

Domestic Political Connections and International Expansion: It's Not Only 'Who You Know' That Matters

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ABSTRACT

Former politicians on the board of directors bring to the firm domestic political connections and political knowledge. Previous research has mainly highlighted the role of contacts, without fully recognizing the role of political knowledge accumulated at home. By focusing on the effect of domestic political connections on foreign direct investment, we show that domestic political knowledge also shapes foreign expansion. We argue that contacts provided by former politicians may not be useful for foreign expansions whilst their political knowledge can be of help in countries with discretionary governments and with similar institutional environments to the one of the home country.

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INTRODUCTION

In the last few years, politically connected firms have started to attract the attention of International Business (IB) researchers (e.g. Carney, Dieleman, & Taussig, 2016; Chen, Ding, & Kim, 2010; Frynas, Mellahi, & Pigman, 2006; Siegel, 2007; Sun, Mellahi, & Thun, 2010). They have analyzed a variety of political connections ranging from managers' friendship with political actors to the presence of politicians or former politicians on the board of directors (Faccio, 2006, 2010). The appointment of former politicians to the board of directors is an interesting phenomenon from a theoretical perspective, as their presence can be hardly associated with standard corporate governance functions such as the monitoring of the management of the company.

However, directors do not only perform monitoring functions. They also bring resources to the company, including expertise and knowledge accumulated during their careers (Barroso, Villegas & Pérez-Calero, 2011; Hillman & Dalziel, 2003; Machold, Huse, Minichilli, & Nordqvist, 2011; Pfeffer, 1973; Zahra & Filatotchev, 2004). Politicians are no exception to this rule. As

previous research shows, appointing politicians to the board brings two types of benefits for companies. On the one hand, they can put at the firm's service their personal connections and contacts with the government to facilitate the interaction with it (e.g. Faccio, 2006; Fisman, Fisman, Galef, Khurana & Wang, 2012; Hillman, Zardkoohi & Bierman, 1999). On the other, they also bring useful knowledge or perspectives on how the political process works that can guide the firm to make better decisions in their relationship with the government (González-Bailón, Jennings & Lodge, 2013; Hillman, 2005; Lester, Hillman, Zardkoohi & Canella, 2008). Previous research states that firms appoint politicians to the board to secure the access to these contacts and knowledge in order to manage their interdependence with governments (Pfeffer & Salancik, 2003). However, the specific ways through which firms can benefit from the appointment of politicians are not clear. Lester et al. (2008, p. 1009) highlight that more research is needed to determine the "actual resources provided by the former government officials through their directorships [...] (and) the specific benefits that corporations receive by inviting former government officials onto their boards."

Previous research has mainly focused on the role of political contacts, leaving aside to some extent the role of political knowledge (Carney et al., 2016; Lester et al., 2008). One of the reasons could be the difficulties of separating contacts and knowledge. In the case of the domestic growth of the firm, it is almost impossible to separate them, as former politicians may bring to the firm both domestic contacts and domestic political knowledge. In contrast, when studying international expansion, it is possible to analyze separately the influence of these benefits. Whereas political knowledge can be transferred and exploited across countries in the form of political capabilities, even in countries in which the former politicians have no experience, contacts are location-specific and can only be exploited in the places where they are located.

To fill this gap, we analyze in this paper the influence of domestic political connections on companies' international expansion. Overall, we do not expect domestic political connections to

increase the firms' foreign expansion, because the knowledge and contacts developed during former politicians' careers are more valuable when pursuing domestic growth. However, we examine to what extent domestic political connections increase firms' foreign investments in countries where politicians may have contacts, applicable knowledge or both. Theoretically, our paper builds, on the one hand, on social capital theory (Coleman, 1988) to analyze the specific influence that contacts may have on foreign growth; and, on the other, on the knowledge-based view (Kogut & Zander, 1992, 1993) and the institution-based view (Peng, 2002; Peng, Sun, Pinkham & Chen, 2009; Peng, Wang & Jiang, 2008) to analyze the specific influence of political knowledge. Our main contribution is to show that, even though political contacts provided by former domestic politicians on the board do not encourage firms to enter in foreign countries, their political knowledge accumulated at home may prompt foreign direct investment (FDI) in countries where this knowledge is more applicable, regardless of their international experience. These countries are those having a similar institutional environment to the one of the home country and those where governmental discretion is high.

By combining the knowledge-based view with the institution-based view, we contribute to the political capabilities and the IB literatures by showing the role played by firms' domestic political connections on the board of directors as a driver of international expansion. We argue that former politicians provide firms with political knowledge that contributes to the formation of political capabilities, defined as the routines through which a firm's political resources and skills are deployed to influence political processes (Lawton, McGuire, & Rajwani, 2013; Fernández-Méndez, García-Canal, & Guillén, 2015). By investigating the influence of political connections on international expansion, we establish the link between domestic political connections and the accumulation of political capabilities susceptible of being exploited in a foreign country. The institution-based view helps to explain where these capabilities can be effectively exploited; namely, countries with similar institutional environments and with governmental discretion.

Specifically, our work contributes to the debate about the impact of institutional similarity on organizational strategies (Henisz & Zelner, 2005; Kostova & Roth, 2002; Perkins, 2014) and on the role of specific institutions on the adoption of firms' routines in the host country (Marano, Tashman, & Kostova, 2017; Kostova & Zaheer, 1999). Our main argument is that the knowledge brought by former domestic politicians can be incorporated into the routines that constitute the firm's political capabilities and later adopted and exploited in foreign countries where their use is legitimate. In this sense, we contribute to the recent stream of research analyzing the effect of home country characteristics on firms' foreign expansion (Cuervo-Cazurra, 2006; Cuervo-Cazurra & Genc, 2008; Estrin, Meyer, Nielsen & Nielsen, 2015; Garcia-Canal & Guillen, 2008; Holburn & Zelner, 2010; Li, Xia, Shapiro & Lin, 2018; Luo & Wang, 2012) by showing how firms can use the domestic political knowledge provided by domestic former politicians when they enter into institutionally similar countries.

We test our propositions using a 23-year panel comprising all Spanish firms listed as of 1990. As the international expansion of Spanish firms is a recent phenomenon (Guillén & García-Canal, 2010), this research setting allows us to provide rich data that accounts for the complete international expansion path of these companies that would shed light on the role of political connections.

THEORY AND HYPOTHESES

There is a long tradition of management research linking the composition and background of the board of directors to organizational outcomes such as performance (McDonald, Westphal, & Graebner, 2008), or growth through diversification (Jensen & Zajac, 2004). Besides the traditional function of monitoring top managers (Williamson, 2008), the board of directors can influence organizational outcomes in, at least, two ways. The first one is to provide advice to managers

(Adams & Ferreira, 2007), taking advantage of the board member's knowledge and information. The second is to facilitate relationships with external agents and organizations through cooptation (Thompson, 1967) and interlocking directors (Mizruchi, 1996).

The role of (former) politicians on corporate boards of directors has also received some attention in the literature. Consistent with the advising and relationship building functions, recent research has argued that politicians acting as directors may bring two types of resources to the organization, namely human and social capital (Lester et al., 2008). In effect, former politicians do not only provide the organization with government connections, but also with valuable knowledge regarding the political process. In this vein, former politicians bring to the company different types of knowledge. They have general knowledge regarding how the political process works (Hillman, 2005), and they also provide the company with more specific and technical expertise “of the inner working of politics and government” (González-Bailón et al., 2013, p. 852). This knowledge goes beyond the inside information that they can gain through their personal contacts and it is extremely useful for firms to know how the (political) system works and how people involved in the political process think and act. As a former U.S. congressman once declared, “after 24 years, you gain some understanding and knowledge of the process, the politics and the people.”¹ Agrawal and Knoeber (2001) go a step further by arguing that former politicians also possess expertise to anticipate the actions of governments.

In addition, politicians are also equipped with interpersonal skills developed during their political careers, which allow them to influence individuals (Stern & Westphal, 2010) and to easily establish channels of communication with external institutions (González-Bailón et al., 2013; Useem, 1984). Specifically, these politicians can be the interlocutors of the firm in managing the relationship with state or regulatory agencies (Pfeffer & Salancik, 2003). Thus, firms having former politicians on the board are in a privileged position to successfully navigate through the challenges of governmental regulations in their home country. Thanks to the social and human capital provided

by former domestic politicians, the firm would be better equipped to understand and anticipate the actions of the domestic government, improving the relationship with it. That is why the appointment of domestic politicians to the board is expected to prompt domestic expansion rather than foreign expansion. For firms' political connections in the home country to have an impact on foreign growth, they should be portable to foreign locations. However, both social and human capital are not fully fungible (Coleman, 1988) and applicable across countries. When considering the effects of domestic political connections on the international expansion of the firm, the benefits associated with social capital will be limited, assuming that the politician has mostly domestic contacts or in specific countries. As social capital is mainly country-specific (Useem, 1985), only the international contacts of the politician (should they exist) would be of help. The case of the human capital is slightly different, as the knowledge and perspectives provided by politicians on the functioning of political processes can be applied abroad, even though this knowledge would not be perfectly suitable. In effect, the knowledge provided by former politicians has an important domestic component. As another former member of the U.S. congress once said: "a lot of people really don't know how Washington works, especially back home in the district (...). Based on 22 years serving in Congress and getting bills passed, you kind of learn how the system works."² Obviously, this type of knowledge is more useful in the U.S. (the home country of this politician) than abroad.

For these reasons, the appointment of former domestic politicians to the board of directors should increase firms' opportunities to invest in the home country rather than opportunities to grow abroad. In fact, firms with more political connections are able to obtain in their countries of origin more protection from the government (Faccio, Masulis & McConnell, 2006) and better outcomes, for example higher market share (Faccio, 2010). Given these arguments we predict that:

Hypothesis 1. The greater the presence of former politicians from the home country on the firm's board of directors, the smaller the number of entries by the firm into a foreign country.

Even though we expect that former domestic politicians on the board will have a negative influence on firms' foreign expansion, the knowledge and contacts provided by them could be of help when expanding abroad. However, the implications for a firm's international expansion would be different depending on the relative importance of knowledge and contacts. If contacts with foreign politicians were the main contribution of former politicians on the board, those firms hiring politicians with more international experience would have a higher preference to invest abroad. If political knowledge accumulated during their career as politicians were their main contribution, more investments could be expected in countries where the institutional environment facilitates the use of this knowledge, like countries with a similar institutional environment or having governmental discretion. We apply in the following paragraphs social capital theory (Coleman, 1988), on the one hand, to analyze the influence that contacts may have on foreign growth; and, on the other, the knowledge-based view (Kogut & Zander, 1992, 1993) and the institution-based view (Peng, 2002; Peng et al. 2009) to analyze the effect of political knowledge. Figure 1 shows the hypothesized effects of our theoretical framework.

Figure 1 goes about here

Former domestic politicians' social capital and firms' international expansion

As previously stated, social capital is country-specific, so it can be hardly applied across countries. However, part of the former politicians' social capital can include contacts in foreign countries, as a consequence of their political activities or positions in international organizations. Therefore, even though the bulk of the relationships developed by the former politician is domestic, they may provide also some international contacts that can be exploited abroad.

For these reasons, it is expected that the social capital provided by former domestic politicians on the board would facilitate the entry in foreign countries where they have contacts because of their prior political activity. These contacts with the host government would help firms to gain legitimacy in the host country (Shaffer & Hillman, 2000) and build long term-term relationships in it (Luo, 2001). However, not all politicians develop international social capital in the same way. In effect, individuals' social capital is partly determined by the social group in which they are involved (Bourdieu, 1983; Seppola, 2004). Positions in foreign affairs or at international organizations (e.g. International Monetary Fund or the World Bank) and supranational authorities (e.g. European Union) are usually the means through which politicians build a network of international contacts (Turner & Binder, 2009). Thus, former politicians' prior experience in these positions should be more useful for firms investing abroad. We expect that these politicians would have more international contacts and, consequently, the firm could benefit from them when expanding internationally. This social capital provided by their international experience helps their firms to obtain advantages and/or better outcomes in the host country, such as first mover advantages (Frynas et al., 2006; Sun et al., 2010), legitimacy in countries with political risk (Darendeli & Hill, 2015), or greater performance (Li, Poppo & Zhou, 2008). On this basis, we argue that:

Hypothesis 2. The negative effect of the presence of former politicians from the home country on the board on entering a foreign country is smaller for firms having former politicians on their board of directors with relevant international experience.

Former domestic politicians' political knowledge and firms' international expansion

Boards of directors are a source of useful external knowledge and expertise (Barroso et al., 2011; Hillman & Dalziel, 2003; Machold et al., 2011; Pfeffer, 1973; Zahra & Filatotchev, 2004) that firms can integrate into their routines. In fact, the knowledge and skills provided by the members of the organization influence its routines every time they are applied to organizational

actions (Levitt & March, 1988; Nelson & Winter, 1982). In this way, the combination of the directors' knowledge and other firm knowledge can shape firms' routines. Directors can contribute to problem solving processes by providing firms with their expertise and knowledge developed in their previous positions (Rindova, 1999). In the particular case of former politicians on the board, as knowledge is one of the key components of firms' political capabilities (Holburn & Zelner, 2010), the expertise and knowledge accumulated by them in the home country can be incorporated into the firms' routines applied to deal with politicians and regulators at home. These routines, as happens with other firms' routines, can be transferred and replicated in foreign countries (Kogut & Zander, 1993; Madhok, 1997). However, the differences between home and host countries can make these routines inappropriate or inapplicable abroad (Madhok, 1997). That is why the use of political routines and capabilities across countries is conditioned by the institutional characteristics of the host countries in which firms operate (Marano & Kostova, 2016; Rathert, 2016).

As predicted by the institution-based view, strategic choices and behavior of firms going abroad are the outcome of the interplay between firms and institutions (Peng, 2002; Peng et al., 2008; Peng et al. 2009). In this sense, firms' behavior is conditioned, not only by their knowledge, as predicted by the knowledge-based view (Kogut & Zander, 1992, 1993), but also by the national policy and institutional environment of the countries in which they operate (Brouthers, Brouthers & Werner, 2008; Delios & Henisz, 2003; Henisz, 2003; Henisz & Delios, 2001; Henisz & Macher, 2004; Peng, 2002; Peng et al. 2009). Based on the institution-based view, we argue that the similarity between the home and host country institutional environments conditions the effectiveness of the political capabilities shaped by former politicians in at least two ways. First, this similarity favors the applicability of these routines abroad. Second, the knowledge of former politicians on how to deal with politicians and regulators becomes especially valuable in institutional environments characterized by governmental discretion.

Similarity of the home-host country institutional environment

Institutional features can make firms' routines more or less applicable across countries. As their degree of internationalization increases, firms have to deal with an ever-increasing array of institutional environments (Keim & Hillman, 2008), which hamper the adoption of firms' organizational routines in the host countries (Marano & Kostova, 2016). However, host countries in which the firm may invest can be grouped in different blocs according to their degree of similarity with the institutional environment of the firm's home country (Fainshmidt, Judge, Aguilera & Smith, 2016).

Past research illustrates how the origin, structure, and functioning of each national legal system is closely related to patterns of political development, colonization, migration, and cultural development (Guillén & Suárez, 2001; Rangan & Drummond, 2004; Schnepfer & Guillén, 2004). Several studies have found similarities among countries and their type of regulations considering their legal origin. For instance, Botero, Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2004) showed that legal origin explains the variation in labor regulations across 85 countries. Glaeser and Shleifer (2002) highlighted how the independence of the judicial branch also varies across legal families. Legal systems matter because they differ not only in the way in which governmental agencies and regulatory bodies are organized, or in the level of regulation, but also in several different aspects which condition economic activity (La Porta, Lopez-de-Silanes & Shleifer, 2008). It is possible to build institutional blocs on the basis of the common background provided by legal systems. In fact, even though regulations and laws have been increasingly homogenized around the world, the enforcement of these regulations and laws is still highly country specific (White, Boddewyn, & Galang, 2015), in part due to the different patterns established in each legal family. In this sense, it has been demonstrated that the content of law in countries adopting a legal system pertaining to the same legal family is still influenced by that of leading countries within the same legal family (Spamann, 2009). Thus, having a common legal system entails institutional similarity among the countries belonging to the same legal family.

Previous research on institutions highlights that institutional homogeneity facilitates the applicability of firms' organizational routines from the home country in the host country, making the foreign subsidiary more able to adopt organizational routines developed at home (Kostova, 1999; Kostova & Roth, 2002; Rangan & Sengul, 2009). We expect the institutional similarity between home and host countries provided by a common legal system facilitates the use of the firm's political knowledge and the routines in which it is embedded. As firms' routines are mainly context-specific, their adoption in a similar institutional context allows the firm to maintain the value of these routines and knowledge in the foreign country (Madhok, 1997). In countries having the same legal system, the use of the firm's routines is more likely to be seen as legitimate under the local environment. For this reason, we argue that firms will be more successful using their political knowledge in blocs of countries that share the same legal system as the one of their home country, facilitating their entry there. Thus, we predict that:

Hypothesis 3: The negative effect of the presence of former politicians from the home country on the board on entering a foreign country is smaller when entering nations with the same legal system as the home country.

Governmental discretion of the host government

The knowledge regarding the functioning of the political process provided by former politicians (Hillman, 2005) goes beyond the one related to how to operate under a specific legal system. In effect, this political knowledge can contribute to the firm's ability to deal with discretionary governments, irrespective of the legal system of their country.

Countries differ from one another in terms of their political structure. Differences in national policy environments can make international expansion easier or more difficult (Cuervo-Cazurra & Genc, 2008), adding uncertainty to multinational enterprises (MNEs) expanding abroad

(Henisz & Delios, 2002). Governmental discretion has been considered as one of the most important institutional idiosyncrasies that MNEs must navigate to be successful in their international expansion. In this paper, we understand as governmental discretion the extent to which political actors can arbitrarily change the conditions under which firms develop their activities in the country, in a manner that affects their investments' profitability (Henisz, 2000). Evidence regarding the effect of governmental discretion on firms' foreign location choice is mixed. Most studies have found that firms avoid investing in countries where governmental discretion is high (Delios & Henisz, 2003; Duanmu, 2012; Guler & Guillén, 2010; Henisz, 2002; Henisz & Delios, 2001; Henisz & Macher, 2004; Henisz & Zelner, 2001), whilst others have shown that some MNEs do not always avoid investing in countries having such a risk (Fernández-Méndez et al., 2015; García-Canal & Guillén, 2008; Holburn & Zelner, 2010).

We expect that the routines that former politicians contribute to develop can be of help when dealing with governments with discretionary power. The knowledge embedded in these routines is related to how to navigate into a specific legal system, but also to how to deal with people holding political power. The higher the discretion of the foreign politician, the more effective this knowledge is. If the number of checks and balances on the executive branch of government is high (low governmental discretion), it is more difficult for all veto players to reach an agreement to change policies or regulations (Tsbelis, 1995, 2002). Moreover, when checks and balances are abundant, it is more likely that different actors across the three branches of government will have different preferences. In that case, the difficulty of building consensus for policy change is even greater (Tsbelis, 1995, 2002). In this context, it is difficult to implement political strategies as the number of checks and balances increases because firms need to invest much time, effort, and resources to influence pivotal politicians or officials having greater influence in policy-making (Holburn & Vanden Berg, 2002).

On the contrary, if there are few checks and balances, firms can take advantage of governmental discretion to get better entry conditions —sometimes in exchange of commitments

for local infrastructure development, in the case of firms operating in regulated industries (García-Canal & Guillén, 2008; Guillén & García-Canal, 2010). Thus, it is easy to establish a relationship with a host government in the presence of governmental discretion because firms do not have to deal with a large number of actors but just with one person (Arregle, Miller, Hitt & Beamish, 2013; Rodrik, 1999). In this sense, Choi, Jia and Luo (2015) show how firms' lobbying activities are more effective in countries where checks and balances are low and, hence, partisan competition is lower. The routines that former domestic politicians contribute to establish facilitate negotiations between firms and host governments to define a win-win situation for both parties when these governments are highly discretionary.

Indeed, it is in countries in which the policy environment is less stable where firms tend to place more emphasis on their political activities (Heidenreich, Mohr & Puck, 2015). In these countries, it is crucial for the firm the development of relationships with key political actors having the capacity to define and change the rules of the game (Frynas, 1998; Heidenreich et al., 2015; Sun et al., 2010). The knowledge provided by former domestic politicians helps MNEs in building relationships with host governments enjoying ample discretion and to bargain with them, because they have experience on how to negotiate with political actors (Hillman, 2005). Therefore, domestic political connections may help the firm move beyond conventional practices by reaching ad hoc agreements with governments not subject to checks and balances. Based on these arguments, we predict that:

Hypothesis 4. The negative effect of the presence of former politicians from the home country on the board on entering a foreign country is smaller for the countries with governments enjoying governmental discretion.

METHOD

Sample

Our sample comprises the foreign investments made between 1986 and 2008 by all Spanish firms listed in the Madrid stock market as of 1990. Spain is an appropriate context to analyze the effect that domestic political connections on the board of directors may have on firms' foreign expansion for two main reasons. The first reason is related to the "revolving door" effect (i.e. former politicians having a position in private firms after their service in government). As Spain is a country where the revolving door is a common practice (Guerra, Sánchez, & Santana, 2015), it constitutes a good research setting to analyze the effect of political knowledge and contacts provided by former politicians on the board. For instance, in 2015, 77 former politicians were directors of any of the 129 companies listed in the Spanish stock market that year³. The second reason is that the internationalization of Spanish firms is a recent phenomenon, and thus it is possible to create a dataset with the bulk of the investments made by these firms, avoiding left censoring issues. The sample includes a total of 105 listed firms in 1990. We obtained the information about the foreign direct investments of these firms from the Systematic Database on International Operations of Spanish Companies, created under the sponsorship of the Spanish Institute for Foreign Trade, ICEX (see Guillén & García-Canal, 2007). We consider as foreign direct investments those operations in which the foreign multinational has at least 10 percent of the ownership of a local company (U.S. Bureau of Economic Analysis, 2004) —e.g. greenfield investments, and acquisitions or joint ventures in which the company has more than 10 percent of the equity. We excluded other types of operations such as licensing, distribution agreements or other kind of alliances that do not entail the effective control of a unit in the host country by the foreign multinational. Companies in our sample have invested in very different countries with very different institutional environments. In the same way, our firms differ in their level of political connections on the board. Our sample is composed of firms that do not have former politicians on

their board and firms having different levels of political connections on the board (the maximum value of political connections is 18 percent in our sample). Regarding the host countries included in our databased, it is composed of all potential host countries for which we have information on the World Bank database indicators, which is comprehensive of all countries.

Variables

Dependent variable. Our dependent variable is the count of each firm's foreign entries in each country and year. Therefore, our unit of observation is the firm-country-year.

Main independent variable. To capture the level of *domestic political connections on the board of directors* for each firm, we calculated a time-varying variable (“% Former politicians on the board”) that measures the percentage of members of the firm's board of directors who served in the government prior to becoming a director. We obtain this information from a hand-collected database containing information regarding the composition of the board of directors (since 1987 to 2010) of the listed Spanish firms in 1990. To build this variable we only account for the presence of former politicians on the board, as in the case of Spain the law restricts active politicians from working in private companies⁴. Following Faccio (2006), we considered only the highest-level political positions in Spain (i.e. positions at the national level), whether elected or appointed, including prime minister, vice-prime minister, cabinet minister, deputy minister, and member of the national parliament or the senate. By considering only political positions at the highest level we ensure that we are considering politicians with the most valuable knowledge and contacts.

We collected these data following two steps: (1) we identified the names of the directors serving on each company's board for each year during the period under investigation using legal filings, annual reports, company websites, and corporate directories⁵; and (2) we searched for the *curriculum vitae* of each director to identify those who had played a role in the government either as an appointed or as an elected official (if any). Finally, we did an additional search to identify

those politicians that were not found in the first search. For this last search, we tracked the name of each director in the main newspapers in Spain (e.g. El País, El Mundo, ABC, La Vanguardia, Expansión, Cinco Días, El Economista).

Former politicians with international experience. For the purposes of this paper, we considered as relevant international political experience having been ministry of foreign affairs or having held any position at European Institutions (e.g. European Parliament) or in international organizations such as the World Bank, the International Monetary Fund or the OECD. Thus, this variable accounts for the number of former politicians on the board of directors that held any of these positions. This variable captures not only the international contacts that these politicians may provide to the firm, but also the extra international political knowledge that these politicians have accumulated when holding these international positions.

Similarity between the home-host countries' institutional environments. To measure the similarity between the home and host country institutional environments we created a dummy variable valued one if the host country legal system belongs to the legal family based on the Napoleonic Civil Code —the family of the legal system of Spain— and valued zero otherwise. To build this variable we secured the information regarding the type of the legal system of each country from the database developed by La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998). The countries in the world with a legal system based on the Napoleonic Civil Code include France, Belgium, Italy, Portugal, Spain, and the countries colonized by them, including most countries in Latin America, much of West Africa, and parts of South East Asia. We also included as Civil Code countries those classified by La Porta et al. (1998) as having a mixed legal system. In this case, we included those countries in which the Civil Code dominates over others. We obtained this information from the CIA World Fact Book.

Governmental discretion. We define governmental discretion as the extent to which political actors can arbitrarily change the conditions in which firms develop their activities in the country, in a manner that affects their investments' profitability (Henisz, 2000). Considering this definition, the political constraint index (POLCONV), developed by Henisz (2000), is the most precise and widely-used index (Berry, 2013; García-Canal & Guillén, 2008; Henisz & Delios, 2001; Holburn & Zelner, 2010; Perkins, 2014; Zelner, Henisz & Holburn, 2009) from which we can build a governmental discretion index. The POLCONV index includes the number of independent power branches (e.g., the executive, legislative and judicial powers) with veto capacity over policy changes in each country, considering also the degree of alignment among them. Values in this index range from zero to one on a yearly basis, with zero being the lowest degree of political constraints and 1 the highest. The higher the number of power branches with veto capacity, and the lower the alignment among them; that is, the higher the POLCONV index, the more difficult it is for politicians to unilaterally change the rules of the game. From the POLCONV index, we constructed a governmental discretion index by subtracting the POLCONV score from 1.

Control variables. We also include in all models a set of control variables at the host country, industry, and firm levels that can influence firm's decisions to invest in a foreign country. We use "Macroeconomic Uncertainty" to control for other sources of risk unrelated to politics and policy (Campa, 1993; Dunning, 1993). We calculated this variable following the methodology developed by Servén (1998) for measuring unexpected changes in economic growth. We also include a variable to control for the lack of corruption.⁶ We introduced this variable in order to ensure that firms are reacting to governmental discretion and not to other sources of institutional instability. We also included in all regressions a measure of the size of the economy (logged GDP at constant 2000 prices), economic growth (GDP growth rate), the attractiveness of the country to foreign investors (total inward foreign direct investments as a percentage of GDP), openness to trade (imports plus exports as a percentage of GDP),⁷ and a dummy variable indicating if the host country has initiated market reforms. To build this last variable we used the information contained

in Henisz, Zelner, and Guillén (2005), Lora (2000), and Wallsten (2002). Firms may prefer investing in countries that are less distant from the home country in terms of economic conditions, administrative characteristics, geographic situation, and cultural characteristics (Ghemawat, 2001). For this reason, we controlled for economic, geographic, and administrative distances.⁸ We also included a variable to control for election periods in the host country. Changes of the political environment, in addition to governmental discretion, may affect the value of domestic political connections. Based on Vaaler (2008) we created a dummy variable valued at one if an election has occurred the previous year and at zero otherwise. Finally, we included two dummy variables to account for those countries belonging to the Latin America region and the European Union. Spanish firms have invested heavily in these regions due to cultural and historical reasons in the case of Latin America (Guillén, 2005) and due to economic reasons in the case of the EU, as Spain is one of its members.

At the industry level, we included three dummy variables to account for a set of firms in different industries (i.e. infrastructure, services and manufacturing firms). At the firm level, we also included several variables. We included firm size as measured by logged assets, the firm's international experience measured by the number of previous foreign investments, the number of directors having international experience (e.g. directors that are or were managers of other foreign multinationals, directors having positions in international institutions such as the World Bank, OECD or the International Monetary Fund), and the number of directors that were politicians in a foreign country. These last controls try to capture any international knowledge or contact provided by non-politicians that could contaminate the effect of domestic political connections. Regarding the political connections of the Top Management Team, we included a dummy variable to account for the fact that the CEO is a former politician. We also controlled for the existence of political ideology heterogeneity on the board, that is, if the firm has former politicians with different political ideologies on its board of directors, to test if these firms were better at capitalizing their political knowledge and contacts. To do this, we created a dummy variable valued one if the firm has at least

two former politicians on their board of directors with different political ideologies and valued zero otherwise. We also included two more variables to control for the possibility that former politicians' political ideology could contaminate the effect of our main independent variable. Sharing the same political orientation as the one of the ruling government (at home and/or abroad) may provide the company with a better position to deal with it. In this sense, we created a dummy variable valued one if the firm has at least one former politician on its board having the same political orientation as the one of the government ruling in the home country and valued zero otherwise. Finally, we included other dummy variable valued at one if the firm has at least one former politician on its board with the same political orientation as the one of the government ruling in the host country. To build these two variables we followed the World Bank classification of political ideologies (i.e. right-wing, left-wing and center-wing). We gathered the information to classify each host and home country government political orientation from the Database of Political Institutions of the World Bank. The last variable included at the firm level is the value of the intangible assets owned by the company. To measure this variable, we used the firm Tobin's q. Previous research has considered this ratio as an appropriate variable to measure the firms' value of intangible assets (Berry, 2006; Dowell, Hart & Yeung, 2000; Villalonga, 2004). We compute Tobin's q following the procedure used by Chung and Pruitt (1994).

In addition to industry dummies all analyses include year fixed effects. To avoid endogeneity issues, the domestic political connections variable was instrumented following the procedure explained below. The remaining independent and control variables were lagged one year.

Endogeneity and Empirical Model

Domestic political connections across firms are not distributed randomly, because each firm makes a choice as to whom to appoint to the board. Thus, political ties should be considered as an

endogenous variable. Some unobserved firm characteristics may be influencing both the establishment of political ties and our dependent variable, i.e. the firm's number of entries into a foreign country. To correct for this endogeneity problem, we used the instrumental variable (IV) method. We first built a panel-data regression model ⁹ in which the dependent variable was the percentage of former politicians on the board of directors, and the independent variable is the number of inhabitants of the city where the company has its headquarters, as major cities are related to more economic and political activities (Agrawal & Knoeber, 2001; Boubakri, Cosset & Saffar, 2008). This instrumental variable has been previously used by Tuschke, Sanders, and Hernandez (2014) to account for the attractiveness of the board for potential directors. The instrumental variable and the second-stage dependent variable (number of firm's entries-country-year) are only correlated at the 0.04% level, which allow us to corroborate that we are using an appropriate instrument, as both variables are not highly correlated. In addition, we included several control variables that the literature on political connections has related to the fact of having more former politicians on their board. In this sense, we included: the age of the firm, to account for its accumulated experience and resources, which can make them more involved in political issues (Agrawal & Knoeber, 2001; Leuz & Oberholzer-Gee, 2006); whether the firm has the government as shareholder, knowing that firms having the State as shareholder (which is not a choice variable) have more chances of having politicians in the board of directors (Boubakri et al., 2008; Menozzi, Urtiaga & Vannoni, 2012); whether the firm belongs to a regulated industry, ¹⁰ as previous studies found that these firms tend to have more politicians on their boards of directors as they are more influenced by governments decisions (Agrawal & Knoeber, 2001; Hillman, 2005); and the percentage of family ownership, given that this variable has been found negatively associated with having more politicians on the board of directors (Pérez, Sánchez & Martín, 2014). We calculated the age of the firm subtracting from the year of the observation the year of the firm's birth. To build this variable we gathered the necessary information from the SABI database and firm's webpages. To code the State ownership variable, we used the information compiled by Vergés (1999, 2010).

We also included year dummies. We lagged all the independent variables one year. Given the longitudinal nature of our data, we ran a Hausman test to determine whether to use fixed or random-effects specifications (Hausman, 1978). The Hausman test was not significant, meaning that both the random-effects and the fixed-effects specifications will show similar coefficients. As we have one variable in our regression that is fixed in time (the regulated nature of the industry), we use the random-effects specification. Table 1 shows the results from the instrumental variable estimation. Almost all variables are significant at the 0.01 level. Only the variable accounting for the age of the firm is significant at the 0.05 level. In addition, the variables included in this model are correlated to the number of former politicians on the board of directors (Table 2 shows these correlations). Only the levels of correlation of the firm's age and the percentage of family ownership variables are below the 20%. We then proceeded to use the predicted values of political connections obtained from this estimation as our main independent variable to test our hypotheses.

 Tables 1 and 2 goes about here

As the dependent variable of our model is non-negative and integer-valued, Poisson regression is more appropriate than ordinary least squares. To adjust for over-dispersion, we used the negative binomial model, a generalization of the Poisson model in which the assumption of equal mean and variance is relaxed (Cameron & Trivedi, 1998; Hausman, Hall & Griliches, 1984). To dealt with the longitudinal character of the data, previous studies have used the fixed-effects specification of Hausman et al., (1984), which includes a time-invariant variance-to-mean ratio, for each firm (Allison & Waterman, 2002). However, this fixed-effects specification reduces our sample to 63 firms that have made at least one entry into a foreign country during the observation period. For the sake of efficiency, we use as our primary specification the Generalized Estimating Equation (GEE). This technique of estimation has been considered more advantageous over random

and fixed effects specifications (Krishnan & Kozhikode, 2015). We used a GEE negative binomial estimator with an exchangeable correlation structure and heteroscedasticity consistent standard errors. Table 3 reports the descriptive statics and the correlation matrix. To avoid high correlations between main and interaction effects, we mean centered the continuous variables involved in the latter (Jaccard & Turrisi, 2003). We also included in our regression all the control variables included in the panel data regression as they can be also related to firms' international expansion.

 Table 3 goes about here

RESULTS

Table 4 shows the results for the regressions with levels of significance reported for two-tailed tests. The results are presented using six specifications: control variables only, main effects, the effect of each interaction (models 3, 4 and 5), and all interaction effects.

 Table 4 goes about here

We find support for almost all of our predictions. As predicted in Hypothesis 1, domestic political connections have a negative impact on the number of firms' entries into a foreign country. Although the coefficient of this variable is not significant in the model without moderating effects, our results clearly show that, overall, domestic political connections do not increase the propensity

to expand abroad. Hypothesis 2, which predicted that the negative effect of domestic political ties is mitigated if the firm invests in a country where former politicians on the board may have contacts as consequence of their international experience, is not supported. The interaction included to account for this fact do not have the expected sign, although is non-significant. In this sense, we cannot affirm that the negative effect that firms' political connections have on the number of foreign entries is reduced if the firm has more former politicians having valuable international experience. Interestingly, Hypothesis 3 predicting that the negative effect of domestic political ties on firm's foreign growth is less negative if the home and host country have the same legal system is supported. Finally, hypothesis 4 predicting that the negative effect of firms' political connections on the number of foreign entries will be reduced as governmental discretion in the host country increases, receives support as well. As for the control variables, at the firm level only the firm's age, the level of assets, and Tobin's q ratio are significant across all specifications. At the host country level, almost all control variables are significant. The only variable which is not significant is the one accounting for the lack of corruption.

The size of the effect of domestic political connections on the board must be assessed considering also all moderating effects. Since there is a dummy moderating variable (home-host country legal system similarity), there are two different scenarios to analyze the effect of firms' political connections. As the other moderating variables are continuous (former politicians international experience and governmental discretion), we calculated the magnitude of the effect of political connections considering these variables at three levels (low, medium, and high). We used the coefficient estimates from the full model reported in Table 4.

Table 5 shows the magnitude of the effect of a one-half standard deviation increase on firm's political connections under nine scenarios resulting from the combination of different levels of the moderating variables. There are only two scenarios in which the effect of firm's political connections on the number of firm's foreign entries into a foreign country is positive. Only in Civil

Code countries having discretionary governments, and low or medium level of Former politicians with international experience, the number of foreign investments increases as political connections rise. In the most favorable scenario, a firm makes 4.86 percent more foreign entries in response to a one-half standard deviation increase on the value of its political connections. Table 6 shows the effect of political connections for firms investing in non-Civil Code countries. Under all possible scenarios in non-Civil Countries, increases in political connections lead to decreases in the number of investments in these countries. These effects allow us to conclude that political knowledge provided by domestic political connections matter for firms' foreign expansion, but only in countries where the application of this knowledge is favored by the institutional environment. Former politicians international experience (which includes international social capital), on the contrary, does not seem to have an impact on foreign expansion.

Tables 5 and 6 go about here

To better illustrate the moderating effects, we graphically represented them in figures 2, 3 and 4. Figure 2 shows the moderating effect of the similarity of the home and host institutional environments when governmental discretion and the number of former politicians with international experience do not vary (these variables are valued at their mean). As the percentage of former politicians on the board increases, the propensity to invest abroad is reduced in both cases, although the negative impact of this variable is lower if the host country has the Civil Code legal system. Figures 3 and 4 show the effect that the percentage of former politicians has on the firm propensity to enter a foreign country considering different levels of governmental discretion. For the highest levels of governmental discretion, increases in political connections lead to lower

reductions in the propensity to invest (non-Civil Code countries) or even increases in this propensity (Civil Code countries).

Figures 2, 3, and 4 go about here

DISCUSSION AND CONCLUSION

Our study provides evidence on the impact that domestic political connections have on firms' foreign location choices. We developed two alternative explanations for the influence that former domestic politicians on the board may exert on the firm's international expansion. The first one, based on social capital theory (Coleman, 1988), predicts that this influence would be greater for firms having more former politicians with relevant international experience. The second one, based on the knowledge-based view (Kogut & Zander, 1992, 1993) and the institution-based view (Peng, 2002; Peng et al., 2009), focuses on the political knowledge brought by former politicians in the home country.

Our main contribution is to show that the presence of former domestic politicians on the board may prompt FDI in countries where their political knowledge is more valuable and easy to adopt and exploit. Having domestic politicians on the board prompts FDI in countries having discretionary governments and a similar institutional environment to the one of the home country. Interestingly, we did not find a positive impact of the former politicians' international experience on FDI. As previously mentioned, we acknowledge that our measure of international experience may include both international contacts and international knowledge, so we cannot completely

isolate the effect of former domestic politicians' international contacts. However, the lack of significance of this variable and its moderating effect implies that both the extra international knowledge and international contacts provided by these politicians do not increase the firm's propensity to invest abroad. Thus, our results, taken as a whole, confirm the influence on foreign expansion of the domestic political knowledge provided by former politicians. Previous IB research on political connections analyzed them considering basically the social capital attached to them, leaving aside the knowledge that they may provide to the firm. Our research answers the call of past studies for more research to identify the resources that politicians actually bring to the firm (Lester et al., 2008). Our results show that, at least in the case of international expansion, the domestic knowledge that former politicians bring to the board can be more important than their specific contacts, even after accounting for the international experience that they may have. In other words, our results indicate that the home country exerts an influence on firm's FDI through the political knowledge and experience accumulated there by their former politicians on the board.

We argued that having politicians on the board of directors does not make firms more prone to foreign expansion, given that their presence encourages domestic growth. It is in their home country where the firm can capitalize the former politicians' experience and contacts with the home government and regulators. When considering the effects of political connections on the firm's international expansion, the benefits associated with social capital will be limited, assuming that politicians have mostly domestic contacts. By contrast, we claimed that the benefits of the domestic political knowledge that they provide can be transferred to other countries, even if the politicians do not have contacts there. We argue that once this knowledge developed at home is incorporated into the firm's routines, it can be easily transferred and applied to other countries, being their value and usefulness conditioned by the host country institutional environment.

By highlighting the relevance of domestic political knowledge, we were able to extend the knowledge-based view (Kogut & Zander, 1992, 1993) to analyze the knowledge provided by the members of the board of directors and its role in the development of political capabilities in the

home country. In this sense, our findings are consistent with the recent trend analyzing the contribution of board members not only in terms of coopting external organizations, but also in terms of the human capital provided by them (Barroso et al., 2011; Kor & Sundaramurthy, 2009; Lester et al., 2008; Westphal & Fredrickson, 2001). Our paper contributes to this view by putting the human capital embedded in political ties—in particular, the political knowledge that former politicians have—at the center of the analysis. Board of directors may become a source of competitive advantage (Barroso et al., 2011; Machold et al., 2011) because the knowledge provided by directors can be integrated and combined with other firm knowledge to generate routines difficult to imitate by other firms. Hence, domestic political ties can be a key element in gaining access to political knowledge that can be incorporated into the firm's routines, which can be adopted and exploited abroad. In other words, political knowledge brought by former domestic politicians can be a building block for firm's internationalization, as it enhances the firm's political capabilities. Previous research has emphasized how political knowledge and capabilities developed at home can influence a firms' international expansion (Cuervo-Cazurra & Genc, 2008; Garcia-Canal & Guillen, 2008; Holburn & Zelner, 2010). We add to this literature by identifying a relationship between a domestic source of political knowledge (former domestic politicians) and FDI. It is widely acknowledged that firms are heterogeneous in their level of political capabilities (Oliver & Holzinger 2008; Lawton and Rajwani, 2011; Lawton, Rajwani & Doh 2013). Our paper highlights a factor that could explain the different level of political capabilities and the different performance of corporate political activities across firms. In addition, our results show the importance of having former domestic politicians inside the board, and not working as external brokers or consultants, because it is when they are inside the organization when their knowledge can be fully exploited. Whereas previous research has underscored the knowledge leaking disadvantages of using external lobbyists (de Figueiredo & Kim, 2004), our paper highlights the knowledge and routine development advantages of having them inside the organization (i.e. inside

the board of directors). We elaborate more on this later, when discussing the practical implications of the paper.

Even though institutions may vary on a country basis (Hillman & Keim, 1995; Keim & Hillman, 2008), organizations embedded in a certain institutional environment have accumulated certain knowledge that can be used to obtain benefits in countries with similar institutional characteristics (Carney et al., 2016; Delios & Henisz, 2003; Henisz, 2003; Henisz & Delios, 2002). Thus, our analysis adds to the debate about the impact of institutional similarity on organizational strategies (Henisz & Zelner, 2005; Kostova & Roth, 2002; Perkins, 2014), and on the adoption of firms' routines in host countries (Kostova & Zaheer, 1999; Madhok, 1997). In this regard, we showed how the similarity of home and host institutional environments facilitates the exploitation of domestic political knowledge provided by former politicians on the board. In particular, we focus our analysis on the institutional similarities between home and host legal systems. Regarding legal systems, recent research has found that managerial perceptions about legal systems are decisive for the formation of political ties with host governments (White et al., 2015). We add to this literature by showing how the domestic political knowledge provided by former politicians on the board would help firms in interpreting adequately the functioning of similar institutional environments, facilitating the implementation of political strategies in host countries pertaining to the same legal family. In fact, we show that domestic political knowledge is an important part of the firm's ability to deal with foreign institutions. Drawing on the institutional literature, Carney et al. (2016) illustrate through a case study how multinationals from emerging markets can develop at home what they called "institutional capabilities", and how these firms can transfer and exploit these capabilities to institutionally similar emerging countries. We add to this literature by showing the role of domestic political knowledge and by providing additional evidence on how institutional distance limits the effectiveness of political capabilities developed at home.

The host country policy environment is another institutional factor largely recognized by IB and strategy literatures as determinant of MNEs' behavior (Brouthers et al., 2008; Delios &

Henisz, 2003; Henisz, 2003; Henisz & Delios, 2001; Henisz & Macher, 2004). We found that the stability of the host-country policy environment — i.e., the effectiveness of checks and balances that limit governmental discretion— constitutes an important factor for the overseas applicability of firms' political knowledge accumulated at home. Countries where checks and balances are more effective have been considered as more attractive for firms implementing political strategies (Bonardi, Hillman & Keim, 2005; Kingsley, Vanden Bergh & Bonardi, 2012). In fact, previous studies have found that firms avoid expanding their activities when institutional checks and balances are low (Kozhikode & Li, 2012). However, our result regarding the moderating effect of governmental discretion shows that for firms having more political knowledge these strategies are easier to put in practice in countries with fewer checks and balances. This result is in line with recent research on infrastructure industries that highlights that infrastructure firms do not avoid investing in policy risky countries, as they are equipped with political capabilities accumulated at home when dealing with government officials and regulators (Fernández-Méndez et al., 2015). We add to this literature by showing how firms' domestic political connections, which contribute to the development of political capabilities, are more useful in host countries characterized by higher levels of governmental discretion. Discretionary governments are more accessible for firms, and political knowledge would be of help for firms dealing with them. Regarding the accessibility of discretionary governments, a CEO of Agbar (a Spanish water utility) once said that: "Another surprise we came across in South America was that authorities are much more approachable than in Spain or Europe. I can tell you that in [Latin American] countries similar to Spain in terms of population, one finds it easier to meet with a cabinet minister; it is even easier to change the appointment time. This is not as easy in Spain, and it is likely not easy either in France or Germany."¹¹ In this context, the knowledge provided by former politicians would be helpful for firms investing abroad, as they know how people involved in politics thinks and act.

Whereas domestic political knowledge matters for firms' international expansion, the extra international experience that former politicians may bring to the board does not add much to the

domestic knowledge they already have. In all the scenarios in which political knowledge should be more valuable for firms' international expansion (countries with the same legal system or governmental discretion), firms with more former politicians on their board increased their number of investments into foreign countries. On the contrary, regarding the effect of international contacts and knowledge there is no conclusive evidence on the role of former politicians. In this sense, we cannot affirm that the international social capital or the international knowledge provided by former politicians is of help for firms investing abroad. Thus, although political connections in the home country are established to deal with the domestic environment, our results show that (1) these connections may have an impact in the firm's international expansion, and that (2) the impact of these connections is more nuanced than what could have been expected, as the knowledge they provide seems to be more important than their international experience. One possible reason for this last result is that the knowledge provided by the politicians can only be exploited if they are inside the organization, but the company can benefit from the contacts of the politicians both when they are inside the organization and hired as externals. In fact, the main advantage of hiring externals is that firms can choose the best advisor for each specific country.

Although we found evidence consistent with the idea that domestic political connections can influence international expansion, the research reported in this paper suffers from some limitations. One of them has to do with the fact that our analysis was confined to just one home country. Every country in the world is unique and Spain is no exception. For instance, Spain has just over a hundred listed companies. In addition, although hiring a former politician is perfectly legal in Spain, two years since they left their position in the government need to pass before joining a company. In this context, the value of the social capital of former politicians is more likely to depreciate during these two years than the one of their political knowledge. However, focusing on just one country has allowed us to avoid home country characteristics variation as a confounding factor (Darendeli & Hill, 2015). In addition, the Spanish case has the advantage of avoiding left censoring issues, as previously mentioned. A second limitation of the paper is that our data did not

allow us to measure directly the effect of political knowledge. In addition, we have information on the number of entries in the host country, but not on the size of the investments. Future research based on primary data could overcome these limitations. A final limitation is that we do not have information regarding neither the firms' nor the members of the board international political contacts, so we had to proxy them through the international experience of former politicians. These limitations offer several opportunities to advance the study of the business value of political ties, and knowledge in general. Other areas of research can be pursued to continue developing the theoretical framework of political knowledge pursued in this paper. Specifically, further research using samples including firms from different countries is needed to assess the external validity of our findings. In addition, this research could also measure more precisely the impact of institutional distance on corporate political activities considering more comprehensive measures of institutional distance (Fainshmidt et al., 2016). Regarding the dynamics of foreign investments, it would be interesting to analyze the influence of political knowledge not only at the moment of entry but also when it comes to subsequent investments or even in the survival of the firm's investments. Undoubtedly, the appointment of former politicians to corporate boards has created some controversy, as this fact may have a downside effect, for instance allowing the rent appropriation by large blockholders (Sun, Hu, & Hillman, 2016). Although our results show that the benefits of these appointments go beyond enjoying privileged access to governments, this topic is worth of further study.

Managerial relevance

Our paper has also relevant implications for multinational managers. Increasingly, firms must deal with a greater number of stakeholders, being the host country government one of the main stakeholders for firms investing abroad. In this sense, an adequate management of the relationship with it is of great importance for multinational companies. That is why corporate diplomacy (Henisz, 2014) has gained importance for firms' managers; and the knowledge provided

by former politicians can be critical for developing and refining the routines used in these processes.

From the point of view of the practice of management, our results show the importance of gaining access to political knowledge through the appointment of former politicians as directors, instead of hiring them externally. When politicians serve on the board, the knowledge and skills that they provide can leave a mark on the firm's organizational routines. The board can lead organizational actions and when discussing them in the board, former politicians can contribute their knowledge. On the contrary, when hiring external intermediaries or lobbyists to influence specific governments the client firm usually does not gain access to their political knowledge. The client just benefits from the outcome of the intermediary's actions. Thus, the firm can benefit from the contacts of the former politician in the same way when they are in the board and when they are hired as externals. However, having the politicians inside the organization is the only way to fully exploit the knowledge that they can provide, due to the unique advantages of internal organization when it comes to create, recombine and transfer knowledge (Kogut & Zander, 1993). At any rate, this knowledge would be especially useful in locations similar to the home country.

Endnotes:

1. Ex-lawmakers swing through the revolving door, USA Today, 13rd April 2015
2. Ex-lawmakers swing through the revolving door, USA Today, 13rd April 2015
3. Los 77 expolíticos a sueldo como consejeros de empresas cotizadas cobraron 31 millones en 2015, eldiario.es, 17th August 2016
4. Law 53/1984, de 26 of December, de incompatibilidades del personal al servicio de las Administraciones Públicas
5. The Maxwell Espinosa: Shareholders Directory Spain, Duns50000 and DICODI.
6. We obtained this information from the ICRG database.

7. These four variables have been obtained from the World Bank indicators database.
8. These variables were obtained from the Cross-National Distance Database available online from the PennLauderCIBER webpage.
9. We modeled the level of political connections of firm i in year t as:

$$y_{it} = \alpha + \beta_1 \text{INHABITANTS}_{it-1} + \beta_2 \text{STATE OWNERSHIP}_{it-1} + \beta_3 \text{REGULATED INDUSTRY} \\ + \beta_4 \text{AGE}_{it-1} + \beta_5 \text{FAMILY OWNERSHIP}_{t-1} + u_{it-1}$$

10. We considered as regulated industries those defined by Fernández-Méndez et al. (2015) as physical infrastructure industries: telecommunications, water, gas, electricity, petroleum, and construction.
11. Ricardo Fornesa Ribo, president and CEO of Aguas de Barcelona, *Diario de Sesiones del Senado: Comisión de Asuntos Iberoamericanos*, 148, 12 June 2001, 3

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Figure 1. Hypothesized effects of our theoretical framework.

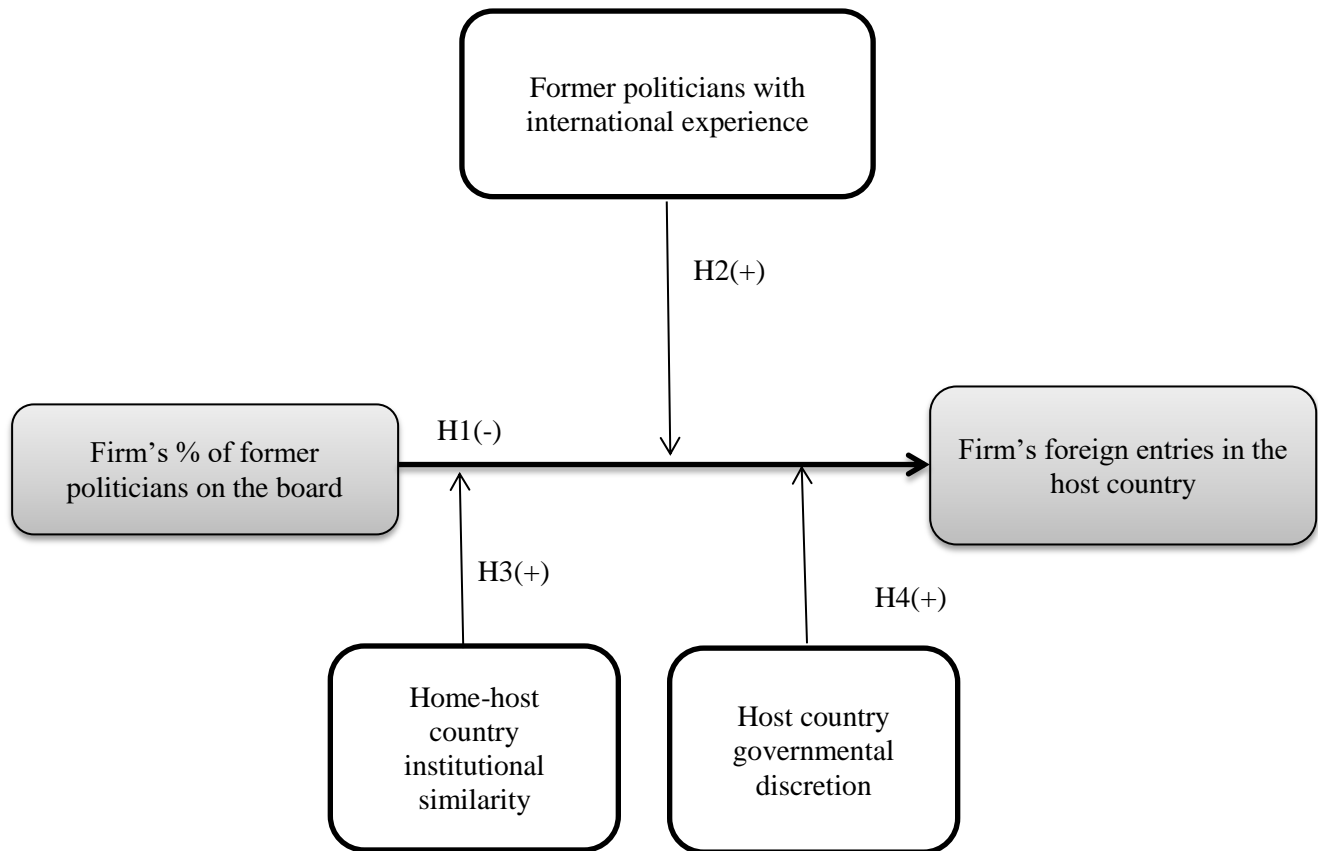


Table 1. Results from the instrumental variable estimation (panel data regression)

VARIABLES	Dependent variable: % Former politicians on the board
N inhabitants of the firm's headquarter city	0.00*** (3.34)
State ownership	0.05*** (4.49)
Regulated industry	0.04*** (2.94)
Firm's age	0.00** (2.29)
Family ownership	-0.00*** (-3.10)
Constant	0.00 (0.27)
Observations	1,474
Number of firms	105

z-statistics in parentheses: *** p<0.01, ** p<0.05, * p<0.1

Table 2. Correlations of the variables included in the instrumental variable estimation (panel data regression)

	1	2	3	4	5	6
1 % Former politicians on the board	1					
2 N inhabitants of the firm's headquarter city	0.25*	1				
3 State ownership	0.25*	0.15*	1			
4 Regulated industry	0.28*	0.24*	0.23*	1		
5 Firm's age	0.17*	-0.03	0.00	0.16*	1	
6 Family ownership	-0.17*	-0.00	-0.10*	0.05	-0.26*	1

Note: * Statistically significant at 0.05 or lower.

Table 3. Means, standard deviations, and correlations.

Variable	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11
1 N firm entries-country-year	0.02	0.18	1										
2 % Former politicians on the board	0.00	0.04	0.08*	1									
3 %Former politicians on the board x Former politicians with international experience	0.01	0.02	0.03*	0.08*	1								
4 %Former politicians on the board x Civil Code	0.00	0.03	0.10*	0.79*	0.06*	1							
5 %Former politicians on the board x Host country's governmental discretion	0.00	0.01	-0.02*	0.01*	-0.03*	0.04*	1						
6 Former politicians with international experience	0.00	0.52	0.05*	0.28*	0.69*	0.22*	-0.01*	1					
7 Civil Code	0.62	0.48	0.04*	0.00	0.00	0.00	0.00	0.00*	1				
8 Host country's governmental discretion	0.00	0.29	-0.04*	-0.02*	-0.01*	-0.01*	-0.01*	-0.01*	0.06*	1			
9 Board of directors' ideology heterogeneity	0.19	0.39	0.07*	0.34*	0.25*	0.27*	-0.02*	0.43*	0.00*	-0.02*	1		
10 Firm-Host country government same political ideology	0.17	0.37	0.05*	0.29*	0.16*	0.23*	-0.03*	0.34*	0.00	-0.04*	0.57*	1	
11 Firm-Home country government same political ideology	0.19	0.39	0.05*	0.39*	0.21*	0.31*	-0.02*	0.41*	0.00*	-0.03*	0.62*	0.48*	1
12 N director former politicians in foreign countries	0.08	0.41	0.01*	0.12*	0.10*	0.09*	-0.00*	0.26*	0.00*	-0.01*	0.16*	0.08*	0.18*
13 N directors with international experience	1.72	2.41	0.07*	0.33*	0.27*	0.26*	-0.01*	0.52*	0.01*	-0.03*	0.39*	0.29*	0.36*
14 CEO former politician	0.04	0.19	-0.01*	0.23*	0.14*	0.18*	0.00*	0.24*	0.00	-0.00	0.08*	0.13*	0.25*
15 Firm's international experience	12.63	27.13	0.13*	0.36*	0.36*	0.29*	-0.00	0.46*	0.00*	-0.01*	0.38*	0.26*	0.31*
16 Firm's Tobin's q	1.83	1.99	-0.02*	-0.08*	-0.03*	-0.06*	-0.00*	-0.07*	-0.00	-0.00*	-0.06*	-0.03*	-0.06*
17 State ownership	0.05	0.21	0.01*	0.51*	-0.02*	0.40*	0.01*	0.01*	-0.00*	0.00	0.10*	0.07*	0.19*
18 Firm's age	72.53	40.20	0.03*	0.41*	0.10*	0.32*	0.00*	0.21*	0.00	0.01*	0.09*	0.11*	0.14*
19 Firm's assets	-0.19	2.16	0.11*	0.59*	0.20*	0.47*	0.00*	0.39*	0.00	0.01*	0.40*	0.30*	0.35*
20 Family Ownership	6.94	15.68	0.00*	-0.31*	-0.03*	-0.24*	-0.00	-0.04*	0.00	-0.01*	-0.05*	-0.08*	-0.08*
21 Regulated Firm	0.23	0.42	0.10*	0.66*	0.06*	0.52*	0.01*	0.15*	-0.00	0.01*	0.30*	0.21*	0.28*
22 Host country's macroeconomic uncertainty	-7.23	1.20	-0.01*	0.00*	-0.02*	0.00	0.00	-0.03*	0.18*	0.19*	-0.03*	-0.01*	-0.02*
23 Host country's GDP	24.33	1.96	0.10*	0.00	0.01*	0.00	0.00*	0.01*	-0.11*	-0.38*	0.01*	0.01*	0.00*
24 Host country's GDP growth	3.90	4.06	-0.00	0.02*	0.02*	0.02*	-0.00*	0.03*	-0.07*	0.08*	0.04*	0.01*	0.01*
25 Host country's inward FDI	6.02	31.87	-0.01*	-0.01*	0.01*	-0.01*	0.01*	0.01*	0.07*	-0.09*	0.01*	0.02*	0.01*
26 Host country's trade openness	77.11	48.02	-0.05*	-0.00*	0.02*	-0.00	0.00*	0.03*	-0.05*	-0.09*	0.03*	0.01*	0.01*
27 Host country's market reforms initiated	0.59	0.49	0.06*	-0.00*	0.03*	-0.00*	0.01*	0.05*	0.02*	-0.01*	0.06*	0.05*	0.04*
28 Host country's lack of corruption	3.28	1.35	-0.00	0.01*	-0.03*	0.01*	-0.00	-0.04*	-0.19*	-0.55*	-0.04*	-0.00	-0.01*
29 Election year host country	0.20	0.40	-0.00	0.01*	-0.00*	0.01*	0.00*	-0.01*	0.01*	-0.09*	-0.01*	0.00*	-0.01*
30 LATAM	0.25	0.43	0.05*	0.00	-0.00*	0.00	0.00*	-0.01*	0.39*	-0.03*	-0.01*	0.03*	-0.00
31 European Union	0.16	0.36	0.04*	0.00*	0.01*	0.00	0.00*	0.01*	0.07*	-0.34*	0.01*	0.03*	0.00
32 Administrative distance	13.00	18.03	-0.02*	-0.00	0.00*	-0.00*	0.00*	0.00*	-0.22*	-0.12*	0.00*	0.01*	0.00
33 Economic distance	4.64	6.07	-0.03*	-0.01*	0.02*	-0.00*	0.00*	0.02*	-0.07*	-0.02*	0.02*	-0.00*	-0.00*
34 Geographic distance	5997.31	3913.44	0.00*	0.00	-0.00*	0.00	-0.00*	-0.00*	-0.22*	0.01*	-0.00*	0.01*	-0.00*

Note: * Statistically significant at 0.05 or lower.

Table 3. Continued

Variable	Mean	Std. Dev.	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34
11 Firm-Home country government same political ideology	0.19	0.39	1																							
12 N director former politicians in foreign countries	0.08	0.41	0.18*	1																						
13 N directors with international experience	1.72	2.41	0.36*	0.48*	1																					
14 CEO former politician	0.04	0.19	0.25*	0.13*	0.26*	1																				
15 Firm's international experience	12.63	27.13	0.31*	0.12*	0.53*	-0.03*	1																			
16 Firm's Tobin's q	1.83	1.99	-0.06*	0.08*	-0.03*	-0.01*	-0.09*	1																		
17 State ownership	0.05	0.21	0.19*	-0.04*	-0.04*	0.11*	-0.02*	-0.07*	1																	
18 Firm's age	72.53	40.20	0.14*	0.09*	0.20*	0.30*	0.22*	-0.06*	-0.01*	1																
19 Firm's assets	-0.19	2.16	0.35*	0.18*	0.54*	0.08*	0.64*	-0.11*	0.19*	0.35*	1															
20 Family Ownership	6.94	15.68	-0.08*	0.13*	-0.03*	-0.09*	-0.02*	-0.08*	-0.10*	-0.20*	-0.10*	1														
21 Regulated Firm	0.23	0.42	0.28*	0.16*	0.25*	0.09*	0.34*	-0.14*	0.26*	0.12*	0.49*	0.11*	1													
22 Host country's macroeconomic uncertainty	-7.23	1.20	-0.02*	-0.02*	-0.06*	-0.00	-0.06*	0.01*	0.03*	-0.02*	-0.02*	-0.01*	0.01*	1												
23 Host country's GDP	24.33	1.96	0.00*	0.01*	0.03*	0.00	0.03*	-0.00*	-0.01*	0.01*	0.01*	0.00*	-0.00*	-0.28*	1											
24 Host country's GDP growth	3.90	4.06	0.01*	0.02*	0.08*	0.00*	0.08*	0.01*	-0.03*	0.03*	0.04*	0.00*	-0.01*	0.01*	-0.07*	1										
25 Host country's inward FDI	6.02	31.87	0.01*	0.01*	0.03*	-0.00	0.03*	-0.01*	-0.02*	0.01*	0.01*	0.01*	-0.00	0.00	-0.03*	0.05*	1									
26 Host country's trade openness	77.11	48.02	0.01*	0.02*	0.06*	-0.00	0.07*	-0.01*	-0.04*	0.02*	0.03*	0.01*	-0.01*	0.06*	-0.20*	0.15*	0.41*	1								
27 Host country's market reforms initiated	0.59	0.49	0.04*	0.04*	0.11*	0.00	0.10*	-0.02*	-0.06*	0.02*	0.03*	0.02*	-0.01*	-0.15*	0.36*	0.13*	-0.09*	-0.00	1							
28 Host country's lack of corruption	3.28	1.35	-0.01*	-0.04*	-0.10*	-0.00	-0.10*	0.02*	0.06*	-0.03*	-0.05*	-0.02*	0.01*	-0.18*	0.34*	-0.16*	0.12*	0.07*	-0.06*	1						
29 Election year host country	0.20	0.40	-0.01*	-0.00*	-0.01*	-0.00	-0.01*	0.01*	0.00*	-0.00	-0.00	-0.00	0.00	-0.04*	0.04*	-0.03*	0.01*	-0.02*	-0.00*	0.07*	1					
30 LATAM	0.25	0.43	-0.00	-0.00*	-0.01*	0.00	-0.02*	0.00*	0.01*	-0.00*	-0.01*	-0.00	0.00	0.09*	-0.07*	-0.00*	-0.05*	-0.14*	0.40*	-0.20*	0.04*	1				
31 European Union	0.16	0.36	0.00	0.00*	0.02*	0.00	0.02*	0.00	-0.01*	0.01*	0.01*	0.00	-0.00*	-0.24*	0.37*	-0.05*	0.23*	0.21*	0.06*	0.40*	0.04*	-0.25*	1			
32 Administrative distance	13.00	18.03	0.00	0.00*	0.01*	-0.00	0.01*	-0.00*	-0.00*	0.00	0.00*	0.00	-0.00	0.00*	-0.01*	-0.06*	-0.06*	-0.06*	-0.13*	0.29*	0.03*	-0.13*	0.06*	1		
33 Economic distance	4.64	6.07	-0.00*	0.02*	0.06*	-0.00	0.08*	-0.01*	-0.04*	0.03*	0.04*	0.01*	-0.01*	0.08*	-0.03*	0.13*	0.43*	0.78*	-0.05*	0.02*	-0.01*	-0.14*	-0.00*	-0.05*	1	
34 Geographic distance	5997.31	3913.44	-0.00*	-0.00*	-0.01*	0	-0.01*	0.00	0.00*	-0.00	-0.00	-0.00	0.00	0.05*	0.02*	0.03*	-0.11*	-0.10*	0.27*	-0.10*	0.03*	0.37*	-0.48*	-0.15*	0.04*	1

Note: * Statistically significant at 0.05 or lower.

	(3.80)	(3.78)	(3.51)	(3.80)	(3.79)	(3.70)
Host country's trade openness	-0.01***	-0.01***	-0.01***	-0.01***	-0.01***	-0.01***
	(-2.89)	(-2.87)	(-2.89)	(-2.87)	(-2.87)	(-2.89)
Host country's market reforms initiated	0.49***	0.49***	0.48***	0.50***	0.49***	0.49***
	(2.92)	(2.91)	(2.81)	(2.91)	(2.91)	(2.84)
Host country's lack of corruption	-0.05	-0.05	-0.05	-0.04	-0.05	-0.05
	(-1.03)	(-1.02)	(-1.05)	(-0.92)	(-1.02)	(-1.01)
Election year host country	-0.13*	-0.13*	-0.13*	-0.13*	-0.13*	-0.13*
	(-1.67)	(-1.68)	(-1.70)	(-1.68)	(-1.68)	(-1.73)
LATAM	1.26***	1.27***	1.27***	1.27***	1.26***	1.26***
	(5.19)	(5.17)	(5.12)	(5.13)	(5.17)	(5.10)
European Union	0.32*	0.32*	0.33*	0.31*	0.32*	0.32*
	(1.83)	(1.81)	(1.85)	(1.78)	(1.81)	(1.79)
Administrative distance	-0.03**	-0.03**	-0.03**	-0.03**	-0.03**	-0.03**
	(-2.25)	(-2.25)	(-2.23)	(-2.22)	(-2.25)	(-2.22)
Economic distance	-0.10***	-0.10***	-0.10***	-0.10***	-0.10***	-0.10***
	(-5.40)	(-5.39)	(-5.34)	(-5.40)	(-5.39)	(-5.44)
Geographic distance	-0.00***	-0.00***	-0.00***	-0.00***	-0.00***	-0.00***
	(-3.53)	(-3.53)	(-3.50)	(-3.51)	(-3.52)	(-3.50)
Constant	-16.07***	-16.25***	-16.33***	-16.14***	-16.23***	-16.21***
	(-10.74)	(-10.71)	(-10.78)	(-10.43)	(-10.69)	(-10.50)
Observations	74,685	74,685	74,685	74,685	74,685	74,685
Number of firms	95	95	95	95	95	95

z-statistics in parentheses: *** p<0.01, ** p<0.05, * p<0.1

Table 5. Magnitude of the effect of a one-half standard deviation increase on firm's political connections level when entering in Civil Code countries

	Governmental discretion low	Governmental discretion mean	Governmental discretion high
Former politicians with international experience low	-16.95%	-8.61%	4.86%
Former politicians with international experience mean	-17.34%	-9.03%	4.37%
Former politicians with international experience high	-24.76%	-17.19%	-4.99%

Table 6. Magnitude of the effect of a one-half standard deviation increase on firm's political connections level when entering in non-Civil Code countries

	Governmental discretion low	Governmental discretion mean	Governmental discretion high
Former politicians with international experience low	-32.28%	-25.47%	-14.49%
Former politicians with international experience mean	-32.59%	-25.82%	-14.89%
Former politicians with international experience high	-38.64%	-32.47%	-22.52%

Figure 2. % Former politicians on the board effect on a firm propensity to enter a foreign country considering the moderating effect of the Civil Code

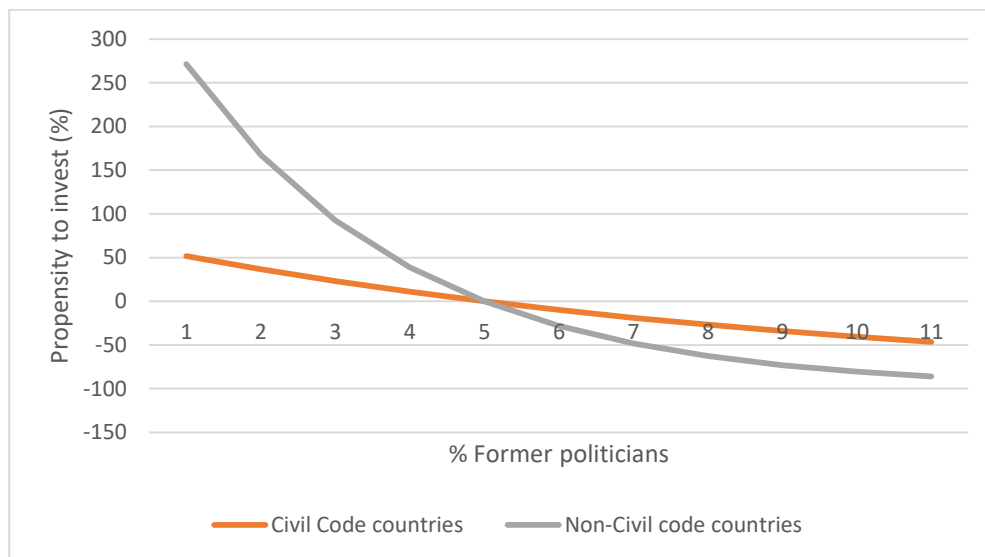


Figure 3. % Former politicians on the board effect on a firm propensity to enter a foreign country, at different levels of governmental discretion in the case of Civil Code countries

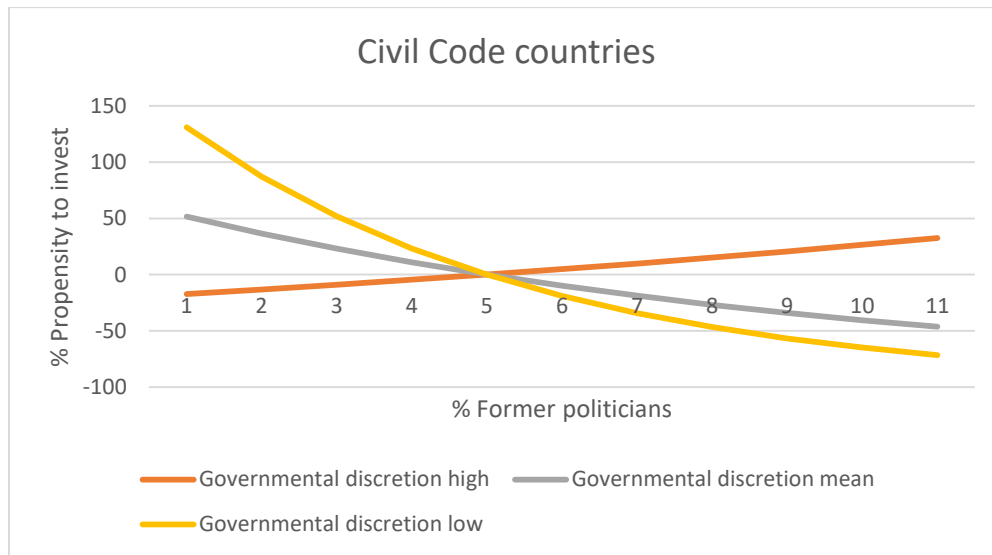


Figure 4. % Former politicians on the board effect on a firm propensity to enter a foreign country, at different levels of governmental discretion in the case of Non-Civil Code countries

