



Politicians on the board of directors and firm internationalization – the Portuguese case

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ABSTRACT

Title: Politicians on the board of directors and firm internationalization – the Portuguese case

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Keywords: Corporate Political Activity, nonmarket business strategy, political connections, politicians on the board, firm internationalization, FDI, Portuguese economy, Compustat Global

Appointing politicians to the boards of directors of firms has been a recurrently used business and corporate strategy, especially within the last half-century. Whilst several attempts to find a correlation between Corporate Political Activity (CPA) or, more precisely, this concrete type of corporate political strategy and firm performance indicators have been made in other countries, the empirical studies put through remain inconclusive on whether and how political connections actually benefit companies, particularly when it comes to internationalization, and more specifically when it comes to the Portuguese case. Nevertheless, following the Resource Dependence Theory (RDT) along with additional research results, we argue that politicians on corporate boards bring valuable resources to the firms they work for, namely their network, contacts or influence, and their expertise or knowledge. These traits are expected to have a direct positive impact on the internationalization of these firms. The veracity of this assertion was examined through the analysis of a baseline hypothesis – the number of politicians on the board predicts firm internationalization, – and with the introduction of two moderators, both at the politician and the top-management levels. The predictions were tested in the Portuguese context, through the study of 56 firms, all of which were listed between 2010 and 2018. The result is a panel data analysis of the proposed hypotheses that integrates and extends prior diffused work.

RESUMO

Título: Políticos em conselhos de administração e a internacionalização de empresas – o caso português

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Palavras-chave: Atividades políticas corporativas, gestão estratégica não comercial, conexões políticas, políticos no conselho de administração, internacionalização de empresas, IDE, economia portuguesa, Compustat Global

A nomeação de políticos para os conselhos de administração de empresas tem sido uma estratégia utilizada recorrentemente, mas apesar da extensa literatura que visa explicar a relação entre esta estratégia política corporativa e a internacionalização das empresas, as evidências permanecem inconclusivas sobre se – e como – os políticos afetam o valor das empresas. Contudo, seguindo a Teoria da Dependência de Recursos e as conclusões de estudos académicos nesta área, afirmamos que os políticos em conselhos de administração trazem recursos valiosos para as empresas para as quais trabalham, nomeadamente, a sua rede de contactos e o seu conhecimento. Assim sendo, é expectável que estas características tenham um impacto direto na internacionalização das empresas. A veracidade dessa asserção foi testada através da análise de uma hipótese principal de investigação – o número de políticos no conselho de administração tem um efeito positivo na internacionalização da empresa em questão, – seguida da introdução de dois fatores moderadores, tanto a nível do político em si, como a nível da direção executiva da empresa. As proposições foram testadas para o contexto português, através da análise de 56 empresas portuguesas, todas elas cotadas entre os anos de 2010 e 2018. O resultado é uma análise em painel das hipóteses propostas, que vem integrar e ampliar os estudos anteriormente divulgados na área.

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LIST OF ABBREVIATIONS

BD – Board of Directors
CMVM – Comissão do Mercado de Valores Mobiliários
CPA – Corporate Political Activity
CPI – Corruption Perceptions Index
FATA – Foreign Assets to Total Assets
FDI – Foreign Direct Investment
FETE – Foreign Employees to Total Employees
FSTS – Foreign Sales to Total Sales
PLM – Panel Linear Model
RDT – Resource Dependence Theory
SDI – Sistema de Difusão de Informação
SGPS – Sociedades Gestoras de Participações Sociais
SIC – Standard Industrial Classification

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1 INTRODUCTION

1.1 General objectives, academic relevance, problem statement and approach

This dissertation was developed in an attempt to address a research gap in the field of corporate political activity (CPA), which – to our knowledge – has not yet been academically analyzed for the Portuguese case in particular. It is the culmination of the knowledge gained through months of reading and assessing several studies in the field, combined with the construction and consequent testing of a unique and newly collected database, which resulted in conclusions about the impact that politicians on the board have on firm internationalization.

The rationale behind our propositions is the following: 1) the number of politically-connected firms has been increasing, and the growing amount of research studies in the field proves this right (e.g. Cui et al., 2018; Faccio, 2006, 2010; Carney et al., 2016); 2) research shows that when working for firms, politicians usually assume higher managerial roles, very often integrating the board of directors (Fernández-Méndez et al., 2018) — why? — 3) because managers, in general, bring valuable resources to the firm they work for, and when performing similar functions, politicians are no exception to this rule (Johnson et al., 2013; Fernández-Méndez et al., 2018); 4) this line of thought leads us to infer that firms appoint politicians to the board of directors because they foresee future economic benefits derived from the resources of these politicians. But what exactly are these resources? And is the appointment of politicians really beneficial to firms?

Taking these questions into account, this dissertation aims to evaluate the extent to which the resources of politicians on the board of directors, namely their human and social capital (Schuller, 2001), work (or not) as a facilitator in the process of the international expansion of Portuguese firms. We assessed this problem statement through the analysis of a baseline hypothesis – the number of politicians on the board predicts firm internationalization, – and with the introduction of two moderators, both at the politician and the top-management levels. The veracity of our propositions was gauged through the following research questions:

Research question 1: Nowadays big firms tend to have politicians on the board of directors; likewise, nowadays big firms tend to expand internationally. Does having a politician on the board of directors facilitate the international growth of a company?

Research question 2: Is there a relationship between the number of politicians on the board of directors and firm internationalization? (H1)

Research question 2.1: If yes, is this relationship fostered when the politician has international experience in his or her area of expertise? (H2)

Research question 2.2: If yes, how is this relationship impacted (weaker impact/stronger impact) when the CEO has relevant international experience in his or her area of expertise? (H3)

The predictions were tested in the Portuguese context, through the study of the 56 biggest Portuguese companies in terms of assets according to Compustat Global, all of which were, at some point, listed between 2010 and 2018, and accounting for a total of 507 firm-year observations. Internationalization was operationalized as the ratio of foreign sales to total sales (FSTS), in line with Daniels & Bracker (1989). The hypotheses were tested using a panel regression analysis for the focal period, including also previous year data whenever it was possible according to data-availability so that we could lag the explanatory variables and better observe their effects on FSTS.

1.2 Scope of analysis and managerial relevance

By conducting a study addressing the effects of politicians on the board of directors on FDI for the Portuguese context, we intend to prove that the main traits of politicians when it comes to the internationalization of the firms in which they are board members are their political knowledge and political network since these foster foreign sales – because politicians bring advantageous perspectives on how the political process works and may grant the firm access to privileged information (Fernández-Méndez et al., 2018; Hillman, 2005). Additionally, we argue that this is especially true when they have had international experience as politicians, and also test the scenario in which the CEO has international experience in his or her area of expertise.

Regarding the managerial relevance of this dissertation, we believe that it raises an important and interesting organizational issue within the field of nonmarket strategy.

1.3 Structure

As for the structure of this dissertation, the first chapter introduces the problem statement and the general objectives of the study, and provides the reader with an overall presentation of the topic based on relevant literature, as well as the context and the scope of the analysis. The second chapter contains the literature review that served as a foundation for the study. The third chapter consists of the hypotheses' development. The fourth chapter is on the data and methodology used for the analysis of the variables. The fifth chapter explains the results and

findings. The sixth chapter consists of the discussion and conclusion of the results obtained. Finally, the seventh chapter reflects on the limitations and a set of recommendations for future research on the topic.

2 LITERATURE REVIEW

While many recent studies have focused on understanding politically-connected firms (e.g. Faccio, 2006; Fisman, 2001) and/or the phenomenon of the presence of politicians on the board of directors (e.g. El Nayal, Van Oosterhout & Van Essen, 2019), [to the best of our knowledge] none has been carried out for the context of Portugal, or at least not within our focal period. To find out what is already known about the topic, and thus building this critical recapitulation to understand what is the impact that politicians on the board have on the international expansion of Portuguese firms, we have structured this literature review following a funnel-shaped approach, which is organized in a thematic and theoretical way, i.e. around several key themes and also based on theories and definitions of key concepts.¹

2.1 *On strategy and strategic management*

“Strategy is the great work of the organization. In situations of life or death, it is the Tao² of survival or extinction. Its study cannot be neglected.” — Sun Tzu on the Art of War^{3 4}

The concept of strategy is crucial to the policy and managerial sciences. Important works of literature on the concept of strategy have been developed in several fields, namely in the field of business management (Evered, 1983). But what exactly is strategy?

The term strategy originally comes from the military context (e.g. Griffith, 1971; Thucydides, Hobbes & Grene, 1989). Etymologically, strategy is derived from the Greek word “*strategos*”, which was an elected general in ancient Athens, and is itself formed by two other Greek words: “*stratos*”, or army, and “*agein*”, or lead (Weigl, 2008; Evered, 1983; Ronda-Pupo & Guerras-Martin, 2011). This suggests a “*strategia*” or generalship idea (Grant, 2016). Indeed, both business and military strategy share many common concepts and principles, such as the need for a significant commitment of resources or the fact that neither of them is easily reversible. Notwithstanding, the most basic of these shared-notions is the distinction between strategy and tactics (Grant, 2016; Slevin & Pinto, 1987). According to Grant (2016), whereas

¹ Regarding its structure, a critical literature review can follow a chronological approach, a thematic approach, a methodological approach and/or a theoretical approach. See McCombes, S. (2020, October 13). The Literature Review: A Complete Step-by-Step Guide. Available at: <https://www.scribbr.com/dissertation/literature-review/>.

² The natural force that unites all things in the universe, according to Taoism. in Longman, 2003.

³ “Sunzi, Wade-Giles romanization Sun Tzu, personal name Sun Wu, the reputed author of the Chinese classic *Bingfa* (*The Art of War*), the earliest known treatise on war and military science.” See The Editors of Encyclopaedia Britannica. (2019, March 14). *Sunzi*. Available at: <https://www.britannica.com/biography/Sunzi>.

⁴ Citation taken from Evered (1983).

strategy is the overall plan for deploying resources to establish a favorable position, a tactic is a scheme for a specific action. To Mintzberg (1972), strategy has been defined in various ways, but always with a common thread, a pattern in decisions. To management theorists, strategy is most often defined as a conscious plan to achieve specific ends. However, for the purpose of this paper we will borrow a [compiled] definition of strategy from a former Professor of mine, Ana Aranda. Therefore, we define strategy as the art of outperforming rivals in a dynamic competitive environment over long periods of time. In fact, strategy describes where and how a firm is competing, and the direction in which it is developing (Peteraf, 1993; Barney, 1991; Porter, 1996). But how do we go from strategy to strategic management?

Long-term planning was developed during the 1950s so that senior executives could counter the lack of systematic approaches to their firms' long-term growth, and its diffusion was accelerated by various articles and books addressing this new topic to the extent that, during the following decade most large US and European firms had set up planning departments. However, setting far in advance long-term objectives for firms proved not to be efficient management. After some turbulence and skepticism on planning vastly beforehand, there was a shift in emphasis from strategy-planning to strategy-making, where the hub is more on competitive positioning in order to maximize firms' profit potential (Grant, 2016). This transition from long-term planning to strategic management entailed a focus on competition as the core of the business environment, and on performance-maximization as the main goal of strategy. Looking at strategy as a pursuit of performance indicators directed attention to the sources of profitability (Porter, 1979, 1996; Grant, 2016; Håkansson & Snehota, 1989).

For the purpose of this dissertation, we will not focus on the different types of strategy, nor deepen even more the literature review on overall strategy. What is important for the reader is to know that our topic is on the field of strategy and business-level strategic management, and that the environment of business is composed of market business strategy and nonmarket business strategy, and any approach to strategy formulation must integrate both market and nonmarket considerations (Baron, 1995).

2.2 Market business strategy and non-market business strategy – the Government as a non-market actor

According to Baron (1995), the field of strategic management looks both inside the firm – to its distinctive competencies, – and outside the firm – to the environment in which it operates. As aforementioned, the sphere of business is composed of both market and nonmarket

components. Whereas the scope of market business strategy comprehends interactions that are essentially voluntary economic transactions between firms, suppliers and customers, governed by contracts and markets; the nonmarket business strategy refers to the domain of concerns that cannot be controlled nor managed through market-based interactions (Mellahi et al., 2015). In fact, the latter is related to interactions that occur outside of the market environment, that is, interchanges intermediated by cultural, social, political, media, legal and regulatory institutions, amongst others, that can directly or indirectly affect an organization (Doh, Lawton & Rajwani, 2012; Lawton et al., 2014; Baron, 1995). The most crucial nonmarket actor is the government, since it is a critical source of external interdependency and uncertainty for firms (Hillman, 2005).

In its broadest sense, the government is the arena within which political issues are resolved. More narrowly, the government consists of institutions responsible for making collective decisions for society, or simply to the top political level within such institutions (Hague & Harrop, 2004). Until the 1980s, managers and researchers used to focus solely on the economic actors of the firm (like consumers, workers and capital); however, due to the significant influence that nonmarket actors have on firms, nowadays their focus also extends to the increasingly important role of the government (Baron, 1995).

By and large, the creation and preservation of a competitive advantage is a core challenge for all strategic managers and, due to the growing importance of the role of governments, firms want to create and maintain a good relationship with the government (Doh, Lawton & Rajwani, 2012). This is where the concept of Corporate Political Activity (CPA), or any deliberate firm action intended to influence governmental policy or process in ways favorable to the firm (Shaffer, 1995; Hillman, Keim & Schuler, 2004; Hillman & Hitt, 1999a), fits in.

2.3 Resource Dependence Theory and Corporate Political Activity

The Resource Dependence Theory, formalized by Pfeffer & Salancik (1978), states that firms need resources and that resources come from external individuals and organizations. Therefore, all firms have – to some extent – a degree of dependency (Lester, Hillman, Zardkoohi & Cannella, 2008). Managers must try not to highly depend on external organizations due to the risk that it represents to the firm. With the view to manage this risk, firms will try to either reduce dependency on external actors, and/or to coopt the source of this dependency by aligning interests with the resource provider (Pfeffer & Salancik, 1978; Hillman, Withers & Collins, 2009; Pfeffer, 1972). In other words, RDT highlights the

importance of connecting firms with external contingencies that create risk, unsureness and vulnerability (Hillman, 2005).

According to Hillman et al. (1999b), an important aspect of the environment of firms is their interaction with the government, since governmental entities shape companies' competitive environments. Since plans are based on forecasts and forecasts are based on assumptions about the future, environmental scanning is crucial to identify early warnings that can challenge past assumptions or provide new perspectives about future threats or opportunities, hence creating a competitive advantage (Gordon & Glenn, 2009). Accordingly, organizations protect and advance their political interests through environmental scanning, contributions, direct lobbying, political action committees (PACs), coalition building (including trade associations), and advocacy advertising, amongst others (Doh, Lawton & Rajwani, 2012; Shaffer, 1995; Keim & Zeithaml, 1986), – these are called Corporate Political Strategies (Hillman et al., 1999b). In fact, many top managers value governmental affairs as a crucial part of their jobs, both as a defense against regulatory intrusions, and as a means of gaining competitive advantage (Shaffer, 1995). Notably, a wide variety of firms are involved in political activities, in industries as diversified as oil and gas, air transport, information technology, tobacco and pharmaceuticals (Doh, Lawton & Rajwani, 2012).

As specified by Hillman et al. (1999b), governments can help firms in three broad areas of regulation: antitrust regulation, economic regulation and social regulation. Further, governments can also help firms with specific growth strategies (Jensen & Zajac, 2004). Examples of both include bailouts, M&A, and less studied: firm internationalization.

2.4 The role of directors on corporate boards: agency role and resource-provisionary role

Following the literature, boards of directors serve two important roles for companies: on the one hand, directors have a governance, control or agency role, which is – in short – monitoring management on behalf of shareholders; and, on the other hand, they have a resource-provisionary role, which relates to providing and/or securing resources to the firm (Hillman, Cannella & Paetzold, 2000; Adams & Ferreira, 2007; Adams et al., 2010; Hillman & Dalziel, 2003).

An agency relationship is broadly a contract under which one or more individuals (principal) engage another individual (agent) to fulfil some service on their behalf, which requires assigning some decision-making authority to the agent (Jensen & Meckling, 1976). In the agency role, directors aim at improving performance. Directors act as trustees of

shareholders, reducing the problems associated with the separation of ownership and control of publicly-held businesses in which the shareholders possess little or no direct control over management decisions, and by ensuring that the actions of managers actually serve shareholders' interests (Hillman, Cannella & Paetzold, 2000; Fama & Jensen, 1983; Marks, 1999).

The resource-provisionary role, directly linked with the RDT, is theoretically different from the governance role, albeit directors may perform both functions simultaneously (Hillman, Cannella & Paetzold, 2000). The resource dependence role of directors states that because of their prestige in their professions and communities, directors can extract resources for successful company operations (Zahra & Pearce, 1989). In this role, directors link the firm with the external resources that generate uncertainty and external dependencies (Hillman 2005), and it is up to the director to provide and control for this uncertainty, to ensure the continuity and well-being of the firm (Pfeffer & Salancik, 1978; Hillman, Cannella & Paetzold, 2000). For instance, firms operating in highly regulated industries will need directors with connections to policymakers, capable of having access to privileged information, or skillful enough to influence their decisions on behalf of the firm in order to reduce uncertainty (Hillman, Withers & Collins, 2009).

Given the above, and combining both theories, we will define a director of a board as a provider of important resources, who is also responsible for providing advice and counseling, being a channel of communication and information between the firm and external organizations, keeping access and support from important outside actors, and being a source of legitimacy⁵ (Hillman, 2005; Pfeffer & Salancik, 1978). Whereas the agency role is pretty clear and straightforward, what exactly are the other "important resources" that board members bring to the firm?

2.5 *On human capital and social capital*

The board composition is a crucial element in the ability of the board to impact firm outcomes, and growing research has been focusing on directors' demography, social capital, and human capital (Johnson et al., 2013).

The mainly analyzed demographic characteristics include age, race, ethnicity, gender, and educational background (Carpenter et al., 2004; Johnson et al., 2013). Forbes et al., (1999)

⁵ Without which power is exerted through coercion.

argue that demographic characteristics affect directors' cognition and their decision-making, and that there are unequivocal relations between board demography and firm performance.

Concerning social capital characteristics, these can be translated into the contacts and network of the board members. It consists of relations between actors and among actors (Coleman, 1988), for directors' social connections influence how both individual directors and the board (overall) operate. Extensively, social capital can be partitioned into three types: directors' connections to other firms, personal relationships with firm managers, or social standing (Kogut & Zander, 1992; Johnson et al., 2013).

Human capital characteristics are the skills, expertise, experiences, reputation and knowledge that individual directors bring to the decision-making process (Lester, Zardkoohi & Cannella, 2008). Objectively, these can range from knowledge of an industry, experience as a CEO, experience in a specific area, familiarity with a specific event, and overall familiarity with the company. Such encounters influence what directors focus on and how they frame decisions (Johnson et al., 2013).

Following most literature in the field, and specifically Fernández-Méndez et al. (2018), we argue that firms appoint managers as directors of the board because of their human and social capital resources. Nevertheless, we believe that politicians are appointed to firms' boards for the same reason, that is, based on their resources (Pfeffer & Salancik, 1978), and not because of their governance capabilities. In truth, Hillman & Dalziel (2003) highlight that human and social capital are the foundation of value creation for a company through the resources the directors provide to the firm.

2.6 *The presence of politicians on the board of directors*

Since the government is a fundamental source of external dependency and unsureness for firms, RDT posits that firms may counter this uncertainty if they are linked to the government, for instance, by appointing politicians to the board of directors (Hillman, 2005). Indeed, the connections between the business world and the political arena have been drawing increasing attention⁶, as several academic researchers started focusing on the benefits of political connections and the incentives for corporations to become politically-connected, thereon specifically analyzing different types of political connections such as top directors who are closely related to a top politician or party, and building up to the actual presence of politicians

⁶ As mentioned by Carney et al. (2016), "*An accumulating body of literature has documented the importance and value of social ties and political ties.*"

and/or former politicians – like members of the parliament, ministers or heads of state, – on the board of directors (Faccio, 2006; Cui et al., 2018).

As researchers started delving into the political ties of firms (e.g. Faccio, 2006, 2010; Carney et al., 2016), Fernández-Méndez et al., (2018) pointed out that the role of politicians in companies is very often associated with the corporate boards and managing positions. Notwithstanding, “*directors’ experience, knowledge and expertise [accumulated during their careers] are valuable, rare, inimitable and non-substitutable resources that make up the board potential, [and] must be integrated with other firm resources in strategic processes*” (Barroso et al., 2011; Pfeffer, 1973⁷), and this is true both for non-political and political board members (Fernández-Méndez et al., 2018).

According to the literature, appointing politicians to the board can bring two types of benefits for firms. First, network, personal connections and contacts with the government, the so-called social capital, which facilitates interaction with the regulators and even the access to privileged information. Second, politicians bring useful know-how, knowledge, and perspectives on how the political process works, which might be useful in guiding the firm to make better decisions in their relationship with the government, the themed human capital (Fernández-Méndez et al., 2018; Lester, Zardkoohi & Cannella, 2008).

However, although firms supposedly appoint politicians to the board to secure access to these contacts and knowledge in order to manage their dependence on governments (Pfeffer & Salancik, 1978), the unequivocal ways through which a company can take advantage of these appointments are not clear (Hillman, Zardkoohi & Bierman, 1999b; Fernández-Méndez et al., 2018).⁸ Indeed, more research is necessary to ascertain the actual resources provided by politicians and the specific benefits that firms receive by inviting them onto their boards (Lester, Zardkoohi & Cannella, 2008).

Several studies focus only on the contacts of politicians, leaving aside their know-how (Lester, Hillman, Zardkoohi & Cannella, 2008). Perhaps because it can be difficult in concrete terms to separate their network from their knowledge, especially at the national level. However, at the international level, this distinction can and must be made, since domestic contacts are of little or no use in the international landscape, because contacts are location-specific.

⁷ For example, “*Members of hospital boards can provide knowledge of hospital administration and engage in directly advising and assisting in the management of the organization.*” (Pfeffer, 1973).

⁸ “*Many scholars assume that because we witness firms engaging in political strategies, these firms must believe the benefits outweigh the costs of such activities. Unfortunately, the effectiveness of such activities and the effect these actions have on firm performance have remained difficult to measure.*” (Hillman, Zardkoohi & Bierman, 1999).

Nonetheless, we believe that political knowledge can be transferred and exploited in several countries, in the form of political capabilities, even in countries where the politician in question has no experience at all (Fernández-Méndez et al., 2018; Holburn & Zelner, 2010).

2.7 *Firm internationalization: Foreign Direct Investment*

Internationalization is a strategy through which a company expands the sales of its goods and/or services across different geographic regions or markets (Hitt, Tihanyi, Miller & Connelly, 2006). Furthermore, strategic management researchers view internationalization as more than a simple means of risk-reduction (Hitt, Tihanyi, Miller & Connelly, 2006), embracing it as a strategy that facilitates the development of skills and competencies that help the firm achieve a competitive advantage (Zahra et al., 2000). Although it may be measured in many different ways, most of the literature that served as a foundation for this dissertation shows that researchers mainly measure internationalization through either the number of foreign subsidiaries held by a firm, or through the foreign direct investment (FDI) made by the firm. The most common measures of FDI are Foreign Sales to Total Sales (FSTS), Foreign Assets to Total Assets (FATA) and Foreign Employees to Total Employees (FETE).

FDI is a process in which firms combine their firm-specific resources and capabilities developed at home with local resources that facilitate the exploitation of these (home-developed) resources and capabilities in the host market (Fernández-Méndez et al., 2015). But when and why will a firm engage in foreign direct investment? The eclectic paradigm (Dunning, 1988) implicitly states that FDI occurs when its expected net present value is both positive and greater than those of alternative modes of international production (Rivoli & Salorio, 1996).

Similar to Fernández-Méndez et al. (2018), here too, we intend to demonstrate that even though political contacts provided by domestic politicians on the BD do not urge firms to enter and/or expand in foreign countries, their political knowledge accumulated at home may give rise to FDI, even if politicians have no international experience.

Concretely, we believe that location-specific factors represent the special advantages accruing to firms operating at a particular location (Erramilli et al., 1997) and that contacts are actually location-specific resources (Fernández-Méndez et al., 2018); therefore, domestic social capital does not play a relevant role when it comes to FDI. Hence, we base our main hypothesis on the knowledge-based view (KBV) (Kogut & Zander, 1992, 1993) to analyze the specific influence of political knowledge as a driver of foreign growth (Fernández-Méndez et al., 2018). This knowledge consists of information and know-how (Kogut & Zander, 1992) or, in other

words, the overstated human capital. Note, however, that if politicians' social capital includes international contacts acquired through political international experience, then social capital might effectively be an important resource for FDI.

Politicians provide companies with political knowledge which upholds the development of political capabilities – i.e. technical-economic expertise in lobbying government – which we can expound as the way through which a firm's political resources and skills are engaged to influence political processes (Lawton, McGuire & Rajwani, 2012; Fernández-Méndez et al., 2015, 2018; Dahan, 2005; Holburn & Zelner, 2010).

All things considered, by exploring the influence of political ties on firm internationalization, we establish a connection between firms appointing politicians to the board of directors – thus establishing political connections, – and the accumulation of political capabilities susceptible to being exploited in a foreign country (Fernández-Méndez et al., 2018). In other words, the political knowledge brought by politicians can be translated into firms' political capabilities and later adopted and exploited abroad. In this sense, just like Fernández-Méndez et al. did in 2018 for the Spanish case, we also contribute to the literature by analyzing the effect of domestically-developed characteristics on firms' foreign footprint.

3 HYPOTHESIS DEVELOPMENT

3.1 *Politicians and firm internationalization — a big ‘yes’ to human capital, and a not so big one to social capital*

Several researchers have linked the composition of the board of directors to organizational outcomes such as effectiveness, performance (McDonald et al., 2008) and firm growth through acquisitions and diversification (Jensen & Zajac, 2004). Following sections 2.4 to 2.6, we have already assessed the role of the board of directors, as well the role of politicians on corporate boards, and concluded that politicians do not only provide the firm with governmental facilitation, but also with valuable resources. These resources can mainly be of two types: social capital and human capital (Lester, Hillman, Zardkoohi & Cannella, 2008). However, whereas social capital is country-specific and thus immaterial for being taken into consideration abroad – unless the individual has relevant contacts overseas, – human capital can be applied in other realities. In fact, the knowledge and perspectives regarding the political process go beyond the inside information gained through personal contacts, and it is extremely useful for companies to know how the political system works and how people involved in the political process exchange information, influence, think, move, communicate, anticipate actions, connect and act (Fernández-Méndez et al., 2018). In sum, contrary to domestic social capital, domestic political knowledge can still be valuable overseas.

Firms having politicians on the board are in a privileged position to effectively dodge the challenges of governmental regulations not only nationally but also in other countries. The successfulness of political strategies – such as appointing politicians to the board – will be a function of firms’ political capabilities (Oliver & Holzinger, 2008; Holburn & Zelner, 2010), and we believe that political capabilities translate into superior interactions with foreign governments. These firms will find it easier to establish good relationships with foreign regulators and are better equipped to generally understand and anticipate governmental actions, thus decreasing external dependency and uncertainties through cooptation. The reduction in the uncertainties that firms have to face abroad will encourage them to internationalize. Given these arguments, we predict that:

Hypothesis 1 (H1). The greater the presence of politicians on the board of directors, the greater the foreign footprint of the firm.

3.2 Politicians with international experience and firm internationalization — the role of social capital

As previously mentioned, firms appoint politicians to the board of directors for many reasons such as reducing external dependency or having access to the resources provided by politicians. In section 3.1, we argued that when expanding internationally, broadly speaking, the most important resource brought by politicians would be their human capital, since domestic contacts did not play an important role inasmuch as contacts are location-specific. However, we did mention that this would not be the case if the politician had contacts abroad. Thereafter, for the same reasons that we argue that politicians, in general, facilitate firm internationalization, and that the more politicians, the better for the firm international growth, we also affirm that if politicians have had relevant international experience as politicians, this relationship is intensified.

We believe that knowing how other country or group of countries work adds up both to politicians' human capital and social capital, and also that social capital actually impacts firm internationalization if [and mostly only if] the politician has had relevant international experience as a politician. To clarify, it is expected that the social capital provided by politicians on the board facilitates the entry in foreign countries where they have contacts because of their prior political activity and connections with the host government, and it is also expected that even if the international expansion is not to a country where they have exerted political activity, politicians' international experience is still relevant due to their knowledge of how foreign governments work, especially in a world as globalized as ours (Shaffer & Hillman, 2000; Fernández-Méndez et al., 2018).

However, politicians do not grow their international social capital in the same way. Notably, individuals' social capital is in part determined by the social group in which they are involved (Fernández-Méndez et al., 2018). Nonetheless, we expect that this social capital provided by politicians' international experience helps firms obtain advantages, legitimacy and better outcomes in the foreign country, such as first-mover advantages (Sun et al., 2012; Frynas et al., 2006). Given these arguments, we predict that:

Hypothesis 2 (H2). The positive effect of the presence of politicians on the board of directors on the foreign footprint of the firm is bigger for firms having politicians on the board with relevant international experience.

3.3 *CEO with international experience and firm internationalization*

Similar to politicians, the top management of the firm also provides it with relevant resources, particularly their knowledge and experience (Barney, 1992). Firm-level benefits derived from the international experience of upper-level executives are getting increasing attention. In fact, studies indicate that, nowadays, the primary challenge facing organizations is the increasing globalization of businesses (Daily, Certo & Dalton, 2000).

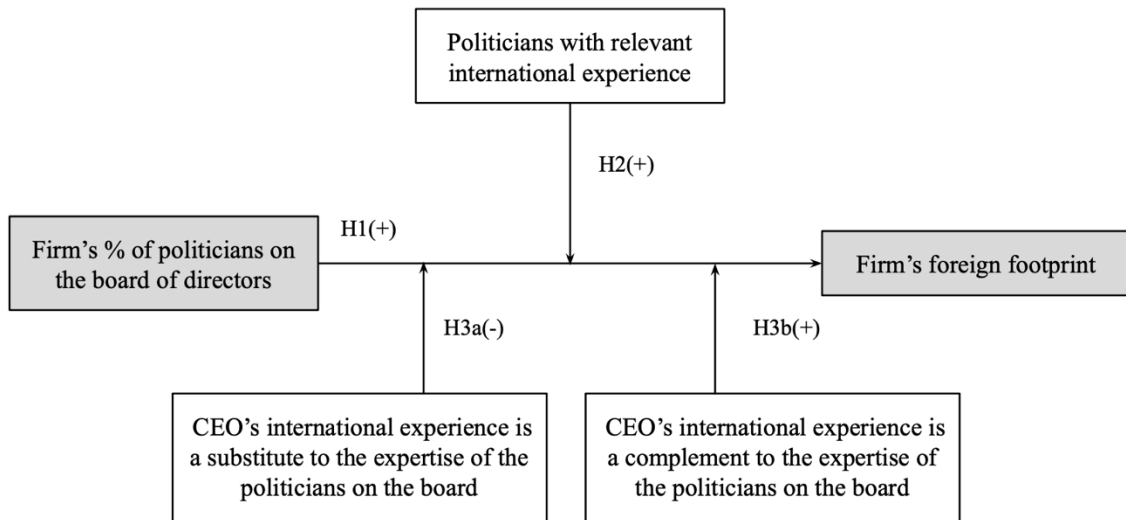
In an environment where effectively managing international business issues is critical to firms' success (Daily, Certo & Dalton, 2000), it becomes vital to critically analyze the role of the CEO, specifically those with relevant international experience. We understand that CEOs with international experience can either complement politicians' human capital, or substitute politicians' human capital. Following a complementarity viewpoint, we argue that just like having a politician on the board is beneficial to firms with international growth prospects due to their human capital, these benefits are positively potentialized when combined with the moderating effect of having a CEO with international experience, in the sense that the result is a combination of politicians' knowledge and CEOs' international social contacts. Following a substitutability viewpoint, we believe that if the CEO has relevant international knowledge (including political knowledge), then the added value of a politician is lower. In other words, having both a politician on the board and a CEO with international experience on the board, at the same, destroys value (instead of adding value). In sum, the benefit of politicians on the board would be highest in firms with non-international CEOs. Given these arguments, we predict that:⁹

Hypothesis 3 (H3):

- **Hypothesis 3a (H3a).** The positive effect of the presence of politicians on the board of directors on the foreign footprint of the firm is weaker when the CEO has international experience.
- **Hypothesis 3b (H3b).** The positive effect of the presence of politicians on the board of directors on the foreign footprint of the firm is stronger when the CEO has international experience.

⁹ Please note that H3a suggests a substitution effect, whilst H3b suggests a complementary effect.

Figure 1 – Hypothesized effects of the theoretical framework



4 RESEARCH METHODOLOGY

To develop this dissertation several questions at various levels had to be previously devised. Is there a correlation between the number of politicians on corporate boards and firm internationalization? Does having a politician on the board add value to the company, in the sense that it facilitates the international growth of the company? What kinds of politicians are more likely to facilitate internationalization; perhaps, the ones with international experience? Regarding FDI, what is the interaction between a CEO with international experience and the presence of a politician on the board?

This whole study is grounded in testing the veracity of a major argument: politically-connected firms end up expanding more internationally because politicians have resources that facilitate such internationalization. Following this line of thought, we then introduced two moderators to the main independent variable.

The methodology used was quantitative research assessed through the statistical and numerical analysis of the data collected mainly from the firms' financial statements. The study itself is focused on the period of 2010-2018, which is our focal period. However, contrary to what was to be expected, the sample comprises information over not 9 but 10 years – 2009-2018, – for most of the firms in which the research was conducted. This information includes a wide variety of different sources of data for 56 Portuguese companies¹⁰, such as the analysis of articles, case studies, research papers, review articles, books, annual reports, CVs and other archival information on these companies, and on the topics of politicians on the board and firm internationalization. Statistically speaking, we developed a panel data regression analysis to perceive the impact of politicians on the board on the FDI of the aforementioned companies, and ran the analysis considering not only data from our focal period, but also previous year data since the effect of one year is only felt on the following year. In that sense, although our final panel consisted of an unbalanced panel, with 507 observations, we lagged all of the explanatory variables in our models and the final sample consisted of 449 observations (see Section 5).

The dependent variable (Y) is firm internationalization measured through the ratio of Annual Foreign Sales to Annual Total Sales. The main independent variable (X) is the Percentage of the Number of Politicians on the Board of Directors, measured on a firm-year basis.

¹⁰ Note that our initial sample included 58 companies, but we dropped 2 of them from the sample due to lack of data. Please refer to sections 4.1.1 and 9.1 for a better understanding.

4.1 *Data and sample*

4.1.1 *Data collection process for the independent variables*

To study how the foreign footprint of Portuguese firms is affected by the percentage of politicians on the board, by the number of politicians with international experience on the board, and by the international experience of the CEO, we have built a database from scratch, using only secondary data. To clarify, we collected information about the firms' boards of directors' composition, such as the full name of each member of the board, the exact date when each member was appointed, the total number of board members per firm-year, and we also made a background check on each appointed member in order to find evidence for any relevant political and/or international experience.

This data was collected from all of the annual reports¹¹ of the 58 biggest Portuguese companies in terms of assets, according to Compustat Global, which were publicly-listed at some point between 2010-2018. Accordingly, and in order to avoid incurring the survivorship bias, we have considered as part of our sample all active and inactive companies for the relevant period. However, only 56 of those companies were part of the final sample, since two of them did not have sufficient financial data disclosed for any of the years tested. As for the other 56 companies, there were at least two full observations for the relevant period.

Please refer to Table 4, in the Appendices section for detailed information on all missing data for both the focal period of the study and the immediately previous year. This information was provided by CMVM via e-mail.

4.1.2 *Definition of politicians and non-politicians*

A professional background check was manually made for every single board member in the database. The primary sources of data were the annual reports – for when it contained this type of information, – and the curricula vitarum of the directors. Additionally, we used the Thomson Reuters Eikon platform and the LinkedIn website to look for data. Finally, we also searched in some Portuguese news' agencies and newspapers such as Diário de Notícias, Observador, Expresso, Público and Jornal de Negócios.

For the purpose of this paper it was crucial to have a clear definition of who is a politician. According to Faccio's definition of political ties (2002, 2006), a firm is politically-connected if (at least) one of the company's top directors is: a member of parliament, a minister

¹¹ From 2009-2018.

or the head of state, or is “closely related” to a top official. Although this definition sheds light on our definition of a politician, the classification used in this paper is not identical to that of Faccio’s. Notwithstanding, we first divided politicians by government branch, that is, executive politicians and legislative politicians and, subsequently, by jurisdiction scope, i.e. regional, national, supra-national and international levels, considering the government’s experience and degrees of influence (El Nayal, Van Oosterhout & Van Essen, 2019).

Please refer to the table below – Table 1 – for the matrix summarizing the aforementioned classification standards, used to analyze board members.

Table 1 – Definition of politician

| | Executive | Legislative |
|----------------------------|--|---|
| International | <ul style="list-style-type: none"> - Foreign Politicians - Foreign Ministers - Foreign Ambassadors - Foreign Consuls | <ul style="list-style-type: none"> - Members of Foreign National Parliaments |
| Supra-national (EU) | <ul style="list-style-type: none"> - EU Commissioners | <ul style="list-style-type: none"> - Members of the European Parliament (M.E.P.) |
| National | <ul style="list-style-type: none"> - President - Ministers - Secretaries of State - Ambassadors - Consuls | <ul style="list-style-type: none"> - Members of the Portuguese National Parliament |
| Regional | <ul style="list-style-type: none"> - Mayors | <ul style="list-style-type: none"> - Members of the Municipal Assembly |

Note that at the regional level we acknowledge only mayors and do not go to, for example, presidents of “*Juntas de Freguesia*”, because we believe that below this level it is unlikely for the politician to have internationally-relevant human and/or social capital.

4.1.3 Data collection process for the dependent variable

Our dependent variable is the ratio of foreign sales to total sales (FSTS), which is a measure of foreign direct investment (FDI) used in papers like Capar & Kotabe (2003) and Contractor et al. (2003). This indicator provides us with a representation of the degree of international diversification, similar to other ratios like FATA or FETE (Hitt, Tihanyi, Miller & Connelly, 2006). This percentage was calculated for each year and each company, accounting for a total of 507 observations, which is our sample size. The primary sources of data were the annual reports and the Thomson Reuters Eikon platform.

The main reason why this was the chosen measure of internationalization and not, for instance, foreign subsidiaries, is due to the readily available information regarding firms’

turnover by geography. Further, under IAS 14, public companies were required to disclose information on both their operating or business segments and their geographical segments. However, although IAS 14 was replaced by IFRS 8, with a mandatory legal application since January 1st 2009, and which only requires for the operating segments' disclosure on annual reports, the majority of the firms in our sample kept on disclosing information for both segments.^{12 13}

4.2 Analytical Strategy

Broadly, for understanding the relationship between our explanatory variables and our chosen measure of internationalization, we did a panel linear regression analysis in which FSTS is the dependent variable and the percentage of politicians on the BD, the number of politicians on the BD with international experience, and the international experience of the CEO are the independent variables. Our 507 observations composed an unbalanced panel, with 56 different companies and a number of years observed (T) ranging from 2 to 10. Since we lagged our explanatory variables, our models consisted of 449 observations and T=1-9.

4.3 Measures

4.3.1 Dependent Variable

As mentioned in section 4.1.3, the FSTS values were either directly taken from the Thomson Reuters Eikon platform or from annual reports. Some annual reports had the geographical turnover information already written down, whilst for others, we had to compute the values by using one of the following formulas:

$$\text{Segment Revenue \%} = \frac{\text{Interest \& Noninterest Income}_{(\text{Segment})}}{\text{Interest \& Noninterest Income}_{(\text{Total})}} \quad ; \quad \text{Segment Revenue} = \frac{\text{Total Revenue}_{(\text{Segment})}}{\text{Total Revenue}_{(\text{Total})}}$$

4.3.2 Independent Variables

The percentage of politicians on the board of directors. As stated in section 4.1.1, this is our main independent variable and was assessed by the full analysis of the board of directors

¹² IAS 14 - Segment Reporting (Superseded). (2012, July 18). IAS plus. Available at: <https://www.iasplus.com/en/standards/ias/ias14>.

¹³ IFRS 8 - Operating Segments. (2012, March 05). IAS plus. Available at: <https://www.iasplus.com/en/standards/ifrs/ifrs8>.

for each company and each relevant year. For the analysis itself we used the percentage of the number of politicians on the board of directors, calculated in the following way:

$$\text{Politicians on the BD \%} = \frac{\text{Total Number of Politicians on the Board}}{\text{Total Number of Board of Directors' Members}}$$

The number of politicians with international experience on the board of directors. Following the same rationale, this is our first moderator variable and was assessed by the full analysis of the board of directors for each company and each relevant year. For the analysis itself we used the count – in number – of politicians with international experience on the board of directors. We identified international experience based on Table 1, and coded all politicians having international experience except those at the regional level (i.e. Mayors and Members of the Municipal Assembly). We, therefore, accounted for international, supranational and relevant national¹⁴ politicians with international experience in the field of politics. In line with the Fernández-Méndez et al. paper (2018), we used the percentage for the independent variable and the count for the first moderator variable because we believe that this is more relevant to the analysis due to making the variables less correlated amongst them.¹⁵

CEO with international experience. This is our second moderator variable, i.e. it is a variable that affects the relationship between the variables of the main hypothesis, and was also assessed by the full analysis of the board of directors for each company and each relevant year. For the analysis itself, we considered this variable to be a categorical or dummy variable, where “the CEO having relevant international experience on a board of directors within his or her area of expertise” equals 1 or True, and “the CEO not having relevant international experience on a board of directors within his or her area of expertise” equals 0 or False.

4.3.3 *Control Variables*

Controls are factors we should account for since they can affect our dependent variable. When studying the effect of the independent variables (percentage of politicians on the board, number of politicians on the board with international experience, and CEO experience) on our dependent variable (FSTS), it is essential to include control variables that could affect firms’

¹⁴ E.g. Ambassadors, Consuls.

¹⁵ Had we used percentage values for both of the variables, the correlation between them would be 0.717 instead of 0.621.

internationalization. In that sense, several variables were controlled at the firm-level, namely *Firm size*, *Firm industry*, *Firm performance* and *Firm leverage*.

Because firms with a larger scale may be better positioned in the market in which they operate, have a more significant number of means and be more easily capable of managing external dependency (El Nayal, Van Oosterhout & Van Essen, 2019), and by also observing the discrepancies in terms of total assets between the companies in our sample, we believe that *Firm size* should be taken into consideration. For this reason, we accounted for *Firm size* as a control variable, measured by the natural logarithm (ln) of the book value of the firm's total assets. The original amounts for assets were in millions of Euros (M€), but due to uniformization concerns we have decided to use the ln. When the original continuous data does not follow a bell curve, we can log transform this data to make it as "normal" as possible so that the statistical analysis results from this data become more valid. With this, we are fundamentally capturing the "degree of greatness" of each observation.

Firm industry was also used as a control variable because depending on the industry that firms operate in, some firms may be more or less predisposed to internationalization than others. We measured *Firm industry* using the first two digits of the SIC code for each company. It was computed as a categorical variable with a Min. 15 and Max. 99. To understand the results, please refer to Figure 2 in the Appendices section for a motivating example.

Firm leverage was calculated through the Debt-to-Equity ratio and expressed the shareholders' equity capacity to cover all outstanding debt. This ratio is used to evaluate a company's financial leverage, that is, it is a measure of the degree to which a company is financing its operations through debt versus wholly-owned funds.¹⁶ This is a recurrently used ratio in the research literature (e.g. Arditti, 1967).

Finally, *Firm performance* was also considered as a control variable, measured through the firm's return on equity (Net income/Equity), just as was done in El Nayal, Van Oosterhout & Van Essen's paper (2019).

¹⁶ Fernando, J. (2020, November 17). Debt-To-Equity Ratio – D/E. Available at: <https://www.investopedia.com/terms/d/debtequityratio.asp>.

5 RESULTS AND FINDINGS

Table 2 – Means, standard deviations, and correlations

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | M | SD | Min | Max |
|--|---------|--------|---------|---------|---------|--------|--------|--------|---------|-----------|----------|
| 1. Percentage of FSTS | 1.0000 | | | | | | | 0.3284 | 0.3220 | 0.0000 | 0.9920 |
| 2. Percentage of politicians on the BD | -0.1914 | 1.0000 | | | | | | 0.0824 | 0.1159 | 0.0000 | 0.6667 |
| 3. Number of politicians on the BD with intl. experience | -0.0398 | 0.6215 | 1.0000 | | | | | 0.5089 | 1.1147 | 0.0000 | 6.0000 |
| 4. CEO with intl. experience | 0.1083 | 0.1531 | 0.1798 | 1.0000 | | | | 0.7041 | 0.4569 | 0.0000 | 1.0000 |
| 5. Firm size | 0.1560 | 0.3160 | 0.4715 | 0.3200 | 1.0000 | | | 2.9062 | 0.9376 | 0.4176 | 5.0000 |
| 6. Firm performance | -0.0795 | 0.0386 | -0.0146 | -0.0959 | -0.0060 | 1.0000 | | 0.0790 | 1.0351 | -12.1733 | 12.2991 |
| 7. Firm leverage | -0.0415 | 0.0008 | -0.0023 | -0.0571 | 0.0616 | 0.3538 | 1.0000 | 6.0460 | 36.2640 | -134.3670 | 747.1910 |

Note: N=507.

Table 3 – Firm fixed-effects PLM regression results using FSTS as the Dependent Variable

| | Model 0 | Model 1 | Model 2 | Model 3 | Model 4 |
|---|----------------|----------------|----------------|----------------|----------------|
| Percentage of politicians on the BD (H1) | | | | | |
| Estimate parameter | | -0.06141 | -0.02657 | -0.02169 | 0.00697 |
| p-value | | 0.32240 | 0.69970 | 0.78180 | 0.93180 |
| Number of politicians on the BD with intl. experience (m1) | | | | | |
| Estimate parameter | | | -0.02533 | | -0.02624 |
| p-value | | | 0.11540 | | 0.10410 |
| CEO with intl. experience (m2) | | | | | |
| Estimate parameter | | | | 0.01773 | 0.01795 |
| p-value | | | | 0.37020 | 0.36740 |
| H1 * m1 (interaction effects) (H2) | | | | | |
| Estimate parameter | | | 0.02188 | | 0.02697 |
| p-value | | | 0.58540 | | 0.50770 |
| H1 * m2 (interaction effects) (H3) | | | | | |
| Estimate parameter | | | | -0.06556 | -0.05955 |
| p-value | | | | 0.45580 | 0.50540 |
| Firm size | | | | | |
| Estimate parameter | 0.15411 | 0.15708 | 0.17823 | 0.15866 | 0.18001 |
| p-value | 0.00000 *** | 0.00000 *** | 0.00000 *** | 0.00000 *** | 0.00000 *** |
| Firm performance | | | | | |
| Estimate parameter | -0.00440 | -0.00430 | -0.00434 | -0.00434 | -0.00438 |
| p-value | 0.35620 | 0.36710 | 0.36180 | 0.36440 | 0.35870 |
| Firm leverage | | | | | |
| Estimate parameter | 0.00006 | 0.00005 | 0.00005 | 0.00006 | 0.00005 |
| p-value | 0.59520 | 0.64260 | 0.69200 | 0.61410 | 0.66480 |

Significance codes according to R software: 0 '****' 0.001 '***' 0.01 '**' 0.05 '.' 0.1 '.' 1

However, for the purpose of this dissertation, we only consider a level of significance equal to 5%.

Note: N=449. 'H' stands for hypothesis; 'm' stands for moderator variable.

5.1 Overview of Table 2

First, it is crucial to point out that on average 33% of Portuguese firms' total sales, are foreign sales (FSTS), and this provides us with evidence that the mean is different from zero ($p=0.000$).¹⁷ Since the results are statistically significant, they serve as evidence that, on average, a great number of Portuguese listed firms' sales are international sales.

Table 2 provides descriptive statistics for all the variables used in the PLM analysis. It demonstrates the means, standard deviations, and correlations between the different variables. It is also possible to see that the correlation between the percentage of politicians on the board of directors and the number of politicians on the board of directors with international experience has an evident high value and also high significance ($r = 0.621$; $p=0.000$) These values suggest that the variables can be too similar, which could represent an issue for this study. In order to solve this, we checked multicollinearity by conducting a Variance Inflation Factor (VIF) test for the full range of variables (i.e. Model 4). The maximum value was 3.503, which is under the recommended maximum value of 5 or 10¹⁸, suggesting that multicollinearity is not an issue (James, Witten, Hastie & Tibshirani, 2013).

5.2 Overview of Table 3

Table 3 provides the panel linear regression results using FSTS as the dependent variable. It also presents the reader with five statistical models. The models were drawn after running a fixed-effects regression with a within-group estimation technique. We ran the models in R software using PLM, and ran a Hausman test for each model to assess whether we should use random-effects or fixed-effects (see Table 3). However, since the Hausman test indicated that Models 0, 1 and 3 should account for random-effects, whilst Models 2 and 4 should have fixed-effects, and since it is not common to use different models, we have decided to analyze all models using fixed-effects.¹⁹

Model 0 is estimating the effect that the control variables namely: *Firm size*, *Firm industry*, *Firm performance* and *Firm leverage* have on our dependent variable, FSTS, presenting an $R^2=0.115$ and $p=0.000$. As for the fitting of the model, this means that ~11.5%

¹⁷ Test for the population mean, made through a one-sample t-test.

¹⁸ VIF provides a measure of how much the variance of the estimate of the coefficients is inflated compared to the case where the covariates are not linearly dependent. Please note that literature is very divided amongst the maximum VIF value being 5 or being 10. Since our maximum value is under both thresholds, we decided to include both numbers in the text (James, Witten, Hastie & Tibshirani, 2013, pp. 99-102).

¹⁹ Running the same models using random-effects yielded similar results (see Table 5 in the Appendices section).

of the variable FSTS is explained by the explanatory variables and that the model is statistically significant. Please note that all of the models take into consideration the effects of all of the control variables. Nonetheless, since using fixed-effects will make time-invariant variables drop, all models also disregard *Firm industry* effects.

Model 1 estimates the effect that our main independent variable, the percentage of politicians on the board of directors, has on our dependent variable, FSTS, presenting an $R^2=0.117$ and $p=0.000$. Hypothesis 1, which predicts a positive relationship between the percentage of politicians on the board of directors and firm internationalization, does not receive support however, since it is not statistically significant ($p=0.322$), that is, our main independent variable is not statistically different from zero. On the one hand, Models 1, 2 and 3 suggest that the coefficient is negative, i.e. for each additional unit of the politician variable it is expectable that FSTS will decrease along with the value of the parameter (*ceteris paribus*); on the other hand, Model 4 suggests that the coefficient is slightly positive. Notwithstanding, this variable is still not impactful due to being statistically insignificant in all of the models. In short, Hypothesis 1 is not supported.

Model 2 estimates the effect that the international experience of politicians has on the relationship between their presence on the board and firm internationalization. An R^2 value of 0.125 and $p=0.000$ indicate that around 12.5% of the variable FSTS is explained by the explanatory variables and that the model is statistically significant. However, despite the increase in model fit, the results almost do not differ from those of Models 0 and 1. Hypothesis 2, which predicts that the positive relationship between the presence of politicians on the board of directors and firm internationalization is stronger for firms having politicians on the board with relevant international experience, is not statistically significant ($p=0.585$). Models 2 and 4 suggest that the coefficient is positive, i.e. for each additional politician with international experience it is expectable that FSTS will increase along with the value of the parameter (*ceteris paribus*), thus this variable has a positive impact on the dependent variable. Notwithstanding, this variable is still not impactful due to being statistically insignificant in all of the models. In short, Hypothesis 2 is not supported.

Model 3 estimates the moderating effect of CEOs' international experience on the relationship between politicians on the board and firm internationalization. An R^2 value of 0.119 and $p=0.000$ indicate that around 11.9% of the variable FSTS is explained by the explanatory variables and that the model is statistically significant. However, Hypothesis 3, which predicts that the international experience of the CEO weakens/strengthens the positive relationship between the presence of politicians on the board of directors and firm

internationalization, does not receive support, inasmuch as it is not statistically significant ($p=0.456$). Models 3 and 4 suggest that the coefficient is negative, i.e. for each additional CEO with international experience it is expectable that FSTS will decrease along with the value of the parameter (*ceteris paribus*), thus this variable has a negative impact on the dependent variable. Notwithstanding, this variable is still not impactful due to being statistically insignificant in all of the models. In short, Hypothesis 3 is not supported.

Model 4 is our full model. It is a combination of all of the previous models, and reflects the effect that all of the explanatory variables analyzed in this study have on FSTS, at the same time. It presents an $R^2=0.127$ and $p=0.000$. This means that ~12.7% of the variable FSTS is explained by the explanatory variables and that the model is statistically significant. However, the results almost do not differ from those of Models 0, 1, 2 and 3, and just as the other models we still only have one statistically significant variable, which is *Firm size*. Although this is the best of the models, considering the value of the R^2 , we can infer that including all of the variables in the model at the same time does not add value to the model. All in all, although the model is statistically significant, we cannot draw any conclusions on how the explanatory variables impact FSTS. The main advantage of having a full model that includes all of the hypotheses is mainly concerned with analyzing in which ways does incorporating all variables into the model affect the quality of the adjustment, although the parsimony principle may drive us to conclude the exact opposite.

5.3 *Summary of main results*

In essence, we conclude that Hypothesis 1 is statistically insignificant in all models, and therefore we cannot predict FSTS based on the percentage of politicians on the board. Although the coefficient is negative in three of the models and only slightly positive in the full model, the effect that this variable has on the dependent variable is not impactful due to being statistically insignificant. Hypothesis 2 is statistically insignificant in all models, and therefore we cannot predict FSTS based on the interaction between the percentage of politicians on the BD and the number of politicians on the BD with international experience, and the consequent effect of this interaction on the dependent variable. Although the coefficient is positive in all of the models, the effect that this interaction has on the dependent variable is not impactful due to being statistically insignificant. Hypothesis 3 is statistically insignificant in all models, and therefore we cannot predict FSTS based on the interaction between the percentage of politicians on the BD and the international experience of the CEO, and the consequent effect of this interaction

on the dependent variable. Although the coefficient is negative in all of the models, the effect that this interaction has on the dependent variable is not impactful due to being statistically insignificant.

By and large, our results show that our hypothesized independent variables do not have a statistically meaningful effect on the dependent variable; however, we encourage the reader to look at our conclusions and recommendations as we believe that further research should still be carried out.

6 CONCLUSIONS AND DISCUSSION

In this dissertation, we analyzed the impact that politicians on the board of directors have on the internationalization of Portuguese firms, specifically the extent to which the resources of these politicians on the board of directors, namely their human and social capital work, or not, as a facilitator in the process of FDI. In this sense, we used FDI to understand the value that each politician can provide to the firm, that is, the value of politicians as resource providers. For this reason, we studied the direct impact of having politicians serve on the board, as well as the moderating effect of the international experience of these politicians and that of the CEO (should it exist).

Five models were run for our conclusions to be drawn. With them, we concluded that ~8% of the publicly-listed Portuguese companies between 2010-2018 had politicians on their board of directors, and ~4% of these politicians had relevant international experience. On average, 33% of the sales of Portuguese firms were foreign sales, and ~70% of the CEOs had international experience in their area of expertise. Additionally, we concluded that ~24% of the firms had only 1 CEO during the focal period, and each CEO exercised their role for ~6 years. We also found that the bigger the firm, in terms of total board size per year, the more politicians on the board, and this was especially true for firms providing indispensable commodities, such as energy, oil and gas, and for the banking sector. Yet, our hypotheses for assessing the potential benefits that politicians on the board of directors bring to firms' internationalization were not statistically different from zero.

From our viewpoint, the difficulty in finding support for our propositions is mainly concerned with the low percentage of politicians on the board of Portuguese listed firms, and the even lower percentage of politicians with international experience on the board. Other explanations may have to do with the fact that we only tested publicly-listed companies due to data-availability concerns, or even with the fact that our focal period starts right after the 2008 global financial crisis, when firms were not investing as much in their international expansion. In reality, the European markets were in contraction even before the financial crisis. Portugal, specifically, faced harsh austerity measures after the crisis. Moreover, we must bear in mind that Portugal is a small country not only within the EU landscape, but also worldwide. In that sense, Portuguese firms may find it difficult to compete abroad with much bigger firms from other countries that bear higher investment and financial capacities.

We can also partially justify our results by taking into consideration the Corruption Perceptions Index (CPI) scores. In 2018, Portugal scored 64 points on a scale of 0 (highly

corrupt) to 100 (very clean), occupying the 30th position amongst 180 countries worldwide. Since 2017, the Western European & European Union average is 66 points. Although the difference is not significant, Portugal's position suggests that the level of corruption perceptions is high when compared to European standards, and due to reputational issues firms may not want to be highly associated with politicians (Transparency International, 2018, 2019).

We do not think of our sample size as an empirical reason that may explain why we did not observe significant findings. Contrariwise, we think of our 507 observations as a fair sample size, taking into consideration the size of Portugal, the availability of data for publicly-listed companies and the lack of publicly-available information for non-listed companies. Further, we do not think that enlarging the focal period would be beneficial to our study also due to lack of data concerns.

Other explanations related to how we have operationalized our variables such as the adequacy of the chosen variables or even the [modest] number of variables fomented the inability to capture the desired results.

As for the theoretical reasons, we must highlight the difficulty in separating the effects of human capital and social capital, especially abroad. After all, it seems that the international experience that politicians may bring to the board does not add much to the domestic knowledge they already have, leading to the belief that not only social capital but also human capital is location-specific. Alternatively, there are other counter effects of politicians that cancel out their internationalization role, for instance, because politicians provide a lot of domestic favors and encourage domestic growth, firms do not need to seek foreign markets as a priority (Fernández-Méndez et al., 2018).

Although our results do not allow us to draw statistically-significant conclusions on the specific benefits of politicians on the board when it comes to firm internationalization, other studies have proved that having politicians on the board is beneficial for firms in the sense that it allows them to enjoy privileged access to governments, and we believe that these benefits go far beyond this border.

Nevertheless, we can conclude that this dissertation brings several contributions to the literature. First, it differs from the majority of the traditional CPA studies, as it does not only contribute to the classic debate of demonstrating whether or not politicians add value to firms, but also extends the analysis to the understanding of the role of human and social capital, and how these resources contribute to these value-adding concerns. With this, we are treating politicians as a heterogeneous variable by differentiating not only their knowledge and network, but also their concentration on firms and international experience. Further, this study also

relates the top-management executives with human and social capital, and addresses the international experience of CEOs, thus considering them heterogeneously as well. Additionally, this dissertation also contributed to the area of Corporate Political Activity, politicians on the board of directors and firm internationalization within the Portuguese context, something that had never been done before [to the best of our knowledge].

All in all, we decided to conduct a study that provides evidence on the impact that politicians on the board of directors have on firm internationalization, for the specific case of Portugal. Although a generalization of the results to other landscapes does not seem feasible due to differences in country size, population, regulation, economic situation, amongst others, we believe that it is still a relevant study and encourage future research to be extended to other realities as well. By and large, we believe this topic is worth further study and encourage researchers to expand on the literature.

7 LIMITATIONS AND FUTURE RESEARCH

Similar to most empirical studies, this dissertation presents some limitations that are highlighted in this chapter so that future research may take them into account. The limitations of this study include those deficiencies or lack of information that influenced the interpretation of the results and the findings from our research.

First, our panel was unbalanced due to missing data in some years. The reasons why not all firms have a 10-year observation (nine years from the focal period plus the previous year) range from companies being delisted or dissolved, and therefore neither included on our sample from there on nor even required to disclose all the financial information that was used on this paper, to them operating in unregulated markets.

Second, the sample of this research intends to represent the population of Portuguese firms. However, only publicly-listed firms were considered. This may have conditioned the results and their proof. The reason why we decided to work only with publicly-listed companies is mainly that non-public firms are not required to disclose specific financial data that we used for this research. However, we understand that it is necessary to consider that private firms and non-profit organizations also resort to the appointment of politicians to their boards. Notwithstanding, we believe that if more companies were included in the analysis, the results could have been more representative of the population, even though it may not be feasible to include many more firms.

Third, for five of the companies²⁰ in some specific years, the foreign sales/total sales ratio has values for the Iberian Peninsula, and not for Portugal alone, since we could not find information for Portugal only.

Four, our study was carried out only for the Portuguese context, making a generalization of the conclusions impossible to be extended to any other country's reality, not only due to cultural factors but also due to legislative factors. Results could be more significant, have a more exceptional contribution to the existing literature, and even allow for a better understanding of whether or not the numbers for Portugal are typical when comparing them to other realities if the analysis were to broaden the range of countries analyzed.

Five, although we make use of relevant literature-based concepts of social and human capital, it is too difficult to ascertain the exact impact that each director and board member's

²⁰ Martifer - Construções Metalomecânicas S.A.; EDP - Energias de Portugal, S.A.; Cimpor - Indústria de Cimentos S.A.; Mota-Engil, Engenharia e Construção S.A.; Sonae Indústria SGPS S.A.

resources have. Maybe a “normalized-scale” of human and social capital that would allow for experience and network comparison would be a good solution to this problem.

Finally, it is also important to highlight that the appointment of politicians to the board of directors is not the only political strategy used by firms. Therefore, future research may also include other political strategies for more complete and sweeping outcomes.

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9 APPENDICES

9.1 Missing data

Because the effect of one year is only visible in the following year, we tried to include the previous year's data on our sample for all of the companies whenever it was possible. All missing data for both the focal period of the study and the immediately previous year is explained in Table 4. The information was provided by CMVM via e-mail.

Table 4 – Missing data

| Company | Year(s) | Reason for missing data |
|---|-----------------|--|
| Sonagi, SGPS, S.A | 2010-2018 | The issuer operates in an unregulated market, so it has no duty to publish its accounts in the SDI. |
| Teixeira Duarte - Engenharia e Construções S.A | 2012-2015 | The issuer was excluded from the market in 2010, so there are no Annual Reports published on the CMVM website after that date. |
| Litho Formas, S.A | 2011 | The issuer operates in an unregulated market, so it has no duty to publish its accounts in the SDI. |
| Copam - Companhia Portuguesa de Amidos S.A | 2009-2012; 2014 | The issuer operates in an unregulated market, so it has no duty to publish its accounts in the SDI. |
| Conduril - Engenharia, S.A | 2009-2014 | The issuer operates in an unregulated market, so it has no duty to publish its accounts in the SDI. |
| Luz Saúde, S.A (ex Espírito Santo Saúde, SGPS, S.A) | 2009 | The issuer was admitted to the regulated market in 2014, CMVM does not have Annual Reports before that date. |
| Sporting Clube de Braga - Futebol, SAD | 2014/2015 | The issuer operates in an unregulated market, so it has no duty to publish its accounts in the SDI. |

Please note that although we have data for Sonagi, SGPS, S.A for the year 2009, which is the previous year for this company on this analysis, the firm was excluded from the sample for not having any information regarding the following years which are the ones we want to focus on. We could not use the 2009 observation alone since we lagged all of the explanatory variables, and thus the effect of this observation would not be observable.

9.2 Control Variables: Firm Industry

As mentioned in section 4.3.3, Firm Industry (*firmind*) was measured using the first two digits of the SIC code for each company. It was computed as a categorical variable with a Min. 15 and Max. 99. For instance, when running Model 0 with random-effects, we estimate that having a SIC=16 has a positive impact on the value of FSTS, everything else constant. Note

that the value of the Intercept takes into consideration the values for the reference group (in this case, *factor(firmind)15*).

Figure 2 – Summary of Model 0 in PLM (R Output; random-effects)

Coefficients:

| | Estimate | Std. Error | z-value | Pr(> z) | |
|------------------------|-------------|------------|---------|-----------|-----|
| (Intercept) | -1.8730e-01 | 1.5455e-01 | -1.2119 | 0.2255543 | |
| lag(firmsize) | 1.5070e-01 | 2.0191e-02 | 7.4635 | 8.428e-14 | *** |
| lag(firmpcr) | -4.4121e-03 | 4.7342e-03 | -0.9319 | 0.3513625 | |
| lag(firmlev) | 5.8171e-05 | 1.1313e-04 | 0.5142 | 0.6071167 | |
| lag(factor(firmind))16 | 4.1640e-01 | 1.6685e-01 | 2.4957 | 0.0125711 | * |
| lag(factor(firmind))20 | 1.5625e-01 | 1.7780e-01 | 0.8788 | 0.3795082 | |
| lag(factor(firmind))24 | 6.3354e-01 | 1.7633e-01 | 3.5930 | 0.0003269 | *** |
| lag(factor(firmind))26 | 4.8147e-01 | 1.6663e-01 | 2.8895 | 0.0038590 | ** |
| lag(factor(firmind))27 | -7.6677e-02 | 1.7736e-01 | -0.4323 | 0.6655002 | |
| lag(factor(firmind))28 | 9.2549e-01 | 1.7939e-01 | 5.1590 | 2.483e-07 | *** |
| lag(factor(firmind))29 | -1.0767e-01 | 2.0520e-01 | -0.5247 | 0.5997886 | |
| lag(factor(firmind))32 | 4.5735e-01 | 1.7634e-01 | 2.5935 | 0.0094992 | ** |
| lag(factor(firmind))33 | 2.4610e-01 | 2.0384e-01 | 1.2073 | 0.2272976 | |
| lag(factor(firmind))35 | 1.7157e-01 | 2.0826e-01 | 0.8238 | 0.4100375 | |
| lag(factor(firmind))37 | -6.4786e-02 | 2.0372e-01 | -0.3180 | 0.7504781 | |
| lag(factor(firmind))42 | -1.5577e-01 | 2.0368e-01 | -0.7648 | 0.4443951 | |
| lag(factor(firmind))44 | 1.4248e-01 | 1.8004e-01 | 0.7914 | 0.4287292 | |
| lag(factor(firmind))47 | -3.6495e-01 | 2.0743e-01 | -1.7594 | 0.0785093 | . |
| lag(factor(firmind))48 | -1.4280e-01 | 1.6101e-01 | -0.8869 | 0.3751322 | |
| lag(factor(firmind))49 | -2.1832e-01 | 1.7844e-01 | -1.2235 | 0.2211444 | |
| lag(factor(firmind))51 | 7.0803e-01 | 2.0359e-01 | 3.4778 | 0.0005056 | *** |
| lag(factor(firmind))54 | 4.9361e-02 | 1.6693e-01 | 0.2957 | 0.7674636 | |
| lag(factor(firmind))55 | 6.4381e-03 | 2.0364e-01 | 0.0316 | 0.9747793 | |
| lag(factor(firmind))58 | 1.3192e-01 | 2.0372e-01 | 0.6476 | 0.5172685 | |
| lag(factor(firmind))60 | -3.2022e-01 | 1.5957e-01 | -2.0068 | 0.0447759 | * |
| lag(factor(firmind))62 | -2.3425e-01 | 2.0358e-01 | -1.1506 | 0.2498958 | |
| lag(factor(firmind))70 | -7.5164e-02 | 2.0468e-01 | -0.3672 | 0.7134447 | |
| lag(factor(firmind))73 | 1.3652e-01 | 1.6158e-01 | 0.8449 | 0.3981696 | |
| lag(factor(firmind))79 | -1.4855e-01 | 1.5827e-01 | -0.9386 | 0.3479250 | |
| lag(factor(firmind))80 | -2.2352e-01 | 2.0377e-01 | -1.0969 | 0.2726707 | |
| lag(factor(firmind))99 | 4.1444e-01 | 2.0362e-01 | 2.0354 | 0.0418096 | * |

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

9.3 Random-effects' results

Table 5 – Firm random-effects PLM regression results using FSTS as the Dependent Variable

| | Model 0 | Model 1 | Model 2 | Model 3 | Model 4 |
|---|----------------|----------------|----------------|----------------|----------------|
| Intercept | | | | | |
| Estimate parameter | -0.18730 | -0.19138 | -0.18312 | -0.20136 | -0.18967 |
| p-value | 0.22555 | 0.21303 | 0.12589 | 0.19603 | 0.12269 |
| Percentage of politicians on the BD (H1) | | | | | |
| Estimate parameter | | -0.00487 | -0.02559 | -0.02377 | -0.01739 |
| p-value | | 0.42240 | 0.71003 | 0.75749 | 0.83115 |
| Percentage of politicians on the BD with intl. experience (m1) | | | | | |
| Estimate parameter | | | 0.00228 | | 0.00100 |
| p-value | | | 0.88423 | | 0.94920 |
| CEO with intl. experience (m2) | | | | | |
| Estimate parameter | | | | 0.01129 | 0.00529 |
| p-value | | | | 0.55342 | 0.78354 |
| H1 * m1 (interaction effects) (H2) | | | | | |
| Estimate parameter | | | -0.01147 | | -0.01198 |
| p-value | | | 0.71778 | | 0.77052 |
| H1 * m2 (interaction effects) (H3) | | | | | |
| Estimate parameter | | | | -0.04094 | -0.01400 |
| p-value | | | | 0.63597 | 0.87618 |
| Firm size | | | | | |
| Estimate parameter | 0.15070 | 0.15275 | 0.14941 | 0.15320 | 0.15042 |
| p-value | 0.00000 *** | 0.00000 *** | 0.00000 *** | 0.00000 *** | 0.00000 *** |
| Firm performance | | | | | |
| Estimate parameter | -0.00441 | -0.00432 | -0.00439 | -0.00433 | -0.00439 |
| p-value | 0.35136 | 0.36200 | 0.36841 | 0.36187 | 0.36838 |
| Firm leverage | | | | | |
| Estimate parameter | 0.00006 | 0.00005 | 0.00005 | 0.00006 | 0.00005 |
| p-value | 0.60712 | 0.64620 | 0.65532 | 0.62834 | 0.64944 |

Significance codes according to R software: 0 '****' 0.001 '***' 0.01 '**' 0.05 '.' 0.1 ' ' 1

However, for the purpose of this dissertation we only consider a level of significance equal to 5%.

Note: N=507. 'H' stands for hypothesis; 'm' stands for moderator variable.

Please note that due to space considerations we have decided not to layout *Firm industry* effects on this table, albeit the variable has been considered.