated the listed firms where the Portuguese Government still had some equity stakes. To do this operation we had to look over the annual reports of Parpública and Caixa Geral de Depósitos to identify 6 firms⁵, comprising 70 nominations and, from those, 21 involved former politicians. Naturally these are the firms where we expect the political links to be stronger.

We next considered the ruling party at the time of the nomination. Between 2001 and 2011 we had 5 different governments with the center left ruling between 2001 and 2002, and between 2005 and mid 2011. We crossed the nominations which have the ruling party in order to see if there were significant distinctions, in comparison with the other political nominations.

Table 3 summarizes the number of political nominations along the outlined characteristics.

[TABLE 3 HERE]

⁴ There is only one former Prime-minister in our sample. Mr Francisco Pinto Balsemão is the CEO of a large media group (IMPRESA) and was the prime ministers to the 7th and 8th Constitutional Governments.

⁵ Parpublica is the holding company of the Portuguese Republic and Caixa Geral de Depositos is the state-owned banking corporation. The 6 companies identified were Galp, EDP, INAPA, PT, REN and ZON.

4. Variables Tested

In this section we describe in more detail, the several variables regarding the role of former politicians in listed companies.

The variables are divided into four major fields of interest. First, we looked at the possible benefits that a political connection could offer to a company, after his presence in the Government, along two relevant items: access to financing and tax benefits. Secondly, we studied firms' performance in association with political connections, over two categories. Thirdly, taking this line of argument to a further level, we want to inspect the influence over the investment decisions that a political connection could bring and the political motivations associated to those decisions. Fourth and finally, we looked at firms' risk measurements. We want to test whether the entrance of a former politician is, indeed, a boon for the company and is conducive to a risk decrease; or, alternatively, if it is a burden that may increase the risk after the entrance of the former politician, in which case the current hiring brings no benefit to the company and could be linked to past patronage at the time he was in the government to the company now hiring him.

The data on the appointments were taken from Cabo (2012), the firm specific data were taken from Bloomberg or the individuals firms' annual reports. In some regressions we had to further drop some observations, because occasionally we were unable to provide the necessary data.

4.1 Benefits

Regarding the benefits of political connections for listed firms, we thought there would be two major areas where former politicians could establish their influence, creating value to the firm: access to financing, and tax benefits.

The relationship among the banking sector and the Government allowed us to suppose that such privileged connections could be lengthen into the future, with easy credit access and better interest rates concessions, granted to the former politicians after their move on to their private corporations' top positions. On the other hand, the banks would also benefit from an increased the number of clients and from stronger links and easier access to firms' top management, hence decreasing their risk. We looked over three Bloomberg variables in order to understand whether the access to debt is, actually, easier: Long-Term Borrowings, Short-Term Borrowings and Effective Interest Rate.

We also want to test if politically connected firms receive tax benefits. To test hypotheses we need to use the Effective Tax Rate bore by firms.

Over these variables, we are expecting to have a more detailed picture on how former politicians could yield benefits for connected firms.

4.2 Firm's Performance

We want to test if former politicians bring value and enhance performance of the firms that hire them. According to the literature it is expected that they could assist firms in order to have profitable contracts as they are able to influence decision making of public bids and the performance of politically connected firms would be higher comparing with non-connected ones. However, Cabo (2012) indicates that in Portugal the market does not anticipate this behavior at all. To clarify with Cabo's conclusions hold in a longer time horizon, we suggest two variables to measure performance: Market Capitalization and Dividend per Share.

4.3 Investment Decisions

We also wanted to test investment decisions of politically connected firms in comparison with non-political ones. In fact, considering that political connections could open several opportunities in the Portuguese business environment, it is acceptable to believe that politically connected firms change their investment decisions to avail from such advantages granted by their influence. We will proxy this by considering the Capital Expenditures variable in our analysis. Further developing this idea, we wanted to test, however, if there is any growth associated to the companies that hire former politicians. Previous literature suggests that former politicians will induce aggressive employment policies in anticipation of return to the politics. As such, we will measure the change in number of employees of the firms considered in our sample.

4.4 Risk

Since we had already taken attention to benefits provided by political ties, firm's performance with such connections as well as the influence in firm's investment decisions, we thought that it might be reasonable to measure the risk, regarding the liquidity and insolvency's probability, by the entrance of a former politician. Thereby, we tested Bloomberg's variation of Altman's Z-Score.

5. Hypotheses Development and Methodology

To perform the empirical tests, we used the event study methodology which measures the impact of a certain event on a corporate variable, analyzing its variation between two periods. In our particular study, we examined the change in the variables tested between the period before the nomination and the period after the nomination in order to have a more consistent and solid impact of the entrance of a former politician. We wanted to capture the differences between firms with political ties and firms without such ties.

The first hypothesis where we use this approach concerns the access to credit, where we test the hypothesis that politically connected will have easier access to long term borrowings. For this purpose we run a set of regressions based on the following model:

$$\Delta\% \frac{LTBorrowings}{Total Assets} = constant + x_1 political\ dummy + x_2 ROE_t + x_3 \Delta\% CAPEX + e_t \quad (1)$$

Where $\Delta\% \frac{LTBorrowings}{Total Assets}$ measures the percentage change in long term borrowings, as presented by Bloomberg over total assets; *political dummy* will be the different dummies capturing the existence of former politicians in the nominations or the different political characteristics of the nominations, ROE measures the Return on Equity for the year in which the nomination takes place and $\Delta\% CAPEX$ measures the change in the investment policies. The need to use ROE and change in CAPEX derives from the fact that we need to control for easier access to credit to companies that are more profitable and/or are investing. To confirm the hypothesis, we expect the coefficients on the political dummies to be positive, indicating that politically connected firms will have better access to credit.

We further use another metrics of access to credit with the change in absolute value of short term borrowings. The reason we switch from relative long term to absolute values in short term borrowings concerns the fact that short term borrowings increase in a more dynamic fashion than long term loans. As such, the absolute increase short term borrowings is a better measurement of quick access to credit than the relative value. The following model is used on the regressions that test the hypothesis that politically connected firms will have easier access to short term borrowings:

$$\Delta Abs ST Borrowings = constant + x_1 political\ dummy + x_2 ROE_t + x_3 \Delta\% CAPEX + e_t \quad (2)$$

The variable $\Delta Abs\ ST\ Borrowings$ denotes the change in absolute short term borrowing and all other variables are the same as in model (1). Again we expect the coefficients on the political dummies to be positive.

Next we test the hypothesis that politically connected firms will pay lower interest rates on loans. The effective interest rate supported by firms is more related to the perception of the firm's risk to not pay the loan to the banks. The following model is used to test this hypothesis:

$$\Delta Interest\ Rate = constant + x_1 political\ dummy + x_2 \Delta\% Total\ Borrowings + x_3 ROE_t + e_t \quad (3)$$

The variable $\Delta Interest\ Rate$ captures the change in the effective interest rate and $\Delta\% Total\ Borrowings$ denotes the percentage change in total debt, which we use to control for the fact that firms borrowing more will have higher risk. The other variables are the same as the ones used in the previous regressions. We expect the hypothesis to be confirmed if the coefficients on the political dummies are negative.

To test the hypothesis that politically connected firms benefit from better fiscal conditions, we run regressions on the following model:

$$\Delta Tax\ Rate = constant + x_1 political\ dummy + x_2 \Delta\% Net\ Income + x_3 dummy\ 2011 + e_t \quad (4)$$

The variable $\Delta Tax\ Rate$ represents the change in the effective tax rate as measured by Bloomberg and the presence of $\Delta\% Net\ Income$ is necessary to accommodate changes in the tax rate due to enhanced profitability and the 2011 dummy is necessary since the Government increased severely the corporate tax rate in this particular year, as a consequence of the fiscal adjustment program currently undergoing in Portugal. To confirm the hypothesis we expect the coefficients on the political dummies to be negative.

A further set of hypotheses concerns the impact of former politicians on firm performance.

We measure that by running regressions on the following model:

$$\Delta\% Market\ Cap = constant + x_1 political\ dummy + x_2 \Delta\% Net\ Income + x_3 Profitability\ of\ PSI_{t+1} + e_t \quad (5)$$

$\Delta\% Market\ Cap$ measures the change in market capitalization, and $\Delta\% Net\ Income$ captures the change in firm's individual profitability, while $Profitability\ of\ PSI_{t+1}$

measures the return on the Portuguese capital market, to capture the portion of the increase in market cap that is not due to specific firm performance. Firm's Market Capitalization, indeed, depends on a plenty of factors, perceptions, disclosed information, firm's need to raise capital, among other variables. Using our model, we intend to isolate most of these factors and negatives coefficients on the political dummies will confirm our hypothesis based on Cabo (2012) that in Portugal the market does not perceive former politicians as adding value.

Another performance measurement concerns the dividend paying policies. A better performing company would increase their dividend per share (DPS). The advantage of this measurement is that it would capture the performance of the company beyond the market's assessment. This would help us validate the traditional hypothesis in the literature that politicians add value, despite the local market perception outlined in Cabo (2012) that they do not. As such our hypothesis is that politically connected firms increase their DPS.

$$\Delta DPS = constant + x_1 \text{political dummy} + x_2 \Delta\% \text{ Net Income} + x_3 CAPEX_{t+1} + e_t \quad (6)$$

Because there are several reasons to change DPS beyond profitability we try to capture these, by adding the change in profitability ($\Delta\% \text{ Net Income}$) and the need self finance investment ($CAPEX_{t+1}$) to our model. A positive coefficient on the political dummies will confirm our hypothesis that politically connected firms better compensate their shareholders through dividends.

The next hypothesis addresses the possibility that politically connected firms grow more than the others, regarding the number of employees. The following model is used to test this hypothesis, which will be confirmed if the coefficients on the political dummies are positive:

$$\Delta \# \text{Employees} = constant + x_1 \text{political dummy} + x_2 \Delta \text{Total Assets} + x_3 CAPEX_{t+1} + e_t \quad (7)$$

We believe these corporate independent variables have decent conditions to substantiate firm's employer policy and, thereby, the changes of the dependent variable, which could be, significantly, explained by the entrance of a former politician, might stand for a marrowy influence of such political connections in firm's investment decision, regarding this particular theme.

Finally, our last regression concerns firm's risk through a ratio that comprises several ratios, namely the firm's networking capital, retained earnings, firm's market value, among other items, and, so, to perform a regression, having as dependent variable the change of Altman's Z-Score⁶, we decided to have, as unique independent variable, the political dummy, since there are too many items included in the ratio and they would be correlated with the dependent variable.

$$\Delta \text{Altman's ZScore} = \text{constant} + x_1 \text{political dummy} + e_t \quad (8)$$

Over this regression, we expect to test whether the entrance of a political tie influences the probability of insolvency by the firm, in the future, namely a positive coefficient on the political dummies is expected as this would increase the Altman's Z-Score and hence reduce the probability of default.

Next we will analyse the results of all these regressions.

6. Empirical Results and Discussion

Due to the several distinctions over political connections and the several variables used, we divided each table according to the political nominations' characteristics, in order to have a more focused exposition of the empirical results as well as to be able to discuss each characteristic of political connections with consistence and substance. Among this section, we will present 6 tables regarding the several characteristics of political connections we had studied.

6.1 Political and non-political connections in firms' top corporate boards

In table 4, we tested the significance of nominations which had former politicians in the simplest form. The variable *political dummy* assumed the value 1, if any of the appointed board members had a political position after the VI Provisional Government in 1976, and prior to the day of the appointment. Regarding the results of the regressions, we can conclude that, indeed, there are political dummies with significance, confirming that former politicians could influence several fields inside a firm.

[TABLE 4 HERE]

⁶ Altman's Z-Score was a formula for predicting bankruptcy, published in 1968, by Edward I. Altman. The formula is as follows:
 Altman's Z-Score = $1,2 \frac{\text{Working Capital}}{\text{Total Assets}} + 1,4 \frac{\text{Retained Earnings}}{\text{Total Assets}} + 3,3 \frac{\text{EBIT}}{\text{Total Assets}} + 0,6 \frac{\text{Market Value of Equity}}{\text{Book Value of Liabilities}} + 1,0 \frac{\text{Total Sales}}{\text{Total Assets}}$

On the benefits models, regarding the hypothesis that political connections facilitate the access to financing, we can show that the presence of politicians in general facilitate access to short term credit (2), since the coefficient on the political is positive and significant at 5%, and the most significant effect is the drop in the interest rate (3) of about 1,6 percentage points, significant at 2,5%. We found no evidence that the presence of politicians in general affect long term debt or tax benefits.

According to these results, there is empirical evidence that politically connected firms have more favorable conditions offered, which might be related to the strong relation between banks and the Government, that in several times had to intervened in the banking industry in order to support troubled banks or that political ties might influence state-banks, forcing them to offer lower interest rates for the companies they are representing. It is undeniable the banking sector and politics hold hands and the relation might be extended after the politician gets out from the political stages.

On another issue, looking to firm's performance, Market Capitalization had a significant drop of 39 percentage points, significant at 10%. This idea follows the study of Cabo (2012), which supported that the market's perception of a politically connected nomination is negative. The short term effect illustrated in that paper is extended here to a one year window event study and the perception that former politicians subtract value is sustained. Another reason which could take the market to perceive politically connected firms as a bad investment might be related to the information disclosed. Indeed, politically connected firms could have some irregularities, associated with the renegotiated contracts with banks or suspected benefits granted, reflecting, then, poor information disclosed in the reports and announcements which might lead the market to consider as a bad investment.

Looking at the investment decisions models, there is significance at less than 1% level that politically connected firms increase the number of employees by over a 1200 new admissions. A higher number of collaborators could indicate a higher production which it would increase the profit of company, although such effect is not consubstantiated by the other independent variables in the regression. This empirical evidence suggest that the findings from previous studies (Faccio, 2002 and Shleifer and Vishny, 1994), defending that former politicians use private firms to carry out their political campaigning agendas are not be excluded in Portugal as well. The increase of the number of employees, without a proportional growth of the company, might also explain the decrease in value of the market capitalization of politically connected firms,

since the staff costs increase reasonably, decreasing the operational margin, raising a negative perspective by the market.

From the findings, it is reasonable to say that political connections concede benefits to politically connected firms, although they also benefit from the firms by availing their political aspirations for the future, which is reflected in the high number of employees hired. The market's performance of politically connected firms is considerably lower than a non-political one.

6.2 The impact of the number of political parties in politically connected firms

Table 5 reassesses the 8 models now using a variable ("*political dummy*") that counts, from 0 to 2, the number of political parties in each appointment. The results are similar to the previous ones, with some interesting particularities in the coefficients and the levels of significance, now amplified by the nature of the political dummy variable.

[TABLE 5 HERE]

Regarding benefits that politically connected firms are able to have with 2 parties in the company, there is a positive impact in the Long-term Borrowings over Total Assets of 2,189 percentage points for each party addition to the appointment, significant at 10%, while the absolute values of Short-Term Borrowings, is also significant at 10%. Finally, when we had tested the effective interest rate, there is a change of -0,9 percentage points per party added again significant at 10%. These findings followed the circumstance mentioned earlier for the political presence, and as expected, with more political influence from center-right and center-left side in the board, the results were higher than the ones presented in table 4. They follow our hypotheses that, indeed, former politicians are able to provide benefits to firms, regarding the access to debt or to negotiate opened contracts firms had already established with the banks.

In firms' performance models (5) and (6), the Market Capitalization coefficient shows significance, anew, since there is a decrease of 31,7 percentage points per party added to the appointment with a p-value lower than 10%. No significance still on the dividend per share hypothesis.

Looking over investment decisions, the regression on number of employees shows a significant increase of 832 new employees per party added to the appointment with a p-value lower than 2,5%. There is still strong evidence that the number of employees in

politically connected firms increases largely with each party bringing along an average of 832 new workers to these firms.

6.3 Center-Right and Center-Left political Connections

When we take close attention to right and left wing former politicians that entered into top executive positions of Portuguese listed companies, there are many implications to be drawn.

[TABLE 6 HERE]

Looking at the benefits provided on access to credit, there is strong empirical evidence that such item could be facilitated by political ties to the right wing. This is true for the long term borrowing in relative terms (significant at 10%), and even more for the short term loans in absolute terms and the interest rate drop (significant at 2,5%). We find no such benefits to the firms from the left wing politicians, which seems to indicate that the right has closer ties to the banks than the left. Once again, we find no evidence that former politicians from either party help lower the tax burden.

Unlike the two previous cases, such political ties, either from the right or the left, do not alter significantly the Market Capitalization. Looking at the Dividend per Share, there is a significant decrease of 0,078€ with a p-value of less than 10%. This result contradicts our hypothesis, but may be consistent with the fact that left wing politicians seem to have more distant ties to the banks than right wing politicians, which may lead companies to self finance, and hence reduce dividends.

In what concerns firms' risk measured by Altman's Z-Score, there is empirical evidence that left wing political connections lead to increased risk, with the significant (1%) decrease in this ratio of 0,953 in absolute values. As this ratio takes into account several items, it is hard to trace which are the items that increase or decrease but, it is important to mention that such finding could conduct us to realize whether a former politician is a boon or a burden for a firm, regarding center-left connections. Indeed, such finding, gathering the lack of benefits and the decrease of the Dividends distributed to the shareholders, indicate that left wing political connections may be a burden for politically connected firms, as the benefits were, most probably, granted when such connections were still in the Government and, so, the left wing political tie enters in the firm to collect the bounty for past benefits⁷.

⁷ An alternative explanation may lie on the possibility that the causality is reversed. In other words the companies do not start to underperform because a left wing politician arrives, but instead a left wing politician arrives, when the company is already underperforming.

Over investment decisions field, there is an increase of the number of employees by 1.416 with a p-value lower than 1%, in the independent variable of right wing political connections dummy, and no evidence of similar behavior from left wing politicians. The numbers outlined in the previous discussions seem then to confirm that the aggressive recruitment policies are mostly induced by the right wing politicians.

6.4 Relevant governmental experience from the appointee

In this section we analyze the impact of the previous governmental experience of the appointee being related to the industry in which he will now serve. For example, a former minister, who served in an area related to the private business he will now lead, could add experience and knowledge about the sector and competitors.

[TABLE 7 HERE]

Focusing in the benefits provided by such political ties, exhibited in Table 7, there were dependent variables explained by this particular political dummy. The weight of Long-Term Borrowings on Total Assets had a significant increase of 5,738% with a p-value lower than 1% and, regarding the effective interest rate bore by firms, there is a decrease of 1,724% with a p-value lower than 5%. Compared with the first case, a political tie coming from a cabinet coincident with the industry sector of the firm, there is empirical evidence that such connections are able to offer, even, higher benefits for the connected firm than a common political connection, regarding the Long-Term Borrowings and the effective Interest rate endured by the firm. This fact might be explained by a superior experience in the sector, which decreases the exposition of the lenders, allied to the influence of political connections over the banking industry.

If such former politicians entered in a firm where they could add value, through their experience and know-how as well as they are able to open information about competitors' strategy, it would be expected that Market Capitalization would not decrease significantly. Indeed, political dummy does not have significance which it is a positive indicator, compared with the first two cases, and it demonstrates this kind of political tie does not obliterate firm's value. However, regarding the Dividend per Share, there is a significant decrease of the compensation paid to the shareholder by 0,0432€ per share, with a p-value of less than 10%. This evidence is contrary to what we wrote in the beginning of the paragraph and this situation is hardly explained by a better performance of the company in the period after the entrance of such connection.

Indeed, this empirical evidence might take us to think that this kind of political tie may assist the firm when he was in the Government and, at the time he entered in the firm, he had already slaked all the opportunities to increase the performance of the firm and, so, he enters in the company to receive his share from the arrangements achieved in the past.

At last, with regard to the change of the number of employees, there is a positive change of 1.415 employees with a p-value of 1%. Again, this dependent variable exhibited that political ties could influence to increase its number, and, perhaps, it would also be related with the significant change of the dividend per share distributed by the firm to the shareholders, which lead us to other situation: former politicians follow political motivations inside a firm and it affects negatively the cash wealth of the shareholders.

6.5 Former politicians appointed to firms which the Portuguese Government is shareholder

The objective to study 6 firms which the State has a significant number of shares of the company, through Parpública or Caixa Geral de Depósitos, was to understand if the entrance of a political connection in these firms would have a similar impact as they have in other firms. The results exposed a different scenario from the one shared in previous cases, as it is presented in Table 8.

[TABLE 8 HERE]

Looking over the possible benefits supplied by the entrance of a political connection in such firms, there is evidence that the effective interest rate has a decrease of 5,909 percentage points with a p-value of 1%, Long and Short term Borrowings are not significantly impacted. This evidence might indicates that firms had already their financing needs totally met and the entrance of a political connection will not increase their exposition to debt but, instead, politically connected firms might negotiate to improve their loan agreements with the banks, successfully.

In the other fields, there was not significance in the political dummy, presenting that the impact of political connections in firms, where the Government has control over the board, is much lower than the overall sample, indicating that such political ties received higher governance in these firms. The higher highlight is, probably, the insignificance over the dependent variable “Number of Employees” while in previous cases the political dummy was the one with more significance and with a major change. It could

be an indication that these firms cannot handle to have more employees because they are in the limit, justified by an employer policy motivated by the Government.

6.6 Political connections affiliated to the party in the Government

Our last characteristic regards the political connections which coincide with the ruling party in the Government, exhibited in Table 9. Our goal was to analyze if a firm politically connected to the ruling party, was able to receive higher benefits in access to financing concerns as well as tax reliefs and if the performance and risk was reflected in this potential advantage. Regarding the number of employees, it is expected that the increase in this field would be steeper than the other cases studied.

[TABLE 9 HERE]

In fact, when we analyze the likely benefits provided, we conclude that such fields as Long Term Borrowings, Short Term Borrowings and Effective Tax Rate are not significantly impacted with the entrance of these connections, not confirming that the ruling party increases the advantages for politically connected firms. The unique variable with significance was the effective interest rate supported by firms, which has a decrease of 2,851 percentage points with a p-value of 1%. As the previous section, this evidence supports that firms might renegotiate the loan agreements with the banks, despite they do not leverage for higher levels, neither with short nor with long maturities.

Although the tests over the performance and risk were not significant, the number of employees had a significant increase of 1.475 collaborators with a p-value lower than 1%, corroborating that, in this specific case, the political connection at the time of not only follows political motivations for future elections, but he might also be incited by the party to have an employer policy so that the party gets more supporters and more acceptance by the general public opinion. This result is somewhat surprising, given that the majority of the time in the sample, the ruling party was the left wing party, and the corresponding results for this party in table 6 were not significant.

In an overview, this characteristic was expected to have more significant variables, taking into account that such political connections have, supposedly, a deeper network of contacts and more power to influence public concourses. However, through empirical analysis, these facts were not endorsed, concerning issue of loans, enterprise's performance and the risk assumed by the firm.

After these regressions, we performed the Durbin-Watson with the political dummy in the simplest way, and we were able to say that no regression indicates existence of serial auto-correlation, demonstrating the existence of homoskedasticity and, so, the variance of the errors is constant, which allows the regressions to be estimated over the linear least squares. We also calculated the correlation between variables, both dependent and independent, with the view to comprehend if our study was biased due to high correlations between variables. In fact, none of the variables had shown a correlation higher than 20% in relation to other variables, indicating that variables were significant and regressions did not suffer any problems of robustness and consistence.

7. Conclusions and Further Research

This thesis shows that political connections could have a strong impact over the Portuguese business environment by influencing several items of a listed firm. We proposed to study 5 important fields of firms' existence, after the entrance of a political tie, and to analyze whether firms could beneficiate from such connections or, on the other hand, if this event could constitute a burden for the future of the firm. Using a measure of announcements based on hand-collected data from Cabo (2012) of top positions of publicly traded firms at the EuroNext Lisbon Stock Exchange, this study undertakes an event study around the appointments announcements, separating appointments with politically connected executives from the other appointments

One of the top conclusions was, undoubtedly, the capacity of connected political firms to obtain external financing from banking entities. In some cases, even when the financial needs were already met, there is empirical evidence suggesting the renegotiation of the effective interest rate supported by the firm, further denouncing the potential influence of former politicians over the banking industry. In fact, the close relation between politicians and banks is a known fact, with anecdotic and empirical events, which might influence state and private banks to offer better conditions for their protected firms. A good example of the close relationship between politicians and bankers was shown, in last few months, in Portugal, after the wiretapping between the executives from the top investment bank in the country (BESI) and the Prime Minister and other top hierarchy politicians of the Government came to public, evidencing the pressures exercised between the two sides.

Other field which had been affected, by political ties, is the Market Capitalization, reflecting a significant decrease in firm's value, in comparison with non-connected firms. In fact, market's perception of politically connected firms decreases, even after the firm's value adjustment, empirically evidenced, in the same sample, after the announcement of the entrance of such connections (Cabo, 2012). The benefits granted regarding the improvement of access to loans may be executed through irregular steps which might force politically connected firms to present worst quality in the annual reports than the ones presented by non-politically connected ones and, thereby, it might be punished by mistrusted investors. Other reason, that may explain this particular downgrade performed by the market, could be associated to the employer policy conducted by politically connected firms, since such expansion is not reflected in an increase of the cash-flows, in the short-term, which it might decrease market's interest of politically connected firms.

Looking over that specific subject, the number of employees hired, there is evidence that politically connected firms presented, empirically, a more aggressive hiring policy than non-political ones, revealing that, in fact, former politicians could have personal interests, behind their nomination to the board of a listed firm. It is reasonable to consider that politically connected firms hire more employees due to a possible expansion of the firm, justified by opened privileges in public contests or influences to arrange new customers in the B-to-B segment, although this increase is not followed by an increase of the total assets neither by Capital Expenditures, in the period after the entrance of a political tie, which does not confirm the theory of growth of the business. And, so, it opens the possibility that former politicians are moved by political motivations in this particular subject, employing more staff than the firm actually needs in order to have a better image and reputation to collect more votes, at the time they are running for the Government in the future.

We also compared the left and the right wing politicians to find that there are unquestionable differences between them. Regarding the easy access to debt and the increase of the number of employees, only right wing former politicians present significant positive changes but, regarding the compensation of the shareholders and firm's measured risk, the entrance of a left wing former politician showed that DPS decreases significantly which might be related to the lack of external financing that forces the politically connected firm to use its cash holdings, reducing the cash wealth

of the shareholders. Firm's risk, measured with Altman's Z-Score, is also affected by left wing former politicians, since there is a significant increase of the ratio, leading us to the fact that such connections might be harmful for a Portuguese listed firm, although it is hard to understand which rubrics increase or decrease given that Altman's Z-Score bears several items.

We had also studied other characteristics that were not included in the thesis, among political connections, regarding the number of years each former politician stood in the Government and the number of shares each political tie owned at the time he was appointed to the board of that company. To perform these specifications, we made regressions containing only the political dummy, besides the intercept, and the results only confirmed what we have mentioned previously, regarding the easy financing, firm's value and the number of employees. An interesting issue comes from the fact that the number of years a former politician stood in the Government may have a lower impact in the decrease of firm's Market Capitalization.

In Portugal, this sensible theme is still very recent, regarding the existent empirical literature and, so, there is a great variety of fields to explore. Looking over to the empirical results of this thesis, we believed it would be reasonable to study the quality of the information in the reports of politically connected firms, in order to understand the significant drop of the Market Capitalization of politically connected firms and, raising the employer policy followed by politically connected firms, it would be interesting to perceive the staff costs as well as the operational margins hold by such firms, after the entrance of a political tie. Finally, we consider it would be interesting to analyze the performance of the politically connected firms when the former politician appointee was in the Government, to understand if this specific period was particular profitable.

8. Appendixes

Table 1 – Summary of the Sampled Appointments

Number of Appointments	327
Total Number of Firms	41
Total Number of Executive Appointments	1721
Non-Political appointments	257
Political appointments	70
Firms with Political appointments	26
Total Number of Former Politicians Appointed	60

Table 2 – Allocation considered in the study when there is coincidence of cabinet positions in the Government and industry group of the firms, to which former politician was appointed

Cabinet position in the Government	Firm to which the former politician was appointed	Industry Sector
Industry and Manufacturing Industry	Cimpor	Building Materials
Public Works	Cimpor	Building Materials
Industry and Innovation	Cimpor	Building Materials
Public Works, Transports and Communications	EDP	Electric
Energy	EDP	Electric
Public Works, Transports and Communications	EDP Renovaveis	Electric
Industry	Fisipe	Textile and Technical Fibres
Transports and Public Works	Galp	Oil & Gas
Economy, Industry and Commerce	Galp	Oil & Gas
Distribution and Competition	Inapa	Forest Products & Paper
Public Works	Martifer	Engineering & Construction
Public Works	Mota-Engil	Engineering & Construction
Industry and Energy	Nova-Base	Computers
Industry and Energy	Portugal Telecom	Telecommunications
Extractive Industries and Manufacturing	Semapa	Cement, Pulp and Paper
Industry and Commerce	SONAE	Retail
Media	ZON	Media
General (Prime Minister and Deputy Minister to the Prime Minister)	-	All

Table 3 – Characteristics of Political Appointments

Number of Political Appointments	Both Parties in the Same Appointment	16
	Center-Right Appointments	36
	Center-Left Appointments	18
	Coincidence functional Area in the Government and Hiring Firm's Industry	48
	Political Appointments in Firms, where the Portuguese Government Holds a Stake	21
	Coincidence Between the Ruling Party and the Party of Appointee	42

Table 4 – Impact of Political Connections over Benefits, Performance, Risk and Investment Decisions on Portuguese listed Firms.

The table displays results from regressions which take into attention the difference between political and non-political nominations for the board of the company. The change of variables was obtained using a window of 2 years: the year previous to and the year following the announcement of the nomination. The dataset comprises all appointments of boards members made between January of 2001 and December of 2011 by listed companies from the Stock Portuguese Exchange. The data, regarding the appointments, was the same of the thesis of Cabo (2012) and the variables, regarding benefits, performance, risk and investment decisions from the firms, was taken from Bloomberg and firms' annual reports. We excluded one firm for which data was not available and we also exclude the banking industry. An appointment is considered as political, if any of the appointed board members had a political position after the VI Provisional Government in 1976, and prior to the day of the appointment. In that case the Political Dummy variable will take the value 1. Symbols *, **, *** and **** correspond to statistical significance at 10%, 5%, 2,5% and 1% level, respectively. In brackets is our prediction, negative or positive, relative to the effect of the political dummy over the dependent variable.

	Intercept	Political Dummy (+)	Δ % CAPEX	ROE t	Observations	R ²	
Benefits	Δ Long-Term Borrowings /Total Assets (1)	-0,019	0,027	0,000*	-0,010	321	0,016
		Intercept	Political Dummy (+)	Δ % CAPEX	ROE t	Observations	R ²
	Δ Absolute Value of Short-Term Borrowings (2)	57.216.161	95.388.855**	- 72.877	- 877.910	323	0,011
		Intercept	Political Dummy (-)	Δ % Total Borrowings	ROE t	Observations	R ²
	Δ Interest Rate (3)	0,044	-1,649***	0,430	0,071	323	0,017
	Intercept	Political Dummy (-)	Δ % Net Income	2011 Dummy	Observations	R ²	
Δ Tax Rate (4)	-2,293	2,501	-0,023	6,456	323	0,000	
Performance		Intercept	Political Dummy (-)	Δ % Net Income	Profitability of Portuguese Exchange Stock	Observations	R ²
	Δ % Market Capitalization (5)	0,461	-0,390*	0,018***	1,476****	327	0,087
		Intercept	Political Dummy (+)	Δ % Net Income	CAPEX t+1	Observations	R ²
Δ Dividend per Share (6)	0,014	-0,023	0,001	0,000	323	0,010	
Investment Decisions		Intercept	Political Dummy (+)	Δ Total Assets	CAPEX t+1	Observations	R ²
	Δ Number of Employees (7)	-36,835	1.252****	0,000	0,000	322	0,028
Risk		Intercept	Political Dummy (+)	Observations	R ²		
	Δ Altman's Z-Score Ratio (8)	-0,096	-0,102	301	0,001		

Table 5 – Impact of Political Connections over Benefits, Performance, Risk and Investment Decisions on Portuguese listed Firms.

The table displays results from regressions which take into attention the difference between non-political nominations, political nominations with one party and political nominations with two parties. The change of variables was obtained using a window of 2 years: the year previously to the announcement of the nomination and the year following the announcement of the nomination. The dataset comprises all appointments of boards members made between January of 2001 and December of 2011 by listed companies from the Stock Portuguese Exchange. The data, regarding the appointments, was the same of the thesis of Cabo (2012) and the variables, regarding benefits, performance, risk and investment decisions from the firms, was taken from Bloomberg and firms' annual reports. We excluded one firm for which data was not available and we also exclude the banking industry. Political "Dummy" Variable will have the value of 1 if there is only one political party represented in the appointment and the value 2 if there are both political parties in the appointment. Symbols *, **, *** and **** correspond to statistical significance at 10%, 5%, 2,5% and 1% level, respectively. In brackets is our prediction, negative or positive, relative to the effect of the political dummy over the dependent variable.

	Intercept	Political Dummy (+)	Δ % CAPEX	ROE t	Observations	R ²	
Benefits	Δ Long-Term Borrowings /Total Assets (1)	-0,0189***	0,0218*	0,0002****	0,0587*****	322	0,062
		Intercept	Political Dummy (+)	Δ % CAPEX	ROE t	Observations	R ²
	Δ Absolute Value of Short-Term Borrowings (2)	61.590.444	61.331.938*	-82.312	2.083.714	322	0,008
		Intercept	Political Dummy (-)	Δ % Total Borrowings	ROE t	Observations	R ²
	Δ Interest Rate (3)	-0,071	-0,9001*	0,445	-0,0153	323	0,009
	Intercept	Political Dummy (-)	Δ % Net Income	2011 Dummy	Observations	R ²	
Δ Tax Rate (4)	-2,459	2,6235	-0,026147	6,345	300	0,000	
Performance		Intercept	Political Dummy (-)	Δ % Net Income	Profitability of Portuguese Exchange Stock	Observations	R ²
	Δ % Market Capitalization (5)	0,4618	-0,317*	0,01784***	1,4853*****	327	0,088
		Intercept	Political Dummy (+)	Δ % Net Income	CAPEX t+1	Observations	R ²
Δ Dividend per Share (6)	0,0141	-0,0174	0,001	0,000	323	0,011	
Investment Decisions		Intercept	Political Dummy (+)	Δ Total Assets	CAPEX t+1	Observations	R ²
	Δ Number of Employees (7)	6,4216	832***	-0,000	0,000	322	0,022
Risk		Intercept	Political Dummy (+)	Observations	R ²		
	Δ Altman's Z-Score Ratio (8)	-0,1094	-0,0325	301	0,000		

Table 6 - Impact of right and left wing Former Politicians over Benefits, Performance, Risk and Investment Decisions on Portuguese listed Firms.

The table displays results from regressions which takes into attention democratic political nominations and considers all the other nominations as non-political. The change of variables was obtained using a window of 2 years: the year previously to the announcement of the nomination and the year following the announcement of the nomination. The dataset comprises all appointments of boards members made between January of 2001 and December of 2011 by listed companies from the Stock Portuguese Exchange. The data, regarding the appointments, was the same of the thesis of Cabo (2012) and the variables, regarding benefits, performance, risk and investment decisions from the firms, was taken from Bloomberg and firms' annual reports. We excluded one firm for which data was not available and we also exclude the banking industry. Right wing dummy will take the value 1 if there is a former politician from a center right government and 0 otherwise and left wing dummy will take the value 1 if there is a former politician from a center left government. Symbols *, **, *** and **** correspond to statistical significance at 10%, 5%, 2,5% and 1% level, respectively. In brackets is our prediction, negative or positive, relative to the effect of the political dummy over the dependent variable.

	Intercept	Right wing Dummy (+)	Left wing Dummy (+)	Δ % CAPEX	ROE t	Observations	R ²
Benefits	Δ Long-Term Borrowings /Total Assets (1)	-0,0183***	0,0345*	-0,0137	0,000*	0,0579****	322 0,065
	Δ Absolute Value of Short-Term Borrowings (2)	57.180.188	111.467.730***	49.747.800	-7.174	-3.358.276	323 0,013
	Δ Interest Rate (3)	0,0367	-1,984***	-0,6904	-0,5316	0,0855	321 0,019
	Δ Tax Rate (4)	-0,6757	-0,2306	6,1145	-0,0447	7,361	323 0,000
	Δ % Market Capitalization (5)	0,4605	-0,3491	-0,5036	0,0176****	1,4689****	327 0,087
Performance	Δ Dividend per Share (6)	0,0118	0,0209	-0,078*	0,000	0,000	320 0,018
	Δ Number of Employees (7)	-32,00	1.416****	770	-0,000	0,000	322 0,029
Investment Decisions	Δ Altman's Z-Score Ratio (8)	-0,0964	0,2309	-0,9528****	301	0,048	
Risk							

Table 7 - Impact of Former politicians appointed with coincidence of the cabinet occupied in the Government and the industry group of the inviting firm.

The table displays results from regressions which takes into consideration the entrance of former politicians that occupied a similar cabinet in the Government to the industry sector of the welcoming firm. The change of variables was obtained using a window of 2 years: the year previously to the announcement of the nomination and the year following the announcement of the nomination. The dataset comprises all appointments of boards members made between January of 2001 and December of 2011 by listed companies from the Stock Portuguese Exchange. The data, regarding the appointments, was the same of the thesis of Cabo (2012) and the variables, regarding benefits, performance, risk and investment decisions from the firms, was taken from Bloomberg and firms' annual reports. We excluded one firm for which data was not available and we also exclude the banking industry. The political dummy will take the value 1 if there is a coincidence between the cabinet occupied and industry group of the firm, reviewed in Table 2, and 0 otherwise. Symbols *, **, *** and **** correspond to statistical significance at 10%, 5%, 2,5% and 1% level, respectively. In brackets is our prediction, negative or positive, relative to the effect of the political dummy over the dependent variable.

	Intercept	Political Dummy (+)	Δ % CAPEX	ROE t	Observations	R ²
	Δ Long-Term Borrowings /Total Assets (1)	-0,0224 ****	0,0574****	0,000	-0,01282	321
	Intercept	Political Dummy (+)	Δ % CAPEX	ROE t	Observations	R ²
	Δ Absolute Value of Short-Term Borrowings (2)	67.213.061 ****	71.845.916	-81.848	6.701.589	323
	Intercept	Political Dummy (-)	Δ % Total Borrowings	ROE t	Observations	R ²
	Δ Interest Rate (3)	-0,051	-1,7244**	0,4034	-0,0019	323
	Intercept	Political Dummy (-)	Δ % Net Income	2011 Dummy	Observations	R ²
	Δ Tax Rate (4)	-1,1005	4,7833	-0,0469	6,8976	323
	Intercept	Political Dummy (-)	Δ % Net Income	Profitability of Portuguese Exchange Stock	Observations	R ²
	Δ % Market Capitalization (5)	0,424****	-0,3071	0,0175***	1,479****	326
	Intercept	Political Dummy (+)	Δ % Net Income	CAPEX t+1	Observations	R ²
	Δ Dividend per Share (6)	0,0189	-0,0432*	0,001	0,000	326
	Intercept	Political Dummy (+)	Δ Total Assets	CAPEX t+1	Observations	R ²
	Δ Number of Employees (7)	4,937	1.415****	-0,000	0,000	317
	Intercept	Political Dummy (+)	Observations	R ²		
	Δ Altman's Z-Score Ratio (8)	-0,0905	-0,1808	301	0,003	

Table 8 - Political nominations in firms which the Government has a significant number of shares over Benefits, Performance, Risk and Investment Decisions on Portuguese listed Firms.

The table displays results from the regressions which looked over firms whose Government is shareholder. To perform this sample, we regarded to the annual reports of Parpública and Caixa Geral de Depósitos, in the last 10 years. The change of variables was obtained using a window of 2 years: the year previously to the announcement of the nomination and the year following the announcement of the nomination. The dataset comprises all appointments of boards members made between January of 2001 and December of 2011 by listed companies from the Stock Portuguese Exchange. The data, regarding the appointments, was the same of the thesis of Cabo (2012) and the variables, regarding benefits, performance, risk and investment decisions from the firms, was taken from Bloomberg and firms' annual reports. We excluded one firm for which data was not available and we also exclude the banking industry. The political dummy will take the value 1 if there is a presence of a former politician in the appointment. We obtained the political data from the Portuguese Government website. Symbols *, **, *** and **** correspond to statistical significance at 10%, 5%, 2,5% and 1% level, respectively. In brackets is our prediction, negative or positive, relative to the effect of the political dummy over the dependent variable.

Benefits	Δ Long-Term Borrowings /Total Assets (1)	Intercept	Political Dummy (+)	Δ % CAPEX	ROE t	Observations	R ²
		-0,0435	-0,001	-0,0122	-0,113	72	0,05
	Δ Absolute Value of Short-Term Borrowings (2)	Intercept	Political Dummy (+)	Δ % CAPEX	ROE t	Observations	R ²
		162.109.685	181.177.854	114.672.806	395.537.000	72	0,049
	Δ Interest Rate (3)	Intercept	Political Dummy (-)	Δ % Total Borrowings	ROE t	Observations	R ²
		-1,479	-5,909****	12,1687	14,882	68	0,147
	Δ Tax Rate (4)	Intercept	Political Dummy (-)	Δ % Net Income	2011 Dummy	Observations	R ²
		-9,032	3,661	1,927	15,611	72	0,067
Performance	Δ % Market Capitalization (5)	Intercept	Political Dummy (-)	Δ % Net Income	Profitability of Portuguese Exchange Stock	Observations	R ²
		0,0577	-0,037	0,0432*	0,7564****	72	0,187
	Δ Dividend per Share (6)	Intercept	Political Dummy (+)	Δ % Net Income	CAPEX t+1	Observations	R ²
		0,0702	-0,006	0,0499****	0,000	72	0,315
Investment Decisions	Δ Number of Employees (7)	Intercept	Political Dummy (+)	Δ Total Assets	CAPEX t+1	Observations	R ²
		912	-446	-0,000****	0,000**	72	0,186
Risk	Δ Altman's Z-Score Ratio (8)	Intercept	Political Dummy (+)	Observations	R ²		
		-0,0699	-0,55	68	0,022		

Table 9 - Impact of Political connections affiliated to the party in the Government over Benefits, Performance, Risk and Investment Decisions on Portuguese listed Firms.

The table displays results from the regressions which looked over former politicians which, at the time they entered in the firms, the Ruling party was the same they represented in the past. The change of variables was obtained using a window of 2 years: the year previously to the announcement of the nomination and the year following the announcement of the nomination. The dataset comprises all appointments of boards members made between January of 2001 and December of 2011 by listed companies from the Stock Portuguese Exchange. The data, regarding the appointments, was the same of the thesis of Cabo (2012) and the variables, regarding benefits, performance, risk and investment decisions from the firms, was taken from Bloomberg and firms' annual reports. We excluded one firm for which data was not available and we also exclude the banking industry. The political dummy will take the value 1 if the political connection is affiliated to the ruling party. Symbols *, **, *** and **** correspond to statistical significance at 10%, 5%, 2,5% and 1% level, respectively. In brackets is our prediction, negative or positive, relative to the effect of the political dummy over the dependent variable.

	Intercept	Political Dummy (+)	Δ % CAPEX	ROE t	Observations	R ²	
Benefits	Δ Long-Term Borrowings /Total Assets (1)	-0,0157	0,0148	-0,000	-0,0065	321	0,01
		Intercept	Political Dummy (+)	Δ % CAPEX	ROE t	Observations	R ²
	Δ Absolute Value of Short-Term Borrowings (2)	67.251.599	85.209.067	-84.579	6.169.902	321	0,006
		Intercept	Political Dummy (-)	Δ % Total Borrowings	ROE t	Observations	R ²
	Δ Interest Rate (3)	0,0585	-2,851****	0,3872	-0,001	323	0,033
	Intercept	Political Dummy (-)	Δ % Net Income	2011 Dummy	Observations	R ²	
Δ Tax Rate (4)	-1,9764	0,9164	-0,0201	6,198	322	0,000	
Performance		Intercept	Political Dummy (-)	Δ % Net Income	Profitability of Portuguese Exchange Stock	Observations	R ²
	Δ % Market Capitalization (5)	0,4338****	-0,4023	0,0176***	1,5355****	326	0,008
		Intercept	Political Dummy (+)	Δ % Net Income	CAPEX	Observations	R ²
Δ Dividend per Share (6)	0,0159	-0,0194	0,001	0,000	317	0,008	
Investment Decisions		Intercept	Political Dummy (+)	Δ Total Assets	CAPEX t+1	Observations	R ²
	Δ Number of Employees (7)	47,9	1.475****	-0,000	0,000	317	0,025
Risk		Intercept	Political Dummy (+)	Observations	R ²		
	Δ Altman's Z-Score Ratio (8)	-0,0992	-0,1498	301	0,002		

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