

Politicians inside the boardroom; is it a convenient burden?

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Abstract

We analyze whether the activity of former politicians as corporate directors is different than the activity of the rest of directors. We study whether former politicians have a different probability of holding relevant positions in the full board of directors and in the delegated committees. Our results provide weak evidence of a higher activity by politicians, and strong evidence against a lower activity. Firms decide the positions held by each of their directors. Therefore, our results suggest that firms estimate the quality of former politicians as corporate directors in terms of monitoring and advising, to be like quality of the rest of corporate directors. This quality is also corroborated by studying whether their presence affects the performance of the board of directors in terms of CEO turnover events, and in terms of executive directors' compensation. Therefore, firms on average do not bear a high opportunity cost, regarding directors' quality, when hire former politicians to obtain political connections. Our analysis is implemented in Spain, representative of the continental European countries, characterized with high ownership concentration.

Keywords: Corporate governance, political connections, former politicians, board of directors, board committees, corporate directors' quality.

JEL classification: G30, G34, G38, K22

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1. Introduction

It is well known that firms seek political connections in order to obtain economic benefits (e.g., Cooper et al., 2010; Duchin and Sosyura, 2012; Faccio, 2010; Fisman, 2001; Goldman et al., 2009). In developing countries, where politicians and state bureaucrats have a high degree of freedom in many decisions affecting firms, political decisions are a relevant risk factor (e.g., Chen et al., 2011). The resource dependence theory (e.g., Hillman, 2005) then suggests political connections as a mechanism to control this source of risk. However, even in developed countries, with higher scrutiny and control of political decisions, such as in the US, there is empirical evidence supporting the profitability of political connections (Cooper et al., 2010; Goldman et al., 2009). These connections may take several forms, such as business men entering in politics (e.g., Berlusconi in Italy, or Suharto in Indonesia), campaign contributions, hiring politicians as board of directors, bribes, etc.

Our study is centered in one form of political connections; politicians seating in the boardroom of firms. While the political connection may provide an overall benefit to the firm (e.g., higher probability of obtaining contracts with the state, protecting the firm from competition, etc.), the politicians' work in the boardroom may represent a cost for the firm, generating a lower performance of the board of directors as a control and advising corporate governance mechanism. Former politicians usually do not have previous business experience. Little attention has been paid in the literature to the effect of politicians on the performance of the board of directors, although it is common to

find politicians in the board of the largest firms (Goldman et al., 2009). Indeed political connections are more widespread among the larger firms of each country (Faccio, 2006). Just a few papers analyze whether politicians have valuable skills for the performance of the board of directors, such as Agrawal and Knoeber (2001) and Goldman et al. (2009), who find that for some firms it is useful a director with previous experience in politics due to their knowledge of the political system, not just for their connections. Several papers found empirical evidence supporting the existence of a cost of political connections in addition to benefits. Okhmatovskiy (2010), in Russia, find situations where politicians force the firm to deviate from value creation strategies and pursue political objectives. You and Du (2012), in China, show that political connections may generate entrenchment of politically connected executives. In a developed country with less intervention of the government in the economy, the US, Kang and Zhang (2015) find empirical evidence of government directors (including former politicians and former workers of government agencies) behaving as a mere rubber stamps in the board of directors. They are more likely to miss board meetings and do not contribute to generate better corporate governance practices. Therefore, suggesting that government directors are low quality corporate directors.

Our study is focused on former politicians and provides further empirical evidence on the quality and the cost generated by them as corporate directors, but from another point of view. We focus our attention on a different measurable activity of corporate directors inside the boardroom; that is the membership to the delegated committees, and relevant positions in the committees and in the full board of directors, such as Chair, Vice Chair and Secretary. This different focus allows us to analyze the value of former politicians as corporate directors from the point of view of firms. Directors decide on board meetings attendance, firms decide the positions to be held by

each director, at least partially. However firms may behave optimally or not, and therefore we also analyze the effect of the presence of former politicians on the performance of the board of directors. We analyze the role of the board of directors in CEO turnover events and in executive directors' compensation. Contrary to Kang and Zhang (2015) we find that firms behave as if former politicians were not low quality corporate directors, and that this valuation is not a misbehavior of firms.

The direct cost of a politician seating in the boardroom is its compensation as corporate director, however the total cost may be much larger if we take into account the opportunity cost and politicians are low quality corporate supervisors and advisors. Therefore, our analysis of directors' quality is also an indirect analysis of the costs of hiring former politicians as corporate directors. We provide a deep analysis of the work of politicians inside the boardroom. Our analysis is based on the information provided by Spanish firms in their Annual Report of Corporate Governance (ARCG). These reports are standardized, and this allows us to scrutinize in a systematic way the positions of politicians inside the board and their activity in the delegated committees. We compare the activity of politicians with the activity of the rest of corporate directors to assess whether firms consider politician to be worse, better, or equal than the rest of corporate directors. The optimality of this valuation is analyzed studying the relationship between having former politicians as board directors and the performance of the board of directors.

Our research contributes to the literature on political connections by further analyzing the activity of former politicians inside the boardroom (Kang and Zhang, 2015), providing further empirical evidence on the quality of politicians as corporate directors (Agrawal and Knoeber, 2001; Goldman et al., 2009), and providing further evidence on the costs and benefits coming from hiring such corporate directors (e.g.,

Okhmatovskiy, 2010; You and Du, 2012). We also contribute to the literature on corporate connections with the analysis of the behavior of politicians inside the boardroom in a continental European setting, where ownership is highly concentrated and most of the firms do have controlling shareholders (e.g., Bona-Sánchez et al., 2014; Ferguson and Voth, 2008; Niessen and Ruenzi, 2009).

In future research we plan to further analyze whether the observed roles of politicians do respond to an optimal behavior by firms. We plan to analyze the effect on relevant outputs of the audit committee (audit qualifications and earnings management). In the accounting literature there is extensive evidence of firms generating lower quality accounting information in order to conceal the benefits of political connections (Chen et al., 2010), or because lower standards of accounting information are required for those firms (Chaney et al., 2011), however, little is known about the effect of politicians taking different positions inside the boardroom, for example, in the audit committee. We also plan to analyze whether there is a relationship between the value of the political connections provided by each director and its level of engagement in the boardroom.

The following section situates our analysis into the literature on political connections of firms. Section 3 presents the data used for the analysis and our methodological approach. Results are presented in section 4, and section 5 concludes.

2. Related Literature

Political connections of corporations are relevant for investors given its relation with value creation. Firms are subject to the risk generated by political decisions and the resource dependence theory explains the generation of political connections as a device to reduce this risk (Hillman, 2005). However, political connections may also be the result of privatizations, as is usual in transitory economies such as Russia

(Okhmatovskiy, 2010) and China (Francis et al., 2009). Firms used to seek the first type of political connections, are voluntary, and tend to create value for firms (e.g., Ferguson and Voth, 2008; Li et al., 2008; Ovtchinnikov and Pantaleoni, 2012), few authors find the opposite (e.g., Aggarwal et al., 2012). The second type of political connections are usually imposed by the government in the privatization process, and may destroy value if become an obstacle to implement the necessary reforms to increment the efficiency and the profitability of the firm (Boubakri et al., 2009, 2008; Fan et al., 2007; Omran, 2009).

Another issue analyzed in the literature is the effect of political connections on the overall economy. Although most of the empirical evidence supports that firms with voluntary political connections obtain value from these connections, the effect of this political intervention on the overall economy may be negative. Indeed, in developing countries, where government controls essential resources, the intervention may generate an overall cost for the economy. For example, the government controls the financial system in China (Li et al., 2008), Brazil (Claessens et al., 2008), Indonesia (Leuz and Oberholzer-Gee, 2006), Malaysia (Bliss and Gul, 2012), or Pakistan (Khwaja and Mian, 2005). Claessens et al. (2008) found that politically connected firms in Brazil get access to financial resources in better conditions even with worse investment projects. Also in a developed economy, such as the US, political connections may generate a misallocation of financial resources (Duchin and Sosyura, 2012). Financial resources may be inefficiently assigned even when the International Monetary Fund and the World Bank are involved, rescuing bad performers with political connections (Faccio et al., 2006). Therefore, political connections of corporations are a relevant issue also from a political economy point of view.

The literature on political connections identified several sources of value for firms: i) Better access to essential resources, as the financial system (Khwaja and Mian, 2005, in Pakistan), even in the US (Houston et al., 2014). ii) Higher probability of corporate bailouts (Faccio et al., 2006). iii) Special knowledge and skills provided by politicians (Goldman et al., 2009). iv) Better contracts for services and products provided to the government, also in developed countries such as the US (Cohen et al., 2011; Goldman et al., 2013). v) Supervision and regulation specially benevolent with the needs and characteristics of the connected firm, also in the US (Gropper et al., 2013). Indeed firms may obtain valuable political connections in developed and in emerging economies, and also in economies in transition (e.g., Russia and China).

Political connections may be established with different mechanisms: i) Political campaign contributions are analyzed by several articles in the US (e.g., Cooper et al., 2010) and also in other countries (e.g., Claessens et al., 2008; Faccio et al., 2006). ii) The personal involvement of politicians as corporate directors is another usual way to measure political connections of firms. Former politicians becoming corporate directors (e.g., Goldman et al., 2009, in the US), and also current politicians if there are no incompatibility constrains (e.g., Okhmatovskiy, 2010, in Russia). iii) In some cases it is analyzed the case where a business man enters politics, such as in Bunkanwanicha and Wiwattanakantang (2009) and in Hillman et al. (1999). iv) Finally, some papers use a broader perspective to measures the political connections of firms, such as when a large shareholders is closely related to a top official (Faccio, 2006).

Political connections may also imply a cost for the firm, even if the overall effect is positive. Whenever politicians serve as corporate directors, the deviation from value maximizing objectives in order to pursue political objectives is one of the most relevant costs. And several articles find it as relevant as to beat the benefits in privatized firms

(e.g, Okhmatovskiy, 2010). Low quality accounting information is also a cost related with political connections, as a result of political connections facilitating access to financial resources and therefore generating a lower need to provide reliable accounting information in order to get financial resources (Chaney et al., 2011), or as a result of a strategy to conceal rent seeking activities by colluded politicians, managers and controlling shareholders, or to conceal the advantages the firm obtains from the political connections (Chen et al., 2010). Indeed, political connections may be the result of an uncontrolled agency problem (You and Du, 2012). Even in the US, where Aggarwal et al. (2012) found empirical evidence of political campaign contributions to benefit managers instead of shareholders.

A less analyzed issue is the potential cost generated by the political connection due to its effect on the performance of the board of directors as a corporate governance mechanism. Politicians with generally no previous business experience are introduced into the board of directors. This is highly related with the quality of politicians as corporate directors, in terms of the monitoring and advising roles of the board of directors. Few articles, such as Agrawal and Knoeber (2001), Goldman et al. (2009), and Kang and Zhang (2015) provide some empirical evidence regarding the quality of former politicians as corporate directors, and just for the US setting. Our research contributes to the literature in this field by providing empirical evidence of the value of former politicians as corporate directors from the point of view of firms, and analyzing the accuracy of this valuation with the study of relevant outputs of the board of directors. We also contribute by analyzing this issue in a continental European country setting, with the typical high ownership concentration (e.g., Bona-Sánchez et al., 2014; Ferguson and Voth, 2008; Niessen and Ruenzi, 2009). Our article provides a higher understanding of the role of politicians in the board of directors. This understanding

would help firms to decide what to do with them in their board of directors in order to maximize the value the political connection provides. Our analysis also represent a contribution to the literature on the cost and benefits of political connections (e.g., Aggarwal et al., 2012; Chaney et al., 2011; Okhmatovskiy, 2010; You and Du, 2012).

3. Data and Methodology

3.1. Data

We construct a database where we identify former politicians from the main political institutions in Spain that obtain a seat in the boardroom of Spanish listed firms. We obtain an accurate identification given the cultural idiosyncrasy of Spain, where citizens have at least one name and two surnames. This facilitates us to identify individuals in the boards of directors from the public lists of full names of politicians, with 20,326 registers. After a mechanical matching we check the identity of each identified politician. We obtain data on the corporate governance practices of firms, such as board and board committees' compositions, from their Annual Report on Corporate Governance (ARCG). In Spain all listed firms must release a standardized ARCG where firms have to indicate whether they comply each of the recommendations of the Spanish code of best corporate governance practices, and many other details. This annual report has a standardized format that allows computerizing its content.

We analyze all firms listed in the Spanish Stock Exchange from 2004 to 2012 that also released the standardized ARCG.¹ It is excluded one bank that was managed by the regulator to avoid bankruptcy. This generates a sample with 1,105 firm-year observations. The number of firms ranges from 135 in 2007 to 115 in 2012. Our sample of corporate boards contains 12,248 board seats-year observations. Financial data of

¹ Several foreign firms are allowed to release the annual report according to the rules in their country.

firms, such as market capitalization, is obtained from the Thomson One Banker database. Regarding the data on politicians, we obtained the list of Spanish politicians from the official web site of each institution in October 2014, see Table 1. We obtain the full name of all politicians that have been members of the Parliament, the Senate, the Central Government (prime minister, ministers, and secretaries of state), and of all regional parliaments (seventeen) since the beginning of the Spanish democracy in 1977, and from the European Parliament since its beginning in its actual format in 1979.

Table 1. Data sources of politicians

Spanish Parliament:	http://www.congreso.es
Spanish Senate:	http://www.senado.es/
Spanish Government:	
President and ministers:	http://www.lamoncloa.gob.es
Secretaries of state: *	https://www.boe.es/
European Parliament:	http://www.europarl.europa.eu
Regional Parliaments:	
Andalucía:	http://www.parlamentodeandalucia.es
Aragón:	http://www.cortesaragon.es
Principado de Asturias:	http://www.igpa.es/
Balears:	http://www.parlamentib.es
Canarias:	http://www.parcn.es
Cantabria:	http://www.parlamento-cantabria.es
Castilla la Mancha:	http://www.cortesclm.es
Castilla y León:	http://www.ccyL.es
Cataluña:	http://www.parlament.cat/
Comunidad Valenciana:	http://www.cortsvalencianes.es
Extremadura:	http://www.asambleaex.es
Galicia:	http://www.es.parlamentodegalicia.es
La Rioja:	http://www.parlamento-larioja.org
Madrid:	http://www.asambleamadrid.es
Navarra:	http://www.parlamentodenavarra.es
País Vasco:	http://www.legebiltzarra.eus/es
Murcia:	http://www.asambleamurcia.es/

* For Secretaries of State a first step has been to obtain the list from Wikipedia (<http://es.wikipedia.org>), and a second step has been to check the existence of each member in the Official State Bulletin (it is where state norms are published in Spain. It is called "*Boletín Oficial del Estado*"). Some errors in the Wikipedia list have been corrected in the second step, such as a correct spelling of names and surnames. However, the second step corroborated the full Wikipedia list.

3.2. Institutional setting

In Spain the first public authority with real political power is the prime minister, that is the chief of the Central Government, then come ministers, and then the secretaries of state. Therefore, we identified the members of the first three levels of political power of the central government. At the national level, the legislative power

resides in two cameras, the parliament and the senate. Spain is divided in seventeen regions with some degree of political autonomy called “Comunidades Autonomas”. Each of these regions has its own regional parliament and regional government. The official web sites of regional governments just contain their current composition, and we did not search further. Therefore, any politician that has been just a member of a regional government and has not been a member of the regional parliament is out of our analysis (it is a rare situation); this is a limit of our research. However our database detects the core of the relevant politicians in Spain. Due to incompatibility norms, politicians in office are not allowed to hold a corporate directorship. Therefore as in related papers in the US (Goldman et al., 2009), we analyze political connections in the form of former politicians in the board of directors of firms.

Corporate governance in Spain is mainly driven by the code of good governance (“Código Unificado de Buen Gobierno”), that follows the principle of comply or explain. Firms may comply or not comply the code recommendations, although have to explain why they do not comply the recommendations. Firms have to deliver the ARCG to the “Comisión Nacional del Mercado de Valores” (CNMV, The Spanish Securities and Exchange Commission). This code has been modified in 2015, after the end of our sample time period, excluding some recommendations that have been incorporated into the law and became mandatory. In Spain firms have a board of directors composed by internal and external directors, as in the US and the UK. Internal directors are executives of the firm. Usually the Chief Executive Officer (CEO) is the chair of the board of directors (57.6% of our firm-year observations, see Table 2), although the code of good governance recommends against this practice. It is also a common practice in the US (Dey et al., 2011; Hwang and Kim, 2009). External directors are divided into independent directors and proprietary directors. Proprietary directors are proposed by

significant shareholders to defend their interests. In Spain, as is usual in the continental European countries, ownership is highly concentrated. The average ownership of the largest shareholder is 35.1%; it is 49.1% for the three largest shareholders (see Table 2). Almost all firms, large and small, have controlling shareholders, with stakes over 3% of capital. Consequently, the code of corporate governance introduces the proprietary directors to defend their interest. The code recommends a similar proportion between independent directors and proprietary directors than the proportion between free float and the overall ownership of controlling shareholders. There is no mandatory minimal proportion of independent directors, just a recommendation. It was one third during our sample time period, it is one half in large firms with dispersed ownership structure since 2015. Finally directors may be classified as others (outside directors that do not represent any significant shareholder, and are not independent because of relationships with the firm, their managers, or their significant shareholders). Firms must classify directors into these categories in their ARCG, and this facilitates the analysis of the role played by former politicians into the boardroom. See Table 2 for the average distribution of directors among the four categories. The size of our firms is lower than the size of firms analyzed in related articles in the US, such as Goldman et al. (2009), with an average market capitalization higher than \$ 20,000 million. Firms in the largest quartile of our sample are close to that size, with around € 15,000 million of market capitalization.

Table 2. Firm level characteristics

Firm characteristics are its stock market capitalization, board size, the percentage of former politicians in the board of directors, the proportion of executives, proprietary, independent, and other directors over board size, ownership by the largest shareholder (C1), the three largest shareholders (C3), the fifth largest shareholders (C5), all large shareholders (those with an ownership larger than 3% and board directors), and the state ownership. The last rows show the percentage of firms where the CEO is also the Chair of the board of directors, and the percentage of firms where the state has significant ownership participation. Panel A provides descriptive statistics of all variables for the overall sample. Panel B provides the mean value of the variables by the quartiles of the firms ordered by market capitalization (first and last quartiles). Quartiles are recomputed each year. Panel C provides the mean value for the first and last year of the sample.

	Panel A: Overall sample			Panel B: Means by market capitalization		Panel C: Means by Year	
	# Observations (firm-year)	Mean	Std. Dev	First (largest)	Fourth	2004	2012
Market Capitalization (mill €)	1105	4349.2	11515.7	15243.9	97.2	3893.5	3744.6
Board Size	1105	11.1	3.8	14.5	8.3	10.9	11.0
Politicians over board size	1105	4.5%	6.9%	6.3%	2.2%	4.2%	4.5%
<u>Board Structure</u>							
Executives	1105	19.5%	12.4%	17.2%	20.6%	21.1%	18.2%
Proprietary	1105	42.6%	22.2%	38.0%	42.2%	42.5%	40.2%
Independents	1105	33.3%	18.0%	39.3%	32.2%	33.2%	36.2%
Others	1105	5.7%	11.6%	7.1%	6.3%	3.2%	5.4%
<u>Ownership Structure</u>							
C1	1105	35.1%	25.2%	34.1%	27.1%	34.5%	31.6%
C3	1105	49.1%	24.0%	47.2%	43.3%	47.4%	46.4%
C5	1105	54.2%	23.5%	50.3%	50.3%	51.6%	52.2%
All significant owner	1105	57.2%	23.6%	51.6%	54.1%	53.6%	55.2%
State Ownership	1105	0.3%	2.1%	0.8%	0.0%	0.3%	0.4%
<u>% of firm-year observations</u>							
CEO - Chair Duality	1105	57.6%		64.9%	52.2%	51.7%	53.9%
State Ownership	1105	3.1%		6.5%	0.7%	1.7%	4.3%

The Spanish code of corporate governance also has recommendations over the delegated committees of the board of directors. The existence of an audit committee is mandatory by law. This committee deals with the accounting and internal control system, high accounting skills and experience is recommended to be part of this committee. Since 2015 it is also mandatory the nomination and the remuneration committees, not during our sample time period. The nomination committee evaluates the CEO and the rest of executives and directors, and the dismissals and new appointment propositions. Finally the remuneration committee fixes the incentive schemes of executives and directors. Usually firms also have an executive committee to deal with urgent matters between board meetings. Executive directors are especially relevant in the executive committee given their knowledge of the day by day of the firm. Outside directors, especially independent directors, are the relevant ones in the other three committees, as recommended by the Spanish code of governance. In the

supervisory committees (audit, nomination and remuneration) the code also recommends the chair to be an independent director. Firms may have other delegated committees, but usually the mentioned ones are the most predominant. The ARCG must contain information on the composition of all delegated committees and the position held by each director, usually Chair, Vice-chair, and Secretary.

3.3. Methodology

The matching process of the politicians and corporate governance databases has been enhanced using search patterns called Regular Expressions using the POSIX and Perl's standards (see the Stata 13 manual). Since the name of a person may be written in different ways we write each name in different ways in order to increase the probability of a matching between both databases. For example "Juan Antonio Martín" may also be written as "Juan A. Martín" as "JUAN A. MARTIN", or as "Martín, Juan Antonio" to show a few examples. A final step has been to check each match in the firm ARCG and web site, and the web sites of the institutions where politicians served to discard the matching of different people with the same name. If these sources are not sufficient, we start a google search on media web pages and on Wikipedia. This process is highly accurate in Spain because, traditionally, citizens have at least one name and two surnames, increasing the probability of correct matchings.

Once politicians in the database of corporate directors are detected, we compare their activity in the board of directors and in the delegated board committees with the rest of corporate directors. Our methodology is aimed at detecting whether their activity, in terms of committee membership and positions in the full board and in the committees, is different that the activity of the rest of corporate directors. We interpret systematic differences as differences in the value that firms assign to each type of

corporate director. We compare simple averages, for example the average number of committee memberships of politicians in comparison with that of non-politicians. Finally we estimate regression and logit models where we consider several control variables, such as board size (in smaller boards the probability of holding a given position is higher).

The point of view of firms regarding the value of former politicians as corporate directors may be biased, and therefore we analyze whether the presence of former politicians is related with differences in relevant outputs of the board of directors. For this analysis we review the literature on the determinants of each of these outputs in order to detect the proper control variables, and estimate empirical models with variables measuring the presence of former politicians as the key explanatory variables. CEO turnover events are analyzed with logit models, and executive directors' compensation with firm fixed effect models.

4. Results

4.1 The activity of former politicians inside the boardroom.

We detect 95 former politicians serving as corporate board directors.² Half of them served in the central government; 1 as a prime minister, 29 as ministers, and 19 as secretaries of state, see Table 3. This suggests that firms prefer former politicians with high level responsibilities in the government, those with the most valuable political connections and management skills. Goldman et al. (2009) in the US found higher value provide by former politicians with related experience, not by former politicians with higher responsibilities. This preference for high level former politicians in our sample may explain why most of the identified 95 politicians belong to a political party that has

² We also detect 6 board directors that became politicians, such as Manuel Pizarro, the former CEO of Endesa, one of the biggest Spanish firms, but we do not consider them as politicians inside the board of corporations.

governed the nation. First comes “Partido Socialista” (the main labor party in Spain) with 37 corporate directorships, second comes “Partido Popular” (the main conservative party) with 26 directorships, and finally “Unión de Centro Democrático” (the conservative party that governed the nation in the first years of the actual Spanish democracy) with 16 directorships (in sum 79 out of 95 former politicians). Regarding the activity as politicians, 37% of the former politicians from the central government served in the Finance ministry, and 57% in ministries related with some industry, such as Defense, Sports, Agriculture, Communication, or Tourism and Commerce. Politicians with government responsibilities related to business seem to be the most valued by firms. It is consistent with Agrawal and Knoeber (2001) and with Goldman et al. (2009), finding a relationship between the skills and knowledge of former politicians and the resources needed by firms.

Table 3. Politicians

The first two columns show the number each of the type of politicians that are found in the boards of the analyzed firms, and the percentage of them belonging to each type of politician. The last four columns show the percentage of observations with politicians in the board of directors (598 directorship-year observations) serving as each type of board directors.

	Individuals		Type of Board Director: % over total directorship-year observations			
	#	%	Executive	Proprietary	Independent	Others
Ministers and Prime Minister	30	31.6%	16.6%	20.4%	61.6%	1.4%
Secretaries of State	19	20.0%	7.4%	17.9%	68.5%	6.2%
Member of the Parliament	20	21.1%	16.8%	35.8%	47.4%	0.0%
Member of the Senate	7	7.4%	0.0%	22.6%	48.4%	29.0%
Member of Regional Parliament	16	16.8%	8.6%	65.4%	24.7%	1.2%
Member of the European Parliament	3	3.2%	5.6%	0.0%	94.4%	0.0%
Total	95		11.9%	27.8%	56.5%	3.8%

In our sample there are 2,411 different individuals serving as board directors; politicians represent 4% of them. However, a director may serve on different firms and politicians have 5% of the total year-directorships available. Indeed, on average a former politician serves in the board of 1.6 firms, while the rest of directors serve just in 1.2 firms, suggesting that former politicians provide more value to firms. Furthermore, the value of political connections seems to be bigger in larger firms. The average

percentage of former politicians in the board of the largest quartile of firms by market capitalization is 6.3% and just 2.2% in the lowest quartile of firms (Table 2). Around half of the largest firms do have politicians inside their boards, while it is just 16% for smaller firms. This is consistent with the higher propensity of larger firms to obtain political connections found in the related literature (e.g., Faccio, 2006). Most of the firms in the Oil and Energy industrial sector (71%) have politicians in their boards while just 27% of firms in the Consumer Goods sector have them in their boards. This may be due to the high regulation of the Oil and Energy sector, generating a high value of political connections. All results are consistent with Agrawal and Knoeber (2001) in their US sample.

Regarding the activity of former politicians inside the boardroom, a first finding is that former politicians serve as all types of directors; executive, independent, proprietary and directors classified as others. Most of the former politicians serve as independent directors (56.5%), but many of them also serve as proprietary directors (27.8%) and some of them as executive directors (11.9%), see Table 3. In comparison with the rest of directors, the proportion of independents is higher among the former politicians, while is lower the proportion of executive and proprietary directors. The existence former politicians as executive and proprietary directors may be explained by the state ownership, another form of political connection. In Spain there is a public entity called “Sociedad Estatal de Participaciones Industriales” (SEPI) than owns significant stakes of several firms operating in the private sector (3.1% of firm-year observations, see Table 2). Indeed the average state ownership is higher among firms with former politicians in their boards. From a non-exhaustive inspection of the dataset we detected the presence of former politicians as proprietary directors representing the SEPI as a significant shareholder in several firms. Furthermore, this inspection also

revealed the existence of another mechanism for a former politician to get a directorship as proprietary director. In several cases a former politicians was promoted as the CEO, or another relevant position, of a regional saving bank by the regional authorities. Most of the savings banks in Spain were controlled by regional political institutions. Then the savings bank, with significant stakes of ownership in several listed firms, promoted this former politician as a proprietary director in these firms. For example, Rodrigo Rato (former chair of the International Monetary Fund, and finance minister in the central government with the conservative party) was promoted as the CEO of Caja Madrid by the regional political institutions, and then got several positions as proprietary director representing Caja Madrid in several listed firms (Iberia, Mapfre, Criteria Caixa grup, International Consolidated Airlines Group). Indeed, the proportion of firm-year observations where politicians serve as proprietary directors are higher among former members of regional parliament (65.4%, see Table 3).

We also analyzed whether there are significant differences between former politicians and the rest of directors in terms of positions inside the board, and inside the delegated committees. From the information that firms must provide in their ARCG, we are able to detect the position held by any director in the board of directors. In all boards there is a Chair, and a Secretary, and in most of them there is at least one Vice Chair. The Secretary of the board must provide legal advice on corporate governance issues, among other duties. In some cases the Secretary is not a director. In addition in many cases the CEO is a director and is identified by firms as “Consejero Delegado”. In such cases we are also able to detect whether a former politician is a CEO (10 cases). The content of the ARCG also allow us to know the number of committees where any director serves, the number of committees where a director is the Chair, the Vice Chair

and the Secretary. Table 4 shows that politicians do not have a lower activity than the rest of directors inside the boardroom.

Table 4. Director's activity inside the boardroom

Individual average number of positions in the board and in the board committees by each group of corporate directors; former politicians and the rest of directors. # Committees is the average number of committees where a director serves. t-test is a test where the null hypothesis is an equal average in both groups of directors (see Hamilton, 2013). Sample with 12,248 observations (directorship-year) from year 2004 to 2012. 11,650 observations belong to non-politicians and 598 to former politicians. *** means statistical significance at 1% level, ** at 5% level, and * at 10% level.

	Average # of positions by each type of corporate director							
	Full board of directors				Board committees			
	Chair	CEO director	Vice Chair	Secretary	# Committees	Chair	Vice Chair	Secretary
Non Politician	0.0913	0.0645	0.0844	0.0196	0.9991	0.2336	0.0085	0.0434
Politician	0.0936	0.0167	0.0753	0.0368	1.0953	0.3010	0.0301	0.0552
Total	0.0914	0.0621	0.0839	0.0204	1.0038	0.2369	0.0096	0.0440
t-test	-0.1915	4.7207***	0.785	-2.9049***	-2.5549**	-3.4586***	-4.7575***	-1.0163

In our sample non-politician directors represent 11,650 observations (directorship-year), while former politicians represent 598. In this data, on average a non-politician director is the Chair of a board of directors in 0.09 observations (average of a dummy variable taking value 1 when the observation belongs to a Chair position computed with all the observations belonging to non-politicians), which is the same as to say that 9% of observations belonging to non-political directors hold a Chair position. This percentage is almost the same within politicians. Non politicians do hold more positions as CEOs in the boardroom, the difference with politicians is statistically significant. However, there are statistically significant differences indicating a higher proportion of politicians holding positions as Secretaries of the full board of directors, as Chair and Vice Chair of delegated committees. In additions, on average, politicians serve in a higher number of delegated committees. All this empirical evidence suggests that former politicians do indeed play an active role when they move to the private sector. However, belonging to a higher number of delegated committees implies higher compensation as corporate director, and some committees may have a light working load with low responsibilities.

Therefore, in order to improve the valuation of the relevance of politicians inside the boardroom we now focus the analysis on the main committees, see Table 5.

Table 5. Director's activity in the main board committees

Individual average number of positions in the main committees of the board of directors by each group of corporate directors; former politicians and the rest of directors. t-test is a test where the null hypothesis is an equal average in both groups of directors (see Hamilton, 2013). Sample with 12,248 observations (directorship-year) from year 2004 to 2012. 11,650 observations belong to non-politicians and 598 to former politicians.*** means statistical significance at 1% level, ** at 5% level, and * at 10% level.

Panel A:	Executive committee				Audit committee			
	Membership	Chair	Vice Chair	Secretary	Membership	Chair	Vice Chair	Secretary
Non Politician	0.2494	0.0423	0.0056	0.0052	0.3224	0.0873	0.0009	0.0183
Politician	0.2057	0.0368	0.0117	0.0151	0.3528	0.1154	0.0000	0.0151
Total	0.2473	0.0420	0.0059	0.0056	0.3239	0.0887	0.0009	0.0181
t-test	2.4192**	0.6569	-1.9114*	-3.1557***	-1.5514	-2.357***	0.7517	0.578

Panel B:	Nomination committee				Remuneration committee			
	Membership	Chair	Vice Chair	Secretary	Membership	Chair	Vice Chair	Secretary
Non Politician	0.2948	0.0779	0.0012	0.0161	0.2955	0.0780	0.0012	0.0161
Politician	0.3645	0.0903	0.0117	0.0251	0.3679	0.0903	0.0117	0.0251
Total	0.2982	0.0785	0.0017	0.0165	0.2990	0.0786	0.0017	0.0165
t-test	-3.6399***	-1.0958	-6.0638***	-1.6914*	-3.7553***	-1.0877	-6.0638***	-1.6914*

The statistically significant differences between politicians and non-politicians in Table 5 show that there is a lower presence of politicians in the executive committee, and a higher presence in the nomination and remuneration committees. However, regarding positions, politicians do show a significantly higher activity in all committees. A higher proportion of politicians hold a position of Vice Chair and Secretary in the executive, the nomination and the remuneration committees, and of Chair positions in the audit committee.

These results may be explained by several factors not related with the skills and knowledge provided by former politicians as directors. Politicians use to serve in larger firms, who have a higher number of board delegated committees, generating larger activity measures for politicians in the previous tables. However, this effect is the opposite for positions in the full board since board size use to be larger in larger firms (e.g., Linck et al., 2008), reinforcing our previous results. In addition, there may be

different behavior of corporate boards in different industrial sectors. Finally, the higher proportion of independent directors among politicians may also explain their higher activity in board committees, where codes of corporate governance recommend a central role for outside directors, especially for independent directors. In order to control for these effects we analyze the activity of board directors with pooled logit models, where the dependent variable is a dummy variable detecting when a particular director holds a position, and where we control for the existence of each delegated committee. The key explanatory variable is a dummy variable identifying whether a director is a former politician (Politician in Table 6). We also estimate pooled regression models to analyze the relation between being a former politician and the number of memberships, and of Chair, Vice Chair, and Secretary positions in the delegated board committees. In all models we incorporate year and industrial dummy variables to control for any pattern across industries and years. Additionally we add the size of the board where directors serve and the tenure of each director to account for a higher probability of holding a position the smaller is the board, and the larger is the experience of each director in the firm. Inference is based on robust standard errors clustered by firm (Huber, 1967; Petersen, 2009; White, 1982, 1980), see Table 6.

Table 6. Director's activity with control variables

Panel A: Pooled logit models where the dependent variable is an indicator of Chair, Vice Chair, and Secretary of the full board of directors, and membership in the main board committees. Panel B: Pooled regression models where the dependent variable is the number of committee memberships, the number of Chair positions, Vice Chair positions and Secretary positions of each director in delegated board committees. In both panels, standard errors are robust and clustered by firm (Huber, 1967; Petersen, 2009; White, 1982, 1980). Board size is the number of board directors in each firm. Politician is a dummy variable identifying former politicians. Tenure is the tenure of each director in each firm, measured in years. Firms are assigned to industries according to the Madrid Stock Exchange industrial sector classification. Sample formed by 12,248 observations (directorship-year) from year 2004 to 2012. The number of observations in Panel A is lower for the models of membership of the executive, the nomination and the remuneration committee because some firms do not have such committees. *** means statistical significance at 1% level, ** at 5% level, and * at 10% level.

Panel A: Logit models

	Committees membership						
	Chair	Vice Chair	Secretary	Executive	Audit	Nomination	Remuneration
Board Size	-0.1228***	0.0311*	-0.0837**	-0.0480***	-0.0843***	-0.0727***	-0.0693***
Politician	0.2144	-0.0898	0.8379	-0.4207	0.2334	0.3102*	0.3130*
Tenure	0.0790***	0.0498***	0.0324***	0.0632***	-0.0034	0.0178***	0.0183***
Constant	-1.3207***	-3.4258***	-3.3539***	0.2219	0.1961*	-0.0929	-0.1377
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
# Observations	12248	12248	12248	6653	12248	11300	11300
Log likelihood	-3412.9	-3408.1	-1178.0	-4417.0	-7561.6	-6979.1	-6974.4
chi ²	258.3***	94.2***	38.3***	107.2***	169.6***	137.4***	121.9***

Panel B: Regression models

	Committees			
	# Membership	# Chair	# Vice Chair	# Secretaries
Board Size	0.0105	-0.0089***	0.0021*	-0.0024
Politician	0.0912	0.0798*	0.0203	0.0183
Tenure	0.0072**	0.0061***	0.0005	0.0018***
Constant	0.6754***	0.2875***	-0.0381*	0.0672***
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
# Observations	12248	12248	12248	12248
R ²	0.0307	0.0173	0.0179	0.0106

In Table 6 it can be seen that the higher board activity of politicians is not as significant. The Politician variable is just weakly significant to explain the membership in the nomination and remuneration committees, and the number of Chair positions in committees. Non-tabulated results also show weak evidence of a higher probability of holding the Chair position in the audit committee, no evidence is found of a different probability for the Secretary positions neither the Vice Chair positions in the relevant board committees. Therefore, our results indicate that former politicians do have a similar behavior as the rest of corporate directors inside the boardroom. Additional tests control for the different type of directors, by removing the politician variable in the models of Table 6 and adding dummy variables to identify each type of corporate

directors (4 variables; Executives, Independents, Proprietary directors, Others), and the same variables multiplied with the dummy variable identifying former politicians (four variables more). The overall interpretation remains.

Finally, since the state ownership may affect the probability of politicians holding positions in the board of directors, the interaction between the dummy variable identifying former politicians and a dummy variable identifying firms with state ownership is introduced in the models of Table 6. The State only holds significant ownership stakes in eight companies (3.1% of our 1,105 firm-year observations, see Table 2). The minimum ownership is 4%, it is around 5% in five firms, around 10% in one firm, and around 20% in one firm, except in 2004 that was 28.5%, the maximum state ownership in our sample.

Table 7. Director's activity with control variables and firms with State ownership

Panel A: Pooled logit models where the dependent variable is an indicator of Chair, Vice Chair, and Secretary of the full board of directors, and membership in the main board committees. Panel B: Pooled regression models where the dependent variable is the number of committee memberships, the number of Chair positions, Vice Chair positions and Secretary positions in delegated board committees of each director. In both panels, standard errors are robust and clustered by firm (Huber, 1967; Petersen, 2009; White, 1982, 1980). Board size is the number of board directors in each firm. Politician is a dummy variable identifying former politicians. State Ownership is a dummy variable identifying whether the state is a significant shareholder. Tenure is the tenure of each director in each firm measured in years. Firms are assigned to industries according to the Madrid Stock Exchange industrial sector classification. Sample formed by 12,248 observations (directorship-year) from year 2004 to 2012. The number of observations in Panel A is lower for the models of membership of the executive, the nomination and the remuneration committee because some firms do not have such committees. *** means statistical significance at 1% level, ** at 5% level, and * at 10% level.

Panel A: Logit models

	Committees membership					
	Chair	Vice Chair	Executive	Audit	Nomination	Remuneration
Board Size	-0.1226***	0.0315*	-0.0481***	-0.0843***	-0.0725***	-0.0691***
Politician	0.1474	-0.1723	-0.4148	0.2431	0.2551	0.2579
Politician x State Ownership	0.4753	0.677	-0.0694	-0.0808	0.4355*	0.4349*
Tenure	0.0790***	0.0499***	0.0632***	-0.0034	0.0179***	0.0183***
Constant	-1.3275***	-3.4385***	0.2221	0.1973*	-0.1	-0.1448
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
# Observations	12248	12248	6653	12248	11300	11300
Log likelihood	-3412.223	-3407.0153	-4416.957	-7561.5691	-6977.7036	-6973.0261
chi ²	258.4912***	93.6734***	107.2206***	170.6533***	145.0776***	129.2492***

Panel B: Regression models

	Committees			
	# Membership	# Chair	# Vice Chair	# Secretaries
Board Size	0.0106	-0.0091***	0.0021*	-0.0024
Politician	0.0732	0.1031**	0.0235	0.0252
Politician x State Ownership	0.1533	-0.1985***	-0.0273	-0.0591
Tenure	0.0072**	0.0061***	0.0005	0.0018***
Constant	0.6732***	0.2904***	-0.0377*	0.0680***
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
# Observations	12248	12248	12248	12248
R ²	0.0308	0.0182	0.0182	0.0108

Table 7 shows again the weak positive relationship between being a former politician and the probability of being a member of the nomination and of the remuneration committees found in Table 6, although it is found just for firms with state ownership. The number of Chair positions in committees is higher for former politicians only in firms with no state ownership. In firms with state ownership it is lower. A Wald test rejects the null of the sum of the coefficients of Politicians and Politicians x State Ownership variables to be zero. For the rest of measures of board activity no statistically significant differences are found between former politicians and the rest of

corporate directors. The model where the dependent variable is a dummy variable detecting the Secretary of the board of directors is omitted in Table 7 since there are no politicians holding this position among firms with state ownership. Our overall results remain; former politicians do have a similar behavior as the rest of corporate directors.

Finally, in an attempt to analyze the relationship between the presence of politicians and uncontrolled agency problems, for each firm we compute the percentage of compliance of the 58 recommendations in the Spanish code of good governance as a raw proxy for the corporate governance quality. The average percentage of compliance is 78% for firms with former politicians and 76.6% for firms without them, and the difference is statistically significant. This is consistent with the higher level of compliance among the larger firms, those who have especial preference for former politicians. In addition, Crespí-Cladera and Pascual-Fuster (2014) found that around half of the independent directors declared by Spanish listed firms did not meet basic formal independence requirements, such as being promoted by the nomination committee. However, among politicians serving as independent directors there is a statistically significant lower proportion of independents who do not meet these requirements. Therefore, this evidence does not relate the activity of politicians inside the board with any uncontrolled agency problem.

4.2. Corporate governance practices with former politicians

In this section we analyze whether key corporate governance practices are affected by the presence of former politicians inside the boardroom. We analyze relevant outputs of the nomination, and of the remuneration committees; the committees with the most relevant supervising duties over executive directors' activities. Regarding the nomination committee we analyze CEO turnover events, and regarding the

remuneration committee we analyze executive directors' compensation. This analysis is performed at firm level, therefore on a panel with 1105 firm year observations, from 2004 to 2012. The object is to provide direct empirical evidence on the quality of former politicians as corporate directors in comparison with the quality derived by the central role that such board directors play in firms.

4.2.1 CEO turnover

The board of directors, and especially the nomination committee, is a relevant actor in CEO turnover events after bad performance. Hermalin and Weisbach (1998) show the role of the CEO in selecting board members in order to decrease discipline against her/him when the firm underperforms. The composition of the board of directors may be the reflection of an uncontrolled agency problem. Therefore, we analyze whether the presence of former politicians in the boardroom, and especially in the nomination committee affects the probability of CEO turnover events after bad performance. The effect may also be the result of a different quality of former politicians as executives' supervisors. For this analysis we control for other corporate governance practices that may also reflect an uncontrolled agency problem.

In our sample we lack the standardized ARCG before 2004. Therefore, for 2004 we may not observe CEO turnover events, we lose 118 observations. We also lose 66 firm/year observations, due to mergers and acquisitions, and new listings in the Spanish stock market after 2004. New listing firms do not have lagged stock return information (57 observations lost). Additionally, we analyze the firm resulting from a merger or acquisition as a new firm, and therefore, with no past data (9 observations lost). Whenever a firm changes its name, we check its files in the CNMV (available at www.cnmv.es) to evaluate if it is due to a merger or an acquisition. After all these

deletions we end up with a 921 firm year observations, from 2005 to 2012. In this sample we detect 129 CEO turnover events, increasing from 14 in 2004 till 21 in 2008, well into the economic recession. After 2008 the number of events decreases, reaching 16 in 2012.³

We analyze the relationship between the presence of former politicians in the boardroom and CEO turnover events with an empirical logit model in which the dependent variable identifies the turnover events. As in Hwang and Kim (2009) the explanatory variables are one period lagged stock return, a group of corporate governance variables lagged one period to proxy any uncontrolled agency problem, and its interaction with the lagged stock return.

As corporate governance variables we use ownership, board structure, and other relevant characteristics of corporate governance. As ownership variables we use the ownership of the largest shareholder (as a measure of ownership concentration, it is highly correlated with the ownership of the three and five largest shareholders, 0.91 and 0.83 respectively), and of executive and non-executive directors' ownership. All these variables are negatively related with an agency problem between managers and shareholders. Board structure measures try to proxy the power of the CEO in front of the board of directors (a dummy variable to detect when the CEO is also the chair of the board of directors, and the percentage of executive directors), board efficiency (board size that is related with coordination problems, Yermack, 1996), directors dedication (measured by the percentage of busy directors, those with three or more directorships,

³ CEOs are not directly identified in the ARCG. We identify the CEO as the chair of the board of directors whenever the firm declares CEO-Chair duality. For the rest of firms we identify the CEO as "Consejero Delegado" among board directors. In firms without "Consejero Delegado" we identify the CEO as the highest rank executive director in the executive committee of the board of directors. In firms without such committee we select the "Director General" among the group of non-director top executives. The last resort is to identify the CEO as the executive director with the highest rank. In case of doubt (e.g. when there are two "Consejero Delegado") we choose the alternative that generates CEO stability.

with no time to properly monitor and advise executives, Fich and Shivdasani, 2006), and managers conflicts of interest (measured by a dummy variable detecting the presence of interlocked executive directors, that is, executive directors in the nomination and remuneration committee, and by a dummy variable identifying firms who declare commercial transactions with their managers). Finally it is also considered corporate governance practices protecting managers from takeovers (a dummy variable detecting firms with “voting caps”, that is a maximum in number of votes of a given shareholder, and a dummy variable detecting “golden parachutes”, that is covenants to protect executives against dismissals, Brick et al., 2006).

Table 8 shows the estimation of the CEO turnover model with GEE panel data logit estimations to account for any unobserved persistence in the residuals, with robust (Huber-White) standard errors. Model 1 does not include variables detecting the presence of politicians in the boardroom. Models 2 to Model 6 include a dummy variable detecting this presence (347 observations). In Model 3 the dummy variable detects the presence of politicians serving as executive directors (60 observations), in Model 4 as proprietary directors (127 observations), as independent directors in Model 5 (214 observations), and as directors classified as others in Model 6 (15 observations). The overall model seems to characterize properly CEO turnover events. Its probability increases the lower is the previous year stock return, decreases whenever the CEO also chairs the board of directors, and the higher probability after bad performance is lower the larger is the board of director (probably due to coordination problems, Yermack, 2004), and when there are interlocked executive directors. Regarding the dummy variables detecting the presence of former politicians, Model 1 show weak empirical evidence of a higher probability of CEO turnover after bad performance. However the effect of the presence of former politicians depends on the kind of directorship the

former politician holds. If it is as an executive director the probability of CEO turnover decreases. If it is as an independent director or a director classified as other, the role of the board of directors improves in CEO turnover events.

Table 8. CEO turnover with politicians in the Board of Directors

GEE panel data logit models allowing persistence in the residuals with Huber (1967) and White (1982, 1980) robust t statistics (in parenthesis), where the dependent variable is a dummy variable to identify CEO turnover events. The key explanatory variables are one period lagged stock return, and one period lagged dummy variables detecting the presence of former politicians in the boardroom and its interaction with the lagged stock return. Dummy variables detect politicians, politicians serving as executive directors, as proprietary directors, as independent directors, and as other directors. Control variables are lagged one period; percentage of shares owned by executives, by non-executives, and by the highest shareholder of the firm, a dummy variable identifying whether the CEO is also the chairman of the board of directors, the size of this board, the percentage of executives in this board, a dummy variable identifying whether directors have done commercial transactions with the firm, the percentage of busy non-executive directors (a director is busy if she holds a position in three or more boards of directors), the percentage of interlocked executive directors (those who are members of the nomination and remuneration committee), a dummy variable identifying where there are golden parachutes protecting top executives against dismissal, and a dummy variable identifying firms where there are voting caps (a maximum number of votes that a shareholder may exercise independently of the number of shares she has), and the interaction between these variables and one period lagged stock return. Finally, a constant term, industrial sector and year dummy variables are introduced, although omitted to save space. χ^2 is a Wald test of the statistical significance of all the explanatory variables. *** denotes significance at the 1% level; ** denotes significance at the 5% level; * denotes significance at the 10% level.

	(1)	(2)	(3)	(4)	(5)	(6)
Stock Return _{t-1}	-2.2923**	-2.5595***	-2.2811**	-2.1033**	-2.3687***	-2.2845**
	(-2.5145)	(-2.7859)	(-2.4922)	(-2.2035)	(-2.6083)	(-2.4917)
Politicians in the board _{t-1}		-0.1269				
		(-0.4952)				
Politicians in the board _{t-1} x Stock return _{t-1}		-0.7867*				
		(-1.71)				
Politicians executive directors _{t-1}			-0.9974*			
			(-1.8852)			
Politicians executive directors _{t-1} x Stock return _{t-1}			0.4703			
			(0.9433)			
Politicians proprietary directors _{t-1}				0.0856		
				(0.2171)		
Politicians proprietary directors _{t-1} x Stock return _{t-1}				0.4576		
				(0.6778)		
Politicians independent directors _{t-1}					0.0542	
					(0.221)	
Politicians independent directors _{t-1} x Stock return _{t-1}					-1.071*	
					(-2.1317)	
Politicians other directors _{t-1}						1.2262**
						(2.1476)
Politicians other directors _{t-1} x Stock return _{t-1}						-0.7042
						(-0.5706)

Table 8. CEO turnover with politicians in the Board of Directors (continuation)

	(1)	(2)	(3)	(4)	(5)	(6)
Executives ownership _{t-1}	-0.0043 (-0.7647)	-0.0045 (-0.7948)	-0.0043 (-0.7642)	-0.0044 (-0.7809)	-0.0048 (-0.8576)	-0.005 (-0.8569)
Non-executives ownership _{t-1}	0.007 (1.2732)	0.0081 (1.4568)	0.0063 (1.1663)	0.0065 (1.1529)	0.0071 (1.3015)	0.0072 (1.3157)
C1 _{t-1}	0.0023 (0.4395)	0.002 (0.3812)	0.0015 (0.2884)	0.0023 (0.4388)	0.0015 (0.2922)	0.0027 (0.5158)
CEO is board chair _{t-1}	-0.4229** (-1.9661)	-0.4304** (-1.9921)	-0.4021* (-1.9025)	-0.4172** (-1.9874)	-0.4145* (-1.9034)	-0.4336** (-1.9822)
Board size _{t-1}	-0.0311 (-0.912)	-0.0235 (-0.6447)	-0.0337 (-0.9819)	-0.036 (-0.9504)	-0.0333 (-0.9697)	-0.034 (-0.9782)
% Executives in the board _{t-1}	-1.2294 (-1.3768)	-1.2628 (-1.4246)	-1.2966 (-1.4602)	-1.219 (-1.3727)	-1.2755 (-1.4504)	-1.2537 (-1.392)
Operations directors-firm _{t-1}	0.102 (0.4847)	0.1089 (0.5149)	0.0809 (0.3843)	0.0962 (0.4431)	0.1145 (0.5498)	0.104 (0.4903)
% Busy non-executive directors _{t-1}	0.8217 (0.9329)	0.8947 (0.9903)	0.7569 (0.8543)	0.7912 (0.8912)	0.8888 (0.9809)	0.7753 (0.8674)
% Interlocked executive directors _{t-1}	0.1416 (0.5476)	0.1744 (0.6666)	0.1804 (0.6762)	0.1377 (0.5301)	0.1697 (0.6427)	0.1788 (0.683)
Golden parachutes _{t-1}	0.0727 (0.3643)	0.0849 (0.4309)	0.103 (0.5192)	0.06 (0.3031)	0.0542 (0.2691)	0.0682 (0.3371)
Voting Cap _{t-1}	-0.2222 (-0.8661)	-0.2411 (-0.8967)	-0.2007 (-0.7664)	-0.2275 (-0.884)	-0.2626 (-0.9815)	-0.212 (-0.8321)
Executives ownership _{t-1} x Stock return _{t-1}	0.0119 (0.8377)	0.0163 (1.1067)	0.0128 (0.9017)	0.0105 (0.7108)	0.0165 (1.1491)	0.0119 (0.811)
Non-executives ownership _{t-1} x Stock return _{t-1}	0.0015 (0.1726)	0.0044 (0.488)	0.0017 (0.1907)	0.0003 (0.0338)	0.0031 (0.3313)	0.0014 (0.1535)
C1 _{t-1} x Stock return _{t-1}	0.0053 (0.5502)	0.0079 (0.7905)	0.0055 (0.5813)	0.0047 (0.4858)	0.0087 (0.8425)	0.006 (0.6319)
CEO is board chair _{t-1} x Stock return _{t-1}	-0.2393 (-0.5137)	-0.2665 (-0.5666)	-0.2709 (-0.5721)	-0.1864 (-0.3981)	-0.2223 (-0.4747)	-0.1699 (-0.3592)
Board size _{t-1} x Stock return _{t-1}	0.1487** (2.3742)	0.1861*** (2.63)	0.1451** (2.2828)	0.1314** (1.96)	0.1638** (2.5074)	0.1452** (2.2892)
% Executives in the board _{t-1} x Stock return _{t-1}	0.847 (0.5122)	0.3801 (0.2221)	0.682 (0.4176)	0.903 (0.5408)	0.345 (0.2088)	0.7669 (0.4656)
Operations directors-firm _{t-1} x Stock return _{t-1}	0.0999 (0.2724)	0.064 (0.1731)	0.1308 (0.3628)	0.0658 (0.1775)	-0.0008 (-0.0022)	0.0933 (0.2522)
% Busy non-executive directors _{t-1} x Stock return _{t-1}	0.2595 (0.2335)	-0.2069 (-0.1622)	0.2141 (0.1944)	0.3577 (0.3106)	-0.1046 (-0.0865)	0.2619 (0.2339)
% Interlocked executive directors _{t-1} x Stock return _{t-1}	1.0374** (2.2707)	1.0938** (2.2849)	1.1173** (2.4523)	1.0143** (2.2048)	1.1006** (2.3194)	1.0176** (2.2343)
Golden parachutes _{t-1} x Stock return _{t-1}	0.3853 (0.9257)	0.5405 (1.2661)	0.4037 (0.9716)	0.3376 (0.7854)	0.5247 (1.2474)	0.3675 (0.8621)
Voting Cap _{t-1} x Stock return _{t-1}	0.1287 (0.2535)	0.2264 (0.4516)	0.0409 (0.0811)	0.1431 (0.28)	0.3362 (0.6522)	0.1629 (0.3219)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	921	921	921	921	921	921
Chi ²	80.5347***	81.298***	81.6317***	81.981***	81.1187***	84.7339***

Table 9 shows the estimation of the CEO turnover models with dummy variables detecting former politicians holding relevant positions. In Model 1 the dummy variable detects whether a politician holds a relevant position in the board of directors (Chair, Vice Chair, or Secretary, 105 observations). In Models 2, 3, and 4 the dummy variable detects whether there are former politicians holding such positions as independent directors (25 observations), as executive directors (49 observations) and as a proprietary directors (31) observations respectively. In Model 5 it is detected whether a former politician holds a relevant position in the nomination committee of the board of directors (59 observations), and in Models 5 and 7, as independent directors (34 observations) and as proprietary directors (15 observations) respectively. No model is analyzed with former politicians holding such relevant positions as executives since represent only 8 observations. Models 5 to 7 are estimated using only observations of firms with a nomination committee (821). Regarding control variables there are some differences in this smaller sample, the most relevant is that the negative influence on the role of the board of directors in CEO turnover events of the presence of interlocked executive directors is replaced by the proportion of executive directors. From Models 1 to 4, we may conclude that former politicians holding relevant positions in the board of directors does not affect the boards' role in CEO turnover events. However, the board's role improves whenever former politicians hold relevant positions in the nomination committee. The probability of CEO turnover after bad performance increases when a former politician holds such positions (Model 5), also if the former politician serves as an independent director (Model 6). The unconditional probability of CEO turnover events increases when the former politician servers as a proprietary director, (Model 7). In unreported results we replaced the dummy variable detecting the activity of former politicians holding relevant positions in the nomination committee by dummy variables

detecting independent, proprietary and executive directors holding these positions (being former politicians or not) and no positive relation with the role of the board of directors is found regarding CEO turnover events. Therefore, the effect of former politicians is not just due to the type of directorship they hold.

Table 9. CEO turnover with politicians in the Nomination Committee

GEE panel data logit models allowing persistence in the residuals with Huber (1967) and White (1982, 1980) robust t statistics (in parenthesis), where the dependent variable is a dummy variable to identify CEO turnover events. The key explanatory variables are dummy variables detecting politicians holding relevant positions in the board of directors and in the nomination committee (chair, vice-chair, secretary). In the full board there are also dummy variables detecting whether the former politician serves as independent, as executive, and as proprietary directors, in the nomination committee as independent and proprietary director. Models analyzing the nomination committee have less observations due to the existence of firms without such committee. See Table 8 for a description of control variables. All explanatory variables are lagged one period, and also interacted with one period lagged stock return. Finally, a constant term, industrial sector and year dummy variables are introduced, although omitted to save space. χ^2 is a Wald test of the statistical significance of all the explanatory variables. *** denotes significance at the 1% level; ** denotes significance at the 5% level; * denotes significance at the 10% level.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Stock Return _{t-1}	-2.3474*** (-2.5854)	-2.2252** (-2.5113)	-2.2911** (-2.4832)	-2.0972** (-2.3498)	-1.6565* (-1.7206)	-1.622* (-1.7094)	-1.599* (-1.7802)
Relevant board position _{t-1}	-0.3832 (-1.0239)						
Relevant board position _{t-1} x Stock return _{t-1}	-0.1606 (-0.2135)						
Relevant board position as Independent _{t-1}		-0.2103 (-0.3046)					
Relevant board position as Independent _{t-1} x Stock return _{t-1}		-0.9135 (-0.886)					
Relevant board position as Executive _{t-1}			-1.0116 (-1.4324)				
Relevant board position as Executive _{t-1} x Stock return _{t-1}			0.399 (0.5557)				
Relevant board position as Proprietary _{t-1}				-0.2597 (-0.3129)			
Relevant board position as Proprietary _{t-1} x Stock return _{t-1}				2.7323 (1.3168)			
Relevant position Nomination C _{t-1}					-0.0352 (-0.0673)		
Relevant position Nomination C _{t-1} x Stock return _{t-1}					-3.1166*** (-3.4648)		
Relevant position Nomination C. as Independent _{t-1}						-0.8029 (-1.0041)	
Relevant position Nomination C. as Independent _{t-1} x Stock return _{t-1}						-4.9311*** (-4.62)	
Relevant position Nomination C. as Proprietary _{t-1}							1.2462** (2.2553)
Relevant position Nomination C. as Proprietary _{t-1} x Stock return _{t-1}							2.7768 (1.5645)

**Table 9. CEO turnover with politicians in the Nomination Committee
(Continuation)**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Executives ownership _{t-1}	-0.0042 (-0.7425)	-0.0043 (-0.7508)	-0.0041 (-0.7307)	-0.0043 (-0.7546)	0.0031 (0.4573)	0.0044 (0.6294)	0.0023 (0.3437)
Non-executives ownership _{t-1}	0.0069 (1.2721)	0.007 (1.2737)	0.0063 (1.1487)	0.0065 (1.1652)	0.0088 (1.6007)	0.0092 (1.6653)	0.0081 (1.4888)
C1 _{t-1}	0.0025 (0.4915)	0.0024 (0.4511)	0.0015 (0.2954)	0.0021 (0.4043)	0.0037 (0.6865)	0.0044 (0.807)	0.0037 (0.7167)
CEO is board chair _{t-1}	-0.4165* (-1.9387)	-0.4194* (-1.9328)	-0.3873* (-1.8002)	-0.4083* (-1.9033)	-0.4846** (-2.1624)	-0.4813** (-2.0813)	-0.494** (-2.2473)
Board size _{t-1}	-0.027 (-0.7937)	-0.0307 (-0.9035)	-0.0336 (-0.9762)	-0.0332 (-0.9661)	-0.0277 (-0.862)	-0.0272 (-0.8233)	-0.0348 (-1.1666)
% Executives in the board _{t-1}	-1.3068 (-1.4422)	-1.2329 (-1.3736)	-1.3041 (-1.4595)	-1.2211 (-1.3696)	-2.1038** (-2.0734)	-2.3265** (-2.2333)	-1.8915* (-1.8839)
Operations directors-firm _{t-1}	0.1278 (0.6059)	0.1173 (0.5588)	0.0913 (0.4352)	0.0986 (0.4589)	0.1198 (0.5537)	0.1155 (0.527)	0.1051 (0.5001)
% Busy non-executive directors _{t-1}	0.7404 (0.8431)	0.8083 (0.9164)	0.8 (0.9079)	0.8849 (1.0104)	0.4714 (0.4738)	0.4279 (0.424)	0.4409 (0.4502)
% Interlocked executive directors _{t-1}	0.1933 (0.7285)	0.1469 (0.568)	0.1696 (0.6434)	0.1244 (0.4625)	0.1939 (0.7338)	0.2274 (0.8453)	0.1095 (0.4317)
Golden parachutes _{t-1}	0.0843 (0.4248)	0.0625 (0.3142)	0.096 (0.4835)	0.0763 (0.3811)	0.0346 (0.1728)	0.0504 (0.2484)	0.0482 (0.2386)
Voting Cap _{t-1}	-0.2105 (-0.8232)	-0.225 (-0.867)	-0.2107 (-0.809)	-0.2227 (-0.8704)	-0.2484 (-0.8726)	-0.2485 (-0.8369)	-0.1358 (-0.4891)
Executives ownership _{t-1} x Stock return _{t-1}	0.0122 (0.861)	0.0151 (1.0437)	0.0126 (0.8836)	0.0125 (0.8808)	0.0223 (1.502)	0.0195 (1.2782)	0.0171 (1.1265)
Non-executives ownership _{t-1} x Stock return _{t-1}	0.0017 (0.1856)	0.0008 (0.0936)	0.0015 (0.1738)	0.0006 (0.0697)	-0.0043 (-0.4366)	-0.0039 (-0.3907)	-0.0015 (-0.171)
C1 _{t-1} x Stock return _{t-1}	0.0057 (0.5976)	0.0063 (0.6575)	0.0054 (0.5713)	0.0047 (0.5008)	0.0082 (0.7696)	0.0098 (0.9122)	0.0057 (0.606)
CEO is board chair _{t-1} x Stock return _{t-1}	-0.2416 (-0.5128)	-0.2647 (-0.5679)	-0.2595 (-0.5425)	-0.2078 (-0.4424)	-0.2967 (-0.6113)	-0.346 (-0.7089)	-0.2825 (-0.5756)
Board size _{t-1} x Stock return _{t-1}	0.1525** (2.3767)	0.1485** (2.3725)	0.147** (2.3151)	0.1321** (2.1297)	0.1299* (1.9174)	0.1198* (1.8156)	0.0935 (1.5532)
% Executives in the board _{t-1} x Stock return _{t-1}	0.7805 (0.4857)	0.5252 (0.3292)	0.7722 (0.4682)	0.8043 (0.4892)	0.2866 (0.1488)	0.552 (0.2814)	1.0316 (0.5615)
Operations directors-firm _{t-1} x Stock return _{t-1}	0.1309 (0.3628)	0.0774 (0.2167)	0.1334 (0.3702)	0.0522 (0.1413)	-0.2925 (-0.7577)	-0.1949 (-0.5145)	0.1028 (0.2683)
% Busy non-executive directors _{t-1} x Stock return _{t-1}	0.2006 (0.1806)	0.0064 (0.0057)	0.2579 (0.234)	0.3996 (0.3611)	-0.2274 (-0.168)	-0.1343 (-0.1008)	-0.0812 (-0.0655)
% Interlocked executive directors _{t-1} x Stock return _{t-1}	1.0826** (2.3843)	1.0316** (2.2645)	1.0743** (2.3733)	0.9759** (2.1799)	0.5777 (1.1768)	0.5241 (1.0617)	0.7121 (1.4712)
Golden parachutes _{t-1} x Stock return _{t-1}	0.3822 (0.9244)	0.4266 (1.0336)	0.3888 (0.9402)	0.3694 (0.8909)	0.4526 (1.0405)	0.3927 (0.9186)	0.1673 (0.3995)
Voting Cap _{t-1} x Stock return _{t-1}	0.1364 (0.2692)	0.2558 (0.5121)	0.1037 (0.2048)	0.1356 (0.2613)	0.7668 (1.5957)	1.0219 (1.8267)	0.3786 (0.767)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	921	921	921	921	821	821	821
Chi ²	83.9904***	79.6308***	80.0439***	82.5875***	72.8902***	80.704***	75.9769***

We also estimated the models of Tables 8 and 9 with pooled logit models, with robust (Huber-White) standard errors clustered by firm, and results remain robust. Robustness is also maintained if a dummy variable identifying the presence of state ownership and its interaction with past stock return is included in the set of control variables. All these estimations are omitted to save space, and are available on request.

4.2.2. Compensation of Executive Directors

We analyze whether the presence of former politicians in the board of directors, and especially in the remuneration committee, is related with the average individual compensation of executive directors. If the presence of former politicians is a reflection of an unsolved agency problem, or generates a detriment in the quality of the board of directors as a managers control mechanism, we expect a larger compensation in firms with such directors (see Goergen and Renneboog, 2011, for the relation between executives' compensation and weak corporate governance). In these cases, former politicians would not contribute to a good performance of the board of directors. The proposed model of compensation includes fixed pay, bonuses, cash from exerted stock options, retirement benefits, and any additional remuneration from the firm.

From our initial sample with 1105 observations we lose 67 observations due to mergers and acquisitions (9 observations) and to new listings (58 observations). One year lagged stock market data is required in our analysis. Additionally, 70 observations are lost due to the existence of firms with no executives on their board (generating missing values in our dependent variable), and 48 observations due to firms not reporting executive directors compensation. Our final sample is formed by 920 observations. Starting and ending with 98 observations in 2004 and 2012 respectively. When positions in the remuneration committee are analyzed the sample reduces to 852

observations, due to firms without such committee. The empirical models are estimated with year and firm fixed effects and inference is based on Huber-White t statistics.

The dependent variable is the log of the average compensation of executive directors. The key explanatory variables are dummy variables detecting the presence of former politicians in the boardroom. The structure of control variables follows Core et al., (1999), with size (the log of market capitalization), growth opportunities (the market to book ratio), past performance (one period lagged ROA and stock return), and risk (the standard deviation of previous year monthly stock returns) as the economic determinants of compensation based on firm characteristics (see also Lambert and Larcker, 1987, and Aggarwal and Samwick, 1999). The model then considers the ownership structure and other corporate governance characteristics as proxies of a potential uncontrolled agency problem. Our proxies are the same variables used in the CEO turnover analysis with no lag. The average tenure of executive directors is also considered. Furthermore, in our setting board size and the percentage of executive directors also correct for the fact that the CEO use to get the highest pay, and therefore the higher is the number of executive directors the more decreases the average of executive directors' compensation, our dependent variable.

Table 10 shows the estimated models of executive directors' compensation. Firm size is a main determinant of executive directors' compensation in Spain. Golder parachutes are also a significant variable positively related with compensation, these devises act as a salary complement instead as a substitute (hedging executive directors' risk). The negative and statistically significant coefficient of Board size and of the percentage of executive directors, show that these variables control for the fact that our dependent variable is the average compensation of executive directors and the CEO

always gets higher compensation. Therefore, the more executive directors the lower the average compensation is.

Table 10. Executive directors' compensation with politicians

Firm fixed effects panel data estimation with Huber (1967) and White (1982, 1980) robust t statistics (in parenthesis). The dependent variable is the log of the average individual compensation of executive directors. The key explanatory variables are a dummy variable detecting politicians in the boardroom, and dummy variables detecting whether former politicians hold relevant positions in the board of directors and in the remuneration committee (chair, vice-chair, secretary). In the full board there are also dummy variables detecting whether the former politician serves as independent, as executive, and as proprietary director, in the remuneration committee as independent. Models analyzing the remuneration committee have fewer observations due to the existence of firms without such committee. Control variables are the log of market capitalization, the market to book ratio, one period lagged return on assets and stock return, the standard deviation of previous year monthly stock returns, the average tenure of executive directors, and a bunch of ownership and corporate governance variables described in Table 8. Finally, a constant term, and year dummy variables are introduced, although omitted to save space. *** denotes significance at the 1% level; ** denotes significance at the 5% level; * denotes significance at the 10% level.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Politicians in the board	0.0157 (0.192)						
Relevant board position		0.1146 (0.5337)					
Relevant board position as Independent			-0.1449** (-2.2818)				
Relevant board position as Executive				0.1004 (0.4458)			
Relevant board position as Proprietary					0.1336 (0.484)		
Relevant position Remuneration C.						0.0061 (0.0384)	
Relevant position Remuneration C. as Independent							0.1191 (1.3364)

Table 10. Executive directors' compensation with politicians (Continuation)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Log Market Capitalization	0.1642*** (3.1489)	0.1629*** (3.1347)	0.1641*** (3.154)	0.1627*** (3.1145)	0.1647*** (3.158)	0.1845*** (3.4418)	0.1882*** (3.5322)
Market to Book	-0.012 (-1.0446)	-0.0121 (-1.0639)	-0.0122 (-1.0685)	-0.0121 (-1.0666)	-0.0121 (-1.0657)	-0.0136 (-1.1802)	-0.0136 (-1.1798)
ROA _{t-1}	-0.0018 (-0.7965)	-0.0018 (-0.8086)	-0.0018 (-0.8114)	-0.0018 (-0.8105)	-0.0018 (-0.8097)	-0.0013 (-0.5411)	-0.0013 (-0.5644)
Stock return _{t-1}	-0.0111 (-0.2035)	-0.009 (-0.171)	-0.011 (-0.2021)	-0.0107 (-0.1966)	-0.009 (-0.1725)	-0.0257 (-0.4247)	-0.0287 (-0.478)
Std(Stock return) _{t-1}	-0.024 (-0.0577)	-0.0166 (-0.0399)	-0.0329 (-0.0786)	-0.0168 (-0.0402)	-0.0329 (-0.0799)	-0.1263 (-0.2884)	-0.1546 (-0.3517)
Executives ownership	-0.0021 (-0.5463)	-0.002 (-0.516)	-0.0021 (-0.5527)	-0.002 (-0.5327)	-0.002 (-0.5343)	-0.0021 (-0.5231)	-0.002 (-0.5101)
Non-executives ownership	0.0021 (1.0529)	0.002 (1.0269)	0.0021 (1.0518)	0.002 (1.0369)	0.002 (1.0358)	0.002 (0.9895)	0.0021 (1.0687)
C1	0.0018 (0.4829)	0.0017 (0.468)	0.0018 (0.4857)	0.0018 (0.4898)	0.0017 (0.4586)	0.001 (0.2848)	0.0011 (0.292)
CEO is board chair	-0.0109 (-0.1067)	-0.0056 (-0.0556)	-0.0088 (-0.0863)	-0.0113 (-0.1113)	-0.0023 (-0.0225)	0.026 (0.2568)	0.0261 (0.2559)
Board size	-0.0385** (-2.0606)	-0.0378** (-1.9953)	-0.0382** (-2.0192)	-0.038** (-2.0062)	-0.038** (-2.0057)	-0.0373** (-2.0294)	-0.0376** (-1.9989)
% Executives in the board	-2.7085*** (-6.0711)	-2.7097*** (-6.085)	-2.714*** (-6.0755)	-2.7254*** (-6.0514)	-2.6935*** (-6.0423)	-3.1613*** (-7.5714)	-3.1739*** (-7.5348)
Mean tenure of board executives	-0.005 (-0.633)	-0.0048 (-0.612)	-0.0052 (-0.6513)	-0.005 (-0.6297)	-0.005 (-0.6314)	-0.0143* (-1.9681)	-0.0143* (-1.9517)
Operations directors-firm	-0.0437 (-0.6983)	-0.0476 (-0.7679)	-0.0444 (-0.7129)	-0.0454 (-0.7334)	-0.0468 (-0.7514)	-0.0106 (-0.1658)	-0.0123 (-0.196)
% Busy non-executive directors	-0.1199 (-0.528)	-0.1074 (-0.4816)	-0.1237 (-0.5514)	-0.1116 (-0.501)	-0.119 (-0.5323)	-0.0532 (-0.2004)	-0.0757 (-0.2988)
% Interlocked executive directors	-0.0786 (-0.8192)	-0.0798 (-0.8208)	-0.0767 (-0.7888)	-0.0808 (-0.8255)	-0.0752 (-0.7687)	-0.0623 (-0.6173)	-0.0668 (-0.6637)
Golden parachutes	0.1802** (2.0935)	0.1793** (2.0789)	0.1819** (2.1043)	0.1845** (2.1042)	0.1753** (1.9924)	0.1989** (2.0735)	0.1954** (2.0536)
Voting Cap	0.1346 (1.0105)	0.1388 (1.0539)	0.1339 (1.0024)	0.1349 (1.0098)	0.1384 (1.0524)	0.1865 (1.3699)	0.1859 (1.3421)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	920	920	920	920	920	920	852
R ²	0.2046	0.2341	0.2347	0.2342	0.2342	0.2347	0.2426
Adjusted R ²	0.1914	0.2118	0.2124	0.2119	0.2119	0.2124	0.2187

Regarding the presence of politicians in the board of directors, as can be seen in Table 10, there is no positive relation with executive directors' compensation, even if the presence is in the remuneration committee (there are 369 observations with former politicians in the boardroom). We just detect a statistically significant negative effect when politicians hold a relevant position as independent directors in the board of directors (in 233 observations, see Model 3 in Table 10). Whenever politicians hold a relevant position in the remuneration committee we detect no effect on executive

compensation (64 observations represent such positions). In this committee, results are also shown for independent directors (with presence in 37 observations), the rest of results are omitted for space considerations. We also analyzed if what is relevant is the presence of independent directors (being politicians or not) holding relevant positions in the board of directors, and no significant relation is found with executive directors' compensation, results omitted to save space. Finally, results also remain robust if a dummy variable detecting state ownership is also included as a control variable.

Summarizing, our evidence suggests that former politicians in the boardroom and in the remuneration committee do not deteriorate the performance of the board of directors in terms of control over executive directors' compensation.

5. Conclusions

Our analysis corroborates that firms value former politicians as board directors, with preference for politicians with high level responsibilities, preferably in the Finance ministry and in ministries related with industrial sectors, such as Commerce, Agriculture or Industry. Larger firms and firms in highly regulated industrial sectors do have a higher preference for former politicians. Consistently with the higher propensity of larger firms to obtain political connections (Faccio, 2006), and with the higher dependence on politics of firms in highly regulated industrial sectors (e.g., Agrawal and Knoeber, 2001; Goldman et al., 2009). However, our main contribution to the literature on political connections of firms is to find that politicians present few differences with respect to other directors in the measurable behavior inside the boardroom we analyze. Politicians serve predominantly as independent directors, but their activity in the full board and in the board committees is almost as the activity of the other directors. We do not find empirical evidence supporting a lower activity; we just find weak empirical

evidence suggesting higher activity among politicians, in terms of positions and in terms of responsibilities. Finally, analyzing several relevant outputs of the board of directors, CEO turnover events and executive directors' compensation, we obtain empirical evidence suggesting that this central role that firms give to former politicians inside the boardroom is not misbehavior. The performance of the board of directors is not deteriorated with the presence of former politicians in the boardroom. Interestingly, we obtain some weak evidence suggesting an improvement. Our results lead to a different conclusion than Kang and Zhang (2015) in the US, finding a passive role of former government directors. They also analyze measurable activity of corporate directors inside the boardroom, analyzing the meeting attendance, which is a decision of each director. However we analyze the positions of each director inside the full board and inside the delegated committees, which is a decision of the firm, at least partially, and is a reflection of the value assigned by the firm to each corporate director.⁴ Furthermore, we only analyze the role of former politicians, while they also analyze directors who worked in government agencies but were not politicians.

A simple attempt to analyze the relationship between the activity of politicians and uncontrolled agency problems reveal that firms with former politicians serving as directors present overall better corporate governance practices. This is inconsistent with the hypothesis that political connections are substitutes of strong corporate governance practices, as found by Shen et al. (2015) in Taiwan, where political connections facilitate the access to financial resources. However, a further analysis is required to accurately value the relationship between the presence of former politicians and the rest of corporate governance practices.

⁴ The ARCG published by the Spanish firms does not contain information on meeting attendance of each director, therefore we cannot corroborate whether the Kang and Zhang (2015) results hold also in our sample.

In sum, our research contributes to the literature on the quality of politicians as corporate directors (e.g., Agrawal and Knoeber, 2001; Goldman et al., 2009; Kang and Zhang, 2015), suggesting an average quality. We also make a contribution in the literature on the cost of political connections (e.g., Aggarwal et al., 2012; Chaney et al., 2011; Okhmatovskiy, 2010; You and Du, 2012), suggesting that there is no systematic opportunity cost coming from the low quality of politicians as corporate directors. Finally we contribute to the literature on political connections in the continental Europe, where ownership concentration is the rule (e.g., Bona-Sánchez et al., 2014; Ferguson and Voth, 2008; Niessen and Ruenzi, 2009), providing empirical evidence on the higher propensity of political connections among larger firms, within highly regulated industrial sectors, and preferably with high level former politicians.

In future research we plan to further analyze whether the presence of former politicians affects the quality of the board of directors, analyzing relevant outputs of the audit committee, that is the quality of the output of the accounting system. This analysis would provide further empirical evidence on the optimality of the behavior of firms in terms of the composition of the full board of directors and especially of the audit committee. Finally we also plan to analyze whether the engagement of former politicians in the boardroom is related with the overall value of the political connection provided by each former politician. If the value of a political connection provided by a former politician is sufficiently high (e.g., due her/his personal contacts) the firm might accept a former politician with less quality as a corporate director, and therefore decide a low engagement in terms of positions and committee memberships.

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